ATTACHMENT I
Revised Version of T-17132

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

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

RESOLUTION T-17132
January 29, 2009

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

Resolution T-17132. Ponderosa Telephone Company. (U-1014-C). General Rate Case Filing In Compliance With G.O. 96-B, Paragraph VI.

By Advice Letter No. 374, filed on December 28, 2007 and Advice Letter No. 374A, filed on June 10, 2008.

Summary

This resolution addresses the General Rate Case (GRC) filed by Ponderosa Telephone Company (Ponderosa) through Advice Letter (AL) No. 374 in compliance with D.01-05-031. Ponderosa proposes: a) no changes to its basic rates or charges, however the company proposes increases to some optional services and non-recurring charges to bring its prices more in line with that of the telephone industry; b) an intrastate rate of return (ROR) of 10.00%, the same ROR granted in its previous GRC filing in 2003; and c) $5,843,734 in California High Cost Fund-A (CHCF-A) support for year 2009. This represents an increase in its CHCF-A draw for 2008 of $3,589,024, or 259.2%, from its 2008 draw of $2,254,710.

This resolution authorizes total intrastate revenue in the amount of $15,316,206 for Ponderosa for the test year 2009. This represents a reduction of $1,694,293, or 11.06%, to Ponderosa's estimate of $17,010,499 for total intrastate revenue for 2009. This resolution also authorizes total intrastate operating expenses in the amount of $13,244,413 for Ponderosa for the test year 2009. This represents a reduction of $1,320,969, or 9.97%, to Ponderosa's estimate of $14,565,382 for total intrastate operating expenses for 2009. The Communications Division (CD) estimates that the total intrastate rate base amount for Ponderosa is $20,719,889 with an overall intrastate ROR of 10.00% for the test year 2009. This represents a reduction of $3,731,280, or 18.01%, to Ponderosa's estimate of $24,451,169 for total intrastate rate base for 2009. This resolution also authorizes CHCF-A support for Ponderosa for test year 2009 of $3,699,788 as estimated by CD. This amount represents an increase of $1,445,078, or 164.1%, from Ponderosa' CHCF-A 2008 support of

$2,254,710, but is $2,620,612, or 41.46%, of Ponderosa's requested amount of $6,320,400. This difference is due to adjustments made to revenues, expenses and rate base estimates.

Appendix A to this resolution compares the Communications Division's (CD) and Ponderosa's test year 2009 Total Company Results of Operations at present rates and before any CHCF-A adjustment, Appendix B compares CD's and Ponderosa's Interstate and Intrastate Results of Operations at present rates and before any CHCF-A adjustment while Appendix C compares CD's and Ponderosa's Intrastate Results of Operations estimates after Ponderosa's proposed CHCF-A adjustment and after CD's proposed CHCF-A, revenue, expense, and rate base adjustments. Appendix D shows CD's calculation of the Net-to-Gross Multiplier and the changes in the gross intrastate revenue requirement based on an adopted intrastate rate of return of 10.00%.

Background

Ponderosa, a local exchange telephone utility based in O'Neals, California, provides local exchange telephone service in parts of Madera, Fresno and San Bernardino counties. Ponderosa currently serves approximately 9,300 business and residential access lines in its Auberry, Big Creek, Cima, Friant, North Fork, O'Neals, Shaver, and Wishon telephone exchanges.

In D.01-05-031, the California Public Utilities Commission (CPUC, or Commission) set in motion the waterfall provision[1] in 2002 for six small LEC's if they did not each file a GRC by the end of 2001.[2]

The last GRC filed by Ponderosa was by AL No. 316 filed December 30, 2002, for test year 2004 and adopted by Resolution T-16771 on October 30, 2003. The CHCF-A funding amount granted to Ponderosa in T-16771 was $3,293,749, with an additional one-time CHCF-A funding amount of $48,156, due to Ponderosa's losses from the WorldCom bankruptcy.

In AL No. 374 and AL No. 374A, Ponderosa proposes a) increases to certain discretionary non-basic service rates; b) an intrastate Rate of Return (ROR) of 10.00%, the same rate of return granted in its previous GRC filing in 2004; and c) an increase in its CHCF-A draw increase of $3,589,024, or 259.2%, or from its 2008 draw of $2,254,710. In AL No. 374A,

[1] The waterfall provision refers to the 6-year phase down of the CHCF-A funding level beginning in 1998, the year after the completion of a GRC. The funding levels are 100% of the test year CHCF-A amount for the first 3 years, i.e., 1998, 1999 and 2000; 80 % the fourth year, i.e., 2001, 50% the fifth year, i.e., 2002; and 0% thereafter.

[2] The six companies were Evans Telephone Company, Happy Valley Telephone Company, The Ponderosa Telephone Company, Sierra Telephone Company, Inc., The Siskiyou Telephone Company, and The Volcano Telephone Company.

Ponderosa proposes a revised 2009 CHCF-A draw of $6,320,400, an increase of $4,065,690, or 180.32%, from its 2008 CHCF-A draw of $2,254,710.

In this rate case, Ponderosa also proposes to eliminate the Transport Interconnection Charge (TIC), from its Access Service tariff, to comply with Ordering Paragraph 8 of D.07-12-020, which requires the elimination of non-cost based elements from rates.

Notice/Protests

Ponderosa states that copies of ALs No. 374 and No. 374A were mailed to parties on its service list. Notice of AL No. 374 and No. 374A were published in the Commission Daily Calendars of January 11, 2008 and June 13, 2008, respectively. No protests to ALs No. 374 or No. 374A were received by CD.

On June 24, 2008, CD Staff held a Public Meeting at the North Fork Town Hall in North Fork, California, to explain Ponderosa's filing to its customers and to give customers the opportunity to ask questions of Ponderosa's management and CD. Ponderosa notified customers of the rate review request and public meeting by bill insert. No customers attended the meeting.

On October 22, 2008, CD met with Ponderosa at the Commission's San Francisco headquarters. Prior to this meeting CD sent Ponderosa copies of CD's Draft Results of Operations, which form Appendices A through D to this resolution. During this meeting CD explained its projected revenues, expenses, rate base, and CD's 2009 proposed CHCF-A subsidy, all calculated with a 10% rate of return on rate base.

During the meeting Ponderosa raised the issue of receiving an additional non-recurring amount from the CHCF-A for the recent wireless reciprocal compensation case as an additional CHCF-A draw amount in this rate case. CD will consider this additional CHCF-A draw amounts (for wireless reciprocal compensation) in its annual Calendar Year CHCF-A Funding Resolution for Small Rural Local Carriers for 2009.

After the meeting CD and Ponderosa agreed to exchange information relating to access line counts, completed construction projects, employee pension plan, usage of Ponderosa's main building and constant dollar method calculations.

On December 17, 2008, Ponderosa representatives reviewed CD's workpapers and met with CD staff at CPUC's offices. On January 5, 2009, Ponderosa submitted its findings of possible calculation errors to CD. CD has reviewed these possible calculation errors and made corrections/changes where appropriate.

Discussion

Operating Revenues

Total Operating Revenues At Present Rates:

For test year 2009 CD identified the regulated components of Ponderosa's Total Operating Revenues as: Local Revenues, Access Revenues, Miscellaneous Revenues and Uncollectible.

Ponderosa's estimate of total company operating revenues at present rates of $20,078,759 is less than CD's estimate of $20,524,303 by $445,544 or <2.17%> (Appendix A; Column B; Line 9). The difference is due to the differing estimates developed by CD and Ponderosa as discussed below.

Local Revenues:

Ponderosa calculated it's Local Revenues by annualizing eight months of 2007 recorded revenue to project total 2007 revenues. The average growth in access lines from 2005 to 2007 was calculated to project 2008 and 2009 access lines and Associated Revenues. Ponderosa states in its filing that this provides the most representative basis for projecting future access lines and associated revenues.

CD does not accept Ponderosa's access line count as provided in its filing, as there are discrepancies in access lines as reported in its 2007 annual report and the actual 2007 access line counts submitted to CD in AL No. 374 A on June 20, 2008. In order to determine an accurate access line count, CD included the actual access line count changes from 2004, 2005, 2006 and 2007 as reported in AL No. 374 A. The percent change between each year was calculated, averaged for three years, and extrapolated into 2008 and 2009 access line count projections. At the October 22nd meeting, Ponderosa disputed CD's access line count. In response, CD requested that Ponderosa submit the latest access line count for consideration in determining test year 2009 access line count and associated revenues.

On October 27, Ponderosa replied to CD and verified that the access line count as stated in Ponderosa's 2007 Annual Report is correct. CD performed a second analysis utilizing data from Ponderosa's 2002 through 2007 Annual Reports, Form M Schedule S-3 access line count in its methodology. The average percent change for five years was calculated, and extrapolated into 2008 and 2009 access line count projections. For Test Year 2009, CD estimates 2,152 business lines, compared to Ponderosa's projection of 1,993 (an increase of 159) and 7,128 residential lines compared to Ponderosa's projection of 7,054 (an increase of 74), representing a Local Revenue increase of $29,548 at present rates. This disparity is the result of the difference between Ponderosa's projected access line losses of <1.64%> as compared to CD's projected loss of <0.95%>.

In addition, CD is also proposing tariff changes. The most significant are increases in Flat Rate Residential Service, and California Lifeline Service. This is due to D.08-09-042 as corrected by D.08-10-040, allowing AT&T to increase its monthly Residential Flat Rate up to $14.19[3]. On October 28, 2008, AT&T notified the Director of CD in writing that AT&T will raise its Residential Flat Rate from the present $10.94 to $13.50. As a result of this AT&T rate increase; CD proposes increasing Ponderosa's Basic Residential rate from the current $16.85 to $20.25 (150% of AT&T's rate of $13.50 as of January 1, 2009) and California Lifeline rate from $5.47 to $6.11. After review of telephone rates throughout California, CD determined Ponderosa's Business Flat rate is at the low end of the comparative rates and should be increased from the current $28.45 to $30.05. The result of the increase in Flat Rate Residential service is $285,967, and the increase for Flat Rate Business service is $41,318.

In response to concerns raised during the meetings with companies submitting GRC's for test year 2009, CD is adjusting subscriber counts of Discretionary Services due to price elasticity. Moss Adams, an accounting firm representing three ILEC's (Incumbent Local Exchange Carrier) with GRCs pending, performed an analysis that demonstrates increases in Discretionary Services of at least 25%, would have a price elasticity factor of 5%. Considering the increases in rates CD is proposing for Ponderosa in test year 2009, CD performed the calculations and concurs with this methodology. The Discretionary Services CD is increasing in excess of 25% are adjusted by $22,231 in incremental revenue for Local Services in test year 2009.

<u>Tariff Changes:</u>

This Resolution authorizes Ponderosa to increase the rates of certain optional services such as Custom Calling Services, inside Wiring Protection for businesses and residences, Voice Mail Services, and business Centrex services monthly rates. Ponderosa estimates that as a result of these requested rate increases, its 2009 revenues will rise by $28,718.

In AL 374, Ponderosa proposed the following changes to its tariff schedules:

1. Increase various monthly rates offered in "Custom Calling Service" overall by 10% - Tariff Schedule No. A-20.

[3] Universal Regulatory Framework (URF) Incumbent Exchange Carriers (ILEC) will adopt a transition plan for increases to Basic Residential rates effective Jan. 1, 2009. The increase is within the 150% threshold of AT&T at current rates as required to receive CHCF-A support. General Order 153 currently ties the California Lifeline rate to AT&T's Basic Residential rate.

2. Increase monthly rates for the three basic feature packages for business offered in "Centrex Service": "Package One" from $5.00 to $5.50, "Package Two" from $4.00 to $4.50 and "Package Three" from $3.00 to $3.50 - Tariff Schedule No. A-23.

3. Increase monthly rates for "Ponderosa Wiring Protection" simple inside wiring plan for business from $1.95 to $2.00 and for residence from $0.95 to $1.00 - Tariff Schedule No. A-31.

4. Increase monthly rates for the six mailbox options offered in "Voice Mail Service": "Call Answering" from $3.95 to $4.25, "Voice Messaging I" from$5.95 to $6.50, "Voice Messaging II" from $7.95 to $8.50, "Voice Messaging III" from $9.95 to $10.50, "Greeting Only Mailbox" from $3.95 to $4.25, and "Voice Menu" from $3.95 to $4.25 - Tariff Schedule No. A-35.

5. Elimination of "Transport Interconnection Charge," in accordance with D.07-12-020, Ordering Paragraph 8 - Tariff Schedule No. B-7.

CD reviewed Ponderosa's proposed tariff changes and found them reasonable with two exceptions. CD believes the following two "Wiring Protection" services should be priced at the comparable market rates. CD applied the lower of AT&T and Verizon (two major ILEC's) statewide rates and revised the proposed rates as follows:

1. Wiring Protection Business increase from $1.95 to $3.00 - Tariff Schedule No. A-31.

2. Wiring Protection Residential increase from $0.95 to $1.50 - Tariff Schedule No. A-31.

In addition to Ponderosa's proposed tariff changes, CD is recommending the following tariff changes based on a survey of AT&T's and other ILEC's rates and charges:

1. Flat Rate Residential Service monthly rate from the current $16.85 to $20.25 and California Lifeline Service from the current $5.47 to $6.11 in accordance with D.08-09-042 as corrected by D.08-10-040 (see Local Revenues above) - Tariff Schedule No. A-1.

2. Additional Listing Business increase from $0.95 to $1.50 - Tariff Schedule No. D-1.

3. Additional Listing Residential increase from $0.50 to $1.00 - Tariff Schedule No. D-1.

4. Additional line of Information increase from $0.50 to $0.75 - Tariff Schedule No. D-1.

5. Anonymous Call Rejection Residence from $3.00 to $4.00 - Tariff Schedule No. A-20.

6. Anonymous Call Rejection Business from $3.00 to $4.00 - Tariff Schedule No. A-20.

7. Call Forwarding Busy Business increase from $4.00 to $5.00 - Tariff Schedule No. A-20.

8. Local Operator Assistance Service (Directory Assistance) increase from $0.24 to $0.50 - Tariff Schedule No. B-8.

9. Directory Assistance Allowance Residential decrease from 5 free calls to 1 free call – Tariff Schedule No. B-8.

10. Directory Assistance Allowance Business decrease from 2 free calls to 0 free calls – Tariff Schedule No. B-8.

CD recommends the Commission adopt the proposed tariff changes listed above.

<u>Access Revenues:</u>

In its filing, Ponderosa reports State Switched Access and State Special Access as components of Access Revenues. Ponderosa is forecasting Access Revenues by projecting Minutes of Use (MOU) to determine Switched Access Revenues for 2008 and 2009. Minutes of Use are projected separately for interexchange carriers and wireless carriers based on the average growth in MOU from 2006 and 2007. Per minute rates were then applied to the calculated MOU to determine Switched Access Revenues. Direct trunk revenues were added to determine total Switched Access Revenues. The per minute rates utilized in this calculation were based on the projected rates for 2008 and 2009 for interexchange access and wireless carriers and adjusted for known factors for 2009. Included in this calculation is elimination of the Transport Interconnection Charge (TIC) rate element, establishment of a new meet point billing percentage with AT&T, and the new wireless reciprocal compensation rate.

Ponderosa stated in its filing that for Special Access Revenues an additional adjustment was made to 2009 revenues to account for new meet point billing percentage with AT&T. Upon examination of Ponderosa's Access Analysis, CD found inconsistencies in the methodology Ponderosa provided. One methodology calculated Total Switched Access Revenues based on forecasted MOU's for 2008 and 2009 projections. Another method utilized projections of Access Minutes of Use with actual 2005, 2006 and 2007 changes in growth. At the October 22nd meeting, CD asked Ponderosa to discuss their methodology used in projecting Access Revenues, and the actual amounts of decrease in TIC and Meet Point billing revenues. CD also requested from Ponderosa actual 2004, 2005, 2006, and 2007 Access Revenue data.

In its response, Ponderosa stated that because these changes in TIC and meet point billings are new, it is difficult to project, and that Ponderosa is modifying its methodology. Ponderosa calculated the change in percentage of Switched Access and Wireless MOU's for 2004, 2005, 2006 and 2007 and extrapolated the average into 2008 and 2009. Upon review, CD accepts this methodology as reasonable due to the fact that Ponderosa's Access MOU's are decreasing, while Wireless MOU's are increasing and therefore there is no discernable trend. The result is a revised projection of $757,423 in Access Revenues from $645,615 as stated in Ponderosa's filing. By utilizing the same methodology, CD revises upward Ponderosa's State Special Access revenues from $214,895 to $218,239. This results in a total difference of $115,152 in Access Revenue from Ponderosa's projected $860,510 to CD's projection of $975,662.

<u>Miscellaneous Revenues:</u>

Ponderosa reports Miscellaneous Revenues as being comprised of: Directory Revenue, Rents, 911 Re-imbursement, and Miscellaneous-Other, and Intrastate Billing and Collection. In its filing, Ponderosa states that the average historical changes and known 2008 and 2009 impacts in miscellaneous revenues were utilized to determine miscellaneous revenues for 2008 and 2009. The basis for the average historical changes and known impacts varies among each individual miscellaneous revenue item. At the meeting, Ponderosa conveyed to CD that 911 revenue is a static set amount, a fixed cost and did not result from projections. CD accepted that assertion.

In its filing, Ponderosa is forecasting an increase in Directory Revenues for Test Year 2009. Because of Ponderosa's efficiency and enterprise in marketing its Directory products despite an overall industry downward trend, CD accepts Ponderosa's methodology and forecast for Directory Advertising. Since lease agreements are traditionally long-term, negotiated between AT&T and Ponderosa, and are fixed, CD accepts Ponderosa's forecast for rental revenue. Ponderosa forecast Intrastate Billing and Collection by applying their access line count growth forecast of <1.64%> extrapolated to 2008 and 2009 from actual 2007 data. CD does not accept this methodology, since CD forecasts an access line count growth of <0.95%> based on the same methodology CD applied to project Local Revenue (see above). This change results in an increase of Miscellaneous Revenue from Ponderosa's forecast of $513,514 to CD's forecast of $516,786 at proposed rates.

Uncollectible Revenue:

Ponderosa forecasts Uncollectible Revenue by averaging 2006 and 2007 Uncollectible as a percentage of billed local revenues to project 2008 and 2009 uncollectible revenue. After analysis of Ponderosa's forecasts of Uncollectible Revenues in test year 2009, CD finds the ratio between Uncollectible and Total Operating Revenue (less CHCF-A)[4] to be insignificant. Since Ponderosa is demonstrating efficiencies in reconciling Uncollectible Revenue, CD accepts its forecasts.

CD calculated that its and Ponderosa's proposed rates and charges increases will result in an increase of $377,478 in annual intrastate revenues.

Revenue Effect Associated with Wireless Intercarrier Compensation:

Ponderosa's filing for CHCF-A funding for calendar year 2009 included a prior period adjustment in the amount of $967,524 for recovery of lost revenues due to moving from a tariffed rate to an interconnection agreement with New Cingular Wireless PCS, LLC, dated May 20, 2005. The requirement for an interconnection agreement was due to the Commission's Final Arbitrator's Report A.06-02-028 dated January 14, 2008.

This prior period adjustment, in the amount of $967,524, will be included in Commission Resolution T-17181, which funds the 17 small Local Exchange Carriers for calendar year 2009. The total funding for Ponderosa for 2009 will include the amount approved in Resolution T-17181 plus the amount approved in this Resolution.

Operating Expenses

Total Operating Expenses:

Ponderosa's estimate of total company operating expenses (at present rates less depreciation and taxes) at $ 9,875,942 is greater than CD's estimate of $8,827,696 by $1,048,246 or 11.87%. A comparison of CD's and Ponderosa's estimates of total operating expenses for test year 2009 is shown in Appendix A. CD has made the following modifications to Ponderosa's estimates: (a) a disallowance of $48,300 for a new employee; (b) a reduction of $346,725 in executive salary expense; (c) disallowed bonuses;

[4] At present rates, $4,451 of $17,725,401 or 0.0002%. At proposed rates $4,451 of $11,470,430 or 0.0003%.

(d) capped benefits at 42% of salaries and wages; (e) the application of the constant dollar method (CDM) to estimate 2009 test year expenses; and (f) the difference between the use of eight month annualized data for 2007 in Ponderosa's initial filing and CD's use of a full year of actual 2007 recorded expenses. These adjustments are further described below.

In Ponderosa's original rate case filing, it used eight months of 2007 recorded data, then annualized it and increased each expense amount by a composite growth factor, based on a three year average of the historical increase in labor and non-labor expenses. The factor was based on the average proportion of labor and non-labor in the total expenses and did not break them into sub-components. Ponderosa then added expense amounts for five additional employees.

CD does not agree with Ponderosa's escalation method. Ponderosa's methodology includes other factors that increase expense levels such as changes in operations and customer growth. For example, if the utility had ten computers and then added another computer, the electricity usage would increase due to the addition of a computer. The growth in expense is due to a change in operations. If computers are not added uniformly each year then this method of forecasting operating expenses would be flawed. For test year ratemaking purposes, CD attempts to estimate expenses for a normal operating year and then escalate the expense for inflation. CD started with Ponderosa's recorded end of the year 2007 labor and non-labor expense data and then applied the constant dollar method to compute Ponderosa's estimated 2009 expenses. 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 in the following way:

(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 different years because all expenses appear in the same "current year average dollars," regardless of when the expenses were incurred. Therefore, CD used the inflation factors for each year and compounded them to 2007 dollars. This is the same expense forecasting principle and methodology the Commission approved and adopted in Resolution T-16711 in 2003 for Ponderosa's previous GRC.

The detail expense accounts are divided into four components: salaries, benefits, rents and other. The expense was analyzed by account and by the components of each account. CD accepted Ponderosa's historical ratio of labor and non-labor expenses and used these ratios to escalate expenses into the test year using DRA's estimated labor and non-labor escalation factors.[5]

Ponderosa proposed to add five new employees in test year 2009. These proposed employees carry an annual cost of $201,314 for the test year 2009. After a review of Ponderosa's submitted reasoning, CD accepts the addition of four new employees and adds their associated expense to its 2009 estimate. CD does not agree with the addition of one regulatory analyst position. Ponderosa maintained that it needed this additional employee position to meet the ever increasing regulatory and legislative requirements.

Although telephone subscribers' needs for telephone and related communications technology change and the regulatory environment evolve correspondingly, CD sees no evidence that state regulatory requirements have increased significantly in recent years. Ponderosa cited a number of examples of increasing regulatory tasks such as the new LifeLine certification process and resulting activities. In fact, since Ponderosa's last GRC proceeding, the Commission has relieved carriers of the burden of LifeLine customers' certification and verification. This task has been handled by a third party administrator since 2006. In addition, the Commission has allowed carriers to claim expenses related to LifeLine implementation from the LifeLine fund, as they are incurred. CD therefore, disallows Ponderosa's proposed salary and benefits for one new proposed regulatory analyst position which will lower Ponderosa's employee salaries/wages expense by $48,300.

CD examined the payroll expense separately from the analysis of the individual accounts and analyzed the payroll by positions for 2007. CD's analysis of details of the weekly and daily responsibilities of Ponderosa's executives indicates there are duplications of tasks among the executive and upper management positions. Therefore, CD disallowed the regulated portion of salaries related to duplicate executive tasks which resulted in a reduction in the payroll by $346,725 from the base year calculation.

Ponderosa added bonuses to regulated salaries and wages of its employees. CD does not agree with inclusion of bonuses in rate case expenses. CD acknowledges that it is within Ponderosa's shareholders' right to reward employees with bonuses, but payment of bonuses must not be charged at the expense of the rate payers who subsidize this

[5] CD used the November 30, 2008 DRA estimates of Global Insight U.S. Economic Outlook estimates of Non-Labor and Wage Escalation Factors for 2007-2009 as follows:

Year	Labor (%)	Non-labor (%)
2007	3.75	3.0
2008	2.9	6.8
2009	3.9	(0.5)

regulated telephone company. Therefore, CD disallowed bonus payments of $94,503 from the base year calculation.

Ponderosa's level of benefits to total compensation appears to be high when compared to other similarly situated utilities. For test year 2009, the ratio of benefits to total compensation is 54%. CD applied a ratio of 42% that it deemed to be more reasonable for rate making purposes.

CD's use of the 42% benefit to salary ratio was developed through a comparison of ratios utilized by other communication carriers involved in General Rate Cases (GRC), a survey of the annual report filings and general rate cases of small water companies ranging from 2000-10,000 customers as well as U.S. Bureau of Labor Statistics (BLS) data, dated December 10, 2008 [6] for those indicators relevant to small ILEC's operating in California.

CD found the average benefit to salary ratio for the water survey group to be 33%.[7] While the study of the latest available data from the BLS, for similarly situated companies by size, location, and operation type as well as other indicators resulted in an average benefit to salary ratio of 42% [8]. The BLS ratio supports CD's proposed rate of 42% therefore, CD caps the ratio of regulated benefits to salaries/wages at 42%, for the test year 2009 and concludes that its proposed benefit to salary ratio of 42% for Ponderosa is appropriate and adequate.

During the June 24th field visit to Ponderosa's facilities, CD staff noticed that Ponderosa's customer service department closes at 4:30 pm every day, Monday through Friday. This is a time when many of Ponderosa's customers might still be at work, or on the road returning from work. CD recommends that Ponderosa extend its customer service hours to 5pm and also open for 4 hours on Saturdays. Ponderosa is not ordered to make this change but should it accept CD's recommendation; it shall inform its customers of the extended and additional customer service hours.

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[6] http://www.bls.gov/news.release/ecec.nr0.htm.

[7] Kenwood GRC filing Test Year 2009 at 35%, Alco Annual Report 2007 at 48%, East Pasadena Annual Report 2007 at 24%, Fruitridge Annual Report 2007 at 25%, Penngrove Annual Report 2007 at 32%.

[8] *Ibid*, Table 8.

Rate Base

Telephone Plant In Service (TPIS):

CD conducted a review of Ponderosa's Rate Base components, which include TPIS, Telephone Plant-under-Construction (TPUC), Materials and Supplies (M&S), Working Cash, Deferred Taxes, and Customer Deposits. CD calculated Ponderosa's total company TPIS average balance for five years (2002 to 2007) to be $89,728,320. CD's total company TPIS average balance for test year 2009 for this rate case is $92,505,193, which is approximately 3.09% higher than the 5-year average.

On October 29, 2008, in response CD's follow-up email to the October 22nd meeting, Ponderosa sent CD a revised Construction Program listing for 2008, 2009 and 2010. After reviewing this new listing, CD accepted all the projects for 2008, with the exception of an $8,000 conference room video equipment project (#O07726). CD's position is that this equipment will not benefit Ponderosa's ratepayers directly and CHCF-A funds should not be used to fund this type of purchase/project. CD's allowed 2008 projects total $6,606,388. Also in response to this new information provided by the company, CD accepted projects on Ponderosa's new 2009 schedule totaling $9,049,780, but disallowed other 2009 projects which totaled $2,070,455. CD has determined that these disallowed 2009 projects are not necessary at this time and should be deferred by the company to a later date. CD did not consider Ponderosa's 2010 projects for this GRC.

Customer Operations Building

During CD's field inspection, CD Staff discovered that Ponderosa's customer operations building in O'Neals appeared to be only 50% occupied. Under the rate case concept of "used and useful[9]," CD reduced Ponderosa's building TPIS account by 30% for this rate case.

At the October 22nd meeting, Ponderosa told CD that they would supply CD with more information about the current usage of the customer operations building. On October 29, 2008, Ponderosa informed CD that the building was currently 63% occupied. With this new information, CD disallowed 30%, or $507,278, of the book value of the customer operations building from rate base. If this building becomes increasingly utilized by Ponderosa by the time of its next GRC filing, CD will consider increasing the amount of this TPIS account.

[9] A concept used by utility regulators to determine whether an asset should be included in the utility's rate base. This concept requires that an asset currently provide a needed service to customers.

Company Vehicles

CD requested information relating to the vehicles that Ponderosa uses in its operation. From the list received from Ponderosa, CD disallowed $37,100 of TPIS book value of a 2004 Lincoln Towncar, and a 2005 Ford Expedition, as Ponderosa reported that these were personal use vehicles.

<u>Telephone Plant-Under-Construction (TPUC):</u>

CD reviewed 6 years of Ponderosa's actual Telephone Plant-Under-Construction (TPUC) percentages (of TPUC to TPIS) and removed 2005 since it was unusually low and 2006 as it was unusually high. Ponderosa took the actual beginning balance of TPUC for 2007, then estimated the ending TCUC balance for 2007 and averaged those two amounts to arrive at the TPUC for 2007. They continued with this method for 2008 and 2009. CD feels Ponderosa's method relies too much on estimation of future project amounts, and would prove not to be very accurate. CD averaged 2002, 2003, 2004 and 2007, and arrived at a TPUC percentage of 3.34%. CD then used this percentage multiplied by the average TPIC for 2009, to come up with total company TPUC of $3,087,697, which is approximately 5.9% lower than Ponderosa's 2009 estimate of $3,281,100.

<u>Materials and Supply (M&S):</u>

CD reviewed Ponderosa's recorded 6 years (2002-2007) Materials and Supplies (M&S) amounts and calculated the ratio of the M&S amounts to the recorded average TPIS for those years. The M&S ratio ranged from .002316 to .003805, and the average was .003221. CD then applied this average of .003221 to its average 2009 total company TPIS balance of $92,446,011 to arrive at a 2009 total company M&S amount of $297,676. CD recommends that the 2009 total company M&S of $297,676 be included in rate base.

<u>Working Cash:</u>

Both Ponderosa and CD used the simplified method described in the CPUC's Standard Practice U-16 to arrive at the Working Cash estimate. CD used Ponderosa's 49.16% ratio of toll revenue to total revenue to calculate the total company Working Cash estimate of $1,215,057, for test year 2009. Ponderosa's 2009 intrastate Working Cash estimate of $1,310,208 is $95,151, or 7.83% higher, than CD's due to differences in estimated revenues and expenses.

Deferred Taxes:

For Total Company Deferred Taxes, CD reviewed Ponderosa's recorded 6 years (2002-2007) Deferred Taxes amounts and calculated the ratio of the Deferred Taxes amounts to the recorded average TPIS for those years. The Deferred Taxes ratio ranged from <0.00438> to <0.01696>, and the average was <0.01097>. CD then applied this average of <0 .01097> to its average 2009 TPIS balance of $92,505,193 to arrive at a 2009 Deferred Taxes amount of <$1,014,782>. Ponderosa's method took the actual beginning balance of Deferred Taxes for 2008, then estimated the ending balance for 2008 and averaged those two amounts to arrive at the average TPUC for 2008. Ponderosa continued with this method to reach the 2009 Deferred Taxes amount of <$279,499>. CD believes Ponderosa's method relied too much on estimation of future project amounts, and would prove not to be very accurate. CD recommends that the 2009 Total Company Deferred Taxes of <$1,014,782> be included in rate base.

Customer Deposits:

Ponderosa used the most recent balance of customer deposits for the test year. CD accepts this methodology as reasonable and reflective of current conditions since the amount of customer deposits depends on credit conditions and the number of new customers added. The balance carries forward from one year to the next with new deposits added and some existing deposits refunded. CD accepts Ponderosa's Customer Deposit amount at present rates of <$10,964>.

Depreciation Expense:

CD used its average TPIS for 2009 and Ponderosa's current depreciation rates to calculate 2009 total company Depreciation Expense of $7,968,625. Ponderosa's calculation of total company Depreciation Expense was $7,942,640. Both Ponderosa and CD applied the same depreciation rates which had been previously approved by the Commission. Differences between CD's and Ponderosa's depreciation expense calculations are due to differences in their estimated Telephone Plant-in-Service (TPIS) balances for 2009.

Results of Operations

CD calculates that Ponderosa will earn a total company overall rate of return of 7.81% at present rates for test year 2009 as compared to Ponderosa's calculation of 4.18%. The difference in these two rates of return is due to CD's and Ponderosa's different estimates and calculations of Ponderosa's revenues, expenses, and rate base as discussed above. Appendix A to this resolution compares Ponderosa's total company results of operations at present rates for test year 2009, as estimated by CD and Ponderosa.

Separations

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

"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.

Ponderosa used separation factors developed under the FCC's Part 36 to apportion its interstate and intrastate services. CD reviewed Ponderosa's separation factors and found them reasonable, and used these separation factors to estimate Ponderosa's Intrastate Results of Operations.

Appendix B to this resolution compares Ponderosa's and CD's test year 2009 interstate and intrastate results of operations, after separations, at present rates without any CHCF-A funding change.

Cost of Capital

Ponderosa requests an overall intrastate rate of return on rate base of 10.00%. CD believes that the return on rate base for all rural ILEC's would be the same since the systematic and non-diversifiable risks faced by all rural ILEC's are similar. In addition, on October 30, 2003 in Resolution T-16771, the Commission authorized a 10.00% rate of return in Ponderosa's last general rate case. CD recommends that the Commission approve Ponderosa's request for an overall rate of return of 10.00% for test year 2009.

Taxes

The differences in tax estimates between Ponderosa and CD are due to differences in estimates of revenues and expenses. Both CD and Ponderosa used a Corporate State Franchise Tax (CCFT) rate of 8.84% and a Federal Income Tax of 34.00%. CD's estimate of

2009 Intrastate Operating Taxes (including other taxes) of $1,340,119 is $193,513, or 12.62%, lower than Ponderosa's estimate of $1,533,632.

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 Ponderosa's Net-to-Gross Multiplier. The Net-to-Gross Multiplier of 1.6621 means that an increase of $1.6621 in gross revenues, before taxes, is required to produce each additional $1.00 in net revenues. For Ponderosa, based on a recommended intrastate rate base of $20,719,889 and a rate of return of 10%, the recommended gross intrastate revenue requirement change required is an increase of $1,847,041. The gross revenue change requirement amount of $1,847,041 plus the 2009 CHCF-A support at present rates of $2,254,710, equals the 2009 CHCF-A support estimated of $4,101,751. The 2009 CHCF-A support estimated of $4,101,751, minus the proposed net rate increase of $401,963, equals the 2009 CHCF-A adopted amount of $3,699,788. The CHCF-A support amount is further explained below.

CHCF-A Support

The Commission, in D.01-02-018, approved Settlement Transition Agreements (STAs) between Pacific Bell and the small Local Exchange Carriers (small LEC's). Monies that Pacific Bell paid the small LEC's through toll and access pool settlements were replaced by authorized draws from the CHCF-A. The CHCF-A itself was originally established by D.85-06-115 as a means of subsidizing reasonable basic exchange rates for the customers of small LEC's that adopted Pacific's statewide average toll, toll private line, and access charges (settlement pools). D.01-02-018 required the small LEC's' replacement funding for the STAs be subject to the same rules that apply to current draws from the CHCF-A, namely, basic residential rates need to be 150% of AT&T urban rate as necessary, and both the means test and the waterfall provisions should apply.

CD's calculation of total company results of operations at present rates shows that Ponderosa would earn $2,251,560 in Net Operating Revenues and a total company rate of return of a 7.81% (Appendix A; Column B) prior to any CHCF-A adjustment.

For test year 2009, CD's computation of Ponderosa's CHCF-A draw is $3,680,994 (Appendix C; Column B) based on CD's projected revenues (including rate design), expenses, rate base and an overall rate of return of 10%.

Federal USF Support

In this GRC filing, Ponderosa proposed that it would receive $6,556,611 in Universal Service Fund (USF) funding for test year 2009. On October 8, 2008, CD received 2009 USF funding amount information from the National Exchange Carrier Association, Inc. (NECA) for all the small rural local exchange carriers in California. According to the NECA data, Ponderosa will receive $6,997,308 in USF funding in 2009. This amount is a substantial increase of $440,697 from the amount Ponderosa originally proposed. The increased USF funding amount of $440,697 will be made up by an equal decrease in Ponderosa's 2009 CHCF-A funding amount.

CD recommends that Ponderosa provide notice to all its customers of all increases and changes to its rates and charges within 7 days of the adoption of this resolution.

Comments

In accordance with P.U. Code Section 311(g), CD mailed copies of the original draft Resolution (DR) on November 18, 2008 to Ponderosa and other interested parties.

On December 4, 2008, the law firm of Cooper, White and Cooper LLP (Cooper) filed timely comments, on behalf of Ponderosa, to CD in response to the DR. In its comments Cooper raised the following issues:

The Draft Resolution (DR) Unfairly And Arbitrarily Reduces Ponderosa's Employee Benefits To 38% Of Salaries

In its comments, Ponderosa asserts that CD's determination of a 38% benefit to salaries ratio is unsupported and is in part based on a comparison to the benefits received by Commission staff. It further argues that benefits to salary ratio of state employees should not be used as a benchmark for employees of a small private company. After further consideration, CD has revised its benefit to salaries ratio from 38% to 42%.

Ponderosa's level of benefits to total compensation appears to be high when compared to other similarly situated utilities. For test year 2009, the ratio of benefits to total compensation is 54%. CD applied a ratio of 42% that it deemed to be more reasonable for rate making purposes.

CD's use of the 42% benefit to salary ratio was developed through a comparison of ratios utilized by other communication carriers involved in General Rate Cases (GRC), a survey of the annual report filings and general rate cases of small water companies ranging from 2000-10,000 customers as well as U.S. Bureau of Labor Statistics (BLS) data, dated December 10, 2008 for those indicators relevant to small ILEC's operating in California.

CD found the average benefit to salary ratio for the water survey group to be 33%. While the study of the latest available data from the BLS, for similarly situated companies by size, location, and operation type as well as other indicators resulted in an average benefit to salary ratio of 42%. The BLS ratio supports CD's proposed rate of 42% therefore, CD caps the ratio of regulated benefits to salaries/wages at 42%, for the test year 2009 and concludes that its proposed benefit to salary ratio of 42% for Ponderosa is appropriate and adequate.

In its comments, Ponderosa is concerned that it will not be able to attract a pool of qualified labor, if its benefits are not competitive. CD could not find any collaborating support for this concern. Based on a review of unemployment rates in Ponderosa service areas that covered Fresno, Madera, and San Bernardino Counties, as of October 2008, CD found that unemployment rates were 11.4%, 9.7%, and 9%, respectively which are higher than the 8% unemployment rate for the state of California as a whole. With current layoffs among the larger carriers, CD does not agree that this issue will have adverse affect on Ponderosa's operations, or its ability to attract a workforce. Ponderosa's benefits offering appears to be competitive with those of similarly situated utilities.

The DR Adopts Excessive Increases to Ponderosa's Basic Rates

In its comments Ponderosa argues that the magnitude of the 20% increase to basic service proposed in the DR is not required. Ponderosa further argues that the basic rate should be reexamined in connection with its 2009 CHCF-A filing, or that any increase to the basic rate be phased in over two or three years, with offsetting increases in CHCF-A draws to replace revenues.

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

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

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

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

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

Ponderosa further argues that an elasticity factor should also be applied to any basic rate increase ordered as well. In the DR, CD has adjusted revenues for the custom calling and access services and charges which have been increased by 25% or more, in response to Ponderosa' expressed concerns. However, CD does not agree that basic residential service is subject to the same elasticity factors as custom calling and access services. Furthermore, CD has not received any data from Ponderosa that demonstrates its conclusion that the rate increase will result in lost access line revenues.

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

The DR Improperly Rejects $350,000 in Reasonable Salary Expenses For Ponderosa's Executives

In its comments, Ponderosa states that the DR improperly rejects $350,000 in reasonable salary expenses for Ponderosa's executives. CD has determined that the regulated portion of the salaries of the president and vice-president should be disallowed as they do not serve any discernable executive function to the operations of the regulated portion of Ponderosa Telephone Company. CD believes their duties to be duplicative and are currently performed by existing upper management executives.

The DR Improperly Disallows $94,503 in Reasonable Employee Bonuses

In its comments, Ponderosa states that the DR improperly disallows $94,503 in reasonable employee bonuses. CD does not agree with inclusion of Ponderosa's employee bonuses in operating expenses. CD acknowledges that it is within Ponderosa's shareholders' right to reward employees with bonuses, but payment of bonuses must not be charged at the expense of the rate payers who subsidize this regulated telephone company. Therefore, CD disallowed bonus payments of $94,503 from the base year calculation.

The DR Erroneously Understates Ponderosa's Access Line Losses

In their written comments, Ponderosa expressed concern that CD utilized two different sources of data in its projection of Access Line counts losses of <0.35%>. CD prepared another analysis using Ponderosa's Annual Report (Form M, Schedule S-3) data only, from 2002 through 2007. The revised average percentage change was calculated as <0.95%> and CD extrapolated this figure into years 2008 and 2009. The revised Access Line counts for 2009 are 2,152 for Residential, and 7,009 for Business.

Ponderosa Objects to CD's Disallowance of A New Regulatory Analyst Position

In its comments, Ponderosa objects to the disallowance of a proposed new regulatory analyst position, but has not provided any additional reasons for adding this new position in its comments. Ponderosa has simply restated its original needs for this position and failed to provide any additional information that would justify inclusion of this expense. Therefore, CD maintains its disallowance as reasonable and the proposed new position is disallowed.

The DR improperly Disallows Various Necessary Investments and Rate Base Components

In its comments Ponderosa states that the DR improperly disallows various necessary investments and rate base components. CD submits that after the October 24, 2008 meeting, Ponderosa resubmitted its 2008 and 2009 plant addition projects for CD's reconsideration. CD has allowed all of Ponderosa's resubmitted 2008 projects (except for an $8,000 conference video equipment addition). Ponderosa's resubmitted 2009 projects totaled $11,120,235. CD re-examined the 2009 projects and has allowed $9,049,780, or 81%, of these 2009 projects. CD determined that the remaining 2009 projects were not justified as necessary at this time and should be deferred by the company to a later date.

The Constant Dollar Method Fails to Adequately Capture the Ratemaking Impact of Recent Trends

In its comments Ponderosa states that CD's use of the constant dollar method fails to adequately capture the ratemaking impact of recent trends. CD explains it used Ponderosa's recorded years 2005, 2006 and 2007 labor and non-labor expenses and applied the constant dollar method to estimate Ponderosa's 2009 expenses.

The constant dollar method is applied to the recorded inflation factors for labor and non-labor for each year. CD used the Division of Ratepayer Advocates estimates of Non-Labor and Wage Estimation Rates for 2008 through 2012 from the October 2008 Global Insight U.S. Economic Outlook. This is done by using the inflation factors for each year and compounding them to 2007 dollars.

The constant dollar method is applied to benchmark the price of a basket of utility purchases in various years to a selected base year. While expenses have been increasing in nominal dollars, when one applies the constant dollar method and adjusts the recorded figures to base year constant dollars, there is less of a variance and in many cases the inflation-adjusted figures remained relatively flat.

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 the traditional rate case.

The DR Does Not Make Increases for "Anonymous Call Rejection-Business" As CD Did for "Anonymous Call Rejection-Residential"

Ponderosa commented that CD had increased Anonymous Call Rejection-Residential from $3.00 to $4.00 in the DR, but did not make a corresponding increase to Ponderosa's Anonymous Call Rejection-Business rate. In response to Ponderosa's comments, CD is proposing to increase Anonymous Call Rejection-Business from $3.00 to $4.00 as well. This change will be in the Revenue-Tariff Changes section and Comments section.

Correction of Fixed Charges to Income Taxes Calculation

Ponderosa commented that CD had not reduced the fixed charge component to Ponderosa's income tax calculations in its DR calculations. CD has corrected the fixed charge component of the income tax formula and has recalculated all income tax figures accordingly.

Correct Customer Service Closing Time

In its comments Ponderosa states that the actual closing time of its customer service department is 4:30 p.m. and not 4:00 p.m. as CD stated in the DR. CD has corrected the closing time of Ponderosa's customer service center to 4:30 p.m. in the Operating Expenses section of this resolution.

DR Does Not Reflect The Staff's Intended Reductions in Directory Assistance Allowances to 0 for Business Customers, And 1 for Residential Customers, As Ponderosa Believes Was The Staff's Intent

In its comments, Ponderosa states that CD did not list 1 free call per month for residential customers and 0 free calls for business customers in the changes to Ponderosa's directory assistance allowance in the DR. CD now proposes that Ponderosa's directory assistance allowance be 1 free call for residential customers and 0 free calls for business customers.

The DR Should Account for the G.O. 96-B Requirement That Customer Notice Be Given in Advance of Rate Increases

In its comments, Ponderosa states that's comments CD has recommended that the 30-day notice requirement be waived and that Ponderosa send notice, within 7-days of adoption of this resolution, to all customers regarding the increases to Ponderosa's rates and charges. Additionally, CD recommends that Ponderosa file a Tier 2 advice letter supplement, within 7-days of the adoption of this Resolution, with a revision to its tariff schedules, for all the increases and changes to its rates and charges as proposed in this resolution and as discussed in the Revenue Section of this resolution. The effective date for all changes contained in Ponderosa's AL supplement will be January 1, 2009.

Access to Staff Work Papers

In its comments, Ponderosa asserts that for it to assure the adjustments in the DR are accurate it must be provided an opportunity to review staff's work papers. However, Ponderosa has already been provided this opportunity at the October 22nd meeting with staff. At this meeting staff spent nearly 4 hours with the company to review work papers and its proposed results of operations. On December 17, 2008, Ponderosa was given a further opportunity to review the proposed resolution and supporting workpapers at a meeting with CD.

Findings

1. Ponderosa Telephone Company (Ponderosa) filed its 2009 test year General Rate Case (GRC) by Advice Letters (AL) No. 374 and No. 374A on December 28, 2007 and June 10, 2008, respectively.

2. Ponderosa requests the following for test year 2009:

    - The tariff changes as described in the "Revenue" section of this resolution;
    - An intrastate rate of return (ROR) of 10.00%, the same return granted to it in its last GRC filing in 2003;
    - Total intrastate operating revenue of $17,010,499;
    - Total intrastate operating expenses of $14,565,382;
    - Total intrastate rate base amount of $24,451,169; and
    - A California High Cost Fund-A (CHCF- A) draw of $6,320,400.

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

    - The tariff changes as described in the "Revenue" section of this resolution;
    - An intrastate Rate of Return (ROR) of 10.00%;
    - Total intrastate operating revenue of $15,316,206;
    - Total intrastate operating expenses of $13,244,413;
    - Total intrastate rate base amount of $20,719,889; and
    - CHCF- A draw of $3,699,788

4. The Commission finds that the differences in Ponderosa's and CD's estimates result from the use of different assumptions for estimating revenues, expenses, and rate base.

5. The Commission finds CD's methodology in estimating revenues reasonable.

6. The Commission finds CD's methodology of using ratemaking adjustments to each of the expense accounts, and CD's use of inflation factors to adjust the labor and non-labor 2007 expenses for test year 2009, reasonable. The Commission also finds CD's reduction to executive compensation reasonable. Therefore, the Commission adopts CD's recommended test year 2009 expenses contained in Appendix C; Column E.

7. The Commission finds CD's methodology in estimating Ponderosa's plant and other rate base items reasonable. The Commission therefore, adopts CD's recommended plant and other rate base items for the 2009 test year as shown in Appendix C; Column E.

8. The Commission finds an overall intrastate ROR of 10.00% for Ponderosa for test year 2009, to be reasonable.

9. The Commission finds CD's recommended $3,616,518 in CHCF-A support for Ponderosa for test year 2009, to be reasonable. The $3,616,518 CHCF-A support is based on the Commission's adoption of CD's Intrastate Results of Operations for Ponderosa for test year 2009.

10. The Commission finds CD's request for rate increases in the amount of $377,478, which are due to increases in basic rates, some optional services and one time charges, to bring Ponderosa's prices more in line with other companies in the telephone industry, to be reasonable.

11. The Commission finds CD's recommendation that the Commission waive the 30-day notice period required under G.O. 96-B and to allow Ponderosa to file a Tier 2 Advice Letter supplement revision to its tariff schedules for all increases and changes to its rates and charges as contained in this resolution, to be reasonable.

12. The Commission finds CD's application of a benefit to salary ratio of 42% for ratemaking purposes to be reasonable.

13. The Commission finds CD's recommendation that Ponderosa provide notice of all increases and changes to its rates and charges to all its customers within 7 days of the adoption of this resolution, to be reasonable.

14. Commission approval is based on the specifics of this Advice Letter and does not establish a precedent for the contents of any future filings.

THEREFORE, IT IS ORDERED that:

1. The revised intrastate revenues, expenses, and rate base amounts for test year 2009 identified in Appendix C; Column E are adopted for the Ponderosa Telephone Company.

2. The overall intrastate rate of return of 10.00% is adopted for the Ponderosa Telephone Company for test year 2009.

3. Ponderosa shall provide a notice to all customers, within 7 days of the adoption of this resolution, notifying them of the increases and changes to all Ponderosa's rates and charges as contained in this resolution.

4. Ponderosa shall file a Tier 2 Advice Letter supplement revision to its tariff schedules for all increases and changes to its rates and charges, as contained in this resolution, within 7 days of adoption of this resolution. The effective date of all increases and changes shall be February 1, 2009. To the extent the carrier can not implement the adopted rate changes in their February billings, the carrier may implement a surcharge to recover the differential between the Commission adopted rates and those charged by the carrier. The carrier must collect the differential before the conclusion of 2009.

5. The Ponderosa Telephone Company's California High Cost Fund-A draw for 2009 shall be $3,699,788.

This Resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on January 29, 2009. The following Commissioners approved it:

/s/ Paul Clanon

PAUL CLANON
Executive Director

MICHAEL R. PEEVEY
President
DIAN M. GRUENEICH
JOHN A. BOHN
RACHELLE B. CHONG
TIMOTHY ALAN SIMON
Commissioners

APPENDIX A
PONDEROSA TELEPHONE COMPANY
TOTAL COMPANY RESULTS OF OPERATIONS
PRESENT RATES - TEST YEAR 2009

				UTILITY EXCEED STAFF	
				($)	(%)
		PONDEROSA	CD	AMOUNT	DIFF.
		(A)	(B)	(C)	(D)
OPERATING REVENUES:					
1	Local Network Services*	2,813,097	2,841,261	(28,164)	-0.99%
2	Local Service - CHCF - A	2,254,710	2,254,710	-	0.00%
3	Interstate USF	6,556,611	6,997,308	(440,697)	-6.30%
4	Network Access Services:				
5	Intrastate	1,001,399	866,778	134,621	15.53%
6	Interstate	7,045,061	7,045,061	-	0.00%
7	Miscellaneous	411,931	523,276	(111,345)	-21.28%
8	Less: Uncollectible Revenue**	(4,050)	(4,091)	41	-1.00%
9	**Total Oper. Revenue**	20,078,759	20,524,303	(445,544)	-2.17%
OPERATING EXPENSES:					
10	Plant Specific	3,738,332	3,548,332	190,000	5.35%
11	Plant Non-Specific (less depr.)	1,922,040	1,796,591	125,449	6.98%
12	Customer Operations	1,204,633	1,107,880	96,753	8.73%
13	Corporate Operations	3,010,937	2,374,893	636,044	26.78%
14	**Subtotal**	9,875,942	8,827,696	1,048,246	11.87%
15	Depreciation & Amortization	7,942,640	7,968,625	(25,985)	-0.33%
16	Other Taxes	362,422	374,375	(11,953)	-3.19%
17	State Income Taxes	102,640	244,565	(141,925)	-58.03%
18	Federal Income Taxes	359,872	857,482	(497,610)	-58.03%
19	**Total Oper. Expense**	18,643,516	18,272,743	370,773	2.03%
20	**Net Revenues**	1,435,243	2,251,560	(816,317)	-36.26%
AVERAGE RATE BASE:					
21	Telephone Plant-in-Service	96,559,697	92,505,193	4,054,504	4.38%
22	Tel. Plant Under Construct.	3,281,100	3,089,673	191,427	6.20%
23	Material & Supplies	301,942	297,867	4,075	1.37%
24	Working Cash	1,310,208	1,215,057	95,151	7.83%
25	Less: Deprec. Res.	(66,781,688)	(67,229,881)	448,193	-0.67%
26	Def. Taxes	(279,499)	(1,014,782)	735,283	-72.46%
27	Customer Deposit	(16,200)	(16,200)	-	0.00%
28	**Total Rate Base**	34,375,560	28,846,927	5,528,633	19.17%
29	**Rate of Return**	4.18%	7.81%		

APPENDIX B
PONDEROSA TELEPHONE COMPANY
TOTAL COMPANY RESULTS OF OPERATIONS
PRESENT RATES - TEST YEAR 2009

		PONDEROSA			CD		
		TOTAL COMPANY	INTERSTATE	INTRASTATE	TOTAL COMPANY	INTERSTATE	INTRASTATE
		(A)	(B)	(C)	(D)	(E)	(F)
OPERATING REVENUES:							
1	Local Network Services	2,813,097		2,813,097	2,841,261		2,841,261
2	Local Service - CHCF - A	2,254,710		2,254,710	2,254,710		2,254,710
3	Interstate USF	6,556,611		6,556,611	6,997,308		6,997,308
4	Network Access Services:						
5	Intrastate	1,001,399		1,001,399	866,778		866,778
6	Interstate	7,045,061	7,045,061	-	7,045,061	7,045,061	-
7	Miscellaneous	411,931	9,762	402,169	523,276	9,762	513,514
8	Less: Uncollectible Revenue	(4,050)		(4,050)	(4,091)		(4,091)
9	**Total Oper. Revenue**	20,078,759	7,054,823	13,023,936	20,524,303	7,054,823	13,469,480
OPERATING EXPENSES:							
10	Plant Specific	3,738,332	1,105,559	2,632,773	3,548,332	1,049,370	2,498,962
11	Plant Non-Specific (less depr.)	1,922,040	631,015	1,291,025	1,796,591	589,830	1206,761
12	Customer Operations	1,204,633	312,004	892,629	1,107,880	286,944	820,936
13	Corporate Operations	3,010,937	879,019	2,131,918	2,374,893	693,331	1,681,562
14	**Subtotal**	9,875,942	2,927,597	6,948,345	8,827,696	2,619,475	6,208,221
15	Depreciation & Amortization	7,942,640	2,283,874	5,658,766	7,968,625	2,291,346	5,677,279
16	Other Taxes	362,422	104,540	257,882	374,375	107,988	266,387
17	State Income Taxes	102,640	(181,943)	284,583	**244,565**	**165,364**	**79,201**
18	Federal Income Taxes	359,872	(637,922)	997,794	**857,482**	**579,790**	**277,692**
19	**Total Oper. Expense**	18,643,516	4,496,146	14,147,370	**18,272,743**	**5,763,963**	**12,508,780**
20	**Net Revenues**	1,435,243	2,558,677	(1,123,434)	**2,251,560**	**1,290,860**	**960,700**
AVERAGE RATE BASE:							
21	Telephone Plant-in-Service	96,559,697	27,323,111	69,236,586	92,505,193	26,175,824	66,329,369
22	Tel. Plant Under Construct.	3,281,100	928,440	2,352,660	3,089,673	874,272	2,215,401
23	Material & Supplies	301,942	79,058	222,884	297,867	77,991	219,876
24	Working Cash	1,310,208	388,394	921,814	1,215,057	358,684	856,373
25	Less: Deprec. Res.	(66,781,688)	(18,899,685)	(47,882,003)	(67,229,881)	(19,026,527)	(48,203,354)
26	Def. Taxes	(279,499)	(90,332)	(189,167)	(1,014,782)	(327,971)	(686,811)
27	Customer Deposit	(16,200)	(5,236)	(10,964)	(16,200)	(5,236)	(10,964)
28	**Total Rate Base**	34,375,560	9,723,750	24,651,810	28,846,927	8,127,038	20,719,889
29	**Rate of Return**	4.18%	26.31%	-4.56%	**7.81%**	**15.88%**	**4.64%**

APPENDIX C
PONDEROSA TELEPHONE COMPANY
INTRASTATE RESULTS OF OPERATIONS
PROPOSED RATES - TEST YEAR 2009

		PONDEROSA PROPOSED (A)	CD PROPOSED (B)	UTILITY EXCEED STAFF AMOUNT (C)=(A)-(B)	UTILITY EXCEED STAFF PERCENTAGE DIFFERENCE (D)	ADOPTED (E)
OPERATING REVENUES:						
1	Local Network Services	2,763,915	3,131,113	(367,198)	(11.73%)	3,131,113
2	Local Service - CHCF - A	6,320,400	3,699,788	2,620,612	70.83%	3,699,788
3	Interstate USF	6,556,611	6,997,308	(440,697)	(6.30%)	6,997,308
4	Network Access Services:					
5	Intrastate	860,510	975,662	(115,152)	(11.80%)	975,662
6	Interstate	-	-	-		-
7	Miscellaneous	513,514	516,786	(3,272)	(0.63%)	516,786
8	Less: Uncollectible Revenue	(4,451)	(4,451)	-	0.00%	(4,451)
9	**Total Oper. Revenue**	17,010,499	15,316,206	1,694,293	11.06%	15,316,206
OPERATING EXPENSES:						
10	Plant Specific	2,848,213	2,498,962	349,251	13.98%	2,498,962
11	Plant Non-Specific (less depr.)	1,313,520	1,206,761	106,759	8.85%	1,206,761
12	Customer Operations	944,055	820,936	123,119	15.00%	820,936
13	Corporate Operations	2,267,196	1,681,562	585,634	34.83%	1,681,562
14	**Subtotal**	7,372,984	6,208,221	1,164,763	18.76%	6,208,221
15	Depreciation & Amortization	5,658,766	5,677,279	(18,513)	(0.33%)	5,677,279
16	Other Taxes	266,387	266,387	-	0.00%	266,387
17	State Income Taxes	281,225	238,281	42,944	18.02%	238,281
18	Federal Income Taxes	986,020	835,451	150,569	18.02%	835,451
19	**Total Oper. Expense**	14,565,382	13,244,413	1,320,969	9.97%	13,244,413
20	**Net Revenues**	2,445,117	2,071,793	373,324	18.02%	2,071,793
AVERAGE RATE BASE:						
21	Telephone Plant-in-Service	69,025,409	66,329,369	2,696,040	4.06%	66,329,369
22	Tel. Plant Under Construction	2,322,473	2,215,401	107,072	4.83%	2,215,401
23	Material & Supplies	224,620	219,876	4,744	2.16%	219,876
24	Working Cash	954,768	856,373	98,395	11.49%	856,373
25	Less: Deprec. Res.	(47,844,245)	(48,203,354)	359,109	(0.74%)	(48,203,354)
26	Def. Taxes	(220,350)	(686,811)	466,461	(67.92%)	(686,811)
27	Customer Deposit	(11,506)	(10,964)	(542)	4.94%	(10,964)
28	**Total Rate Base**	24,451,169	20,719,889	3,731,280	18.01%	20,719,889
29	**Rate of Return**	10.00%	10.00%			10.00%

APPENDIX D
PONDEROSA 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	**Net-To-Gross Multiplier** (Ln.1 Divided by Ln. 7)		**1.66207**
	Intrastate Revenue Requirement		
9	Adopted State Rate Base		20,719,889
10	Net Revenues adopted at 10.00% (Ln. 9 Times 10%)		2,071,989
11	Net Revenue In Test Year 2009 At Present Rates		**960,700**
12	Change in Net Revenues (Ln. 10 Less Ln. 11)		**1,111,289**
13	**GROSS REVENUE CHANGE REQUIRED (Ln. 12 time Ln. 8)**		**1,847,041**
	CHCF-A SUPPORT		
14	2009 CHCF-A SUPPORT AT PRESENT RATES		2,254,710
15	**2009 CHCF-A SUPPORT ESTIMATED** (Ln. 14 add Ln. 13)		**4,101,751**
		-	-
16	**PROPOSED NET RATE INCREASE**		**401,963**
17	**2009 CHCF-A ADOPTED** (Ln 15 less Ln 16)		$\boxed{\textbf{3,699,788}}$

(END OF ATTACHMENT I)