

**PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA**

**Communications Division  
Carrier Oversight and Programs Branch**

**RESOLUTION T-17297  
December 1, 2011**

**R E S O L U T I O N**

Resolution T-17297: Ponderosa Telephone Company, Inc. (U-1014-C). In compliance with Ordering Paragraph 5 of Commission Decision 10-05-052, which granted Ponderosa Telephone Company, Inc. a limited Rehearing of Commission General Rate Case Resolution T-17132.

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**Summary**

In Decision (“D.”) 10-05-052, adopted on May 20, 2010, the Commission, in response to the Application for Rehearing (“A.”) 09-03-008 filed by Ponderosa Telephone Company (Ponderosa), granted limited rehearing on one issue regarding the total salary and benefits for Ponderosa’s president and vice president. Following the Communications Division’s (“CD”) review of further information provided by Ponderosa in accordance with Ordering Paragraph 5 of D.10-05-052, this resolution approves total salary and benefits for Ponderosa’s president and vice president of \$92,464.

**Background**

On December 28, 2007 and June 10, 2008, Ponderosa filed General Rate Case (GRC) Advice Letters Nos. 374 and 374A, respectively, in compliance with D.01-05-031. Commission Resolution T-17132 addressed Ponderosa’s GRC filings and authorized CHCF-A support for Ponderosa for test year 2009 of \$3,680,994. That Resolution included our denial in full of Ponderosa’s request regarding the salaries for its President and Vice-President. On March 5, 2009, Ponderosa timely filed Application (A.) 09-03-008, requesting rehearing of Resolution T-17132. On October 2010, we issued Decision (D.) 10-05-052, addressing Ponderosa’s rehearing application. In our Decision, we found no legal error had been demonstrated except on the issue regarding executive compensation. Ordering Paragraph 5 stated in part:

**5. A limited rehearing is granted to develop a clearer record to determine the salaries and wages for Ponderosa's President and Vice-President. Within 30 days from the issuance of this Decision, Ponderosa is hereby ordered to resubmit to CD Staff, as a supplement to AL Nos. 374 and 374-A ("Supplemental AL"), all information it deems appropriate to substantiate this request. Staff will review the Supplemental AL, and may propound further data requests requesting more information as CD deems necessary.**

Additionally, on June 16, 2009, Ponderosa Telephone Company filed a Petition to Modify Resolution T-17132 (Petition) by application (Application 09-06-015), asserting that the Resolution contained calculation and/or methodological errors. On May 26, 2011 the Commission issued Decision 11-05-36, which granted in part Ponderosa's Petition to Modify the Resolution to correct calculation errors regarding income taxes. Accordingly, we modified Resolution T-17132 to correct the income tax calculation, remitting to Ponderosa an additional \$18,793 from the CHCF-A. This modification and the revised results of operations are included in Attachment A of this Resolution and in the chart in the "CHCF-A Support" section of this resolution.

## **Discussion**

In D.10-05-052, we found some ambiguity in the record regarding whether there were duplications of tasks among the executive and upper management positions. (D.10-05-052, (2010), \_\_ Cal.P.U.C.3d \_\_, pp. 9-10 (slip opinion.) On June 21, 2010, in compliance with D. 10-05-052, Ponderosa submitted a data request response to the CD in which it provided additional information which outlined in greater detail the duties and tasks performed by its President and Vice President.

Ponderosa described the duties and tasks performed by both the President Elizabeth Luanne Silkwood and Vice President Franklin E. Bigelow. President Silkwood's duties include: providing overall strategic leadership and direction; working with the Board of Directors to establish goals, strategies, plans and policies to provide quality and reliable communication services to Ponderosa's rural customers; reviewing and approval of company expenditures; approving and executing legal documents; providing direction for operational and planning issues; and overall strategic leadership and direction.

The data response described Vice President Bigelow's duties to include: assisting the President and Board of Directors with overall strategic leadership and direction; working with the Board of Directors to establish goals, strategies, plans and policies; maintaining external relationships and promoting the image of the Company to its employees, the communities it serves, and to its vendors; helping secure rights of way; evaluating and

recommending equipment purchases; evaluating and recommending various construction methodologies; and monitoring construction program activity.

After reviewing the data request response by Ponderosa, the record shows that at least 70% of the day to day operations and regulatory matters of the intrastate telephone company (that the CPUC regulates) are performed by executive managers of Ponderosa other than their president and vice president, and that there is not a complete overlap of functions. Accordingly, CD has revised its previous total salary expense disallowance to accept 30% of Ponderosa' original total executive salaries request, plus the annual escalation factor and the 42% benefit amount.

CD informed Ponderosa of its proposed revision to Ponderosa's Executive Salaries and Ponderosa has communicated acceptance of this change, as evidenced by Ponderosa's Officer Dan Douglas' August 12, 2010 email to Communications Division staff, which stated:

**Ponderosa accepts CD's proposal to allow 30% of the executive salaries to be included in our GRC and agrees that \$92,465 represents the intrastate ratemaking impact of this allowance. As agreed, the 30% allowance was an acceptable compromise between CD and Ponderosa for the purpose of resolving the subject of the limited rehearing granted in Decision 10-05-052 regarding executive compensation.**

### **CHCF-A Support**

The increased Executive Salaries amount will result in CHCF-A support of \$3,792,252 for test year 2009, which is an increase of \$92,464 from the amount of \$3,699,788 which had been granted in D.11-05-036, adopted on May 26, 2011, which in turn had modified the CHCF-A amount granted in original Resolution T-17132 of \$2,071,163 CHCF-A.

**Summary of the CHCF-A Funding Amounts**

	Additional CHCF-A Funding Amount	New CHCF-A Amount for Test Year 2009
Res. T-17132	n/a	\$3,680,994
Decision (D.)11-05-036	\$18,794	\$3,699,788
Res. T-17297	\$92,464	<b><u>\$3,792,252</u></b>

**Corporate Operations Expense**

The following chart shows the changes to Ponderosa’s Corporate Operations Expense account as a result of the increase in Executive Salaries.

**Summary of the Corporate Operations Expense Account**

Description	Ponderosa’s GRC Request	T-17132 Approved	D.11-05-036 Approved	T-17297 Proposed
Corporate Operations Expense	\$2,267,196	\$1,681,562	\$1,681,562	\$1,774,027

**Comments**

In accordance with P.U. Code Section 311 (g), CD provided notice on November 1, 2011 to interested parties, informing them that this draft resolution is available on the Commission’s website <http://www.cpuc.ca.gov> and is available for public comments. In addition, CD informed the parties that the conformed resolution will also be available on the same website.

**Recommendation**

The Communications Division recommends that the Ponderosa Telephone Company, Inc.’s executive salary, which includes the annual escalation factor and 42% benefit amount, be revised to \$92,464 and an evidentiary hearing on this issue is not necessary.

## Findings

1. Ponderosa Telephone Company, Inc. (Ponderosa) filed a General Rate Case (GRC) for test year 2009, through Advice Letter filings Nos. 374 and 374A on December 21, 2007 and June 10, 2008, respectively, in compliance with Decision 01-05-031.
2. On January 29, 2009, the Commission approved Resolution T-17132, which resolved the General Rate Case (GRC) for Ponderosa Telephone Co. (U-1014-C) for test year 2009. Among other adjustments, this resolution disallowed, in full, the executive salaries for the president and vice-president of Ponderosa Telephone Company.
3. The record for the GRC proceeding was developed by Ponderosa's filing of the Advice Letter Nos. 374 and 374-A, and supporting documents and information gathered and used by the Communications Division.
4. On March 5, 2009 Ponderosa filed Application (A.) 09-03-008, for Rehearing of Resolution T-17132.
5. In Decision D. 10-05-052, the Commission reviewed each and every allegation raised by Ponderosa in its Application for Rehearing (A.09-03-008) and found that only the issue regarding executive compensation had merit. As to all other issues, the Commission determined that no legal error had been demonstrated.
6. On June 16, 2009, Ponderosa Telephone Company filed a Petition to Modify Resolution T-17132 by application (Application 09-06-015), asserting that the Resolution contained calculation and/or methodological errors.
7. On May 26, 2011 the Commission issued Decision 11-05-36, which in part, granted Ponderosa's Petition to Modify the Resolution to correct calculation errors. The Commission determined that one error occurred in the income tax calculation that CD performed.
8. The Commission finds that the data request response by Ponderosa describing the duties and tasks performed by its president and vice president is sufficient and adequate to warrant the increase of the executive salary expense as contained in this resolution.
9. The Commission finds the new executive salary amount of \$92,464, which includes the annual escalation factor and 42% benefit amount, to be reasonable.

**THEREFORE, IT IS ORDERED that:**

1. The revised intrastate revenues, expenses, and rate base amounts for test year 2009 identified (underscored) in Appendix A, column (E) are adopted for Ponderosa Telephone Company, Inc.
2. The Ponderosa Telephone Company, Inc.'s revised California High Cost Fund – A draw for 2009 is \$3,792,252.
3. The Ponderosa Telephone Company, Inc.'s executive salary, which includes the annual escalation factor and 42% benefit amount, is revised to \$92,464 and an evidentiary hearing on this issue is not necessary.

This Resolution is effective today.

I hereby certify that the Public Utilities Commission at its regular meeting on December 1, 2011 adopted this Resolution. The following Commissioners approved it:

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PAUL CLANON  
Executive Director

**APPENDIX A  
PONDEROSA TELEPHONE COMPANY  
INTRASTATE RESULTS OF OPERATIONS  
PROPOSED RATES - TEST YEAR 2009**

		PONDEROSA PROPOSED (A)	CD PROPOSED (B)	UTILITY EXCEED STAFF AMOUNT (C)=(A)-(B)	PERCENTAGE DIFFERENCE (D)	ADOPTED (E)
<b>OPERATING REVENUES:</b>						
1	Local Network Services	2,763,915	3,131,113	(367,198)	(11.73%)	3,131,113
2	Local Service - CHCF - A	6,320,400	<u>3,792,252</u>	<u>2,528,148</u>	<u>66.67%</u>	<u>3,792,252</u>
3	Interstate USF	6,556,611	6,997,308	(440,697)	(6.30%)	6,997,308
4	Network Access Services:					
5	Intrastate	860,510	975,662	(115,152)	(11.80%)	975,662
6	Interstate	-	-	-		-
7	Miscellaneous	513,514	516,786	(3,272)	(0.63%)	516,786
8	Less: Uncollectible Revenue	(4,451)	(4,451)	-	0.00%	(4,451)
9	<b>Total Oper. Revenue</b>	<u>17,010,499</u>	<u>15,408,670</u>	<u>1,601,829</u>	<u>10.40%</u>	<u>15,408,670</u>
<b>OPERATING EXPENSES:</b>						
10	Plant Specific	2,848,213	2,498,962	349,251	13.98%	2,498,962
11	Plant Non-Specific (less depr.)	1,313,520	1,206,761	106,759	8.85%	1,206,761
12	Customer Operations	944,055	820,936	123,119	15.00%	820,936
13	Corporate Operations	2,267,196	<u>1,774,027</u>	<u>493,169</u>	<u>27.80%</u>	<u>1,774,027</u>
14	<b>Subtotal</b>	<u>7,372,984</u>	<u>6,300,686</u>	<u>1,072,298</u>	<u>17.02%</u>	<u>6,300,686</u>
15	Depreciation & Amortization	5,658,766	5,677,279	(18,513)	(0.33%)	5,677,279
16	Other Taxes	266,387	266,387	-	0.00%	266,387
17	State Income Taxes	281,225	<u>242,452</u>	<u>38,773</u>	<u>15.99%</u>	<u>242,452</u>
18	Federal Income Taxes	986,020	<u>850,074</u>	<u>135,946</u>	<u>15.99%</u>	<u>850,074</u>
19	<b>Total Oper. Expense</b>	<u>14,565,382</u>	<u>13,336,878</u>	<u>1,228,504</u>	<u>9.21%</u>	<u>13,336,878</u>
20	<b>Net Revenues</b>	<u>2,445,117</u>	<u>2,071,792</u>	<u>373,325</u>	<u>18.02%</u>	<u>2,071,792</u>
<b>AVERAGE RATE BASE:</b>						
21	Telephone Plant-in-Service	69,025,409	66,329,369	2,696,040	4.06%	66,329,369
22	Tel. Plant Under Construction	2,322,473	2,215,401	107,072	4.83%	2,215,401
23	Material & Supplies	224,620	219,876	4,744	2.16%	219,876
24	Working Cash	954,768	856,373	98,395	11.49%	856,373
25	Less: Deprec. Res.	(47,844,245)	(48,203,354)	359,109	(0.74%)	(48,203,354)
26	Def. Taxes	(220,350)	(686,811)	466,461	(67.92%)	(686,811)
27	Customer Deposit	(11,506)	(10,964)	(542)	4.94%	(10,964)
28	<b>Total Rate Base</b>	<u>24,451,169</u>	<u>20,719,889</u>	<u>3,731,280</u>	<u>18.01%</u>	<u>20,719,889</u>
29	<b>Rate of Return</b>	<u>10.00%</u>	<u>10.00%</u>			<u>10.00%</u>