PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Telecommunications Division	**RESOLUTION T-16707**
Carrier Branch	**December 17, 2002**

R E S O L U T I O N

RESOLUTION T-16707. THE SISKIYOU TELEPHONE COMPANY. (U-1017-C). GENERAL RATE CASE FILING IN COMPLIANCE WITH G. O. 96-A, PARAGRAPH VI, AND DECISION NUMBERS 01-02-018 AND 01-05-031.

BY ADVICE LETTER NO. 298 FILED DECEMBER 21, 2001.

Summary

This resolution addresses the General Rate Case filed by Siskiyou Telephone Company through AL 298 filed on December 21, 2001 in compliance with D.01-05-031. In AL 298, Siskiyou proposes: a) no change to its rates or charges, b) an intrastate ROR of 10%, the same granted in its previous GRC filing in 1997, and c) a decrease in its CHCF-A draw for 2003 by 0.10% or a reduction of $2,607 from its 2002 draw of $2,574,963.

This resolution authorizes California High Cost Fund-A (CHCF-A) support for The Siskiyou Telephone Company (STC) of $ 2,153,169 for the year 2003. This amount represents a reduction of $236,823 or 16.38% decrease from the CHCF-A 2002 support of $2,574,963 to Siskiyou. This resolution further authorizes an overall Intrastate Rate of Return of 10.00% for test year 2003, resulting in an intrastate revenue reduction of $142,487 from present rates.

Appendix A to this resolution compares the Telecommunications Division (TD) and the Siskiyou's Test Year 2003 Total Company Results of Operations before any CHCF-A reduction. Appendix B compares TD's and Siskiyou's Interstate and Intrastate Results of Operations before any CHCF-A reduction while Appendix C compares TD's and Siskiyou's Intrastate Results of Operations estimates after Siskiyou's proposed CHCF-A reduction and after TD's proposed revenue, expense, and rate base deductions. Appendix D shows TD's calculation of the Net-to-Gross Multiplier and the change in

the gross intrastate revenue requirement based on the recommended intrastate rate of return of 10.00%.

Background

The Siskiyou Telephone Company (STC) is a local exchange carrier (LEC) providing telephone service to portions of Siskiyou and Humboldt counties. Its current headquarters is in Etna, CA. STC serves approximately 5,226 access lines in seven exchanges: Etna, Fort Jones, Hamburg, Happy Camp, Oak Knoll, Sawyer Bar-Forks of Salmon, and Somes Bar.

In D.01-05-031, the California Public Utilities Commission (CPUC) set in motion the waterfall[1] provision in 2002 for six small LECs if they do not each file a General Rate Case (GRC) by the end of 2001.[2] Siskiyou filed Advice Letter (AL) No. 298 on December 21, 2001, with a Test Year of 2003. The last GRC filed by Siskiyou was in 1995 through AL No. 225 and its latest intrastate results of operations were authorized by Resolution T-16006 dated April 23, 1997.[3]

In AL 298, Siskiyou proposes: a) no changes to its rates or charges, b) an intrastate ROR of 10%, the same rate granted in its previous GRC filing in 1997, and c) a decrease in its CHCF-A draw for 2003 by 0.10% or a reduction of $2,607 from its 2002 draw of $2,574,963.

Notice/Protests

Siskiyou states that a copy of the Advice Letter was mailed to competing and adjacent utilities and/or other utilities. Notice of AL 298 was published in the Commission Daily Calendar of December 28, 2001. No protest to this Advice Letter has been received.

Notice of the AL filing was mailed to customers by bill insert on December 21, 2001. No protest to this AL filing has been received.

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[1] The waterfall provision refers to the 6-year phase down of the CHCF-A funding level beginning in 1998, the year after the completion of a GRC. The funding levels are 100% of the for the first 3 years, i.e., 1998, 1999 and 2000; 80 % the fourth year, i.e., 2001, 50% the fifth year, i.e., 2002; and 0% thereafter.

[2] The six companies are Evans Telephone Company, Happy Valley Telephone Company, The Ponderosa Telephone Company, Sierra Telephone Company, Inc., The Siskiyou Telephone Company, and The Volcano Telephone Company.

[3] In Resolution T-16006, Siskiyou was granted the following: a general rate reduction of $409,516 for 1997, a net revenue amount of $1,083,790, a rate base amount of $10,837,895, and a Rate of Return of 10.00%. Siskiyou's Depreciation Study, submitted in AL 225, was found acceptable for ratemaking purposes.

Staff of the TD held a Public Meeting in Etna, CA, on August 14, 2002, to explain Siskiyou's filing to its customers and its customers were also given an opportunity to ask questions of Siskiyou and the TD staff. Siskiyou's customers were given notice of the Public Meeting through bill inserts. The notice of Public Meeting was also published in the July 3, 2002 issue of the CPUC Daily Calendar. Only one customer attended the public meeting. During the meeting the customer, who is also an ex-employee of Siskiyou Telephone Company, praised the service quality of the company and also expressed full satisfaction with the company's customer service.

Discussion

Results of Operations

Appendix A compares Siskiyou's total company results of operations for test year 2003, as estimated by the TD staff and Siskiyou.

Total Operating Revenues

A comparison of TD's and Siskiyou's estimates of total operating revenues for test year 2003 is shown in Appendix A. Siskiyou's estimate of total company operating revenues at $10,039,685 is higher than TD's estimate of $9,928,775 by $110,910 or 1.1%. Differences between TD's and Siskiyou's estimates are described below.

In determining the test year total company revenues, TD accepted Siskiyou's use of 3.81% percent increase for revenue items that are derived from billings. These revenue items include basic local service, local Private Line revenue, customer inside wire, and state switch access. Siskiyou used the annualized 2001 data and applied 3.81% yearly increase to estimate 2002 and 2003 revenue for these items. TD accepts Siskiyou's the 3.81% growth rate increase based on the fact that regression analysis of the customer growth for the recorded last five years yields 3.81% growth per year and a very high coefficient of correlation of 0.99. TD staff also finds reasonable Siskiyou's revenue estimates for the following items: other local revenue, simple inside wire non-plant, rent, directory, miscellaneous, and other regulatory revenues. However, TD staff did not accept Siskiyou's revenue projections for its customer premise Acct. No. 50500000 where regression analysis was used because the resultant coefficient of determination was a low 0.25. The coefficient of determination measures the strength of the relationship between the actual historical figures and the regression revenue calculations. A coefficient of determination closer to one (100%) indicates a greater degree of relationship; while a coefficient of determination closer to zero indicates a lesser degree of relationship. TD then took five-year average, which also was not reasonable as it was too high. TD looked at the actual recorded amount and used access line growth rate and arrived at $7,900 for 2003.

For uncollectibles, TD reviewed Siskiyou's uncollectible rate study and found the estimated uncollectible rate of 0.00129% to be reasonable. TD applied this rate to its revenue projections to calculate the uncollectible revenue.

For Federal USF Support, TD requested Siskiyou to provide a copy of its first month disbursement notice received from the National Exchange Carrier Association (NECA) in order to reflect the actual Federal Universal Service Fund Support for 2002. The notice from NECA shows that Siskiyou's actual 2002 monthly "High Cost Loop Fund (USAC)" amount as $11,906,202 or $1,857,300 annually. TD used this figure as Siskiyou's 2002 Federal USF support. For its 2003 estimate, TD accepted the figure of $2,051,888 which is the Federal USF support based on the 2003 projected payments for the California Exchange Carriers as filed by the National Exchange Carriers Association, Inc. (NECA) on October 1, 2002 with the Federal Communications Commission. This amount represents an increase from the 2002 support level.

Total Operating Expenses

For operating expenses, Siskiyou projected end of year 2002 and 2003 data using regression analysis. In most cases, Siskiyou used actual 1996-2001 recorded expenses in their regression analysis. In one instance (Account 6210—Control Office Switch expense), Siskiyou made an adjustment by using 1998-2001 recorded data to better reflect operating expenses. (Siskiyou made this adjustment because 1996 and 1997 data included large fluctuations which did not accurately reflect projected expenses for the test year 2003 when using regression analysis.) In another case, Siskiyou used budgeted expenses for 2002-03 in its estimate (Account 6410—Cable & Wire expense) to reflect additional fiber route maintenance expenses. Lastly, an expense adjustment for rents in Account 6120 (General Support) was made because this amount should have been reflected as part of operating revenue (i.e., this rent revenue should not have been reflected as an expense).

TD does not agree with Siskiyou's use of regression analysis to estimate the 2002 and 2003 end of year expense figures. A review of this methodology shows that regression analysis does not accurately reflect projected expenses; furthermore, the correlation of determination results in most cases are too low for TD to accept the end of year 2002 and 2003 expense estimates proposed by Siskiyou. Therefore, the difference between Siskiyou's estimates and TD's estimates are due to the use of different methodologies in projecting expenses. Instead, TD used Siskiyou's recorded expenses for 1999-2001 in terms of labor and non-labor expenses and applied the constant dollar method to estimate Siskiyou's 2003 expenses. The constant dollar method was used in Siskiyou's prior rate case and proved to be a superior approach when estimating expenses.

The constant dollar method is used to convert nominal dollars to inflation-adjusted figures. This is done by using inflation factors for each year and compounding them to

2001 dollars. The constant dollar method is applied to benchmark the constant price of a basket of utility purchases in various years to a selected base year. While expenses have been increasing in nominal dollars, when one applies the constant dollar method and adjusts the recorded figures to base year constant dollars, there is less of a variance and in many cases, the inflation-adjusted figures remained relatively flat. TD used Siskiyou's recorded expense figures as reflected in the annual reports for the years 1999, 2000 and 2001[4] and then applied the recorded inflation factors for labor and non-labor for each year. [5]

A comparison of TD's and Siskiyou's computation of total company operating expenses excluding taxes shows that overall Siskiyou's estimate to be $364,175 or 5.4% higher than TD's estimate of $6,700,699 (Appendix A).

Taxes

The differences in the tax estimates between Siskiyou and TD are due to differences in each party's estimate of income, revenue and expense. TD and Siskiyou both used a Corporate State Franchise Tax (CCFT) rate of 8.84% and a federal income tax rate of 34.00%.

Rate Base

In estimating its test year Rate Base, Siskiyou included Construction Work in Progress (CWIP) amount of $3,224,075. CWIP includes projects such as upgrading of software, office equipment and facilities.

TD reviewed Siskiyou's submission and analyzed their CWIP figures from 1996 through September 2002. Based on the monthly data submitted through September 2002, TD derived and finds that an end-of-year 2002 short term CWIP estimate of $2,156,148 reasonable. For 2003, TD derived an end-of-year short term CWIP estimate of $2,302,329 by averaging the end-of year estimates for those years from 1996 through 2002 in which Siskiyou's short term CWIP exceeded $2 million dollars. The 2003 test year ratemaking average estimate of $2,229,239 was simply the result of taking the average of the beginning and end of year estimates for 2003.

[4] Form M Schedule I-1 (FCC Armis 43-02 Report Format) of Siskiyou's Annual Reports for 1999, 2000 and 2001.
[5] TD used the Office of Ratepayers Advocates estimates of Non-Labor and Wage Escalation Factors for 2002-2004 from the March 2002 DRI-WEFA U.S. Economic Outlook as follows:

Year	Labor	Non-labor
2000	1.022	1.036
2001	1.034	1.000
2002	1.028	0.999
2003	1.018	1.018
2004	1.026	1.021

In computing plant in service, TD reviewed Siskiyou's 2001 annual report, examined the addition, and retirements as reflected in the annual report and responses provided by Siskiyou through data request. Based on historical data for years 1997 thru 2001, Siskiyou's average plant addition per year was $1.995 million. When the 2002 estimated plant addition of $3,232,578 was included in the average (i.e. 1996 through 2002 estimated), the average of plant additions increased to a figure of approximately $2.2 million. TD finds this average of plant additions for the period 1996 through 2002 to be reasonable and therefore accepts Siskiyou's plant addition estimates of $3,232,578 for 2002 and $2,773,041 for 2003.

Depreciation expense was computed using TD's plant in service estimates for 2002 multiplied by the current depreciation rates to derive 2002 figures. To estimate 2003 figure, TD used TD's projected depreciable plant in service for 2002 and applied the current depreciation rates previously approved by the Commission for Siskiyou in its 1997 rate case.

TD reviewed the recorded 6 years (1996-2001) Materials and Supplies (M&S) amounts and noted that except for the year 2000, the ratio of end of year M&S amounts to the end of year gross plant varied between 0.76 to 0.98 percent of the end of year gross plants. The end of year 2000 M&S amount was 1.54% of the end of year gross plant, which is very high, compared to the other years. Therefore, the staff deleted the 2001 amount from consideration and took the average of the 5 years (1996-1999 & 2001) percentages and applied that percentage (0.85%) to the years 2002 and 2003 end-of-year gross plants to arrive at the end of year M&S estimates for those years. TD then took the average of the beginning of year and end of year M&S balances to arrive at the M&S estimate for the test year 2003.

TD's estimate of working cash at $348,836 is 6.6% higher than that computed by Siskiyou. The working cash allowance differences are primarily due to the difference in Siskiyou's and TD's estimates of revenues and expenses.

Separations

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

Separations is the process of apportioning a telephone company's property costs, related reserves, operating expenses and taxes, and revenues between the state and interstate jurisdictions. It is a vehicle by which a telephone company can separately identify the amount of expenses, investments and revenues 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 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.

Siskiyou used separation factors based on its 2000 cost studies. TD has reviewed Siskiyou's separation factors and finds them reasonable. Therefore, TD used the separation factors provided by the company to separate its estimates of total company expenses and plant to derive TD's estimate of Siskiyou's intrastate results of operations.

Appendix B compares Siskiyou's and TD staff's interstate and intrastate results of operations for test year 2003 using these separation factors.

Cost of Capital

Siskiyou requests an overall intrastate rate of return of 10.00%, the rate of return authorized under Resolution T-16006 for its 1997 test year.

TD believes that the Return on Equity for all rural ILECs would be the same since the systematic and non-diversifiable risks faced by all rural ILECs are similar. However, as a matter of practice, Decision D.97-04-036 in A.95-12-073[6] adopted an 'overall' rate of return of 10.00% for <u>all</u> rural ILECs. Based on information provided, TD recommends that the Commission approve Siskiyou's request for an overall rate of return of 10.00% at this time. This approval should not set a precedent for any future or pending small ILEC GRC proceeding.

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. Appendix D shows TD's computation of Siskiyou's net-to-gross multiplier. The net-to-gross multiplier of 1.66207 means that a change of $1.66207 in gross revenue would be required to produce a change of $1.000 in net revenue. For Siskiyou, based on an adopted state rate base of $11,579,733 and an adopted rate of return of 10%, the adopted intrastate revenue requirement change is a reduction of $236,823.

CHCF-A Support

[6] In D. 97-04-036 the Commission authorized California-Oregon Telephone Company a 10.00% return on rate base for its 1997 test year as requested in A. 95-12-073 (California-Oregon's 1997 General Rate Case application).

Siskiyou's CHCF-A support for test Year 2003 at present rates of $2,389,992 was derived using Siskiyou's 2002 draw of $2,574,963, adding the $1,866,917 projected USF Federal support for 2002, deducting Siskiyou's projected 2003 USF Federal support of $2,051,888.[7]

The intrastate results of operations at present rates show that Siskiyou registers an intrastate rate of return of 11.23% (Appendix B, column F).

Appendix C shows Siskiyou's intrastate results of operations using the 10.00% intrastate rate of return.

For test year 2003, TD 's computation of Siskiyou's CHCF-A requirement is $2,153,169 based on TD's projected revenues (including rate design), expenses, rate base and overall intrastate rate of return of 10%

Comments

The draft resolution of the Telecommunications Division on this matter was mailed to the parties in accordance with PU Code Section 311 (g)(1).

On December 2, 2002, Cooper, White & Cooper, LLP, filed timely comments on behalf of Siskiyou. Cooper, White & Cooper, LLP points out two errors in the draft resolution:

1) the exclusion of CWIP in the rate base; and

2) the understatement of the test year expenses due to TD's use of the constant dollar method for forecasting test year expenses. Cooper, White and Cooper has also raised the following additional issues:

    - TD's failure to adjust the local network revenues to reflect the change in CHCF-A support for 2003 at present rates;

    - TD's failure to exclude rent revenue in the development of operating revenues since this amount was already accounted for as an offset in one of the expense accounts (Acct. 6120, General Support expense);

    - TD's disallowance in the amount of $2,630,354 in year 2002 plant additions; and

    - TD's failure to make an adjustment to a utility's booking errors in the underground cable account in plant held for future use.

[7]Based on Data provided by the National Exchange Association Inc. on October 21, 2002.

With regard to the exclusion of CWIP, Cooper, White & Cooper points out that CWIP has consistently been included in the rate base in previous rate cases involving the small LECs in the computation of the rate base. Specifically, the Commission, in Siskiyou's 1997 rate case Resolution T-16006, approved the inclusion of $1,634,211 representing CWIP. Likewise, the Commission also consistently allows CWIP in Siskiyou's annual CWIP filings. Thus, the exclusion of CWIP is in direct contradiction of the Commission's policies and procedures on the preparation and filing of general rate cases. Siskiyou's reliance on the recovery of the CWIP in the rate base has influenced Siskiyou's investment plans.

On TD's use of the constant dollar methodology in estimating expenses, Cooper, White & Cooper, LLP argues that this method assumes that the utility's operations are exactly the same as the average for 1999, 2000 and 2001. The only expense change recognized by the constant dollar method, therefore, is a change in the price of doing the same level of operations and does not account for increased expenses due to growth. Cooper, White & Cooper points out that Siskiyou has recently began incurring new maintenance expenses associated with its new toll route to Redding. Siskiyou also incurs additional costs in responding to data requests from the Commission and has had to hire consultants to conduct studies / activities arising from new FCC and CPUC regulatory actions.

TD's Responses to Comments

TD acknowledges that the Commission has historically allowed the inclusion of CWIP in the rate base in general rate cases and in the annual CHCF-A filings. However, there are many ways to treat CWIP for ratemaking purposes. TD's original recommendation of excluding total company CWIP of $3,224,075 in the rate base is premised on the fact that it is not used to provide service to current customers and that the utility is allowed to capitalize the financing costs of their CWIP under Allowance for Funds Used During Construction (AFUDC). TD also acknowledges that AFUDC is an income statement item that does not help the utility's cash flow situation; rather it allows the utility to recover the costs of financing at a later date when the plant is placed in service. TD likewise acknowledges that by excluding short term CWIP now, when the plant is completed and included in the rate base, additional financing and associated costs will be incurred. As AFUDC has no impact on the utility's cash flow, the utility's financial integrity may be negatively affected. Since Siskiyou included CWIP in their rate base, no AFUDC was provided for.

TD recognizes the adverse effect the exclusion of short term CWIP could have on Siskiyou's finances and as well as the benefit that customers could derive from paying for the construction costs as they occur rather than paying for the additional financing costs for the life of the assets through AFUDC and incurring additional depreciation expense. Therefore, TD now recommends that some short term CWIP be allowed for ratemaking purposes for Siskiyou's 2003 test year.

As previously discussed in this resolution, TD reviewed Siskiyou's submission and analyzed the utility's CWIP figures from 1996 through September 2002. Based on the monthly data submitted through September 2002, TD derived and finds that an end-of-year 2002 short term CWIP estimate of $2,156,148 reasonable. For 2003, TD derived an end-of-year short term CWIP estimate of $2,302,329 by averaging the end-of year estimates for those years from 1996 through 2002 in which Siskiyou's short term CWIP exceeded $2 million dollars. The 2003 test year ratemaking average estimate of $2,229,239 is just the average of the beginning and end of year estimates for 2003.

On the issue of the use of the constant dollar method, TD finds no reason to deviate from this Commission approved and accepted methodology. In Siskiyou's 1997 test year general rate case, the Commission in Resolution T-16006, discussed and adopted the use of the constant dollar methodology. In Finding of Fact 6 of Resolution T-16006, the Commission found "…TD's methodology in estimating expenses reasonable and adopt TD's recommended test year 1997 expenses contained in Appendix A".[8] TD used the constant dollar method in Siskiyou's 1997 GRC filing and does not find any reason to change its methodology for Siskiyou's 2003 test year GRC.

On the argument that the constant dollar method does not take into new expenses, the amount of $3,921,586, which is used as the base year figure already incorporates actual growth for 1999, 2000 and 2001.

TD analyzed Siskiyou's plant additions for 1997 through 2001 and determined that plant addition averaged approximately $2 million per year. The inclusion of the previously disallowed amount of $2,630,355 will increase the average from the $2 million to approximately $2.2 million, which TD finds acceptable.

On the remaining issues raised by White, Cooper and Cooper, LLP, TD has reviewed and made the necessary corrections on local network revenues, rent revenues and the utility's booking error in underground cable account under plant held for future use.

Based on the above discussion, TD has a) included a 2003 test year estimate for short term CWIP in it rate base estimate for Siskiyou, including all ancillary effects on other estimates, b) adjusted the year 2002 plant addition amount, and c) adjusted the incorrect accounting entries. These adjustments revise TD's intrastate rate base estimate from $9,289,926 to $11,579,733.

We find TD's current revisions and estimates reasonable.

[8] At page 5 of Resolution T-16006, the Commission indicated in its discussion the following: "Generally for traditional GRCs, the Commission adopts the constant dollar method".

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.

Findings

1. Siskiyou filed its GRC on December 21, 2001, with a Test Year of 2003 in compliance with Decision 01-05-031.

2. Siskiyou requests the following for test year 2003:

    - No change in its rate or charges,
    - An intrastate rate of return of 10.00%, the same return granted to them in their last GRC filing in 1997, and
    - A reduction in its CHCF-A draw for 2003 by 10% or $2,607 for a 2003 CHCF-A support of $2,572,356.

3. The Telecommunications Division recommends the following for Siskiyou for test year 2003:

    - No changes in its rates or charges;
    - A total intrastate rate base amount of $11,579,733;
    - An Intrastate Rate of Return of 10.00%;
    - A revenue requirement reduction of $236,823 at present rates; and
    - A California High Cost Fund-A (CHCF-A) support of $2,153,169.

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

5. We find TD's methodology of using the constant dollar method in estimating expenses reasonable and adopt TD's recommended test year 2003 expenses contained in Appendix A.

6. We find TD's methodology in estimating revenues reasonable. We therefore, adopt TD's recommended intrastate revenues as shown in Appendix C.

7. We accept TD's recommended overall rate of return of 10.00% for Siskiyou.

8. We find Siskiyou's Depreciation Study previously approved by the Commission, as part of its 1997 general rate case acceptable for ratemaking purposes for test year 2003.

9. We find TD's recommended $2,153,169 CHCF-A support for Siskiyou for 2003 acceptable. The $2,153,169 CHCF-A support is based on our adoption of TD's Intrastate Results of Operations for Siskiyou for test year 2003.

THEREFORE, IT IS ORDERED that:

1. The intrastate revenues, expenses, and rate base amounts for test year 2003 identified in Appendix C, column (e) are adopted for The Siskiyou Telephone Company.

2. The overall intrastate rate of return of 10.00% is adopted for Siskiyou for test year 2003.

3. The Depreciation Study submitted by The Siskiyou Telephone Company in support of its General Rate Case Advice Letter No. 298 is adopted for ratemaking purposes for the test year 2003.

4. The Siskiyou Telephone Company's CHCF-A draw for 2003 is $2,153,169.

This Resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on December 17, 2002. The following Commissioners approved it:

/s/ WESLEY M. FRANKLIN

WESLEY M. FRANKLIN
Executive Director

LORETTA M. LYNCH
President
HENRY M. DUQUE
CARL W. WOOD
GEOFFREY F. BROWN
MICHAEL R. PEEVEY
Commissioners

APPENDIX A
SISKIYOU TELEPHONE COMPANY
TOTAL COMPANY RESULTS OF OPERATIONS
AT PRESENT RATES
TEST YEAR 2003

		SISKIYOU (a)	TD (b)	UTILITY EXCEED STAFF AMOUNT (c)=a-b	PERCENTAGE DIFFERENCE (d)= c/b
	OPERATING REVENUES:				
1.	Local Network Services	1,297,562	1,286,655	10,907	0.8
2	CHCF-A	2,572,356	2,389,992	182,364	7.6
3	Long Distance Network	0	0	0	0.0
	Network Access Svces:				
4	Intrastate	1,003,547	1,023,647	(20,100)	(2.0)
5	Interstate	3,009,336	3,009,336	0	0.0
6	Interstate - USF	1,903,686	2,051,888	(148,202)	(7.2)
7	Miscellaneous	258,190	172,014	86,176	50.1
8	LESS: Uncollectible Rev.	(4,992)	(4,757)	(235)	4.9
9	Total Oper. Revenues	10,039,685	9,928,775	110,910	1.1
	OPERATING EXPENSES:				
10	Plant Specific	1,731,553	1,363,800	367,753	27.0
11	Plant non-Specific (less depr.)	704,100	640,317	63,783	10.0
12	Depreciation & Amortization	2,507,221	2,642,990	(135,769)	(5.1)
13	Customer Operations	395,700	363,118	32,582	9.0
14	Corporate Operations	1,726,300	1,690,474	35,826	2.1
15	Interstate Expense Adj. -USF	0	0	0	
16	Total Oper. Expenses	7,064,874	6,700,699	364,175	5.4
	OPERATING TAXES:				
17	Operating State Inc. Taxes	230,280	250,344	(20,064)	(8.0)
18	Operating Fed Income Taxes	773,952	844,297	(70,345)	(8.3)
19	Taxes Other Than Income	172,400	198,700	(26,300)	(13.2)
20	Total Operating Taxes	1,176,632	1,293,341	(116,709)	(9.0)
21	Net Operating Revenue	1,798,179	1,934,735	(136,556)	(7.1)
	RATE BASE (Beginning + End of Year Average)				
22	Telephone Plant-in-Service	39,994,111	39,994,111	0	0.0
23	Tel. Plt Under Construction	3,224,075	2,229,239	994,836	0.0
24	Mat & Supplies	579,065	327,188	251,877	77.0
25	Working Cash	371,936	348,836	23,100	6.6
26	Less: Deprec. Res.	(26,403,734)	(26,244,720)	(159,014)	0.6
27	Def. Taxes	(614,576)	(447,262)	(167,314)	37.4
28	Customer Deposit	0	(225)	225	(100.0)
29	RTB Stock	180,768	180,768	0	0.0
29.	Total Rate Base	17,331,645	16,387,935	943,710	5.8
30.	Rate of Return	10.38%	11.81%		

APPENDIX B
SISKIYOU TELEPHONE COMPANY
RESULTS OF OPERATIONS AT PRESENT RATES
INTERSTATE AND INTRASTATE
TEST YEAR 2003

	SISKIYOU			TD		
	Subject To Separations (a)	Interstate (b)	Intrastate Total (c)= (a-b)	Subject To Separations (d)	Interstate (e)	Intrastate Total (f)= (d-e)
OPERATING REVENUES:						
1. Local Network Services	1,297,562		1,297,562	1,286,655		1,286,655
2 CHCF-A	2,572,356		2,572,356	2,389,992		2,389,992
3 Long Distance Network	0		0	0		0
Network Access Svces:						
4 Intrastate	1,003,547		1,003,547	1,023,647		1,023,647
5 Interstate	3,009,336	3,009,336	0	3,009,336	3,009,336	0
6 Interstate - USF	1,903,686	1,903,686	0	2,051,888	2,051,888	0
7 Miscellaneous	258,190	0	258,190	172,014	0	172,014
8 LESS: Uncollectible Rev.	(4,992)		(4,992)	-4,757		(4,757)
9 Total Oper. Revenues	10,039,685	4,913,022	5,126,663	9,928,775	5,061,224	4,867,551
OPERATING EXPENSES:						
10 Plant Specific	1,731,553	543,948	1,187,605	1,363,800	428,423	935,377
11 Plant NSpecific (less depr.)	704,100	229,899	474,201	640,317	209,073	431,244
12 Depreciation & Amortization	2,507,221	723,421	1,783,800	2,642,990	762,595	1,880,395
13 Customer Operations	395,700	68,193	327,507	363,118	62,578	300,540
14 Corporate Operations	1,726,300	497,049	1,229,251	1,690,474	486,734	1,203,740
15 Interstate Expense Adj. -USF	0	1,903,686	(1,903,686)	0	2,051,888	(2,051,888)
16 Total Oper. Expenses	7,064,874	3,966,196	3,098,678	6,700,699	4,001,291	2,699,408
TAXES						
16. Operating State Inc. Taxes	230,280	74,019	156,261	250,344	83,310	167,033
17. Operating Fed Income Taxes	773,952	249,304	524,648	844,297	281,883	562,417
18. Taxes Other Than Income	172,400	52,464	119,936	198,700	60,467	138,233
19. Total Operating Taxes	1,176,632	375,787	800,845	1,293,341	425,660	867,683
20. Net Operating Revenue	1,798,179	571,039	1,227,140	1,934,735	634,273	1,300,460
AVERAGE RATE BASE						
21. Telephone Plant-in-Service	39,994,111	12,218,464	27,775,647	39,994,111	12,218,464	27,775,647
22. Tel. Plt Under Construction	3,224,075	984,976	2,239,099	2,229,239	681,047	1,548,192
23. Mat & Supplies	579,065	150,316	428,749	327,188	84,933	242,255
24. Working Cash	371,936	73,936	298,000	348,836	73,936	274,900
25. Less: Deprec. Res.	(26,403,734)	(8,343,678)	(18,060,056)	-26,244,720	-8,293,429	(17,951,291)
26. Def. Taxes	(614,576)	(188,865)	(425,711)	-447,262	-137,448	(309,814)
27. Customer Deposit	0	0	0	-225	-69	(156)
28. RTB Stock	180,768	180,768	0	180,768	180,768	0
29. Total Rate Base	17,331,645	5,075,917	12,255,728	16,387,935	4,808,202	11,579,733
30. Rate of Return	10.38%	11.25%	10.01%	11.81%	13.19%	11.23%

APPENDIX C
SISKIYOU TELEPHONE COMPANY
INTRASTATE RESULTS OF OPERATIONS
AT ADOPTED RATES
TEST YEAR 2003

	SISKIYOU PROPOSED	TD PROPOSED	UTILITY EXCEED STAFF AMOUNT	PERCENTAGE DIFFERENCE	ADOPTED
	(a)	(b)	(c)=a-b	(d)	(e)
OPERATING REVENUES:					
1. Local Network Services	1,297,562	1,286,655	10,907	0.8	1,286,655
2 CHCF-A	2,572,356.00	2,153,168	419,188	19.5	2,153,168
3 Long Distance Network		0	0	0.0	0
Network Access Svces:			0		
4 Intrastate	1,003,547	1,023,647	(20,100)	(2.0)	1,023,647
5 Interstate	0.00	0	0	0.0	0
6 Interstate - USF	0.00	0	0	0.0	0
7 Miscellaneous	258,190	172,014	86,176	50.1	172,014
8 LESS: Uncollectible Rev.	(4,992)	-4,757	(235)	4.9	(4,757)
9 Total Oper. Revenues	5,124,056	4,630,727	493,329	10.7	4,630,727
OPERATING EXPENSES:					
10 Plant Specific	1,187,605	935,377	252,228	27.0	935,377
11 Plant NSpecific (less depr.)	474,201	431,244	42,957	10.0	431,244
12 Depreciation & Amortization	1,783,800	1,880,395	(96,595)	(5.1)	1,880,395
13 Customer Operations	327,507	300,540	26,967	9.0	300,540
14 Corporate Operations	1,229,251	1,203,740	25,511	2.1	1,203,740
15 Interstate Expense Adj. -USF	(1,903,686)	-2,051,888	148,202	(7.2)	(2,051,888)
16 Total Oper. Expenses	3,098,678	2,699,408	399,270	14.8	2,699,408
OPERATING TAXES:					
17 Operating State Inc. Taxes	156,031	146,098	9,933	6.8	146,098
18 Operating Fed Income Taxes	523,840	489,015	34,825	7.1	489,015
19 Taxes Other Than Income	119,936	138,233	(18,297)	(13.2)	138,233
20 Total Operating Taxes	799,807	773,346	26,461	3.4	773,346
			0		0
21 Net Operating Revenue	1,225,571	1,157,973	67,597	5.8	1,157,973
RATE BASE (Beginning + End of Year Average)					
22 Telephone Plant-in-Service	27,775,647	27,775,647	0	0.0	27,775,647
Tel. Plt Under Construction	2,239,099	1,548,192	690,907		1,548,192
23 Mat & Supplies	428,749	242,255	186,494	77.0	242,255
24 Working Cash	298,000	274,900	23,100	8.4	274,900
25 Less: Deprec. Res.	(18,060,056)	-17,951,291	(108,765)	0.6	(17,951,291)
26 Def. Taxes	(425,711)	-309,814	(115,897)	37.4	(309,814)
27 Customer Deposit	0	-156	156	(100.0)	(156)
28 RTB Stock	0	0	0	0.0	0
29 Total Rate Base	12,255,728	11,579,733	675,995	5.8	11,579,733
29. Rate of Return	10.00%	10.00%			10.00%

APPENDIX D

SISKIYOU TELEPHONE COMPANY
ADOPTED NET-TO-GROSS MULTIPLIER
INTRASTATE REVENUE REQUIREMENT AND CHCF-A SUPPORT
TEST YEAR 2003

1	Gross Revenues		1.00000
2	Uncollectibles		0 *
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 time ln 5.)	34.00%	0.30994
7	Net Income (ln 5. less ln 6.)		0.60166
8	**NET-TO-GROSS-MULTIPLIER (Line 1 divided by Line 7)**		**1.66207**
	INTRASTATE REVENUE REQUIREMENT		
9	Adopted State Rate Base		$11,579,733
10	Net Revenues Adopted at 10.00% ROR (line 9 times 10%)		$1,157,973
11	Net Revenues at present rates		$1,300,460
12	Change in net revenues (Line 10 less Line11)		($142,487)
13	**GROSS REVENUE CHANGE REQUIRED (ln 8 times ln 12)**		**($236,823)**
	CHCF-A SUPPORT		
14	2003 CHCF-A Support at present rates		$2,389,992
15	**2003 CHCF-A Support Request**		**$2,153,169**

* Uncollectibles are included in Line 1, Gross revenues