PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Communications Division
Licensing, Tariffs, Rural Carriers and Cost Support Branch

RESOLUTION T-17184
December 18, 2008

<u>**R E S O L U T I O N**</u>

Resolution T-17184 Calaveras Telephone Company, Inc. (U-1004-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. 303 filed on December 21, 2007.

Summary

This resolution addresses the General Rate Case (GRC) filed by Calaveras Telephone Company (Calaveras) through Advice Letter 303 in compliance with D.01-05-031. Calaveras proposes; a) no changes to its basic rates or charges, however the company proposes increases to some optional services and one-time charges to bring its prices more in line with that of the telephone industry, b) an intrastate rate of return (ROR) of 10.00%, the same rate of return granted in its previous GRC filing in 2003, and c) $3,404,944 in California High Cost Fund-A (CHCF-A) support for year 2009. This represents an increase in its California High Cost Fund-A (CHCF-A) draw for 2008 by 425% or an increase of $2,755,822 from its 2008 draw of $649,122.

This resolution authorizes total intrastate revenue in the amount of $6,231,844 for Calaveras for the test year 2009. This represents a reduction of $1,124,047 to Calaveras' estimate of $7,355,891 for total intrastate revenue for 2009. The Communications Division (CD) estimates that the Total Intrastate Rate Base amount for Calaveras is $10,424,406 with an overall Intrastate Rate of Return of 10.00% for the test year 2009. This resolution also authorizes the CHCF-A support for Calaveras for test year 2009 at $1,998,083 as estimated by CD. This amount represents an increase of $1,348,961 or 208% from Calaveras' CHCF-A 2008 support of $649,122 but is $1,406,861 or 41.32% less than what Calaveras is requesting. This is due to adjustments made to revenues, expenses and rate base estimates.

Appendix A compares the CD's and Calaveras' Test Year 2009 Total Company Results of Operations before any CHCF-A adjustment. Appendix B compares CD's and Calaveras' Interstate and Intrastate Results of Operations before any CHCF-A adjustment to reflect the 10% intrastate ROR. Appendix C compares CD's and Calaveras' Intrastate Results of Operations estimates after Calaveras and CD's proposed CHCF-A increase and after CD's proposed adjustments. Appendix D shows CD'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

Calaveras Telephone Company is a local exchange carrier (LEC) serving approximately 4,360 access lines in Calaveras County and areas contiguous thereto, furnishing local, toll, and access telephone service. Calaveras' principal place of business is located in Copperopolis, California. Calaveras serves two exchanges, Copperopolis and Jenny Lind.

In Decision (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. Calaveras filed Advice Letter (AL) No. 303 on December 21, 2007, with a Test Year of 2009.

Calaveras proposes a) no changes to its basic rates or charges, however, Calaveras proposes increases to some optional services, b) an intrastate ROR of 10.00%, the same rate of return granted in its previous GRC application filing in 2002, and c) an increase in its CHCF-A draw for 2009 of 425% or an additional $2,755,822 from its 2008 draw.

An element in CD's analysis consisted of examining the CHCF-A statistics. In its last GRC, Calaveras was authorized CHCF-A support of $1,541,847. In its current GRC, Calaveras is requesting CHCF-A support of $3,404,944.

Recently, CD arranged for a meeting with Calaveras (on September 11, 2008) so as to provide an opportunity for the company to discuss CD's proposal. The meeting served to share information and for more recent data to be provided which assisted in making adjustments.

Notice/Protests

Calaveras states that a copy of the Advice Letter was mailed to competing and adjacent utilities and/or other utilities. Notice of AL 303 was published in the Commission Daily Calendar of January 11, 2008. No protest to this AL filing has been received.

CD held a Public Meeting in Copperopolis on April 22, 2008, at which time Calaveras was given an opportunity to explain its filing to its customers. Calaveras' customers

[1] The waterfall provision refers to the 6-year phase down of the CHCF-A funding level. The funding levels are 100% for the first 3 years, 80 % the fourth year, 50% the fifth year, and 0% thereafter.

were also given the chance to ask questions of Calaveras and the CD staff, and to comment on Calaveras' rates and services. Calaveras customers were given notice of the Public Meeting through a bill insert. The notice of Public Meeting was also published in a local newspaper. Two customers attended the Public Meeting with questions regarding DSL. It was explained to them that DSL is not a service which is regulated by the Commission.

Discussion

Total Operating Revenues at Present Rates

Calaveras' estimate of total company operating revenues at present rates of $7,394,598 is greater than CD's estimate of $7,052,756 by $341,842 or 4.85% (Appendix A, Line 9). The difference is due to different estimates being developed by CD and Calaveras as described below.

Local Revenue

In developing Local Revenues, Calaveras forecasted units for a particular service and multiplied them by the forecasted rate for the particular service. After reviewing the forecasted units as well as an evaluation of historical growth, and a field inspection of the areas served by Calaveras, CD accepts Calaveras' estimates for all revenue items except for the forecasted units associated with Flat Rate Service.

The development of Flat Rate service revenues at present rates depends on business and residential access line data. In the meeting held on September 11, Calaveras raised the concern that the revenue calculations include the most recent access line data. CD considered the request reasonable. CD, therefore, requested that Calaveras provide business and residential access line data as of the end of July 2008 which CD utilized to develop its local revenues estimate. As a result, CD's estimate of Local Revenues at present rates is $1,209,245 which is $44,343 less than Calaveras' estimate of $1,253,588. CD believes its estimate is more accurate as it better reflects current and test year conditions.

Intrastate Access Revenue

CD staff developed estimates of Intrastate Access Revenue and Miscellaneous Revenue at present tariff rates. In developing its Intrastate Access Revenue estimate, CD takes into account that this category of revenues is projected to decline for two reasons. The first is that minutes that were previously billed as access minutes will be billed as reciprocal compensation minutes due to an FCC decision which no longer allowed Incumbent Local Exchange Carriers (ILECs) to bill wireless carriers tariffed access rates. The reciprocal compensation minute rate is significantly less than the access minute rate. Reciprocal compensation rates are only billed on terminating minutes, while access minute rates were billed on both originating and terminating minutes. The second reason is that the state access rate "Transport Interconnection Charge" has been eliminated in 2009 per CPUC orders regarding non-cost based access rates, resulting in a shift of about $186,400 from access revenue to CHCF-A. Calaveras estimated Intrastate Access Revenue for 2007 to be $755,113 (a *decrease* from $906,634 for 2006). Calaveras estimated the Special Access and Switched Access Revenue components. Calaveras then added the estimated Interexchange Carrier Selection Process for Equal Access revenue (which had been developed as part of Local Revenue but is not included in Local Revenue) to obtain its Intrastate Access Revenue estimate. The actual Intrastate Access Revenue for 2007 is $918,883 (an *increase* from 2006). From the preceding, it can be seen that the 2007 actual amount for this revenue category is 21.69% greater than Calaveras' estimate. Calaveras estimated Intrastate Access Revenue for 2009 to be $506,431. CD believes that Calaveras' 2009 estimate will also be understating the actual amount in a similar manner as its 2007 estimate did. Accordingly, CD estimates that its Intrastate Access Revenue for 2009 of $616,276 (21.69% greater than Calaveras' 2009 estimate) is a better estimate than Calaveras' since in its development, Calaveras failed to account for the fact that Intrastate Access Revenue increased in 2007.

Miscellaneous Revenue

In developing its Miscellaneous Revenue, Calaveras starts with certain revenues (Directory Listing, E911 Emergency Service, Returned Checks, and Directory Advertising) obtained in the development of Local Revenue but not included in the Local Revenue estimate. Calaveras then adds its forecast of Billings and Collection revenue to obtain Intrastate Miscellaneous Revenue. Finally, Calaveras adds its estimate of Interstate Billing and Collections (obtained by annualizing the 7 months of data available for 2007 and applying a growth rate of 14.45%, based on historical averages, for 2008 and 2009). CD analyzed the growth rates of Miscellaneous Revenue category for 2005 through 2007 and found that the average growth rate from 2005-2007 to be 9.34%. Accordingly, CD applies the 9.34% average growth rate to the 2007 recorded value of $78,712 to obtain its 2008 estimate and then applies the average growth rate to the 2008 estimate to obtain its 2009 estimate of $94,102. CD believes its estimate to be more accurate since it used actual data through 2007 which was unavailable to Calaveras when it prepared its estimate.

Interstate Access Revenue

In developing Interstate Access Revenue, Calaveras starts with its ratebase estimate and applies an FCC authorized rate of return of 11.25% to generate a return on ratebase. It then adds the estimates for interest expense, federal income tax, state income tax, and operating expenses. Calaveras then subtracts a billing and collection amount, based on a 2006 Interstate Cost Study factor, to derive its estimate of Interstate Access Revenue. After analyzing Calaveras' model, CD finds it to be reasonable and concurs with it. The difference in the calculation of Interstate Access Revenues for Test Year 2009 results from differing estimates of ratebase, taxes, and operating expenses between Calaveras and CD. Calaveras' estimate of $2,944,466 is 17.88% greater than CD's estimate of $2,497,819.

Interstate Universal Service Fund Revenue

Calaveras estimated the Interstate Universal Service Fund (USF) for 2009 to be $2,151,797 based on 2007 data. CD estimated Interstate USF to be $2,111,529, based on the 2009 projected payment provided by National Exchange Carriers Association, Inc. (NECA) on October 1, 2008 to the Federal Communications Commission, which was not available to Calaveras when it made its GRC filing.

Differences between Calaveras' estimate of CHCF-A revenue and CD's estimate result from the goal of each to achieve a Net Operating Income such that a 10% rate of return on Total Rate Base is obtained.

Total Operating Revenues at Proposed Rates

Calaveras' basic rates are at the 150% level of comparable California urban rates as of the date when the GRC was filed[2]. Calaveras proposes to leave basic service rates unchanged. However, Calaveras proposes to increase its optional rates and one-time service charges. The new charges would result in an increase of $42,860.

Calaveras proposes the following rate increases:

- Increase the Multi-Element Service Charges in Schedule No. A-16 for connecting new or additional service for central office lines from $18 to $20, for changing existing service or adding new or additional service other than central office lines from $8 to $9, for Central Office Connection work per line or trunk from $20 to

[2] 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.

$22, Restoral Charge per line or trunk from $25 to $27 and Payphone Premises Visit charge from $85.25 to $95.00.

- Increase the Visit Charge in Schedule No. A-21 for customer premise from $45 to $75 during normal work hours (8:00 a.m. to 4.30 p.m., Monday through Friday) and from $55 to $85 for other than regular working hours. Also increase Inside Wiring Maintenance Service charges in Schedule No. A-26, and Intrabuilding Network Cable in Schedule No. A-32. Charge for normal hours (8:00 a.m. to 4:30 p.m. M-F) was increased from $45 to $75 and for other hours was increased from $55 to $85. In addition, the Inside Wiring Maintenance Service Monthly Plan for Business was increased from $1.00 to $3.00 and the Inside Wiring Maintenance Service Monthly Plan for Residence was increased from $0.60 to $1.00 in Schedule A-26.

- Increase the Returned Check Charge in Rule No. 9 from $10 to $20.

- Institute a Late Payment Charge on balances of $20 or more for bills not paid 21 days after the bill was mailed.

- Increase Interexchange Carrier Selection Process for Equal Access for the IntraLATA Primary Exchange Carrier from $5.00 to $5.50 and increase the Interexchange Carrier Selection Process for Equal Access for IntraLATA/InterLATA Primary Exchange Carrier from $2.50 to $2.75 in Schedule No. A-34.

- Eliminate the Direct Dialed Calls to Directory Assistance Call Allowance for Residence and Business, and increase the charge for Direct Dialed Calls to Directory Assistance from $0.25 to $0.50 for each direct dialed call in Schedule No. B-7.

After analyzing the proposed rate increases, reviewing the data, and noting that the proposed rates and charges are in line with the industry and serve to lower the draw from the CHCF-A fund, CD believes Calaveras' proposed rate increases are reasonable except for the elimination of the residential Directory Assistance Call Allowance. Residential customers currently have a Directory Assistance Call Allowance of five calls and CD believes it to be unreasonable that the call allowance be eliminated. CD proposes that residential customers be permitted to have a Directory Assistance Call Allowance of one call per month.

CD would also modify Calaveras' Multi-Element Service Charges proposal. CD proposes to separate the charge for connecting new or additional service into a residence component and a business component. CD then proposes to increase the residence component charge from $18 to $22 (as Calaveras has proposed) and increase the business component charge from $18 to $27. Similarly, CD proposes to separate Central Office Connection charge into a residence component and a business component. CD then proposes to increase the Central Office Connection residence component charge from $20 to $24 and the Central Office Connection business component charge from $20 to $28.

CD proposes to increase Flat Rate Exchange Service rates in Schedule No. A-1. As indicated above, Calaveras' basic rates were at 150% level of comparable urban rates when the GRC was filed, the urban rate standard consisting of AT&T's monthly residence flat rate of $10.69. In D.08-09-042 as modified by D.08-10-040, Universal Regulatory Framework ILEC's (Incumbent Local Exchange Carriers) will adopt a transitional plan for increases to Basic Residential rates effective January 1, 2009. AT&T plans to implement a rate change on January 1, 2009 so that its monthly residence flat rate will be increased to $13.50 on that date and its Lifeline rate will increase to $6.11. As indicated above, Calaveras serves two exchanges, Copperopolis and Jenny Lind. The monthly residence flat service rate for the Copperopolis exchange is currently $16.05. Accordingly, CD is proposing that the residence flat service rate for the Copperopolis exchange be increased to $20.25 or 150% of AT&T's residence flat service rate of $13.50. The Lifeline rate for the Copperopolis exchange would increase to $6.11. The monthly residence flat service rate for the Jenny Lind exchange is currently $17.00, consisting of a residence rate of $16.05 and an Extended Area Service (EAS) increment of $0.95. Since the residence rate will increase to $20.25 (as in the Copperopolis exchange), CD is proposing to increase the monthly residence flat service rate for the Jenny Lind exchange to $21.20. The Lifeline rate for the Jenny Lind exchange would increase to $6.11.+ $0.48 (half the EAS increment) or $6.59.

CD is also proposing to increase the monthly business flat service rate for the Copperopolis exchange from $19.25 to $22.14 and the monthly business flat service rate for the Jenny Lind exchange from $22.00 to $25.30. These increases reflect the fact that Calaveras is a high cost company and the proposed monthly rates compare favorably with monthly rates of companies that offer business flat rate service, that have a mix or urban and rural customers and/or are of a similar size and have a service territory not far from, or contiguous, to Calaveras' service territory (the monthly business flat rates for Volcano, Frontier, and Surewest are between $30 and $40, approximately).

Additionally, CD proposes increases to the following services:

- Increase the Business Call Forwarding monthly rate from $3 to $4, the Residence Call Forwarding monthly rate from $2 to $3, the Residence Call Waiting monthly rate from $3 to $4, and the Residence Three Way Calling monthly rate from $3 to $4 in Schedule A-15. Adjustments for price elasticity were applied by CD in response to concerns raised by Calaveras in its meeting with CD and in response to information provided in subsequent data requests. The proposed rate increases will bring the rates for these services more in line with the rates that the telephone companies stated above charge for their comparable services.

The rates and charges proposed by CD would result in an increase of $266,210 from CD's estimate of 2009 revenues at present rates.

Uncollectibles

Uncollectibles are based on bad debts associated with local revenue and intrastate access revenues. Calaveras states that the estimates of local debt of $9,718 and intrastate access debt of $79,823 are based on the average of the historical record. CD has reviewed the historical record and does not agree with Calaveras' estimate of test year 2009 uncollectibles. CD developed a five year average (2003-2007) to obtain a local revenue uncollectible rate of 0.62% and an intrastate access revenue uncollectible rate of 5.92%. Accordingly, CD estimates that Uncollectibles for 2009 at present rates is $43,981 which compares with Calaveras' estimate of $89,541 as shown in Appendix B. CD estimates that Uncollectibles for 2009 at proposed rates will be $45,631 compared with Calaveras' estimate of $91,620 as shown in Appendix C. The use of this ratio is more representative of a business cycle and takes into consideration the difference between uncollectibles from Calaveras' customers, and other carriers that may go out of business.

Total Operating Expenses

Calaveras' estimate of total company operating expenses (less taxes and less depreciation) at $5,575,784 is greater than CD's estimate of $4,214,186 by $1,361,599 or 32.31%. A comparison of CD's and Calaveras estimates of total operating expenses for the test year 2009 is shown in Appendix A. Differences between CD and Calaveras estimates includes the following: a) elimination of salary and benefits for a proposed new employee in 2009, b) capping benefits at 38% of salaries and wages, c) reduction in regulated portion of executive salaries, d) reduction in the rate case expenses and, e) the difference between the use of nine month annualized data for 2007 in Calaveras initial filing and its use of a self-judged capped annual growth rates in labor and non-labor expenses and the Constant Dollar Method (CDM) as used by the Commission. These differences were discussed in the September 11, 2008 meeting between CD staff and Calaveras representatives. Details of the results are described below.

For operating expenses, Calaveras forecasted 2009 expenses based on the following methodology. First, Calaveras separated labor expenses into salaries and benefits and non labor expenses into rent, clearance, and others. Then, it took 2007 expenses and applied an 8% capped growth rate to labor expenses and 2% capped growth rate to non-labor expenses and added two proposed employee expenses for 2008 to project 2008 expenses. These growth rates were solely based on the company's own judgment which, CD could not independently verify. Finally, Calaveras used 2008 expense projections and used the same growth rates as used in 2008, added the two proposed employee expenses for 2009 and projected its 2009 test year expenses. Calaveras believes this methodology to be reasonable for a small company.

CD does not agree with Calaveras' estimated labor related and non labor expense growth rates. The growth rate factor used by Calaveras is too high compared to the Division of Ratepayers Advocates' of the California Public Utilities Commission (DRA's) labor and non-labor inflation factors[3]. CD used Calaveras' recorded expenses in terms of labor and non-labor expenses and applied the CDM to estimate Calaveras' 2009 expenses. This is the same methodology used in T-16756 for adopted Calaveras previous General Rate Case in 2003.

The constant dollar method is used to measure financial statement items in dollars of the same (constant) purchasing power. Historical cost is restated in units of constant purchasing power as follows:

(Historical Expense) X (Average CPI for the Current Year/CPI at Time of Expense incurrence)

Restating all accounts in constant dollars provides greater comparability among years because all expenses appear in the same current year average dollars regardless of when the expense was incurred.

Therefore, CD used Calaveras' recorded expense figures from the annual reports for the years 2005, 2006 and 2007 and then applied the recorded inflation factors for labor and non-labor for each year to convert the recorded expenses to 2007 dollars. CD then developed an average of the inflation-adjusted amounts for those three years and used it as its base estimates. CD then applied the cumulative inflation factors for 2008 and 2009 to the base estimate to arrive at the test year 2009 estimate. Because rent expenses are not subject to the same variability as other types of expenses, the CDM was not applicable. CD accepted Calaveras recorded rent expenses and escalated it into the test year using DRA's estimated non-labor escalation factor.

At the September 11, 2008 meeting between CD staff and Calaveras representatives, Calaveras expressed its concern that February 2008 labor and non labor inflation factors

[3] Division of Ratepayer Advocates: Estimates of Non-labor and Wage Escalation Rates for 2008 through 2012 from the October 2008 Global Insight U.S. Economic Outlook.

Year	Labor (%)	Non-labor (%)
2007	3.75	3.0
2008	2.9	7.4
2009	4.3	0.0

data were dated. In response to this concern, CD updated its estimates and utilized the latest DRA's data issued on October 31, 2008.

Calaveras initially requested to add four new employees in year 2008 and 2009. Calaveras' proposed four new employees carry an annual cost of $219,825 in year 2009. After reviewing the Calaveras justifications, CD accepts the addition of three new employees and has added the associated expense to its 2009 estimate. CD does not agree with the addition of one of the two new Central Office Tech/Installer/Repair Persons in 2009. Given the down turn in the housing market and existing economic conditions in the Calaveras territory, and based on staff field investigation, CD concludes Calaveras would be sufficiently staffed with one additional Central Office Technician earmarked for 2008 to maintain the current level of service quality to its customers. Elimination of the second proposed Central Office Technician for 2009 reduces expenses by $62,857 for related salary and benefits.

CD examined the Payroll expense separately from the analysis of the individual accounts. CD found that two of executive employees have similar titles and overlapping responsibilities. Although CD recognizes that it is Calaveras business decision to staff as many positions as it chooses, CD does not find it reasonable for ratemaking purposes to fund these duplicative expenses in its General Rate Case. CD, therefore, reduces the corporate operation salary expenses by disallowing the regulated salary of one executive position by $113,692 from the base three year average calculation.

Calaveras' level of benefits to total compensation appears to be excessive. For test year 2009, the ratio of benefits to total compensation is 64.04%. CD believes a ratio of 30% is more reasonable. CD arrived at this percentage when it calculated the percentage of benefits to total compensation that the State of California pays Commission employees. Latest data provided by the Fiscal Office of the Commission shows as of June 30, 2008, total staff benefits to total staff salaries and wages is 31.21%. In most cases it is accepted that state government employees receive a better benefits package when compared to employees in the private sector.

At the same meeting with CD staff, Calaveras representatives expressed their concern about the 30% benefit estimate. CD staff offered to review reasonableness of the detailed components of benefits as submitted for end of the year 2007 expenses and the company agreed to provide the requested data. Calaveras provided a list of salaries/wages and benefits for 2007. Upon further review of these details and discussions with Calaveras, CD found, each employee regardless of position is given an annual bonus sum in addition to salaries and wages. The sum of $67,500 for bonuses paid to 45 listed employees is disallowed. Further, actual benefits paid to or on behalf of the employees included items that are not prudent and reasonable to be included in the rate case. CD acknowledges it is the company's business decision to expend benefits to include items such as reimbursement of employees out of pocket expenses not covered by their medical insurance plan, profit sharing, and purchase and distribution of goods to employees, but these expenses must not be borne by rate payers. Therefore, when these items were withdrawn from total benefits, the benefit to salary ratio dropped to 27% which is lower than CD's proposed 30%. Hence, initially, CD determined that 30% cap for benefit to salary ratio is reasonable.

Calaveras estimate of rate case expenses is $225,000 amortized over a three year period and hence, it added $75,000 to expenses for the test year 2009. In Calaveras' last rate case, the Commission authorized rate case expenses of $50,000 for test year 2004. Using the non-labor inflation factors for 2007, CD projects that the rate case expenses for test year 2009 would be $61,500 and is added to the Corporate Operations Expense category. This reduces rate case expenses by $13,500 for the test year 2009.

Rate Base

CD examined Calaveras' Rate Base components, which include Telephone Plant-in-Service, Telephone Plant-under-Construction, Materials & Supplies, Working Cash, Depreciation Reserve, Deferred Income Taxes, and Customer Deposit.

Calaveras' estimated plant in service as of December 31, 2007 was forecasted based on balance as of October 31, 2007 plus November and December 31, 2007 forecasted additions and retirements. Calaveras' estimates average plant in service for test year 2009 to be $29,923,181. CD used the 2007 recorded ending plant in service balance to develop 2009 plant in service. CD estimates average plant in service for test year 2009 to be $28,893,428. This difference is the result of CD adjusted Calaveras' planned Copperopolis Exchange Central Office Transmission Projects, Copperopolis Exchange Aerial Cable Projects, Jenny Lind Exchange Buried Fiber Projects and General Support Equipment.

Calaveras conducted a depreciation study to update its depreciation rates for test year 2009. Calaveras used its proposed depreciation rates to develop 2009 estimated depreciation expense accruals. CD reviewed Calaveras' proposed depreciation rates and compared them with other small telephone companies' depreciation rates. CD finds Calaveras' proposed depreciation rates to be reasonable and therefore accepts its estimate as submitted. CD used Calaveras' proposed depreciation rates to develop 2009 estimated depreciation expense accruals. CD used the 2007 recorded depreciation reserve balance as the basis to develop the 2009 depreciation reserve. The differences are due to different estimates of average plant in service balance.

Calaveras' estimates Construction Work in Progress for test year 2009 to be $813,911. Calaveras' estimate was based on average ratio of 2.72% between Construction Work in Progress and plant in service from 2002 to 2006. CD compared with other small telephone companies and finds Calaveras' estimate to be reasonable. CD estimates Calaveras' 2009 Construction Work in Progress to be $785,901. The difference is due to variations in Calaveras' and CD's plant in service estimates.

Calaveras uses 1.27% of average plant in service balance to determine its test year total company materials and supplies estimate of $381,436. CD compared with other small telephone companies' materials and supplies ratio. CD finds Calaveras' estimate to be reasonable. CD estimates Calaveras' 2009 material and supplies to be $366,947. The difference is due to the difference in Calaveras' and CD's plant in service estimates.

Both Calaveras and CD used the Simplified Method described in the CPUC's Standard Practice U-16 to arrive at the working cash estimate. The Simplifies Method was authorized by the Commission for California small telephone companies to calculate working cash allowance. Calaveras' estimates its 2009 test year working cash requirement to be $531,630 whereas CD's estimate is $404,704 or 23.87% lower than that computed by Calaveras. The differences in the figures are the result of differing expense and revenue estimates.

Calaveras estimated the deferred income taxes by taking the ratio of the 2006 average deferred income taxes to the 2006 average plant in service. A negative 6.00% ratio was then applied to the forecasted 2009 plant in service to derive the 2009 deferred income taxes. CD reviewed Calaveras' recorded deferred income taxes and plant in service from the years 2002 through 2006 and finds Calaveras' estimation method to be reasonable. Calaveras estimates its 2009 test year deferred income taxes to be $1,796,585, whereas CD's estimate is $1,733,606. The difference is due to the difference in Calaveras' and CD's plant in service estimates.

CD reviewed Calaveras' customer deposit for test year 2009 and finds it reasonable. CD therefore accepts Calaveras' estimate as submitted. Calaveras' 2009 customer deposit estimate is $873.

CD accepted Calaveras' 2008 and 2009 buried cable budgets. However, there was $90,000 overrun in 2007 budget. CD deducted $90,000 budget from 2008. Calaveras argued that the project was a 2.25 mile cable extension to be placed down a county road. This extension was nearly full rock cover, requiring the extensive use of expensive rock saws. CD has actually not eliminated any of these two year budgets. CD believes if the first year budget overrun, the second year budget should be tightened. We concur with CD's position that $90,000 overrun budget in 2007 should be offset in 2008.

Calaveras revised plant-in-service budget to include $250,000 for the billing system upgrade. This system upgrade is including: 911 Enhancement, Customer Service Database Upgrade, Bundle Tariff Packages, and ULTS Processing. CD has reviewed its budget and found the investment is necessary and reasonable. CD includes $250,000 budget in test year 2009. We agree CD's adjustment that $250,000 billing system upgrades will be on test year 2009 budget.

Results of Operations

CD calculates that Calaveras will earn in test year 2009 a total company overall rate of return of 2.77% at present rates as compared to Calaveras' calculation of -1.61% as shown in Appendix A. CD concludes Calaveras is earning below CD's goal of an overall rate of return of 10.00%. CD's estimates for Calaveras reflect its revisions to Calaveras' estimates of revenues, expenses, and rate base.

Separations

Calaveras provides both intrastate and interstate telecommunications services, subject to the regulation of the CPUC and FCC, respectively. Because Calaveras' property serves both jurisdictions, the utility's expenses, taxes, investments, and reserves are allocated (separated) between interstate and intrastate services according to FCC rules. CD reviewed Calaveras' separation factors and finds them to be reasonable. Appendix B compares Calaveras' and CD staff's total company (interstate and intrastate) results of operations for test year 2009 using these separation factors.

Cost of Capital

Calaveras requests an overall intrastate rate of return of 10.00%. This is the same rate of return that was authorized by Resolution T-16756 for its last general rate case filing for test year 2004. CD recommends that the Commission should approve Calaveras' 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 D shows CD's computation of Calaveras' 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 Calaveras, based on a recommended intrastate rate base of $10,419,310 and rate of return of 10.00%, the recommended gross intrastate revenue requirement change required is an increase of $1,694,877.

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 rates (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 AT&T urban rate as necessary, and both the means test and the waterfall provisions should apply.

Calaveras estimated CHCF-A support for test year 2009 at present rates to be $527,498. The CHCF-A 2009 support is derived from using Calaveras' 2008 initial draw of $649,122, adding the $2,030,173 National Exchange Carriers Association Inc. (NECA) estimated USF Federal support for 2008, and subtracting Calaveras' projected 2009 USF Federal support of $2,151,797. CD calculated CHCF-A in a similar manner, except that CD's 2009 USF Federal support is $2,111,529 (Federal USF support is based on the 2009 projected payments for the California Exchange carriers as filed by the National Exchange Carriers Association, Inc. (NECA) on October 1, 2008 with the Federal Communications Commission) which, as noted previously, was not available to Calaveras when it made its GRC filing. Accordingly, CD's estimated CHCF-A support for test year 2009 at present rates is $567,766.

The intrastate results of operations at present rates show that Calaveras registers an intrastate rate of return of 0.22% as shown in Appendix B, column F. Appendix C shows Calaveras' intrastate results of operations, at proposed rates, using the 10.00% intrastate rate of return.

CD's computation of Calaveras' CHCF-A requirement is $ 1,998,083 based on CD's projected revenues (including rate design), expenses, rate base and overall intrastate rate of return of 10% for test year 2009.

COMMENTS:

In accordance with P.U. Code Section 311 (g) CD mailed a notice letter was e-mailed on November 4, 2008 to the interested parties, and informing these parties that this draft resolution is available on the Commission's website http://www.cpuc.ca.gov and is available for public comments. In addition, CD informed the parties that the conformed resolution will also be available on the same website.

On November 18, 2008 Cooper, White and Cooper, (Cooper) filed timely comments on the behalf of Calaveras. Cooper raised the following issues with the draft resolution:

1. The Commission should not increase residential service rates at this time

In its comments Calaveras argues that the magnitude of the increase to basic service proposed in the DR is not required. Calaveras further argues that the basic rate should be reexamined in connection with its 2009 CHCF-A filing, or that any increase to the basic rate be phased in over two or three years, with offsetting increases in CHCF-A draws to replace revenues.

The Commission's CHCF-A rules currently require that small LECs' residential service rates be at least 150% of AT&T's urban rate, and it is for this reason that CD is increasing Calaveras' residential basic rate. The required adherence to this "150% mechanism" is evidenced by the Commission's adoption of previous GRC resolutions in which the small LEC's local residential rates were increased to at least 150% of AT&T's (Pacific Bell's or SBC's) rates. This 150% mechanism was adopted by the Commission in Decision (D.) 91-09-042; Appendix.

The recent Commission decision (D.) 08-09-042 in footnote number 29 reaffirms the requirement that companies who wish to receive CHCF-A support must first be at 150% of the AT&T rate. The foot note states as follows, *"CHCF-A guidelines require a small LEC's CHCF-A requirement to first be met by increases in its local exchange rates up to, but not to exceed, 150% of comparable California urban rates. After this rate limit has been met, the small LECs can then apply for CHCF-A funding if they make regular GRC filings."*

Further, in Ordering Paragraph 3 of the original Decision 88-07-022, that established HCF (now called CHCF-A) and the 150% requirement, states, "*Recover the remaining settlement effects from the intrastate High Cost Fund if the revised basic local rates do not fully recover the settlement effects but the 1-party residence flat rate has reached the 150% threshold level*"

Additionally, Resolution T-13038 further affirms in Finding of Fact Paragraph 5 that, "*To be eligible for intrastate HCF, D.88-07-022 requires the LECs to propose a rate design that will increase or decrease basic exchange access line service rates by a uniform percentage while maintaining the 150% threshold level of comparable California urban rates presently measured by Pacific's 1-R flat rate of $8.35 per month."*

It is clear from a review of Commission Decisions and the precedent set by countless GRC resolutions that Calaveras' basic residential rate must be at the 150% level for them to continue to be eligible to receive CHCF-A funding.

Calaveras further argues that an elasticity factor should also be applied to any basic rate increase ordered as well. In its comments Calaveras states that the increase to its basic residential rate will result in access line losses which will further result in losses of revenues from associated custom calling features and access revenues. Deteriorating economic conditions increase the risk of customers dropping off the network if basic service rates are increased significantly. Loss of customers will increase draws from the CHCF-A Fund in relatively short order, so increases of the magnitude proposed in the

DR should be delayed for at least a year, and in not implemented unless required by Commission's CHCF-A rules.

In the draft resolution, CD has adjusted revenues for the custom calling and access services and charges which have been increased by 25% or more, in response to Calaveras' expressed concerns. However, CD does not agree that basic residential service is subject to the same elasticity factors as custom calling and access services. Furthermore, CD has not received any data from Calaveras that demonstrates its conclusion that the rate increase will result in lost access line revenues.

Given that AT&T has increased pricing flexibility under URF, we will be reviewing in the immediate future whether to continue linking the company's Basic Residential rate to 150% of AT&T's Basic Residential rates as a condition for the company to receive CHCF-A support. We recognize that the changed circumstances may support reconsideration of this practice and we will also consider whether any changes we make should be reflected on a prospective basis for the company's rates.

2. Effective Date and Customer Notice

Calaveras comments that the adoption of this resolution on December 18, 2008 will not allow a 30-day notice to its customers. CD has recommended that the 30-day notice requirement be waived and that Calaveras send notice, within 7-days of adoption of this resolution, to all customers regarding the increases and changes to its rates and charges. Additionally, CD recommends that Cal-Ore file a Tier 2 advice letter supplement, within 7-days of the adoption of this Resolution, with a revision to its tariff schedules, for all the increases and changes to its rates and charges as proposed in this resolution and as discussed in the Revenue Section of this resolution. The effective date for all changes contained in Cal-Ore's AL supplement will be January 1, 2009

3. The method for computing uncollectibles is not consistent with the methodology employed to compute expenses and should be revised.

Calaveras asserts that the method utilized in the draft resolution for computing uncollectibles is not consistent with the methodology used to compute other expenses categories as it does not include recorded data from 2007. CD agreed with Calaveras assertion and therefore requested Calaveras provide CD with 2007 recorded uncollectible data. In response CD has modified its calculation to include 5-year (2003, 2004, 2005, 2006, and 2007) average uncollectibles to arrive at an uncollectible rate of 0.62% for local service revenue, and 5.92% for intrastate access revenue. CD used these new percentages to derive its 2009 test year uncollectible estimates for proposed rate. (There is no change for intrastate access revenue in present and proposed rates.)

4. The DR contains computation errors that may require correcting.

Calaveras indicated that the draft resolution contains several apparent computational errors that may require correcting. CD used Calaveras' revised 2008 and 2009 capital budget additions to adjust Calaveras' original budgets. CD used Calaveras 2007 annual report to update Calaveras plant-in-service. CD has reviewed its 2008 and 2009 calculation and adjustment. CD has found no computational errors.

5. The Commission should not reduce employee benefits.

Calaveras argues in its comments that the Commission should not reduce its employee benefit expense to 30% of salaries. While Calaveras asserts that, *"the premise of comparable benefits is not challenged by Calaveras at this time, the alleged 30% benefit to salary ratio is wholly unsupported."* In response to Calaveras' comments, CD has revised it's adjustments to more accurately reflect the benefit expense levels of it and other small telephone companies operating in California. Standard industry benefits have been imputed for ratemaking purposes.

CD further reviewed the detail components of Calaveras benefits and Profit Sharing Plan. CD determined that a cap of 10% on employer's contribution to the Profit Sharing Plan is reasonable. It would be up to the shareholders or employees to cover the remainder 5%. Further, CD used the detail data provided by Calaveras on employees' benefits and salaries. After disallowance of specific items as noted above, CD reached a benefit to salary ratio of 38% and has determined to be reasonable and is then being used for ratemaking purposes. .

In addition, CD staff surveyed regulated small water companies which have between 2,000 and 10,000 customers and which file rate cases with the Commission. CD found their average benefit to salary ratio was 28%[4] Further, CD staff studied the latest available data from the U.S. Bureau of Labor Statistics (BLS), dated December 10, 2008[5] and found that BLS included paid leaves in its benefit calculations. The BLS data also indicated that for all small private companies with 1-49 employees total benefits to salaries and wages was 34%, and for all small private companies with 1-99 employees the ratio was 35.5%[4]. All of these ratios were below CD's proposed rate of 38%. Therefore, CD's concludes that its proposed benefit to salary ratio of 38% for Calaveras is appropriate and adequate.

6. The EAS increment should be removed of basic rates are increased.

Calaveras in its comments argues that the EAS (Extended Area of Service) increment should be removed from rates if basic residential rates are increased**.** However, EAS extends the geographic reach of a local toll-free calling area. If rate centers are greater

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[4]Kenwood GRC filing Test Year 2009 at 28%, Alco Annual Report 2007 at 47%, East Pasadena Annual Report 2007 at 23%, Fruitridge Annual Report 2007 at 25%, Del Oro Annual Report 2007 at 18%.
[5] http://www.bls.gov/news.release/ecec.nr0.htm.
[6] Ibid, Table 8.

than 12 miles apart in as in the case of Calaveras, the calls between exchanges are rated as toll calls. EAS permits customers in one exchange to extend the toll-free calling area. Elimination of the EAS will result in customers having to pay local calls which will be exceedingly higher than the EAS increment. Calaveras must not have considered that the elimination of EAS would essentially make local calling prohibitively expensive for those offered this service.

7. The DR should incorporate upcoming NECA separations methodology changes.

The procedure for changes such as these is as follows. In each succeeding year, each rural carrier shall file with the Commission an advice letter incorporating the net settlement effects upon such company of regulatory changes ordered by the Commission or the FCC. These advice letter filings will include all other regulatory changes of industry wide effect such as changes in separations and accounting methodology, EAS settlement revenues and the effects of other Commission decisions which increase or decrease settlement revenues or cost assignments.

CD finds Calaveras' proposal to adjust NECA separations methodologies for test year 2009 reasonable, pending FCC approval. Calaveras will be able to incorporate these changes in their next California High Cost Fund-A filing.

Findings

1. Calaveras Telephone Company, Inc. (Calaveras) filed its General Rate Case (GRC) on December 21, 2007, with a Test Year of 2009 in compliance with Decision 01-05-031.

2. Calaveras requests the following for test year 2009:

   - An increase in its California High Cost Fund-A (CHCF-A) draw for 2009 to $3,404,944;
   - An intrastate rate of return of 10.00%, the same return granted to it in its last GRC filing in 2003;
   - An Intrastate total operating revenue of $7,355,891; and
   - A total intrastate rate base amount of $11,111,113.

3. Communications Division (CD) recommends the following for Calaveras for test year 2009:

   - A California High Cost Fund-A (CHCF-A) support of $1,998,083;
   - An Intrastate Rate of Return of 10.00%;
   - An Intrastate total operating revenue of $6,231,844; and
   - A total intrastate rate base amount of $10,424,406.

4. The differences in the revenue, expense, and rate base estimates between Calaveras and CD result from the use of different methodologies and assumptions for estimating revenue, expense and rate base estimates.

5. The Commission finds CD's methodology in estimating revenues to be reasonable. The Commission therefore adopts CD's recommended intrastate revenues as shown in Appendix C.

6. The Commission accepts CD's recommended overall intrastate rate of return of 10.00% for Calaveras for test year 2009.

7. The Commission finds Calaveras' updated depreciation rates for test year 2009 developed in Calaveras' depreciation study acceptable for ratemaking purposes for test year 2009.

8. The Commission finds CD's methodology of using the constant dollar method in estimating expenses to be reasonable and adopts CD's recommended test year 2009 expense estimates contained in Appendix C.

9. The Commission finds CD's methodology in estimating rate base to be reasonable. The Commission therefore adopts CD's recommended intrastate rate base as shown in Appendix C.

10. The Commission finds CD's recommended $1,998,083 CHCF-A support for Calaveras for 2009 to be reasonable. The $1,998,083 CHCF-A support is based on the Commission's adoption of CD's Intrastate Results of Operations for Calaveras for test year 2009.

11. The Commission finds Calaveras' request for rate increases of $42,860 due to increases to some optional services and one-time charges to bring its prices more in-line with the telephone industry to be reasonable, except for the elimination of the residential Directory Assistance Call Allowance.

12. The Commission finds CD's request for rate increases of $266,210 due to increases in basic rates, some optional services and one-time charges to bring its prices more in-line with the telephone industry to be reasonable.

13. The Commission finds CD's request that residential customers be permitted to have a monthly Directory Call Allowance of one call to be reasonable.

14. The Commission finds CD's methodology and estimate of Uncollectibles for 2009 to be reasonable. CD's uncollectible estimate at proposed rates results in a revenue

increase of $45,989 in comparison with Calaveras' estimate at proposed rates as shown in Appendix C.

15. CD recommends that the Commission waive the 30-day notice period required under G.O. 96-B allowing Calaveras to file a Tier 2 Advice Letter supplement revision to its tariff schedule to be reasonable.

16. 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 2009 identified in Appendix C, column (E) are adopted for Calaveras Telephone Company, Inc. (Calaveras)

2. Calaveras shall send a notice, within 7 days of adoption of this resolution to all customers regarding the increases to all Calaveras' rates and charges.

3. Residential customers will be permitted to have a monthly Directory Call Allowance of one call.

4. The overall intrastate rate of return of 10.00% is adopted for Calaveras Telephone Company, Inc., for test year 2009.

5. The depreciation rates based on a recent depreciation study which were submitted by Calaveras Telephone Company, Inc., in support of its General Rate Case Advice Letter No. 303 are adopted for ratemaking purposes for test year 2009.

6. The Calaveras Telephone Company, Inc.'s CHCF-A draw for 2009 is $1,998,083.

This Resolution is effective today.

I hereby certify that the Public Utilities Commission at its regular meeting on December 4, 2008 adopted this Resolution. The following Commissioners approved it:

PAUL CLANON
Executive Director

APPENDIX A
CALAVERAS TELEPHONE COMPANY
TOTAL COMPANY RESULTS OF OPERATIONS
AT PRESENT RATES
TEST YEAR 2009

		CALAVERAS	CD	UTILITY EXCEED ($) AMOUNT	STAFF (%) DIFF.
		(A)	(B)	(C)	(D)
	OPERATING REVENUES				
1	Local Network Services	1,253,588	1,209,245	44,343	3.67%
	Intrastate:				
2	Access Rev.	506,431	616,276	(109,845)	-17.82%
3	Toll Rev.			-	
4	Interstate USF	2,151,797	2,111,529	40,268	1.91%
5	Interstate Access Rev.	2,944,466	2,497,819	446,647	17.88%
6	Miscellaneous Rev.	100,359	94,102	6,257	6.65%
7	CHCF - A	527,498	567,766	(40,268)	-7.09%
8	Less: Uncollectibles	(89,541)	(43,981)	(45,560)	103.59%
9	**Total Oper. Revenue**	7,394,598	7,052,756	341,842	4.85%
	OPERATING EXPENSES:				
10	Plant Specific	1,826,311	1,700,151	126,160	7.42%
11	Plant Non-Specific (less depr.)	940,746	593,869	346,877	58.41%
12	Customer Operations	889,027	620,252	268,775	43.33%
13	Corporate Operations	1,919,701	1,299,915	619,786	47.68%
14	**Subtotal**	5,575,785	4,214,187	1,361,598	32.31%
15	Depreciation & Amortization	2,335,606	2,261,198	74,408	3.29%
16	Other Taxes	127,242	127,242	-	0.00%
17	State Income Taxes	(86,964)	9,761	(96,725)	-990.93%
18	Federal Income Taxes	(304,907)	34,222	(339,129)	-990.97%
19	**Total Oper. Expense**	7,646,762	6,646,610	1,000,152	15.05%
20	**Net Revenues**	(252,164)	406,146	(658,309)	-162.09%
	AVERAGE RATE BASE:				
21	Telephone Plant-in-Service	29,923,181	28,893,428	1,029,753	3.56%
22	Tel. Plant Under Construct.	813,911	785,901	28,010	3.56%
23	Material & Supplies	381,436	366,947	14,489	3.95%
24	Working Cash	531,630	404,704	126,926	31.36%
25	Less: Deprec. Res.	(14,224,707)	(14,051,147)	(173,560)	1.24%
26	Def. Taxes	(1,796,585)	(1,733,606)	(62,979)	3.63%
27	Customer Deposit	(873)	(873)	-	0.00%
28	**Total Rate Base**	15,627,994	14,665,354	962,640	6.56%
29	**Rate of Return**	-1.61%	2.77%		

APPENDIX B
CALAVERAS TELEPHONE COMPANY
TOTAL COMPANY RESULTS OF OPERATIONS
AT PRESENT RATES
TEST YEAR 2009

		CALAVERAS			CD		
		TOTAL COMPANY	INTERSTATE	INTRASTATE	TOTAL COMPANY	INTERSTATE	INTRASTATE
		(A)	(B)	(C)	(D)	(E)	(F)
	OPERATING REVENUES:						
1	Local Network Services*	1,253,588		1,253,588	1,209,245		1,209,245
	Intrastate:				-		
2	Access Rev.	506,431		506,431	616,276		616,276
3	Toll Rev.				-		
4	Interstate USF	2,151,797		2,151,797	2,111,529		2,111,529
5	Interstate Access Rev.	2,944,466	2,944,466		2,497,819	2,497,819	
6	Miscellaneous Rev.	100,359	12,469	87,890	94,102	17,970	76,132
7	CHCF - A	527,498	-	527,498	567,766	-	567,766
8	Less: Uncollectibles	(89,541)		(89,541)	(43,981)		(43,981)
9	**Total Oper. Revenue**	7,394,598	2,956,935	4,437,663	7,052,756	2,515,789	4,536,967
	OPERATING EXPENSES:						
10	Plant Specific	1,826,311	534,196	1,292,115	1,700,151	497,294	1,202,857
11	Plant Non-Specific (less depr.)	940,745	325,498	615,247	593,869	205,479	388,390
12	Customer Operations	889,027	208,032	680,995	620,252	145,139	475,113
13	Corporate Operations	1,919,701	570,343	1,349,358	1,299,915	386,205	913,710
14	**Subtotal**	5,575,784	1,638,069	3,937,715	4,214,187	1,234,117	2,980,070
15	Depreciation & Amortization	2,335,606	695,310	1,640,296	2,261,198	673,159	1,588,039
16	Other Taxes	127,242	36,290	90,952	127,242	36,290	90,952
17	State Income Taxes	(86,964)	43,223	(130,187)	9,761	41,894	(32,133)
18	Federal Income Taxes	(304,907)	151,548	(456,455)	34,222	146,885	(112,663)
19	**Total Oper. Expense**	7,646,761	2,564,440	5,082,321	6,646,610	2,132,345	4,514,265
20	**Net Revenues**	(252,163)	392,495	(644,658)	406,146	383,444	22,702
	AVERAGE RATE BASE:						
21	Telephone Plant-in-Service	29,923,181	8,534,091	21,389,090	28,893,428	8,240,406	20,653,022
22	Tel. Plant Under Construct.	813,911	232,127	581,784	785,901	224,139	561,762
23	Material & Supplies	381,436	97,762	283,674	366,947	94,049	272,898
24	Working Cash	531,630	155,342	376,288	404,704	118,255	286,449
25	Less: Deprec. Res.	14,224,707	3,994,298	10,230,409	(14,051,147)	(3,945,562)	(10,105,585)
26	Def. Taxes	1,796,585	507,895	1,288,690	(1,733,606)	(490,090)	(1,243,516)
27	Customer Deposit	873	249	624	(873)	(249)	(624)
28	**Total Rate Base**	15,627,993	4,516,880	11,111,113	14,665,354	4,240,948	10,424,406
29	**Rate of Return**	-1.61%	8.69%	-5.80%	2.77%	9.04%	0.22%

APPENDIX C
CALAVERAS TELEPHONE COMPANY
INTRASTATE RESULTS OF OPERATIONS
AT PROPOSED RATES
TEST YEAR 2009

				UTILITY EXCEED STAFF		
		CALAVERAS PROPOSED (A)	CD PROPOSED (B)	AMOUNT (C)=(A)-(B)	% DIFFERENCE (D)	ADOPTED (E)
	OPERATING REVENUES:					
1	Local Network Services	1,296,448	1,475,455	(179,007)	-12.13%	1,475,455
	Intrastate:			-		
2	Access Rev.	506,431	616,276	(109,845)	-17.82%	616,276
3	Toll Rev.	-	-	-		
4	Interstate USF	2,151,797	2,111,529	40,268	1.91%	2,111,529
5	Interstate Access Rev.	-	-	-		
6	Miscellaneous Rev.	87,890	76,132	11,758	15.44%	76,132
7	CHCF - A	3,404,944	1,998,083	1,406,861	70.41%	1,998,083
8	Less: Uncollectibles	(91,620)	(45,631)	(45,989)	100.78%	(45,631)
9	**Total Oper. Revenue**	7,355,891	6,231,844	1,124,047	18.04%	6,231,844
	OPERATING EXPENSES:					
10	Plant Specific	1,292,115	1,202,857	89,258	7.42%	1,202,857
11	Plant Non-Specific (less depr.)	615,247	388,390	226,857	58.41%	388,390
12	Customer Operations	680,995	475,113	205,882	43.33%	475,113
13	Corporate Operations	1,349,358	913,710	435,648	47.68%	913,710
14	**Subtotal**	3,937,715	2,980,070	957,645	32.13%	2,980,070
15	Depreciation & Amortization	1,640,296	1,588,039	52,257	3.29%	1,588,039
16	Other Taxes	90,952	90,952	-	0.00%	90,952
17	State Income Taxes	127,784	117,694	10,090	8.57%	117,694
18	Federal Income Taxes	448,032	412,654	35,378	8.57%	412,654
			-			
19	**Total Oper. Expense**	6,244,779	5,189,409	1,055,370	20.34%	5,189,409
			-			
20	**Net Revenues**	1,111,112	1,042,435	68,677	6.59%	1,042,435
			-			
	AVERAGE RATE BASE:		-			
			-			
21	Telephone Plant-in-Service	21,389,090	20,653,022	736,068	3.56%	20,653,022
22	Tel. Plant Under Construction	581,784	561,762	20,022	3.56%	561,762
23	Material & Supplies	283,674	272,898	10,776	3.95%	272,898
24	Working Cash	376,288	286,449	89,839	31.36%	286,449
25	Less: Deprec. Res.	(10,230,409)	(10,105,585)	(124,824)	1.24%	(10,105,585)
26	Def. Taxes	(1,288,690)	(1,243,516)	(45,174)	3.63%	(1,243,516)
27	Customer Deposit	(624)	(624)	-	0.00%	(624)
28		11,111,113	10,424,406	686,707	6.59%	10,424,406
29	**Rate of Return**	10.00%	10.00%			10.00%

APPENDIX D
CALAVERAS TELEPHONE COMPANY
NET-TO-GROSS MULTIPLIER
TEST YEAR 2009

1	Gross revenue		1.00000
2	Uncollectible		0.00000
3	Net Revenues		1.00000
4	State Income Tax (Tax Rate times Ln. 3	8.84%	0.08840
5	Federal Taxable Income (Ln. 3 Less Ln. 4)		0.91160
6	Federal Income Tax (Tax Rate time Ln.	34.00%	0.30994
7	Net Income (Ln. 5 Less Ln. 6)		0.60166
8	**Net-To-Gross Multiplier** (Ln.1 Divided by Ln. 7)		**1.66207**
	Intrastate Revenue Requirement		
9	State Rate Base		10,424,406
10	Net Revenues at 10.00% (Ln. 9 Times 10%)		1,042,441
11	Net Revenue In Test Year 2009 At Present Rates		22,702
12	Change in Net Revenues (Ln. 10 Less Ln. 11)		1,019,739
13	**GROSS REVENUE CHANGE REQUIRED (Ln. 12 time Ln. 8)**		1,694,877
	CHCF-A SUPPORT		-
14	2009 CHCF-A SUPPORT AT PRESENT RATES		567,766
15	**2009 CHCF-A SUPPORT ESTIMATED** (Ln. 14 add Ln. 13)		**2,262,643**
			-
16	**PROPOSED RATES INCREASE***		(264,560)
17	**2009 CHCF-A** (Ln 15 add Ln 16)		1,998,083

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T-17184 Substantive Cover.