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PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Communications Division **RESOLUTION T- 17108**
Licensing, Tariffs, Rural Carriers and Cost Support Branch **October 4, 2007**

R E S O L U T I O N

Resolution T- 17108. Volcano Telephone Company. (U-1019-C). General Rate Case Filing In Compliance With G. O. 96-A, Paragraph VI; And To Grandfather Private Line services in Cal P.U.C. Schedule No. G-1.

By Advice Letter Nos. 335, 335A, 335B and 335C filed on November 20, 2006, January 24, 2007, June 6, 2007 and August 1, 2007, respectively.

Summary

This Resolution addresses the General Rate Case (GRC) request filed by Volcano Telephone Company (Volcano) through Advice Letters (ALs) 335, 335A, 335B and 335C filed on November 20, 2006, January 24, 2007, June 6, 2007 and August 1, 2007, respectively. In its filings, Volcano requests: a) changes to its tariff schedules to increase non-basic rates and charges (see Discussion); b) a California High Cost Fund-A (CHCF-A) support of $2,984,138 for test year 2008 and c) to grandfather its Private Line services and revise its tariff, CAL P.U.C. Schedule No. G-1 accordingly.

This Resolution adopts Volcano intrastate total revenues of $9,448,210 and an overall Intrastate Rate of Return of 10.00%. Volcano is authorized to draw $956,440 in (CHCF-A) support for test year 2008 in order to have the opportunity to earn an overall Intrastate Rate of Return of 10.00%.

This Resolution also authorizes Volcano to grandfather Private Line services and revise its tariff, Cal. P.U.C. Schedule No. G-1, accordingly.

Appendix A compares Communication Division's (CD) and Volcano's test year 2008 Total Company Results of Operations at present rates. Appendix B compares CD's and Volcano's Interstate and Intrastate Results of Operations at present rates. Appendix C

compares CD's and Volcano's Intrastate Results of Operations including CHCF-A adjustments at proposed rates and CD's calculation of Net-to-Gross Multiplier is set forth in Appendix D.

Background

Volcano is a local exchange carrier providing telephone services in Pine Grove, Pioneer, Volcano, West Point, Kirkwood Meadows and adjacent territory in portions of: Alpine, Amador, Calaveras, and El Dorado Counties. Volcano serves approximately 11,472 access-lines in its four telephone exchanges: Kirkwood Meadows, Pine Grove, Pioneer and West Point.

In its filing, Volcano requests: a) to increase its monthly rate for its inside wire maintenance plan from $0.75 to $2.00 for residence and business customers, increase its local directory assistance charge from $0.25 to $0.50 per billable call and increase its returned check charge from $10.00 to $20.00, b) a CHCF-A support of $2,984,138 for test year 2008 and c) to grandfather its Private Line services and revise its tariff CAL P.U.C. Schedule No. G-1 accordingly.

The California Public Utilities Commission (Commission), in D.01-05-031, set in motion the waterfall provision in 2002 for the then six small LECs that did not file a GRC by end of 2001. In response to that decision, Volcano filed a GRC in December 20, 2001 for test year 2003.

Notice/Protests

Volcano states that copies of the ALs 335, 335A, 335B and 335C were mailed to competing and adjacent utilities and/or other utilities. Notice of AL 335, 335A, 335B and 335C was published in the Commission Daily Calendar of November 29, 2006, January 26, 2007, June 8, 2007 and August 3, 2007, respectively. No protests to Advice Letter Nos. 335, 335A, 335B and 335C have been received.

On February 1, 2007, Volcano notified its customers by a bill insert of rate increases to some services effective January 1, 2008. There were no comments received from customers.

CD Staff held a public meeting in Volcano, California on March 5, 2007, to explain Volcano's filing to its customers and to give customers the opportunity to ask questions of Volcano's management and CD staff. Volcano notified customers of the rate review request and public meeting by a bill insert. No customers attended the public meeting.

Discussion

Total Operating Revenues

Volcano's estimate of total operating revenues of $15,172,226 at present rates is $28,731, or 0.19% lower than CD's estimate of $15,200,957. Differences between CD's and Volcano's estimates are described below.

In estimating total company revenues for test year 2008, Volcano used a regression analysis methodology in projecting its growth in billing units. (i.e., access lines). This statistical method is used to project the company's billing unit growth whereby the Coefficient of Determination (r2) is a tool used to indicate how well a dependent variable, in this case billing units for test year 2008, can be predicted by another set of data (billing units for previous years). The r2 range is from 0 to 1, with 0 indicating there is no relation to 1 to show a perfect correlation (or relationship), i.e. all changes in the dependent variable can be explained by the changes in independent variable(s). Values of r2 ranging between "0" and "1" indicate the strength of the relation. Typically, an r2 of less than 0.50 indicates a weak relation, whereas an r2 of 0.80 or more points to a strong explanatory relation. Using its methodology, Volcano estimated a 34% growth in billing units, with an r2 of 0.017075 indicating a very weak relationship between the dependent and independent variables used in Volcano's regression analysis.

Because of this weak correlation, CD does not believe that the billing units estimated by Volcano are accurate or reasonable. Instead, CD used the average monthly change in actual 2006 billing units to estimate Volcano's projected revenues for the 2008 test year. As a result, CD estimates the average monthly growth rate to be 0.0775% or 0.93% when annualized. To verify the reasonableness of this method in estimating Volcano's billing units' growth, CD further analyzed California Department of Transportation's (DOT) [1] 2006 Economic Forecast for Amador County. CD found that the annual population growth from 2006 to 2010 averaged 1.5% per year. CD's estimated growth rate of 0.93% is below this overall estimated population growth rate of Amador County. CD understands that DOT's overall population growth estimate does not translate to a 100% landline subscription growth or billing growth. This is because customers can subscribe to other means of voice communication services such as Voice over Internet Protocol (VOIP)[2] and

[1] http://www.dot.ca.gov/hq/tpp/offices/ote/forecast2006/Amador.pdf
[2] VoIP is a category of hardware and software that enables people to use the Internet as the transmission medium for telephone calls by sending voice data in packets using IP rather than by traditional circuit transmissions of the PSTN.

wireless telephone. Therefore, CD believes that its estimated growth rate of 0.93% is reasonable.

Using the average monthly method, CD's estimate of $3,306,422 for Local Network Services revenue is $19,024 higher than Volcano's estimate of $3,287,398. This amount includes an increase of $707 in network intrastate access revenues, and a reduction of $9,000 in uncollectible revenues. The reduction in uncollectible revenues is due to the fact that Volcano based its estimates on audited 2005 data, while CD used the latest available actual data, i.e. end of year (EOY) 2006 data . CD also used EOY 2006 data to estimate test year 2008 results.

Volcano proposes to increase rates and charges for certain telephone services that would result in an annual net revenue increase in customer billings totaling $50,822. These rate and charge increases and tariff changes are as follows:

- Return Check Charge from $10.00 to $20.00 (100%),
- Maintenance Inside Wire monthly rate for residence and business from $0.75 to $2.00 (167%),
- Local Area Directory Assistance charge from $0.25 to $0.50 (100%),
- Reduce the monthly local area directory assistance call allowance from 5 to 3 for residential services with a maximum allowance of three numbers per call or a total of nine numbers per billing period and from 2 to 0 for business.

With two exceptions, CD holds that Volcano's proposed rates are reasonable. First, CD believes inside wire maintenance is priced below market rate and should be priced at rates comparable to AT&T's ($2.99 for residence and $6.95 for business) and Verizon's ($2.99 for residence and $5.00 for business) rates. CD therefore recommends increasing Volcano's inside wire maintenance to the lower of the two large ILECs, from $0.75 to $2.99 for residential customers, and $0.75 to $5.00 for business customers.

For the same reasons stated above, CD also recommends increasing Volcano's rates for the following additional services:

- Residential caller ID monthly rate from $5.50 to $6.17, and
- Residential call forwarding monthly rate from $3.00 to $3.23.

CD therefore, recommends the Commission adopt CD's proposed rates and charges, and terms and conditions as stated below:

- Return Check Charge from $10.00 to $20.00;
- Local Area Directory Assistance charge from $0.25 to $0.50;

- Reduce the monthly local area directory assistance call allowance from 5 to 3 for residential services with a maximum allowance of three numbers per call or a total of nine numbers per billing period and from 2 to 0 for business;
- Residential Inside Wire Maintenance monthly charge from $0.75 to $2.99;
- Business Inside Wire Maintenance monthly charge from $0.75 to $5.00;
- Residential Caller ID monthly rate from $5.50 to $6.17 and
- Residential Call Forwarding monthly rate from $3.00 to $3.23.

Additionally, Volcano currently offers flat rate service to both its residence and business customers. CD recommends that Volcano be required to develop a rate design proposal in its next GRC filing for mandatory business measured service (i.e., eliminate flat rate business service) and a less expensive measured rate service option for residence customers. CD also recommends that Volcano in its next GRC filing include a notice of proposal to implement mandatory business measured rate service and a measured rate option for residence customers in the customer notice associated with the next GRC.

A comparison of CD's and Volcano's proposed intrastate operating revenue at proposed rates shows Volcano's estimate of $11,429,047 is $1,980,837 or 20.97% higher than CD's estimate of $9,448,210. (Appendix C)

<u>Operating Expenses</u>

Volcano estimates its test year 2008 total company operating expenses to be $ 7,079,100 (excluding depreciation and taxes). Volcano arrived at this amount by annualizing seven months of expenses (not including depreciation) that it had incurred by the time of its filing on November 17, 2006, equaling $6,204,195 (excluding depreciation and taxes), and inflating this amount by 3.72% once for 2007 and once more for 2008.

CD used Volcano's three year average expenses as a baseline rather than the 2006 annualized expenses. CD believes that using the three year average is more reasonable because it is less affected by anomalous spikes or dips in expenses that may have occurred in 2006. Volcano filed its annual report on March 23, 2007, detailing the company's actual 2006 expenses.[3] To determine the three year average, CD used the figures from the 2006 annual report instead of the annualized amounts in Volcano's original filing.

[3] Form M Schedule I-1 (FCC Armis 43-02 Report Format) of Volcano's Annual Reports for 2006

CD calculated the three year average by converting 2004, 2005, and 2006 expenses into 2006 dollars using the recorded inflation factors[4] and then averaging the three. CD proposes one adjustment to Volcano's 2006 operating expenses, a reduction of General & Administrative expenses by $189,908 for reasons indicated below.

In a data request, Volcano provided documents detailing the amount of each employee's wages charged to Volcano operating expenses versus charges to other affiliates in the Volcano Communications Group (VCG). CD determined that Volcano's allocation of approximately 80% of executives' salaries to the regulated telephone company, including over 91% for the President and over 98% for the Director of Administration/Human Resources/Corporate Security is unreasonable. Volcano represents about two thirds of VCG revenue and about half of VCG's assets. CD believes that VCG's executives' cost allocation and VCG affiliates should be proportional rather than being allocated almost entirely to Volcano.

Based on the information provided by Volcano, CD recommends an adjustment of $189,908. After adjusting the three year estimate, CD staff segregated each expense account into labor (wages/benefits) and non-labor (rents/other) according to the ratios observed in Volcano's annual report. CD then applied the recorded inflation factors for 2006 and 2007 (excluding depreciation and rents) to obtain the 2008 test year estimate.

Appendix A compares CD's and Volcano's computation of total company operating expenses at present rates. It shows Volcano's estimate of $7,079,100 is $877,075 or approximately 14.1% higher than CD's estimate of $6,202,025.

Rate Base

Rate Base is the investor-supplied plant facilities and other assets used in supplying utility service to the customer. This investment (rate) base is the amount to which the rate of return is applied (i.e., Rate Base x Rate of Return = Net Operating Income). Rate Base consists of Plant in Service, Telephone Plant under Construction, Materials and

[4] CD used the February 2007 Global Insight U.S. Economic Outlook estimates of Labor and Non-Labor Wage Escalation Factors for 2006-2009 as follows:

Year	Labor	Non-labor
2004	3.5%	5.8%
2005	3.5%	5.5%
2006	3.75%	5.5%
2007	3.2%	1.7%
2008	1.5%	1.6%

Supplies, Working Cash, Depreciation Reserve and Amortization, Deferred Taxes and Customer Deposits.

In estimating plant in service, Volcano applied the ten year average of actual data from 1996 through 2005. At the time of the original AL 335 filing, Volcano did not have the 2006 actual data.

CD disagrees with Volcano's methodology used in forecasting plant in service for test year 2008. CD believes that the five year average of actual data from 2002 through 2006 is a more reasonable method because technology today, compared to ten years ago, is changing rapidly. Also importantly, Volcano in its 2002 GRC filing, applied a five year average in estimating its plant in service.

In forecasting plant in service for test year 2008, CD reviewed Volcano's data from 2002 through 2006 including yearly plant additions and plant retirements. Through data requests, CD requested Volcano to provide justification and market analysis for the purchase of a residential condominium in 2005. Volcano responded and explained that there was no formal cost benefit analysis done for the purchase of the condominium. Volcano states the original intent of the purchase was to have an employee live in the Kirkwood area during the winter season. This is because avalanches and other winter related incidents can sometimes hamper access to their facilities. Volcano further states that the condominium is currently not being used and is only maintained for future employees.

CD determined it would be more beneficial to ratepayers if Volcano, when necessary, rents an apartment to house an employee during the winter season instead of maintaining a condominium for future employees. Therefore, CD recommends the Commission disallow $849,002 ($40,000 from 2002 and $809,002 from 2005) from Volcano's plant in service for the purchase of the condominium before forecasting plant in service for the 2008 test year.

With respect to telephone plant, Volcano states that its central office switching equipment, a DMS-100[5], located in the Pine Grove central office has been in service since 1981. Volcano further states that the DMS-100 has been continually upgraded to meet the needs of their customers and some of these upgrades have been substantial. In addition, Volcano states manufacturers are not willing to upgrade these "older" switches for new

[5] The DMS 100 is an electronic switching system establishing a connection between two telephone lines, or two switching systems.

network requirements. Volcano informs CD that an upgrade to a new "softswitch"[6] is necessary as the worldwide network is evolving from analog to digital circuits, through Signaling System 7[7] (SS7) to packet switching. Volcano also states that upgrading the switch allows the ability to interface its remote site concentrators with Internet Protocol (IP) interfaces. Volcano invested $1,212,754 to upgrade the DMS-100 to the CS2000 (CS2K) "softswitch" in 2007.

Volcano states that the upgrade to the (CS2K) "softswitch" requires reducing the distance to existing remotes from 12,000 ft. to 4,000 ft. to enhance the ability to provide services associated with the upgrade. By reducing the distance to existing remotes, additional fiber is necessary between remotes and residential/businesses to be able to feed additional circuit equipment. Volcano proposes investing $3,189,580 for test year 2008.

CD does not believe that Volcano's network transport conversion from Time Division Multiplexing (TDM) circuit switching to IP transport packet switching just to keep up with the industry trend is necessary to provide reliable telephone service to its customers. First, CD staff requested Nortel (manufacturer), to clarify the necessity of the "softswitch" upgrade. Nortel informs CD that the DMS-100 is a reliable switch and "the DMS-100 is fully supported by Nortel". Nortel states the CS2K "softswitch" is not essential in provisioning telephone service to its customers. Nortel further states that, "the DMS-100 handles all Time Division Multiplexing (TDM)[8] traffic, the CS2K handles all VoIP traffic. This platform will allow Volcano to eventually migrate to IP Multimedia Subsystem (IMS) which will allow Volcano to integrate data, voice, video and wireless into one platform".

The industry is in a state of flux relating to adopting standards for this type of new equipment. CD believes that it is not prudent to invest in IP switching and transport until the IP industry is standardized so that there are fewer "new technology" risks. This in turn limits the risks to ratepayers. To confirm this, CD contacted other carriers and CD was informed that these carriers have only installed IP softswitches in a few central offices, mainly where they are experiencing new growth. CD was also informed that these carriers plan on keeping legacy TDM switching and transport for as long as it is useful.

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[6] Softswitch is an electronic switching system designed to support next generation networks that rely on packet-based voice, data and video communications technologies that can interface with a variety of transport technologies including copper, wireless, and fiber.

[7] SS7 is the protocol used in the public switched telephone system (the "intelligent network" or "advanced intelligent network") for setting up calls and providing services. SS7 is a separate signaling network that is used in Class 4 and Class 5 voice switches.

[8] TDM is a technology that transmits multiple signals simultaneously over a single transmission path

In addition, Volcano indicated that its customer base is primarily interested in basic telephone service and has not expressed interest in advanced services. Consequently, it is unclear as to Volcano's reasons for investing in facilities that provide advanced services or invest in facilities whose functionalities and capacities far exceed the need the Volcano customers asserted. CD believes that until such time where there is demonstrated future demand, it is premature for Volcano to put in IP equipment. Therefore, CD recommends that Volcano should not be allowed to recover the costs associated with this new plant upgrade.

CD requested Volcano to provide a business plan which includes a cost benefit analysis of the present value of the options between: a) maintaining the existing DMS-100 with required maintenance versus b) the purchase of a new CS2K "softswitch" for telephone company regulated telephone services. Volcano states that there was no business plan for the IP upgrade to the switch as it did not create a "new business" but is simply an upgrade to the existing DMS-100". Thus, there is no cost-benefit analysis by Volcano to justify this investment.

Broadband deployment and accessibility is currently a priority to the State. With this understanding, CD staff confirmed that Volcano makes available DSL service to 99% of its customers through its affiliate, Volcano DSL. Out of this 99%, 70% have access to 6 megabits per second (Mbps) throughput. The average DSL connection in California is about 1.5 Mbps and studies show that anything in excess is only required to handle video.

At current prices, a majority of Volcano customers do not subscribe to basic DSL service. Volcano states that as of May 2007, 3,841 or approximately 34% of its 11,251 customers subscribe to DSL service. Out of these 3,841 customers, 1,755 or approximately 45% DSL customers subscribe to Volcano's basic DSL service with a speed of 384 Kilobits per second.

CD therefore, recommends that the Commission exclude $3,189,580 from Volcano's 2008 plant investment budget for the planned upgrade of existing remotes and additional fiber between remotes and residential and business customer locations.

Volcano also proposes to place several new interexchange fiber routes between Volcano and Calaveras. Volcano states that redundant routes are necessary as a back-up in cases of storms or fires. CD finds Volcano's proposal reasonable and recommends the Commission accept Volcano's proposed investment of $250,334 for test year 2008 for these redundant routes.

Construction Work In Progress

Volcano proposes that its 2008 "Construction Work in Progress" (CWIP) account equal $2,200,000. CD does not agree with Volcano's proposal but acknowledges that the Commission has historically allowed the inclusion of CWIP in the rate base for general rate cases and for annual CHCF-A filings. Based on previously accepted general rate cases and CHCF-A filings, CD proposes a 2.8% of average plant balance or $2,131,968 as a reasonable estimate for CWIP (Appendix B).

Materials and Supply

Volcano's estimated amount for materials and supply (M&S) is based on a percentage of average plant balance. This is a reasonable method since the inventory of parts and supplies usually increases at the same rate as the company's plant. In its filing, Volcano uses 0.6% of its average plant balance in 2008 for its M&S. CD has reviewed Volcano's previous materials and supplies accounts and believes 0.6% of average plant balance to be reasonable estimate for M&S in rate base for test year 2008. CD estimates Volcano's M&S for test year 2008 to be $388,149 (Appendix B).

Working Cash

Volcano and CD used the Commission's Standard Practice U-16 Simplified Method to develop its working cash estimate. CD's total company working cash estimate for test year 2008 is $698,012 or $103,988 less than Volcano's estimate of $802,000. This difference is due to the difference between CD and Volcano's estimated expenses.

Separations

Volcano provides both intrastate and interstate telecommunications services, subject to the regulation of the CPUC and FCC, respectively. Because Volcano's property serves both jurisdictions, the utility's revenues, expenses, taxes, investments, and reserves are allocated between interstate and intrastate services.

Volcano used separation factors developed following FCC's Part 36 to apportion its interstate and intrastate services. "Separations" is a process of apportioning a telephone company's property costs, related reserves, operating expenses, taxes, and rate base between the intrastate and interstate jurisdictions. It is a method by which a telephone company can separately identify the amount of expenses and investments associated with the production of a given service. These apportionments are made on the basis of relative usage and direct assignment whenever possible. The costs to be apportioned are identified in the FCC's Part 36 Separations Manual, according to the classification of accounts as prescribed by the FCC's Part 32, Uniform System of Accounts (USOA) for Telecommunications Companies.

CD reviewed Volcano's separation factors and believes them to be reasonable, and, accordingly, CD used Volcano's separation factors to estimate Volcano's total company and plant expenses which allowed CD to calculate Volcano's Intrastate Results of Operations.

Appendix B compares Volcano's and CD's interstate and intrastate results of operations for test year 2008 at present rates.

Private Line Services

Private Line Service (PLS) is a service in which the customer leases a circuit, not interconnected to the public switched telephone network and is for the customer's exclusive use. The private line may be used for transmission of voice, data, television etc.

Volcano states that the Federal Communications Commission changed the description of PLS to special access services. PLS is currently available to new customers under both, the PLS tariff, Schedule No. G-1 and, Schedule No. B-2, Access Service, Rate (2). However, if a customer subscribes to a circuit that goes beyond the exchange, this would only be available under Schedule No. B-2, Access Service , Rate (2). By incorporating both PLS and special access services into one tariff, customers will not have to look at both tariffs before deciding on a service. Volcano proposes to grandfather PLS and revise its tariff schedule to reflect this change.

Volcano currently has nine subscribers to this service. Volcano proposes to grandfather the nine customers until the customer cancels or changes their existing PLS arrangement, or moves to a new address. New customers may subscribe to PLS through Access Service under Schedule No. B-2.

CD recommends the Commission approve Volcano's request to: a) grandfather PLS and b) update its tariff schedule no. G-1 to reflect this change.

Cost of Capital

Volcano requests an overall intrastate rate of return of 10.00%. CD believes that the return on rate base for all rural ILECs would be the same since the systematic and non-diversifiable risks faced by all rural ILECs are similar.

The Commission authorized a 10.00% rate of return in the recent Foresthill general rate case (T-17048). Therefore, CD recommends that the Commission approve Volcano's request for an overall rate of return of 10.00%.

Taxes

CD and Volcano both used a California Income Tax rate of 8.84% and a Federal Income Tax rate of 34.00%. The differences in the income tax estimates between Volcano and CD are due to differences in each party's calculations of intrastate net operating revenues.

CD's estimate of state income tax expense at proposed rates of $175,459 is $78,843 lower than Volcano's estimated state income tax expense of $254,302. CD's estimate of federal income tax expense at proposed rates of $615,186 is $276,436 lower than Volcano's estimated federal income tax expense of $891,622.

Net-to-Gross Multiplier

The Net-to-Gross Multiplier indicates the unit change in gross revenues required to produce a unit change in net revenues. It is a factor that accounts for the additional revenue required to pay taxes and achieve a given revenue requirement after taxes.

Appendix D shows CD's computation of Volcano's Net-to-Gross Multiplier. The Net-to-Gross Multiplier of 1.66207 means that a $1.66207 change in gross revenues before taxes would be required to produce $1.00 in net revenues after expenses and taxes.

The Net Revenues (adopted at a 10.00% Intrastate Rate of Return) of $1,692,092 is calculated by multiplying the Adopted Intrastate Rate Base of $16,920,919 times the Adopted Rate of Return of 10.00%. This Net Revenue figure of $1,692,092 minus Volcano's actual 2007 Net Revenues of $2,458,156 equals the Change in Net Revenues of ($766,064).

The Change in Net Revenues of ($766,064) times the Net-To-Gross Multiplier of 1.66207 equals the Gross Revenue Change Requirement of ($1,273,252). However, an additional revenue requirement of $68,952 is needed due to our authorization of Volcano's proposed rate restructuring and CD's proposed rate design. This means that based on our adoption of CD's intrastate results of operation, Volcano will need an additional $956,440 in Gross Revenues to realize a 10.00% Intrastate Rate of Return. This increase in Volcano's Gross Revenues will come from $956,440 in CHCF-A support amount to Volcano.

CHCF-A Support

CD's total company results of operations at present rates show that Volcano would register a $3,505,047 in Net Operating Revenues and a total company rate of return of a 15.14% (Appendix A) prior to any CHCF-A adjustment.

As described above in the Net-to-Gross Multiplier section of this resolution, Volcano will need $956,440 in CHCF-A support in order to realize a 10.00% Rate of Return for intrastate results of operation.

CD's computation of Volcano's CHCF-A requirement for test year 2008 is $956,440. This is based on CD's calculation involving CD's projections of Volcano's revenues, expenses, and rate base and using an overall intrastate rate of return of 10.00%.

Comments

In accordance with P.U. Code Section 311 (g), CD mailed copies of the original draft Resolution on September 4, 2007 to Volcano and other interested parties. Comments received on a timely basis will be addressed in the final resolution.

Findings

1. Volcano Telephone Company (Volcano) filed its 2008 test year GRC by AL 335 on November 20, 2006, as supplemented by AL Nos. 335A, 335B and 335C on January 24, 2007, June 6, 2007 and August 1, 2007, respectively.

2. Volcano requests the following for test year 2008:

    - An Intrastate Rate of Return (ROR) of 10.00%;

    - To a) increase its monthly inside wire maintenance plan rate for residence and business from $0.75 to $2.00 effective January 1, 2008 and revise its tariff Cal P.U.C. Schedule No. A-36, b) increase its local directory assistance charge from $0.25 to $0.50 effective January 1, 2008 and revise its tariff Cal P.U.C. Schedule No. B-4, and c) increase its returned check charge from $10.00 to $20.00 effective January 1, 2008 and revise Cal P.U.C. Rule No.9;

    - Reduce the monthly local area directory assistance call allowance from 5 to 3 for residential services with a maximum allowance of three numbers per call or a total of nine numbers per billing period and from 2 to 0 for business effective January 1, 2008;

    - A CHCF-A support of $2,984,138 for test year 2008 and

    - To grandfather its Private Line services effective January 1, 2008 and revise its tariff Cal P.U.C. Schedule No. G-1.

3. Communications Division (CD) recommends the Commission approve the following for Volcano for test year 2008:

    - An Intrastate Rate of Return (ROR) of 10%;

    - A California High Cost Fund-A (CHCF-A) support of $ 956,440;

- Volcano's request to: a) increase its local directory assistance charge from $0.25 to $0.50 effective January 1, 2008 and revise its tariff Cal P.U.C. Schedule No. B-4 as filed in AL 335 and b) increase its returned check charge from $10.00 to $20.00 effective January 1, 2008 and revise Cal P.U.C. Rule No.9 as filed in AL 335;

- An a) increase in its monthly inside wire maintenance plan rate for residence customers from $0.75 to $2.99 effective January 1, 2008, b) increase in its monthly inside wire maintenance plan rate for business customers from $0.75 to $5.00 effective January 1, 2008, c) increase in its residential caller ID monthly rate from $5.50 to $6.17 effective January 1, 2008 and d) an increase in its residential call forwarding monthly rate from $3.00 to $3.23 effective January 1, 2008;

- Volcano should provide notice to all of its customers of the changes in rates and charges as follows within 30 days from the effective date of this Resolution.

    - Increase in its monthly inside wire maintenance plan rate for residence customers from $0.75 to $2.99;
    - Increase in its monthly inside wire maintenance plan rate for business customers from $0.75 to $5.00;
    - Increase in its residential caller ID monthly rate from $5.50 to $6.17 and;
    - Increase in its residential call forwarding monthly rate from $3.00 to $3.23.

- Volcano should file an advice letter supplement, within 14 calendar days from the effective date of this resolution, to revise its tariff schedule to reflect the following changes in rates and charges to be effective on January 1, 2008 after review and approval by CD.

    - Increase in its monthly inside wire maintenance plan rate for residence customers from $0.75 to $2.99;
    - Increase in its monthly inside wire maintenance plan rate for business customers from $0.75 to $5.00;
    - Increase its residential caller ID monthly rate from $5.50 to $6.17 and;
    - Increase in its residential call forwarding monthly rate from $3.00 to $3.23.

- Grandfather the nine customers currently subscribing to Private Line Service (PLS) until the customer cancels or changes their existing PLS arrangement, or moves to a new address and revise its tariff Cal P.U.C. Schedule No. G-1 as originally filed in AL. 335 effective January 1, 2008 to reflect the change in Private Line Service.

4. CD's proposal that Volcano be required to develop a rate design proposal in its next GRC filing for mandatory business measured service (i.e., eliminate flat rate business service) and a less expensive measured rate service option for residence customers including, a notice of proposal to implement mandatory business measured rate service and a measured rate option for residence customers in the customer notice associated with the next GRC when customer notice of the next GRC is provided to customers is reasonable and should be adopted.

5. CD's tariff change recommendations for Volcano made in the Discussion section of this Resolution are reasonable and should be adopted.

6. CD's recommendation that Volcano should not be allowed to recover the costs associated with the new "softswitch" plant upgrade is reasonable and should be adopted.

7. Differences in the estimates between Volcano and CD result from the use of different assumptions and methodologies for estimating revenues, expenses, and rate base.

8. CD's methodology of using ratemaking adjustments to each of the expense accounts and its use of the recorded inflation factors to adjust the labor and non-labor 2006 expenses for test year 2008 is reasonable and should be adopted.

9. CD's methodology in estimating revenues is reasonable and CD's recommended intrastate revenues for the test year 2008 as shown in Appendix C should be adopted.

10. CD's methodology in estimating Volcano's plant and other rate base items is reasonable and should be adopted.

11. CD's recommended $956,440 CHCF-A support for Volcano for test year 2008 is reasonable and should be adopted.

THEREFORE, IT IS ORDERED that:

1. The intrastate revenues, expenses, and rate base amounts for test year 2008 identified in Appendix C, column (E) are adopted for Volcano Telephone Company (Volcano).

2. The overall intrastate rate of return of 10.00% is adopted for Volcano for test year 2008.

3. Communication Division's (CD) proposed rate and charge increases, and terms and conditions stated below are authorized.

- Return Check Charge from $10.00 to $20.00;
- Local Area Directory Assistance charge from $0.25 to $0.50;
- Reduce the monthly local area directory assistance call allowance from 5 to 3 for residential services with a maximum allowance of three numbers per call or a total of nine numbers per billing period and from 2 to 0 for business;
- Residential Inside Wire Maintenance monthly charge from $0.75 to $2.99;
- Business Inside Wire Maintenance monthly charge from $0.75 to $5.00;
- Residential Caller ID monthly rate from $5.50 to $6.17 and
- Residential Call Forwarding monthly rate from $3.00 to $3.23.

4. Volcano shall provide notice to all of its customers notifying them of the changes in rates and charges within 30 days from the effective of this Resolution.

5. Volcano shall file an advice letter supplement, within 14 calendar days from the effective date of this Resolution to revise its tariff schedules to reflect the changes recommended by CD in the Discussion section of this Resolution. The filing shall have an effective date of January 1, 2008 after review and approval by CD.

6. Volcano's request to grandfather Private Line Services as filed in AL 335 is authorized and Schedule Cal P.U.C No. G-1 is approved effective January 1, 2008.

7. In its next General Rate Case (GRC) filing, Volcano shall submit a rate design proposal for mandatory business measured rate service and a less expensive measured rate service option for residence customers. Additionally, Volcano shall include a notice of proposal to implement mandatory business measured rate service and a measured rate option for residence customers in the customer notice associated with the next GRC when customer notice of the next GRC is provided to customers.

8. Volcano is authorized an amount of $956,440 in CHCF-A support for 2008.

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This Resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on October 4, 2007. The following Commissioners approved it:

PAUL CLANON
Executive Director

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APPENDIX A
VOLCANO TELEPHONE COMPANY
RESULTS OF OPERATIONS TEST YEAR 2008
TOTAL COMPANY AT PRESENT RATES

		VOLCANO	CD	UTILITY EXCEED ($) AMOUNT	STAFF (%) DIFF.
		(A)	(B)	(C)	(D)
OPERATING REVENUES:					
1	Local Network Services	3,287,398	3,306,422	(19,024)	-0.58%
2	Local Service - CHCF - A	2,298,644	2,298,644	-	
3	Interstate USF	2,920,787	2,920,787	-	0.00%
4	Network Access Services:				
5	Intrastate	1,949,502	1,950,209	(707)	-0.04%
6	Interstate	4,368,695	4,368,695	-	0.00%
7	Miscellaneous	364,500	364,500	-	0.00%
8	Less: Uncollectible Revenue	(17,300)	(8,300)	(9,000)	108.43%
9	**Total Oper. Revenue**	15,172,226	15,200,957	(28,731)	-0.19%
OPERATING EXPENSES:					
10	Plant Specific	2,337,100	2,321,917	15,183	0.65%
11	Plant Non-Specific (less depr.)	1,767,300	1,139,746	627,554	55.06%
12	Customer Operations	735,700	764,063	(28,363)	-3.71%
13	Corporate Operations	2,239,000	1,976,299	262,701	13.29%
14	**Subtotal**	7,079,100	6,202,025	877,075	14.14%
15	Depreciation & Amortization	4,128,533	3,279,923	848,610	25.87%
16	Other Taxes	223,000	223,000	-	0.00%
17	State Income Taxes	288,847	441,832	(152,985)	-34.63%
18	Federal Income Taxes	1,012,740	1,549,130	(536,390)	-34.63%
19	**Total Oper. Expense**	12,732,220	11,695,910	1,036,310	8.86%
20	**Net Revenues**	2,440,006	3,505,047	(1,065,041)	-30.39%
AVERAGE RATE BASE:					
21	Telephone Plant-in-Service	75,238,972	67,166,592	8,072,380	12.02%
22	Tel. Plant Under Construct.	2,200,000	2,131,968	68,032	3.19%
23	Material & Supplies	499,500	388,149	111,351	28.69%
24	Working Cash	802,000	698,012	103,988	14.90%
25	Less: Deprec. Res.	(48,201,221)	(45,621,459)	(2,579,762)	5.65%
26	Def. Taxes	(1,996,550)	(1,590,958)	(405,592)	25.49%
27	Customer Deposit	(14,363)	(14,036)	(327)	2.33%
28	**Total Rate Base**	28,528,338	23,158,268	5,370,070	23.19%
29	**Rate of Return**	8.55%	15.14%		

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APPENDIX B
VOLCANO TELEPHONE COMPANY
RESULTS OF OPERATIONS TEST YEAR 2008 AT PRESENT RATE
INTERSTATE AND INTRASTATE

	VOLCANO			CD		
	TOTAL COMPANY (A)	INTERSTATE (B)	INTRASTATE (C)	TOTAL COMPANY (D)	INTERSTATE (E)	INTRASTATE (F)
OPERATING REVENUES						
1 Local Network Services	3,287,398		3,287,398	3,306,422		3,306,422
2 Local Service - CHCF - A	2,298,644		2,298,644	2,298,644		2,298,644
3 Interstate USF	2,920,787		2,920,787	2,920,787		2,920,787
4 Network Access Services:						
5 Intrastate	1,949,502		1,949,502	1,950,209		1,950,209
6 Interstate	4,368,695	4,368,695	-	4,368,695	4,368,695	-
7 Miscellaneous	364,500	110,800	253,700	364,500	110,800	253,700
8 Less: Uncollectible Revenue	(17,300)		(17,300)	(8,300)		(8,300)
9 **Total Oper. Revenue**	15,172,226	4,479,495	10,692,731	15,200,957	4,479,495	10,721,462
OPERATING EXPENSES						
10 Plant Specific	2,337,100	663,566	1,673,534	2,321,917	659,255	1,662,662
11 Plant Non-Specific (less depr.)	1,767,300	481,548	1,285,752	1,139,746	310,554	829,192
12 Customer Operations	735,700	189,331	546,369	764,063	196,630	567,433
13 Corporate Operations	2,239,000	633,852	1,605,148	1,976,299	559,482	1,416,817
14 **Subtotal**	7,079,100	1,968,297	5,110,803	6,202,025	1,725,922	4,476,103
15 Depreciation & Amortization	4,128,533	1,199,603	2,928,930	3,279,923	953,027	2,326,896
16 Other Taxes	223,000	60,530	162,470	223,000	60,530	162,470
17 State Income Taxes	288,847	99,635	189,212	441,832	153,817	288,014
18 Federal Income Taxes	1,012,740	349,336	663,404	1,549,130	539,308	1,009,823
19 **Total Oper. Expense**	12,732,220	3,677,401	9,054,819	11,695,910	3,432,604	8,263,306
20 **Net Revenues**	2,440,006	802,094	1,637,912	3,505,047	1,046,891	2,458,156
AVERAGE RATE BASE						
21 Telephone Plant-in-Service	75,238,972	20,568,981	54,669,991	67,166,592	18,362,138	48,804,454
22 Tel. Plant Under Construct.	2,200,000	601,440	1,598,560	2,131,968	582,841	1,549,127
23 Material & Supplies	499,500	125,252	374,248	388,149	97,330	290,819
24 Working Cash	802,000	487,400	314,600	698,012	424,391	273,621
25 Less: Deprec. Res.	(48,201,221)	(13,511,863)	(34,689,358)	(45,621,459)	(12,788,699)	(32,832,760)
26 Def. Taxes	(1,996,550)	(548,173)	(1,448,377)	(1,590,958)	(436,814)	(1,154,144)
27 Customer Deposit	(14,363)	(3,927)	(10,436)	(14,036)	(3,838)	(10,198)
28 **Total Rate Base**	28,528,338	7,719,110	20,809,228	23,158,268	6,237,350	16,920,918
29 **Rate of Return**	8.55%	10.39%	7.87%	15.14%	16.78%	14.53%

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APPENDIX C
INTRASTATE RESULTS OF OPERATIONS
FOR 2008 ADOPTED RATES

					UTILITY EXCEED STAFF	
		VOLCANO PROPOSED (A)	**CD PROPOSED (B)**	**AMOUNT (C)=(A)-(B)**	**PERCENTAGE DIFFERENCE (D)**	**ADOPTED (E)**
OPERATING REVENUES:						
1	Local Network Services	3,338,220	3,375,474	(37,254)	-1.10%	3,375,474
2	Local Service - CHCF - A	2,984,138	956,440	2,027,698	212.00%	956,440
3	Interstate USF	2,920,787	2,920,787	-	0.00%	2,920,787
4	Network Access Services:			-		
5	Intrastate	1,949,502	1,950,209	(707)	-0.04%	1,950,209
6	Interstate	-		-		-
7	Miscellaneous	253,700	253,700	-	0.00%	253,700
8	Less: Uncollectible Revenue	(17,300)	(8,400)	(8,900)	105.95%	(8,400)
9	**Total Oper. Revenue**	11,429,047	9,448,210	1,980,837	20.97%	9,448,210
OPERATING EXPENSES:						
10	Plant Specific	1,673,534	1,662,662	10,872	0.65%	1,662,662
11	Plant Non-Specific (less depr	1,285,752	829,192	456,560	55.06%	829,192
12	Customer Operations	546,369	567,433	(21,064)	-3.71%	567,433
13	Corporate Operations	1,605,148	1,416,817	188,331	13.29%	1,416,817
14	**Subtotal**	5,110,803	4,476,104	634,699	14.18%	4,476,104
15	Depreciation & Amortization	2,928,930	2,326,896	602,034	25.87%	2,326,896
16	Other Taxes	162,470	162,470	-	0.00%	162,470
17	State Income Taxes	254,302	175,459	78,843	44.94%	175,459
18	Federal Income Taxes	891,622	615,186	276,436	44.94%	615,186
			-			
19	**Total Oper. Expense**	9,348,127	7,756,115	1,592,012	20.53%	7,756,115
			-			
20	**Net Revenues**	2,080,920	1,692,095	388,825	22.98%	1,692,095
			-			-
AVERAGE RATE BASE			-			-
			-			-
21	Telephone Plant-in-Service	54,669,991	48,804,454	5,865,537	12.02%	48,804,454
22	Tel. Plant Under Constructio	1,598,560	1,549,127	49,433	3.19%	1,549,127
23	Material & Supplies	374,248	290,819	83,429	28.69%	290,819
24	Working Cash	314,600	273,621	40,979	14.98%	273,621
25	Less: Deprec. Res.	(34,689,358)	(32,832,760)	(1,856,598)	5.65%	(32,832,760)
26	Def. Taxes	(1,448,377)	(1,154,144)	(294,233)	25.49%	(1,154,144)
27	Customer Deposit	(10,436)	(10,198)	(238)	2.33%	(10,198)
28	**Total Rate Base**	20,809,228	16,920,918	3,888,310	22.98%	16,920,919
29	**Rate of Return**	10.00%	10.00%			10.00%

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APPENDIX D
VOLCANO TELEPHONE COMPANY
NET-TO-GROSS MULTIPLIER

1 Gross revenue		1.00000
2 Uncollectible		0.00000
3 Net Revenues		1.00000
4 State Income Tax (Tax Rate times Ln.	8.84%	0.08840
5 Federal Taxable Income (Ln.3 Less Ln.4)		0.91160
6 Federal Income Tax (Tax Rate time Lr	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 Adopted State Rate Base		16,920,919
10 Net Revenues adopted at 10.00% (Ln.9 Times 10%)		1,692,092
11 Net Revenue In Test Year 2008 at Present Rates		2,458,156
12 Change in Net Revenues (Ln.10 Less Ln.11)		(766,064)
13 **GROSS REVENUE CHANGE REQUIRED (Ln.12 time Ln.8)**		(1,273,252)
CHCF-A SUPPORT		-
14 2008 CHCF-A SUPPORT AT PRESENT RATES		2,298,644
15 **2008 CHCF-A SUPPORT ADJUSTED** (Ln.14 add Ln.13)		**1,025,392**
16 **IMPACT OF DIFFERENCE BETWEEN PROPOSED AND PRESENT RATES**		68,952
17 **2008 CHCF-A SUPPORT ADOPTED** (Ln.15 Less Ln.40)		**956,440**