Item # 43
Agenda ID # 2790
October 30, 2003

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PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Telecommunications Division **RESOLUTION T-16762**
Carrier Branch **October 30, 2003**

R E S O L U T I O N

Resolution T-16762. Cal-Ore Telephone Co. (U-1006-C). General Rate Case Filing in compliance with G.O. 96-A, Paragraph VI, and Decision Numbers 01-02-018 and 01-05-031.

By Advice Letter No. 274, 274A and 274B filed on December 19, 2002, April 7, 2003 and July 8, 2003, respectively.

Summary

This resolution addresses the General Rate Case (GRC) filed by Cal-Ore Telephone Co. (Cal-Ore) through Advice Letters (AL) 274, 274A and 274B in compliance with D.01-05-031. Cal-Ore proposes a) no changes to its basic rates or charges, however the company proposes to increase some one-time charges to bring its prices more in line with that of the telephone industry, b) an intrastate ROR of 10.00%, the same rate of return granted in its previous GRC filing in 1997, and c) $2,309,001 in California High Cost Fund-A (CHCF-A) support for year 2004. This represents an increase in its CHCF-A draw for 2004 by 185.04% or an increase of $1,498,929 from its 2003 draw of $810,072.

This resolution authorizes total intrastate revenue in the amount of $3,919,814 for Cal-Ore for the test year 2004. This represents a reduction of $591,092 to Cal-Ore's estimate of $4,510,906 for total intrastate revenue for 2004. The Total Intrastate Rate Base amount for Cal-Ore is $6,435,626 with an overall Intrastate Rate of Return of 10.00% for the test year 2004. Also authorized by this resolution is the CHCF-A support for Cal-Ore for test year 2004 of $1,341,356. This represents an increase in its CHCF-A draw for 2004 by 65.58% or an increase of $531,284 from its 2003 draw of $810,072. This increase is due to adjustments made to revenue, expense and rate base estimates.

Appendix A shows Cal-Ore's Test Year 2004 Total Company Results of Operations in AL 274, AL 274A and AL 274B. Appendix B compares the Telecommunications Division's (TD's) and Cal-Ore's (AL 274B) Test Year 2004 Total Company Results of

Operations before any CHCF-A adjustment. Appendix C compares TD's and Cal-Ore's (AL 274B) Interstate and Intrastate Results of Operations before any CHCF-A adjustment to reflect the 10.00% intrastate rate of return. Appendix D compares TD's and Cal-Ore's (AL 274B) Intrastate Results of Operations estimates after Cal-Ore's and TD's proposed CHCF-A increase. Appendix E shows TD's calculation of the Net-to-Gross Multiplier and the change in the gross intrastate revenue requirement based on an adopted intrastate rate of return of 10.00%.

Background

The Cal-Ore Telephone Co. (Cal-Ore) is a local exchange carrier (LEC) that serves approximately 2700 customers in unincorporated portions of Siskiyou and Modoc Counties and the cities of Dorris and Tulelake providing local, toll, and access telephone services.

In D.01-05-031, the California Public Utilities Commission (CPUC) set in motion the waterfall[1] provision in 2003 for seven small LECs if they did not each file a General Rate Case (GRC) by the end of 2002.[2] Cal-Ore filed AL 274 on December 19, 2002, with a Test Year of 2004. The last GRC filed by Cal-Ore was in 1995 through Application 95-12-073 and its latest intrastate results of operations were authorized by Decision 97-04-036 dated April 9, 1997.[3]

In AL 274 and AL 274A, Cal-Ore proposes a) no changes to its basic exchange rates or charges, however Cal-Ore proposes increases to some one-time charges b) an intrastate ROR of 10.00%, the same rate of return granted in its previous GRC filing in 1997, and c) an increase its CHCF-A draw by 179.78% or an additional $1,468,871 for year 2004.

On July 8, 2003, Cal-Ore filed AL 274B to include Public Programs Audit expense in this rate case and to include Rural Telephone Bank (RTB) stock to the rate base. Cal-Ore also proposes an increase in its CHCF-A draw for 2004 by 185.04% or an increase of $1,498,929 from its 2003 draw of $810,072.

Notice/Protests

[1] The waterfall provision refers to the 6-year phase down of the CHCF-A funding level beginning in 1998, the year after the completion of a GRC. The funding levels are 100% of the for the first 3 years, i.e., 1998, 1999 and 2000; 80 % the fourth year, i.e., 2001, 50% the fifth year, i.e., 2002; and 0% thereafter.
[2] The seven companies are Calaveras Telephone Company, Cal-Ore Telephone Company, Ducor Telephone Company, Foresthill Telephone Company, Hornitos Telephone Company, Kerman Telephone Company, and Pinnacles Telephone Company.
[3] In Decision 97-04-036, Cal-Ore Telephone Company was ordered to reduce its intrastate rates by approximately 3.00% or $77,581 in its 1997 test year, effective January 1, 1997. A 10.00% return on rate base found reasonable for Cal-Ore produces a 13.06% return on equity when applied to applicant's test year capital structure of 39.98% debt and 60.02% equity.

Cal-Ore states that a copy of the Advice Letter was mailed to competing and adjacent utilities and / or other utilities. Notice of AL 274 was published in the Commission Daily Calendar of December 23, 2002. The AL filing was noticed to customers by bill insert on December 18, 2002. Notice of the Supplemental AL 274A and AL 274B was published in the Commission Daily Calendars of April 9, 2003 and July 18, 2003, respectively. The AL 274A filing was noticed to customers by bill insert on May 3, 2003. AL 274B was not noticed to customers because only minor revisions were made to the filing. No protest to these AL filings has been received.

TD held a Public Meeting in Tulelake on May 14, 2003, at which time Cal-Ore was given an opportunity to explain its filing to its customers. Cal-Ore's customers were also given the chance to ask questions of Cal-Ore and the TD staff, and to comment on Cal-Ore's rates and services. Cal-Ore's customers were given notice of the Public Meeting through bill insert. No customers attended the Public Meeting.

Discussion

Results of Operations

TD calculates that Cal-Ore will earn in test year 2004 a total company overall rate of return of 4.21% at present rates as compared to Cal-Ore's calculation of negative 0.10%. TD's estimates for Cal-Ore reflect its revisions to Cal-Ore's estimates of revenues, expenses, and rate base as discussed below. Appendix B compares Cal-Ore's total company results of operations for test year 2004, as estimated by TD and Cal-Ore at present rates.

Total Operating Revenues

Cal-Ore's estimate of total company operating revenues at $5,710,474 exceeds TD's estimate of $5,364,823 by $345,652 or 6.44% (Appendix B, Line 9). Differences between TD's and Cal-Ore's estimates are described below.

Cal-Ore's estimate of total company Local Revenue at $735,256 is $1,155 lower than TD's estimate at $736,411. In determining the test year total company Local Revenue, Cal-Ore forecasted each local unit by utilizing historical growth information and judgment. In the case of its residential access lines, the company utilized an average of the last three annual growth rates for years 2000, 2001 and 2002 to forecast the 2004 access line counts. Based on the three-year average, Cal-Ore derived a growth rate of negative 0.24%. The negative growth in 2001 was the result of the Bureau of Reclamation shutting off eighty percent of the irrigation water that flows to approximately twelve hundred farms in order to protect an endangered fish. The economic downturn led to a one percent drop in residential access lines from 2000 to 2001. Based on the field inspection and discussions with the staffs of the Cities of Dorris and Tulelake, TD does not foresee any significant growth in the 2004 test year. However, the number of access lines will not continue to decrease since it was only due

to a one-time event. As indicated in the following year in 2002, the lines grew from 1809 in 2001 to 1811 in 2002. Therefore, instead of utilizing negative 0.24% factor to forecast the residential access lines, TD applied the 1811 access line counts in 2002 for the 2004 test year.
TD concurs with Cal-Ore's model for estimating Interstate Access Revenue as a function of total company rate base and expense. The differences in the calculation of Interstate Access Revenue for Test Year 2004 results from differing estimates of Total Company Results of Operations between Cal-Ore and TD. TD's estimate of 2004 Interstate Access Revenue of $2,244,459 is $386,803 or 17.23% lower than Cal-Ore's estimate.

Uncollectibles are based on bad debts associated with local revenue and intrastate access revenues. TD concurs with Cal-Ore's model for estimating local bad debt based on a historical percentage of 2003 local revenue applied to the 2004 Local Revenue forecast. The differences in local bad debt estimates are due to variations in TD and Cal-Ore's revenue estimates.

For intrastate access revenue bad debts, Cal-Ore explains that the, "Bad Debt on Intrastate Access Revenue was historically part of the settlement process and as such was absorbed by the settlement pools. Now that Cal-Ore is no longer in the settlement pool bad debt on intrastate access is a greater risk. This was highlighted by the recent bankruptcy [sic] of Worldcom and Global Crossing, which accounts for the large bad debt in 2002". Cal-Ore assumes that the intrastate access bad debt it incurred in 2002 due to the bankruptcy will remain flat through 2004 at $40,000.

TD does not agree with Cal-Ore's estimation for test year 2004 intrastate access revenue bad debts. The recent WorldCom and Global Crossing bankruptcies are a one-time occurrence and Cal-Ore will not incur similar bad debt on an annual recurring basis. TD therefore disallows $40,000 of bad debt associated with intrastate access revenue, and estimates Uncollectibles for local bad debts to be $3,023 for the test year 2004.

In the event that Cal-Ore incurs similar access revenue bad debt as the result of continued bankruptcy filings by interexchange carriers and does not receive remedy from applicable court decisions, Cal-Ore is then encouraged to seek remedy from the Commission for those lost revenue amounts. Cal-Ore may not seek remedy from the Commission for those debts incurred due to bankruptcy filings until proceedings have been finalized and monies dispersed, if any. This delay is required to avoid the potential of Cal-Ore double recovering the bad debt it has incurred as the result of bankruptcy filings.

Cal-Ore's basic service rates are at the 150% level of comparable California urban rates[4]. No changes are proposed to the basic service rates. However, Cal-Ore proposes to increase certain of its one-time basic service charges to bring them in line with the industry. The company proposes to increase its return check charge from $7.50 to $10.

[4] D.91-09-042 establishes that draws from the CHCF-A require that a Small LEC's basic rates shall be increased, the increased rate is not to exceed 150% of comparable California urban rates.

The company also proposes to increase the disconnect charge from $12.50 to $25 for those that come in within 15 days to restore service and charge full rates ($49.50) after 15 days. The new charges would result in an increase of $2,106 in Local Revenue. Since the service charge increases would bring the charges more in line with the industry (e.g. SBC's service restoral charge, a similar service to Cal-Ore's disconnect charge, is $35), TD finds the proposals to be reasonable.

Total Operating Expenses

Cal-Ore's estimate of subtotal company operating expenses at $3,865,193 (less depreciation and taxes – income and other) is greater than TD's estimate of $2,810,962 by $1,054,231 or 37.50%. A comparison of TD's and Cal-Ore's estimates of total operating expenses for test year 2004 is shown in Appendix B. Differences between TD's and Cal-Ore's estimates are described below.

For operating expenses, Cal-Ore forecasted 2003 and 2004 expenses based on the following methodology: First historical three year average (2000 to 2002) percentages were developed for Labor (10.33%) and Non-Labor (26.59%) related expenses. Then the three-year average percentages were applied first to the 2002 sub-account details to generate 2003 forecast expenses. The Company applied these percentages to sub-accounts for the Plant Specific, Plant Non-Specific, Customer Operations, and Corporate Operations expense categories, based on details of each sub-account (i.e., Labor: Salaries & Wages, Benefits; Non-Labor: Rents, Clearances, and Other). These same percentages were then applied to the 2003 forecast expense estimates to generate the 2004 Test Year expenses estimates. Cal-Ore believes this methodology to be reasonable for a small company.

TD, however, provides a more detailed methodology in forecasting the test year expenses. First, TD reviewed each sub-account and made ratemaking adjustments where appropriate to each of the historical expense accounts. TD then examined several forecasting methodologies, such as utilizing regression analysis, the Constant Dollar Methodology, as well as utilizing growth averages. TD determined the following methodology to be the most reasonable method of forecasting for this particular company, and it then:

- Separated the subtotal expense accounts by the four major accounts.
- Determined the annual percentage growth rate change for the recorded expenses for each of the five years from 1997-2002.
- Calculated a five-year average growth rate for 1997-2002.
- Applied the five-year average growth rate to the three-year average of the most recent recorded expenses (2000-2002) to forecast the 2004 test year expense.

Instead of separating the subtotal expense accounts only by labor and non-labor expenses to derive growth factors, TD achieved a more detailed forecast by separating the expenses by the four major accounts: Plant Specific, Plant Non-Specific, Customer

Operations, and Corporate Operations. TD chose a five-year average growth rate because five years is a reasonable length of time to normalize large fluctuations outside of the ratemaking adjustments. Furthermore, five years of historical data were available, and utilizing more data points to forecast from historical data produces a more accurate forecast. TD then escalated the expense by taking the three-year average of the most recent recorded expenses (from 2000-2002) as the base year. Taking the average of three years for the base year, instead of just using a one-year data point, will provide a more accurate base from which to forecast.

Cal-Ore also included $4,901 rate case expenses that it incurred in 2003 due to an audit conducted by the Public Programs Branch. Since this audit does not occur annually, this expense should be amortized over a three-year period. Three years are a reasonable period since CHCF-A funding remains at 100% only for the first three years after a GRC, at which time the funding is automatically reduced by 20%. Conceivably, a Small LEC could file a GRC after every three years to retain 100% CHCF-A support. Therefore, TD recommends that the audit expense in the amount of $1,634 ($4,901 amortized over three years) should be included in the 2004 test year expense.

Based on forecasting the three-year average base year expense with a five-year average growth rate for each of the four major accounts, and including the audit expense amortized over three years, TD now recommends a 2004 test year intrastate expense of $1,685,390, which is $628,841 or 37.3% lower than Cal-Ore's current proposal of $2,314,231.

To calculate depreciation expenses, both TD and Cal-Ore utilized the same methodology and depreciation rates previously adopted by the Commission for Cal-Ore in Decision 97-04-036. The difference in depreciation expense of $895 is due to differences in estimates of plant-in-service. To estimate 2004 depreciation expense, TD used its projected depreciable plant in service for 2004 and applied the depreciation rates previously approved by the Commission for Cal-Ore in 1997.

Taxes

The differences in tax estimates are due to variations in TD's and Cal-Ore's revenue and expense estimates. Both TD and Cal-Ore used a Corporate State Franchise Tax (CCFT) rate of 8.84% and a Federal Income Tax rate of 34.00%. TD's estimate of 2004 Intrastate Operating Taxes (including other taxes) of $369,399 is 2.2% lower than that computed by Cal-Ore.

Rate Base

TD examined Cal-Ore's Rate Base components, which include Telephone Plant-in-Service (TPIS), Telephone Plant-under-Construction (TPUC), Materials & Supplies, RTB Stocks, Customer Deposits, Working Cash and Deferred Income Taxes. TD concurs with Cal-Ore's estimate of RTB Stocks and Customer Deposits. TD disagrees with Cal-

Ore's estimates of Telephone Plant-in-Service, Telephone Plant-under-Construction, Materials & Supplies, and Deferred Income Taxes.

Both Cal-Ore and TD used the simplified method described in the CPUC's Standard Practice U-16 to arrive at the working cash estimate. TD's Working Cash test year 2004 estimate of $175,642 is 36.8% lower than that computed by Cal-Ore, due to TD's lower expense estimates.

Cal-Ore included $121,177 Rural Telephone Bank (RTB) stock when it borrowed funds from the RTB. Though the loan was provided at a lower cost, a requirement was that Cal-Ore must use a certain amount of the loan to purchase stock in the RTB. Cal-Ore included the stock in the rate base to compensate for the required investment. Furthermore, Part 65 of the Code of Federal Regulations includes RTB stock as a component of rate base. Therefore, TD concurs with Cal-Ore to include the $121,177 RTB stock in its rate base estimate.

TD's review of Cal-Ore's plant-in-service showed a 2003 Tower & Radio East Dorris construction project in the amount of $400,000 that was moved to 2004. However, during the visit to the company, Cal-Ore indicated that it might not be necessary to build a new tower, and that only additional microwave equipment in the amount of $250,000 needed to be installed on the existing tower. Since the company is unsure about building a new tower, Cal-Ore should not be allowed to include the cost of the tower in the rate base for the 2004 test year. Therefore, TD recommends that only $250,000 for the additional microwave equipment should be included in the 2004 test year rate base.

Cal-Ore also indicated that a 2003 Buried Fiber Newell project estimated to cost $500,000 in AL274 underestimated the preliminary projection cost. TD reviewed Cal-Ore's submission of additional data to support the new increased project cost. A detailed unit pricing based on the actual completed contract showed that the actual cost of the project to be in the amount of $848,286. Cal-Ore also provided a construction schedule of the project, indicating that the project will begin in August 15, 2003 and be completed by November 15, 2003. Therefore, TD recommends that the additional cost of the project, in the amount of $348,286, be included in the rate base.

Cal-Ore estimated the TPUC by analyzing its historical relationship to TPIS. Based on a six-year average of 1.55%, the percentage was then applied to forecasted TPIS to develop 2003 and 2004 TPUC. However, it is TD's policy to disallow any long-term Plant-under-Construction in rate base because the utility, not ratepayers, should bear the full burden of project construction costs until the project is operative (used and useful concept). TD reviewed Cal-Ore's submission of additional data that was provided by the company. Cal-Ore's TPUC figures are now disaggregated between short-term, long-term and total. Based on the average of the percentage of short term TPUC to total TPUC for the five most recent years, a short term TPUC percentage of 87.8% was derived. TD then applied the 87.8% to Cal-Ore's projected total TPUC for years 2003 and 2004 to derive the short term TPUC for the test year. Therefore, TD recommends a 2004 short-term TPUC of $200,321, which is $27,136 or 13.5% lower than Cal-Ore's proposal.

Cal-Ore estimated the Materials and Supplies (M&S) amount by taking the ratio of the 2002 average M&S to the 2002 average TPIS. The 2002 ratio of 0.40% was then applied to the forecasted 2003 and 2004 TPIS to derive the 2004 M&S. TD however disagrees with Cal-Ore's methodology. Instead of using a single data point to derive the ratio, TD took the five-year average (1998-2002) of M&S to TPIS. Since five years of historical data were available, using more data points to forecast from historical data would produce a more accurate forecast. TD then applied the five-year average ratio of 0.34% to the forecasted TPIS to derive the 2004 M&S. Therefore, TD recommends that the average M&S of $58,359 (derived by applying 0.34% to the forecasted 2004 TPIS) be included in the rate base.

Cal-Ore estimated the Deferred Income Taxes (DIT) by taking the ratio of the 2002 average DIT to the 2002 average TPIS. A negative 1.66% ratio was then applied to the forecasted 2003 and 2004 TPIS to derive the 2004 DIT. TD however, disagrees with Cal-Ore's methodology. Instead of using a single data point to derive the ratio, TD took the five-year average (1998-2002) of DIT to TPIS. Since five years of historical data was available, using more data points to forecast from historical data would produce a more accurate forecast. TD then applied the five-year average ratio of negative 1.97% to the forecasted TPIS to derive the 2004 DIT. Therefore, TD recommends that the average DIT of $349,532 (derived by applying negative 1.97% to the forecasted 2004 TPIS) be included in the rate base.

Separations

Cal-Ore provides both intrastate and interstate telecommunications services, subject to the regulation of the CPUC and FCC, respectively. Because Cal-Ore's property serves both jurisdictions, the utility's expenses, taxes, investments, and reserves are allocated (separated) between interstate and intrastate services according to FCC rules. TD reviewed Cal-Ore's separation factors and finds them to be reasonable. Appendix C compares Cal-Ore's and TD staff's total company, interstate and intrastate results of operations for test year 2004 using these separation factors.

Cost of Capital

Cal-Ore requests an overall intrastate rate of return of 10.00%. This is the same rate of return that was authorized under D.97-04-036 for its last general rate case filing for test year 1997.

The Return on Equity for all rural ILECs should be the same since the systematic and non-diversifiable risks faced by all rural ILECs are similar. As a matter of practice, Decision D.97-04-036 in A.95-12-073[5] adopted an 'overall' rate of return of 10.00% for all rural ILECs. The risks faced by rural ILECs appear similar today as in the recent past, therefore TD recommends that the Commission should approve Cal-Ore's request for an overall rate of return of 10.00% at this time.

Net-to-Gross Multiplier

The net-to-gross multiplier indicates the unit change in gross revenues required to produce a unit change in revenues. Appendix E shows TD's computation of Cal-Ore's net-to-gross multiplier. The net-to-gross multiplier of 1.66207 means that a change of $1,662 in gross revenue would be required to produce a change of $1,000 in net revenue. For Cal-Ore, based on a recommended intrastate rate base of $6,429,915 and rate of return of 10.00%, the recommended gross intrastate revenue requirement change required is an increase of $803,289.

CHCF-A Support

D.01-02-018 approved Settlement Transition Agreements (STAs) between Pacific Bell and the small Local Exchange Carriers (small LECs). Monies that Pacific Bell paid the small LECs through toll and access pool settlements were replaced by authorized draws from the CHCF-A. The CHCF-A itself was originally established by D.85-06-115 as a means of subsidizing reasonable basic exchange rates for the customers of small LECs that adopted Pacific's statewide average toll, toll private line, and access charges (settlement pools). D.01-02-018 required the small LECs' replacement funding for the STAs be subject to the same rules that apply to current draws from the CHCF-A, namely, basic residential rates shall be increased to a ceiling equal to 1.5 times the urban rate as necessary, and both the means test and the waterfall provisions should apply.

TD calculated Cal-Ore's CHCF-A support for test year 2004 at present rates to be $817,043. The CHCF-A 2004 support is derived from using Cal-Ore's 2003 initial draw of $810,072, adding the $807,288 NECA estimated USF Federal support for 2003, and subtracting Cal-Ore's projected 2004 USF Federal support of $800,317[6].

However, if Cal-Ore is authorized to receive $817,043 in CHCF-A support, then based on TD's adjustments in revenues, expenses and rate base, Cal-Ore's intrastate rate of return would be 2.46%, which would be less than the 10.00% Commission target. Therefore, for test year 2004, TD 's computation of Cal-Ore's adopted CHCF-A requirement is $1,620,332 based on its recommended revenues, expenses, rate base and overall intrastate rate of return of 10.00%.

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

[6] Federal USF support is based on the 2004 projected payments for the California Exchange carriers as filed by the National Exchange Carriers Association, Inc. (NECA) on October 1, 2003 with the Federal Communications Commission.

Comments

In accordance with P.U. Code Section 311 (g), TD mailed a copy of the original draft resolution on September 30, 2003 to Cal-Ore and other interested parties. Comments received on a timely basis will be addressed in any final resolution.

On October 13, 2003, Cooper, White & Cooper, LLC (Cooper) filed timely comments on behalf of Cal-Ore. Cooper raises the following issues in the draft resolution:

1. TD's exclusion of rate case expense.

2. TD's understatement of the test year expenses due to the use of its expense forecasting methodology.

3. TD's exclusion of uncollectibles for intrastate access revenue.

With regard to the exclusion of the rate case expense, Cal-Ore states that although TD correctly discusses amortization of the Company's rate case expense over three years, TD fails to include the $50,000 in test year expenses. Also, TD incorrectly characterizes the Public Programs Audit expense as a "Rate Case Expense" when it does not relate to the development of the GRC.

On the use TD's expense forecast methodology, Cal-Ore states that the draft forecasting expenses is flawed because it normalizes the base year twice. The draft normalizes 2000, 2001 and 2002 (the Base Year) by using specific ratemaking adjustments and then averages the "adjusted" three years which normalizes the Base Year a second time.

Furthermore, the draft uses a five-year average growth rate based on historical expenses, with ratemaking adjustments reducing recorded expenses in 2000-2002. Cal-Ore believes that this approach is unreasonable in today's environment when the telecommunications industry has changed dramatically in the last several years. Cal-Ore claims there seems to be little relevance to the level of expenses in 1998 and 1997 (six and seven years prior) to forecasting the appropriate level of expenses in the test year 2004.

Cal-Ore also states that the unreliability of the DR's test year expense forecast is demonstrated by the fact the 2004 test year operating expenses of $2,810,962 represents an annual growth rate of 0.9% over Cal-Ore's actual, recorded expenses for 2002 of $2,759,339. The DR's expense growth rate in this case is even less than the already low escalation factors the Commission has relied upon recently when projecting test year expenses in other small telephone company rate cases. Cal-Ore states that it is also implausible to assume that a company experiencing increasing costs over the last several years will suddenly realize less than 1% annual increase in expenses in the next two years, yet that is what the DR predicts for Cal-Ore.

Cal-Ore then proposed a number of alternate forecasting methodologies to the Commission. For example, linear regression analysis could be used to forecast test year 2004 operating expenses. By using linear regression analysis, Cal-Ore computes a test year 2004 expense level of $3,041,636, with the R-squared factor on this analysis at 86%. Under a budget method, the analysis begins with actual 2002 operating expenses of $2,759,339 and applies an inflation factor of 3%. Cal-Ore believes the 3% inflation factor is consistent with the inflation factor ORA relied upon in the recently concluded Kerman Telephone general rate case and in Resolution T-16720 resolving the Evans Telephone Company GRC for 2003 and 2004. This methodology forecasts 2004 test year expenses of $2,979,017.

With regard to the exclusion of uncollectibles for intrastate access revenues, Cal-Ore states that although TD does encourage Cal-Ore to seek remedy from the Commission for lost access revenue, it does not provide the procedure for securing such a remedy outside the context of a rate case filing. Cal-Ore believes that to remedy this deficiency, the Commission should include an ordering paragraph that specifies the process for Cal-Ore to be made whole for all uncollectible access revenue. Cal-Ore states that the amount of uncollectible access revenue will continue to grow in the future given the hundreds of interexchange carriers authorized in California.

Furthermore, Cal-Ore noted that not every defaulting carrier actually declares bankruptcy. For these reasons, the Commission should provide that Cal-Ore may include its net uncollectible access revenue in its annual CHCF-A filing. By specifying net uncollectible access revenue, the Commission will ensure that Cal-Ore does not benefit from double collecting from the CHCF-A process and the defaulting carrier. Subsequent payments collected from defaulting carriers would be netted against current uncollectibles, reducing Cal-Ore's recovery in a given year. Structuring the recovery in this manner eliminates the financial burden otherwise imposed on Cal-Ore associated with carrying uncollectibles on its books for several years pending the resolution of bankruptcy proceedings and / or pending the next rate case filing.

TD's Response to Comments

On the issue of the exclusion of rate case expenses and incorrectly characterizing the Public Programs Audit expense as a "Rate Case Expense", TD has reviewed and will make the necessary corrections. TD will include the $50,000 rate case expense in the Total Corporate Expense for test year 2004.

On the issue of understating the test year expenses, TD does not agree with Cal-Ore's comments that the forecasting methodology normalizes the base year twice. Rate making adjustments done to years 2000, 2001 and 2002 eliminates any abnormal fluctuations and one-time expense that should not be included in the rate case expense. Taking a three-year average for the base year (2000, 2001, and 2002) eliminates forecasting from one-year data point. Therefore, both serve different purposes and do not normalize the base year twice. Per workpapers submitted to Cal-Ore, TD does recognize growth in expenses from 2000 to 2002.

Cal-Ore also states that TD's forecasting approach is unreasonable and that the level of expenses in 1998 and 1997 is of little relevance due to today's environment when the telecommunications industry has changed dramatically in the last several years. TD reviewed Cal-Ore's submission of additional data to support its comments on changes in the telecommunications industry that makes the 1997 and 1998 data of little relevance. TD concludes that most of the supporting data are generalized and do not include enough specifics to remove the 1998 and 1997 expense data from the forecasting methodology.

Cal-Ore further states that the unreliability of the test year expense forecast is demonstrated by the fact the 2004 test year operating expenses of $2,810,962 represents an annual growth rate of 0.9% over Cal-Ore's actual, recorded expenses for 2002 of $2,759,339. Although it is correct that Cal-Ore's recorded expense for 2002 (base year) is $2,759,339, however, TD notes that the actual recorded expense has not been adjusted for rate-making purposes. Pursuant to rate-making adjustments, the 2002 expense decreases to $2,711,531. With the inclusion of the $50,000 rate case expense that had originally been omitted, the 2004 test year operating expenses actually represents an annual growth of approximately 2.7%. Cal-Ore also states that the draft expense growth rate in this case is even less than the already low escalation factors the Commission has relied upon when projecting test year expenses in other rate cases, but Cal-Ore did not provide the actual factors.

Cal-Ore then provided two unacceptable alternatives, the linear regression and budget method, to forecast test year expenses. For regression analysis to be acceptable, it is TD's policy that the coefficient of determination should be in access of 90% (see Sierra GRC resolution T-16711). Furthermore, the 86% R-squared from Cal-Ore's regression analysis is derived from actual recorded expenses. When the rate-making adjusted expenses are applied in the regression analysis, the coefficient of determination decreases to 82%.

With the proposed budget method, not only does it not take into account rate-making adjustments, the budget method will result in forecasting test year expenses from only one-year data point. Furthermore, with the budget method, Cal-Ore applied a 3% inflation factor to forecast the test year expenses, which Cal-Ore believes is consistent with the inflation factor ORA relied upon in the recently concluded Kerman Telephone general rate case and in Resolution T-16720 resolving the Evans Telephone Company GRC for 2003. However, TD notes that in T-16720 discussing the 3% expense escalation for both Kerman and Evans, Commission approval is based on the specifics of each filing and does not establish a precedent for the contents of any future filings by small ILECs.

Pursuant to comments and further review, TD finds that adjusting its current expense forecasting methodology will provide an even more accurate forecast for the test year expenses. TD used the rate-making adjusted expense figures for the years 2000 and 2001 (for each of the four major expense accounts) and then applied inflation factors for each year to convert the adjusted expense to constant 2002 dollars. TD then took the three-year (2000-2002) constant dollar average and applied the five-year average growth rates for 2003 and 2004. Based on adjusting the base year (2000-2002) to constant 2002 dollars, taking the three-year average for the base year, and then forecasting with five-year growth rates, TD now recommends a 2004 test year expense of $2,904,205 (includes $50,000 rate case expense) which is $93,243 or 3.32% higher than its original proposal of $2,810,962.

On the issue of the exclusion of uncollectibles for intrastate access revenues, TD had disallowed $40,000 in bad debt associated with intrastate access revenue. In its comments on the draft resolution, Cal-Ore acknowledges that TD encourages it to seek remedy from the Commission for lost access revenue recovery, but argues that TD does not specify a procedure for securing such a remedy outside the context of a general rate case filing.

Cal-Ore proposes the Commission include an ordering paragraph specifying the process for Cal-Ore to be made whole for all uncollectible access revenue. Cal-Ore suggests that the Commission should order Cal-Ore to include net uncollectible access revenue in its annual CHCF-A filing.

TD responds that to allow Cal-Ore to recover the net uncollectible revenue from its CHCF-A annual filings would not ensure that Cal-Ore had made *every* reasonable effort to collect access revenues from either bankrupt carriers and / or from those carriers that are overdue in paying access revenues to Cal-Ore. TD reiterates its position in the draft resolution that Cal-Ore not seek remedy from the Commission until bankruptcy proceedings (if any) have been finalized and monies dispersed. Only then does TD recommend that Cal-Ore file a specific application with the Commission to seek recovery of net uncollectible access revenues. TD still firmly believes that today, there are sufficient safeguards in place to mitigate and minimize the effects of a situation similar to that incurred by WorldCom.

We agree with TD's position, and decline to allow, at this time, Cal-Ore's request to seek recovery of net uncollectible access revenues in annual CHCF-A filings. If at any time Cal-Ore believes its overall revenues are eroded such that it is in a precarious financial position, Cal-Ore should file a specific application to seek recovery of any net uncollectible access revenues. Absent this application filing, we may give consideration to reviewing Cal-Ore's net historical uncollectible access revenues in its next GRC filing provided Cal-Ore can fully substantiate that it has exhausted all avenues in attempting to collect from delinquent carriers.

However, for Cal-Ore, the company has specifically identified $95,368 and $21,412 in total company uncollectible revenues associated with the bankruptcies of MCI / WorldCom and Global Crossing, respectively. For the MCI / WorldCom proceeding, Cal-Ore indicates that it has recovered $36,192 to date leaving the remaining balance of $74,196 to be collected. Of the $74,196, the actual unrecovered "intrastate" amount is $21,172. Cal-Ore also provided documented substantiation that it was waiving further rights to any more monies from the MCI / WorldCom bankruptcy proceeding. Given this, TD believes that it is appropriate to include the $21,172 as a one-time uncollectible revenues for 2004 only. We concur in TD's recommendation and will provide recovery for the $21,172 in 2004 only. For 2005 and beyond, we will require TD to make adjustments to the CHCF-A fund to reduce the draw by $27,172.

TD also proposes two additions on its own initiative to the draft resolution mailed to interested parties in September 2003. The first involves updated Universal Service Fund (USF) support amounts authorized for TY 2004 from the National Exchange Carriers Association (NECA) and received by TD on October 2, 2003. The new USF support amount for Cal-Ore is $1,135,719 and TD has updated its calculations involving USF amounts in Cal-Ore's Results of Operations tables.

In discussions with Cal-Ore since the mailing of the draft resolution in September, TD also agreed that Cal-Ore may use its next Supplement Number for Cal-Ore's GRC advice letter filing to submit tariff sheets for an updated Table of Contents, revised tariff sheets using the latest tariff sheet numbers, and updated contents within the tariff sheets where there is reference to California Teleconnect Fund (CTF) funding. TD recommends that these new tariff sheets be made effective January 1, 2004.

In summary TD has a) included $50,000 Rate Case Expense in 2004 Total Corporate Operations, b) adjusted base year 2000 and 2001 expense to 2002 constant dollar before taking the three-year average and applying growth factors, c) increased the 2004 test year subtotal operating expenses to $2,904,205 and d) updated the USF support amounts authorized by NECA to $1,135,719. These adjustments revise TD's total intrastate operating expenses from $3,220,398 to $3,276,252 total intrastate rate base from $6,429,915 to $6,435,626, and CHCF-A support from $1,620,332 to $1,341,356.

Findings

1. Cal-Ore filed its GRC on December 19, 2002, with a Test Year of 2004 in compliance with Decision 01-05-031.

2. Cal-Ore requests the following for test year 2004:

    - An increase in its CHCF-A draw for 2004 by 182.60% or $1,491,958 for a total 2004 CHCF-A support of $2,309,001;
    - An intrastate rate of return of 10.00%, the same return granted to it in its last GRC filing in 1997;

- An intrastate total operating revenue of $4,510,906; and
- A total intrastate rate base amount of $6,539,048.

3. The Telecommunications Division (TD) recommends the following for Cal-Ore for test year 2004:

   - An increase in its CHCF-A draw for 2004 by 178.5% or $859,715 for a total 2004 CHCF-A support of $1,341,356;
   - An Intrastate Rate of Return of 10.00%;
   - An intrastate total operating revenue of $3,919,814; and
   - A total intrastate rate base amount of $6,435,626.

4. Because of the MCI / WorldCom bankruptcy, there is a one-time uncollectible amount of $21,172. This will be added to the CHCF-A draw for 2004, but will be removed in 2005 (See Appendix E). With this addition, the total 2004 CHCF-A support is $1,362,528.

5. The differences in the revenue, expense, and rate base estimates between Cal-Ore and TD result from both updates, revisions, and the use of different methodologies.

6. The Commission finds TD's methodology in estimating revenues to be reasonable. The Commission therefore adopts TD's recommended intrastate revenues as shown in Appendix D.

7. The Commission finds TD's methodology in estimating expenses to be reasonable and concurs with TD's recommendation of amortizing audit expense of $4,901 over three-year period. The Commission therefore adopts TD's recommended intrastate expenses as shown in Appendix D.

8. The Commission finds TD's methodology in estimating rate base to be reasonable. The Commission therefore adopts TD's recommended intrastate rate base as shown in Appendix D.

9. The Commission accepts TD's recommended overall intrastate rate of return of 10.00% for Cal-Ore for test year 2004.

10. The Commission finds Cal-Ore's depreciation rates previously adopted by the Commission, as part of its 1997 GRC to be acceptable for ratemaking purposes for test year 2004.

11. The Commission finds Cal-Ore's request for revenue increase of $2,106 due to increases in one-time charges to bring its prices more in line with the industry to be reasonable.

12. The Commission finds TD's recommended $1,341,356 CHCF-A support for Cal-Ore for 2004 to be acceptable. The $1,341,356 CHCF-A support is based on the Commission's adoption of TD's recommended Intrastate Results of Operations for Cal-Ore for test year 2004.

13. The Commission finds that the additional amount of $21,172 for uncollectible revenue due to the MCI / WorldCom bankruptcy is reasonable and therefore the total CHCF-A support for 2004 is $1,362,528.

14. Commission approval is based only on the specifics of this Advice Letter.

THEREFORE, IT IS ORDERED that:

1. The intrastate revenues, expenses, and rate base amounts for test year 2004 identified in Appendix D, column (E) are adopted for Cal-Ore Telephone Co.

2. The overall intrastate rate of return of 10.00% is adopted for Cal-Ore Telephone Co for test year 2004.

3. The depreciation rates submitted by Cal-Ore Telephone Co. in support of its General Rate Case Advice Letter No. 274 are adopted for ratemaking purposes for test year 2004.

4. Cal-Ore Telephone Co.'s CHCF-A draw for 2004 is $1,362,528, including a one-time amount of $21,172 due to the MCI / WorldCom Bankruptcy.

5. Cal-Ore Telephone Co. is granted authority to revise the tariffs for the changes described in AL Nos. 274, 274A, and 274B using the next Supplement Number for that AL. The revised tariff sheets will include the updated Table of Contents, the renumbering of the tariff sheets using the latest tariff sheet numbers, and updated contents within the tariff sheets where there is reference to CTF funding. These tariff sheets shall be effective on January 1, 2004, if accepted by the Telecommunications Division staff.

This Resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on October 30, 2003. The following Commissioners approved it:

WILLIAM AHERN
Executive Director

APPENDIX A
THE CAL-ORE TELEPHONE CO.
TOTAL COMPANY RESULTS OF OPERATIONS
AL FILINGS 274, 274A AND 274B
TEST YEAR 2004 AT PRESENT RATES

		Cal-Ore AL 274 19-Dec-02	**Difference**	**Cal-Ore AL 274A 7-Apr-03**	**Difference**	**Cal-Ore AL 274B 8-Jul-03**
		(a)	(b)=(c)-(a)	(c)	(d)=(e)-(c)	(e)
Operating Revenues:						
1	Local Rev.	760,344	(25,088)	735,256	0	735,256
	Intrastate:					
2	Access Rev.	512,221	(8,433)	503,787	0	503,787
3	Toll Rev.	0	0	0	0	0
4	Interstate USF	899,636	(99,319)	800,317	0	800,317
5	Interstate Access Rev.	2,384,922	231,878	2,616,800	14,462	2,631,262
6	Miscellaneous Rev.	204,605	61,219	265,824	0	265,824
7	CHCF - A	717,724	99,319	817,043	0	817,043
8	Less: Uncollectibles	(25,384)	(17,631)	(43,015)	0	(43,015)
9	**Total**	**5,454,068**	**241,945**	**5,696,012**	**14,462**	**5,710,474**
Operating Expenses:						
10	Plant Specific	1,214,764	67,385	1,282,149	0	1,282,149
11	Plt. Non-Spec.(less Depr.)	465,663	1,525	467,188	0	467,188
12	Customer Operations	431,042	210,924	641,966	0	641,966
13	Corporate Operations	1,272,375	196,614	1,468,989	4,901	1,473,890
14	**Subtotal**	**3,383,844**	**476,448**	**3,860,292**	**4,901**	**3,865,193**
15	Depr. & Amort.	1,948,273	(5,991)	1,942,282	0	1,942,282
16	Other Taxes	50,762	5,592	56,354	0	56,354
17	State Income Taxes	(12,846)	(19,703)	(32,549)	846	(31,703)

18	Federal Income Taxes	(45,042)	(69,079)	(114,121)	2,963	(111,158)
19	**Total**	**5,324,991**	**387,267**	**5,712,258**	8,710	**5,720,968**
20	**Net Operating Income**	**129,077**	**(145,322)**	**(16,246)**	**5,752**	**(10,494)**
Rate Base:						
21	2001 - TPIS	23,398,707	420,748	23,819,455	0	23,819,455
22	2003 - TPUC	437,556	(67,165)	370,391	0	370,391
23	1220 - Mat. and Sup.	78,242	18,017	96,259	0	96,259
23a	RTB Stock	0	0	0	197,325	197,325
24	Working Cash	380,849	17,491	398,340	0	398,340
25	Less: Accum. Depr.	14,996,427	(570,044)	14,426,383	0	14,426,383
26	Less: Deferred Tax	162,496	232,421	394,917	0	394,917
27	Less: Customer Deposits	730	470	1,200	0	1,200
28	**Total Rate Base**	**9,135,701**	**726,244**	**9,861,945**	**197,325**	**10,059,270**
29	**Rate of Return**	**1.41%**		**(0.16%)**		**(0.10%)**

APPENDIX B
THE CAL-ORE TELEPHONE COMPANY
TOTAL COMPANY RESULTS OF OPERATIONS
AT PRESENT RATES
TEST YEAR 2004

		Cal-Ore	**TD**	**Utility Exceed Amount**	**Percent Change**
		(a)	(b)	(c) = (a)-(b)	(d) = (c)/(b)
Operating Revenues:					
1	Local Rev.	735,256	736,411	(1,155)	-0.16%
	Intrastate:			-	
2	Access Rev.	503,787	503,787	-	0.00%
3	Toll Rev.	0	-	-	
4	Interstate USF	800,317	1,135,719	(335,402)	-29.53%
5	Interstate Access Rev.	2,631,262	2,278,635	352,627	15.48%
6	Miscellaneous Rev.	265,824	265,824	-	0.00%
7	CHCF - A	817,043	481,641	335,402	69.64%
8	Less: Uncollectibles	(43,015)	(3,019)	(39,996)	1324.81%
9	**Total**	**5,710,474**	**5,398,999**	**311,475**	5.77%
Operating Expenses:					
10	Plant Specific	1,282,149	992,323	289,826	29.21%
11	Plt. Non-Spec.(less Depr.)	467,188	358,271	108,917	30.40%
12	Customer Operations	641,966	438,544	203,422	46.39%
13	Corporate Operations	1,473,890	1,115,066	358,824	32.18%
14	**Subtotal**	**3,865,193**	**2,904,205**	**960,988**	33.09%
15	Depr. & Amort.	1,942,282	1,941,387	895	0.05%
16	Other Taxes	56,354	56,354	-	0.00%
17	State Income Taxes	(31,703)	25,792	(57,495)	-222.92%
18	Federal Income Taxes	(111,158)	90,432	(201,590)	-222.92%

19	**Total**	**5,720,968**	**5,018,170**	**702,798**	14.01%
20	**Net Operating Income**	**(10,494)**	**380,829**	(391,323)	-102.76%
Rate Base:					
21	2001 - TPIS	23,819,455	23,892,741	(73,286)	-0.31%
22	2003 - TPUC	370,391	326,203	44,188	13.55%
23	1220 - Mat. and Sup.	96,259	81,235	15,024	18.49%
23a	RTB Stock	197,325	197,325	-	0.00%
24	Working Cash	398,839	301,102	97,737	32.46%
25	Less: Accum. Depr.	14,426,383	14,418,469	7,914	0.05%
26	Less: Deferred Tax	394,917	470,687	(75,770)	-16.10%
27	Less: Customer Deposits	1,200	1,200	-	0.00%
28	**Total Rate Base**	**10,059,769**	**9,908,250**	**151,519**	1.53%
29	**Rate of Return**	**-0.10%**	**3.84%**		

APPENDIX C

THE CAL-ORE TELEPHONE COMPANY

RESULTS OF OPERATIONS AT PRESENT RATES

INTERSTATE AND INTRASTATE

TEST YEAR 2004

	Cal-Ore			**TD**		
	Subject To Separations (a)=b+c	**Interstate** (b)	**Intrastate Total** (c)	**Subject To Separations** (d)=e+f	**Interstate** (e)	**Intrastate Total** (f)
OPERATING REVENUES						
1 Local Rev.	735,256		735,256	736,411		736,411
Intrastate:	-					
2 Access Rev.	503,787		503,787	503,787		503,787
3 Toll Rev.	-		-	-		-
4 Interstate USF	800,317		800,317	1,135,719		1,135,719
5 Interstate Access Rev.	2,631,262	2,631,262	-	2,278,635	2,278,635	-
6 Miscellaneous Rev.	265,824	62,366	203,458	265,824	62,366	203,458
7 CHCF - A	817,043		817,043	481,641		481,641
8 Less: Uncollectibles	(43,015)		(43,015)	(3,019)		(3,019)
9 **Total**	**5,710,474**	**2,693,628**	**3,016,846**	**5,398,999**	**2,341,001**	**3,057,997**
OPERATING EXPENSES						
10 Plant Specific	1,282,149	489,653	792,496	992,323	378,968	613,355
11 Plt. Non-Spec.(less Depr.)	467,188	180,241	286,947	358,271	138,221	220,050
12 Customer Operations	641,966	278,100	363,866	438,544	189,977	248,567
13 Corporate Operations	1,473,890	602,968	870,922	1,115,066	456,174	658,892
14 **Subtotal**	**3,865,193**	**1,550,962**	**2,314,231**	**2,904,205**	**1,163,340**	**1,740,865**
15 Depr. & Amort.	1,942,282	776,136	1,166,146	1,941,387	775,778	1,165,609
16 Other Taxes	56,354	21,741	34,613	56,354	21,741	34,613
17 State Income Taxes	(31,703)	24,473	(56,176)	25,792	27,598	(1,806)
18 Federal Income Taxes	(111,158)	85,805	(196,963)	90,432	96,762	(6,330)

19 **Total**	**5,720,968**	**2,459,117**	**3,261,851**	**5,018,170**	**2,085,219**	**2,932,951**
20 **Net Operating Income**	**(10,494)**	**234,511**	**(245,005)**	**380,829**	**255,782**	**125,047**
RATE BASE						
21 2001 - TPIS	23,819,455	9,191,928	14,627,527	23,892,741	9,220,209	14,672,532
22 2003 - TPUC	370,391	142,934	227,457	326,203	125,882	200,321
23 1220 - Mat. and Sup.	96,259	27,107	69,152	81,235	22,876	58,359
23a RTB Stock	197,325	76,148	121,177	197,325	76,148	121,177
24 Working Cash	398,839	158,618	240,221	301,102	119,748	181,354
25 Less: Accum. Depr.	14,426,383	5,973,965	8,452,418	14,418,469	5,970,688	8,447,781
26 Less: Deferred Tax	394,917	101,652	293,265	470,687	121,155	349,532
27 Less: Customer Deposits	1,200	397	803	1,200	397	803
28 **Total Rate Base**	**10,059,769**	**3,520,721**	**6,539,048**	**9,908,250**	**3,472,623**	**6,435,626**
29 **RATE OF RETURN**	**-0.10%**	**6.66%**	**-3.75%**	**3.84%**	**7.37%**	**1.94%**

APPENDIX D
THE CAL-ORE TELEPHONE COMPANY
INTRASTATE RESULTS OF OPERATIONS
AT ADOPTED RATE OF RETURN
TEST YEAR 2004

		Cal-Ore	**TD**	**Utility Exceed Staff**		
		Proposed	**Proposed**	**Amount**	**Percent**	**Adopted**
		(a)	(b)	(c)	(d)	(e)
Operating Revenues:						
1	Local Rev.	737,362	738,517	(1,155)	-0.2%	738,517
	Intrastate:					
2	Access Rev.	503,787	503,787	-	0.0%	503,787
3	Toll Rev.	-	-			-
4	Interstate USF	800,317	1,135,719	(335,402)	-29.5%	1,135,719
5	Interstate Access Rev.	-	-	-		-
6	Miscellaneous Rev.	203,458	203,458	-	0.0%	203,458
7	CHCF - A	2,309,001	1,341,356	967,645	72.1%	1,341,356
8	Less: Uncollectibles	(43,019)	(3,023)	(39,996)	1323.1%	(3,023)
9	**Total**	**4,510,906**	**3,919,814**	**591,092**	**15.1%**	**3,919,814**
Operating Expenses:						
10	Plant Specific	792,496	613,355	179,141	29.2%	613,355
11	Plt. Non-Spec.(less Depr.)	286,947	220,050	66,897	30.4%	220,050
12	Customer Operations	363,866	248,567	115,299	46.4%	248,567
13	Corporate Operations	870,922	658,892	212,030	32.2%	658,892
14	**Subtotal**	**2,314,231**	**1,740,865**	**573,366**	**32.9%**	**1,740,865**
15	Depr. & Amort.	1,166,146	1,165,609	537	0.0%	1,165,609
16	Other Taxes	34,613	34,613	-	0.0%	34,613
17	State Income Taxes	75,899	74,380	1,519	2.0%	74,380
18	Federal Income Taxes	266,112	260,785	5,327	2.0%	260,785

19	**Total**	**3,857,001**	**3,276,252**	**580,749**	**17.7%**	**3,276,252**
20	**Net Operating Income**	**653,905**	**643,563**	**10,342**	**1.6%**	**643,563**
	Rate Base:					
21	2001 - TPIS	14,627,527	14,672,532	(45,005)	-0.3%	14,672,532
22	2003 - TPUC	227,457	200,321	27,136	13.5%	200,321
23	1220 - Mat. and Sup.	69,152	58,359	10,793	18.5%	58,359
23a	RTB Stock	121,177	121,177	-	0.0%	121,177
24	Working Cash	240,221	181,354	58,867	32.5%	181,354
25	Less: Accum. Depr.	8,452,418	8,447,781	4,637	0.1%	8,447,781
26	Less: Deferred Tax	293,265	349,532	(56,267)	-16.1%	349,532
27	Less: Customer Deposits	803	803	-	0.0%	803
28	**Total Rate Base**	**6,539,048**	**6,435,626**	**103,421**	**1.6%**	**6,435,626**
29	**Rate of Return**	**10.00%**	**10.00%**			

APPENDIX E
THE CAL-ORE TELEPHONE COMPANY
ADOPTED NET-TO-GROSS MULTIPLIER
INTRASTATE REVENUE REQUIREMENT AND CHCF-A SUPPORT
TEST YEAR 2004

1	Gross Revenues		1.0000
2	Uncollectibles		
3	Net Revenues		1.0000
4	State Income Tax Rate (Tax Rate times Ln 3)	8.84%	0.0884
5	Federal Taxable Income (Ln 3 less Ln 4)		0.9116
6	Federal Income Tax Rate (Tax Rate time Ln 5)	34.00%	0.3099
7	Net Income (Ln 5 less Ln 6)		0.6017
8	Net to Gross Multiplier (Line 1/ Line 7)		1.6621

INTRASTATE REVENUE REQUIREMENT

9	Adopted State Rate Base	$	6,435,626
10	Net Revenues Adopted at 10.00% (ROR (Ln 9 times 10%))	$	643,563
11	Net Revenues at present rates	$	125,046
12	Change in net revenues (Ln 10 less Ln 11)	$	518,517

13	**Gross Revenue Change Required (Ln 8 times Ln 12)**	**$**	**861,817**
14	Change in Revenues from Proposed Rate Changes (Net of Uncollect.)	$	2,102
	CHCF-A SUPPORT		
15	**Revenue Deficit to be Funded by CHCFA**	**$**	**859,715**
16	2004 CHCF-A Support at present rates	$	481,641
17	**2004 CHCF-A Support Request (Line 15 add Line 16)**		**$1,341,356**
18	Total 2004 One-Time MCI/WorldCom Un-Recoverable Uncollectible Amount		$21,172
19	**Total 2004 CHCF-A Support (Line 17 add Line 18)**		**$1,362,528**