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PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Communications Division
Licensing, Tariffs, Rural Carriers, and
Cost Support Branch

RESOLUTION T-17081
November 1, 2007

R E S O L U T I O N

Resolution T-17081. Kerman Telephone Company. (U-1012-C). General Rate Case Filing In Compliance With G. O. 96-A, Paragraph VI.

By Advice Letter No. 352, filed on December 27, 2006.

Summary

This Resolution authorizes California High Cost Fund-A (CHCF-A) support for Kerman Telephone Company (KTC) of $3,657,147 for test year 2008. This amount represents an increase of $2,019,227 or approximately 123.28% from the CHCF-A 2007 support level of $1,637,920 to KTC. This increase is due to adjustments made to revenue, expenses and rate base estimates. This resolution further authorizes an overall Intrastate Rate of Return of 10.00% for test year 2008.

This Resolution addresses the General Rate Case (GRC) request filed by KTC through Advice Letter (AL) 352 filed on December 27, 2006 in compliance with D. 01-05-031. In AL No. 352, KTC proposes that its CHCF-A draw for 2008 be increased by $2,532,699 from its 2007 level of $1,637,920, for a total draw for test year 2008 of $4,170,619. This Resolution also authorizes KTC to raise the rates of certain optional services such as inside wiring maintenance, local directory assistance and increases to its off-premises extension rate on continuous property and non-continuous property mileage rates. KTC estimates that these increases will result in an intrastate revenue increase of $58,300. KTC also proposes to make several other minor housekeeping type changes to several of its tariff schedules.

Appendix A to this resolution compares the Communications Division (CD) and KTC's Test year 2008 Total Company Results of Operations before any CHCF-A adjustment, Appendix B compares CD's and KTC's Interstate and Intrastate Results of Operations

before any CHCF-A adjustment while Appendix C compares CD's and KTC's Intrastate Results of Operations estimates after KTC's and CD's proposed CHCF-A adjustments and after CD's proposed revenue, expense, and rate base adjustments. Appendix D shows CD's calculation of the Net-to-Gross Multiplier and the changes in the gross intrastate revenue requirement based on an adopted intrastate rate of return of 10.00%.

Background

KTC is a local exchange telephone carrier (LEC) serving approximately 6,511 access lines (5260 residential and 1251 business) in the Central San Joaquin Valley just west of Fresno. Customers receiving Universal Lifeline Telephone Service (ULTS) make up just over 45% of the Company's total access lines and 57% of total residential lines. The remaining 2,256 KTC residential lines do not receive ULTS.

In Decision (D). 01-05-031, the California Public Utilities Commission (CPUC) set in motion the waterfall provision in 2003 for seven small LECs if they did not each file a General Rate Case (GRC) by the end of 2002. KTC filed Advice Letter (AL) No. 352 on December 27, 2006 with a Test Year of 2008. The last GRC filed by KTC was in 2002 through an Application and its latest intrastate results of operations were authorized by Decision (D.) 03-10-006 dated October 2, 2003.

Notice/Protests

KTC states that copies of Advice Letter No. 352 were mailed to the five parties on its service list. Notice of AL No. 352 was published in the Commission Daily Calendar of January 3, 2008. No protests to Advice Letter No. 352 were received by CD, however CD did receive two customer complaint letters about KTC's proposed 100% increase of some of its rates.

On March 27, 2008, CD Staff held a Public Meeting in Kerman, California, to explain KTC's filing to its customers and to give customers the opportunity to ask questions of KTC's management and CD staff. KTC notified customers of the rate review request and public meeting by bill inserts. No customers attended the meeting but approximately 8 current KTC employees and 4 CD staff members were in attendance.

Discussion

<u>Total Operating Revenues</u>

KTC's estimate of total operating revenues, without CHCF-A, at present rates of $8,543,465 is lower than CD's estimate of $8,903,448 by $359,983, or (4.04%). Differences between CD's and KTC's estimates are described below.

In determining the test year revenues KTC first took a 5 year and 3 year average of service unit numbers for all accounts. Then KTC took the average of these 5 year and 3 year averages. The resulting number was used to estimate growth against 2006 end of year (EOY) data to come up with a percentage of annual growth for each account for 2007 and 2008. Finally, KTC looked at these growth percentages and if KTC did not find a growth percentage satisfying its understanding of market conditions, then KTC chose an arbitrary growth number based on its feelings for market growth in 2007 and 2008. KTC then applied the present tariff rates to the estimated service unit numbers to arrive at the revenue estimates for 2008.

CD calculated the latest recorded three year average of actual service units and then applied that yearly growth number to the 2006 EOY revenues to arrive at 2007 and 2008 estimates. CD then applied the present tariff rates to the estimated service units to arrive at the 2008 revenue at present rates. In cases of introduction of new services where the growth was large, CD found it reasonable to cap the growth at 10% yearly in order to reflect a normalized growth.

KTC proposes to increase rates and charges for certain telephone services that would result in an increase in annual revenues totaling $58,300. These increases and tariff changes are as follows:

- Off premise extensions monthly rate increased from $1.25 to $2.50 (100%) per line,

- Off premises extensions 1st ¼ mile monthly rate increased from $2.50 to $5.00 (100%),

- Off premises extensions additional ¼ mile monthly increased from $1.25 to $2.50 (100%) per line,

- Joint user services monthly rate increased from $4.00 to $8.00 (100%),

- Intralata toll carrier change non recurring charge per customer increased from $5.00 to $5.50 (10%),

- Both intralata and interlata toll carrier change non recurring charges increased from $2.50 to $2.75 (10%),

- Residential inside wire maintenance monthly rate per line increased from $0.55 to $1.10 (100%),

- Business inside wire maintenance monthly rate per line increased from $0.85 to $1.50 (76%),

- Directory assistance charge per call per line exceeding monthly allowance increased from $0.25 to $0.48 (84%),

- Reduce the monthly call allowance for directory assistance per line from 5 to 3 for residential services and from 3 to 0 for business,

- Leased line mileage 1st ¼ mile increased from $3.50 to $7.00 (100%), per month, per line

- Leased line mileage additional ¼ mile increased from $1.25 to $2.50 (100%), per month, per line,

- T-1 1.544 megabit channel term (high cap) non-recurring charge increased from $165 to $176.82 (7%), and

- Returned check charge per occurrence increased from $5.00 to $10.00 (100%).

In addition, KTC proposes to eliminate any reference to "base rate area" from its tariffs.

CD holds that KTC's proposal to eliminate tariff references to "base rate areas" in its tariff schedules is impracticable. KTC's line extension rule (Rule 16) and line extension charges (Schedule A-21) rely on definition of "suburban areas" for exchange maps, and CD believes that the definition for base rate areas is necessary to define such suburban areas. CD recommends that KTC retain its definition of base rate areas in its tariff schedules.

CD believes KTC's proposed rates are reasonable with two exceptions. CD believes these two services are discretionary and should be priced at the comparable market rates. CD took the lower of AT&T and Verizon, two major Incumbent Local Exchange Carriers (ILECs), statewide rates and established the proposed rates as follows:

- Inside wire maintenance monthly rate increased to $5.00 for business and to $ 2.99 for residential customers (KTC's proposed rates were $1.50 and $1.10 respectively).

- Returned check charge per occurrence increased to $11.30 (KTC's proposed rate was $10.00).

In addition, CD adjusted KTC's rates for the following discretionary services that were not proposed to be changed by the carrier to the lower of AT&T and Verizon rates.

- Residential caller ID per line per month to $6.17 (KTC's effective rate is $4.00),
- Residential call forwarding per line per month to $3.23 (KTC's effective rate is $2.00),
- Residential call waiting monthly rate to $3.23 (KTC's effective rate is $3.00),
- Residential 3-way calling monthly rate to $3.23 (KTC's effective rate is 3.00),
- Business call forwarding monthly rate to $3.23 (KTC's effective rate is $3.00).

KTC currently offers only flat rate service to both its business and residential customers. KTC has the capability to offer measured rate basic exchange service to its business and residential customers and CD would like the utility to take advantage of that capability. This move is in keeping with the Commission's ongoing policy to have business customers utilize measured rate service. CD suggests that in its next rate case, KTC develop a comprehensive rate design proposal for mandatory business measured rate service, as well as a similar proposal for a residential measured rate service option that may result in less expensive service for its residential customers. These proposals shall include the proposed impact to KTC's revenue requirement and customer notice of the proposed offerings of business and residence measured services.

Operating Expenses

KTC estimates its test year 2008 operating expenses will be $10,196,715. KTC arrived at this amount by annualizing the seven months of actual 2006 expenses (not including depreciation) it had incurred by the time of its filing, adding proposed adjustments, and inflating that amount by 3.0% once for 2007 and once more for 2008.

CD used KTC's 2006 actual expenses which were included in KTC's annual report filed on April 30, 2007 as a baseline rather than 2006 annualized expenses.[1] CD accepts KTC's pre-adjusted actual expenses as a reasonable estimate for future operating expenses adjusted for inflation. KTC's pre-adjusted base expenses for 2006 not including depreciation are $6,677,120.

KTC has proposed many expenses in addition to its base for the years 2006, 2007, and 2008. As discussed below, CD has determined that none of the proposed additions are

[1] Form M Schedule I-1 (FCC Armis 43-02 Report Format) of KTC's Annual Report for 2006.

reasonable, with the exception of one which was greatly reduced. CD accepts KTC's inflation estimate, and has proposed one adjustment of its own.

Workshop/Warehouse Lease Expense:

KTC proposes a $375,385 adjustment be made for a lease on a new warehouse first occupied by KTC in December 2006. KTC states that the annual lease expense for the building is $384,000/year, or $32,000/month. CD notes that these two amounts do not correspond, but the issue is moot regardless as explained below. Upon further examination it appears that the land on which the new warehouse was built was sold to Sebastian Enterprises, Incorporated (SEI; KTC's parent company) by KTC after its last general rate case in early 2005. KTC averred that the new buildings had been custom built to specification for KTC by SEI, and that the cost of the building, excluding the land acquisition, was $2.5 million and that KTC was the building's first and only tenant.

On June 18, 2004, KTC filed Application (A.) 04-06-022 seeking Commission authority to sell its old warehouse and related land (the same land on which the new buildings are standing) to KTC's parent company SEI, for a price of $120,000. Shortly thereafter, the Office of Rate Payer Advocates (ORA) filed a protest of KTC's application. ORA and KTC entered into settlement discussions and on November 24, 2004 they filed a Motion for Settlement Agreement. On March 17, 2005, the Commission adopted Decision (D.)05-03-009, in which it approved the settlement agreement between ORA and KTC for authority to sell the warehouse and related land to SEI. Part 3 of the Agreement states:

> "In addition, for a period of five years from the date of the Transaction the cost of any lease or other use of Additional Land to provide utility services shall not exceed the cost to ratepayers as if KTC had not sold the subject parcel. It is the parties' intention that for a reasonable period of time the disposition of the subject parcel should not result in increased cost to ratepayers."

CD requested information from KTC regarding what would have been the estimated annual costs to ratepayers for the land and old warehouse had KTC not sold the land and warehouse to its parent company SEI. KTC responded that the cost of the old warehouse and land is estimated at approximately $14,100 per year. CD therefore suggests the disallowance of all expenses above $14,100 per year related to the workshop, and warehouse/plant office space buildings and land, since its sale in 2005.

Depreciation Expense:

Depreciation expense was computed using CD's plant in service estimates for 2008 multiplied by the current depreciation rates previously approved by the Commission to derive 2008 figures. Both KTC and CD applied the same depreciation rates previously approved by the Commission. CD applied the depreciation rates to its estimated 2007 and 2008 depreciable plant in service. Differences between CD's and KTC's depreciation reserve and depreciation expense are due to differences in their estimated plant in service for 2007 and 2008.

Executive Salary Expense:

KTC proposes to increase the salaries for three or four of its executives by $117,840, with half being given in 2006 and the other half in 2007. CD holds that all salary increases for KTC's executives are disallowed, because KTC's executives already receive salaries comparable to others in their position/industry, and in some cases much more. There is no reason to raise salaries beyond the company's general 3% inflation rate.

Central Office Building (COB) Expense:

KTC's 21,775 square foot COB is owned by parent corporation SEI and leased to KTC (its only tenant) for $49,400 a month, or an annual lease expense of $592,800. According to information provided by KTC during its last rate case, the COB was constructed by SEI, at a cost of $3,221,534. CD recommends reducing the COB lease expense by $122,460 per year, as discussed below.

As pointed out by Telecommunications Division staff in KTC's previous rate case[2], at an annual rental rate of $592,800, KTC will have paid to their parent company an amount equal to the total value of the COB within 6 years. If KTC had built the COB itself, and assuming an estimated life expectancy of 45 years, the resulting depreciation expense would be approximately $66,704. If this depreciation expense is added to the 10% return on rate base, $322,154, the total for first year revenue requirement is $388,857. It appears from these simple calculations that it may have been far more practical for KTC to have built its own facility instead of leasing it from its SEI.

The total size of the COB is 21,775 square feet and the rental amount calculates to be approximately $2.27 per square foot per month or $27.22 per square foot per year. CD found that rental rates for office space in Fresno are considerably less expensive when compared to what KTC is now paying for its COB. The rates CD found range from $1.65 to $1.95 per square foot per month (or $19.80 to $23.40 per square foot per year) for spaces as large as or larger than KTC's current 21,775 square foot COB. At these rates, KTC

[2] Resolution T-16597; Page 4.

would be paying from $35,929 to $42,461 per month (or $431,148 to $509,532 per year) for a savings of $6,939 to $13,471 per month (or $83,268 to $161,652 per year).

CD staff recommends taking the average annual lease rate available in Fresno, $470,340, and subtracting it from KTC's annual lease expense, $592,800, for a result of $122,460. CD recommends that this amount be disallowed from KTC's annual lease expense calculations in this rate case.

New Employee (Customer Service Manager):

KTC proposes hiring a new customer service manager at an annual salary expense of $100,000. CD determines that because KTC's customer complaints are at the lowest levels in recent years, and appear to be trending lower, this hire is not justified, and CD recommends that the Commission disallow this $100,000 salary expense.

New Employee (Wireline Technician):

KTC proposes hiring a new wireline technician at an annual salary expense of $53,354. KTC has not shown an increase in its rate of growth since its last rate case, and is not expected to grow faster than normal following the test year. CD believes KTC's current staff is capable of handling all installation and maintenance needs for the test year and suggests the disallowance of the wireline technician's salary expense.

New Employee (IT Technician):

KTC proposes hiring a new IT technician at an annual salary expense of $107,520. CD endorses the disallowance of this salary expense because even if KTC were allowed to hire the three new office employees, which it proposes between 2006 and 2008, its office IT needs should not increase to the point of needing to hire another IT technician to manage these three new office employees.

New Employee (Switch Technician):

KTC proposes hiring a new switch technician at an annual salary expense of $74,000. CD recommends disallowing this expense because KTC has been operating a soft switch for some time now and KTC's existing staff appears quite adequate to handle the workload.

New Employee (Accounting/Regulatory Representative):

KTC proposes hiring a new accounting/regulatory representative at an annual salary expense of $84,448. CD recommends disallowing this salary expense because the regulation of small LECs has not changed (significantly) recently, and it is not likely to become more complicated by the test year. There is no need for this additional position.

Reciprocal Compensation Expense:

KTC proposes incurring $120,301 reciprocal compensation expense for local CLECs. CD suggests not allowing this expense because the matter of reciprocal compensation is being considered in a pending proceeding before the Commission (A.06-02-028).

Apartment Rental Expense:

KTC has leased an apartment in Kerman, California in the amount of $12,360 per year and claims that the apartment is needed when Foresthill Telephone Company's employees travel from Foresthill, California to Kerman, California for business. KTC states that without the apartment it would have to pay for hotel stays for its executives. The difference between the apartment's rent and the hotel expenses should result in a savings for KTC, or at the very least should be equal. So in KTC's work papers one of two things is happening: 1) either the apartment costs $12,360 more than their hotel expenses; or 2) KTC is not subtracting the hotel expenses they no longer incur. Either way, CD determines this $12,360 expense to be unreasonable and recommends that the Commission disallow this expense.

The basis for many of CD's recommended disallowances is KTC's low customer growth combined with its excellent service quality. CD holds that KTC does not need an additional $1.1 million plus dollars to maintain its current level of service. KTC has been very adept in upgrading its network and maintaining service quality with its current staff.

CD has estimated KTC's test year expenses by applying the adjustments noted above to KTC's 2006 base expenses and applying KTC's 3% inflation estimate (excluding rents and depreciation) for 2007 and 2008. CD's estimate of KTC's 2008 test year expenses are $8,822,992. KTC's estimate of test year 2008 total company operating expenses of $10,196,715 exceeds CD's estimate of $8,822,992 by $1,373,723, or approximately 15.57%. A comparison of CD's and KTC's estimates of total company operating expenses for test year 2008 is shown in Appendix A.

Rate Base

CD examined KTC's Rate Base components, which include Telephone Plant in Service, Material & Supply, Working Cash and Deferred Income Taxes. CD disagrees with KTC's estimate of Telephone Plant in Service (TPIS).

In computing plant in service, CD reviewed KTC's 2006 annual report, Capital Budget, examined the additions and retirements as reflected in the annual report and responses provided by KTC through data requests. The average of KTC's proposed plant additions for 2007 and 2008 is $2,894,555. This average amount is generally in line with KTC's historical 5 year average gross plant addition of $3,325,000. However, CD staff takes issue with the proposed plant additions in the motor vehicles, other work equipment, digital switching and circuit equipment categories. CD's estimate of plant additions for 2007 and 2008 are $3,035,136 and $1,727,258 respectively.

Motor Vehicle:

KTC's proposed plant additions in the motor vehicles are $281,510 for 2007 and $81,000 for 2008 with average of $181,225 per year. However, the average of 5 years (2002 thru 2006) recorded motor vehicles additions is $45,134. Latest recorded 4 years average is $56,417 and the recorded 2006 amount is $75,756. CD considers KTC's proposed motor vehicles amounts to be excessive and has adjusted these amounts to $75,756, the highest and latest yearly recorded amount, for each of 2007 and 2008.

Other Work Equipment:

Regarding plant additions in other work equipment category, KTC proposed $360,000 for 2007 and $90,000 for 2008. The recorded work equipment addition of $73,402 for 2006 is the highest amount of addition in this category in each of the last recorded 5 years (2002 thru 2006). Further, KTC's recorded plant additions in this category for 2002 through 2005 ranged from $15,389 to $26,938 with 2005 amount being only $26,938. Considering the historical record, CD applied the highest and most recent 2006 amount of $73,402 for each of 2007 and 2008 as its estimates.

Digital Switching:

KTC installed a "Santara One" central office soft switch for local and long distance switching in 2002 and made routine upgrades and changes in hardware and software in subsequent years. The average investment cost per year for 2003 through 2006 was $190,190. According to KTC the soft switch will be discontinued soon as Santara Company was purchased by Tekelec first and again by Genband in April 2007. Genband Inc. acquired the product line and has not yet announced plans for either developing or supporting the current switch platform. Since a replacement of the switch may be needed in the near future if it is discontinued, CD holds that KTC should spend just enough money for the hardware and software upgrades in order to maintain the existing service quality. (KTC existing service quality is excellent). KTC proposed $509,000 for 2007 and $120,000 for 2008 for the switching account budget for generic upgrades of the switch and this proposed amount does not include a replacement for the Santara switch in its budget or the rate case. The switching account budget included software fixes and changes that are periodically required to any type of switch. KTC in response to a data request indicated that the routine maintenance expenditures and upgrades will neither increase nor decrease the number of customers it can serve. CD considers $190,190, the average investment per year for the last four years to be reasonable for each year 2007 and 2008 considering the fact the switch may be obsolete and replaced within a short time. This is also true on the Telliant 5000 ATM concentrator as Telliant was sold to Tellabs and Tellabs has also announced that they will discontinue technical support for this equipment on December 31, 2007.

Circuit Equipment:

KTC, at the time of its Advice Letter filing in December 27, 2006 projected the need for circuit equipment investment at $740,000 for 2007 and $518,000 for 2008 based on an annualized investment of $478,000 for 2006 (at the time KTC did not have the full recorded 2006 investment amount). KTC proposed a total $1,736,000 investment over a three year period of 2006 thru 2008. The amount appears to be high. However, in response to a CD data request KTC provided convincing justifications that it needs to invest the amount of money it proposed in order to gradually switch to newer circuit equipment as a result of the circuit equipment being discontinued by the manufacturer and no longer supported. The proposed investment also includes circuit equipment necessary to support subscriber growth due to new subdivisions being constructed in the area and it can not supply service to these areas without this circuit equipment investment. CD considers KTC's total proposed amount of $1,736,000 over a period of three years reasonable. However, since KTC has already spent $750,722 as opposed to its estimated annualized amount of $478,000 in 2006, CD has deducted the excess investment amount of $272,722 ($750,722-$478,000) from the 2007 addition of $740,000. Thus CD's estimated plant addition for circuit equipment for 2007 and 2008 are $467,278 and $518,000 respectively. It should also be noted that CD used the higher amount of $750,722 for plant addition for 2006 as opposed to KTC's original estimated amount of $478,000.

Biola Area:

During the site visit to KTC service territories, CD observed the poor condition of the plant in the Biola area. It appeared that KTC had not made any improvements to its Biola facilities for quite sometime and KTC informed CD that the last upgrade to the aerial plant in Biola was made in 1977 with the original plant installed prior to that date. In 2006, Biola had 11.48% of the total lines in the KTC service territory, but accounted for 15.35% of the trouble tickets that KTC received. In this rate case KTC has proposed changes in the Biola area which will result in the elimination of aerial plant and replace it with underground facilities. KTC has proposed $550,000 for plant improvements in the Biola area and CD considers the proposal to be reasonable. However, CD recommends that KTC develop a plan for vigorous and complete upgrade of its Biola facilities, and within 60 days from the effective date of this Resolution submit a plan with proposed construction schedule to the Communications Division (CD) which details the work to be completed as well as the completion date for each phase of the project. CD will review and the CD Director should approve KTC's plan prior to commencement of any construction.

Materials and Supply (M&S):

CD reviewed the recorded 5 years (2002-2006) Materials and Supplies (M&S) amounts and calculated the ratio of the M&S amounts and the recorded average TPIS for those years. The M&S ratio ranged from .00183 to .0034342. CD then applied the highest ratio and the latest ratio amount of 0.0034342 to its estimated average TPIS for 2007 and 2008 to arrive at its M&S estimate for those years. KTC estimated an arbitrary amount which is almost twice the historical ratio. CD recommends that the average Total Company M&S of $112,560 be included in the rate base.

Working Cash:

Both KTC and CD used the simplified method described in the CPUC's Standard Practice U-16 to arrive at the working cash estimate. CD's Total Company Working Cash for test year 2008 estimate is $738,400 or 20.23% lower than that computed by KTC, due to the differences in estimated revenues and expenses.

Separations

KTC provides both intrastate and interstate telecommunications services, subject to the regulation of the CPUC and FCC, respectively. Because KTC'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.

KTC used separation factors developed under the FCC's Part 36 to apportion its interstate and intrastate services. CD reviewed KTC's separation factors and found them reasonable, and accordingly CD used KTC's separation factors to estimate KTC's Intrastate Results of Operations.

Appendix B compares KTC's and CD's interstate and intrastate results of operations for test year 2008 at present rates without CHCF-A.

Cost of Capital

KTC requests an overall intrastate rate of return on rate base of 10.00%. CD believes that the return on rate base for all rural ILECs would be the same since the systematic and non-diversifiable risks faced by all rural ILECs are similar and on October 2, 2003, the Commission authorized a 10.00% rate of return in KTC's last general rate case[3]. CD recommends that the Commission approve KTC's request for an overall rate of return of 10.00%.

Taxes

The differences in tax estimates between KTC and CD are due to differences between estimates of revenues and expenses. Both CD and KTC used a Corporate State Franchise Tax (CCFT) rate of 8.84% and a Federal Income Tax of 34.00%. CD's estimate of 2008 Intrastate Operating Taxes (including other taxes) of $708,822 is 5.52 % lower than that computed by KTC.

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.

[3] D. 03-10-066; Ordering Paragraph 1 (KTC's general rate case for test year 2003).

Appendix D shows CD's computation of KTC's Net-to-Gross Multiplier. The Net-to-Gross Multiplier of 1.6621 means that $1.6621 change in gross revenues before taxes would be required to produce $1.00 in net revenues. For KTC, based on a recommended intrastate rate base of $11,266,410 and a rate of return of 10%, the recommended gross intrastate revenue requirement change required is an increase of $2,264,126.

The "Change in Net Revenues" amount of $2,264,126 times the "Net-To-Gross Multiplier" figure of 1.6621 equals the "Gross Revenue Change Requirement" amount of $3,763,204. The "Gross Revenue Change Requirement" amount of $3,763,204 minus the "Impact of Proposed Rate" amount of $106,057 equals KTC's "2008 CHCF-A Support" amount of $3,657,147.

CHCF-A Support

CD's total company results of operations at present rates shows that KTC would register $405,739 in Net Operating Revenues and a total company rate of return of a -3.75 %(Appendix A, Column B) prior to any CHCF-A adjustment.

For the test year 2008, CD's computation of KTC's CHCF-A requirement is $3,657,147 based on CD's projected revenues, (including rate design), expenses, rate base and overall rate of return of 10%.

Comments

In accordance with P.U. Code Section 311 (g), CD mailed copies of the original draft Resolution on August 21, 2007 to KTC and other interested parties.

On September 7, 2007, KTC filed timely comments. KTC raises the following issues in the draft resolution (DR):

Issue #1: Adjustment of $454,136 to be made to revenues (exclusive of changes to CHCF-A);
Issue #2: Expenses are increased by $832,625;
Issue #3: Rate Base is increased by $784,466;
Issue #4: CHCF-A draw be increased to a total of $3,657,147

CD's Final Revisions in Response to KTC's Filed Comments

Issue #1: Revenues – CD has revised KTC's 2008 Revenues and recommends a total adjustment of $596,980 which includes reduction to access revenue by $352,072.

A. Miscellaneous Revenues.

After reviewing additional information submitted by KTC, CD considers this revenue item to be "ad-hoc" in nature. The Commission encourages small LECs, like KTC, to market their expertise to generate more revenues and therefore CD concurs with KTC to recommend a 10% revenue growth rate for this ad-hoc miscellaneous revenue item for an estimated amount of $60,249. Therefore, due to this adjustment miscellaneous revenues will be decreased by $127,438 from the amount estimated in the draft resolution.

B. Inside Wire Maintenance.

In its comments, KTC proposed that the monthly rate for its inside wire maintenance plan (inside wire) be reduced to $1.10 for residential customers (from CD's recommended $2.99) and to $1.50 for business customers (from CD recommended $5.00). After meeting with KTC's representative, CD concurs with KTC's proposal. However, CD recommends that KTC re-examine increasing its inside wire monthly rate in a future GRC filing. Adopting $1.10 residential inside wire monthly rate and $1.50 business inside wire monthly rate translates to a $93,849 reduction in revenues for test year 2008, from the previously filed draft resolution.

C. Custom Calling Features.

CD disagrees with KTC's claim that it will lose customers exclusively due to CD's proposed custom calling rate increases because KTC fails to provide any convincing evidence for this claim. CD Staff used the lower of AT&T and Verizon statewide rates, which were in effect prior to September 1, 2006, to adjust KTC residential and business custom calling features. CD's proposed changes to residential custom calling features are: Caller ID from KTC's present rate of $4.00 to $6.17 per month; Call Forwarding from KTC's present rate of $2.00 to $3.23 per month; Call Waiting from KTC present rate of $3.00 to $3.23 per month and 3-Way Calling from KTC's present rate of $3.00 to 3.23 per month. There is one change for KTC's business Call Forwarding rate of $3.00 to $3.23 per month. Even at CD's proposed rates, KTC customers will still pay less than AT&T and Verizon customers. For example, as of January 21, 2007, AT&T increased its residential Caller ID rate to $7.99 per month, and its call forwarding rate to $3.99 per month. CD rejects KTC's argument and keeps the proposed rates for custom calling features as contained in the draft resolution. As a result, CD believes that the revenues are not overstated.

D. Multi-feature discount for Customer Calling.

CD concurs with KTC's proposal for an additional one dollar discount for multi-feature calling packages. However, CD notes that while KTC objected to increases in its custom calling features and inside wire rate, it suggests thatsuch a significant increase in rates should be coupled with an increase in the multiple feature discounts. Like these rates, this should be aligned with the AT&T /Verizon discounts. Allowing an additional $1 discount for multiple features is appropriate. This would reduce the revenues from rate increases by $22,944. CD agrees with KTC's suggestion because it will result in customer retention and loyalty and hence, ease KTC's concern about possible loss of customers. CD decreased local revenues by $23,621. This amount is for both residential and business multi feature calling products and is $677 higher than KTC's requested estimate.

E. Average Year Units.

CD used a three year averaging method to estimate 2008 units based on KTC's reported end-of-year (EOY) 2006 figures, which CD believes is appropriate because it results in a set of estimate data for the 2008 test year that is consistent with, and similar to, the booked data for 2006. CD recommends the Commission reject KTC's argument that averaged units be "utilized" units instead of "EOY" units.

F. Access Revenue.

The Commission is currently in the process of completing a proceeding on the elimination of TIC/RIC/NIC access rates for small companies (R.03-08-018). An early draft in this proceeding indicated that the three companies currently with rate cases filed with the CPUC develop and supply a plan for removing these access charge elements from their tariffs. In it filed comments, KTC states it would like the option of either including this rate adjustment in this rate case or the potential of adjusting its CHCF-A draw once the order is completed subject to CD review. KTC states its NIC revenue in 2006 was $352,072. CD recommends the Commission to allow this estimate but recommends true-up once the final decision in this proceeding is approved and also recommends that KTC file a plan, for removing these access charge elements from their tariffs, with its 2009 CHCF-A filing. This reflects a decrease of $352,072 in revenues for test year 2008.

Issue #2: Expenses – CD has increased KTC's 2008 expenses by $319,351, as described below:

A. Workshop/Warehouse Lease Expense.

In its filed comments, KTC states that the lease rate for the new workshop/warehouse should be $2.27 per square foot for 14,097 square feet or, $32,000 per monthly and $384,002 per year. Staff has relied on Commission Decision (D.) 05-03-009 in formulating the allowable lease expense for KTC's new warehouse building. The decision limits KTC's expense for any leased building on this parcel of land to $14,100 per year. In KTC's filed comments to this draft resolution, KTC stated that this decision only applied to 50% of the land on which the new workshop/warehouse space occupies. With this new information, CD recommends increasing the lease rate for the workshop/warehouse from $14,100 per year to $166,348 per year (or $13,862 per month) for an increase of $152,248 per year from the previously filed draft resolution.

B. Central Office Building (COB) Lease Expense.

In its comments, KTC stated that any adjustments to the lease rate for the Central Office Building (COB) would constitute retroactive rate making. CD disagrees with KTC because it does not believe that the lease rate for the COB was adequately addressed in the previous rate case. In its comments, KTC continues to request a lease rate of $2.27 per square feet for 21,775 square feet. CD staff reviewed KTC's comments and engaged in discussions with KTC, and as a result CD recommends increasing the COB per square foot lease rate from $1.80 per square foot to $2.185 per square foot. The annual lease amount increases to $570,941 per year (or $47,578 per month) from CD Staff's proposed $470,340 per year. This results in an increase of $100,601 per year from the previously filed draft resolution.

C. Employee Expenses.

In its comments, KTC stated that all its requested new employee hires should be allowed for ratemaking purposes. In discussions with KTC, CD asked to review KTC's overtime information. KTC submitted this data to CD staff but the information did not conclusively point to the fact that KTC needed additional employees. KTC states it needs additional employees due to the numerous regulatory and compliance reports it must complete and submit. It does regulatory and compliance filings for its sister company Foresthill as well.

CD has concerns about how much time KTC's present employees spend on its non-regulated affiliates. Also, KTC's affiliate transactions report lacked transaction detail and did not clearly specify how KTC's employees are being used. KTC has also said that its new services require more time of its employees. It is not that they are necessarily getting more customers just that the complexity and sensitivity of these newer services require more employees and more time from its employees. They also state that these newer services are increasing at a higher rate than their access lines. KTC did not specify what types of services these are; if these services are non-regulated services, and then KTC's argument would be moot.

In July 2007, KTC provided CD with its affiliate transaction report with additional detail (Tables C and D) per D.93-02-019. Table C (KTC's transactions to its affiliates) shows a total of $1.9 million in transactions from KTC to its affiliates, with $1,065,605 of that amount being labor related. Table D (affiliate transactions to KTC) shows a total of $2.1 million in transactions to KTC, with $101,119 of that amount being solely labor related and $762,754 being transactions in other services, which may or may not include some labor services. This is a net $964,486 flow of (only labor) transactions to Sebastian Enterprises (holding company), Kertel Communications, and Foresthill Telephone Company, from KTC.

KTC provided CD its overtime hours for 2006 and for 2007 through September 15. KTC had 2,785 overtime hours in 2006, and their annualized estimates for 2007 are 2,734 hours. This is a reduction of 51 hours (2%). In 2006 KTC employed 70 people. On average, each employee logged ~39 hours overtime per year or ~3 hours per month. In 2007 KTC hired two of the five employees proposed in the GRC. These new employees are expected to work 2,080 hours each, 4,160 hours total in 2007. Out of these 4,160 hours, a maximum of only 51 (~1%) are expected to be used to relieve other employees' of their overtime obligations.

One of KTC's main arguments for the new employees was that their existing employees were overburdened and needed relief. From this data we can plainly see that the new employees are not assisting with current work but are involved with work that did not exist prior to their hiring. KTC proposes hiring five new employees for a total yearly increase in expenses of $419,322. For the sake of argument, if KTC's goal were to eliminate overtime entirely by hiring new employees, they would be paying $150 per hour to eliminate all 2,785 overtime hours.

CD has reached an agreement with KTC recommending for the allowance of two employees: the Switch Technician and the Wireline Technician. These allowances will increase KTC's expenses by $127,354.

D. Reciprocal Compensation.

In its comments, KTC states that it is currently paying expenses for reciprocal compensation as required by the Commission in its decision D.07-02-031 (February 15, 2007). This decision dealt with the treatment of VNXX traffic and ordered the small LECs to enter into interconnection agreements with these carriers. In compliance with that order, KTC has entered into agreements with carriers and is paying on this traffic. The CPUC has approved an agreement with Pac West Telecom, Inc. This expense is a current and realized expense and should be included in the GRC recovery. Through July of 2007, KTC states it has paid out $34,431, with negotiations with other carriers still pending. KTC has current invoices from these other carriers totaling $32,071. KTC states that these will be paid once an interconnection agreement is finalized. CD recommends that $66,502 in reciprocal compensation expense be allowed for test year 2008, with a true-up done once the final decision in the proceeding is approved. This reflects an increase of $66,502, for test year 2008, from the previously filed draft resolution.

E. Federal USF

NECA has adjusted the USF support KTC will receive in 2008 downwards by $115,420. This amount will be made up for by CHCF-A.

Issue #3. Rate Base:

A. New Switch.

In its comments, KTC proposes that $792,000 for a new switch should be allowed in lieu of the proposed generic upgrades to the soon to be obsolete current switch. CD reviewed KTC's proposal and concurs that KTC's proposal for a new switch should be allowed.

Findings

1. Kerman Telephone Company (KTC) filed its 2008 test year GRC by AL 352 on December 27, 2006.

2. KTC requests the following for test year 2008:

   - The tariff changes as described in the "Revenue" section of this resolution;
   - An intrastate Rate of Return (ROR) of 10.00%;
   - A California High Cost Fund-A (CHCF- A) draw of $4,170,619;

3. The Communications Division (CD) recommends the following changes for KTC for test year 2008:

   - The tariff changes as described in the "Revenue" section of this resolution;
   - An intrastate Rate of Return (ROR) of 10.00%;
   - A California High Cost Fund-A (CHCF- A) draw of $3,657,147;
   - That KTC shall file a supplemental advice letter, within 14 calendar days from the effective date of this resolution, to revise its tariff schedules effective January 1, 2008 to reflect all the rate increases adopted in this resolution.

- That KTC provide at least a 30-days notice, prior to the January 1, 2008 effective date, to all of its customers of all changes to its rates and charges.

4. The Commission finds that the differences in KTC's and CD's estimates result from the use of different assumptions for estimating revenues, expenses, and rate base.

5. The Commission finds CD's methodology of using ratemaking adjustments to each of the expense accounts, and CD's use of inflation factors to adjust the labor and non-labor 2007 expenses for test year 2008, reasonable. Therefore, the Commission should adopt CD's recommended test year 2008 expenses contained in Appendix C.

6. The Commission finds CD's methodology in estimating revenues reasonable. Therefore the Commission should adopt CD's recommended intrastate revenues for the test year 2008 as shown in Appendix C; Column (e).

7. The Commission finds CD's methodology in estimating KTC's plant and other rate base items reasonable. The Commission should therefore, adopt CD's recommended plant and other rate base items for the 2008 test year as shown in Appendix C; Column (e).

8. The Commission finds CD's recommended overall intrastate rate of return of 10.00% for KTC for test year 2008, to be reasonable.

9. The Commission finds CD's recommended $3,657,147 in CHCF-A support for KTC for test year 2008, to be reasonable. The $3,657,147 CHCF-A support is based on the Commission's adoption of CD's Intrastate Results of Operations for KTC for test year 2008.

10. The Commission finds CD's recommendation that KTC retain a definition of base rate area in its tariff schedules is reasonable.

11. The Commission finds CD's suggestion reasonable that in KTC's next GRC filing KTC develop a comprehensive rate design proposal for mandatory business measured rate service, as well as a similar comprehensive rate design proposal for a residential measured rate service option that may result in less expensive service for its residential customers. These proposals shall include the proposed impact to KTC's revenue requirement. KTC shall also provide its customers with a notice about any measured rate service proposal, coincident with the filing of KTC's next GRC.

12. The Commission finds CD's recommendation that KTC develop a plan for complete upgrade of its Biola facilities within 60-days from the effective date of this Resolution reasonable. CD staff will review this plan and then submit the plan to its Division

Director for approval, prior to KTC's commencement of any construction in the Biola area.

13. The Commission finds CD's revisions to revenues, expenses, and rate base, in response to KTC's filed comments, reasonable. KTC shall follow CD's recommended directives as detailed in the "CD's Final Revisions in Response to KTC's Filed Comments" section of this resolution.

14. Commission approval is based on the specifics of this Advice Letter and does not establish a precedent for the contents of any future filings by small ILECs.

THEREFORE, IT IS ORDERED that:

1. The revised intrastate revenues, expenses, and rate base amounts for test year 2008 identified in Appendix C, Column (e) are adopted for Kerman Telephone Company (KTC).

2. All the tariff changes listed in the Revenue Section of this Resolution are adopted. Within 14 days of the adoption of this resolution KTC shall file an advice letter supplement with a revision to its tariff schedules for all the additional rate and charge increases that CD has proposed in this resolution, as well as for any changes CD has recommended to KTC's original tariff change submissions as discussed in the revenue section of this resolution. In addition, KTC shall provide at least a 30-days notice, prior to the January 1, 2008 effective date, to its customers of the rate and charge increases.

3. KTC shall in its supplement to Advice Letter No. 352 retain references to base rate areas in its tariff schedules.

4. KTC shall develop a plan for a vigorous and complete upgrade of its Biola facilities, and within 60-days from the effective date of this Resolution submit the plan with a proposed construction schedule to the Communications Division (CD) which details the work to be completed as well as the completion date for each phase of the project. CD staff will review this plan and then submit the plan to its Division Director for approval, prior to KTC's commencement of any construction in the Biola area.

5. In its next general rate case filing, KTC shall submit a comprehensive rate design proposal for mandatory business measured rate service, as well as a similar comprehensive rate design proposal for a residential measured rate service option. These proposals shall include the proposed impact to KTC's revenue requirement. KTC shall also provide its customers with a notice about any measured rate service proposal, coincident with the filing of KTC's next GRC.

6. KTC shall follow CD's recommended directives as detailed in the "CD's Final Revisions in Response to KTC's Filed Comments" section of this resolution.

7. The overall intrastate rate of return of 10.00% is adopted for KTC for test year 2008.

8. KTC's CHCF-A draw for 2008 shall be $3,657,147.

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This Resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on November 1, 2007. The following Commissioners approved it:

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PAUL CLANON
Executive Director

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APPENDIX A

Kerman Telephone Company
Total Company Results of Operations
At Present Rates
Test Year 2008

				Utility Exceed Staff	
		Kerman	**CD**	**Amount**	**Percentage Difference**
		(a)	(b)	(c)=(a-b)	(d)=c/b
OPERATING REVENUES:					
1	Local Network Services	2,304,897	2,408,380	(103,483)	-4.30%
2	Local Services - CHCF-A				
3	Interstate USF	2,157,168	2,041,748	115,420	5.65%
4	Long Distance Network				
	Network Access Services				
5	Intrastate	582,204	230,132	352,072	152.99%
6	Interstate	3,262,661	3,297,360	(34,699)	-1.05%
7	Miscellaneous Revenues	242,435	366,445	(124,010)	-33.84%
8	LESS:Uncollectible Revenues	(5,900)	(848)	(5,052)	595.79%
9	Total Operating Revenue	8,543,465	8,343,217	200,248	2.40%
OPERATING EXPENSES:					
10	Plant Specific	3,220,925	2,779,865	441,060	15.87%
11	Plant Non Specific (Less Depreciation)	863,667	783,256	80,411	10.27%
12	Depreciation & Amortization	2,030,183	1,995,714	34,469	1.73%
13	Customer Operations	1,427,644	1,305,056	122,589	9.39%
14	Corporate Operations	2,654,295	2,466,429	187,866	7.62%
15	Total Operating Expenses	10,196,715	9,330,320	866,396	9.29%
OPERATING TAXES:					
16	Operating Fed Income Taxes	(679,242)	(472,773)	(206,469)	43.67%
17	Operating State Inc. Taxes	(193,729)	(134,842)	(58,887)	43.67%
18	Taxes Other Than Income	198,294	198,294	0	0.00%
19	Deferred Oper Income Taxes	0	0	0	
20	Total Operating Taxes	(674,677)	(409,321)	(265,356)	64.83%
21	**NET OPERATING INCOME**	(978,573)	(577,782)	(400,791)	69.37%
RATE BASE:					
22	Telephone Plant-In-Service	33,161,532	33,077,612	83,920	0.25%
23	Tel Plant Held for Future Use	0	0	0	
24	Tel Plant Under Construction	0	0	0	
25	Material & Supplies	223,551	112,560	110,991	98.61%
26	Working Cash	887,800	795,800	92,000	11.56%
27	Less: Depr Reserve	(16,182,795)	(16,364,766)	181,971	-1.11%
28	Def. Taxes	(2,226,398)	(2,226,398)	0	0.00%
29	Customer deposit	0	0	0	
30	Total Rate Base	15,863,690	15,394,808	468,882	3.05%
31	**Rate of Return**	**-6.17%**	**-3.75%**		

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APPENDIX B

Kerman Telephone Company
Results of Operations At Present Rates
Interstate and Intrastate
Test Year 2008

			Kerman			CD		
			Total Company	**Interstate**	**Intrastate**	**Total Company**	**Interstate**	**Intrastate**
			(a)	(b)	(c)	(a)	(b)	(c)
OPERATING REVENUES:								
	1	Local Network Services	2,304,897	0	2,304,897	2,408,380	0	2,408,380
	2	Local Services - CHCF-A						
	3	Interstate USF	2,157,168	0	2,157,168	2,041,748	0	2,041,748
	4	Long Distance Network	0					
		Network Access Services						
	5	Intrastate	582,204	0	582,204	230,132	0	230,132
	6	Interstate	3,262,661	3,262,661	0	3,297,360	3,297,360	0
	7	Miscellaneous Revenues	242,435	7,667	234,768	366,445	7,667	358,778
	8	LESS:Uncollectible Revenues	(5,900)	0	(5,900)	(848)	0	(848)
	9	Total Operating Revenue	8,543,465	3,270,328	5,273,137	8,343,217	3,305,027	5,038,190
OPERATING EXPENSES:								
	10	Plant Specific	3,220,925	855,323	2,365,602	2,779,865	738,199	2,041,666
	11	Plant Non Specific (less deprec.)	863,667	198,537	665,131	783,256	180,052	603,204
	12	Depreciation & Amortization	2,030,183	539,909	1,490,274	1,995,714	530,742	1,464,972
	13	Customer Operations	1,427,644	332,657	1,094,988	1,305,056	304,092	1,000,963
	14	Corporate Operations	2,654,295	676,251	1,978,045	2,466,429	628,387	1,838,042
	15	Total Operating Expenses	10,196,715	2,602,676	7,594,039	9,330,320	2,381,472	6,948,847
OPERATING TAXES:								
	16	Operating Fed Income Taxes	(679,242)	163,178	(842,420)	(472,773)	242,494	(715,267)
	17	Operating State Inc. Taxes	(193,729)	46,540	(240,269)	(134,842)	69,162	(204,004)
	18	Taxes other than operating	198,294	52,195	146,099	198,294	52,195	146,099
	19	Deferred Oper Income Taxes	0	0	0	0	0	0
	20	Total Operating Taxes	(674,677)	261,913	(936,590)	(409,321)	363,851	(773,172)
	21	Net Operating Revenue	(978,573)	405,739	(1,384,312)	(577,782)	559,704	(1,137,485)
RATE BASE								
	22	Telephone Plant-In-Service	33,161,532	8,728,745	24,432,787	33,077,612	8,706,656	24,370,956
	23	Tel Plt under construction	0	0	0	0	0	0
	24	Material & Supplies	223,551	56,993	166,558	112,560	28,696	83,864
	25	Working Cash	887,800	343,800	544,000	795,800	308,500	487,300
	26	Less:Depr Reserve	(16,182,795)	(4,265,461)	(11,917,334)	(16,364,766)	(4,313,425)	(12,051,341)
	27	Def. Taxes	(2,226,398)	(602,029)	(1,624,369)	(2,226,398)	(602,029)	(1,624,369)
	28	Customer deposit	0	0	0	0	0	0
	29	Total Rate Base	15,863,690	4,262,048	11,601,642	15,394,808	4,128,398	11,266,410
	30	**Rate of Return**	**-6.17%**	**9.52%**	**-11.93%**	**-3.75%**	13.56%	-10.10%

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APPENDIX C

Kerman Telephone Company
Intrastate Results of Operations
At Adopted Rates
Test Year 2008

					Utility Exceed Staff		
			Kerman Proposed	**CD Proposed**	**Amount**	**Percentage Difference**	**Adopted**
			(a)	**(b)**	**(c)=(a-b)**	**(d)=c/b**	**(e)**
OPERATING REVENUES:							
	1	Local Network Services	2,363,197	2,514,437	(151,240)	-6.01%	2,514,437
	2	Local Services - CHCF-A	4,170,619	3,657,147	513,471	14.04%	3,657,147
	3	Interstate USF	2,157,168	2,041,748	115,420	5.65%	2,041,748
	4	Long Distance Network	0	0	0		0
		Network Access Services					
	5	Intrastate	582,204	230,132	352,072	152.99%	230,132
	6	Interstate	0	0	0		0
	7	Miscellaneous Revenues	234,768	358,778	(124,010)	-34.56%	358,778
	8	LESS:Uncollectible Revenues	(5,900)	(848)	(5,052)	595.79%	(848)
	9	Total Operating Revenue	9,502,056	8,801,394	700,662	7.96%	8,801,394
OPERATING EXPENSES:							
	10	Plant Specific	2,365,602	2,041,666	323,936	15.87%	2,041,666
	11	Plant Non Specific (less deprec.)	665,131	603,204	61,927	10.27%	603,204
	12	Depreciation & Amortization	1,490,274	1,464,972	25,302	1.73%	1,464,972
	13	Customer Operations	1,094,988	1,000,963	94,024	9.39%	1,000,963
	14	Corporate Operations	1,978,045	1,838,042	140,002	7.62%	1,838,042
	15	Total Operating Expenses	7,594,039	6,948,847	645,191	9.28%	6,948,847
OPERATING TAXES:							
	16	Operating Fed Income Taxes	468,308	451,115	17,193	3.81%	451,115
	17	Operating State Inc. Taxes	133,567	128,664	4,903	3.81%	128,664
	18	Taxes other than operating	146,099	146,099	0	0.00%	146,099
	19	Deferred Oper Income Taxes	0	0	0		0
	20	Total Operating Taxes	747,974	725,878	22,096	3.04%	725,878
	21	Net Operating Revenue	1,160,043	1,126,669	33,374	2.96%	1,126,669
RATE BASE:							
	23	Telephone Plant-In-Service	24,432,787	24,370,956	61,831	0.25%	24,370,956
	24	Tel Plt held for future use	0	0	0		0
	25	Tel Plt under construction	0	0	0		0
	26	Material & Supplies	166,558	83,864	82,694	98.61%	83,864
	27	Working Cash	544,000	487,300	56,700	11.64%	487,300
	28	Less:Depr Reserve	(11,917,334)	(12,051,341)	134,007	-1.11%	(12,051,341)
	29	Def. Taxes	(1,624,369)	(1,624,369)	0	0.00%	(1,624,369)
	30	Customer Deposit	0	0	0		
	31	Total Rate Base	11,601,642	11,266,410	335,232	2.98%	11,266,410
	32	**Rate of Return**	10.00%	10.00%			10.00%

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APPENDIX D
KERMAN TELEPHONE COMPANY
ADOPTED NET TO GROSS MULTIPLIER
Intrastate Revenue Requirement and CHCF-A Support
Test Year 2008

1	Gross Revenues (Results of Operations 2008)		1.00000
2	Net Revenues		1.00000
3	State Income Tax (line 1* 8.84%		0.08840
4	Federal Taxable Income (Line 1 less Line 3)		0.91160
5	Federal Income Tax (Tax Rate Times Line 4)	34.00%	0.30994
6	Net Income (Line 4 Less Line 5)		0.60166
7	**Net to Gross Multiplier (Line 1 divided By Line 5**		1.6621
	Intrastate Revenue Requirement		
8	Adopted State Rate Base		$11,266,410
9	Net Revenues Adopted at 10.00% ROR (Line 8 Times 10%)		1,126,641
10	Net Revenue at Present Rates		(1,137,485)
11	Change in Net Revenues (Line 9 Less Line 10)		2,264,126
12	Net to Gross Multiplier		1.6621
13	**Gross Revenue Change Required (Line 11 Times Line 12)**		3,763,204
	CHCF-A Support		
14	2007 CHCF-A Support at Present Rates		2,435,559
15	2008 CHCF-A Support Request		4,170,619
16	Impact of Proposed Rates		106,057
17	2008 CHCF-A Support		$3,657,147