STATE OF CALIFORNIA GAVIN NEWSOM, *Governor*

PUBLIC UTILITIES COMMISSION
505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298

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June 6, 2024

Agenda ID #22672
Ratesetting

TO PARTIES OF RECORD IN APPLICATION 22-09-003:

This is the proposed decision of Administrative Law Judge Patricia B. Miles. Until and unless the Commission hears the item and votes to approve it, the proposed decision has no legal effect. This item may be heard, at the earliest, at the Commission's July 11, 2024 Business Meeting. To confirm when the item will be heard, please see the Business Meeting agenda, which is posted on the Commission's website 10 days before each Business Meeting.

Parties of record may file comments on the proposed decision as provided in Rule 14.3 of the Commission's Rules of Practice and Procedure.

The Commission may hold a Ratesetting Deliberative Meeting to consider this item in closed session in advance of the Business Meeting at which the item will be heard. In such event, notice of the Ratesetting Deliberative Meeting will appear in the Daily Calendar, which is posted on the Commission's website. If a Ratesetting Deliberative Meeting is scheduled, *ex parte* communications are prohibited pursuant to Rule 8.2(c)(4).

/s/ W. ANTHONY COLBERT for
Michelle Cooke
Chief Administrative Law Judge

MLC:jnf
Attachment

Decision **PROPOSED DECISION OF ALJ MILES (Mailed 6/6/2024)**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Calaveras Telephone Company (U1004C) Cal-Ore Telephone Co. (U1006C) Ducor Telephone Company (U1007C) Foresthill Telephone Company (U1009C) Kerman Telephone Co. (U1012C) Pinnacles Telephone Co. (U1013C) The Ponderosa Telephone Co. (U1014C) Sierra Telephone Company, Inc. (U1016C) The Siskiyou Telephone Company (U1017C) Volcano Telephone Company (U1019C) for a Determination of Applicants' Cost of Capital for Ratemaking Purposes.	Application 22-09-003

DECISION DETERMINING THE COST OF CAPITAL FOR RATEMAKING PURPOSES FOR CALIFORNIA'S INDEPENDENT SMALL TELEPHONE COMPANIES

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DECISION DETERMINING THE COST OF CAPITAL FOR RATEMAKING PURPOSES FOR CALIFORNIA'S INDEPENDENT SMALL TELEPHONE COMPANIES

Summary

On September 1, 2022, California's ten Independent Small Telephone Companies - Calaveras Telephone Company (U1004C), Cal-Ore Telephone Co. (U1006C), Ducor Telephone Company (U1007C), Foresthill Telephone Company (U1009C), Kerman Telephone Co. (U1012C), Pinnacles Telephone Co. (1013C), The Ponderosa Telephone Co. (U1014C), Sierra Telephone Company, Inc. (U1016C), The Siskiyou Telephone Company (1017C) and Volcano Telephone Company (U1019C) (collectively "the Applicants," "Small LECs" or "companies"), filed a consolidated application to request that the Cost of Capital for each be established in a single proceeding.

This decision establishes the cost of capital that will be applied to the Small LECs General Rate Case applications for Test Years 2022 through 2025.

To arrive at the Cost of Capital for the Small LECs, this decision adopts a hypothetical capital structure (55 percent (%) equity/45% debt) which we find to be consistent with our findings with respect to the regulatory capital structure of these companies. We then arrive at the resulting cost of capital for each company as reflected in Table 1.

Table 1: Commission's Adopted Cost of Capital

Company	Equity Cost	Debt Cost	Total Cost of Capital
Calaveras	9.77%	2.84%	6.65%
Cal-Ore	9.77%	3.98%	7.16%
Ducor	9.77%	3.98%	7.16%
Foresthill	9.77%	2.74%	6.61%
Kerman	9.77%	3.00%	6.72%
Ponderosa	9.77%	2.90%	6.68%
Pinnacles	9.77%	3.98%	7.16%
Sierra	9.77%	3.83%	7.10%
Siskiyou	9.77%	3.98%	7.16%
Volcano	9.77%	5.22%	7.72%

Application 22-09-003 is closed.

1. Factual and Procedural Background

In Decision (D.) 15-06-048, the California Public Utilities Commission (Commission) adopted a General Rate Case (GRC) Plan for California High Cost Fund-A (CHCF-A) recipients.[1] The CHCF-A provides supplemental funding to independent small telephone companies (also known as Small Local Exchange Carriers or Small LECs) that continue to be regulated under a rate-of-return regulatory structure.[2] In the GRC Plan adopted in D.15-06-048, the Commission determined that it has authority to examine the issue of cost of capital for each of the ten Small LECs who receive a draw from the CHCF-A and that there should be a consolidated proceeding to examine the issue of the cost of capital for each

[1] D.15-06-048 in Rulemaking (R.) 11-11-007 at Ordering Paragraph 2.

[2] Public Utilities (Pub. Util.) Code Section 275.6. All statutory references herein are to the Public Utilities Code unless otherwise noted.

of the ten CHCF-A companies (Applicants).[3] The cost of capital shall then be applied in any pending and future GRC application cycles for each of the ten Small LECs/ CHCF-A recipient companies.

There has been one prior consolidated proceeding to set the cost of capital.[4] In D.16-12-025, the Commission explicitly determined that consideration of the cost of capital for all ten Small LECs in a single proceeding does not mean that one uniform cost of capital must be applied to each of the companies.[5]

This Application (A.) 22-09-003 was filed by the ten Small LECs as a consolidated proceeding. Pub. Util. Code Section 275.6 requires that telephone corporations are assured a "fair opportunity to earn a reasonable rate of return." This principle guides us in this proceeding. Each of the ten Small LECs serves parts of the state that are remote and sparsely populated. Thus, we are also guided by a commitment to ensure that all residents, including those residing in rural and less affluent communities within the State of California, have access to reliable and affordable telephone and broadband service. With this commitment in mind, we deliberately seek to assure that small telephone companies, such as these ten companies, continue to be viable and able to continue to upgrade and modernize infrastructure and facilities for the benefit of their ratepayers.

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3 The ten CHCF-A recipients that filed this application are: Calaveras Telephone Company; Cal-Ore Telephone Company; Ducor Telephone Company; Foresthill Telephone Company; Kerman Telephone Company; Pinnacles Telephone Company; The Ponderosa Telephone Company; Sierra Telephone Company Inc.; The Siskiyou Telephone Company; and Volcano Telephone Company. Happy Valley Telephone Company, Hornitos Telephone Company, and Winterhaven Telephone Company (collectively referred to as TDS Telecom) are eligible for CHCF-A subsidies but currently do not draw from the CHCF-A, and thus were not required to be included in the consolidated cost of capital proceeding.

4 *See* D.16-12-025 in A.15-09-005.

5 *See* D.16-12-025 at 56, Finding of Fact (FoF) 5.

1.1. Procedural Background

This Application (A.) 22-09-003 was filed September 1, 2022, and appeared on the Commission's Daily Calendar on September 12, 2022. The Public Advocates Office at the California Public Utilities Commission (Cal Advocates) filed a protest to the application on October 12, 2022. On November 16, 2022, the assigned Administrative Law Judge (ALJ) issued a ruling setting a prehearing conference (PHC) and directing the companies and Cal Advocates (collectively "the parties") to meet and confer to identify disputed factual issues and to propose a hearing schedule. On November 28, 2022, the parties submitted a joint PHC schedule. A virtual PHC was held on November 30, 2022, to address issues of law and fact, determine the need for hearing, set the schedule for resolving the matter, and to address other matters as necessary. The assigned Commissioner issued a Scoping Memo and Ruling on April 21, 2023, to confirm the issues and initial schedule of the proceeding.

A virtual Public Participation Hearing (PPH) was held on June 21, 2023, for the Commission to receive comments from customers of the several telephone companies and from members of the public about the application that the companies filed in September 2022. The assigned Commissioner, staff from the Communications Division, Public Advisor's Office and representatives for the Applicants and Cal Advocates participated.[6] No members of the public spoke. However, the transcript of the PPH reflects that the ALJ confirmed that members of the public could submit written comments on the Application, which will appear on the docket card for the proceeding, by going to the Commission's website at: apps.cpuc.ca.gov/c/A2209003.

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[6] Robert Griffin, vice president and general manager of Sierra Telephone Company, Inc. spoke on behalf of the Small LECs. Bixia Ye spoke and presented slides on behalf of Cal Advocates.

Virtual Evidentiary Hearings (EH) were held August 14, 2023, through August 18, 2023.[7] Pursuant to a Motion to Supplement the Record filed by the Small LECs, a partial day of EH was held on September 27, 2023, to permit additional cross-examination of Cal Advocates expert Aaron Rothschild.[8]

The Applicants and Cal Advocates filed separate opening briefs on October 20, 2023, and reply briefs on November 20, 2023.

On October 20, 2023, the Applicants filed a Motion for Oral Argument before the Commission pursuant to Rule 13.14(b) of the Commission's Rules of Practice and Procedure. To accommodate the request for Oral Argument, the Commission on February 15, 2024, issued D.24-02-024, an Order Extending the Statutory Deadline in this proceeding to August 1, 2024.[9] To meet this extended deadline, the Proposed Decision should be mailed between June 7 and June 28, 2024.[10]

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[7] Attorney Sarah Banola of the BRB, LLP law firm represented the Small LECs. Attorneys Jamie Ormond and Wayne Parker represented Cal Advocates.

[8] The Small LECs subsequently filed an October 13, 2023 Motion to Compel Data Responses by Cal Advocates.

[9] Pub. Util. Code Section 1701.5(a) provides that the Commission shall resolve the issues raised in the scoping memo of a ratesetting proceeding, within 18 months of the date the proceeding is initiated, unless the Commission makes a written determination that the deadline cannot be met and issues an order extending the deadline. The 18-month statutory deadline for resolving this A.22-09-003, which was filed September 1, 2022 would be March 1, 2024. Therefore, to ensure that there is adequate time for the assigned ALJ to prepare a Proposed Decision, to give the assigned Commissioner and Communications Division staff time to review it, and to ensure that the Commission has sufficient time thereafter to deliberate and to issue its final decision addressing the Proposed Decision, the Commission extended the statutory deadline.

[10] Pub. Util. Code Section 311(d) provides that the commission shall issue its decision not sooner than 30 days following filing and service of the proposed decision by the assigned commissioner or the administrative law judge, except that the 30-day period may be reduced or waived by the commission in an unforeseen emergency situation or upon the stipulation of all parties to the proceeding or as otherwise provided by law.

Oral Argument was held on April 15, 2024, before a quorum of the Commission.[11]

1.2. Submission Date

The proceeding was submitted on April 15, 2024.

2. Jurisdiction

The Commission has jurisdiction to determine just and reasonable rates to be charged by public utilities, including telephone utilities.[12] In addition, as discussed above, Pub. Util. Code Section 275 gives the Commission jurisdiction to evaluate rates charged by the Small LECs, which receive supplemental funding under the CHCF-A.

3. Issues Before the Commission

It is the Commission's goal to establish a cost of capital for each Small LEC based on 1) the current cost of debt for each of the companies with debt and a hypothetical cost of debt for those without debt, 2) a reasonable cost of equity for all of the companies, and 3) a hypothetical capital structure applied to each of the companies.

The instant application (A.22-09-003) was filed as a consolidated proceeding under which the ten Small LECs propose that the Commission determine one cost of capital for each of the ten Small LECs who receive a draw from the CHCF-A. However, we note that, in D.16-12-025, the Commission explicitly determined that consideration of the cost of capital for all ten Small LECs in a single proceeding does not require that a single/uniform cost of capital

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[11] The quorum of the Commission included the assigned Commissioner John Reynolds, President of the Commission Alice Reynolds, Commissioner Karen Douglas and Commissioner Darcie Houck.

[12] *See, e.g.*, Cal. Pub. Util. Code Sections 451, 454, 455, and 728.

must be applied to each of the companies.[13] In establishing the cost of capital for each of the companies that filed this Application, the Commission has considered factors such as risks, capital structures, and debt costs to arrive at a fair cost of capital for each of the companies. Each of the Small LECs is regulated under a rate-of-return regulatory structure according to Pub. Util. Code Section 275.6. The Small LECs have different cost structures and infrastructure densities than the large telecommunication companies that are regulated by this Commission under the Uniform Regulatory Framework decisions.[14]

We follow standards for setting a fair rate of return, consider and evaluate similarities and differences between these companies and larger telephone companies, evaluate valuation information, and exercise our judgement based on the similarities and differences between the companies, including the fact that each of the ten Small LECs serve parts of the state that are remote and sparsely populated. This results in what we deem to be an appropriate cost of capital for each Small LEC.

As specified in the Application, Small LEC companies whose general rate cases have concluded, must submit Tier 2 Advice Letters within 30 days of the final decision in this proceeding, to adjust the revenue requirements adopted in their rate cases on a going-forward basis to reflect the cost of capital adopted here and compute corresponding adjustments to the companies' respective

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[13] D.16-12-025 at 56, FoF 5.

[14] The Uniform Regulatory Framework (URF) found expression in a number of decisions beginning in the R.05-04-005 proceeding, including Decision (D.) 06-12-044, D.07-09-018, D.07-09-019 and other decisions, and running through the R.09-06-019 proceeding and the decisions in that docket – of which D.06-08-030 (URF I) and D.08-09-042 (URF II) may be considered the cornerstones. *See* generally, Investigation 15-11-007 at 2-6 for a discussion of the URF proceedings.

CHCF-A draws. Those adjustments will be implemented on a prospective basis only.[15]

3.1. Cost of Debt

The Small LECs (in testimony by expert Mark E. Zmijewski (Professor Zmijewski or Mr. Zmijewski)) propose a single cost of debt (5.1 percent (%)) for all ten companies rather than the companies' actual debt and interest rates.[16] As discussed below, the Commission does not agree that it is appropriate to use a single cost of debt for the Small LECs. We instead adopt individualized cost of debt figures for each of the companies.

3.1.1. Applicant Small LECs' Position

The Small LECs expert Professor Zmijewski, contends that the "debt cost of capital in the weighted average cost of capital is equal to the required or expected (forward-looking) rate of return based on the riskiness of the expected cash flows (contractual interest and principal payments)."[17] For this reason, he explains that the cost of debt that a company is paying is not equal to the current interest rate but should include a default premium that is based on the company's expected profitability, economic balance sheet, sources of debt financing and market conditions on the date that the cost of debt is measured.[18]

He recommends a market-based and forward-looking cost of debt based on economic data (the yield to maturity) as of the measurement date. He

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[15] *See* Application at 1, footnotes (fn) 1 and 2. Decisions on five general rate cases - Foresthill, Kerman, Sierra, Siskiyou, and Volcano - were issued prior to the conclusion of this proceeding.

[16] *See* Exh. LEC-17 Opening Testimony of Zmijewski at 70, item 143.

[17] Applicant Opening Brief at 55, fn 319 citing Exh LEC-19 (Zmijewski Rebuttal Testimony) at 39, ¶47; and Exh. LEC-17 (Zmijewski Opening Testimony) at 66, ¶135.

[18] Applicant Opening Brief at 55, fn 320 citing Exhibit LEC-19 (Zmijewski Rebuttal Testimony) at 39-40, ¶47 and Exh. LEC-17 (Zmijewski Opening Testimony) at 66-67, ¶¶136-137.

explains that the cost of debt must reflect the rates that are likely to be available during the years in which the companies will have to make future investments under the rate structures adopted during the 2022 through 2025 rate case cycle, as the rates established during this rate case cycle, will remain in place until 2028, 2029, and 2030, for Groups A, B, and C, respectively.[19]

For these reasons, the Small LECs contend that historical interest rates, proposed by Cal Advocates, are too low because current rates are now substantially higher than when the companies acquired debt obligations in the past. Additionally, the Small LECs contend that the computation method used by Cal Advocates expert Mr. Duffy is flawed because he does not use the actual interest expense booked by the companies for the entire year – but instead reflects only the outstanding debt/current maturities at the end of 2022.[20] For example, the Small LECs note that the Volcano Telephone Company's actual debt is reflected in Mr. Duffy's exhibits as 1) a mortgage note issued in September 2006 with a maturity date of September 2027 and an interest rate of 5.10%, and 2) a promissory note issued in March 1995 with a maturity date of December 2029 and an interest rate of 6.65%. However, Mr. Duffy's computation of the cost of debt for this company is 4.789% - a figure that is lower than the average of the company's actual rates of debt.[21] Professor Zmijewski notes that California's Board of Equalization's California Capitalization Study uses a 5.88% cost of debt for Pacific Bell Telephone Company and a 7.98% cost of debt for local

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[19] Applicant Opening Brief at 55, fn 318 citing D.20-08-011, Appendix C.

[20] The LECs use the Volcano Telephone Company as an example. In CADV-03, Mr. Duffy's Exhibit B-1 at page 8-9, Response 5-20.

[21] CADV-03 (Exhibits to Opening Testimony of Mr. Duffy on Cost of Debt), Exh B-2 "Combined Data Request Responses Pertaining to Cost" at pages 6-7 and at Volcano Data Request 3 at 46-47 of 104.

exchange carriers (other than Pacific Bell), which he says further demonstrates the reasonableness and conservative nature of his 5.1% cost of debt proposal.[22]

3.1.2. Cal Advocates' Position

Cal Advocates urges the Commission to set a cost of debt that reflects the interest rates that Small LECs have paid on debt that they actually have, which includes pre-tax interest and issuance expenses for all long-term debt including long-term bonds, notes and other sources of debt financing.[23] Cal Advocates contends that setting an individual cost of debt for each of the companies is consistent with the Commission's previous decisions as well as the Federal Communication Commission's (FCC) rules, and is standard practice for regulated entities.[24] Cal Advocates notes that this approach has the benefit of being based on documented, rather than speculative, costs of debt and ensures that the companies are authorized to collect a fair return based on their actual costs.[25]

Cal Advocates' expert on debt, Lucas Duffy ("Mr. Duffy"), testified that he determined the cost of debt (for each of six Small LECs with debt) by using a numerator of their 2022 interest expense and a denominator of the average debt outstanding including current maturities.[26] For Small LECs without existing

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[22] Applicant Opening Brief at 56, fn 322 citing Exh LEC 34 at 4.

[23] Cal Advocate Opening Brief at 18, fn 89 citing Exh CADV-02 (Duffy Testimony on Cost of Debt) at 1-1, ln. 18.

[24] Cal Advocate Opening Brief at 18, fn 90 citing Exh CADV-02 (Duffy Testimony on Cost of Debt) at 1-1.

[25] Cal Advocate Opening Brief at 19, fn 97 citing Exh CADV-02 (Duffy Testimony on Cost of Debt) at 1-7, ln. 1-4.

[26] Exh. CADV-02 (Opening Testimony of Lucas Duffy on Cost of Debt) at 1-1 to 1-2.

debt, Mr. Duffy set a cost of debt that is the weighted average 2022 debt cost of the other Small LECs with debt.[27]

Mr. Duffy states that he uses rules developed by the FCC to calculate the cost of debt as follows: (1) for a given loan, multiply the amount outstanding of the loan including current maturities by the corresponding interest rate (equaling that year's interest expense); (2) calculate the quantity described in Step 1 for each loan, then add all individual loan numbers together, and (3) divide the quantity described in Step 2 by the average of that year's total sum of the outstanding loans including current maturities at the beginning and end of the year.[28] He reflects this in his Table 2, which captures actual debt costs for six companies with debt and reflects 3.209% as the weighted average debt cost for Small LECs without debt.[29]

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[27] Cal Advocate Opening Brief at 18, fn 91 citing Exh. CADV-02 (Duffy Testimony on Cost of Debt) at 1-1 to 1-2.

[28] Exh. CADV-02 (Opening Testimony of Lucas Duffy on Cost of Debt) at 1-6.

[29] Exh. CADV-02 (Opening Testimony of Lucas Duffy on Cost of Debt) at 1-8.

Table 2: Cal Advocates Cost of Debt Recommendation Based on Actual Cost of Debt 2022

Company	2022	Debt reported in 2022
Calaveras	2.665%	yes
Cal-Ore	3.209%[30]	no
Ducor	3.209%	no
Foresthill	2.662%	yes
Kerman	2.794%	yes
Pinnacles	3.209%	no
Ponderosa	2.410%	yes
Sierra	3.834%	yes
Siskiyou	3.209%	no
Volcano	4.789%	yes

3.1.3. Discussion

It is important to note that Cal Advocates' method of computing actual debt cost and the Small LECs' method (correcting Cal Advocates' computation of debt cost) are both hypothetical computations. Both are imperfect reflections of actual debt – and this is particularly true for the companies without debt. Cal Advocates expresses opinion that the cost of debt should be set at a figure that will ensure that the Small LECs are authorized to collect a fair return based on their actual costs while preventing ratepayers from being overcharged.[31] Cal Advocates expresses concern that the Small LECs' proposed 5.1% cost of debt unreasonably overstates the actual cost of debt that the Small LECs face and

[30] It is unclear how Mr. Duffy arrives at the 3.209% weighted cost of debt for companies without debt. Using the debt cost for each of the companies that had debt - *i.e.* 2.665% for Calaveras, 2.662% for Foresthill, 2.794% for Kerman, 2.410% for Ponderosa, 3.834% for Sierra, and 4.789% for Volcano – an average of these figures **[19.154 divided by 6 = 3.192]** results in a 3.192% debt rate for the companies that did not have debt.

[31] Cal Advocates Opening Brief at 19 fn. 97, citing Exh. CADV-02 at 1-7, ln. 1-4.

unduly burdens ratepayers (because the current debt profiles are much lower than the proposed interest rate).

In D.16-12-035, the Commission stated that it was not completely persuaded by Cal Advocate's testimony that government subsidized loans (such as RUS loans) would be readily available to the Applicants, noting that: (1) to the extent that such low rate loans might be available, it is a significant undertaking to obtain such loans, and (2) that it would be unlikely that a company with a capital structure of 30% debt would be able to obtain such low rates for the entirety of the millions of dollars of loans.[32]

We also find that neither the hypothetical estimate of Cal Advocates' witness Mr. Duffy, nor the Applicants' estimate of 5.1% cost of debt completely satisfy us.

The Small LECs contend that Mr. Duffy's historical embedded cost of debt calculation underestimates the cost of debt. They point out that (on cross examination) Mr. Duffy emphasized that "in the FCC methodology, the important aspects to consider when calculating the cost of debt is that the numerator and denominator match."[33] However, the Small LECs note that Mr. Duffy's numerator and denominator do not match. He uses the average debt outstanding at the beginning and end of 2022 as the denominator,[34] and the

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[32] *Id*. In that proceeding, the Commission ultimately adopted a hypothetical 70% equity/30% debt capital structure, based on its finding that the five-year average capital structure of the ten companies was 69.76% equity to 30.24% debt. Although the Commission noted that a reasonable capital structure for a small telephone company is between 60% and 80% equity, it concluded that the use of a hypothetical capital structure is preferred given the expectation that actual capital structures will change over time.

[33] Evidentiary Hearing Transcript (EHT) at 720:6-9.

[34] EHT at 725:6-9 and CADV-03 (Duffy Exhibit B-1, "FCC Formula Cost of Debt" shown in tabs for Calaveras, Foresthill, Kerman, Ponderosa and Volcano.

numerator only reflects his calculated interest expense at the end of 2022, rather than the average of the beginning and end of year interest expense.[35] The Applicants illustrate this difference with a comparison table, noting that, had Mr. Duffy consistently calculated the average interest expense at the beginning and end of 2022 as the numerator, and the average debt outstanding at the beginning and the end of the year as the denominator - his embedded cost of debt calculations (columns 2 and 3) would have increased, as shown in columns 3 and 4 of the table:[36]

Table 3: Small LECs Comparison Table

Company	Duffy's Calculated 2022 Year-End Interest Expense[349]	Cost of Debt Using Duffy's Calculated 2022 Year-End Interest Expense[350]	Average Beginning and End of Year 2022 Interest Expense	Cost of Debt Using Average Beginning and End of Year 2022 Interest Expense
Calaveras	$16,030	2.665%	$16,743	2.836%
Foresthill	$131,405	2.662%	$135,301	2.741%
Kerman	$211,440	2.794%	$226,614	2.994%
Ponderosa	$149,956	2.410%	$169,477	2.926%
Volcano	$275,251	4.789%	$299,892	5.218%

We agree with the Small LECs that Mr. Duffy's cost of debt computation, which results in an average cost of debt of between 3.192% and 3.209%, is low.

We consider the computation proposed by Small LECs to be a better approximation of the current debt cost. We agree with the reasoning of the Small LECs that a hypothetical computation of the cost of debt which recognizes the average beginning and end of year 2022 interest expense, more accurately reflects

[35] EHT at 728:3-12.

[36] Small LECs Opening Brief at 60.

a future hypothetical cost of debt of the Small LECs.[37] To arrive at a cost of debt for each of the Small LECs without debt, we will (as we did in our prior decision in D.16-12-035) use a metric derived from the cost of debt for the companies with debt.

In D.16-12-035, the Commission chose an averaging approach proposed by Cal Advocates rather than that proposed by the companies (which would have used the highest rate of debt for a company reporting debt (Sierra's) as the cost of debt for companies not reporting debt).[38] Although the Commission used the averaging approach proposed by Cal Advocates' in D.16-12-035, it noted that the debt rates that Cal Advocates proposed were likely lower than what the actual debt costs would be if any of the companies sought new loans.[39]

In this proceeding, to determine a hypothetical cost of debt for the companies without debt, we will look at the average of the highest (Volcano 5.218%) and lowest debt figures (Foresthill 2.741%) reflected in the Small LECs comparison table (which were based on the average beginning and end of year 2022 interest expense figures as shown in the comparison table). This results in a

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[37] However, the comparison table does not reflect figures for all six companies with debt in 2022, as it omits figures for Sierra Telephone. For this reason, we compute an average of the highest/lowest debt figures in the comparison table and use this figure as the cost of debt for companies without debt (rather than an average of debt for all six companies).

[38] *See* D.16-12-035 at 42. The Commission used the latest available interest forecast to determine the embedded debt cost for each of the companies that had debt - *i.e.* 4.50% for Calaveras, 5.10% for Ducor, 4.77% for Foresthill, 3.66% for Kerman, 2.93% for Ponderosa, 5.53% for Sierra, and 5.20% for Volcano – then averaged these figures **[31.69 divided by 7 = 4.5271]** to arrive at a **4.53%** debt rate for the companies that did not have debt.

[39] *Id.* at 42 [Cal Advocates] admitted that the current Treasury and Federal Financing Bank rates were the floor of its estimate of debt costs, and accordingly, the actual debt costs were likely to be higher than those rates. The Commission was also not convinced by Applicants' testimony in D.16-12-035, that the rate Sierra Telephone was paying – then the highest rate currently paid by the seven Small LECs - reflected the rate that might be expected in the future for any of these carriers.

hypothetical cost of debt (for companies without debt) of 3.979% [5.218 + 2.741 = 7.959 divided by 2 = 3.979 or 3.98%]. Table 4 below reflects the hypothetical cost of debt using an average of the highest and lowest debt computed by the Small LECs –i.e., 3.98% for companies without debt.[40]

Table 4 Using 3.98% as Cost of Debt for Companies Without Debt

Company	Equity Cost	Debt Cost	Total Cost of Capital
Calaveras	9.77%	2.84%	6.65%
Cal-Ore	9.77%	3.98%	7.16%
Ducor	9.77%	3.98%	7.16%
Foresthill	9.77%	2.74%	6.61%
Kerman	9.77%	3.00%	6.72%
Ponderosa	9.77%	2.90%	6.68%
Pinnacles	9.77%	3.98%	7.16%
Sierra	9.77%	3.83%	7.10%
Siskiyou	9.77%	3.98%	7.16%
Volcano	9.77%	5.22%	7.72%

We note that because some of the companies have no debt, the computation of the cost of debt is necessarily speculative. Indeed, the actual future debt cost can't be precisely predicted even for those companies with debt. However, we tend to agree with the Small LECs' expert Mr. Zmijewski that the cost of debt, although hypothetical, should acknowledge that today's debt rates are trending higher than the rates that existed when many of the companies acquired debt obligations in the past. We believe that it is appropriate to make

[40] Table 4 also reflects what the Commission ultimately adopts as the cost of capital in this proceeding.

an effort to consider rates that are likely to be available during the years in which the companies will have to make future investments, while also reflecting the continuation of existing debt costs. Therefore, although the range of debt costs proposed in Table 4 (2.74% to 5.22%) are slightly lower than the hypothetical 2.93% to 5.53% cost of debt found in D.16-12-035, the rates are still closer to the 5.1% cost of debt proposed by the Applicants.

3.2. Cost of Equity

The Small LECs (in testimony by Professor Zmijewski) and Cal Advocates (in testimony by Aaron Rothschild and Bixia Ye) propose a single cost of equity for all ten companies. However, they differ as to what the cost of equity should be. The Commission agrees that it is appropriate to use a single cost of equity for the Small LECs. However, as discussed below, we find that an appropriate cost of equity falls somewhere between the figures proposed by the parties.

3.2.1. Applicants' Position

The Small LECs propose a 16.67% cost of equity for all ten companies.[41] Applicants state that establishing a reasonable cost of equity involves careful financial analysis and the exercise of judgment about the risk profile of the subject company relative to the proposed return on utility investments.

Applicants' expert Professor Zmijewski arrives at the cost of equity by using a Capital Asset Pricing Model (CAPM) based equity return of 10.9%, a liquidity premium of 1.8% and a regulatory risk premium of 4%.[42] His CAPM equity return is estimated based on a risk-free rate of 3.38% using the 20-year constant maturity Treasury spot rate plus an equity risk premium rate of 6.22%

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41 Small LECs Opening Brief at 31; Exh. LEC-17 Opening Testimony of Zmijewski at 10.

42 Exh. LEC-17, Opening Testimony of Zmijewski at 66, Q.133.

drawn from Kroll Cost of Capital data.[43] Mr. Zmijewski calculates the CAPM-based cost of capital by multiplying the equity beta (1.2) by an equity risk premium (6.22%) and then adding the risk-free rate (3.88%) to it, which equals 10.844% (rounded to 10.9%).[44]

To identify a proxy group of companies, Mr. Zmijewski uses S&P Capital IQ's classification system to select all diversified telecommunication services companies located in the United States (U.S.) and listed on a major U.S. exchange. From these, he chooses 15 companies to estimate Small LECs forward-looking beta for his cost of equity calculation.[45] Mr. Zmijewski's proxy group included the following companies:

- Anterix Inc.;
- AST SpaceMobile, Inc.;
- ATN International, Inc.;
- 1,131;
- Charge Enterprises, Inc.;
- Cogent Communications Holdings, Inc.;
- Consolidated Communications Holdings, Inc.;
- Cuentas Inc.;
- EchoStar Corporation;
- Globalstar, Inc.;
- IDT Corporation;
- Iridium Communications Inc.;
- Lumen Technologies, Inc.;

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[43] *Id.* at 29, item 64.

[44] *Id.* at 40, item 88.

[45] *Id.* at 33-34, item 75. The 15 companies did not include AT&T, Verizon and Frontier Communications.

- NextPlat Corp;
- Ooma, Inc.;
- Radius Global Infrastructure, Inc.; and
- Starry Group Holdings, Inc.

The Small LECs contend that the cost of equity analysis of Cal Advocates' expert, Mr. Rothschild, is flawed and unreliable. The Small LECs disagree with Rothschild's use of electric and telecom proxy groups that (they contend) are not comparable to the Small LEC companies. The Small LECs additionally disagree with Rothschild's use of unsupported assumptions in connection with his financial models, and an error in connection with his reduction to the cost of equity based on (what the Small LECs contend is an extremely outdated) regression analysis.[46]

3.2.2. Cal Advocates' Position

Cal Advocates computes its cost of equity/return on equity using two proxy groups of companies – one group of electric companies and another group comprised of telecom companies. Its expert, Aaron L. Rothschild, then (1) applies the CAPM and a Discounted Cash Flow Model (DCF) to the proxy group of 12 electric utility companies, (2) conducts a comparative analysis between the cost of equity of telecom and electric utilities, and (3) evaluates the relative risk of the Small LECs compared to the electric utilities. Cal Advocates proposes a range of 8.32% to 10.88% for the return on equity and recommends that the Commission use 9.6% - the mid-value of the range – for all of the Small LEC companies.

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[46] Small LECs Opening Brief at 11.

Mr. Rothschild chooses an Electric (Long Term Equity Appreciation Securities (LEAPS) Proxy Group of 12 companies out of 36 publicly-traded regulated electric utility companies for which Value Line provides quarterly full company reports.[47] Mr. Rothchild's LEAPS proxy group included the following companies (with ticker):

- American Electric Power AEP;
- Centerpoint Energy CNP;
- Dominion Energy D;
- Duke Energy DUK;
- Con Edison ED;
- Edison Internat'l EIX;
- Exelon Corp EXC;
- First Energy FE;
- Nextera Energy NEE;
- PPL Corporation PPL;
- Southern Company SO; and
- Sempra Energy SRE.

Mr. Rothchild's Telecom Proxy Group consists of eight publicly traded telecommunication companies that fulfill the following selection criteria used in the 2016 FCC Staff Report: 1) publicly traded stock, 2) at least 10% of revenues are from fixed broadband and fixed voice services; and 3) service territories that include high-cost rural communities.[48] The companies in his telecom proxy group include (with ticker):

- ATN International ATN;

[47] Exh. CADV-01 Direct Testimony of Aaron L. Rothschild at 14-15 and 45-48.

[48] *Id.* at 48.

- Consolidated Comm CNSL;
- Frontier Comm FYBR;
- Lumen Tech LUMN;
- Nuvera Comm NUVR;
- Shenandoah Telco SHEN;
- AT&T Inc T; and
- Telephone & Data Sys TDS.

Mr. Rothschild explains that he chose two proxy groups to provide the Commission with a broader set of model results in support of Cal Advocates' return on equity (ROE) recommendations. Mr. Rothschild's cost of equity recommendation of 9.60% (midpoint of 8.32% to 10.88%) for the Small LEC companies is in the middle to upper part of the range of the expectations published by major banks and brokerage houses (6.6% to 9.5%).[49]

Mr. Rothschild takes issue with the analysis by the Small LECs expert, indicating that: "Dr. Zmijewski's CAPM results are not a reliable indicator of the cost of equity for two reasons. First, he applies his beta coefficients to a group of 15 companies that are not comparable in risk to the Small LECs. Second, his financial leverage adjustment, which results in significantly higher betas, is not appropriate. Financial leverage adjustment is a measure of the ratio of debt financing to equity financing."[50]

3.2.3. Discussion

We find merit in the analysis of Cal Advocates' expert Mr. Rothschild. The use of two proxy groups provide a reasonable starting point because they are rate-of-return regulated utility companies, like the Small LECs. Although no

[49] *Id.* at 20-21.

[50] *Id.* at 85.

proxy group is perfect, the fact that the chosen telecommunications companies predominantly offer regulated local phone service makes them a good point of comparison with the Small LECs. Mr. Rothschild's selection of eight publicly traded telecommunications companies for his telecom proxy group, which were chosen based on the reasonable selection criteria used by the FCC as detailed in Ms. Ye's testimony, makes sense. Cal Advocates proposes a range of 8.32% to 10.88% for the return on equity and recommends that the Commission use 9.6% - the mid-value of the range. Cal Advocates explains the nine-step calculation that it uses to reach this range in its Opening Brief.[51]

We follow Cal Advocates' proposal in Step 7 of its calculation, to compare telecom and electric utility cost of equity ranges to calculate an adjusted telecom cost of equity range of 8.49% to 11.04%. The only aspect of the calculation that we reject is Cal Advocates' subsequent application of a -0.16% capital structure financial risk adjustment based on its proposed capital structure of 54% debt and 46% equity, which lowers the cost of equity range (from 8.49% to 11.04%) to 8.32% to 10.88%.[52] We are not persuaded that this additional risk adjustment based on Cal Advocates' proposed capital rate structure, is appropriate. We consider it appropriate to look at the midpoint of the 8.49% to 11.04% range, i.e., 9.77 percent. This approach reasonably reconciles the full range of equity cost of Cal Advocates' proxy group companies, which were each reasonably similar to the Small LECs. We reject the -0.16 financial risk adjustment proposed by Cal Advocates, just as we reject regulatory and liquidity adjustments in the next section.

[51] CADV Opening Brief at pages 13-16, the excerpt of which was used as an Exhibit 1 during Oral Argument by Cal Advocates.

[52] CADV Opening Brief at pages 13-16, the excerpt of which was used as an Exhibit 1 during Oral Argument by Cal Advocates.

We reject the regulatory risk premium and liquidity premium added by the Small LECs expert Mr. Zmijewski. As noted in the Commission's previous D.16-12-035, we are not persuaded that it is necessary to add additional risk and liquidity premiums, as these are adequately addressed through other regulatory means.[53] We also find that the companies in the proxy group used by the Small LECs expert, Mr. Zmijewski, are not as comparable to the Small LECs as the proxy companies chosen by Mr. Rothschild and Ms. Yee. CAPM results are not a reliable indicator of the cost of equity for their chosen 15 companies as they are not comparable in risk to the Small LECs.

As noted in our previous decision, the Commission is required to provide subsidies "sufficient to meet the revenue requirements" for each Small LEC.[54] We believe that the state subsidy programs provide a means for the Commission to quickly address any possible risk unique to the Small LECs and stand by the rationales expressed in D.16-12-035, that our regulatory structure, balancing utility incentives and customer costs, provides reasonable remedy. The Commission has declined to add risk or liquidity premiums to its cost of equity calculations in the past, and we continue to decline to do so here.

3.3. Capital Structure

A company's capital structure is determined by analyzing its invested capital – which consists of shareholder investment (equity) and outstanding loans (debt). In ratemaking, the Rate Base is a measure of the utility's capital

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[53] D.16-12-035 at 33-34.

[54] Pub. Util. Code Section 275.6. We note that the CHCF-A is an after-the-fact type of calculation – we calculate the revenue requirement first and then the CHCF-A provides subsidies to meet that revenue requirement if it is not already being met through rates. The calculated revenue requirement includes the cost of capital. Thus, while it does not eliminate all business risk to the Small LECs, the presence of the CHCF-A subsidies mitigates the business risk these companies face.

investment. Generally, Rate Base consists of gross plant-in-service at original cost minus depreciation reserve (depreciation taken over time), plus working cash that the utility provides for day-to-day operation before receiving bill payments from customers plus materials and supplies needed for repair and minor plant replacement.

The Commission calculates a Weighted Average Cost of Capital (WACC) using a formula that includes the cost of equity, cost of debt and a capital structure that reflects an appropriate debt-to-equity ratio (*i.e.*, the return sought on equity and the cost or interest paid on debt are compared to determine the weighted cost of capital/return on rate base).[55]

The weighted average cost of capital determined in this proceeding for each Small LEC will be used as the rate of return on rate base when implemented as part of the ratemaking determinations in each of the rate cases for the Small LECs that will be processed from 2022 through 2025.

Cal Advocates and the Small LECs agree that these are the components of the Commission's approach. However, they do not agree on the values to be assigned to each component. The Small LECs propose to use a 70% equity/30% debt capital structure. Cal Advocates proposes a 46% equity/54% debt capital structure. As discussed below, after evaluating the inputs used by the parties, the Commission finds that a 55% equity/45% debt ratio is appropriate.

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[55] For example, if a company seeks a return of 12 percent on $100K of equity and pays six percent interest on $50K of debt, the weighted cost of capital/rate of return will be 10 percent, calculated as follows: **$12K** return on equity ($100K times 12 percent equals $12K) and **$3K** cost of debt ($50K times six percent) equals total return on invested capital ($12K plus $3K = $15K). The company's return on capital is $15K. The weighted cost of capital /rate of return on rate base is 10% ($15K divided by $150K times 100 = 10 percent.

3.3.1. Applicants' Proposal

The Small LECs (through their expert Professor Zmijewski, propose that we apply the hypothetical capital structure of 30% debt and 70% equity used in the Commission's last cost of capital decision D.16-12-035. As an alternative, Professor Zmijewski suggests using "an average capital structure of the Small LECs over the last five years used in the Ye Report 2017-2021)," or a capital structure of 75% equity/25% debt, reflecting the average structure of the telecommunications proxy group used by Professor Zmijewski in his analysis.[56] The Small LECs reason that although the equity percentages they propose trend higher than the 70% equity that the Commission used in its last cost of capital decision, the proposal is consistent with the trend among each of the Small LECs toward greater equity investment percentages since 2016.

3.3.2. Cal Advocates' Proposal

Cal Advocates relies on the analysis of its expert Ms. Bixia Ye[57] to recommend a hypothetical capital structure of 46% equity and 54% debt, reasoning that this will ensure that the burden on the CHCF-A subsidy program and ratepayers is not excessive (which Cal Advocates contends will protect against windfall profit to shareholders at the expense of ratepayers).[58] Ms. Ye, points out that generally, the cost of equity is considerably higher than the cost of debt and that a hypothetical higher equity ratio would result in a higher WACC or rate of return.[59] She selects proxy companies that are publicly traded and

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[56] Small LECs Opening Brief at 62.

[57] CADV-04 Bixia Ye Opening Testimony on Capital Structure, Regulatory Risk and Weighted Average Cost of Capital.

[58] Cal Advocates Opening Brief at 4-5.

[59] *See* Exh. CADV- 04 Opening Testimony of Bixia Ye Regarding Capital Structure, Regulatory Risk and Weight Average Cost of Capital at 1-2, line 5-7.

prepare an annual 10-K report with the United States Securities and Exchange Commission (SEC) and that provide both fixed voice and fixed broadband services in high cost areas, using Digital Subscriber Line (DSL), cable modem, fiber, satellite or fixed wireless.[60] Her proxy group companies are the same as the eight used by Mr. Rothschild in his Telecom Proxy Group, except that she adds Cable One, Inc.

Ms. Ye explains that calculating the WACC based on data from a proxy group of companies which are similar to the Small LECs, is consistent with FCC 16-33 - Report and Order on Reconsideration, and Further Notice of Proposed Rulemaking, dated March 30, 2016. She notes that the FCC specifies that the proxy companies should have at least 10% of the total operations that can be classified as incumbent local exchange carriers (ILECs).[61]

Table 5: Proxy Group of Companies with Their Capital Structures as of December 31, 2022

Item No.	Proxy Group Company	Equity Ratio	Debt Ratio	Total
1	AT&T Inc.	49.62%	50.38%	100.00%
2	ATN International, Inc.	62.87%	37.13%	100.00%
3	Cable One, Inc.	52.12%	47.88%	100.00%
4	Consolidated Communications Holding	16.40%	83.60%	100.00%
5	Frontier Communications Parent, Inc.	40.61%	59.39%	100.00%
6	Lumen Technologies, Inc.	21.05%	78.95%	100.00%
7	Nuvera Communications, Inc.	53.11%	46.89%	100.00%
8	Shenandoah Telecommunications Company	91.39%	8.61%	100.00%
9	Telephone and Data Systems, Inc.	24.12%	75.88%	100.00%

[60] *Id.* at 1-6 to 1-7.

[61] CADV-04 Bixia Ye Opening Testimony at 1-4, Table 2.

Item No.	Proxy Group Company	Equity Ratio	Debt Ratio	Total
	Average Capital Structure:	**46%**	**54%**	**100.00%**

AT&T, Inc. represents the median capital structure of the nine companies in Ms. Ye's proxy group, at approximately 50% (49.62%) debt and 50% (50.38%) equity. The four other companies that have equity ratios higher than AT&T, are Cable One, Inc. (52.12%), Nuvera Communications Inc. (53.11%), ATN International (62.87%), and Shenandoah Telecommunications Company (91.39%).

3.3.3. Discussion

We are persuaded by Cal Advocates expert, Ms. Ye. Although Mr. Zmijewski is correct that the Commission has consistently found a 60% to 80% common equity range reasonable in rate cases, we note that the Commission determined this range in 1997, using 18 companies as a proxy group. We agree with Ms. Ye, that over 25 years have passed since the Commission began using the common equity range cited, and that it is appropriate to re-evaluate the analysis and to attempt to select a proxy group that is more closely equivalent to the characteristics of the Small LECs to determine a reasonable capital structure. We note that the Small LECs' witness, Mr. Zmijewski, argues that his proxy group is more comparable to the Small LECs than that used by Ms. Ye because her proxy group consists of telecommunications companies that are substantially larger than the Small LECs. There is merit in Mr. Zmijewski's criticism because even the smallest of the companies in Ms. Ye's proxy group are more than twice the size of the Small LECs.

Nevertheless, we find Ms. Ye's proxy group selection criteria to be more comparable to the ten Small LECs than the proxy group used by the Small LECs expert Mr. Zmijewski. The Small LEC companies provide telephone service to business and residential customers, and all, except Pinnacles, provide wholesale broadband service through an affiliated Internet Service Provider (ISP) or to the company themselves, which then offers an array of retail broadband service to their customers. (Pinnacles provides broadband services through a separate company division.) All ten Small LECs are facilities-based communications companies. Ms. Ye has chosen a proxy group of companies that offer similar services to those provided by the Small LECs, *i.e.*, fixed voice and fixed broadband services.

In contrast, Mr. Zmijewski testified that he selected companies whose underlying business risk is similar to that of the Small LECs. A close review of his proxy group selection criteria shows that he compares similarities between the Small LECs and the proxy companies' revenues and operating leverage. We are not persuaded that these criteria are as closely aligned to the business model of the Small LECs (*i.e.*, the services they provide to the public) as those companies are that comprise Ms. Ye's proxy group. We believe that under the FCC's established criteria, which focuses on whether a proxy company provides similar services, the Small LECs and the companies in Ms. Ye's group can be expected to face roughly similar, though not precisely the same, types of risk – regardless of size – because they are also telecommunications companies.

While we agree with the proxy group Ms. Ye proposes, for the purposes of setting an equity/debt ratio, we believe that it is appropriate to exclude Shenandoah Telecommunications, which appears to be an outlier in terms of its excessive equity ratio. With that adjustment, we find that the average of the equity ratios of the remaining companies is about 55%. We consider this a reasonable equity ratio, which avoids any concern that the WACC derived from the equity/debt ratio will be deemed excessive or artificially inflated as a result of the equity component.

Similarly, we are not inclined to accept Ms. Ye's 54% debt ratio proposal because this would then make the Small LEC companies appear more risky and less attractive for capital investment.

For the above reasons, the Commission finds that a 55% equity/45% debt ratio is appropriate.

3.4. Safety Considerations Raised by This Proceeding

The parties agree that safety issues such as 911 access, network infrastructure redundancy, and service restoration objectives are important safety considerations that should be addressed through infrastructure improvements.

Neither party offers evidence of specific safety considerations that will be impacted by this decision. We are satisfied that the cost of capital determinations approved in this decision will support the Commission's goal to ensure that all residents, including those residing in rural and less affluent communities within the State of California, have access to reliable and affordable telephone and broadband service.

4. Categorization and Need for Hearing

In Resolution ALJ 176-3515, dated October 6, 2022, the Commission preliminarily categorized this Application as ratesetting, and preliminarily determined that hearings were necessary. The Scoping Memo and Ruling of the Assigned Commissioner filed April 21, 2023, and amended June 15, 2023, confirmed the ratesetting categorization and need for hearings.

5. Comments on Proposed Decision

The proposed decision of ALJ Patricia B. Miles in this matter was mailed to the parties in accordance with Section 311 of the Public Utilities Code and comments were allowed under Rule 14.3 of the Commission's Rules of Practice and Procedure. Comments were filed on __________, and reply comments were filed on _____________ by ________________.

6. Assignment of Proceeding

John Reynolds is the assigned Commissioner and Patricia B. Miles is the assigned Administrative Law Judge in this proceeding.

Findings of Fact

1. Applicants are public utilities subject to the jurisdiction of this Commission.

2. In the Application, the Small LEC companies specify that cost of capital determinations made in this proceeding are to be implemented by companies as part of their general rate cases (GRCs).

3. The cost of capital determinations made in this proceeding will impact rate structures adopted in GRCs during the 2022 through 2025 rate case cycle, and will remain in place until 2028, 2029, and 2030.

4. In the case of Small LEC companies whose GRCs have concluded, cost of capital determinations in this proceeding will be implemented by submitting Tier 2 Advice Letters within 30 days of the final decision in this proceeding, to adjust the revenue requirements adopted in their rate cases on a prospective basis.

5. The record is sufficient for the Commission to calculate an individualized hypothetical weighted average cost of capital for each of the Applicants.

6. A cost of equity of 9.77%, is reasonable for each company.

7. The Commission's cost of capital analysis accounts for the regulatory risk that the Small LEC companies have and it is not necessary to add additional risk and liquidity premiums or adjustments to the cost of equity derived using the CAPM, as risks are adequately addressed through other regulatory means.

8. Over 25 years have passed since the Commission set a 60 to 80% common equity range in 1997 using 18 companies as a proxy group.

9. It is appropriate to select a proxy group that is more closely equivalent to the characteristics of the Small LECs to determine a reasonable capital structure. A reasonable capital structure is 55% equity and 45% debt, based on the proxy group with companies whose characteristics are closely equivalent to the characteristics of the Small LECs.

10. The actual weighted cost of debt for Calaveras is 2.84%.

11. The actual weighted cost of debt for Foresthill is 2.74%.

12. The actual weighted cost of debt for Kerman is 3.00%.

13. The actual weighted cost of debt for Ponderosa is 2.90%.

14. The actual weighted cost of debt for Sierra is 3.83%.

15. The actual weighted cost of debt for Volcano is 5.22%.

16. For the four companies (Cal-Ore, Ducor, Pinnacles and Siskiyou) that did not have debt when this proceeding was filed, it is reasonable to adopt a cost of debt rate of 3.98%, which represents the average of the highest and lowest of the actual weighted costs of debt for companies with debt.

17. The cost of capital determinations approved in this decision will help meet the Commission's safety goals and expectations for the Small LECs.

Conclusions of Law

1. This decision is consistent with the requirements of Pub. Util. Code Section 275.6.

2. The consideration of the cost of capital for all ten Applicants in a single proceeding does not mean that a uniform cost of capital should be applied to each of the utilities.

3. This decision establishes the cost of capital that will be applied to the Small Local Exchange Carriers' general rate case applications for Test Years 2022 through 2025.

4. Small Local Exchange Carriers whose general rate cases have concluded before this decision must submit Tier 2 Advice Letters within 30 days of the final decision in this proceeding, to adjust the revenue requirements adopted in their rate cases on a prospective basis.

5. Evidentiary hearings were necessary.

6. A.22-09-003 should be closed.

O R D E R

IT IS ORDERED that:

1. The Small Local Exchange Carriers' application for a determination of their cost of capital for ratemaking purposes is granted as set forth below:

   (a) Calaveras Telephone Company's cost of capital is 6.65 percent.

   (b) Cal-Ore Telephone Company's cost of capital is 7.16 percent.

   (c) Ducor Telephone Company's cost of capital is 7.16 percent.

   (d) Foresthill Telephone Company's cost of capital is 6.61 percent.

   (e) Kerman Telephone Company's cost of capital is 6.72 percent.

   (f) Pinnacles Telephone Company's cost of capital is 7.16 percent.

(g) The Ponderosa Telephone Company's cost of capital is 6.68 percent.

(h) Sierra Telephone Company Inc.'s cost of capital is 7.10 percent.

(i) The Siskiyou Telephone Company's cost of capital is 7.16 percent.

(j) Volcano Telephone Company's cost of capital is 7.72 percent.

2. All rulings of the assigned Commissioner and Administrative Law Judge are affirmed. Any outstanding motions not yet ruled on are hereby deemed denied.

3. Application 22-09-003 is closed.

This order is effective today.

Dated ____________________________, at San Francisco, California