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Agenda ID # 6884
09/06/07

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PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Communications Division **RESOLUTION T-17082**
Licensing, Tariffs, Rural Carriers & Cost Support Branch **September 6, 2007**

R E S O L U T I O N

Resolution T-17082. Sierra Telephone Company, Inc. (U-1016-C). General Rate Case Filing In Compliance With G. O. 96-A, Paragraph VI.

By Advice Letter No. 350, filed on December 27, 2006.

Summary

This Resolution addresses the General Rate Case (GRC) request filed by Sierra Telephone Company, Inc. (Sierra) by Advice Letter (AL) 350 filed on December 27, 2006. In AL 350, Sierra proposes: a) an intrastate Rate of Return (ROR) of 10.00%; b) an increase in its 2008 California High Cost Fund-A (CHCF-A) draw at $13,886,548, which represents an increase of $726,409, or an approximate 5.5% increase in CHCF-A support from 2007; c) revision of its depreciation rates for test year 2008; and, d) various changes to its tariff schedules to increase non-basic service rates and charges (see discussion):

This Resolution authorizes total intrastate revenue in the amount of $29,670,560 for Sierra for the test year 2008. This represents a reduction of $1,882,410 to Sierra's estimate of $31,552,970 for total intrastate revenue for 2008. The Total Intrastate Rate Base amount authorized for Sierra is $31,162,910 with an overall Intrastate Rate of Return of 10.00% for the test year 2008. Also authorized by this resolution is CHCF-A support for Sierra for the test year of $11,714,393. This amount represents a reduction of $1,445,746, or approximate 10.99% decrease from the CHCF-A 2007 support of $13,160,139. This reduction is due to adjustments made to revenues, expenses, and rate base.

This resolution approves new depreciation rates and non-basic service rates and charges for Sierra's test year 2008.

Appendix A compares the Communications Division's (CD's) and Sierra's test year 2008 Total Company Results of Operations before any CHCF-A adjustment. Appendix B compares CD's and Sierra's Interstate and Intrastate Results of Operations before any CHCF-A adjustment. Appendix C compares CD's and Sierra's Intrastate Results of Operations estimates after Sierra's Proposed CHCF-A increase and after CD's proposed adjustments. Appendix D shows CD's calculation of the Net-to-Gross Multiplier and the change in the gross intrastate revenue requirement based on an adopted intrastate rate of return of 10.00%.

Background

Sierra is a local exchange carrier based in Oakhurst, California, and provides local exchange telephone service in parts of Mariposa and Madera Counties. Sierra services approximately 23,000 access lines in its three telephone exchanges: Coarsegold, Raymond and Mariposa.

Commission Resolution No. T-17064, dated December 14, 2006, approved Sierra's 2007 CHCF-A support at $13,160,139. Sierra's last GRC filing was by AL 285 and authorized by Resolution T-16711, for a test year 2003. In this GRC filing, Sierra requests test year 2008 CHCF-A support of $13,886,548. This represents an increase of $726,409, or an approximate 5.5% increase in CHCF-A support for 2008.

Notice/Protests

Sierra states that a copy of the AL 350 was mailed to competing and adjacent utilities and/or other utilities. Notice of AL 350 was published in the Commission Daily Calendar of December 29, 2006. In response to the notices, 18 informal comments were received by CD from current subscribers complaining about proposed rate and charge increases. No protests to AL 350 have been received.

On March 27, 2007, CD staff held a Public Meeting in Oakhurst, CA, to explain Sierra's filing to its customers and to give customers the opportunity to ask questions of Sierra's management and CD staff. No customers attended the public meeting.

Discussion

Total Operating Revenues

Sierra submitted its intrastate total operating revenue for test year 2008 as $31,552,970. This amount includes $13,886,548 in CHCF-A support to achieve a total rate of return of 10.00%. CD estimates the projected intrastate total operating revenue for test year 2008 to be $29,670,560. CD's amount is $1,882,410 lower than Sierra's estimate due to higher local network service revenue of $282,719, higher miscellaneous revenue of $8,623, and more uncollectible revenue of $1,597. CD estimates that Sierra only needs $11,714,393 in CHCF-A support to achieve an overall rate of return of 10.00%. This is $2,172,155 lower than Sierra's CHCF-A estimate for test year 2008.

CD adjusted Sierra's proposed miscellaneous revenues to include three advice letters approved in 2007. AL 351 approved the new service Auto Attendant which increases revenue by approximately $4,788 annually. AL 355 approved the new service E-Forward which increases revenue by approximately $2,863 annually. AL 356 approved the new service Calling Name and Number which increases revenue by approximately $972 annually. These three approved advice letters increase miscellaneous annual revenues by $8,623.

In this GRC filing, Sierra proposes to increase various non-basic service rates and charges for the test year. The estimated result of these proposed increases is an annual net increase in customer billing totaling $158,021.

Sierra's proposed changes in rates and charges are as follows:

1. Schedule No. A-3, Directory Assistance Service: Increase the charge for Local Directory Assistance (Local DA) calls to $0.46. Currently, customers may use Local DA at no charge. A Local DA Call Allowance is added to Schedule No. A-3 which provides that residential customers may call Local DA three times per monthly billing period without charge. Business customers will not receive a Local DA Call Allowance. All customers calling Local DA may request up to three local numbers per call.

2. Schedule No. A-4, Mileage Rates: Increase the Off-Premises Extension Mileage Rate from $2.25 to $4.50 per month for the first quarter mile (or fraction thereof) and from $2.25 to $4.50 per month for each additional quarter mile.

3. Schedule No. A-6, Voice Mail Service: Increase the Economy Voice Mailbox monthly recurring rate from $3.95 per month to $4.95 per month.

4. Schedule No. A-14, Directory Listing and Joint User Services: Increase the monthly recurring rate for Additional Directory Listing - Residence from $0.50 to $0.75 and Additional Directory Listing - Business from $0.75 to $1.00. Increase the Joint User Services monthly recurring rate from $2.50 to $4.00.

5. Schedule No. A-23, Custom Calling Services: Individual features with monthly recurring rates for Call Forwarding (individual feature types: Variable, Fixed,

Busy, No Answer, and Busy/No Answer), Call Waiting, Three-Way Calling, Speed Calling 8 and 30, and Anonymous Call Rejection are increased by $0.25 per each feature, and two Four-Feature Packages with Speed Calling are increased by $0.50 per package.

6. Schedule No. A-26, Visit Charge: Increase the non-recurring hourly Visit Charge labor rates for Normal, Overtime, and Premium time periods. The charge for the Normal time period will be $40.00 for the first 30 minutes, and $20.00 for each additional 15 minutes. The charge for the Overtime time period will be $50.00 for the first 30 minutes, and $20.00 for each additional 15 minutes. The charge for the Premium period will be $60.00 for the first 30 minutes, and $20.00 for each additional 15 minutes.

7. Schedule A-27, Inside Wire Maintenance Service: Increase the Inside Wire Maintenance Plan monthly recurring rate to $1.00 per month, and increase the non-recurring hourly Inside Wire Repair Labor Charges for Normal, Overtime, and Premium time periods. The charge for the Normal time period will be $40.00 for the first 30 minutes, and $20.00 for each additional 15 minutes. The charge for the Overtime time period will be $50.00 for the first 30 minutes, and $20.00 for each additional 15 minutes. The charge for the Premium period will be $60.00 for the first 30 minutes, and $20.00 for each additional 15 minutes.

Sierra proposes increasing the charge for Local Directory Assistance (DA). Currently, Sierra customers may call Local DA at no charge on an unlimited basis. With this GRC, a Local DA Call Allowance is proposed to be added to Schedule No. A-3 which provides that residential customers may call Local DA three times per monthly billing period without charge. At the beginning of a call, customers may request up to three listings; therefore, a maximum of nine (9) Local DA listings may be received per monthly billing cycle at no charge. Business customers will not receive a Local DA Call Allowance under the proposal. Based on Sierra's estimated volume of calls, the proposed DA charge will add $24,880 to Sierra's 2008 local network calculation.

During the March field trip investigation by CD staff, CD met with the Mariposa's Chamber of Commerce staff to inquire about possible growth in Sierra's service territory. While the Chamber of Commerce reported no new development projects in the area planned for 2007 and 2008, there has been a slow but steady monthly growth of start-up business memberships which is described as an influx of new residents, primarily retirees. In addition, the Mariposa Chamber of Commerce is actively encouraging communication with its membership and seasonal visitors seeking event information via its well-maintained website. The Chamber is experiencing more contact with the business community because of improved technology and anticipates better business relationships which could increase development in the future.

Based on this information gathered from the field trip, CD analyzed Sierra's current monthly rates of $26.00 for 1-party business line and $20.30 for 2-party business line and compared them with the business monthly rates of local competitors and similar-sized companies. Few companies still offer party lines. CD found Sierra's monthly rate for a 1-party business line to be between 10% and 29.5% less and its 2-party party business line approximately 25% less than neighboring and comparable-sized companies' rates. CD recommends increasing Sierra's 1-party business rate to $31.85 and its 2-party business rate to $24.85, both approximately a 20% increase. Based on test year volumes, these increases will add $282,719 in estimated annual revenue to Sierra's 2008 local network service revenue figure.

In addition to these price increases for business access line services, CD recommends that the Commission direct Sierra to convert its 2-party Residential, Business, and ULTS services to 1-party service in its next GRC filing. The known fill rates at this time tell us that all of the current 2-party lines are not subscribed to by 2 parties but instead are dedicated to only one customer. Essentially, these 2-party customers are receiving identical 1-party dedicated service at the lower 2-party price.

Furthermore, Sierra currently only offers flat rate residence and business service to its customers, although it has the capability to offer measured service. CD would like to see the utility take advantage of that capability and suggest that Sierra develop a rate design proposal in its next GRC for mandatory business measured rate service and consider including a proposal for a measured rate service option that may be less expensive for residence customers.

In total, these adjustments will bring the company's 2008 projected Intrastate total operating revenues to $29,670,560 as noted in Appendix C. Based on staff analysis of comparable 1- and 2-party line business rates and local directory assistance charges, CD recommends that the Commission adopt staff's proposed rates and charges which adjust operating revenues for Sierra's test year 2008 as discussed above.

<u>Operating Expenses</u>

Sierra's estimate of total company operating expenses at $40,030,206 is greater than CD's estimate of $38,650,598 by $1,379,608, or 3.57%. A comparison of CD's and Sierra's estimates of total operating expenses for test year 2008 is shown in Appendix A. Differences between CD's and Sierra's estimates are described below.

For operating expenses, Sierra used 2001-2005 actual cost study data and estimate for 2006 and ran regression analysis on each account. Sierra then estimated the 2007 and 2008 expenses based on the regression analysis with the exception of Depreciation Expenses.

During CD's examination and review of Sierra's AL350, the actual cost study for 2006 became available. CD asked Sierra to rerun its regression analysis using the actual 2006 expenses instead of the estimate contained in its original filing.

CD, however, disagrees with Sierra's new regression analysis. A majority of expense account regressions had coefficient of determination (COD)[1] results that were too low (0.02% to 67.32%) for CD to accept.

Sierra also requested the addition of 7.5 new employees in year 2007 and year 2008. Sierra released 8 employees in year 2005 (state/federal subsidy uncertainties) for annual cost reduction of $647,828. The 7.5 proposed new employees carry annual cost of $366,978 in year 2008. After reviewing the submitted reasoning, CD accepts the addition of the new employees and added their associated expenses to its forecasted 2008 expenses.

CD used Sierra's recorded labor and non-labor expenses and applied the constant dollar method to estimate Sierra's 2008 expenses. The constant dollar method is used to convert nominal dollars to inflation-adjusted figures. This is done by using the inflation factors for each year and compounding them to 2006 dollars. In Pinnacles Telephone Company's 2004 test year rate case proceeding, the Commission discussed and adopted staff's use of the constant dollar methodology. In Finding 6 of Resolution T-16755, the Commission found (Telecommunications Division) TD's methodology in estimating expenses for Pinnacles Telephone Company reasonable and adopted TD's recommended test year 2004 expenses.

CD used Sierra's recorded expense figures from the annual reports for the years 2004, 2005 and 2006[2] and then applied the recorded inflation factors for labor and non-labor for each year to convert the recorded expenses to constant 2006 dollars.[3] CD then took the three-year constant dollar average and applied the estimated inflation factors for

[1] COD is a tool used to show how well a variable can be explained by another set of data (those of previous years). The COD range is from 0 to 1 with 0 indicating there is no relation to 1 to show a perfect explanation, i.e. all changes in the predicted variable can be explained by the independent variable. Area in between, indicate the strength of the relation. Typically, COD of less than 0.50 is an indicative of a weak relation, whereas a COD of 0.80 or more points to a strong explanatory relation.

[2] Revised ARMIS Report (FCC ARMIS 43-02 Report Format) of Sierra's Annual Reports for 2004, 2005 and 2006.

[3] CD used the March 2007 Global Insight U.S. Economic Outlook estimates of Non-Labor and Wage Escalation Factors for 2006-2009. as follows:

Year	Labor	Non-labor
2005	3.2%	5.5%
2006	2.2%	5.5%
2007	3.2%	1.7%
2008	1.5%	1.6%
2009	2.3%	1.1%

2007 and 2008. CD's estimation of utilizing the constant dollar method resulted in $27,459,564 (less depreciation) for operating expenses, 4.25% less than Sierra's estimates of $28,626,711 (less depreciation).

CD's forecasted 2008 expenses, compared to Sierra's forecast with low COD, are more reliable and potentially more accurate since CD's forecast is based on Sierra's most recent actual expenses. CD has also accounted for variations and fluctuations by using averages from the three most immediate preceding years. This is the same expense forecasting principle and methodology the Commission approved and adopted in Resolution T-16711 in 2003 for Sierra Telephone's previous GRC.

Sierra proposes new depreciation rates for test year 2008. Sierra followed the Commission's Standard Practice U-4 manual in preparation of its depreciation study. This Standard Practice set forth the determination of depreciation accruals and describes methods of calculating these accruals Sierra uses the Straight-Line, Remaining-Life method from the manual to develop new depreciation rates. The Straight-Line, Remaining-Life method tends to eliminate differences in accumulated depreciation accruals which may arise due to variation in life estimates. CD has reviewed Sierra's Straight-Line method, Remaining Technique. Because CD believes that Sierra has under estimated plant vehicle retirements during historical years, CD adjusts Sierra's proposed vehicle remaining life from 1.86 to 2.97; as a result, the vehicle depreciation rate changes from Sierra's proposed 22.9% to 14.3%. CD recommends the Commission adopt CD's 14.3% vehicle depreciation rate and accept the rest of Sierra's proposed depreciation rates for test year 2008.

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, Deferred Asset – Liability, and Customer Deposits.

Sierra states two Remote Switching Centers located in Mariposa and Bootjack were installed in 1991; also one Nortel DMS 100 Switch located in Oakhurst central office and two Remote Switching Centers located in Bass Lake and Yosemite Lake Park were installed in 1988. This old equipment is expensive to upgrade and maintain as software patches and generic upgrades are continually needed.

Sierra's budget includes the retirement of this old equipment and replacing it with equipment that will support the existing Plain Old Telephone Services (POTS) as well as future packet services. In 2006, Sierra installed a Nortel CS 2000 switch to provide packet service in its network.

Sierra budgeted $8.9 million in additions for plant-in-service in 2006, but the actual addition for plant-in-service was $7.4 million, which is approximately 17.6% under budget. The uncompleted projects could be moved to future years. Also, some plant-in-service additions had exceeded the 2006 budget. Some projects which were scheduled for future years had been started and/or completed in 2006.

In order to determine which investment projects could be deferred past the 2008 test year, CD requested Sierra to rank their capital/investment projects by assigning a number 1 through 5 for each project, with 1 representing a high priority and 5 as a low priority. From CD's ranking of Sierra's future projects CD concludes that $1.6 million of Sierra's lower ranked projects should be delayed until after the 2008 test year. Because the growth rate in Sierra service territory is relatively low, deferring this $1.6 million in new construction should have minimal impact on Sierra's customers.

CD acknowledges that the Commission has historically allowed the inclusion of "Construction Work in Progress" (CWIP) in the rate base for general rate cases and for annual CHCF-A filings. For this GRC filing, Sierra uses 0.88% of its average plant balance in 2008 for the CWIP account. CD has reviewed Sierra's previous CWIP accounts, and accepts 0.88% of average plant balance as a reasonable estimate for CWIP for the test year 2008.

The estimated amount for materials and supplies is based on a percentage of average plant balance. This is a reasonable method since the inventory of parts and supplies usually increases at the same rate as a company's plant. In this GRC filing, Sierra uses 0.42% of its average plant balance in 2008 for its materials and supplies account. CD has reviewed Sierra's previous materials and supplies accounts and accepts 0.42% of average plant balance as a reasonable estimate for materials and supplies in rate base for test year 2008.

Both Sierra and CD use the Commission's Standard Practice U-16 Simplified Method to develop working cash in rate base. 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 amounts between Sierra and CD is due to the difference in estimated revenues and expenses.

The difference between Sierra's intrastate deferred taxes[4] amount of ($3,731,931) and CD's intrastate deferred taxes amount of ($3,525,839) results because the amount for Plant-in-Service is used to compute the deferred taxes amount. CD's calculation for Plant-in-Service of $92,901,547 differs from Sierra's calculation of $94,962,130; hence, this leads to the difference in Sierra's and CD's respective deferred taxes amounts.

CD has reviewed Sierra's historical Deferred Asset-Liability account and found Sierra's 2008 estimate to be reasonable. Deferred Asset-Liability includes the amount of cash and other assets which are held by the company for the purpose redeeming outstanding obligations.

CD requested Sierra to explain how the customer deposit entries were developed or calculated for test year 2008. Sierra responded that its customer deposit amount for 2006 was in error. The 2006 amount was never adjusted to the lower deposit number in 2005. CD uses $3,800 as the customer deposit amount for total company in the test year 2008

As previously discussed above, CD recommends the Commission adopt CD's Intrastate average rate base of $31,162,910 for Sierra's test year 2008.

Appendix C shows Sierra's and CD's Intrastate Results of Operations (Operating Revenues, Operating Expenses, Average Rate Base and Rate of Return) at the Adopted Rates. Appendix C also shows Sierra's proposed CHCF-A fund amounts, as well as the adopted CHCF-A fund amount.

Separations

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

[4] Deferred taxes are 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.

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.

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

Appendix B compares Sierra's and CD's interstate and intrastate results of operations for test year 2008 at present rates.

Cost of Capital

Sierra requests an overall intrastate rate of return of 10%. In Sierra's Resolution T-16711 in 2002, the Telecommunications Division (TD) recommended that the requested rate of return of 10.00% be approved by the Commission. CD believes that the Return on Equity (ROE) for all rural ILECs should be the same since the systematic and non-diversifiable risks faced by all rural ILECs are similar and on December 14, 2006, the Commission authorized a 10.00% rate of return in the Foresthill Telephone Company general rate case.

CD recommends that the Commission approve Sierra's request for an overall rate of return of 10.00%.

Taxes

The differences in the income tax estimates between Sierra and CD are due to differences in each party's calculations of intrastate net operating revenues. (CD estimated state income tax expense of $393,779 is $26,249 lower than Sierra's estimated state income tax expense of $420,028. Also, CD's estimate of federal income tax expense of $1,380,651 is $92,030 lower than Sierra's estimated federal income tax expense of $1,472,681.)

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.

Appendix D shows CD's computation of Sierra'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 $3,116,291 is calculated by multiplying the Adopted Intrastate Rate Base of $31,162,910 times the Adopted Rate of Return of 10.00%. This Net Revenue figure of $3,116,291 minus Sierra's actual 2008 Net Revenues of $3,721,923 at present rates equals the Change in Net Revenues of ($605,623).

The Change in Net Revenues of ($605,632) times the Net-To-Gross Multiplier of 1.66207 equals the Gross Revenue Change Requirement of ($1,006,603). However, an additional revenue requirement of $439,143 is needed to reflect the increase in Sierra's revenue due to our authorization of CD's proposed rate design. This means that based on our adoption of CD's intrastate results of operation, Sierra will need an additional $11,714,393 in Gross Revenues to realize a 10.00% Rate of Return. This increase in Sierra's Gross Revenues will come from $11,714,393 in CHCF-A support amount to Sierra.

CHCF-A Support

CD's total company results of operations at present rates show that Sierra would register a $5,261,385 in Net Operating Revenues and a total company rate of return of a 11.52% (Appendix A, Column B) prior to any CHCF-A adjustment.

As described above in the Net-to-Gross Multiplier section of this resolution, Sierra will need $11,714,393 in CHCF-A support in order to realize a 10.00% Rate of Return for intrastate results of operation.

For test year 2008, CD's computation of Sierra's CHCF-A requirement is $11,714,393. This is based on CD's calculation involving CD's projections of Sierra'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 (g1), CD mailed copies of the original draft Resolution on August 7, 2007, to Sierra and other interested parties. Comments received on a timely basis will be addressed in the final resolution.

Findings

1. Sierra filed its 2008 test year GRC by AL 350 on December 27, 2006.

2. Sierra requests the following for test year 2008:

   - An intrastate Rate of Return (ROR) of 10.00%;

   - A California High Cost Fund-A (CHCF-A) draw of $13,886,548 at proposed rates;

   - A change in depreciations rates for test year 2008; and,

   - A change in tariff Schedules to increase its non-basic service rates and/or charges in: Schedule No. A-3, Directory Assistance Service; Schedule No. A-4, Mileage Rates; Schedule No. A-6, Voice Mail Service; Schedule No.A-14, Directory Listing and Joint User Service; Schedule No. A-23, Customer Calling Services; Schedule No. A-26, Visiting Charge; Schedule No. A-27, Inside Wire Maintenance Service.

3. CD recommends the following changes for Sierra for test year 2008:

   - An Intrastate Rate of Return (ROR) of 10.00%;

   - A California High Cost Fund-A (CHCF-A) support of $11,714,393;

   - A revision to Sierra's proposed depreciation rates for test year 2008; and,

   - An increase in non-basic service rates and/or charges for the following tariffs: Schedule No. A-3, Directory Assistance Service; Schedule No. A-4, Mileage Rates; Schedule No. A-6, Voice Mail Service; Schedule No.A-14, Directory Listing and Joint User Service; Schedule No. A-23, Customer Calling Services; Schedule No. A-26, Visiting Charge; and, Schedule No. A-27, Inside Wire Maintenance Service.

   - An increase in 1-party Business Rate from $26.00 to $31.85 and in 2-party Business Rate from $20.30 to $24.85.

   - In addition, Sierra shall in its next GRC convert its 2-party Residential, Business, and ULTS services to 1-party service in its territory. According to the company, its fill rate is 1 for existing 2-party customers and, therefore, 2-party customers receive 1-party service at a reduced rate. All customers who will be affected by the proposed tariff revision to eliminate 2-party rates shall be provided written notice from Sierra that such a proposed tariff is being requested by the Commission.

4. CD's tariff change recommendations for Sierra made in the Discussion section of this Resolution are reasonable and should be adopted.

5. CD's proposal that Sierra develop a rate design proposal in its next GRC for mandatory business measured rate service, including a less expensive measured rate service option for residence customers, is reasonable and should be adopted.

6. The difference in the revenue, expenses, and rate base estimates between Sierra and CD result from both updates and the use of different methodologies.

7. CD's methodologies in estimating revenue, expenses, and rate base are reasonable, and CD's recommended revenues, expenses, and rate base as shown in Appendix C should be adopted.

8. CD's recommended overall intrastate rate of return of 10.00% for Sierra is reasonable and should be adopted.

9. CD's recommended depreciation rates are reasonable for rate making purposes for Sierra's 2008 test year.

10. CD's recommended $11,714,393 in CHCF-A support for Sierra for 2008 is reasonable.

11. 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.

12. Sierra's requested tariff changes to increase non-basic services rates and charges are reasonable and should be adopted.

THEREFORE, IT IS ORDERED that:

1. The intrastate revenues, expenses, and rate base amounts for test year 2008 identified in Appendix C, column (E) are adopted for Sierra Telephone Company (Sierra).

2. The tariff change recommendations made by the Communications Division (CD) in the Discussion section of this Resolution are authorized.

3. Sierra shall file an advice letter supplement, within 14 calendar days from the effective date of this resolution, to revise the following tariffs as recommended by CD: Schedule No. A-3, Directory Assistance Service; Schedule No. A-4, Mileage Rates; Schedule No. A-6, Voice Mail Service; Schedule No.A-14, Directory Listing and Joint User Service; Schedule No. A-23, Customer Calling Services; Schedule No. A-26, Visiting Charge; and, Schedule No. A-27, Inside Wire Maintenance Service. The filing shall be effective January 1, 2008 after review and approval by CD.

4. Upon filing its advice letter supplement, Sierra shall provide customers notice of the increase in rates and charges authorized by this Resolution.

5. In its next General Rate Case (GRC) filing Sierra shall submit a rate design proposal for mandatory business measured rate service and also include a proposal for a measured rate service option for residence customers.

6. The overall intrastate rate of return of 10.00% is adopted for Sierra for test year 2008.

7. CD's recommended depreciation rates in support of Sierra's GRC Advice Letter No. 350 is adopted for ratemaking purposes.

8. Sierra shall include a proposal in its next GRC filing to convert 2-party Residential, Business, and ULTS service to 1-party service.

9. Sierra is authorized an amount of $11,714,393 in CHCF-A support for 2008.

This Resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on September 6, 2007. The following Commissioners approved it:

PAUL CLANON
Executive Director

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APPENDIX A
SIERRA TELEPHONE COMPANY
RESULTS OF OPERATIONS TEST YEAR 2008
TOTAL COMPANY AT PRESENT RATES

		SIERRA (A)	CD (B)	UTILITY EXCEED STAFF AMOUNT (C=A-B)	PERCENTAGE DIFFERENCE (D= C/B)
OPERATING REVENUES:					
1	Local Network Services	7,250,545	7,250,545	-	0.00%
2	Local Services - CHCF-A	13,160,139	13,160,139	-	0.00%
3	Interstate USF	5,725,362	5,725,352	-	0.00%
4	Network Access Services:				
5	Intrastate	2,906,480	2,906,480	-	0.00%
6	Interstate	13,198,918	13,198,918	-	0.00%
7	Miscellaneous	1,706,210	1,714,833	(8,623)	(0.50%)
8	LESS: Uncollectible Rev.	(44,284)	(44,284)	-	0.00%
9	**Total Oper. Revenues**	43,903,360	43,911,983	(8,623)	(0.02%)
OPERATING EXPENSES:					
10	Plant Specific	8,084,704	8,699,356	(614,652)	(7.07%)
11	Plant Non-Specific (less depr.)	3,670,800	3,297,298	373,502	11.33%
12	Customer Operations	4,222,329	4,250,137	(27,808)	(0.65%)
13	Corporate Operations	12,648,878	11,212,773	1,436,105	12.81%
14	**Subtotal**	28,626,711	27,459,564	1,167,147	4.25%
15	Depreciation & Amortization	8,723,720	7,592,140	1,131,580	14.90%
16	Other Taxes	528,400	528,400	-	0.00%
17	State Income Taxes	477,430	681,400	(203,970)	(29.93%)
18	Federal Income Taxes	1,673,945	2,389,094	(715,149)	(29.93%)
19	**Total Oper. Expenses**	40,030,206	38,650,598	1,379,608	3.57%
20	**Net Oper. Revenues**	3,873,154	5,261,385	(1,388,231)	(26.39%)
AVERAGE RATE BASE:					
21	Telephone Plant-in-Service	136,946,702	133,975,095	2,971,607	2.22%
22	Tel. Plant Under Construct.	1,200,000	1,178,981	21,019	1.78%
23	Mat & Supplies	575,000	562,695	12,305	2.19%
24	Working Cash	3,579,532	3,433,600	145,932	4.25%
25	Less: Deprec. Reserve	(87,747,376)	(87,492,746)	(254,630)	0.29%
26	Def. Taxes	(5,295,344)	(5,002,915)	(292,429)	5.85%
27	Def. Asset – Liability	(961,958)	(961,958)	-	0.00%
28	Customer Deposit	(1,100)	(3,800)	2,700	(71.05%)
29	**Total Rate Base**	48,295,456	45,688,952	2,606,504	5.70%
30	**Rate of Return**	**8.02%**	**11.52%**		

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APPENDIX B
SIERRA TELEPHONE COMPANY
RESULTS OF OPERATIONS TEST YEAR 2008
INTERSTATE AND INTRASTATE
AT PRESENT RATES

		SIERRA			CD		
		TOTAL COMPANY (A)	INTERSTATE (B)	INTRASTATE (C)	TOTAL COMPANY (D)	INTERSTATE (E)	INTRASTATE (F)
OPERATING REVENUES:							
1	Local Network Services	7,250,545		7,250,545	7,250,545	-	7,250,545
2	Local Services – CHCF-A	13,160,139	-	13,160,139	13,160,139	-	13,160,139
3	Interstate USF	5,725,352	-	5,725,352	5,725,352	-	5,725,352
4	Network Access Services:						
5	Intrastate	2,906,480	-	2,906,480	2,906,480	-	2,906,480
6	Interstate	13,198,918	13,198,918	-	13,198,918	13,198,918	-
7	Miscellaneous	1,706,210	35,902	1,670,308	1,714,833	35,902	1,678,931
8	LESS: Uncollectible Rev.	(44,284)	-	(44,284)	(44,284)	-	(44,284)
9	**Total Oper. Revenues**	**43,903,360**	13,234,820	30,668,540	43,911,983	13,234,820	30,677,163
OPERATING EXPENSES:							
10	Plant Specific	8,084,704	2,641,394	5,443,310	8,699,356	2,842,210	5,857,146
11	Plant Non-Specific (less depr.)	3,670,800	1,359,954	2,310,846	3,297,298	1,221,560	2,075,718
12	Customer Operations	4,222,329	817,591	3,404,738	4,250,137	822,975	3,427,162
13	Corporate Operations	12,648,878	3,522,794	9,126,084	11,212,773	3,132,737	8,080,036
14	**Subtotal**	28,626,711	8,341,733	20,284,978	27,459,564	8,019,502	19,440,062
15	Depreciation & Amortization	8,723,720	3,014,447	5,709,273	7,592,140	2,623,434	4,968,706
16	Other Taxes	528,400	156,946	371,454	528,400	156,946	371,454
17	State Income Taxes	477,430	135,586	341,844	681,400	198,723	482,677
18	Federal Taxes	1,673,945	475,388	1,198,557	2,389,094	696,754	1,692,340
19	**Total Oper. Expenses**	**40,030,206**	12,124,100	27,906,106	38,650,598	11,695,358	26,955,240
20	**Net Oper. Revenues**	**3,873,154**	1,110,720	2,762,434	5,261,385	1,539,462	3,721,923
AVERAGE RATE BASE:							
21	Telephone Plant-in-Service	136,946,702	41,984,572	94,962,130	133,975,096	41,073,540	92,901,547
22	Tel. Plant Under Construct.	1,200,000	367,891	832,109	1,178,981	361,447	817,534
23	Mat & Supplies	575,000	156,156	418,844	562,695	152,814	409,881
24	Working Cash	3,579,532	2,017,747	1,561,785	3,433,600	1,937,600	1,496,000
25	Less: Depr. Reserve	(87,747,378)	(27,334,010)	(60,413,368)	(87,492,746)	(27,254,690)	(60,238,056)
26	Def. Taxes	(5,295,344)	(1,563,413)	(3,731,931)	(5,002,915)	(1,477,076)	(3,525,839)
27	Def. Asset – Liability	(961,958)	(284,011)	(677,947)	(961,958)	(266,479)	(695,479)
28	Customer Deposit	(1,100)	(325)	(775)	(3,800)	(1,122)	(2,678)
29	**Total Rate Base**	**48,295,454**	**15,344,607**	32,950,847	45,688,953	14,526,044	31,162,909
30	**Rate of Return**	**8.02%**	**7.24%**	**8.38%**	**11.52%**	**10.60%**	**11.94%**

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APPENDIX C

SIERRA TELEPHONE COMPANY
INTRASTATE RESULTS OF OPERATIONS
AT ADOPTED RATES
TEST YEAR 2008

		SIERRA PROPOSED (A)	CD 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	7,408,566	7,691,285	(282,719)	(3.68%)	7,691,285
2	Local Services - CHCF-A	13,886,548	11,714,393	2,172,155	18.54%	11,714,393
3	Interstate USF	5,725,352	5,725,352	-	0.00%	5,725,352
4	Network Access Services:					
5	Intrastate	2,906,480	2,906,480	-	0.00%	2,906,480
6	Interstate	-	-	-	-	-
7	Miscellaneous	1,670,308	1,678,931	(8,623)	(0.51%)	1,678,931
8	LESS: Uncollectible Revenue	(44,284)	(45,881)	1,597	(3.48%)	(45,881)
9	**Total Operating Revenue**	31,552,970	29,670,560	1,882,410	6.34%	29,670,560
	OPERATING EXPENSES:					
10	Plant Specific	5,443,310	5,857,146	(413,836)	(7.07%)	5,857,146
11	Plant Non-Specific (less deprec.)	2,310,846	2,075,718	235,128	11.33%	2,075,718
12	Customer Operations	3,404,738	3,427,162	(22,424)	(0.65%)	3,427,162
13	Corporate Operations	9,126,084	8,080,036	1,046,048	12.95%	8,080,036
14	**Subtotal**	20,284,978	19,440,062	844,916	4.35%	19,440,062
15	Depreciation & Amortization	5,709,273	4,968,706	740,567	14.90%	4,968,706
16	Other Taxes	371,454	371,454	-	0.00%	371,454
17	State Income Taxes	420,028	393,779	26,249	6.67%	
18	Federal Income Taxes	1,472,681	1,380,651	92,030	6.67%	1,380,651
19	**Total Operating Expense**	28,258,414	26,554,652	1,703,762	6.42%	26,554,652
20	**Net Operating Revenue**	3,294,556	3,115,908	178,648	5.73%	3,115,908
	AVERAGE RATE BASE:					
21	Telephone Plant-in-Service	94,962,130	92,901,547	2,060,583	2.22%	92,901,547
22	Tel. Plant Under Construction	832,109	817,534	14,575	1.78%	
23	Materials & Supplies	418,844	409,881	8,963	2.19%	409,881
24	Working Cash	1,556,514	1,496,000	60,514	4.05%	1,496,000
25	Less: Deprec. Res.	(60,413,368)	(60,238,056)	(175,312)	0.29%	(60,238,056)
26	Def. Taxes	(3,731,931)	(3,525,839)	(206,092)	5.85%	(3,525,839)
27	Def. Asset - Liability	(677,947)	(695,479)	17,532	(2.52%)	(695,479)
28	Customer Deposit	(775)	(2,678)	1,903	(71.06%)	(2,678)
29	**Total Rate Base**	32,945,576	31,162,910	1,782,666	5.72%	31,162,910
30	**Rate of Return**	10.00%	10.00%			10.00%

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APPENDIX D

SIERRA 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		31,162,910
10	Net Revenues Adopted at 10.00% (Line 9 times 10%)		3,116,291
11	Net Revenue in Test Year 2008 at Present Rates		3,721,923
12	Change in Net Revenues (Line 10 less Line 11)		(605,632)
13	**GROSS REVENUE CHANGE REQUIRED (Line 12 times Line 8)**		**(1,006,603)**
14	2008 CHCF-A SUPPORT AT PRESENT RATES		**13,160,139**
15	**2008 CHCF-A SUPPORT ADJUSTED (Ln. 14 add Ln.13)**		**12,153,536**
16	**IMPACT OF DIFFERENCE BETWEEN PROPOSED AND PRESENT RATES**		**439,143**
17	**2008 CHCF-A SUPPORT ADOPTED** (Ln. 15 less Ln. 16)		**11,714,393**