



STATE OF CALIFORNIA

GAVIN NEWSOM, Governor

PUBLIC UTILITIES COMMISSION

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SAN FRANCISCO, CA 94102-3298

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TO PARTIES OF RECORD IN APPLICATION 23-11-010:

This is the proposed decision of Administrative Law Judge David R. Van Dyken. 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 December 19, 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 to the proceeding may file comments on the proposed decision as provided in Rule 14.3 of the Commission's Rules of Practice and Procedure (Rules).

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:nd3/jnf
Attachment

Decision PROPOSED DECISION OF ALJ VAN DYKEN (Mailed 11/8/2024)

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of Application of
Pinnacles Telephone Co. (U1013C) to
Modify Intrastate Revenue
Requirement and Rate Design and
Adjust Selected Rates.

Application 23-11-010

**DECISION APPROVING REVENUE REQUIREMENT,
RATE DESIGN, AND SELECTED RATES FOR
PINNACLES TELEPHONE COMPANY FOR TEST YEAR 2025**

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Appendix A – Pinnacles Results of Operations Adopted Rates and Basic Business Service Rate

Appendix B – New Pinnacles Basic Residential Service Rate and Basic Business Service Rate

**DECISION APPROVING REVENUE REQUIREMENT,
RATE DESIGN, AND SELECTED RATES FOR
PINNACLES TELEPHONE COMPANY FOR TEST YEAR 2025**

Summary

This decision authorizes a revenue requirement for Pinnacles Telephone Company (Pinnacles), as summarized in the following table, and as discussed in greater detail throughout this decision.

Rate Case Item	Pinnacles' Proposal Amount	Amount Adopted by This Decision
Operating Revenues	\$679,459	\$649,000
Operating Expenses	\$568,285	\$559,761
Total Rate Base	\$1,246,340	\$1,246,340
Authorized Rate of Return	8.92%	7.16%
Return on Rate Base	\$111,174	\$89,239
Revenue Requirement	\$679,459	\$649,000

This decision adopts an overall intrastate revenue requirement of \$649,000 for Test Year 2025, including support of \$312,515 from the California High-Cost Fund-A. Upon adoption of this decision, the basic rate for Pinnacles' residential customers shall be set at \$26.50 (exclusive of surcharges, fees, and taxes) and the rate for Pinnacles' business customers will be set at \$37.85 (exclusive of surcharges, fees, and taxes).¹ The rate for Pinnacles' residential customers is within the \$30 to \$40 range for small telephone corporations that the California Public Utilities Commission set in Decision 21-06-004, is deemed just and

¹ As of October 1, 2024, the all-inclusive basic residential rate would be approximately \$36.99 by adding surcharges, fees, and taxes, as defined and ordered by D.21-06-004, Ordering Paragraph 1.

reasonable, and reasonably comparable to rates charged to customers of urban telephone corporations and should be adopted.

This proceeding is closed.

1. Background

1.1. Factual Background

Pinnacles Telephone Company (Pinnacles) is a California corporation and small incumbent local exchange carrier (ILEC).² Pinnacles owns and operates a telephone system over which it provides local exchange telephone service in San Benito County. Pinnacles operates two exchanges, Paicines and Idria, with approximately 200 access lines over which it provides basic service.³ The company's systems consist mainly of cables and wires connecting customer locations and facilitating interconnection with the public switched telephone network. Pinnacles' infrastructure includes underground and aerial cable and lines, radio equipment, central office equipment, land, buildings, power generators, backup batteries, and other miscellaneous equipment.⁴ Pinnacles states that it is prepared to make more than \$970,000 in additional investments in network upgrades during 2024 and 2025 and is prepared to invest at a similar level going forward.⁵

Pinnacles seeks adjustments to its revenue requirement and rate design pursuant to a common set of ratemaking standards embodied in Public Utilities (Pub. Util.) Code Section 275.6, Section 454, and various decisions in the California High-Cost Fund-A (CHCF-A) Rulemaking (R.) 11-11-007.

² Pinnacles' principal place of business is 430 Live Oak Road, Paicines, California 95043.

³ See Application at 27.

⁴ See Application at 27.

⁵ See Application at 3.

1.2. Procedural Background

Pinnacles filed its General Rate Case (GRC) Application (A.) 23-11-010 with the California Public Utilities Commission (Commission) on November 15, 2023 (Application), in which Pinnacles requested review of its intrastate revenue requirement and rate design.⁶ In its Application, Pinnacles proposed to adjust its existing basic rates by \$1.00.⁷ This would increase Pinnacles' basic residential rate from \$25.00 to \$26.00 and its business rate from \$35.85 to \$36.85. The proposed residential rate would produce an "inclusive" rate of \$36.09 when applicable fees and surcharges are included. Pinnacles also proposed to incorporate all custom calling features and voice mail into basic rates for both residential and business services.⁸

The Application appeared on the Commission's Daily Calendar on November 27, 2023. On December 14, 2023, in Resolution ALJ 176-3538, the Commission preliminarily designated the proceeding as ratesetting and concluded that hearings would be necessary. No protest was filed to Pinnacles' Application. A prehearing conference was held on January 8, 2024.

On March 6, 2024, the assigned Commissioner issued a Scoping Memorandum and Ruling, setting the following issues for hearing:

- a. What level of revenue requirement (including, but not limited to: corporate and operating expenses, depreciation expenses, rate base and new plant additions, and tax liabilities) is necessary to provide Pinnacles with revenues and earnings sufficient to allow it to operate in a manner that allows it to deliver safe, reliable, high-quality voice

⁶ The Commission approved Pinnacles' last rate case for Test Year 2016 in Decision (D.) 19-12-011.

⁷ See Application at 27.

⁸ See Application at 27.

- communication services, which comply with Pub. Util. Code Section 451 and General Order 133-D?
- b. What are reasonable projections for the number of local network service end user customers, enduser revenues, High-Cost Loop Support revenues, intercarrier compensation/access revenues, miscellaneous revenues, uncollectible revenues, and CHCF-A support?
 - c. What is a reasonable rate design? What end-user rates are just and reasonable for customers of Pinnacles and reasonably comparable to rates charged to customers of urban telephone corporations per Pub. Util. Code Section 275.6(c)(3)?
 - d. What level of federal and state grant funding for broadband deployment can Pinnacles expect to defray costs? What measures are Pinnacles taking to obtain federal and state grants?
 - e. What are the projected retail broadband revenues and associated expenses of Pinnacles and its Internet services division and from what line items are the projected revenues and associated expenses derived?
 - f. What amount of the retail revenues and expenses of the Internet Service Provider (ISP) are subject to imputation as part of the determination of rate design and CHCF-A support as required by D.21-04-005?
 - g. Is Pinnacles' request for authorization for broadband infrastructure investment reasonable in light of the quality, availability, and affordability of access by low-income residents to the services delivered over infrastructure funded by the CHCF-A?
 - h. Is Pinnacles' proposed CHCF-A draw/subsidy for Test Year (TY) 2025 appropriate?
 - i. Is Pinnacles' proposed corporate and operating expenses within the Federal Communications Commission (FCC) corporate and operating expense caps adopted in D.21-06-004?

- j. Are the proposed plant improvements necessary for providing safe, reliable, and high-quality voice and broadband services?
- k. Does the Application raise issues pertinent to the Commission's Environmental and Social Justice Action Plan (ESJAP), and if so, whether the objectives of the ESJAP are met?

A public participation hearing⁹ was held on April 4, 2024. Pinnacles filed an opening brief on May 10, 2024. Because no protest was filed on this Application, the assigned ALJ determined that evidentiary hearings were not required.

1.3. Customer Notice — Rule 3.2 of the Commission's Rules of Practice and Procedure

On December 20, 2023, Pinnacles filed its Proof of Compliance in accordance with the Commission's Rules of Practice and Procedure (Rules). Notice Requirements in Rule 3.2(c) requires a telephone utility, within 20 days after filing of its application, to publish a notice in general terms of the proposed increases in rates in a newspaper of general circulation. Pinnacles does not have a local newspaper in its service area. The Commission's Public Advisor's Office approved Pinnacles' posting the notice at its local post office in lieu of the newspaper publication requirement. The Proof of Compliance included attachments with the notice language and a photograph of its posting on the post office community bulletin board.

⁹ A Public Participation Hearing is not a formal hearing at which evidence is taken into the record. However, it provides an opportunity for members of the public to offer comments to the Administrative Law Judge (ALJ) about the quality of service by Pinnacles as well as any other issues that may be of concern in the communities that the company serves.

1.4. Submission Date

This matter was submitted on September 16, 2024, upon issuance of D.24-09-021, which changed the Cost of Capital for ILECs, including Pinnacles.

2. Legal Policy for This General Rate Case

Pub. Util. Code Section 451 provides that public utilities may demand and receive only just and reasonable charges, and must provide “adequate, efficient, just, and reasonable service” in a way that promotes the “safety, health, comfort, and convenience of [their] patrons, employees, and the public.” Pub. Util. Code Section 454 prohibits public utilities from making rate changes until they have made a showing before the Commission, and the Commission has made a finding that the new rates are justified. Responsibility for fixing rates is placed with the Commission, as “the primary purpose of the Public Utilities Act . . . is to ensure the public adequate service at [just and] reasonable rates without discrimination”¹⁰ Further, California has long recognized that “the commission has the power to prevent a utility from passing on to the ratepayers unreasonable costs for materials and services by disallowing expenditures that the commission finds unreasonable.”¹¹ Accordingly, our task is to determine what is just and reasonable, and disallow costs that are found to be unjust or unreasonable.

3. Components of Revenue Requirement

Revenue requirement is a measurement of cost, reflecting the amount that a telephone corporation requires in order “to recover its reasonable expenses and

¹⁰ *Pacific Tel. & Tel. Co. v. Pub. Util. Com.* (1950) 34 Cal.2d 822, 826 [215 P.2d 441] (citations omitted).

¹¹ *Pacific Tel. & Tel. Co. v. Pub. Util. Com.* (1965) 62 Cal.2d 634, 647 [401 P.2d 353, 361]. (See Pub. Util. Code § 728.)

tax liabilities and earn a reasonable rate of return on its rate base.”¹² In the case of small telephone corporations such as Pinnacles, the Commission has stated that rate base means the value of plant and equipment that is reasonably necessary to provide regulated voice services and access to advanced services, with the small telephone company entitled to a fair opportunity to earn a reasonable rate of return on that value.¹³ The Commission will evaluate the operating expenses, including taxes and a fair return on the company’s investments – which are determined by multiplying its authorized rate of return by the value of property devoted to public use, referred to as rate base.

Pinnacles’ proposed rate design includes the five categories of regulated revenue used in intrastate ratemaking, consistent with Commission precedent over the past three decades: (1) \$71,124 in local network services revenue from Pinnacles’ end-user customers based on anticipated demand at proposed rates; (2) \$6,043 in intrastate switched and special access, intercarrier compensation, and intrastate access replacement funding; (3) \$175,027 in federal universal service support, forecasted by identifying the intrastate components of the Enhanced Alternative Connect America Cost Model (Enhanced A-CAM) support Pinnacles will receive during the test period; (4) \$2,167 in miscellaneous revenues classified as intrastate; and (5) \$346,994 in CHCF-A funds.¹⁴

3.1. Revenue Requirement

The Commission adopts a revenue requirement of \$649,000 with \$312,515 in CHCF-A funding after adjusting for basic service rates. The Commission also

¹² See Pub. Util. Code § 275.6(b)(5).

¹³ See Pub. Util. Code § 275.6(b)(2).

¹⁴ In Pinnacles’ Application at 4, \$425,098 was cited, but this amount was adjusted to \$346,994 in the Opening Brief.

adopts Operating Expenses of \$559,761 and net revenues of \$89,239. All corporate and operating expenses are within cap limits. Adopting this revenue requirement will provide Pinnacles with a just and reasonable means to meet compliance with Pub. Util. Code Section 451 guidelines and General Order 133-D metrics to promote the safety, health, comfort, and convenience of its customers, employees, and the public.

3.2. Local Network Services/Operating Revenues

Pinnacles proposes an increase of \$1.00 to its basic residential rates (from \$25.00 to \$26.00)-- a rate increase of 4 percent. Pinnacles proposes to increase its business rates (from \$35.85 to \$36.85), an increase of less than 3 percent, for TY 2025 in its Application. Pinnacles also proposes to include all custom calling features and voice mail service in its basic rates at no additional charge.¹⁵

Pinnacles' last GRC was in 2018. Since 2018, the consumer price index (rate of inflation) has increased approximately 22 percent.¹⁶ All California ratepayers contribute to the CHCF-A program.¹⁷ To balance the interests of Pinnacles' customers and California ratepayers who fund the CHCF-A, the Commission approves a residential rate increase of \$1.50 (a 6 percent increase), increasing basic residential rates from \$25.00 to \$26.50 per month.¹⁸ This strikes a balance while maintaining the Commission's \$30-\$40 range of reasonableness as established in D.21-06-004. The Commission will also approve a business rate

¹⁵ See Application at 19.

¹⁶ U.S. Bureau of Labor Statistics, Consumer Price Index for All Urban Consumers (CPI-U) from 2018 to 2024; annual average. <https://data.bls.gov>

¹⁷ See, §8, *Infra*

¹⁸ As of October 1, 2024, the all-inclusive basic residential rate would be approximately \$36.99 by adding surcharges, fees, and taxes, as defined and ordered by D.21-06-004, Ordering Paragraph 1.

increase of \$2.00 (an approximate 5.6 percent increase), increasing the basic business rate from \$35.85 to \$37.85 per month.¹⁹ A basic business rate of \$37.85 is reasonably comparable to rates charged to customers of urban telephone corporations, as required by Pub. Util. Code Section 275.6.

3.3. Custom Calling Features

As noted in Section 3.2, we adopt a rate increase of \$1.50 for basic residential service and \$2.00 for basic business service. Pinnacles also proposes that all Custom Calling and Voice Mail services should be offered at no additional charge to customers within its basic residential and business rates.

We agree partially with Pinnacles that some Custom Calling features and Voice Mail features have tangible public safety implications for customers. Custom Calling features such as Caller ID, Call Waiting, Call Forwarding and Voice Mail (Economy Mailbox) are especially useful, if not essential, during emergencies when customers may receive multiple calls from family, friends, or emergency services simultaneously. Therefore, Caller ID, Call Waiting, Call Forwarding,²⁰ and Voice Mail (Economy Mailbox) services should be included at no charge for Pinnacles' customers as part of its basic rates. Pinnacles may provide additional custom calling features to its customers who may desire them at the tariffed rates.

3.4. 2025 Subscribership Forecast

Pinnacles services approximately 200 end users (130 residential and 70 business customers).²¹ Pinnacles used this count to develop its proposal for an end-user revenue amount of \$71,124. With the Commission's adoption of basic

¹⁹ As of October 1, 2024, the all-inclusive basic business rate would be approximately \$48.45.

²⁰ Call Forwarding – Busy and Delayed.

²¹ Bryan Opening Testimony at 5.

rates of \$1.50 per month for residential customers and \$2.00 per month for business customers effective January 1, 2025, the local network revenue would increase by \$4,020 annually, resulting in a revised user revenue amount of \$75,144. This will also result in a reciprocal decrease in CHCF-A support.

3.5. Enhanced Alternative Connect America Cost Model

Federal high-cost support revenues are now represented by Enhanced Alternative Connect America Cost Model (Enhanced ACAM) support. The Enhanced ACAM program provides funding to rate-of-return carriers that voluntarily elect to transition to a new cost model for calculating High-Cost support in exchange for meeting defined broadband build-out obligations. Funding is determined by a detailed data collection form provided by the National Exchange Carrier Association (NECA).

Customer count is used in this form, which determines the Enhanced ACAM allocation for interstate versus intrastate revenue. The form and its associated calculation methodology gather extensive study area/cost per loop data which considers numerous factors such as central office equipment and cable and wire facilities. The intrastate allocation is then determined by a cost projection for 2025 which uses 2023 data, the latest full-year data available. The Commission's Communications Division review prompted a question concerning the updated Federal funding amount, resulting in an increase of approximately \$78,000 to \$253,131.

The Enhanced ACAM Order²² adopted a federal mechanism to facilitate the widespread fiber deployment of broadband speeds of at least 100 Megabits per second (Mbps) download and 20 Mbps upload across eligible rate-of-return

²² See Application at 3, footnote 10.

carriers' service areas by the end of 2028. In its agreement to meet these standards, Pinnacles will receive \$1.352 million annually²³ and the amount will not vary year-over year.²⁴ For TY 2025, the updated federal funding resulted in a decrease of \$4,020 in CHCF-A support to \$342,974.²⁵ Review of the Application and testimony indicates that Pinnacles has taken reasonable measures in seeking increased federal support and existing state support while committing to provide 100 Mbps download and 20 Mbps upload broadband service to all end users by the end of 2028.

3.6. Broadband Imputation

There are three types of lines that are available to the customer: (1) a Voice Line provides voice service only, no data service; (2) a Voice Data Line provides voice service and data service; and (3) a Consumer Broadband Only Loop is a line that only provides broadband service. The type of line is determined by the type of services to which the customer subscribes. Pinnacles does not have an ISP affiliate but provides broadband services through its unregulated Internet Services Division.²⁶

²³ After formula allocation to interstate and intrastate funding, the proposed intrastate component of Pinnacles' Enhanced ACAM support for TY 2025 is \$253,131.

²⁴ Based on its election of Enhanced ACAM support, Pinnacles no longer receives High Cost Loop Support (HCLS) or Connect America Fund-Broadband Loop Support (CAF-BLS), which represents the inter- and intrastate components of federal high cost funding, respectively. Instead, Pinnacles receives the pre-defined amount of \$1.352 million annually. An algorithm is used to identify the amount of HCLS and CAF-BLS that would have been received absent the Enhanced ACAM election. The Commission's Communications Division staff reviewed this calculation and recommended adoption of the interstate amount of \$253,131 for TY 2025.

²⁵ At the existing rate of return (ROR) of 8.92 percent, adopted in D.16-12-035, prior to the September 16, 2024, issuance of D.24-09-021, which adopted a 7.16 percent ROR, effective going forward.

²⁶ See Application, Exhibit C, page 1 of 3, Pinnacles BB Imputation Workbook

In D.21-04-005, the Commission mandated that, in any rate case filed by ILECs that draw support from the CHCF-A, positive net revenue associated with retail broadband service provided by the ILEC or an ISP affiliate of that ILEC (for the calendar year preceding the application filing) shall be imputed in the determination of CHCF-A support.²⁷ The Commission affirmed its broadband imputation mandate in D.21-08-042.²⁸

Pinnacles' non-regulated Internet services operations showed negative earnings of (\$11,920) in 2022, the year prior to the filing of this GRC. Therefore, Pinnacles is not subject to a broadband imputation requirement in this GRC. A net positive revenue of \$0 is adopted.

3.7. Miscellaneous Revenues

In D.21-06-004, we determined that the standards set forth in the Federal Uniform System of Accounts, 47 C.F.R. Section 32.5200 (Miscellaneous Revenue) and NECA Reporting Guideline 8.3 should be applied in GRCs such as this regarding the reporting and treatment of miscellaneous revenues, including revenues from licenses, leases, and other uses, and that small ILECs such as Pinnacles must report all regulated licensing and leasing revenues accounted for using one of the two options in NECA Reporting Guideline 8.3 and non-regulated licensing, leasing, and other use revenues disclosed.²⁹ Pinnacles reported miscellaneous revenues of \$2,167.³⁰

²⁷ See D.21-04-005 and D.21-08-042 ("the Broadband Imputation Decisions"), which were adopted in Phase 2 of the California High-Cost Fund-A (CHCF-A) R.11-11-007, and which included directives regarding the implementation of "broadband imputation" in this and all small LEC GRCs.

²⁸ On December 20, 2022, the Court of Appeal of the State of California denied the Small LECs' petition for writ directing the Commission to nullify D.21-04-005 and D.21-08-042.

²⁹ See D.21-06-004 at 19-20 and Ordering Paragraph 4 at 42.

³⁰ See Application at 4.

The Commission adopts Pinnacles' miscellaneous revenue figure of \$2,167.

3.8. Uncollectible Revenue

Pinnacles states that due to the immaterial nature of Pinnacles' uncollectible accounts, an allowance for uncollectible accounts is not deemed necessary.³¹ The Commission accepts this determination.

3.9. Intrastate Special Access Revenue and Intrastate Switch Access Revenue

In Pinnacles' Application, Pinnacles lists Special Access Revenue as \$1,545 and Switch Access Revenue as \$4,498, totaling an Intrastate network access services revenue of \$6,043.³² The Commission adopts Pinnacles' Intrastate network access service revenue of \$6,043.

4. Expenses

Pinnacles summarizes computation of its "revenue requirement" as:

$$\text{Revenue Requirement} = \text{Operating Expenses} + (\text{Cost of Capital} \times \text{Rate Base}) + \text{Tax}^{33}$$

Pinnacles acknowledges that the Commission in D.21-06-004,³⁴ directed small ILECs to "adhere to the [FCC's] standards for operating expense limits in their General Rate Cases"³⁵ and contends that they correctly implemented the operating expense limits.

4.1. Corporate Expense

In D.21-06-004, the Commission affirmed the use of the FCC's corporate expense cap mechanism for calculating and determining a reasonable level of

³¹ See Application, Exhibit D (2022 Reviewed Financial Statement Report) at 8.

³² See Application, Exhibit F (Pinnaces Telephone Co. Separated Results of Operations Forecast with Proposed Changes, Test Year 2025).

³³ See Application at 10.

³⁴ See Application at 10, citing D.21-06-004 at 43, Ordering Paragraph 7.

³⁵ See "Decision Addressing Select General Rate Case-Related Matters of the Small Incumbent Local Exchange Carriers," dated June 3, 2021, in R.11-11-007.

corporate expenses for telecommunications carriers drawing from CHCF-A.³⁶ All corporate expenses under the FCC corporate expense cap are considered reasonable; however, expenses over the cap are considered unreasonable and not eligible for recovery.³⁷

The Commission explained that its intent in adopting the FCC's corporate expense for small telecommunications carriers was to determine how the CHCF-A program can more efficiently and effectively meet its stated goals of providing affordable, widely available, safe, reliable, and high-quality communications services for rural areas of the state. The Commission stated that adopting a uniform standard for determining a reasonable level of corporate operations expenses for carriers receiving subsidies from the CHCF-A program allows the CHCF-A program to achieve its goals while ensuring that the level of support is not excessive or wildly disparate across companies and avoids imposing an undue burden on California ratepayers who contribute to the fund.³⁸

Pinnacles' forecasted corporate expenses for the 2025 TY are \$469,981.³⁹ This is below the FCC corporate expense cap requiring the application of non-rebuttable corporate expense cap in GRCs.⁴⁰ Expenses below the cap are subject to a presumption of reasonableness. Therefore Pinnacles' corporate

³⁶ See D.21-06-004 at 23.

³⁷ See D.21-06-004 at 24, where the Commission eliminated the rebuttable presumption previously allowed in D.14-12-084 and clarified that rate case litigation expense is subject to the corporate expense cap and must be recorded in FCC Account 6720.

³⁸ See D.21-06-004 at 23, footnote 62 citing D.14-12-084 at 28.

³⁹ See Application at 11.

⁴⁰ See D.21-06-004 at 43, Ordering Paragraph 6.

expenses should not be a subject of dispute in this rate case.⁴¹ The Commission adopts Pinnacles' forecasted corporate expenses for TY 2025.

Pinnacles expects to experience \$101,331 in intrastate depreciation expense during TY 2025.⁴² The Commission adopts the depreciation expense proposed by Pinnacles.

4.2. Taxes

A small ILEC's revenue requirement must include a reasonable forecast of the tax liabilities that it expects to experience during the TY.⁴³ Pinnacles estimates its 2025 intrastate income tax liabilities to be based, in part, on net income and both state and federal tax rates⁴⁴ and the amortization of excess deferred income taxes. Pinnacles' 2025 intrastate tax liabilities are anticipated to be \$43,199, including the amortization of excess deferred income taxes.⁴⁵

4.2.1. Property Tax

The Commission adopts the methodology proposed by Pinnacles. The Commission will use the calculations from the Communications Division that use the adopted Plant in Service amount to determine property tax. The Communications Division's recalculated amount for property tax is \$10,671, based upon 2025 intrastate telephone plant in service of \$1,246,340.

4.2.2. Excess Tax Reserve Offset

The Commission determines that the amount of the amortized excess deferred tax for TY 2025 has been fully amortized and therefore should equal \$0.

⁴¹ See D.14-12-084 at 29.

⁴² See Application at 13.

⁴³ Pub. Util. Code § 275.6(b)(5).

⁴⁴ See Application at 18, citing 26 U.S.C. § 11 (21 percent federal corporate tax rate); Calif. Rev. & Tax Code § 23151(e) (8.84 percent California corporate tax rate).

⁴⁵ See Application at 18.

5. Rate Base and Plant Construction

Plant-in-Service should only include projects that will be used and useful in TY 2025. D.14-12-084 identifies common factors to determine the reasonableness of broadband facility investments, which include, but are not limited to, the presence of anchor institutions, network redundancy, public safety, service quality, and customer demand.⁴⁶

5.1. Plant Improvements

Pinnacles proposes to upgrade its current fiber network by building out infrastructure for broadband access to an increased speed of 100 Mbps download and 20 Mbps upload.⁴⁷ Pinnacles has deployed Fiber to the Premises (FTTP) connections to multiple new locations including Pinnacles National Park, Stone Canyon Ranch, Thousand Trails Campground, Bar SZ Ranch HQ, Pelligrini Ranch Water Tank areas and an olive processing facility. Pinnacles also deployed multiple FTTP connections to residences in underserved areas. In this GRC Application, Pinnacles further proposes TY 2025 FTTP deployment to numerous locations to meet Enhanced ACAM obligations.⁴⁸ The deployment of fiber network to every customer will enhance overall network reliability and public safety. Pinnacles also proposed to purchase a new service truck at the cost of \$50,000.⁴⁹

⁴⁶ See D.14-12-084, Ordering Paragraph 10.

⁴⁷ Pinnacles currently offers asymmetric digital subscriber line access at 10 Mbps download/1 Mbps upload and serves a limited number of customers at 25/3.

⁴⁸ For FTTP, Pinnacles currently offers 100 Mbps service to 21 locations and plans to add seven locations by the end of 2024. By the end of 2025, FTTP projects will enable 100/20 service to half of their locations and add availability to an additional 40 locations by the end of each year 2026 and 2027, with ability to provide such service to all Pinnacles locations by the end of 2028.

⁴⁹ TY 2025 proposed projects are detailed in Bryan Opening Testimony, Exhibit SB-1.

The Commission agrees and adopts a TY 2025 (Intrastate) Telephone Plant-in-Service of \$4,700,035 for Pinnacles.

5.2. Depreciation Reserve

Depreciation expense and rates are connected to accumulated depreciation (or depreciation reserve).

The Commission agrees with the methodology proposed by Pinnacles as it uses standard depreciation calculations for Plant in Service and accumulated depreciation. The Commission adopts a depreciation reserve amount of \$3,409,903.

5.3. Deferred Taxes

Pinnacles proposes a deferred tax liability for TY 2025 of \$213,959. The Commission adopts this amount.

5.4. Materials and Supplies

The Commission adopts Pinnacles' proposed Materials and Supplies amount of \$128,796.

5.5. Working Cash

Working Cash is calculated in a formula that uses input from Operating Expenses and Revenues. The Commission adopts Pinnacles' working cash proposed amount of \$41,371.

6. Broadband Infrastructure Investment

Pinnacles' request for authorization for broadband infrastructure investment of \$488,486 in TY 2025 is reasonable in the effort to deliver at least 100 Mbps download and 20 Mbps upload to every customer location for service quality, availability of higher speeds for advanced services and improve public safety. The infrastructure will meet this requirement for middle-income and lower-income subscribers.

The Commission adopts a broadband infrastructure investment amount of \$488,486 in TY 2025.

7. Decision 24-09-021, Cost of Capital

On September 12, 2024, the Commission issued D.24-09-021. This decision established a new Cost of Capital that will be applied to the Small ILECs GRC applications for TYs 2023 through 2025. Prior to the issuance of this decision, Pinnacles' Cost of Capital was 8.92 percent. D.24-09-021 reduced the Cost of Capital for all Small ILECs. The new Cost of Capital set for Pinnacles is now 7.16 percent. This decision will use the new Cost of Capital percentage to calculate Pinnacles' rate case.

8. The California High-Cost Fund-A Subsidy

Pub. Util. Code Section 275.6 requires the Commission to minimize telephone rate disparities between rural and metropolitan areas to keep rates affordable in areas with lower population densities. The CHCF-A subsidy provides supplemental revenues to small rural telephone companies. Without this subsidy, telephone companies would have to charge such a high fee for basic exchange access line service rates in rural areas, that universal service access for residents of those areas would be threatened. The CHCF-A subsidy supports small ILECs (including Pinnacles) to allow rural residents to stay connected to essential services to maintain public health and safety.⁵⁰ The Commission and the State of California have deemed such access to reliable, affordable telephone service to be critical to public safety within rural communities, and beneficial to the state as a whole.

⁵⁰ Pub. Util. Code Section 275.6(c)(1) authorizes the Commission to set rates charged by small telephone companies in accordance with Section 451, Sections 454-455, and Section 728.

The CHCF-A program is funded by a surcharge collected from end users of intrastate telecommunications services. The Commission periodically reviews the program fund levels and adjusts the surcharge rate to ensure the program is sufficiently funded. D.22-10-021 adopted a new surcharge methodology to fund California's Universal Service Public Purpose Programs (PPP). Effective April 1, 2023, a customer's bill reflected a consolidated surcharge amount for all six PPPs. The CHCF-A fund now receives a 10.23 percent allocation of the total surcharge amount of \$1.11 per access line.⁵¹

In administering the CHCF-A program, the Commission must "ensure that rates charged to customers of small independent telephone corporations are just and reasonable and reasonably comparable to rates charged to customers of urban telephone corporations."⁵² In D.14-12-084 and updated in D.21-06-004, the Commission deemed presumptively reasonable and non-rebuttable a small telephone company rate range of \$30.00 to \$40.00 for basic residential service, inclusive of additional charges such as federal and state fees and surcharges.⁵³

The Commission adopts a CHCF-A support amount of \$312,515 for TY 2025 based on an authorized rate of return of 7.16 percent.⁵⁴

⁵¹ The CHCF-A allocation was effective September 1, 2024.

⁵² Pub. Util. Code § 275.6(c)(3). Historically, "comparable" has meant that target rates for residential customers are no more than 150 percent of basic service rates for California's urban telephone customers. The "150 percent formula" was originally established in D.91-09-042, and the formula has been used in part to evaluate the reasonableness of rates charged to customers. In D.10-02-016, the Commission modified the 150 percent formula so that the small ILECs were no longer required to charge 150 percent of the basic urban rate to qualify for CHCF-A support, instead setting the basic service rate for residential customers at \$20.25 per month. (*See* D.10-02-016, Ordering Paragraph 3.)

⁵³ *See* D.21-06-004 for list of the charges included the "all-inclusive" basic rate.

⁵⁴ Pinnacles' TY 2025 CHCF-A support of \$312,515 was calculated in accordance with D.91-05-016 as modified by D.91-09-042.

9. Environmental and Social Justice Action Plan

Pinnacles' infrastructure deployment in highly rural areas promotes the goals in the Commission's Environmental and Social Justice Action Plan by promoting digital equity in areas which would otherwise not have high-quality telephone or broadband service. This enhances opportunities for all residents within Pinnacles' service territory.

10. Confidential Testimony and Materials Under Seal

Pinnacles submitted certain reports, exhibits and testimony designated as "confidential." The marking of these reports, exhibits, and testimony as "confidential" is deemed to be a request by the party for leave to file those reports and testimony under seal pursuant to Rule 11.4. The disclosure of confidential reports, materials and recommendations, sensitive financial data, operational and other privileged information could place the moving party in serious disadvantage or at unfair business disadvantage. Accordingly, the requests to place these materials under seal pursuant to Rule 11.4 are granted as set forth in the Ordering Paragraphs below.

Despite this, the figures herein and those on the Intrastate Results of Operations in Appendix A should be made public and unredacted. Neither Pub. Util. Code Section 275.6(e) nor any of the other authorities that Pinnacles cites⁵⁵ warrants their confidential treatment.

⁵⁵ Pub. Util. Code § 583; Cal. Gov. Code § 6254(k), § 6255; Cal. Civ. Code § 3426.1(d); Cal. Evid. Code § 1060. We note that net positive broadband revenue imputation is different from the kind of information contemplated by the statutes. Further, neither D.21-04-005 nor D.21-08-042 addressed the question of confidentiality. We also note that the California Public Records Act has been recodified at Government Code Sections 7920.000, *et seq.*

11. Categorization and Need for Hearing

In Resolution ALJ 176-3538, filed December 14, 2023, the Commission preliminarily categorized this application as ratesetting. This decision confirms the categorization. Because Pinnacles' Application was not protested, no evidentiary hearings were necessary.

12. Comments on Proposed Decision

The proposed decision of the ALJ in this matter was mailed to the parties on November 8, 2024, in accordance with Pub. Util. Code Section 311 and comments were allowed under Rule 14.3. Comments were filed on _____. Reply comments were filed on _____. We have reviewed the parties' comments and, where appropriate, have revised the proposed decision.

13. Assignment of Proceeding

Karen Douglas is the assigned Commissioner and David R. Van Dyken is the assigned Administrative Law Judge in this proceeding.

Findings of Fact

1. Pinnacles owns and operates a telephone system over which it provides local exchange telephone service in San Benito County with approximately 200 end users (130 residential and 70 business customers).
2. No protest was filed to Pinnacles' Application.
3. In D.21-06-004, the Commission affirmed the use of the FCC's corporate expense cap mechanism for calculating and determining a reasonable level of corporate expenses for telecommunication carriers drawing from CHCF-A.
4. Pinnacles' non-regulated Internet services operations showed negative earnings in 2022.
5. Pinnacles is not subject to a broadband imputation requirement in this GRC.

6. Pinnacles participates in the Enhanced ACAM, in which the company has agreed to facilitate the widespread fiber deployment of broadband speeds of at least 100 Mbps download and 20 Mbps upload across its service area by 2028.

7. Based on our review of all the information in the record, we can independently determine and adopt the figures contained in the Results of Operations for Pinnacles for TY 2025 (Appendix A).

8. Appendix A reflects an overall revenue requirement of \$649,000 for Pinnacles for TY 2025.

9. D.24-09-021 issued September 12, 2024 reduced the Cost of Capital for Pinnacles from 8.92 percent to 7.16 percent.

10. Pinnacles' TY 2025 CHCF-A support of \$312,515 reflected in Appendix A was calculated in accordance with D.91-05-016 as modified by D.91-09-042.

11. An increase in Pinnacles' basic residential rates to \$26.50, exclusive of surcharges, fees, and taxes, if approved, is within the \$30 to \$40 range that the Commission deemed just and reasonable for small ILECs in D.21-06-004.

12. An increase in Pinnacles' business rate to \$37.85, exclusive of surcharges, fees, and taxes, is reasonably comparable to rates charged to customers of urban telephone corporations, as required by Pub. Util. Code Section 275.6.

13. Pursuant to Rule 11.4, Pinnacles has requested to file under seal confidential materials, including reports, work papers, and testimony.

14. Appendix A "Intrastate Results of Operations" are not confidential data.

Conclusions of Law

1. Pub. Util. Code Section 454 prohibits public utilities from making rate changes until they have made a showing before the Commission, and the Commission has made a finding that the new rates are justified.

2. Pinnacles' revenue requirement should be \$649,000.

3. Pinnacles' net revenues should be \$89,239.
4. Pinnacles' CHCF-A subsidy should be \$312,515.
5. Pinnacle's total intrastate operating expense should be \$559,761.
6. Pinnacles' overall intrastate revenue requirement for TY 2025 should be \$649,000.
7. Pinnacles' Miscellaneous Revenues should be \$2,167.
8. Pinnacles' Intrastate Network Access Services Revenue should be \$6,043.
9. Pinnacles' forecasted corporate expenses for the 2025 TY are expected to be \$469,981.
10. Pinnacles' 2025 intrastate tax liabilities are anticipated to be \$43,199.
11. Pinnacles' property tax liabilities are expected to be \$10,671 based upon 2025 intrastate telephone plant in service of \$1,246,340.
12. Pinnacles' TY 2025 intrastate Telephone Plant-in-Service should be \$4,700,035.
13. Pinnacles' depreciation reserve amount should be \$3,409,903.
14. Pinnacles' deferred tax liability for TY 2025 should be \$213,959.
15. Pinnacles' Material and Supplies amount should be \$128,796.
16. Pinnacles Working Cash should be \$41,371.
17. Pinnacles' Cost of Capital is 7.16 percent per D.24-09-021.
18. Pinnacles' broadband infrastructure investment amount in TY 2025 should be \$488,486.
19. End user rates for residential customers should be set at \$26.50 (exclusive of surcharges, fees, and taxes) and for business customers at \$37.85 (exclusive of surcharges, fees, and taxes).
20. Pinnacles' Application should be granted as modified by this decision.

O R D E R

IT IS ORDERED that:

1. Pinnacles Telephone Company's (Pinnacles) Application for review of intrastate rates and charges and rate of return for telephone services in California Test Year 2025 is granted as set forth below in the accompanying Appendix A and Appendix B:

- (a) Pinnacles' projected operating revenues shall be \$649,000, not including net positive broadband revenues;
- (b) As part of its operating revenues, Pinnacles' total California High Cost Fund-A adopted support shall be \$312,515;
- (c) Pinnacles' total operating expenses shall be \$559,761;
- (d) Pinnacles' rate of return shall be 7.16 percent; and
- (e) Pinnacles' return on rate base shall be \$89,238.

2. The California Public Utilities Commission adopts an intrastate revenue requirement for Pinnacles Telephone Company of \$649,000 for Test Year 2025.

3. Pinnacles Telephone Company (Pinnacles) shall modify its tariffs to charge:

- (a) Basic residential rates of \$26.50 per month (exclusive of surcharges, fees, and taxes).
- (b) Basic business rate of \$37.85 per month (exclusive of surcharges, fees, and taxes).
- (c) Caller ID, Call Waiting, Call Forwarding (Busy and Delayed), and Economy Voice Mailbox Services shall be included as part of basic rates for residential and business service shown in Appendix B. Additional custom calling features shall be charged at the existing rates shown in the tariff.
- (d) Within five days from the issuance of this decision, Pinnacles shall file a Tier 1 compliance Advice Letter with the Communications Division submitting modified tariffs

to reflect adopted rates as reflected in Ordering Paragraph 1. Within seven days of the effective date of the advice letter, Pinnacles shall notify its customers of the revised tariffs and rates.

4. The California High Cost Fund-A support amount and modified tariff rates shall be effective on January 1, 2025.

5. Except as discussed herein, the requests (by motion or on the hearing record) by Pinnacles Telephone Company (Pinnacles), that public and confidential versions of testimony and exhibits be received into evidence are granted. The confidential portions of the record are sealed, pursuant to Rule 11.5 of the California Public Utilities Commission's (Commission) Rules of Practice and Procedure. Confidential versions of testimony and exhibits are granted confidential treatment for a period of three years from the date of this order. During this three-year period, this information may not be viewed by any person other than Commission staff, except as agreed to in writing by the parties, or on the further order or ruling of the Commission, the assigned Commissioner, the assigned Administrative Law Judge (ALJ), the Assistant Chief ALJ, the Chief ALJ, the ALJ then designated as Law and Motion Judge, or as ordered by a court of competent jurisdiction. If Pinnacles believes that it is necessary for confidential information to remain under seal for longer than three years, the company may file a motion providing a justification for a further extension at least 30 days before the expiration of the three-year period granted by this order.

6. All other motions filed in this proceeding, which have not been ruled upon prior to this decision are deemed denied.

7. Application 23-11-010 is closed.

This order is effective today.

Dated _____, at San Francisco, California.

APPENDIX A

APPENDIX B