

**DRAFT****PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA****Communications Division  
Carrier Branch****RESOLUTION T-17157  
December 4, 2008****R E S O L U T I O N**

Resolution T-17157. Ducor Telephone Company (U-1007-C). General Rate Case Filing in Compliance with G.O. 96-A, Paragraph VI.

By Advice Letter Nos. 318, 318A filed on December 19, 2007, and July 21, 2008 respectively.

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**Summary**

This resolution addresses the General Rate Case filed by Ducor Telephone Company (Ducor) through Advice Letter (AL) 318 and 318A on December 19, 2007, and July 21, 2008, respectively in compliance with G.O. 96-A, Paragraph VI. Ducor proposes: a) an increase in the CHCF-A support of \$1,211,337, which represents a 68% increase in CHCF-A support for the year 2009. The total proposed 2009 CHCF-A support would be \$2,993,395; b) various changes to its tariff schedules (see discussion).

This resolution authorizes total intrastate revenue in the amount of \$3,981,993 for Ducor for the test year 2009. This represents a reduction of \$368,787 to Ducor's estimate of \$4,350,780 for total intrastate revenue for 2009. The total intrastate rate base amount for Ducor is \$6,379,740 with an overall intrastate rate of return of 10.00% for the test year 2009. Ducor is requesting a total intrastate rate base amount of \$6,538,434 and an authorized overall intrastate rate of return of 10.00%. This resolution also authorized CHCF-A support for Ducor for test year 2009 of \$2,434,584. This amount represents a decrease of \$558,811 or a 22.95% less from Ducor proposed CHCF-A 2009 support of \$2,993,395. This difference is due to adjustments CD made to revenue, expense and rate base estimates.

Appendix A to this resolution compares the Communication Division's and Ducor's Test Year 2009 Total Company Results of Operations before any CHCF-A adjustment to reflect the 10.00% intrastate rate of return. Appendix B compares the Communication Division's (CD) and Ducor's Test Year Total Company Separated Results of Operations before any CHCF-A adjustment. Appendix C compares Ducor's and CD's Intrastate

Results of Operations estimates for test year 2009. Appendix D shows CD's calculation of the Net-to-Gross Multiplier and the change in the gross intrastate revenue requirement based on the recommended intrastate rate of return of 10.00%.

## **Background**

Ducor Telephone Company, a local exchange telephone utility based in Ducor, California, provides local exchange telephone service in three exchanges; Rancho Tehama, Ducor, and Kennedy Meadows, serving approximately 1,300 customers.

On December 19, 2007, Ducor filed AL 318 in response to D.01-05-031, in which the California Public Utilities Commission (CPUC) set in motion the waterfall<sup>1</sup> provision in 2003 requiring Ducor to file a General Rate Case (GRC) by the end of 2002. The last GRC filed by Ducor was filed on December 19, 2002 through an advice letter and its most recent intrastate results of operations were authorized by Resolution T-16764 dated October 30, 2003. Resolution T-16764 authorized \$1,886,674 CHCF-A support for Ducor for test year 2004.

In AL 318, Ducor proposes an increase in the CHCF-A support of \$1,211,387, which represents a 68% increase in year 2008 CHCF-A support for the year 2009. The total proposed 2009 CHCF-A support requested is \$2,993,395

On September 3, 2008, CD held a meeting with Ducor management 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**

Ducor states that copies of these Advice Letters and related tariff sheets were mailed to competing and adjacent utilities and/or other utilities. Notice of AL 318 was published in the Commission Daily Calendar on January 11, 2008, and AL 318A was published in the Commission Daily Calendar of July 25, 2008. No protest to this Advice Letter has been received.

CD held a Public Meeting in Ducor on May 7, 2008, at which time Ducor was given the opportunity to explain its filing to its customers, while also allowing Ducor's customers the opportunity to ask questions of Ducor and CD. Ducor's customers were given

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<sup>1</sup> The waterfall provision refers to the 6-year phase down of the CHCF-A funding level beginning in 1998, the year after the Commission approval of a GRC. The funding levels are 100% of the forecast the first 3 years, i.e., 1998, 1999 and 2000; 80% the fourth year, i.e., 2001, 50% the fifth year, i.e., 2002; and 0% thereafter.

notice of the Public Meeting through a bill insert. Notice of the Public Meeting was also published in the CPUC Daily Calendar. No customers attended the Public Meeting.

## **Discussion**

### *Proposed tariff changes:*

In AL. 318, Ducor is proposing the following tariff changes:

1. Adding the symbol (P) in the Preliminary Statement from Decision No. 07-01-024, Section 8.5.3.
2. Clarifying the rates for the services described in Schedule No. A-4, California Teleconnect Fund Discounted Services.
3. Increasing intrastate Primary Interexchange Carrier (PIC) charges to those authorized by the FCC for the interstate PIC in Schedule No. A-7, Interexchange Carrier Selection Process for Equal Access. The intraLATA PIC charge will go from \$5.00 to \$5.50 and the 2-PIC will go from \$2.50 to \$2.75.
4. Increasing the reconnect charge for nonpayment from \$35.50 to \$40.00 in Schedule No. A-14, Multi-Element Service Charge. This charge can be avoided if the customer pays their bill. Ducor also proposes to add the returned check charge to this Schedule. The returned check charge is also shown in Rule No. 9.
5. Increasing the visit charge in Schedule No. A-32, inside wiring maintenance service repair charge in Schedule No. A-34 and intrabuilding network cable charge in Schedule No. A-36. The normal hour charge will go from \$46.25 to \$70.00 and the other hour charge will go from \$69.50 to \$87.00.
6. Establishing an Employee Concession Service offering in Schedule No. A-37, similar to that approved for GVNI in Schedule No. A-16.
7. Removing the Transport Interconnection Charge in Schedule No. B-6, Access Service, that is billed to interexchange carriers as suggested in Proceeding R.03-08-018.
8. Increasing the local directory assistance charge from 25 cents to 50 cents and reduce both the business and residential allowance from 5 to 3 in Schedule No. B-7, Local Area Operator Assistance Service.
9. Updating Rule No. 8, Notice, in compliance with GO 96-B, D07-09-019, Industry Rule 3.

10. Increasing the returned check charge from \$10.00 to \$20.00 in Rule No. 9, Rendering and Payment of Bills.

CD has reviewed Ducor's proposed tariff changes and found them reasonable. CD recommends the Commission adopt Ducor's proposed tariff changes.

### *Results of Operations*

Appendix A compares total company results of operations for test year 2009, as estimated by the CD and Ducor at present rates.

CD calculates in test year 2009 that Ducor will earn a total company overall rate of return of 6.54% compared to Ducor's calculation of 2.22%. Since CD concludes Ducor is earning below the Commission's authorized rate of return of 10.00%, CD's estimates for Ducor reflect revisions to Ducor's estimates of revenues, expenses, and rate base as discussed below.

### *Total Operating Revenues*

For test year 2009, CD identified the regulated components of Ducor Total Operating Revenues, Local Revenues, Access Revenues, Miscellaneous Revenues and Uncollectibles.

A comparison of CD's and Ducor's estimates of total company operating revenues for test year 2009 is shown in Appendix C. Ducor's estimate of total company operating revenues is \$4,350,780, a difference of \$368,787 from CD's estimate of \$3,981,993. The reasons for the differing estimates are further described below.

CD proposes to increase Ducor's business service rates for both of its exchanges, from \$29.55 to \$30.00 for the Ducor exchange and from \$25.55 to \$30.00 for the Kennedy Meadows/Rancho Tehama exchanges. The new charges will result in an increase of \$3,001 in revenue. The increased service charge will bring the charges more in line with rates charged by comparable carriers. Furthermore, CD is proposing an increase to Ducor's residential services, from \$18.20 to \$20.25 at the Ducor exchange and from \$16.85 to \$20.25 at the Kennedy Meadows/Rancho Tehama exchanges. This increase is within 150% threshold of AT&T's current rates as required for CHCF-A support. The new charges will result in an increase of \$40,740 in revenue. In D.08-09-042 as corrected by D.08-10-040, Universal Regulatory Framework (URF) ILEC's (Incumbent Local Exchange Carriers) will adopt a transitional plan for increases to Basic Residential rates effective January 1, 2009. As a result, CD recommends Ducor increase its Lifeline rates, from \$5.47 to \$6.11, since General Order 153 ties those rates to AT&T's basic rate.

Additionally, CD proposes rate increases for the following services:

- Increasing the Business Call Forwarding monthly rate from \$2.00 to \$3.50.
- Increasing the Business Caller ID Number Service monthly rate from \$4.50 to \$6.00.
- Increasing the Business Call Waiting monthly rate from \$3.50 to \$4.00.
- Increasing the Residential Call Forwarding monthly rate from \$1.50 to \$2.50.
- Increasing the Residential Call Waiting monthly rate from \$2.00 to \$3.00.
- Increasing the Residential Toll Restriction monthly rate from \$2.00 to \$2.50.
- Increasing the Residential Call Forwarding Busy Line monthly rate from \$2.50 to \$3.00.
- Increasing the Residential Caller ID Number Service monthly rate from \$3.00 to \$4.00.
- Increasing the Residential Call Forwarding & Call Waiting package monthly rate from \$2.50 to \$4.00.
- Increasing the Residential Call Waiting & Three-Way package monthly rate from \$3.00 to \$4.50.
- Increasing the Residential Call Forward & Call Waiting & Three-Way package monthly rate from \$3.50 to \$4.50.
- Increasing the Anonymous Call Rejection monthly rate from \$1.50 to \$2.50.
- Increasing the Multi-Element Service Charges for connecting New Service Order from \$21.50 to \$23.50, for changing existing service or adding new or additional service other than central office lines from \$10.75 to \$11.50, and for Central Office Connection Work from \$24.75 to \$25.50.

These proposed rate increases were derived from a survey of service rates charged by other California telephone companies. Factors such as the company's geographic location and the current service rates were taken into consideration. Adjustments for price elasticity were applied by CD in response to concerns raised by Ducor in its meeting with CD and in response to information provided in subsequent data requests. CD believes its proposed rate increases are reasonable and are in line with those rates

charged by other comparable carriers. Furthermore, these proposed rate increases and the potential of raised revenue would lower the draw on the CHCF-A.

In its filing, Ducor has proposed the following rate increases:

- Increase the IntraLATA Service Change Charge from \$5.00 to \$5.50.
- In schedule No. A-32, an increase to the Visit Charge for Normal Charge from \$46.25 to \$70.00 per hour or fraction thereof and from \$69.50 to \$87.00 per hour or fraction thereof for Overtime.
- For Inside Wiring Maintenance Service, as described in schedule No. A-34, an increase from \$46.25 to \$70.00 per hour or fraction thereof for Normal Charge. An increase from \$69.50 to \$87.00 per hour or fraction thereof for Overtime.
- In schedule No. A-36, an increase to the Intrabuilding Network Cable charges for Normal Charge from \$46.25 to \$70.00 per hour or fraction thereof and from \$69.50 to \$87.00 per hour or fraction thereof for Overtime.
- Increasing the Returned Check Charge from \$10.00 to \$20.00.

Ducor also proposed Local Area Operator Assistance Service would increase from \$.25 per call to \$.50 per call, in addition to reducing both the business and residential call allowance from 5 to 3. However, after surveying other carriers' Local Area Operator Assistance Service, CD proposes reducing the call allowance to 1 call per month. CD believes its proposal to be reasonable and is in line with those allowed by other comparable carriers.

#### *Uncollectibles*

Uncollectibles are based on bad debts associated with local revenue and intrastate access revenues. Ducor states the estimated local debt at \$1,800 and intrastate access debt at \$40,694 are based on average of the historical record. CD has reviewed the annual reports and does not agree with Ducor's estimates of test year 2009 uncollectible. CD analyzed five years (2002-2006) of recorded data to arrive at an average of zero uncollectible for local revenue and 6.53% uncollectible for intrastate access revenue. CD applies these percentages to derive the 2009 uncollectible. Therefore, CD disallows \$27,540 of bad debt associated with intrastate access revenue and estimates intrastate uncollectibles to be \$15,070 for the test year 2009.

*Operating Expenses*

Ducor's test year forecasts for operating expenses are calculated by annualizing seven months actual expenses from January – July, 2007. The 2008 and 2009 expenses are forecast based on an adjusted historical average growth rate for labor related and non-labor related expenses plus an adjustments for additional employees in 2008/2009 and rate case expenses in 2009 amortized over 3 years.

CD used Ducor's recorded years 2005, 2006 and 2007 labor and non-labor expenses and applied the constant dollar method to estimate Ducor's 2009 expenses.

The constant dollar method is applied to the recorded inflation factors for labor and non-labor for each year<sup>2</sup>. 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 Ducor's 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 constant 2007 dollars. CD then took the average of the inflation-adjusted amounts for those three years and calculated to an estimate. The cumulated inflation factors for 2008 and 2009 were applied the estimate to arrive at the test year 2009 projection. Because rents are not subject to the same fluctuations as other types of expenses, the constant dollar method was not applicable. While expenses have been increasing in nominal dollars, there will be less variance.

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<sup>2</sup> CD used the Division of Ratepayer Advocates estimates of Non-Labor and Wage Estimation Rates for 2008 through 2012 from the August 2008 Global Insight U.S. Economic Outlook as follows:

| <u>Year</u> | <u>Labor</u> | <u>Non-Labor</u> |
|-------------|--------------|------------------|
| 2005        | 1.0400       | 1.0550           |
| 2006        | 1.0375       | 1.0550           |
| 2007        | 1.0375       | 1.0300           |
| 2008        | 1.0290       | 1.0770           |
| 2009        | 1.0480       | 1.0350           |

The constant dollar method has been the preferred methodology and endorsed by the Commission for analyzing recorded data and has been an accepted methodology in traditional rate case.

CD reviewed Ducor's employee wages and benefits, and compared with general public agencies and other California small utilities. CD found Ducor executives' wages and employee benefits are excessively high. CD adjusted Ducor's executive wages to be in the line with other California small utilities with the limit of \$250,000 per year for president and \$150,000 per year for vice presidents. CD also believes a ratio of 30% for benefit of the wages is more reasonable. CD arrives at this percentage when it calculated the percentage of benefits to total compensation that the State of California pays Commission employees. In most cases it is accepted that state government employees receive a better benefits package when compared to employees in the private sector.

#### *Plant Specific Expenses*

Plant specific expenses include expenses related to telephone plant. These include components for network support, general support, central office switching, operator systems, transmission, originations and termination, and cable and wire. Ducor estimates plant specific expenses for test year 2009 to be \$1,484,760. CD's estimate for plant specific expenses for 2009 is \$1,182,156. This represents a reduction of \$302,604 from Ducor's estimate. This reduction is due to CD using constant dollars method (CDM) and the limitation of executives' wages and adjusted employee benefits changes.

#### *Plant Non-Specific Expenses*

Plant non-specific expenses include such expenses as those related to network administration, testing, engineering, access to the network and power. Ducor annualized seven months actual expenses for January - July, 2007 to forecast 2009 test year expenses. Ducor's plant non-specific expenses estimate for test year 2009 is \$192,511. CD used recorded year 2007 amount to forecast 2009 test year expenses. CD's estimate for plant specific expenses for 2009 is \$198,349. This represents a difference of \$5,838 from Ducor's estimate. The difference is due to CD using constant dollars method (CDM) and the limitation of executives' wages and adjusted employee benefits changes.

#### *Customer Operations Expense*

Customer operations expenses include components for marketing and customer operations. For customer operations expenses Ducor's estimate is \$330,139 for test year 2009. CD's estimate for this expense category is \$263,274. This represents a reduction of \$66,865 from Ducor's estimate for test year 2009 customer operations expenses. This



reduction is due to CD using constant dollars method (CDM) and the limitation of executives' wages and adjusted employee benefits changes.

#### *Corporate Operations Expense*

The corporate operations expense account included components for executive and planning, general and administrative. Ducor includes \$180,000 rate case expenses to amortize over 3 years in the Corporate Operation account. Ducor estimates rate case expenses for the test year 2009 to be \$60,000. In Ducor's 2004 GRC, the Commission allowed \$40,000 associated with rate case expense in test year. CD uses this \$40,000 to apply the 2007 constant dollar inflation factors to develop 2009 rate case expense. CD includes \$51,000 for rate case expense for test year 2009.

Ducor estimates its test year 2009 corporate operations expenses to be \$1,248,079. CD's estimate for corporate operations expense is \$1,160,201. This represents a reduction of \$87,878 from Ducor's test year estimate. This reduction is due to CD using constant dollars method (CDM) and the limitation of executives' wages and adjusted employee benefits changes.

#### *Taxes*

The differences in tax estimates are due to variations in Ducor's and CD's revenue and expense estimates. Ducor and CD each used a Corporate State Franchise Tax (CCFT) rate of 8.84% and a Federal Income Tax rate of 34%. CD estimates Ducor's test year 2009 intrastate taxes for CCFT and Federal Income Tax to be \$77,478 and \$271,650, respectively.

#### *Depreciation*

To calculate depreciation expenses, both Ducor and CD utilized the same methodology and depreciation rates previously adopted by the Commission for Ducor. Ducor estimates its depreciation expense to be \$1,376,880 whereas CD's estimate is \$1,343,412. The difference of \$33,468 in depreciation expense is due to differing plant-in-service estimates. CD's depreciation expense estimate was calculated using CD's plant-in-service estimate for the test year 2009, multiplied by the depreciation rates authorized by the Commission in Ducor's 1997 general rate case, to derive its test year depreciation expense estimate.

#### *Rate Base*

##### *Plant in Service*

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

Ducor's estimated plant in service as of December 31, 2007, was forecasted based on actual balances as of November 30, 2007, plus December 31, 2007, forecasted additions and retirements. Ducor's estimates average plant in service for test year 2009 to be \$19,048,800. CD used 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 \$18,642,509. This difference is the result of CD adjusted additions for Vehicle purchases for all three exchanges: Ducor, Kennedy Meadows and Rancho Tehama, Buildings from 2007 actual, Furniture for Kennedy Meadows, Circuit Subscriber projects for Ducor, Kennedy Meadows and Rancho Tehama, Cable projects for 2007 actual and Kennedy Meadows, Fiber Optic projects to a weather station in Ducor and Ducor and Rancho Tehama for redundant fiber access route project.

The adjustments to additions for the Circuit Subscriber projects for Ducor, Kennedy Meadows and Rancho Tehama exchanges were based in part on the \$538,722 Ducor spent in 2007 on underground cable projects including two digital loop carriers (DLC) in the Rancho Tehama exchange. Ducor planned two more DLC's in the Rancho Tehama exchange in 2009. As Ducor had already installed two DLC's in 2007, CD will disallow the two DLC's in 2009 for Rancho Tehama exchange. If CD allowed the two additional DLC's in 2009, the cost per Rancho Tehama subscriber would be over \$1,000. In addition, CD will disallow one of two DLC's in the Ducor exchange as CD is concerned with spending \$857 per Ducor subscriber to install two DLC's. Ducor has the ability to offer digital subscriber line services with the DLC's by reducing the central office distance from potential customers. The cost of some DLC's must be borne by Ducor's non-regulated internet business.

#### *Construction Work in Progress*

Ducor estimated Construction Work in Progress for test year 2009 is \$285,732. Ducor's estimate was based on an average ratio of 1.5% between construction work in progress and plant in service. CD finds Ducor's ratio to be reasonable. As compared with other California small telephone companies, CD estimates construction work in progress for test year 2009 to be \$279,638. The difference is due to variations in Ducor's and CD's plant in service estimates.

#### *Materials and Supplies*

Ducor estimated materials and supplies by analyzing their historical relationship to plant in service. Ducor used 1.21% of the average plant in service balance to determine its test year total company materials and supplies estimate of \$229,971. As compared

with other California small telephone companies, CD finds Ducor's percentage reasonable and estimates materials and supplies expense of \$225,066 for the 2009 test year based on CD's average plant in service.

#### *Working Cash*

Ducor estimates its 2009 test year working cash requirement to be \$300,397 whereas CD's estimate is \$259,997. CD and Ducor both utilized the Simplified Method described in the Commission Standard Practice U-16 to calculate working cash and arrive at the above estimates. The Simplified Method was authorized by the Commission for California small telephone companies to calculate working cash allowance. The differences in the figures are the result of differing expense and revenue estimates.

#### *Deferred Income Taxes*

Ducor 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 4.74% ratio was then applied to the forecasted 2009 plant in service to derive the 2009 deferred income taxes. CD reviewed Ducor's recorded deferred income taxes and plant in service from the years 2002 through 2006. As compared with other California small telephone companies, CD finds Ducor's estimation method to be reasonable. CD accepted Ducor's deferred income taxes' ratio. Ducor estimates its 2009 test year deferred income taxes to be \$902,080, whereas CD estimates Ducor's test year 2009 DIT to be \$882,840.

#### *Separations*

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

Separations are the process of apportioning a telephone company's property costs, related reserves, operating expenses and taxes, and revenues between the state and federal jurisdictions. It is a vehicle by which a telephone company can separately identify the amount of expenses, investments and revenues 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 of the classification of accounts as prescribed by the Federal Communications Commission's (FCC's) Part 32, Uniform System of Accounts (USOA) for Telecommunications Companies.

As required under FCC Part 36 jurisdictional separations' procedures, Ducor used the most recent available separation factors to allocate its expenses and investments between interstate and intrastate. CD used the separation factors provided by Ducor to

separate its estimates for total company expenses and plant to derive CD's estimates for Ducor's intrastate results of operations.

Appendix B compares Ducor's and CD's total company, interstate, and intrastate results of operations for test year 2004 using these factors. Appendix C shows the difference between Ducor's and CD's 2009 intrastate results of operations.

#### *Cost of Capital*

Ducor requests an overall intrastate rate of return of 10.00%, the rate of return authorized by the Commission for Ducor in 1997 by Resolution T-16007.

The Return on Equity for all rural ILECs should be the same since the systematic and non-diversifiable risks faced by all rural ILECs are similar. In Decision D.97-04-035, the Commission authorized Ducor a 10.00% return on rate base for its 1997 test year as requested in A.95-12-076. The risks faced by rural ILECs appear similar today as in the recent past, therefore CD recommends that the Commission approve Ducor's request for an overall rate of return of 10.00% at this time.

#### *Net-to-Gross Multiplier*

The net-to-gross multiplier indicates the unit change in gross revenues required to produce a unit change in net revenue. Appendix D shows CD's computation of Ducor's net-to-gross multiplier. The net-to-gross multiplier of 1.66208 means that a change of \$1,662 in gross revenue would be required to produce a change of \$1,000 in net revenue. For Ducor, based on an adopted intrastate rate base of \$6,379,740 and an adopted rate of return of 10.00%, the adopted intrastate revenue requirement change required is \$583,874.

#### *CHCF-A*

D.01-02-018 approved Settlement Transition Agreements (STAs) between Pacific Bell and the small Local Exchange Carriers (small LECs). Funds that Pacific Bell paid the small LECs through toll and access pool settlement payments 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 Bells 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 urban rates as necessary, and both means test and the waterfall provisions shall apply.

Ducor calculated CHCF-A support for test year 2009 at present rates to be \$1,907,971. The CHCF-A 2009 support is derived from using Ducor's 2008 draw of \$1,782,058 adding the NECA estimated USF Federal support for 2008 of \$942,014 and subtracting Ducor's projected 2009 USF Federal support of \$816,101. On October 10, 2008, CD received the adjusted USF number from NECA. The adjusted USF for Ducor for 2009 is \$922,918. CD used the adjusted USF \$922,918 to derive Ducor's CHCF-A requirement.

For the test year 2009, CD's computation of Ducor's CHCF-A requirement is \$2,434,584 based on CD's projected revenues, expenses, rate base and 10.00% overall intrastate rate of return.

## Comments

In compliance with PU Code §311 (g), a notice letter was e-mailed on October 22, 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 comment.

In addition, CD informed the parties that the conformed resolution will also be available on the same website.

Timely filed comments will be addressed by the Commission in this resolution.

## Findings

1. Ducor filed its GRC by Advice Letter Nos. 318 and 318A on December 19, 2007, and July 21, 2008, respectively for test year 2009.
2. Ducor requests the following for test year 2009.
  - An increase in the CHCF-A support of \$1,211,337, which represents a 68% increase in year 2008 CHCF-A support for the year 2009.
  - Various changes to its tariff schedules as described in the Discussion section of this resolution.
  - An intrastate rate of return of 10.00%.
  - An intrastate operating revenue of \$4,350,780.
  - A total intrastate rate base amount of \$6,538,434.
3. The Communications Division recommends the following for Ducor for test year 2009 (Appendix C, column B):
  - An intrastate ROR of 10.00% with a total intrastate rate base amount of \$6,379,740

- A California High Cost Fund-A (CHCF-A) support of \$2,434,584, representing a reduction of \$558,811 or 22.95% less than the Ducor's proposed CHCF-A 2009 support of \$2,993,395.
  - An intrastate operating revenue of \$3,981,993
  - Various changes to its tariff schedules as described in the Discussion section of this resolution
  - Tariff increases as described in the Discussion section of this resolution.
4. The difference in estimates for Ducor and CD is the result of the use of different assumptions and methodologies for estimating revenues, expenses, and rate base.
  5. The Commission finds CD's recommended overall rate of return of 10.00% for Ducor to be reasonable.
  6. The Commission finds CD's methodology in estimating revenues, expenses, and rate base reasonable. The Commission therefore adopts CD's recommended intrastate estimates shown in Appendix C.
  7. The Commission finds CD's recommended \$2,434,584 CHCF-A support for Ducor for 2009 to be reasonable. The \$2,434,584 support is based on the Commission's adoption of CD's Intrastate Results of Operations for Ducor for test year 2009.
  8. The Commission finds CD's recommendation to approve Ducor's proposed tariff revisions outlined in the Discussion on section of this resolution to be reasonable. The proposed tariff changes include an increase to the Flat Residential Service Rate per D.08-09-042 as corrected by D.08-10-040, California Lifeline Rate per General Order 153, and the change in DA allowances from 5 to 3, to 5 to 1.
  9. The Commission finds CD's proposed rate increases in the Discussion section of this resolution to be reasonable.
  10. The Commission finds CD's proposed reduction in Local Area Operator Assistance Service allowance to be reasonable.
  11. CD's proposed rate increase should be reflected in Ducor's tariff revisions.
  12. 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 Ducor Telephone Company.

2. The overall intrastate rate of return of 10.00% is adopted for Ducor Telephone Company for test year 2009.
3. Ducor Telephone Company's CHCF-A yearly support for 2009 is \$2,434,584 with a resulting monthly support of \$202,882.
4. Ducor is granted authority to revise the tariffs for the changes described in this resolution. The revised tariff sheets will include the updated Table of Contents and the renumbering of the tariff sheets using the latest tariff sheet numbers.

This Resolution is effective today.

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

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PAUL CLANON  
Executive Director

**Appendix A**  
**Ducor Telephone Company**  
**Total Company Results of Operations**  
**Test Year 2009**

|                                    | DUCOR<br>(A)     | CD<br>(B)        | UTILITY EXCEED STAFF  |                     |
|------------------------------------|------------------|------------------|-----------------------|---------------------|
|                                    |                  |                  | (\$)<br>AMOUNT<br>(C) | (%)<br>DIFF.<br>(D) |
| <b>OPERATING REVENUES:</b>         |                  |                  |                       |                     |
| 1 Local Network Services           | 333,459          | 333,459          | -                     | 0.00%               |
| 2 Local Service - CHCF - A         | 1,907,971        | 1,907,971        | -                     |                     |
| 3 Interstate USF                   | 816,101          | 922,918          | (106,817)             | -11.57%             |
| 4 Network Access Services:         |                  |                  |                       |                     |
| 5 Intrastate                       | 230,760          | 230,760          | -                     | 0.00%               |
| 6 Interstate                       | 1,699,012        | 1,699,012        | -                     | 0.00%               |
| 7 Miscellaneous                    | 18,081           | 18,081           | -                     | 0.00%               |
| 8 Less: Uncollectible Revenue      | (42,494)         | (15,070)         | (27,424)              | 181.98%             |
| 9 <b>Total Oper. Revenue</b>       | <b>4,962,890</b> | <b>5,097,131</b> | <b>(134,241)</b>      | <b>-2.63%</b>       |
| <b>OPERATING EXPENSES:</b>         |                  |                  |                       |                     |
| 10 Plant Specific                  | 1,484,760        | 1,182,156        | 302,604               | 25.60%              |
| 11 Plant Non-Specific (less depr.) | 192,511          | 198,349          | (5,838)               | -2.94%              |
| 12 Customer Operations             | 330,139          | 263,274          | 66,865                | 25.40%              |
| 13 Corporate Operations            | 1,248,079        | 1,160,201        | 87,878                | 7.57%               |
| 14 <b>Subtotal</b>                 | <b>3,255,489</b> | <b>2,803,980</b> | <b>451,509</b>        | <b>16.10%</b>       |
| 15 Depreciation & Amortization     | 1,376,880        | 1,343,412        | 33,468                | 2.49%               |
| 16 Other Taxes                     | 101,691          | 101,691          | -                     | 0.00%               |
| 17 State Income Taxes              | 6,790            | 61,529           | (54,739)              | -88.96%             |
| 18 Federal Income Taxes            | 23,808           | 215,731          | (191,923)             | -88.96%             |
| 19 <b>Total Oper. Expense</b>      | <b>4,764,659</b> | <b>4,526,344</b> | <b>238,315</b>        | <b>5.27%</b>        |
| 20 <b>Net Revenues</b>             | <b>198,231</b>   | <b>570,787</b>   | <b>(372,556)</b>      | <b>-65.27%</b>      |
| <b>AVERAGE RATE BASE:</b>          |                  |                  |                       |                     |
| 21 Telephone Plant-in-Service      | 19,048,800       | 18,642,509       | 406,291               | 2.18%               |
| 22 Tel. Plant Under Construct.     | 285,732          | 279,638          | 6,094                 | 2.18%               |
| 23 Material & Supplies             | 229,971          | 225,066          | 4,905                 | 2.18%               |
| 24 Working Cash                    | 300,397          | 259,997          | 40,400                | 15.54%              |
| 25 Less: Deprec. Res.              | (10,019,259)     | (9,799,072)      | (220,187)             | 2.25%               |
| 26 Def. Taxes                      | (902,080)        | (882,840)        | (19,240)              | 2.18%               |
| 27 Customer Deposit                | (111)            | (111)            | -                     | 0.00%               |
| 28 <b>Total Rate Base</b>          | <b>8,943,450</b> | <b>8,725,187</b> | <b>218,263</b>        | <b>2.50%</b>        |
| 29 <b>Rate of Return</b>           | <b>2.22%</b>     | <b>6.54%</b>     |                       |                     |



**Appendix B**  
**Ducor Telephone Company**  
**Separated Results of Operations**  
**Test Year 2009**

|                                    | DUCOR                   |                   |                   | CD                      |                   |                   |
|------------------------------------|-------------------------|-------------------|-------------------|-------------------------|-------------------|-------------------|
|                                    | TOTAL<br>COMPANY<br>(A) | INTERSTATE<br>(B) | INTRASTATE<br>(C) | TOTAL<br>COMPANY<br>(A) | INTERSTATE<br>(B) | INTRASTATE<br>(C) |
| <b>OPERATING REVENUES:</b>         |                         |                   |                   |                         |                   |                   |
| 1 Local Network Services           | 333,459                 |                   | 333,459           | 333,459                 |                   | 333,459           |
| 2 Local Service - CHCF - A         | 1,907,971               |                   | 1,907,971         | 1,907,971               |                   | 1,907,971         |
| 3 Interstate USF                   | 816,101                 |                   | 816,101           | 922,918                 |                   | 922,918           |
| 4 Network Access Services:         |                         |                   |                   |                         |                   |                   |
| 5 Intrastate                       | 230,760                 |                   | 230,760           | 230,760                 |                   | 230,760           |
| 6 Interstate                       | 1,699,012               | 1,699,012         |                   | 1,699,012               | 1,699,012         |                   |
| 7 Miscellaneous                    | 18,081                  | -                 | 18,081            | 18,081                  | -                 | 18,081            |
| 8 Less: Uncollectible Revenue      | (42,494)                |                   | (42,494)          | (15,070)                |                   | (15,070)          |
| 9 <b>Total Oper. Revenue</b>       | <b>4,962,890</b>        | <b>1,699,012</b>  | <b>3,263,878</b>  | <b>5,097,131</b>        | <b>1,699,012</b>  | <b>3,398,119</b>  |
| <b>OPERATING EXPENSES:</b>         |                         |                   |                   |                         |                   |                   |
| 10 Plant Specific                  | 1,484,760               | 424,344           | 1,060,416         | 1,182,156               | 337,860           | 844,296           |
| 11 Plant Non-Specific (less depr.) | 192,511                 | 52,382            | 140,129           | 198,349                 | 53,971            | 144,378           |
| 12 Customer Operations             | 330,139                 | 99,801            | 230,338           | 263,274                 | 79,588            | 183,686           |
| 13 Corporate Operations            | 1,248,079               | 394,643           | 853,436           | 1,160,201               | 366,856           | 793,345           |
| 14 <b>Subtotal</b>                 | <b>3,255,489</b>        | <b>971,170</b>    | <b>2,284,319</b>  | <b>2,803,980</b>        | <b>838,274</b>    | <b>1,965,706</b>  |
| 15 Depreciation & Amortization     | 1,376,880               | 397,918           | 978,962           | 1,343,412               | 388,246           | 955,166           |
| 16 Other Taxes                     | 101,691                 | 27,670            | 74,021            | 101,691                 | 27,670            | 74,021            |
| 17 State Income Taxes              | 6,790                   | 23,063            | (16,272)          | 61,529                  | 35,666            | 25,864            |
| 18 Federal Income Taxes            | 23,808                  | 80,862            | (57,053)          | 215,731                 | 125,050           | 90,682            |
| 19 <b>Total Oper. Expense</b>      | <b>4,764,659</b>        | <b>1,500,682</b>  | <b>3,263,976</b>  | <b>4,526,344</b>        | <b>1,414,906</b>  | <b>3,111,438</b>  |
| 20 <b>Net Revenues</b>             | <b>198,231</b>          | <b>198,330</b>    | <b>(98)</b>       | <b>570,787</b>          | <b>284,106</b>    | <b>286,681</b>    |
| <b>AVERAGE RATE BASE:</b>          |                         |                   |                   |                         |                   |                   |
| 21 Telephone Plant-in-Service      | 19,048,800              | 5,183,178         | 13,865,622        | 18,642,509              | 5,072,627         | 13,569,882        |
| 22 Tel. Plant Under Construct.     | 285,732                 | 77,748            | 207,984           | 279,638                 | 76,089            | 203,549           |
| 23 Material & Supplies             | 229,971                 | 56,826            | 173,145           | 225,066                 | 55,614            | 169,452           |
| 24 Working Cash                    | 300,397                 | 88,857            | 211,539           | 259,997                 | 76,907            | 183,090           |
| 25 Less: Deprec. Res.              | (10,019,259)            | (2,755,296)       | (7,263,963)       | (9,799,072)             | (2,694,745)       | (7,104,327)       |
| 26 Def. Taxes                      | (902,080)               | (246,268)         | (655,812)         | (882,840)               | (241,015)         | (641,825)         |
| 27 Customer Deposit                | (111)                   | (30)              | (81)              | (111)                   | (30)              | (81)              |
| 28 <b>Total Rate Base</b>          | <b>8,943,450</b>        | <b>2,405,015</b>  | <b>6,538,434</b>  | <b>8,725,187</b>        | <b>2,345,447</b>  | <b>6,379,740</b>  |
| 29 <b>Rate of Return</b>           | <b>2.22%</b>            | <b>8.25%</b>      | <b>0.00%</b>      | <b>6.54%</b>            | <b>12.11%</b>     | <b>4.49%</b>      |

**Appendix C**  
**Ducor Telephone Company**  
**Intrastate Results of Operations at Adopted Rate of Return**  
**Test Year 2009**

|                            |                                 | DUCOR<br>PROPOSED<br>(A) | CD<br>PROPOSED<br>(B) | UTILITY EXCEED STAFF<br>AMOUNT<br>(C)=(A)-(B) |  | %<br>DIFFERENCE<br>(D) | ADOPTED<br>(E)   |
|----------------------------|---------------------------------|--------------------------|-----------------------|---|--|------------------------|------------------|
| <b>OPERATING REVENUES:</b> |                                 |                          |                       |   |  |                        |                  |
| 1                          | Local Network Services          | 335,053                  | 390,720               | (55,667)                                      |  | -14.25%                | 390,720          |
| 2                          | Local Service - CHCF - A        | 2,993,395                | 2,434,584             | 558,811                                       |  | 22.95%                 | 2,434,584        |
| 3                          | Interstate USF                  | 816,101                  | 922,918               | (106,817)                                     |  | -11.57%                | 922,918          |
| 4                          | Network Access Services:        |                          |                       |   |  |                        |                  |
| 5                          | Intrastate                      | 230,760                  | 230,760               | -   |  | 0.00%                  | 230,760          |
| 6                          | Interstate                      | -                        | -                     | -   |  | 0.00%                  | -                |
| 7                          | Miscellaneous                   | 18,081                   | 18,081                | -   |  | 0.00%                  | 18,081           |
| 8                          | Less: Uncollectible Revenue     | (42,610)                 | (15,070)              | (27,540)                                      |  | 182.75%                | (15,070)         |
| 9                          | <b>Total Oper. Revenue</b>      | <b>4,350,780</b>         | <b>3,981,993</b>      | <b>368,787</b>                                |  | <b>9.26%</b>           | <b>3,981,993</b> |
| <b>OPERATING EXPENSES:</b> |                                 |                          |                       |   |  |                        |                  |
| 10                         | Plant Specific                  | 1,060,416                | 844,296               | 216,120                                       |  | 25.60%                 | 844,296          |
| 11                         | Plant Non-Specific (less depr.) | 140,129                  | 144,378               | (4,249)                                       |  | -2.94%                 | 144,378          |
| 12                         | Customer Operations             | 230,338                  | 183,686               | 46,652  |  | 25.40%                 | 183,686          |
| 13                         | Corporate Operations            | 853,436                  | 793,345               | 60,091  |  | 7.57%                  | 793,345          |
| 14                         | <b>Subtotal</b>                 | <b>2,284,319</b>         | <b>1,965,705</b>      | <b>318,614</b>                                |  | <b>16.21%</b>          | <b>1,965,705</b> |
| 15                         | Depreciation & Amortization     | 978,962                  | 955,166               | 23,796  |  | 2.49%                  | 955,166          |
| 16                         | Other Taxes                     | 74,021                   | 74,021                | -   |  | 0.00%                  | 74,021           |
| 17                         | State Income Taxes              | 79,810                   | 77,478                | 2,332   |  | 3.01%                  | 77,478           |
| 18                         | Federal Income Taxes            | 279,826                  | 271,650               | 8,176   |  | 3.01%                  | 271,650          |
| 19                         | <b>Total Oper. Expense</b>      | <b>3,696,938</b>         | <b>3,344,020</b>      | <b>352,918</b>                                |  | <b>10.55%</b>          | <b>3,344,020</b> |
| 20                         | <b>Net Revenues</b>             | <b>653,842</b>           | <b>637,973</b>        | <b>15,869</b>                                 |  | <b>2.49%</b>           | <b>637,973</b>   |
| <b>AVERAGE RATE BASE:</b>  |                                 |                          |                       |   |  |                        |                  |
| 21                         | Telephone Plant-in-Service      | 13,865,622               | 13,569,882            | 295,740                                       |  | 2.18%                  | 13,569,882       |
| 22                         | Tel. Plant Under Construction   | 207,984                  | 203,549               | 4,435   |  | 2.18%                  | 203,549          |
| 23                         | Material & Supplies             | 173,145                  | 169,452               | 3,693   |  | 2.18%                  | 169,452          |
| 24                         | Working Cash                    | 211,539                  | 183,090               | 28,449  |  | 15.54%                 | 183,090          |
| 25                         | Less: Deprec. Res.              | (7,263,963)              | (7,104,327)           | (159,636)                                     |  | 2.25%                  | (7,104,327)      |
| 26                         | Def. Taxes                      | (655,812)                | (641,825)             | (13,987)                                      |  | 2.18%                  | (641,825)        |
| 27                         | Customer Deposit                | (81)                     | (81)                  | -   |  | 0.00%                  | (81)             |
| 28                         | <b>Total Rate Base</b>          | <b>6,538,434</b>         | <b>6,379,740</b>      | <b>158,694</b>                                |  | <b>2.49%</b>           | <b>6,379,740</b> |
| 29                         | <b>Rate of Return</b>           | <b>10.00%</b>            | <b>10.00%</b>         |   |  |                        | <b>10.00%</b>    |

**Appendix D  
 Ducor 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. 5)                 | 34.00% | 0.30994          |
| 7                                     | Net Income (Ln. 5 Less Ln. 6)                            |        | 0.60166          |
| 8                                     | <b>Net-To-Gross Multiplier</b> (Ln.1 Divided by Ln. 7)   |        | <b>1.66207</b>   |
| <b>Intrastate Revenue Requirement</b> |  |        |                  |
| 9                                     | Adopted State Rate Base                                  |        | 6,379,740        |
| 10                                    | Net Revenues adopted at 10.00% (Ln. 9 Times 10%)         |        | 637,974          |
| 11                                    | Net Revenue In Test Year 2009 At Present Rates           |        | 286,681          |
| 12                                    | Change in Net Revenues (Ln. 10 Less Ln. 11)              |        | 351,293          |
| 13                                    | <b>GROSS REVENUE CHANGE REQUIRED (Ln. 12 time Ln. 8)</b> |        | <b>583,874</b>   |
| <b>CHCF-A SUPPORT</b>                 |  |        |                  |
| 14                                    | 2009 CHCF-A SUPPORT AT PRESENT RATES                     |        | 1,907,971        |
| 15                                    | <b>2009 CHCF-A SUPPORT ADOPTED</b> (Ln. 14 add Ln. 13)   |        | <b>2,491,845</b> |
| 16                                    | <b>PROPOSED NET RATE INCREASE</b>                        |        | (57,261)         |
| 17                                    | <b>2009 CHCF-A ADOPTED</b> (Ln 15 add Ln 16)             |        | <b>2,434,584</b> |

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