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Agenda ID # 8139

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PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

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

RESOLUTION T-17133
December 18, 2008

R E S O L U T I O N

Resolution T-17133. Cal-Ore Telephone Company (U-1006-C). General Rate Case Filing In Compliance With G. O. 96-A, Paragraph VI.

By Advice Letter No. 320, filed on December 27, 2007.

Summary

This resolution addresses the General Rate Case (GRC) filed on December 27, 2007 by Cal-Ore Telephone Company (Cal-Ore) through Advice Letter (AL) No. 320, for test year 2009, in compliance with D.01-05-031. In AL No. 320, Cal-Ore proposes: (a) no changes to its basic rates or charges, however the company proposes to increase some of its discretionary rates and charges to bring its prices in line with the current marketplace, (b) an intrastate rate of return (ROR) of 10.00%, the same ROR granted in its previous GRC filing, and (c) $1,461,446 in California High Cost Fund-A (CHCF-A) support for test year 2009.

This Resolution authorizes CHCF-A support for Cal-Ore in the amount of $455,461 for test year 2009. This amount represents a decrease of $775,444, or approximately 63%, from Cal-Ore's CHCF-A 2008 support level of $1,230,905. This decrease is due to adjustments made to revenue, expenses and rate base estimates. This resolution further authorizes an overall Intrastate ROR of 10.00% for test year 2009. This resolution also authorizes test year 2009 intrastate revenue in the amount of $3,593,719, a difference of $339,966, or 9.46%, from Cal-Ore's estimate of $3,933,685. This resolution authorizes average intrastate rate base for Cal-Ore in the amount of $4,837,487, $318,571, or 6.59%, less than Cal-Ore's proposal of $5,156,058. The authorized intrastate total operating expenses for Cal-Ore for 2009 is $3,084,702, which represents a decrease of $333,378, or 10.81%, when compared to Cal-Ore's estimate of $3,418,080.

Appendix A, to this resolution, compares the Communications Division's (CD) and Cal-Ore's test year 2009 Total Company Results of Operations at present rates before any CHCF-A adjustment. Appendix B compares CD's and Cal-Ore's Interstate and Intrastate Results of Operations at present rates before any CHCF-A adjustment. Appendix C compares CD's and Cal-Ore's Intrastate Results of Operations at proposed rates after Cal-Ore's and CD's proposed CHCF-A adjustments and after CD's proposed revenue, expense, and rate base adjustments. Lastly, 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

Cal-Ore is a local exchange carrier (LEC) that provides local, toll, and access telephone services in unincorporated portions of Siskiyou and Modoc Counties and in the cities of Dorris and Tulelake. Cal-Ore's territory is sparsely populated and bounds Oregon on the north and is made up of hilly, high elevation, semi arid type terrain.

As of October 2007, Cal-Ore had approximately 1,793 residential and 653 business customers. Out of Cal-Ore's 1,793 residential customers, 917 receive Universal Lifeline Telephone Service (LifeLine). These 917 LifeLine customers represent 51% of Cal-Ore's residential customers and 37.5% of its total customer base.

In Decision (D.) 01-05-031, the California Public Utilities Commission (CPUC) set in motion the waterfall provision[1] for seven small LECs if they did not each file a General Rate Case (GRC) by the end of 2002.

The previous GRC filed by Cal-Ore was AL No. 274, filed on December 19, 2002, for test year 2004 was adopted by Resolution T-16762 on October 30, 2003. The CHCF-A funding amount granted to Cal-Ore in T-16762 was $1,341,356, with an additional one-time CHCF-A funding amount of $21,172 for uncollectible revenue that Cal-Ore was unable to collect due to the MCI/WorldCom bankruptcy.

Notice/Protests

Cal-Ore states that copies of AL No. 320 were mailed to the parties on its service list. Notice of AL No. 320 was published in the Commission Daily Calendar of January 11, 2008. No protests to AL No. 320 were received by CD, however CD did receive two customer complaint letters in response to Cal-Ore's proposed rate increases.

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[1] The waterfall provision refers to the 6-year phase down of the CHCF-A funding levels. The funding levels are 100% of the test year's level for the first 3 years, 80% for the fourth year, 50% for the fifth year and 0% thereafter.

On April 14, 2008, CD held a Public Meeting in Dorris, California, to explain Cal-Ore's filing to its customers and to give customers the opportunity to ask questions of Cal-Ore and CD. Cal-Ore notified customers of the rate review request and public meeting by bill insert. No Cal-Ore customers attended the meeting.

On October 17, 2008, CD met with Cal-Ore and Moss-Adams (Cal-Ore's consulting firm) at the Commission's San Francisco headquarters. The meeting was held to give CD and Cal-Ore the opportunity to discuss CD's proposal and for CD to address Cal-Ore's questions and concerns. Prior to this meeting CD sent Cal-Ore and Moss-Adams draft copies of CD's draft Results of Operations, which form Appendices A through D to this resolution. During this meeting CD explained its reasoning and methodologies utilized in adjusting Cal-Ore's expenses, rate base estimates, and CD's 2009 proposed CHCF-A subsidy, all calculated with a 10% ROR on rate base.

Discussion

Total Operating Revenues

A comparison of CD's and Cal-Ore's estimates of proposed intrastate operating revenues for test year 2009 is shown in Appendix C. Cal-Ore's estimate of intrastate operating revenues is $3,933,685, a difference of $339,965 from CD's estimate of $3,593,720. The reasons for the differing estimates are further discussed below.

Cal-Ore used its historical data and managerial judgment to forecast local units, and estimated Local Revenue by multiplying the forecasted units by the tariff rates. Cal-Ore is also proposing some rate changes to better reflect those rates charged by comparable carriers, those changes are included in the Company's 2009 forecast.

In this GRC, Cal-Ore has proposed the following increases to its rates and/or charges:

- An increase to the IntraLATA Service Change charge from $5.00 to $5.50 and from 2.50 to $2.75 for both IntraLATA/InterLATA Service Changes – Tariff Schedule A-11;

- An increase to the Visit Charge (for maintenance; during normal business hours) from $40.00 to $80.00 per hour or fraction thereof and from $60.00 to $120.00 per hour or fraction thereof for Overtime Visit Charge (for maintenance; during non-business hours) – Tariff Schedule A-34;

- For Inside Wiring Maintenance Service, an increase from $40.00 to $80.00 per hour, or fraction thereof, during normal hours and from $60.00 to $120.00 per hour, or fraction thereof, during overtime hours – Tariff Schedule No. A-23;

- An increase to the Intrabuilding Network Cable charges during normal hours charge from $40.00 to $80.00 per hour, or fraction thereof, and from $60.00 to $120.00 per hour, or fraction thereof, during overtime hours – Tariff Schedule No. A-38;

- Cal-Ore proposes to increase Local Area Operator Assistance Service from $0.25 per call to $0.50 per call, in addition to reducing the business call allowance from 2 free calls to 0 and residential call allowance from 5 free calls to zero. However, after surveying other carriers' Local Area Operator Assistance Service, CD proposes reducing the residential call allowance from 5 free calls to 1 free call per month. CD believes its proposal to be reasonable and is in line with those allowed by other comparable carriers – Tariff Schedule B-8; and

- Cal-Ore proposes to eliminate the Transport Interconnection Charge (TIC), from its tariff to comply with Ordering Paragraph 8 of Decisions 07-12-020, which requires the elimination of non-cost based rates - Access Service tariff.

CD is proposing an increase to Cal-Ore's Local Residential Service rate, Tariff Schedule A-1, from $16.05 to $20.25[2]. This increase is 150% of AT&T's current residential rates as required of small LECs for CHCF-A support. The new charges will result in an increase of $90,418 in revenue. In D.08-09-042, as corrected by D.08-10-040, Universal Regulatory Framework (URF) Incumbent Local Exchange Carriers (ILEC) will adopt a transitional plan for increases to Basic Residential rates effective January 1, 2009. As a result, CD recommends Cal-Ore increase its Lifeline rates, from $5.47 to $6.11, since General Order 153 ties those rates to AT&T's basic rates.

CD proposes to increase Cal-Ore's Local Business Service rates, Tariff Schedule A-1, from $25.65 to $26.00 for the individual lines and from $25.65 to $29.00 for the key lines. The new charges would result in an increase of $5,792 in revenue. The increased Business Service rates would bring the charges more in line with rates charged by comparable carriers.

[2] On October 28, 2008, AT&T sent a letter to CD Director John Leutza informing him that AT&T will raise their residential flat rate to $13.50 per month from its present rate of $10.94. Commission Decision 08-09-042 allowed AT&T to increase its monthly residential flat rate up to $14.19, but AT&T indicated that it would not increase the rates to the full extent of the authorized rate cap at this time. As a result of this AT&T rate increase, CD has adjusted Cal-Ore's monthly residential flat rate to $20.25 (150% of AT&T's new rate of $13.50) from its current rate of $16.05 per month.

CD proposes the following increases to Cal-Ore's rates and/or charges – all contained in Tariff Schedule A-20:

- Increase the Business Call Forwarding monthly rate from $2.00 to $3.50;
- Increase the Business Caller ID Number Service monthly rate from $4.50 to $6.00;
- Increase the Business Caller ID Name and Number Service monthly rate from 5.45 to 6.50;
- Increase the Business Call Waiting monthly rate from $3.50 to $4.00;
- Increase the Residential Call Forwarding monthly rate from $1.50 to $2.50;
- Increase the Residential Call Waiting monthly rate from $2.00 to $3.00;
- Increase the Residential Toll Restriction monthly rate from $2.00 to $2.50;
- Increase the Residential Three Way monthly rate from $2.00 to $3.50;
- Increase the Residential Busy Call Forwarding monthly rate from $1.50 to $3.00;
- Increase the Residential Caller ID Number Service monthly rate from $3.00 to $4.00;
- Increase the Residential Caller ID Name and Number Service monthly rate from $3.95 to $5.95; and

CD agrees with Cal-Ore's proposal to increase its Local Area Operator Assistance Service charge, from $.25 per call to $.50 per call, and to reduce the business call allowance from 2 free calls to zero. CD disagrees with Cal-Ore's proposal to decrease the residential call allowance from 5 free calls to 0; instead CD proposes to change the Local Area Operator Assistance residential call allowance from 5 free calls to 1 free call. CD's reason is that after surveying other carriers' Local Area Operator Assistance residential free call allowances, CD believes its proposal to be reasonable and in line with those allowed by other comparable carriers. Factors such as the company's geographic location and the current service rates were taken into consideration. Adjustments for price elasticity were applied by CD in response to concerns raised by Cal-Ore in its meeting with CD and in response to information provided to CD in subsequent data requests.

CD believes its and Cal-Ore's proposed increases to Cal-Ore's rates and charges are reasonable and should be adopted.

Intrastate Network Access Services:

For its Intrastate Network Access Services, Cal-Ore collected data using amounts billed to the interexchange carrier and used current rates and units to develop its revenue forecast. Cal-Ore's proposed 2009 Intrastate Network Services revenue amount is based on the carrier's forecast of demand, such as the minutes of usage, and tariffed rates. Using this data, along with historical data for 2005-2007 that indicates a downward trend in usage of non-wireless transmission for intrastate network access services, CD is projecting a more modest 13.11% decrease in Intrastate Network Access Services revenue for 2009, resulting in the proposed revenue amount of $534,204 for the test year, a difference of $70,043 from Cal-Ore's proposed amount of $464,161.

Miscellaneous Revenue:

Based on historical data from 2002-2007, Miscellaneous Revenue for Cal-Ore has increased each year. CD finds the rate of increase from year-to-year is in line with the amount proposed by Cal-Ore for 2009. CD therefore finds reasonable, Cal-Ore's proposed Miscellaneous Revenue amount of $262,301.

Uncollectibles:

Uncollectibles are based on bad debts associated with local revenue and intrastate access revenues. Cal-Ore annualized the first 9 months of its 2007 Uncollectibles and based its 2008 and 2009 forecasts on the changes in Local Revenue. Cal-Ore states the 2007 local revenue bad debt at $10,645 and intrastate access revenue bad debt at $121,453. CD has reviewed the annual reports and does not agree with Cal-Ore's estimate of test year 2009 uncollectibles. CD analyzed six years (2002-2007) of recorded data to arrive at an average of 0.72% uncollectible for local revenue and 9.56% uncollectibles for intrastate access revenue. CD applies these percentages to derive the 2009 uncollectibles amount. Therefore, CD proposes an uncollectible amount of $49,660 for the 2009 test year, a decrease of $39,894 from Cal-Ore's proposed amount of $89,554.

In response to concerns raised during the meetings with companies submitting GRC's for test year 2009, CD is making adjustments to subscriber counts of Discretionary Services due to price elasticity. Moss Adams, an accounting firm representing three LEC's with GRCs pending, performed an analysis demonstrating that increases in Discretionary Services above 25% for test year 2009, would have a price elasticity factor of 5%.

Considering the increases in rates CD is proposing for Cal-Ore in test year 2009, CD performed the calculations and concurs with this methodology. The Discretionary Services for which CD is increasing in excess of 25% equals $24,797 in incremental revenue for Local Services in test year 2009. This results in a difference of $122,131 in Access Revenue from Cal-Ore's projection of $780,086 to CD's projection of $902,217 at proposed rates for test year 2009.

Operating Expenses

Cal-Ore's estimate of total company operating expenses at $4,029,557 (less depreciation and taxes-income and other) is greater than CD's estimate of $3,896,629 by $132,928 or 4.79%. A comparison of CD's and Cal-Ore' estimates of total operating expenses for test year 2009, is shown in Appendix A. CD's estimate differs from Cal-Ore's for the following reasons: CD's estimate includes the elimination of the salary and benefits for 1 proposed new employee for 2009; CD proposes to cap Cal-Ore's employee benefits at 34% of "salaries and wages[3];" CD proposes to reduce Cal-Ore's rate case expenses; CD used a full year of 2007 recorded data (versus Cal-Ore's use of nine months of annualized data for 2007); and the difference between the Constant Dollar method used by CD versus Cal-Ore's method of applying annual growth rates to labor and non-labor expenses. The above listed differences between CD's and Cal-Ore's estimates were discussed at the October 17, 2008 meeting between CD and Cal-Ore, adjustments were considered where appropriate and the final results are described below.

Cal-Ore forecasted 2009 expenses using the following methodology. First, Cal-Ore separated expenses into salaries and benefits as labor expenses and rent, clearance, and others as non-labor expenses components. It then utilized forecasted 2007 expenses and applied an 8% capped growth rate to labor expenses and 5% capped growth rate to non-labor expenses and added the expenses associated with two proposed employees to project 2008 expenses. Cal-Ore then used 2008 expense projections and applied the growth rates used in 2008, and added the expenses associated with one proposed employee for 2009 to project its 2009 test year expenses. CD does not agree with Cal-Ore's estimated labor related and non labor expense growth rates. The growth rate factor used by Cal-Ore seems excessively high when compared to the Commission's Division of Ratepayers Advocates' (DRA) labor and non-labor inflation factors.[4]

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[3] CD combined employees' salary, vacation, sick leave and holiday expenses to arrive at "salaries and wages."

[4] Division of Ratepayer Advocates: Estimates of Non-labor and Wage Escalation Rates for 2008 through 2012 from the August 2008 Global Insight U.S. Economic Outlook.

Year	Labor (%)	Non-labor (%)
2007	3.75	3.0
2008	2.9	7.7
2009	4.8	3.5

CD used Cal-Ore's recorded expense figures from the annual reports for 2005, 2006 and 2007 and then applied the recorded inflation factors for labor and non-labor for each year to convert the recorded expenses to 2007 dollars. CD then took the average of the inflation-adjusted amounts for those three years for its base estimate. CD followed by applying the cumulative inflation factors for 2008 and 2009 to the base estimate to arrive at the test year 2009 estimate. CD used Cal-Ore's recorded labor and non-labor expenses and applied the constant dollar method to estimate Cal-Ore's 2009 expenses. The constant dollar method is used to measure financial statement items in dollars of the same (constant) purchasing power.

Historical cost is restated in units of constant purchasing power as follows:

(Historical Expense) x (Average CPI for the Current Year/CPI at Time of Expense incurrence)

Restating all accounts in constant dollars provides greater comparability among years because all expenses appear in the same current year average dollars regardless of when the expense was incurred. The Commission in Siskiyou's test year 1997 rate case proceeding discussed and adopted CD's use of the constant dollar methodology. In Finding of Fact 6 of Resolution T-16006, the Commission found "…CD's methodology in estimating expenses reasonable and adopts CD's recommended test year 1997 expenses contained in Appendix A." [5]

Because rents components are not subject to the same variability as other types of expenses, CD accepted Cal-Ore's estimate of rent and escalated it into the test year using DRA's estimated non-labor escalation factor rather than applying the constant dollar method.

Rate Case Expense:

Cal-Ore's estimates the rate case expenses to be $225,000 amortized over a three year period and hence, it added $75,000 to expenses for the test year 2009. In Cal-Ore's last rate case, the Commission authorized rate case expenses of $50,000 for test year 2004. Using the non-labor inflation factors for 2007, CD projected the rate case expenses for test year 2009 to be $64,000 and added that amount to Corporate Operations. CD believes its estimate is more reasonable as it is based on recorded data and Commission approved inflation factors.

New Employees:

[5] At page 5 of Resolution T-16006, the Commission stated, "Generally for traditional GRCs, the Commission adopts the constant dollar method".

Cal-Ore requested to add three new employees in 2008 and 2009. After reviewing the submitted reasoning, CD accepts the addition of two new employees in 2008 (an Outside Plant Technician and a Customer Service Representative) and has added their associated expenses to its 2009 estimate. CD does not agree with the addition of the Customer Service Representative in 2009. Given the down turn in the housing market and existing economic conditions in Cal-Ore's service territory, as well as CD's findings during the field investigation, CD concludes Cal-Ore would be adequately served with the level of staff established in 2008. In addition, CD believes that cross training of current employees can meet any increased workload needs in regulatory and language requirement areas given that current employees are already working in some of these areas. In addition, the language proceedings are still ongoing and the language requirements have yet to be determined.

Wages, Salary and Benefits:

For test year 2009, Cal-Ore's ratio of benefits to total wages and salaries appears to be high at 52.43%. CD believes a ratio of 30% is more reasonable for a regulated utility. CD arrived at this percentage when it calculated the percentage of benefits to total wages and salaries that the State of California pays Commission employees. In most cases it is accepted that state government employees receive a superior benefits package when compared to most employees in the private sector, CD therefore used the 30% as a comparison benchmark.

At the October 17, 2008 meeting, Cal-Ore and Moss-Adams representatives disagreed with CD's disallowances and expressed concern that the 30% figure was too low. Cal-Ore, asserted concerns about securing health coverage for employees but said that employees do not have to pay a premium co-pay amount, but that they did have a high deductible each year. Cal-Ore offers some benefits that are not typical such as group life insurance, accidental death and dismemberment, long-term disability, as well as the more typical medical, dental, vision, and pension.

In response to questions and concerns raised at the meeting that the 30% benchmark was not appropriate, Cal-Ore provided a list of salaries/wages and benefits for 2007 for CD to review. The 2007 data includes an average of 21 days of vacation per employee. CD believes that 15 vacation days is reasonable for ratemaking purposes, and that the expense for any additional vacation days given should be borne by shareholders. The vacation data is adjusted accordingly. In addition, the 2007 data includes an employer funded Profit Sharing Plan. CD acknowledges it is the company's business decision to expend benefits to include items such as profit sharing but CD believes these expenses should not be borne by rate payers. It should be noted that the company is only able to generate a profit with the assistance of the CHCF-A. Therefore, the profit sharing plan is essentially paid for by the CHCF-A, and the expenses associated with the profit sharing plan are disallowed. CD combines employee salary, vacation, sick leave and holiday expenses (with the adjustments mentioned previously) to arrive at a base salary estimate for 2007 and arrive at an associated benefit to base salary ratio of 34%. Thus, CD estimates the 2009 expenses associated with benefits to be $434,281 whereas Cal-Ore estimated the benefit expenses to be $611,459.

Depreciation Expense:

CD used its average TPIS for 2009 and Cal-Ore's current depreciation rates to calculate 2009 total company Depreciation Expense of $1,388,368. Cal-Ore's calculation of total company Depreciation Expense was $1,762,056. Both Cal-Ore and CD applied the same depreciation rates which had been previously approved by the Commission. Differences between CD's and Cal-Ore's depreciation expense calculations are due to differences in their estimated Telephone Plant-in-Service (TPIS) balances for 2009.

Rate Base

CD examined Cal-Ore's Rate Base components, which include Telephone Plant in Service, Telephone Plant Under Construction, Material & Supplies, Working Cash and Deferred Income Taxes.

In computing Telephone Plant in Service (TPIS), CD reviewed Cal-Ore's 2007 annual report, Capital Budget, including additions and retirements as reflected in the annual report, and the filed GRC work papers and responses provided by Cal-Ore through data requests. Cal-Ore's proposed plant additions for 2008 and 2009 are $1,740,000 and $1,735,000 respectively. These plant addition amounts are somewhat higher than Cal-Ore's historical 5 year average (2003 - 2007) gross plant additions of $1,456,634. CD has made adjustments to the proposed plant additions in the building, buried fiber, and central office digital switching equipment TPIS categories (see following section). CD's resulting estimate of plant additions for 2008 and 2009 are $1,254,258 and $835,000, respectively. The reasons for CD's disallowance of certain Cal-Ore TPIS projects are discussed below.

Fiber Project in Cities of Dorris and Tulelake:

Cal-Ore is proposing to install underground fiber cable plant throughout the cities of Dorris and Tulelake. These projects include bringing fiber facilities to every home in each of these two towns. At the meeting at the company's headquarters on April 15, 2008, Cal-Ore explained that there have been no service quality complaints resulting from the buried copper cable facilities nor have they received any requests for the provisioning of high technology services that might require the installation of the fiber plant.

Cal-Ore also informed CD that as part of the fiber installation, that each house would require an Optical Network Terminal/Unit (at a cost of $500 to $700 per residence). These devices are required (at each residence) to convert the fiber cable's light signal to an electrical signal, which can then be transmitted by the home's existing internal copper wiring. CD disallows the fiber project (and related Central Office upgrades) in the towns of Dorris and Tulelake as part of its rate base adjustments for the following reasons. There are no service quality complaints in the two towns to warrant replacing the existing copper plant with fiber. There is no demand for high-speed, high technology services by Cal-Ore's customers to warrant these "fiber to the home" projects. Again, LifeLine customers represent 51% of Cal-Ore's residential customers, and CD feels that it would be unlikely that any of these customers would request any high technology services that cannot already be provisioned over copper facilities.

At the October 17th meeting, CD asked Cal-Ore representatives why they could not install digital loop carrier (DLC)[6] systems in Dorris and Tulelake and then provide fiber plant to the DLCs and then branch out from the DLCs with copper to each home. By this means Cal-Ore could provide voice as well as DSL service to any customer who requests it. Cal-Ore replied that the close proximity of the central offices to the homes in both Dorris and Tulelake, make installing DLCs unfeasible. CD believe that if the homes are so close to the central offices in Dorris and Tulelake, then installing copper plant in the two towns would be sufficient because the copper lengths would be short enough to enable Cal-Ore to provide DSL (as well as basic voice telephone service) to all its customers in both towns.

Materials and Supply (M&S):

Cal-Ore's estimate of Materials and Supplies (M&S) for 2009 is $126,351, which is approximately 0.004425% of its average 2009 TPIS amount. CD reviewed Cal-Ore's M&S recorded 5 years (2002-2006) amounts from its filed GRC workpapers, and calculated the ratio of the M&S amounts to the recorded average TPIS for those years. The M&S ratio ranged from 0.00369 to 0.004362, with an average ratio of 0.00401. CD then applied the average ratio of 0.00401 to its estimated average TPIS for 2009 to arrive at its M&S estimate of $111,621 for the test year. CD recommends that the average Total Company M&S of $111,621 be included in the rate base since it more closely approximates the future operations of Cal-Ore.

Working Cash:

[6] A **digital loop carrier** (DLC) is a system which uses digital transmission to extend the range of the local loop farther than would be possible using only twisted pair copper wires. A DLC digitizes and multiplexes the individual signals carried by the local loops onto a single datastream on the DLC segment.

Cal-Ore and CD utilized the simplified method described in the CPUC's Standard Practice U-16, to arrive at their working cash estimates. A ratio of 49.16% of toll revenue to total revenue was used to calculate the total company Working Cash estimate of $406,571 for test year 2009. CD's estimate of test year 2009 Total Company Working Cash is $18,992, or 4.67%, lower than the amount computed by Cal-Ore, due to the differences in estimated revenues and expenses for test year 2009.

Telephone Plant Under Construction:

Cal-Ore calculated its total company Telephone Plant Under Construction (TPUC) amount of $119,937, by taking the average of its 5 years of TPUC data and dividing it by the average of its 5 years TPIS, resulting in a 0.42% TPUC percentage. Cal-Ore then multiplied this percentage times its estimated 2009 TPIS. CD accepts Cal-Ore's 2009 percentage of 0.42% to calculate 2009 TPUC. CD used the 0.42% percentage multiplied by its calculated 2009 average TPIS of $27,835,721 to come up with $116,910 for 2009 TPUC. CD feels that using this 0.42% figure for TPUC will best reflect Cal-Ore's future TPUC for 2009, as it is based on Cal-Ore's recorded TPUC and TPIS amounts.

Depreciation Reserve (Accumulated Depreciation):

Cal-Ore's Accumulated Depreciation for test year 2009 is $20,494,336, $110,232, or 0.54% more than CD's Accumulated Depreciation estimate for 2009. CD calculated Accumulated Depreciation by taking its depreciation expenses for 2008 and 2009 and adding them to its calculated ending balances of Accumulated Depreciation for 2007 and 2008, to obtain an average Total Company Accumulated Depreciation for 2009 of $20,384,104. Differences between CD's and Cal-Ore's depreciation reserve are due to differences in their respective 2008 and 2009 estimated TPIS balances.

Separations

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

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

Cost of Capital

Cal-Ore 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 should be the same since the systematic and non-diversifiable risks faced by all rural ILECs are similar and in Cal-Ore's last general rate case the Commission authorized a 10.00% rate of return[7]. CD recommends that the Commission approve Cal-Ore's request for an overall rate of return of 10.00%.

Taxes

The differences in tax estimates between Cal-Ore and CD are due to differences in estimates of revenues and expenses. CD and Cal-Ore both utilized the same Corporate State Franchise Tax rate of 8.84% and a Federal Income Tax of 34.00%. CD's estimate of 2009 Intrastate Operating Taxes (including other taxes) of $388,629 is 5.52 % lower than that computed by Cal-Ore due to the differences in estimated revenues and expenses for test year 2009. To calculate Deferred Taxes for test year 2009, CD used the ratio of -2.9468%, which CD calculated from the average 2002 to 2006 Deferred Taxes amounts divided by the average 2002 to 2006 TPIS amounts. CD arrived at a 2009 Deferred Taxes amount of -$820,263. Cal-Ore used a higher ratio of -3.28%, which was calculated by dividing its projected 2009 Deferred Taxes amount by its projected 2009 TPIS amount. CD feel that Cal-Ore's method does not accurately predict the Deferred Taxes amount as it has no historic component in its calculation, therefore CD recommends that its 2009 Total Company Deferred Taxes calculation of -$820,263 be included in rate base.

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.

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[7] Resolution T-16762, adopted October 30, 2003.

Appendix D shows CD's computation of Cal-Ore'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 Cal-Ore, based on a recommended intrastate rate base of $4,837,487 and a rate of return of 10%, the recommended gross intrastate revenue requirement change required is an increase of -837,318.

CHCF-A Support

The Commission, in D.01-02-018, approved Settlement Transition Agreements (STAs) between Pacific Bell and the small Local Exchange Carriers (small LECs). Monies that Pacific Bell paid the small LECs through toll and access pool settlements were replaced by authorized draws from the CHCF-A. The CHCF-A itself was originally established by D.85-06-115 as a means of subsidizing reasonable basic exchange rates for the customers of small LECs that adopted Pacific's statewide average toll, toll private line, and access charges (settlement pools). D.01-02-018 required the small LECs' replacement funding for the STAs be subject to the same rules that apply to current draws from the CHCF-A, namely, basic residential rates need to be at least 150% of AT&T urban rate as necessary, and both the means test and the waterfall provisions should apply.

Cal-Ore's calculation of total company results of operations at present rates (Appendix A; Column A) shows that Cal-Ore would earn an estimated $674,325953 in Net Operating Revenues and a total company rate of return of a 8.65% (Appendix A; Column A).

CD's calculation of total company results of operations at present rates shows that Cal-Ore would earn an estimated $1,312,251 in Net Operating Revenues and a total company rate of return of a 18.06% (Appendix A; Column B), prior to any CHCF-A adjustment.

For the test year 2009, CD's computation of Cal-Ore's CHCF-A support $455,461, based on CD's projected revenues (including rate design), expenses, rate base and overall rate of return of 10%.

Federal USF

In this GRC filing, Cal-Ore proposed that it would receive $1,055,245 in Universal Service Fund (USF) funding for test year 2009. On October 8, 2008, CD received 2009 USF funding amount information from the National Exchange Carrier Association, Inc. (NECA) for all the small rural local exchange carriers in California. According to the NECA data, Cal-Ore will receive $1,489,197 in USF funding in 2009. This amount is a substantial increase of $433,952 from the amount Cal-Ore originally proposed. The increased USF funding amount of $433,952 will be made up by an equal decrease in Cal-Ore's 2009 CHCF-A funding amount.

Comments

In accordance with P.U. Code Section 311 (g), CD mailed copies of the original draft Resolution on November 18, 2008 to Cal-Ore and other interested parties.

Findings

1. Cal-Ore Telephone Company (Cal-Ore) filed its 2009 test year General Rate Case (GRC) by Advice Letter (AL) No. 320 on December 27, 2006.

2. Cal-Ore requests the following for test year 2009:

    - The tariff changes as described in the "Revenue" section of this resolution;
    - An intrastate rate of return (ROR) of 10.00%, the same return granted to it in its last GRC filing in 2003;
    - Total intrastate operating revenue of $3,933,685;
    - Total intrastate operating expenses of $3,418,080;
    - Total intrastate rate base amount of $5,156,058; and
    - A California High Cost Fund-A (CHCF- A) draw of $1,461,446.

3. The Communications Division (CD) recommends the following for Cal-Ore for test year 2009:

    - The tariff changes as described in the "Revenue" section of this resolution;
    - An intrastate Rate of Return (ROR) of 10.00%;
    - Total intrastate operating revenue of $3,593,720;
    - Total intrastate operating expenses of $3,109,968
    - Total intrastate rate base amount of $4,837,487;
    - A California High Cost Fund-A (CHCF- A) draw of $455,461;

4. The Commission finds CD's recommendation to approve CD's and Cal-Ore's proposed tariff changes, as outlined in the "Revenue" section of this resolution, to be reasonable. The proposed tariff changes include an increase to the Flat Residential Service Rate per D.08-09-042 as corrected by D.08-10-040, California Lifeline Rate per General Order 153, and the change for business Directory Assistance (DA) allowance from 2 to 0, and residential DA allowance from 5 to 1.

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

6. The Commission finds CD's methodology to estimate revenues to be reasonable. Therefore the Commission adopts CD's recommended test year 2009 intrastate revenues as shown in Appendix C; Column E.

7. The Commission finds CD's ratemaking adjustments to each of the expense accounts, and CD's use of inflation factors to adjust the labor and non-labor 2008 expenses for test year 2009 to be reasonable. Therefore, the Commission adopts CD's recommended test year 2009 intrastate expenses contained in Appendix C; Column E.

8. The Commission finds CD's methodology in estimating Cal-Ore's Telephone plant in service and other rate base items reasonable. CD's recommended plant and other rate base items for the 2009 test year are shown in Appendix C; Column E.

9. The Commission finds an overall intrastate rate of return of 10.00% for Cal-Ore for test year 2009, to be reasonable.

10. The Commission finds CD's recommended $455,461 in CHCF-A support for Cal-Ore for test year 2009, to be reasonable. The $455,461 CHCF-A support is based on the Commission's adoption of CD's Intrastate Results of Operations for Cal-Ore for test year 2009.

11. The Commission finds Cal-Ore's and CD's requests for rate increases in the amount of $168,145 (which are due to increases in basic rates, some optional services and non-recurring charges, to bring Cal-Ore's prices more in line with other companies in the telephone industry) to be reasonable.

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

THEREFORE, IT IS ORDERED that:

1. The revised intrastate revenues, expenses, and rate base amounts for test year 2009 identified in Appendix C; Column E are adopted for Cal-Ore Telephone Company.

2. All the tariff changes listed in the Revenue Section of this Resolution are adopted.

3. The overall intrastate rate of return (ROR) of 10.00% is adopted for Cal-Ore for test year 2009.

4. Cal-Ore's California High Cost Fund-A (CHCF-A) draw for 2009 shall be $455,461.

This Resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on December 18, 2008. The following Commissioners approved it:

PAUL CLANON
Executive Director

APPENDIX A
CAL-ORE TELEPHONE COMPANY
TOTAL COMPANY RESULTS OF OPERATIONS
PRESENT RATES -- TEST YEAR 2009

				UTILITY EXCEED STAFF	
				($)	**(%)**
		CAL-ORE	**CD**	**AMOUNT**	**DIFF.**
		(A)	(B)	(C)	(D)
OPERATING REVENUES:					
1	Local Network Services	734,132	734,132	-	0.00%
2	Local Service - CHCF - A	1,230,905	1,230,905	-	
3	Interstate USF	1,055,245	1,489,197	(433,952)	-29.14%
4	Network Access Services:				
5	Intrastate	464,161	534,204	(70,043)	-13.11%
6	Interstate	3,229,702	3,229,702	-	0.00%
7	Miscellaneous	382,362	382,362	-	0.00%
9	**Total Oper. Revenue**	7,009,683	7,563,352	(553,669)	-7.32%
OPERATING EXPENSES:					
10	Plant Specific	1,234,950	1,259,999	(25,049)	-1.99%
11	Plant Non-Specific (less depr.)	201,065	218,744	(17,679)	-8.08%
12	Customer Operations	258,118	200,197	57,921	28.93%
13	Corporate Operations	2,335,424	2,217,689	117,735	5.31%
14	**Subtotal**	4,029,557	3,896,629	132,928	3.41%
15	Depreciation & Amortization	1,762,056	1,388,368	373,688	26.92%
16	Other Taxes	97,289	97,289	-	0.00%
17	State Income Taxes	99,077	192,806	(93,729)	-48.61%
18	Federal Income Taxes	347,379	676,008	(328,629)	-48.61%
19	**Total Oper. Expense**	6,335,358	6,251,101	84,258	1.35%
20	**Net Revenues**	674,325	1,312,251	(637,927)	-48.61%
AVERAGE RATE BASE:					
21	Telephone Plant-in-Service	28,556,248	27,835,721	720,527	2.59%
22	Tel. Plant Under Construct.	119,937	116,910	3,027	2.59%
23	Material & Supplies	126,351	111,621	14,730	13.20%
24	Working Cash	425,563	406,571	18,992	4.67%
25	Less: Deprec. Res.	(20,494,336)	(20,384,104)	(110,232)	0.54%
26	Def. Taxes	(936,367)	(820,263)	(116,104)	14.15%
27	Customer Deposit	-	-	-	0.00%
28	**Total Rate Base**	7,797,396	7,266,456	530,940	7.31%
29	**Rate of Return**	8.65%	18.06%		

APPENDIX B
CAL-ORE TELEPHONE COMPANY
TOTAL COMPANY RESULTS OF OPERATIONS
AT PRESENT RATES TEST YEAR 2009

		CAL-ORE			CD		
		TOTAL COMPANY	INTERSTATE	INTRASTATE	TOTAL COMPANY	INTERSTATE	INTRASTATE
		(A)	(B)	(C)	(D)	(E)	(F)
	OPERATING REVENUES:						
1	Local Network Services	734,132		734,132	734,132		734,132
2	Local Service - CHCF - A	1,230,905		1,230,905	1,230,905		1,230,905
3	Interstate USF	1,055,245		1,055,245	1,489,197		1,489,197
4	Network Access Services:						
5	Intrastate	464,161		464,161	534,204		534,204
6	Interstate	3,229,702	3,229,702	-	3,229,702	3,229,702	-
7	Miscellaneous	382,362	120,061	262,301	382,362	120,061	262,301
8	Less: Uncollectible Revenue	(86,824)		(86,824)	(37,150)		(37,150)
9	**Total Oper. Revenue**	7,009,683	3,349,763	3,659,920	7,563,352	3,349,763	4,213,589
	OPERATING EXPENSES:						
10	Plant Specific	1,234,950	620,562	614,388	1,259,999	633,149	626,850
11	Plant Non-Specific (less depr.)	201,065	102,813	98,252	218,744	111,844	106,900
12	Customer Operations	258,118	112,173	145,945	200,197	87,006	113,191
13	Corporate Operations	2,335,424	1,204,845	1,130,579	2,217,689	1,144,106	1,073,583
14	**Subtotal**	4,029,557	2,040,394	1,989,163	3,896,629	1,976,105	1,920,524
15	Depreciation & Amortization	1,762,056	732,310	1,029,746	1,388,368	577,006	811,362
16	Other Taxes	97,289	39,490	57,799	97,289	39,490	57,799
17	State Income Taxes	99,077	47,521	51,556	192,806	66,933	125,873
18	Federal Income Taxes	347,379	166,616	180,763	676,008	234,678	441,330
19	**Total Oper. Expense**	6,335,358	3,026,331	3,309,028	6,251,101	2,894,211	3,356,889
20	**Net Revenues**	674,325	323,432	350,892	1,312,251	455,552	856,700
	AVERAGE RATE BASE:						
21	Telephone Plant-in-Service	28,556,248	11,590,981	16,965,267	27,835,721	11,298,519	16,537,202
22	Tel. Plant Under Construct.	119,937	48,682	71,255	116,910	47,454	69,456
23	Material & Supplies	126,351	38,790	87,561	111,621	34,268	77,353
24	Working Cash	425,563	213,207	212,356	406,571	203,692	202,879
25	Less: Deprec. Res.	(20,494,336)	(8,865,850)	(11,628,486)	(20,384,104)	(8,818,163)	(11,565,941)
26	Def. Taxes	(936,367)	(384,472)	(551,895)	(820,263)	(336,800)	(483,463)
27	Customer Deposit	-	-		-		
28	**Total Rate Base**	7,797,396	2,641,338	5,156,058	7,266,456	2,428,969	4,837,487
29	**Rate of Return**	8.65%	12.25%	6.81%	18.06%	18.75%	17.71%

APPENIDIX C
CAL-ORE TELEPHONE COMPANY
INTRASTATE RESULTS OF OPERATIONS
AT PROPOSED RATES - TEST YEAR 2009

		CAL-ORE PROPOSED (A)	CD PROPOSED (B)	UTILITY EXCEED STAFF AMOUNT DIFFERENCE (C)=(A)-(B)	UTILITY EXCEED STAFF PERCENTAGE DIFFERENCE (D)	ADOPTED (E)
OPERATING REVENUES:						
1	Local Network Services*	780,086	902,217	(122,131)	-13.54%	902,217
2	Local Service - CHCF - A	1,461,446	455,461	1,005,985	220.87%	455,461
3	Interstate USF	1,055,245	1,489,197	(433,952)	-29.14%	1,489,197
4	Network Access Services:			-		
5	Intrastate	464,161	534,204	(70,043)	-13.11%	534,204
6	Interstate	-	-	-		-
7	Miscellaneous	262,301	262,301	-	0.00%	262,301
8	Less: Uncollectible Revenue**	(89,554)	(49,660)	(39,894)	80.33%	(49,660)
9	**Total Oper. Revenue**	3,933,685	3,593,720	339,965	9.46%	3,593,720
OPERATING EXPENSES:						
10	Plant Specific	614,388	626,850	(12,462)	-1.99%	626,850
11	Plant Non-Specific (less depr.)	98,252	106,900	(8,648)	-8.09%	106,900
12	Customer Operations	145,945	113,191	32,754	28.94%	113,191
13	Corporate Operations	1,130,579	1,073,583	56,996	5.31%	1,073,583
14	**Subtotal**	1,989,163	1,920,524	68,639	3.57%	1,920,524
15	Depreciation & Amortization	1,029,746	811,362	218,383	26.92%	811,362
16	Other Taxes	57,799	57,799	-	0.00%	57,799
17	State Income Taxes	75,757	71,077	4,680	6.58%	71,077
18	Federal Income Taxes	265,615	249,206	16,409	6.58%	249,206
19	**Total Oper. Expense**	3,418,080	3,109,968	308,112	9.91%	3,109,968
20	**Net Revenues**	515,605	483,752	31,853	6.58%	483,752
AVERAGE RATE BASE:						
21	Telephone Plant-in-Service	16,965,267	16,537,202	428,065	2.59%	16,537,202
22	Tel. Plant Under Construction	71,255	69,456	1,798	2.59%	69,456
23	Material & Supplies	87,561	77,353	10,208	13.20%	77,353
24	Working Cash	212,356	202,879	9,477	4.67%	202,879
25	Less: Deprec. Res.	(11,628,486)	(11,565,941)	(62,546)	0.54%	(11,565,941)
26	Def. Taxes	(551,895)	(483,463)	(68,432)	14.15%	(483,463)
27	Customer Deposit	-	-	-		-
28	**Total Rate Base**	5,156,058	4,837,487	318,571	6.59%	4,837,487
29	**Rate of Return**	10.00%	10.00%			10.00%

APPENDIX D
CAL-ORE TELPHONE COMPANY
NET-TO-GROSS MULTIPLIER
TEST YEAR 2009

1	Gross revenue		1.00000
2	Uncollectible		0.00000
3	Net Revenues		1.00000
4	State Income Tax (Tax Rate times Ln. 3)	8.84%	0.08840
5	Federal Taxable Income (Ln. 3 less Ln. 4)		0.91160
6	Federal Income Tax (Tax Rate times Ln. 5)	34.00%	0.30994
7	Net Income (Ln. 5 less Ln. 6)		0.60166
8	**Net-To-Gross Multiplier** (Ln.1 divided by Ln. 7)		**1.66207**
	Intrastate Revenue Requirement		
9	Adopted State Rate Base		4,837,487
10	Net Revenues adopted at 10.00% (Ln. 9 times 10%)		483,749
11	Net Revenue In Test Year 2009 At Present Rates		856,700
12	Change in Net Revenues (Ln. 10 less Ln. 11)		(372,950)
13	**GROSS REVENUE CHANGE REQUIRED (Ln. 12 times Ln. 8)**		(619,869)
	CHCF-A SUPPORT		-
14	2009 CHCF-A SUPPORT AT PRESENT RATES		1,230,905
15	**2009 CHCF-A SUPPORT ESTIMATED** (Ln. 14 add Ln. 13)		**611,036**
			-
16	**PROPOSED NET RATE INCREASE***		**155,575**
17	**2009 CHCF-A ADOPTED** (Ln 15 minus Ln 16)		**455,461**

*Proposed Net Rate Increase (excluding uncollectibles): ((3,651,072 - 512,813) - (4,405,773 - 1,423,089) = **155,575**

T-17133 Cal Ore GRC Notice of Availability