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Date of Issuance
February 9, 2026

Decision 26-02-028 February 5, 2026

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of Application of Ducor Telephone Co. (U1007C) to Modify Intrastate Revenue Requirement and Rate Design and Adjust Selected Rates.	Application 23-10-008

ORDER MODIFYING DECISION 25-08-010 AND DENYING REHEARING OF THE DECISION, AS MODIFIED

I. INTRODUCTION

In Decision (D.) 25-08-010 (Decision)[1] we resolved Ducor Telephone Company's (Ducor) general rate case (GRC) for Test Year 2025. The Decision adopts an overall intrastate revenue requirement for the test year of $2,544,993, including support of $1,661,087 from a statutory program set forth in Public Utilities Code section[2] 275.6, the California High-Cost Fund-A (A-Fund). (Decision at 2.) The A-Fund provides ratepayer-funded subsidies to small, rural telephone companies, known as Small Independent Local Exchange Carriers (Small ILECs),[3] to promote the state's universal service goal of providing affordable, safe, reliable, and high-quality communications services to high-cost areas of California. (§ 275.6, subd. (a).) As an A-Fund participant, Ducor is subject to rules we established for the A-Fund, including those established in

[1] Unless otherwise noted, citations to Commission decisions are to the official pdf versions, which are available on the Commission's website at: http://docs.cpuc.ca.gov/DecisionsSearchForm.aspx.

[2] Unless otherwise indicated, all subsequent section references are to the California Public Utilities Code.

[3] The Small ILECs are Calaveras Telephone Company, Cal-Ore Telephone Company, Ducor Telephone Company, Foresthill Telephone Company, Kerman Telephone Company, Pinnacles Telephone Company, Ponderosa Telephone Company, Sierra Telephone Company, Siskiyou Telephone Company, and Volcano Telephone Company.

Rulemaking (R.) 11-11-007 (A-Fund Rulemaking),[4] which is now closed. (See generally § 275.6.)

As part of the A-Fund Rulemaking, we issued *Decision Addressing Select General Rate Case-Related Matters of the Small Incumbent Local Exchange Carriers,* D.21-06-004 (2021) (GRC Matters). Relevant here, GRC Matters concluded that, as part of their GRC applications, the Small ILECs must submit their most recent National Exchange Carrier Association (NECA) cost study, including all data relating to the intrastate rate base, and use it to forecast test year rate base. (*Id.* at 2-3.) We provided the following reasons to adopt this requirement:

> To support transparency and to ensure that cost recovery is appropriate, the Small ILECs should use the rate base amount from NECA's latest cost study as a starting point of a rate base for each GRC Test Year. Because NECA's rate base figures are at least two years behind a test year, adjustment could be made for new additions, closure of plants, or other changes that have occurred since the year of the NECA cost study. We believe the NECA's cost study is a reasonable method for forecasting GRC Test Year rate base because the recorded NECA cost study rate base amounts are comparable to the GRC forecasted amounts, with an average difference of 1.77%. The NECA cost study includes total company rate base, which is then allocated between the intra- and the interstate jurisdictions. The Small ILECs should allocate the same amount of rate base to the intrastate jurisdiction as shown in the NECA cost study. This approach would ensure proper jurisdictional allocation. The NECA cost study also incorporates the most recent recorded level of plant additions and depreciation, which will help streamline the GRC process. Therefore, the Small ILECs must submit their most recent NECA cost study, including all data relating to the intrastate rate base, with their GRC application. Any changes to rate base "including plant additions or closures" shall be subject to a reasonableness review.

(*Id.* at 33-34.) To these ends, GRC Matters includes the following Conclusions of Law (COLs) and Ordering Paragraph (OP):

[4] Commission proceedings are available at https://apps.cpuc.ca.gov/apex/f?p=401:1:0.

- COL 9: NECA's most recent cost study is a reasonable starting point for forecasting GRC Test Year rate base, subject to adjustments for new additions, closure of plants, or other changes that have occurred since the year of the NECA cost study and the Commission will review these adjustments for reasonableness and approval.

- COL 10: The Small ILECs should use (with adjustments made for new additions, plant closures and similar expenses) the rate base amount from NECA's most recent cost study as a proposed rate base for each GRC Test Year.

- OP 10: [The Small ILECs] shall use the rate base amount from the National Exchange Carrier Association's most recent cost study as a proposed rate base for each General Rate Case Test Year.

In 2021, Ducor submitted an application requesting a transfer of ownership interest and control to Eric N. Votaw, the company's Chief Executive Officer, and to Jenifer Vellucci, the company's Chief Financial Officer. We approved the transfer in *Decision Granting the Transfer of Ownership Interest of Mrs. Isabel Lita Norsworthy and Control of Ducor Telephone Company to Mr. Eric N. Votaw,* D.21-11-006 (2021) but made no determination regarding the ratemaking treatment of Ducor's rate base. (Decision at 35.) Pursuant to the Federal Communications Commission's (FCC) regulations, Ducor was permitted, but not required, to revalue its assets using the fair market value methodology due to the transfer of control. (*Id.* at 31.) Ducor elected to use this methodology in the rate base calculations for its 2021, 2022, and 2023 NECA cost studies, which NECA accepted. (*Id.* at 27-28.) Thus, Ducor's recorded rate base amount in its most recent NECA cost study (i.e., the 2022 study for GRC purposes) is based on the "fair market value" of Ducor's assets. (*Id.* at 28.)

In its Test Year 2025 GRC application, Ducor proposed to revalue its assets from their original value to their fair market value due to the transfer of ownership and the resulting rate base amount in its NECA cost studies. (Decision at 27-28.) Ducor asserted that its proposed rate base amount was appropriate because it complied with applicable state and federal rules and regulations, including GRC Matter's directive that

Ducor use its most recent NECA cost study as the starting point to forecast test year rate base. (*Ibid.*)

The Decision rejects Ducor's fair market methodology and related interpretation of GRC Matters as mandating wholesale use of the recorded rate base amount from Ducor's 2022 NECA cost study. (Decision at 30-35.) The Decision finds that Ducor's proposed rate base "is the artificial result of fluctuations in the assets' value from a transfer of control and ownership due to the accounting practices," not from a change in its plant dedicated to public use. (*Id.* at 32-33.) The Decision applies our long-standing and general practice to use the original cost methodology, which assesses the value of a utility's assets at their costs when first put into public service. (*Id.* at 26, 32, 35; see, e.g., *Decision Setting Rates for Transportation of Crude Oil Between the San Joaquin Valley and the San Francisco Bay Area, Ordering Refunds and Adopting Tariffs for Heated Oil Service,* D.11-05-026 (2011) at 19 ["Original cost methodology requires valuing assets from the time they are placed in public service."].)

In its rehearing application, Ducor alleges that the Decision's use of the original value methodology is unlawful because: (1) it deviates from the rule set forth in GRC Matters; (2) its deviation from GRC Matters is based on arbitrary and capricious reasoning; (3) application of the original value methodology results in confiscatory rates; and (4) use of the original value methodology is not supported by substantial evidence. No party filed a response to the rehearing application.

We have carefully considered the arguments raised in the application for rehearing and are of the opinion that Ducor has failed to demonstrate legal error. We make minor modifications to the Decision for clarification purposes, as explained below. Rehearing of D.25-08-010, as modified, is denied.

II. DISCUSSION

A. We retained our authority in GRC Matters to review Ducor's NECA cost study and adopt a reasonable rate base.

Ducor claims that the Decision errs by adopting the original value of its assets because we were required to accept the fair market value included in its latest

NECA cost study. (App. Rehg. at 15-17.) Ducor argues that GRC Matters limits our obligation and discretion to adopt a reasonable rate base to only rate base changes since the study. (See *ibid.*) As support, Ducor focuses on OP 10 and COL 9's language subsequent to the text referring to use of the study as a "reasonable starting point." (*Id.* at 15-16.) Ducor's claim and related interpretation of GRC Matters lack merit.

Ducor's read of GRC Matters ignores the plain language of its relevant provisions and fails to read those provisions together and GRC Matters as a whole. (See, e.g., *McAllister v. California Coastal Com.* (2008) 169 Cal.App.4th 912, 928; *Jurcoane v. Superior Court* (2001) 93 Cal.App.4th 886, 892-893.) COL 9 identifies that the NECA cost study is a "reasonable starting point," not a final determination, and COL 10 and OP 10 direct the Small ILECs to use the NECA cost study as a "proposed" rate base. By their very nature utility rate proposals require our review. (See Decision at 33-35; see also §§ 451, 275.6, subd. (c)(1); *Decision Approving Interim Rate Recovery,* D.20-10-026 (2020) at 24 & fn. 35 [in ratesetting proceedings, the utility applicant bears the burden of proving it is entitled to the relief it seeks].) We modify the Decision to clarify our reasons for rejecting Ducor's interpretation of GRC Matters, as stated in the Ordering Paragraphs below.

Ducor's view also fails to acknowledge that we are the expert agency in ratemaking matters for the Small ILECs and A-Fund administration and "intimately familiar with … [the challenged rule we] authored and sensitive to the practical implications of one interpretation over another." (See *Southern California Edison Co. v. Public Utilities Com.* (2000) 85 Cal.App.4th 1086, 1096.) As discussed further in Section II.D *infra,* Ducor's view results in absurd consequences where its rate base "is the artificial result of fluctuations in the assets' value from a transfer of control and ownership due to the accounting practices," not from a change in its plant dedicated to public use, whereas the Decision's interpretation results in a reasonable and fair application of the rule. (Decision at 32-33; see, e.g., *Gage v. Jordan* (1994) 23 Cal.2d 794, 800.)

B. The Decision's bases to reject Ducor's proposed fair market value methodology are not in error.

In rejecting Ducor's proposal to adjust its assets to their fair market value following the 2021 transfer of control, the Decision relies on the FCC's rules, long-standing Commission policy, and sections 275.6 (b)(2) and (c)(7). (Decision at 30-33.) Ducor claims that the Decision's reasons for rejecting the fair market value methodology and instead applying the original value methodology are in error. (App. Rehg. at 17.) As will be discussed, each claim is without merit.

1. The Decision does not misinterpret the FCC's Uniform System of Accounts rules.

The Decision rejects Ducor's argument that the 2021 transfer of control triggered a mandatory revaluation of assets and a corresponding bargain purchase under Financial Accounting Standards Board Accounting Standard Codification (ASC) 805. (Decision at 31.) In doing so, the Decision identifies that the Uniform System of Accounts (USOA) accounting rules provide that "property, plant and equipment acquired from an entity, whether or not affiliated with the accounting company, shall be accounted for at original cost, *except* that property, plant and equipment acquired from a nonaffiliated entity through an acquisition or merger *may be* accounted for at market value at the time of the acquisition or merger." (*Ibid.*, original emphasis, quoting 47 C.F.R. § 32.2000.) The Decision also notes that this rule was an outcome of the FCC's order *In the Matter of Comprehensive Review of the Part 32 Uniform System of Accounts* (2017) 32 F.C.C. Rcd. 3776 (FCC Order), which made significant revisions to the USOA rules to align them with Generally Accepted Accounting Principles (GAAP). (*Id.* at 30.) The Decision further notes that the FCC Order concluded that the FCC "[did] not anticipate any significant rate effects resulting from these efforts to further align the USOA with GAAP principles." (*Id.* at 31, citing FCC Order at ¶ 28.)

Ducor claims that the Decision incorrectly concludes that under the FCC Order revaluation of Ducor's assets can only be recognized if it does not generate significant rate effects. (App. Rehg. at 17-18.) Ducor asserts that when the FCC's statement is viewed in context, the "FCC did not intend to limit use of the market value

of a company's assets to circumstances in which there were no 'significant rate effects'." (*Id.* at 18.) Ducor's allegation mischaracterizes the Decision.

The Decision relies on the above-mentioned USOA rule, not the FCC's statement, to reject Ducor's argument that revaluation and use of ASC 805 was mandatory. (Decision at 31.) While the Decision mentions the FCC's statement, it is clear that this statement does not serve as the basis for the Decision's legal conclusion. (*Ibid.*) Thus, Ducor fails to identify legal error.

2. The Decision does not misstate section 275.6(b)(2)'s requirements or our long-standing policy to apply the original cost methodology.

The Decision concludes:

> Pub. Util. Code Section 275.6(b)(2) defines rate base as "the value of a telephone corporation's plant and equipment that is reasonably necessary to provide regulated voice services and access to advanced services, and upon which the telephone corporation is entitled to a fair opportunity to earn a reasonable rate of return." The value of a telephone corporation's plant and equipment should be based on the original cost of the asset when it is first put into service. [Citing D.97-06-066 at 28.] An adjustment in the value of Telephone Plant-in-Service would be needed if a utility demonstrates there were changes in assets used to provide service, such as new capital projects or retirement of equipment.
>
> Ducor acknowledged in its transfer of control application that its day-to-day operations were not impacted. As such, there were no changes in the assets that Ducor used to provide service and thus there is no justification for an adjustment to the Telephone Plant-in-Service amount. Therefore, the value of the assets included in Ducor's Telephone Plant-in-Service should be based on the original value of the asset when it was first put into service.

(Decision at 32.)

Ducor argues that the Decision misinterprets section 275.6(b)(2) to require the original value method. (App. Rehg. at 19.) Ducor also argues that the Decision's reliance on *Re Red and While Fleet, Inc.,* D.97-06-066 (1997), 72 CPUC 2d 851, 1997 WL 375333 (Cal.P.U.C.) is inapposite because the decision is distinguishable and our

practice does not require use of original value. (*Id.* at 17, 19-20.) Ducor misreads the Decision and otherwise fails to establish legal error.

The Decision cites section 275.6(b)(2) as mandating a rate base that is "reasonably necessary," not as mandating any particular revaluation methodology. (Decision at 32.) To this end, the Decision finds that *under the circumstance* it was reasonable to apply the original value method. (*Ibid.*)

Ducor's claim regarding the Decision's citation to D.97-06-066 also fails. First, there is no basis to Ducor's contention that the Decision determines that original value is *required*. The Decision includes no such assertion and instead acknowledges that this is our *general* practice. (Decision at 26, 27.) Second, Ducor's attempt to distinguish D.97-06-066 misses the point. The Decision relies on D.97-06-066 for its reference to our "long-established practice that utility assets are to be valued at depreciated original cost at the time such assets are first dedicated to public service," not to draw a parallel to the specific facts at hand. (D.97-06-066 (1997), 72 CPUC 2d 851, 1997 WL 375333 (Cal.P.U.C.) [no pin cites]; Decision at 26, 32.)

3. The Decision properly relies on section 275.6(c)(7).

The Decision concludes that Ducor's proposed increase to its rate base using the fair market value methodology is inconsistent with section 275.6(c)(7) because it "is the artificial result of fluctuations in the assets' value from a transfer of control and ownership due to the accounting practices," not from a change in its plant dedicated to public use. (Decision at 32-33.) Ducor claims that the Decision's conclusion is incorrect because its methodology would result in a nominal increase of 0.26% to the $50 million A-Fund, or two hundredths of a penny per A-Fund contributor. (App. Rehg. at 20-21.) Ducor's claim lacks merit.

Section 275.6(c)(7) mandates that we administer the A-Fund in a manner that ensures subsidies are "not excessive so that the burden on all contributors … is limited." This statutory imperative is part of our obligation to set just and reasonable rates that balance the interests of the Small ILECs, their customers, and A-Fund contributors. (See § 275.6, subd. (c); *Order Denying Rehearing of Decision 21-04-005*,

D.21-08-042 (2021) at 4-6.) Approving a rate base amount that is greater than the reasonable value of a utility's assets, for which the utility earns a rate of return, is neither just nor reasonable because it results in excessive profits for the utility and unreasonably high prices for ratepayers. (§ 451 [requiring utilities to show that all requested charges are "just and reasonable" in order to be recovered in rates]; see *Order Denying Rehearing of Decision 24-09-021,* D.25-05-031 (2025) at 10.)

Accordingly, Ducor's artificially inflated rate base figure inherently leads to an excessive A-Fund draw contrary to section 275.6(c)(7), regardless of *how* excessive (dollars, pennies, fractions of pennies, etc.) — a determination well within our discretion to make. (*Calaveras Telephone Co. et al. v. Public Utilities Com.* (2022) 87 Cal.App.5th 793, 809 [the Commission has discretion under section 275.6(c)(7) to determine what factors make the subsidy excessive].) As a result, the Decision correctly relied on section 275.6(c)(7).

C. The Decision's use of the original value methodology does not constitute a taking of Ducor's property.

Ducor claims that the Decision's use of original value methodology constitutes an unlawful taking because it fails to acknowledge the "current, updated value of Ducor's assets that have been put to public use" and thus creates a disconnect between what Ducor's revenue requirement would have been and the authorized rate design. (App. Rehg. at 22, 23-24.) Ducor's allegations are baseless.

Bluefield Water Works & Improvement Co. v. Public Service Commission of West Virginia (1923) 262 U.S. 679, *Federal Power Com. v. Hope Natural Gas* (1944) 320 U.S. 591 (*Hope*), and *Duquesne Light Co. v. Barasch* (1989) 488 U.S. 299 (*Duquesne*) are seminal cases that outline the key considerations for determining whether utility rates effect an unconstitutional taking under the Fifth Amendment of the U.S. Constitution. Under these cases, a taking does not occur unless a rate is unjust and unreasonable, and whether a rate is just and reasonable depends on balancing the interests of the regulated entity and the public. (*Duquesne*, *supra,* 488 U.S. at 307-308, 316.) In balancing those interests, the "Constitution within broad limits leaves the States free to

decide what ratesetting methodology best meets their needs." (*Id.* at 316.) "If the total effect of the rate order cannot be said to be unjust and unreasonable, judicial inquiry . . . is at an end." (*Hope*, *supra,* 320 U.S. at 602.)

Consistent with the above pronouncements, the use of the original value methodology by state public utilities commissions has long been upheld by the courts. (See, e.g., *Hope, supra,* 320 U.S. at 602-606; *Duquesne, supra,* 488 U.S. at 315; *Democratic Central Committee v. Washington Metropolitan Area Transit Com.* (D.C. Cir. 1973) 485 F.2d 786, 802.) We have offered the following explanation supporting the reasonableness of the original value methodology:

> [This methodology] is well grounded upon established facts, is not subject to the vagaries of pet theories, unlimited imagination and abrupt fluctuations of current prices and passing conditions, and therefore indicates a truer measure of value upon which, through the application of rates, a return may be allowed to reimburse the owner for his enterprise and insure the integrity of his capital honestly and prudently invested. At the same time it prevents unwarranted demands upon the consumer through the projections of future rates on ephemeral values and stabilizes rates so that economic shocks from such changes are reduced to a minimum.

(*Re California Water Service Company,* D.94-02-045 (1994), 53 CPUC 2d 287, 1994 WL 109243 (Cal.P.U.C.) [no pin cites].) Based on the above, Ducor's discontent with the original value methodology does not constitute a taking.

D. The Decision's application of the original value methodology is supported by substantial evidence

Ducor alleges that the Decision is not based on substantial evidence because it does not reflect the current value of Ducor's assets whereas Ducor's use of the fair market value methodology is legally permissible and supported by the record. (App. Rehg. at 24.) Ducor's claim lacks merit.

Ducor's allegation is merely another iteration of its discontent with our long-standing policy to generally apply the original value methodology. Our discretionary ratemaking choices, including our policy to generally apply the original

value methodology, are not legal error. (See, e.g., *SFPP, L.P. v. Public Utilities Com.* (2013) 217 Cal.App.4th 784, 797-798, 799.)

In addition, application of the original value methodology is supported by the record. Ducor significantly increased its rate base amount due to permissive accounting practices related to transfers of control, not any improvements in its network or operations that provide ratepayer benefits. (Decision at 32-33; see Exh. PUBADV-03 (Bartulo Testimony) at 27:18-22.) In fact, Ducor failed to provide any evidence of changes to its assets justifying an increase to its rate base and acknowledged that its transfer of control did not impact its day-to-day operations. (Decision at 32-33.) In addition, the Public Advocates Office's testimony included analysis of the original costs of Ducor's assets, which Ducor does not dispute. (Exh. PUBADV-03 (Bartulo Testimony) at 28:11-19.) Based on the above, Ducor is wrong that the Decision is not supported by substantial evidence.

E. We modify the Decision to clarify Ducor's litigation position.

The Decision states, "Contrary to Ducor's assertion, the Commission made no determination on the adjustment of assets under Telephone Plant-in-Service from original value to fair market value in D.21-06-004 nor in D.21-11-006 as Ducor attempts to assert in the instant GRC." (Decision at 35.) Ducor argues that the Decision misstates its position, which Ducor asserts has been that neither GRC Matters nor its transfer of control proceeding determined the use of fair market value over original value. (App. Rehg. at 21-22.)

The Decision could be read to misstate Ducor's position. To avoid any confusion, we modify the Decision as set forth in the below Ordering Paragraphs.

III. CONCLUSION

For the reasons discussed above, the Decision is modified as specified in the Ordering Paragraphs below. Rehearing of the Decision, as modified, is denied.

THEREFORE, IT IS ORDERED that:

1. The third sentence in the first full paragraph on page 34 of D.25-08-010, beginning with "The above-noted language in D.21-06-004…" is revised to read: "The above-noted language in D.21-06-004 does not require the Commission to accept Ducor's proposed use of the ASC 805 revaluation model to revalue its assets following the 2021 transfer of control."

2. The first sentence in the second full paragraph on page 34 of D.25-08-010, beginning with "Ducor incorrectly contends…" and footnote 82 are deleted.

3. The second sentence in the second full paragraph on page 34 of D.25-08-010, beginning with "Ducor's assessment…" is moved to the end of the first full paragraph on page 34.

4. The second sentence in the first paragraph on page 35 of D.25-08-010, beginning with "Contrary to Ducor's assertion…" is revised to read: "The Commission made no determination on the adjustment of assets under Telephone Plant-in-Service from original value to fair market value in D.21-06-004 nor in D.21-11-006."

5. Rehearing of Decision 25-08-010, as modified, is denied.

6. This proceeding, Application 23-10-008, is closed.

This order is effective today.

Dated February 5, 2026, at Sacramento, California.

ALICE REYNOLDS
President
DARCIE L. HOUCK
JOHN REYNOLDS
KAREN DOUGLAS
Commissioners

Commissioner Matthew Baker
recused himself and did not participate
in the vote of this item.