Decision 11-05-033 May 26, 2011

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Cal-Ore Telephone Company (U1006C) for Modification of Resolution T-17133.	Application 09-07-016 (Filed July 14, 2009)

DECISION REGARDING PETITION TO MODIFY RESOLUTION T-17133

1. Summary

On July 14, 2009, Cal-Ore Telephone Company (U-1006-C) filed a Petition to Modify Resolution T-17133 (Petition) by application, asserting that the Resolution T-17133 contains calculation and/or methodological errors. This Decision grants, in part, Cal-Ore Telephone Company's Petition to Modify the Resolution to correct those calculation errors.

2. Background

Cal-Ore Telephone Company (Cal-Ore) is an incumbent local exchange carrier (ILEC) serving approximately 2,286 access lines in northeastern Siskiyou County and northwestern Modoc County, providing local, toll, and access telephone services. Cal-Ore's principal place of business is located in Dorris, California. Cal-Ore serves four exchanges, Macdoel, Dorris, Tulelake, and Newell.

Cal-Ore filed its Test Year 2009 General Rate Case (GRC) on December 27, 2007 through Advice Letter (AL) 320 and AL 320A on

February 2, 2009, in compliance with Decision (D.) 01-05-031.[1] On January 29, 2009, the Commission adopted Resolution T-17133, which resolved the Cal-Ore GRC. The Resolution authorized Cal-Ore to receive $471,499 in support from the California High Cost Fund A (CHCF-A) for test year 2009.

Rule 16.4[2] of the California Public Utilities Commission Rules of Practice and Procedures permits a utility to file a Petition for Modification to request that changes be made to an issued Decision or Resolution. The Petition must concisely state the justification for the requested relief, and propose specific wording to carry out all the requested modifications to the Decision or Resolution. Any factual allegations must be supported with specific citations to the record in the proceeding or to matters that may be officially noticed. Unless the Commission orders otherwise, the filing of a Petition for Modification does not stay or excuse compliance with the order of the Decision proposed to be modified. Therefore, the order remains in effect until the effective date of any decision modifying it.

Cal-Ore filed its petition within one year of the effective date of the proposed decision (i.e. Resolution T-17133) and Communications Division (CD) Staff finds the Petition for Modification to be in compliance with Rule 16.4. In this decision, the Commission reviews whether Cal-Ore's assertions of three calculation/methodological errors in the Resolution are valid and justified.

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[1] Formal GRCs are filed as Applications with the Commission (See General Order 96-B General Rules 3.7, 5.1 and 5.2).

[2] Petition for Modification, August 2009.

3. Issues Before the Commission

3.1. Salary and Benefits Expense for an Additional Central Office Technician

Cal-Ore asserts the Resolution should be modified to correct a calculation error with respect to the addition of a central office technician position with an annual salary of $60,000. This position was filled starting in June, 2007. Thus, only 7 months of position-related expenses were included in the recorded expense for 2007. Cal-Ore states that it annualized the salaries and wages expense for this employee for 2008 and test year 2009. However, Cal-Ore states that the full year's salary for this position was not included by CD for 2008 and for test year 2009, but rather, CD only used 7 months salary for this position for 2008 and 2009 as was recorded in 2007. Cal-Ore calculates that the corrections, using inflation factors (2.9% for 2008, 3.9% for 2009) would result in an increase of $26,728. Applying a benefits ratio of 42%, Cal-Ore calculates that the total increase in expenses would be $37,954. After applying the intrastate separations factor, Cal-Ore obtains an intrastate expense increase of $18,882 for 2009.

CD agrees that a correction is in order here as there was no intention to disallow five months of annual salary for this position. However, CD calculates that the adjustment results in an increase in expenses of $6,294. This difference stems from Cal-Ore misunderstanding CD's estimating methodology which relies on three recorded years rather than just one. Specifically, CD uses recorded expense figures for 2005, 2006, and 2007 and converts them to constant 2007 dollars. CD then takes the average of these inflation adjusted amounts for these three years and uses that as a base to develop its forecasts for 2008 and 2009; i.e., CD's forecasts for 2008 and 2009 are not based on 2007 data alone. Consequently, CD recommends increasing the total company expenses for the test year by $12,651 and increasing the intrastate expenses after separations by $6,294, in the Resolution and in all related accounts as well as in the Resolution's Results of Operations tables. These changes result in an increase to Cal-Ore's CHCF-A funding amount of $6,399.

The Commission agrees with the recommendation that the salary and benefit expense for the central office technician should be adjusted to correct the error in the amounts indicated by CD.

3.2. Intrastate Access Charge

Cal-Ore states in its Petition that the Resolution should be modified to correct a calculation error with respect to Intrastate Network Access Services revenue. Cal-Ore indicates that 2007 actual intrastate network access revenues were $679,138. Page 6 of the Resolution stated:

> CD is projecting a more modest 13.11% decrease in Intrastate Network Access Services revenue for 2009, resulting in the proposed revenue amount of $534,204 for the test year.

Cal-Ore asserts that if the 13.11% deflation factor is applied to the above-stated 2007 actual intrastate network access revenue for 2008 and for 2009, this will result in a 2009 intrastate access revenue of $512,741. Consequently, Cal-Ore contends that 2009 intrastate access revenues adopted in the Resolution have been overstated by $21,463.

Upon review of the Petition, CD noted that the text of the Resolution contains an incorrect deflation factor (13.11%). This is a typographical error that does not agree with the adopted results of operations. The correct deflation factor should be 11.31%. Although the Resolution incorrectly stated the Intrastate Network Access Services deflation factor, the work papers utilized the proper deflation factor of 11.31%, and the adopted Results of Operations total used the correct figure for Intrastate Access Charges. Therefore, Cal-Ore's request to modify the amount of revenues in the Resolution is not accepted. We will, however, correct the deflation factor in the text.

3.3. Accumulated Depreciation Amount

Cal-Ore states in its Petition that the Resolution should be modified to correct a calculation error with respect to the 2009 accumulated depreciation. Cal-Ore asserts that the accumulated depreciation shown in the Appendices and adopted in the Resolution is overstated by $125,000.

CD agrees with Cal-Ore and acknowledges using the incorrect total company accumulated depreciation amount of ($20,384,104) as shown in Appendices A and B of Resolution T-17133. CD recommends increasing the total company accumulated depreciation for test year 2009 to ($20,259,104) in the Resolution's Appendices A and B. CD recommends that the intrastate accumulated depreciation be increased by $70,925 to ($11,495,016) in Appendix C of the Resolution. These changes will result in an additional amount of $11,784 in CHCF-A funding to Cal-Ore. We find that the accumulated depreciation amounts should be corrected as indicated above.

4. Conclusion

We confirm that two errors occurred in the calculations performed by CD in Cal-Ore's GRC Resolution. Specifically in Section (3.1) salary and benefits expense for an additional central office technician; and Section (3.3) accumulated depreciation. Although the total impact of the errors is modest, an adjustment is warranted. Accordingly, (1) CD will modify Resolution T-17133 to correct the two errors discussed here and (2) remit to Cal-Ore an additional $18,183 from the CHCF-A.

The Commission did not find any calculation errors in Section (3.2) Intrastate Access Charges; however, we will adjust the incorrect factor identified in the text.

5. Notice and Protests

The Application to Modify the Resolution appeared in the Commission's Daily Calendar on July 17, 2009. No protests were received.

6. Comments on Proposed Decision

The proposed decision of Examiner Leutza in this matter was mailed to the parties in accordance with Section 311 of the Public Utilities Code, and comments were allowed under Rule 14.3 of the Commission's Rules of Practice and Procedure. No reply comments were filed.

7. Assignment of Proceeding

Jack Leutza is the assigned Examiner in this proceeding.

Findings of Fact

1. Resolution T-17133 (Resolution) addressed Cal-Ore Telephone Company 's General Rate Case filing.

2. On July 14, 2009, Cal-Ore filed Application 09-07-016, a Petition to Modify Resolution T-17133, alleging the Resolution contained several calculation/methodological errors.

3. Although the Resolution incorrectly stated the Intrastate Network Access Services deflation factor, the work papers utilized the proper deflation factor of 11.31% and the adopted Results of Operations total used the correct figure for Intrastate Access Charges.

4. The Resolution contains a calculation error with respect to the addition of a central office technician.

5. The Resolution contains a calculation error with respect to the 2009 accumulated depreciation.

6. Attachment 1 contains a corrected version of Resolution T-17133 and its associated revised results of operations.

Conclusions of Law

1. The Applicant's request should be approved in part and denied in part.

2. The Intrastate Network Access Services (Intrastate Access Charges) is correctly calculated in Resolution T-17133, but the text on page 6, third paragraph should be changed to read:

> …CD is projecting a more modest 11.31% decrease in Intrastate Network Access Services revenue for 2009, resulting in the proposed revenue amount of $534,204 for the test year, a difference of $70,043 from Cal-Ore's proposed amount of $464,161.

3. Annualizing the salary of the additional central office technician position for 2008 and 2009 results in additional total company expense of $12,651 and additional intrastate expense of $6,294.

4. The Total Company accumulated depreciation for test year 2009 should be ($20,259,104). The Intrastate accumulate depreciation should be increased by $70,925 to ($11,495,016).

5. The revised intrastate revenues, expenses, and rate base amounts for test year 2009 as identified in Appendix C, column (E) of Resolution T-17133 as modified by Decision 11-05-033, should be adopted for Cal-Ore Telephone Company.

O R D E R

IT IS ORDERED that:

1. The Petition for Modification of Resolution T-17133, filed by Cal-Ore Telephone Company on July 14, 2009 is partially granted with respect to two of the three disputed items and partially denied with respect to the third disputed issue.
2. Resolution T-17133 as modified by Decision 11-05-033, as set forth in Attachment 1, is adopted and replaces Resolution T-17133 in its entirety.
3. The Communications Division shall publish Resolution T-17133 as modified by Decision 11-05-033 on the Commission's website and place it in the file of Advice Letter 320.
4. The Communications Division shall remit the additional California High Cost Fund A support of $18,183 to Cal-Ore Telephone Company. This amount represents the California High Cost Fund A amount that Cal-Ore Telephone Company would have received if the calculation errors, as identified in Sections 3.1 and 3.3, had not occurred.
5. Application 09-07-016 is closed.

This order is effective today.

Dated May 26, 2011, at San Francisco, California.

MICHAEL R. PEEVEY
President
TIMOTHY ALAN SIMON
MICHEL PETER FLORIO
CATHERINE J.K. SANDOVAL
MARK J. FERRON
Commissioners

ATTACHMENT 1
Revised Version of T-17133

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

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

RESOLUTION T-17133
January 29, 2009

R E S O L U T I O N

Resolution T-17133. Cal-Ore Telephone Company (U-1006-C). General Rate Case Filing In Compliance With G. O. 96-B, Paragraph VI.

By Advice Letter No. 320, filed on December 27, 2007.

Summary

This resolution addresses the General Rate Case (GRC) filed on December 27, 2007 by Cal-Ore Telephone Company (Cal-Ore) through Advice Letter (AL) No. 320, for test year 2009, in compliance with D.01-05-031. In AL No. 320, Cal-Ore proposes: (a) no changes to its basic rates or charges, however the company proposes to increase some of its discretionary rates and charges to bring its prices in line with the current marketplace, (b) an intrastate rate of return (ROR) of 10.00%, the same ROR granted in its previous GRC filing, and (c) $1,461,446 in California High Cost Fund-A (CHCF-A) support for test year 2009.

This Resolution authorizes CHCF-A support for Cal-Ore in the amount of $489,682, for test year 2009. This amount represents a decrease of $741,223 , or approximately 60%, from Cal-Ore's CHCF-A 2008 support level of $1,230,905. This decrease is due to adjustments made to revenue, expenses and rate base estimates. This resolution further authorizes an overall Intrastate ROR of 10.00% for test year 2009. This resolution also authorizes test year 2009 intrastate revenue in the amount of $3,604,658 , a difference of $329,027 , or 9.13% , from Cal-Ore's estimate of $3,933,685. This resolution authorizes average intrastate rate base for Cal-Ore in the amount of $4,910,875 , $245,183 , or 4.99% , less than Cal-Ore's proposal of $5,156,058. The authorized intrastate total operating expenses for Cal-Ore for 2009 is $3,113,571 , which represents a decrease of $304,509 , or 9.78% , when compared to Cal-Ore's estimate of $3,418,080.

Appendix A, to this resolution, compares the Communications Division's (CD) and Cal-Ore's test year 2009 Total Company Results of Operations at present rates before any CHCF-A adjustment. Appendix B compares CD's and Cal-Ore's Interstate and Intrastate Results of Operations at present rates before any CHCF-A adjustment. Appendix C compares CD's and Cal-Ore's Intrastate Results of Operations at proposed rates after Cal-Ore's and CD's proposed CHCF-A adjustments and after CD's proposed revenue, expense, and rate base adjustments. Lastly, 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

Cal-Ore is a local exchange carrier (LEC) that provides local, toll, and access telephone services in unincorporated portions of Siskiyou and Modoc Counties and in the cities of Dorris and Tulelake. Cal-Ore's territory is sparsely populated and bounds Oregon on the north and is made up of hilly, high elevation, semi arid type terrain.

As of October 2007, Cal-Ore had approximately 1,793 residential and 653 business customers. Out of Cal-Ore's 1,793 residential customers, 917 receive Universal Lifeline Telephone Service (LifeLine). These 917 LifeLine customers represent 51% of Cal-Ore's residential customers and 37.5% of its total customer base.

In Decision (D.) 01-05-031, the California Public Utilities Commission (CPUC) set in motion the waterfall provision[3] for seven small LECs if they did not each file a GRC by the end of 2002.

The previous GRC filed by Cal-Ore was AL No. 274, filed on December 19, 2002, for test year 2004 was adopted by Resolution T-16762 on October 30, 2003. The CHCF-A funding amount granted to Cal-Ore in T-16762 was $1,341,356, with an additional one-time

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

CHCF-A funding amount of $21,172 for uncollectible revenue that Cal-Ore was unable to collect due to the MCI/WorldCom bankruptcy.

Notice/Protests

Cal-Ore states that copies of AL No. 320 were mailed to the parties on its service list. Notice of AL No. 320 was published in the Commission Daily Calendar of January 11, 2008. No protests to AL No. 320 were received by CD, however CD did receive two customer complaint letters in response to Cal-Ore's proposed rate increases.

On April 14, 2008, CD held a Public Meeting in Dorris, California, to explain Cal-Ore's filing to its customers and to give customers the opportunity to ask questions of Cal-Ore and CD. Cal-Ore notified customers of the rate review request and public meeting by bill insert. No Cal-Ore customers attended the meeting.

On October 17, 2008, CD met with Cal-Ore and Moss Adams (Cal-Ore's consulting firm) at the Commission's San Francisco headquarters. The meeting was held to give CD and Cal-Ore the opportunity to discuss CD's proposal and for CD to address Cal-Ore's questions and concerns. Prior to this meeting CD sent Cal-Ore and Moss Adams draft copies of CD's draft Results of Operations, which form Appendices A through D to this resolution. During this meeting CD explained its reasoning and methodologies utilized in adjusting Cal-Ore's expenses, rate base estimates, and CD's 2009 proposed CHCF-A subsidy, all calculated with a 10% ROR on rate base.

On December 17, 2008, Moss Adams' representatives on behalf of Cal-Ore reviewed CD's workpapers and met with CD staff at CPUC's offices. On December 30, 2008, Moss Adams responded to CD staff that they were still working through their analysis for Cal-Ore and would respond as soon as their analysis was complete. To date, CD has not received any further information concerning possible calculation errors from Moss Adams.

Discussion

Total Operating Revenues

A comparison of CD's and Cal-Ore's estimates of proposed intrastate operating revenues for test year 2009 is shown in Appendix C. Cal-Ore's estimate of intrastate operating revenues is $3,933,685, a difference of $329,027 from CD's estimate of $3,604,658 . The reasons for the differing estimates are further discussed below.

Cal-Ore used its historical data and managerial judgment to forecast local units, and estimated Local Revenue by multiplying the forecasted units by the tariff rates. Cal-Ore is also proposing some rate changes to better reflect those rates charged by comparable carriers; those changes are included in the Company's 2009 forecast.

In this GRC, Cal-Ore has proposed the following increases to its rates and/or charges:

- An increase to the IntraLATA Service Change charge from $5.00 to $5.50 and from 2.50 to $2.75 for both IntraLATA/InterLATA Service Changes – Tariff Schedule A-11;
- An increase to the Visit Charge (for maintenance; during normal business hours) from $40.00 to $80.00 per hour or fraction thereof and from $60.00 to $120.00 per hour or fraction thereof for Overtime Visit Charge (for maintenance; during non-business hours) – Tariff Schedule A-34;
- For Inside Wiring Maintenance Service, an increase from $40.00 to $80.00 per hour, or fraction thereof, during normal hours and from $60.00 to $120.00 per hour, or fraction thereof, during overtime hours – Tariff Schedule No. A-23;
- An increase to the Intrabuilding Network Cable charges during normal hours charge from $40.00 to $80.00 per hour, or fraction thereof, and from $60.00 to $120.00 per hour, or fraction thereof, during overtime hours – Tariff Schedule No. A-38;
- Cal-Ore proposes to increase Local Area Operator Assistance Service from $0.25 per call to $0.50 per call, in addition to reducing the business call allowance from 2 free calls to 0 and residential call allowance from 5 free calls to zero. However, after surveying other carriers' Local Area Operator Assistance Service, CD proposes reducing the residential call allowance from 5 free calls to 1 free call per month. CD believes its proposal to be reasonable and is in line with those allowed by other comparable carriers – Tariff Schedule B-8;
- Cal-Ore proposes to eliminate the Transport Interconnection Charge (TIC), from its tariff to comply with Ordering Paragraph 8 of Decisions 07-12-020, which requires the elimination of non-cost based rates - Access Service tariff;
- Increase the Supersedure charge, from $20.00 to $24.75 – Tariff Schedule A-19;

- Increase the Returned Check charge from $10.00 to $20.00 – Tariff Schedule A-19;
- Increase the Business Busy Call Forwarding charge from $2.00 to $3.00 – Tariff Schedule A-20;
- For Inside Wiring Maintenance Service, increase the Business Maintenance Plan charge from $.75 to $5.00 – Tariff Schedule A-23; and
- For Inside Wiring Maintenance Service, increase the Residence Maintenance Plan charge from $.75 to $3.00 – Tariff Schedule A-23.

CD is proposing an increase to Cal-Ore's Local Residential Service rate, Tariff Schedule A-1, from $16.05 to $20.25[4]. This increase is 150% of AT&T's current residential rates as required of small LECs for CHCF-A support. The new charges will result in an increase of $90,418 in revenue. In D.08-09-042, as corrected by D.08-10-040, Universal Regulatory Framework (URF) Incumbent Local Exchange Carriers (ILEC) will adopt a transitional plan for increases to Basic Residential rates effective January 1, 2009. As a result, CD recommends Cal-Ore increase its Lifeline rates, from $5.47 to $6.11, since General Order 153 ties those rates to AT&T's basic rates.

CD proposes to increase Cal-Ore's Local Business Service rates, Tariff Schedule A-1, from $25.65 to $26.00 for the individual lines and from $25.65 to $29.00 for the key lines. The new charges would result in an increase of $5,792 in revenue. The increased Business Service rates would bring the charges more in line with rates charged by comparable carriers.

CD proposes the following increases to Cal-Ore's rates and/or charges – all contained in Tariff Schedule A-20:

- Increase the Business Call Forwarding monthly rate from $2.00 to $3.50;

[4] On October 28, 2008, AT&T sent a letter to CD Director John Leutza informing him that AT&T will raise their residential flat rate to $13.50 per month from its present rate of $10.94. Commission Decision 08-09-042 allowed AT&T to increase its monthly residential flat rate up to $14.19, but AT&T indicated that it would not increase the rates to the full extent of the authorized rate cap at this time. As a result of this AT&T rate increase, CD has adjusted Cal-Ore's monthly residential flat rate to $20.25 (150% of AT&T's new rate of $13.50) from its current rate of $16.05 per month.

- Increase the Business Caller ID Number Service monthly rate from $4.50 to $6.00;
- Increase the Business Caller ID Name and Number Service monthly rate from $5.45 to $6.50;
- Increase the Business Call Waiting monthly rate from $3.50 to $4.00;
- Increase the Residential Call Forwarding monthly rate from $1.50 to $2.50;
- Increase the Residential Call Waiting monthly rate from $2.00 to $3.00;
- Increase the Residential Toll Restriction monthly rate from $2.00 to $2.50;
- Increase the Residential Three Way monthly rate from $2.00 to $3.50;
- Increase the Residential Busy Call Forwarding monthly rate from $1.50 to $3.00;
- Increase the Business Busy Call Forwarding monthly rate from $2.00 to $3.00;
- Increase the Residential Caller ID Number Service monthly rate from $3.00 to $4.00; and
- Increase the Residential Caller ID Name and Number Service monthly rate from $3.95 to $5.95.

CD agrees with Cal-Ore's proposal to increase its Local Area Operator Assistance Service charge, from $0.25 per call to $0.50 per call, and to reduce the business call allowance from 2 free calls to zero. CD disagrees with Cal-Ore's proposal to decrease the residential call allowance from 5 free calls to 0; instead CD proposes to change the Local Area Operator Assistance residential call allowance from 5 free calls to 1 free call. CD's reason is that after surveying other carriers' Local Area Operator Assistance residential free call allowances, CD believes its proposal to be reasonable and in line with those allowed by other comparable carriers. 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 Cal-Ore in its meeting with CD and in response to information provided to CD in subsequent data requests.

CD believes its and Cal-Ore's proposed increases to Cal-Ore's rates and charges are reasonable and should be adopted.

<u>Intrastate Network Access Services:</u>

For its Intrastate Network Access Services, Cal-Ore collected data using amounts billed to the interexchange carrier and used current rates and units to develop its revenue forecast. Cal-Ore's proposed 2009 Intrastate Network Services revenue amount is based on the carrier's forecast of demand, such as the minutes of usage, and tariffed rates. Using this data, along with historical data for 2005-2007 that indicates a downward trend in usage of non-wireless transmission for intrastate network access services, CD is projecting a more modest 11.31% decrease in Intrastate Network Access Services revenue for 2009, resulting in the proposed revenue amount of $534,204 for the test year, a difference of $70,043 from Cal-Ore's proposed amount of $464,161.

Miscellaneous Revenue:

Based on historical data from 2002-2007, Miscellaneous Revenue for Cal-Ore has increased each year. CD finds the rate of increase from year-to-year is in line with the amount proposed by Cal-Ore for 2009. CD therefore finds reasonable, Cal-Ore's proposed Miscellaneous Revenue amount of $262,301.

Uncollectibles:

Uncollectibles are based on bad debts associated with local revenue and intrastate access revenues. Cal-Ore annualized the first 9 months of its 2007 Uncollectibles and based its 2008 and 2009 forecasts on the changes in Local Revenue. Cal-Ore states the 2007 local revenue bad debt at $10,645 and intrastate access revenue bad debt at $121,453. CD has reviewed the annual reports and does not agree with Cal-Ore's estimate of test year 2009 uncollectibles. CD analyzed five years (2003-2007) of recorded data to arrive at an average of 0.78% uncollectible for local revenue and 9.74% uncollectibles for intrastate access revenue. CD applies these percentages to derive the 2009 uncollectibles amount. Therefore, CD proposes an uncollectible amount of $59,069 for the 2009 test year, a decrease of $30,485 from Cal-Ore's proposed amount of $89,554.

In response to concerns raised during the meetings with companies submitting GRC's for test year 2009, CD is making adjustments to subscriber counts of Discretionary Services due to price elasticity. Moss Adams, an accounting firm representing three LEC's with GRCs pending, performed an analysis demonstrating that increases in Discretionary Services above 25% for test year 2009, would have a price elasticity factor of 5%. Considering the increases in rates CD is proposing for Cal-Ore in test year 2009, CD performed the calculations and concurs with this methodology. The Discretionary Services for which CD is increasing in excess of 25% equals $24,797 in incremental revenue for Local Services in test year 2009. This results in a difference of $122,157 in Access Revenue from Cal-Ore's projection of $780,086 to CD's projection of $902,243 at proposed rates for test year 2009.

Operating Expenses

Cal-Ore's estimate of total company operating expenses at $4,029,557 (less depreciation and taxes-income and other) is greater than CD's estimate of $3,893,409 by $136,148 or 3.50% . A comparison of CD's and Cal-Ore' estimates of total operating expenses for test year 2009, is shown in Appendix A. Differences between CD and Cal-Ore estimates include elimination of salary and benefits for a proposed new employee in 2009, capping benefits at 42% of salaries and wages, reduction in the rate case expenses, the use of nine months' annualized data for 2007 in Cal-Ore's initial filing and the difference between the Constant Dollar method used by the Commission and the method of applying Cal-Ore's application of annual growth rates in labor and non-labor expenses. These differences were discussed in the October 17, 2008 meeting between CD and Cal-Ore, adjustments were considered where appropriate and the results are described below.

For operating expenses, Cal-Ore forecasted 2009 expenses based on the following methodology. First, Cal-Ore broke expenses to salaries and benefits as labor expenses and rent, clearance, and others as non-labor expenses components. Then, it took 2007 expenses and applied an 8% capped growth rate to labor expenses and 5% capped growth rate to non-labor expenses and added two proposed employee expenses for 2008 to project 2008 expenses. These growth rates were solely based on the company's own judgment which, CD could not independently verify. Finally, Cal-Ore used 2008 expense projections and used the same growth rates as used in 2008, added expenses for one proposed employee for 2009 and projected its 2009 test year expenses. Cal-Ore believes this methodology to be reasonable for a small company. CD does not agree with Cal-Ore's estimated labor related and non labor expense growth rates. The growth rate factor used by Cal-Ore is too high compared to the Division of Ratepayers Advocates' of the California Public Utilities Commission (DRA's) labor and non-labor inflation factors.[5] CD used Cal-Ore's recorded expenses in terms of labor and non-labor expenses and applied the constant dollar method to estimate Cal-Ore's 2009 expenses.

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

Year	Labor (%)	Non-labor (%)
2007	3.2	3.0
2008	2.9	6.8
2009	3.9	(0.5)

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 constant dollars regardless of when the expense was incurred.   The Commission in Siskiyou's 1997-test year rate case proceeding discussed and adopted CD's use of the constant dollar methodology. In Finding of Fact 6 of Resolution T-16006, the Commission found "…CD's methodology in estimating expenses reasonable and adopt CD's recommended test year 1997 expenses contained in Appendix A." [6]

Therefore, CD used Cal-Ore' recorded expense figures 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 used it as its base estimates. It then applied the cumulative inflation factors for 2008 and 2009 to the base estimate to arrive at the test year 2009 estimate. Because rents components are not subject to the same variability as other types of expenses, the constant dollar method was not applicable. CD accepted Cal-Ore estimate of rent and escalated it into the test year using DRA's estimated non-labor escalation factor.

Rate Case Expense:

Cal-Ore's estimate of rate case expenses is $225,000 amortized over a three year period and hence, it added $75,000 to expenses for the test year 2009. In Cal-Ore's last rate case, the Commission authorized rate case expenses of $50,000 for test year 2004. Using the non-labor inflation factors for 2007, we are projecting that the rate case expenses for test year 2009 would be about $61,000 as added to the Corporate Operations Expense category. This reduces rate case expenses by $14,000 for the test year 2009.

New Employees:

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[6] At page 5 of Resolution T-16006, the Commission stated, "Generally for traditional GRCs, the Commission adopts the constant dollar method".

Cal-Ore initially requested to add three new employees in 2008 and 2009. After reviewing the submitted reasoning, CD accepts the addition of two new employees in 2008 and added their associated expenses to its forecasted 2009 expenses. CD does not agree with the addition of the Customer Service Representative in 2009. Given the down turn in the housing market and existing economic conditions in the Cal-Ore territory, and based on staff field investigation, CD concludes Cal-Ore would be sufficiently staffed with the level of staff in 2008. In addition, CD believes that cross training of current employees can meet Cal-Ore's anticipated increased workload needs in regulatory and language requirement areas given that some of the current employees are already working on some of these areas. The language proceedings are still ongoing and the language requirements have not been determined at this time.

Wages, Salary and Benefits:

Cal-Ore provided a list of salaries/wages and benefits for 2007 which showed its level of benefits to total wages and salaries to be excessive. For test year 2009, the ratio of benefits to total wages and salaries is 52.43%. Cal-Ore provided a list of salaries/wages and benefits for 2007. CD believes a benefit to salary ratio of 42% is more reasonable as explained below.

CD staff surveyed regulated small water companies ranging from 2000-10,000 customers filing rate cases with the Commission. CD found their average benefit to salary ratio was 33%[7]. Further, CD staff studied the latest available data from the U.S. Bureau of Labor Statistics (BLS), dated December 10, 2008[8] and found that BLS included paid leaves in its benefit calculations. The benefits to wages and salaries ratio for all civilian workers was 43.42% and 40.86% for civilian service workers which were derived from the data in Table 2. Cal-Ore has a non-unionized work force and the BLS data derived from Table 5 suggest a benefit to wage and salary ratio of 38.56% for non-union workers. Analyzing the data in Table 6 for the Trade, Transportation, and utilities sector yields a benefit to wage and salary ratio of 41.34%. Table 7 shows data for the Pacific region (which includes California) and indicates a benefit to wage and salary ratio of 41.98% for the Pacific region. Cal-Ore serves rural communities and the data from Table 7 for Non-metropolitan areas yields a benefit to wage and salary ratio of 41.15%. For all small

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

private companies with 1-49 employees (such as Cal-Ore) total benefits to salaries and wages was 33.99% obtained from the data in Table 8.

In response to the data analyzed above, CD concludes that the proposed benefit to wage and salary ratio of 42% is conservative, yet reasonable. Thus, CD recommends a benefit to salary ratio of 42% for Cal-Ore.

Depreciation Expense:

CD used its average TPIS for 2009 and Cal-Ore's current depreciation rates to calculate 2009 total company Depreciation Expense of $1,388,368. Cal-Ore's calculation of total company Depreciation Expense was $1,762,056. Both Cal-Ore and CD applied the same depreciation rates which had been previously approved by the Commission. Differences between CD's and Cal-Ore's depreciation expense calculations are due to differences in their estimated Telephone Plant-in-Service (TPIS) balances for 2009.

Rate Base

CD examined Cal-Ore's Rate Base components, which include Telephone Plant in Service, Telephone Plant Under Construction, Material & Supplies, Working Cash and Deferred Income Taxes.

In computing Telephone Plant in Service (TPIS), CD reviewed Cal-Ore's 2007 annual report, Capital Budget, including additions and retirements as reflected in the annual report, and the filed GRC work papers and responses provided by Cal-Ore through data requests. Cal-Ore's proposed plant additions for 2008 and 2009 are $1,740,000 and $1,735,000 respectively. These plant addition amounts are somewhat higher than Cal-Ore's historical 5 year average (2003 - 2007) gross plant additions of $1,456,634. CD has made adjustments to the proposed plant additions in the building, buried fiber, and central office digital switching equipment TPIS categories (see following section). CD's resulting estimate of plant additions for 2008 and 2009 are $1,254,258 and $835,000, respectively. The reasons for CD's disallowance of certain Cal-Ore TPIS projects are discussed below.

Fiber Project in Cities of Dorris and Tulelake:

Cal-Ore is proposing to install underground fiber cable plant throughout the cities of Dorris and Tulelake. These projects include bringing fiber facilities to every home in each of these two towns. At the meeting at the company's headquarters on April 15, 2008, Cal-Ore explained that there have been no service quality complaints resulting from the buried copper cable facilities nor have they received any requests for the provisioning of high technology services that might require the installation of the fiber plant.

Cal-Ore also informed CD that as part of the fiber installation, that each house would require an Optical Network Terminal/Unit (at a cost of $500 to $700 per residence). These devices are required (at each residence) to convert the fiber cable's light signal to an electrical signal, which can then be transmitted by the home's existing internal copper wiring. CD disallows the project (and related Central Office upgrades) in the towns of Dorris and Tulelake as part of its rate base adjustments for the following reasons. There are no service quality complaints in the two towns to warrant replacing the existing plant. At the October 17th meeting, CD asked Cal-Ore why they could not install digital loop carrier (DLC)[9] systems in Dorris and Tulelake and then provide fiber plant to the DLCs and then branch out from the DLCs with copper to each home. By this means Cal-Ore could provide voice as well as DSL service to any customer who requests it. Cal-Ore replied that the close proximity of the central offices to the homes in both Dorris and Tulelake, make installing DLCs unfeasible. CD believes that if the homes are so close to the central offices in Dorris and Tulelake, then installing copper plant in the two towns would be sufficient because the copper lengths would be short enough to enable Cal-Ore to provide DSL (as well as basic voice telephone service) to all its customers in both towns.

Materials and Supply (M&S):

Cal-Ore's estimate of Materials and Supplies (M&S) for 2009 is $126,351, which is approximately 0.004425% of its average 2009 TPIS amount. CD reviewed Cal-Ore's M&S recorded 5 years (2002-2006) amounts from its filed GRC workpapers, and calculated the ratio of the M&S amounts to the recorded average TPIS for those years. The M&S ratio ranged from 0.00369 to 0.004362, with an average ratio of 0.00401. CD then applied the average ratio of 0.00401 to its estimated average TPIS for 2009 to arrive at its M&S estimate of $111,621 for the test year. CD recommends that the average Total Company M&S of $111,621 be included in the rate base since it more closely approximates the future operations of Cal-Ore.

Working Cash:

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[9] A **digital loop carrier** (DLC) is a system which uses digital transmission to extend the range of the local loop farther than would be possible using only twisted pair copper wires. A DLC digitizes and multiplexes the individual signals carried by the local loops onto a single datastream on the DLC segment.

Cal-Ore and CD utilized the simplified method described in the CPUC's Standard Practice U-16, to arrive at their working cash estimates. A ratio of 49.16% of toll revenue to total revenue was used to calculate the total company Working Cash estimate of $411,507 for test year 2009. CD's estimate of test year 2009 Total Company Working Cash is $14,056 , or 3.42% , lower than the amount computed by Cal-Ore, due to the differences in estimated revenues and expenses for test year 2009.

Telephone Plant Under Construction:

Cal-Ore calculated its total company Telephone Plant Under Construction (TPUC) amount of $119,937, by taking the average of its 5 years of TPUC data and dividing it by the average of its 5 years TPIS, resulting in a 0.42% TPUC percentage. Cal-Ore then multiplied this percentage times its estimated 2009 TPIS. CD accepts Cal-Ore's 2009 percentage of 0.42% to calculate 2009 TPUC. CD used the 0.42% percentage multiplied by its calculated 2009 average TPIS of $27,835,721 to come up with $116,910 for 2009 TPUC. CD feels that using this 0.42% figure for TPUC will best reflect Cal-Ore's future TPUC for 2009, as it is based on Cal-Ore's recorded TPUC and TPIS amounts.

Depreciation Reserve (Accumulated Depreciation):

Cal-Ore's Accumulated Depreciation for test year 2009 is $20,494,336, $235,232 , or 1.16% more than CD's Accumulated Depreciation estimate for 2009. CD calculated Accumulated Depreciation by taking its depreciation expenses for 2008 and 2009 and adding them to its calculated ending balances of Accumulated Depreciation for 2007 and 2008, to obtain an average Total Company Accumulated Depreciation for 2009 of $20,259,104 . Differences between CD's and Cal-Ore's depreciation reserve are due to differences in their respective 2008 and 2009 estimated TPIS balances.

Separations

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

"Separations" is a process of apportioning a telephone company's property costs, related reserves, operating expenses, taxes, and rate base between the intrastate and interstate jurisdictions. It is a method by which a telephone company can separately identify the amount of expenses and investments associated with the production of a given service. These apportionments are made on the basis of relative usage and direct assignment whenever possible. The costs to be apportioned are identified in the FCC's Part 36

Separations Manual, according to the classification of accounts as prescribed by the FCC's Part 32, Uniform System of Accounts (USOA) for Telecommunications Companies.

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

Cost of Capital

Cal-Ore requests an overall intrastate rate of return on rate base of 10.00%. CD believes that the return on rate base for all rural ILECs should be the same since the systematic and non-diversifiable risks faced by all rural ILECs are similar and in Cal-Ore's last GRC the Commission authorized a 10.00% rate of return[10]. CD recommends that the Commission approve Cal-Ore's request for an overall rate of return of 10.00%.

Taxes

The differences in tax estimates between Cal-Ore and CD are due to differences in estimates of revenues and expenses. CD and Cal-Ore both utilized the same Corporate State Franchise Tax rate of 8.84% and a Federal Income Tax of 34.00%. CD's estimate of 2009 Intrastate Operating Taxes (including other taxes) of $382,938 is 4.07% lower than that computed by Cal-Ore due to the differences in estimated revenues and expenses for test year 2009. To calculate Total Company Deferred Taxes for test year 2009, CD used the ratio of -2.9468%, which CD calculated from the average 2002 to 2006 Deferred Taxes amounts divided by the average 2002 to 2006 TPIS amounts. CD arrived at a 2009 Deferred Taxes amount of <$820,263>. Cal-Ore used a higher ratio of <3.28%>, which was calculated by dividing its projected 2009 Deferred Taxes amount by its projected 2009 TPIS amount. CD feel that Cal-Ore's method does not accurately predict the Deferred Taxes amount as it has no historic component in its calculation, therefore CD recommends that its 2009 Total Company Deferred Taxes calculation of <$820,263> be included in rate base.

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[10] Resolution T-16762, adopted October 30, 2003.

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 Cal-Ore's Net-to-Gross Multiplier. The Net-to-Gross Multiplier of 1.6621 means that $1.6621 change in gross revenues before taxes would be required to produce $1.00 in net revenues. For Cal-Ore, based on a recommended intrastate rate base of $4,910,875 and a rate of return of 10%, the recommended gross intrastate revenue requirement change required is an increase of <$588,323 >.

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

Cal-Ore's calculation of total company results of operations at present rates (Appendix A; Column A) shows that Cal-Ore would earn an estimated $674,325 in Net Operating Revenues and a total company rate of return of a 8.65% (Appendix A; Column A).

CD's calculation of total company results of operations at present rates shows that Cal-Ore would earn an estimated $1,301,790 in Net Operating Revenues and a total company rate of return of a 17.60% (Appendix A; Column B), prior to any CHCF-A adjustment.

For the test year 2009, CD's computation of Cal-Ore's CHCF-A support $489,682 , based on CD's projected revenues (including rate design), expenses, rate base and overall rate of return of 10%.

Federal USF

In this GRC filing, Cal-Ore proposed that it would receive $1,055,245 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, Cal-Ore will receive $1,489,197 in USF funding in 2009. This amount is a substantial increase of $433,952 from the amount Cal-Ore originally proposed. The increased USF funding amount of $433,952 will be made up by an equal decrease in Cal-Ore's 2009 CHCF-A funding amount.

CD recommends that Cal-Ore 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 this original draft Resolution (DR) on November 18, 2008 to Cal-Ore and other interested parties.

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

The Commission Should Not Reduce Test Year Employee Benefits Related to the Retirement Program

In its comments, Cal-Ore asserts that CD's determination of a 34% benefit to salaries ratio, as mentioned in the DR, is unsupported and is in part based on a comparison with the benefit level received by Commission staff. Cal-Ore's level of benefits to total wages and salaries appears to be high. Cal-Ore provided a list of salaries/wages and benefits for 2007 which showed its level of benefits to total wages and salaries to be excessive. For test year 2009, the ratio of benefits to total wages and salaries is 52.43%. Cal-Ore provided a list of salaries/wages and benefits for 2007. CD believes a benefit to salary ratio of 42% is more reasonable as explained below.

CD staff surveyed regulated small water companies ranging from 2000-10,000 customers filing rate cases with the Commission. CD found their average benefit to salary ratio was

33%[11]. Further, CD staff studied the latest available data from the U.S. Bureau of Labor Statistics (BLS), dated December 10, 2008[12] and found that BLS included paid leaves in its benefit calculations. The benefits to wages and salaries ratio for all civilian workers was 43.42% and 40.86% for civilian service workers which were derived from the data in Table 2. Cal-Ore has a non-unionized work force and the BLS data derived from Table 5 suggest a benefit to wage and salary ratio of 38.56% for non-union workers. Analyzing the data in Table 6 for the Trade, Transportation, and utilities sector yields a benefit to wage and salary ratio of 41.34%. Table 7 shows data for the Pacific region (which includes California) and indicates a benefit to wage and salary ratio of 41.98% for the Pacific region. Cal-Ore serves rural communities and the data from Table 7 for Non-metropolitan areas yields a benefit to wage and salary ratio of 41.15%. For all small private companies with 1-49 employees (such as Cal-Ore) total benefits to salaries and wages was 33.99% obtained from the data in Table 8.

In response to the data analyzed above, CD concludes that the proposed benefit to wage and salary ratio of 42% is conservative, yet reasonable. Thus, CD recommends a benefit to salary ratio of 42% for Cal-Ore.

In its comments, Cal-Ore is concerned that it will not be able to attract a pool of qualified labor, if its benefits are not competitive. CD does not however agree that this issue will affect Cal-Ore’s operations, or its ability to attract a workforce. Cal-Ore’s benefit offerings after adjustment are competitive with those of similarly situated utilities, and no data was provided to show that the benefits would be uncompetitive.

<u>The Commission Should Not Increase Basic Service Rates at This Time</u>

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

The Commission’s CHCF-A rules currently require that small LECs’ residential service rates be at least 150% of AT&T’s urban rate, and it is for this reason that CD is

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[11] 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%.

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

recommending increasing Cal-Ore'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 LECs can then apply for CHCF-A funding if they make regular GRC filings."*

Further, in Ordering Paragraph 3 of the original Decision 88-07-022, that established HCF (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 LECs to propose a rate design that will increase or decrease basic exchange access line service rates by a uniform percentage while maintaining the 150% threshold level of comparable California urban rates presently measured by Pacific's 1-R flat rate of $8.35 per month."*

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

Cal-Ore further argues that an elasticity factor should also be applied to any basic rate increase ordered as well. In the draft resolution, CD has adjusted revenues for the custom calling and access services and charges which have been increased by 25% or more, in response to Cal-Ore' 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 Cal-Ore 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.

Proposed Rate Base Changes Should Not Be Made

Cal-Ore's comments that CD Staff states that Cal-Ore should be upgrading its existing copper plant with more copper rather than fiber and that there is no demand for high speed, high technology services by Cal-Ore's customers. Cal-Ore states," …replacing copper with more copper will, in the long run, be more expensive than utilizing fiber as Cal-Ore proposes. Utilizing fiber will save money on future maintenance, customer service, and operations." CD contends that the issue is not whether copper or fiber are appropriate for replacement but that the facilities do not need to be replaced in whole at this time.

CD agrees with Cal-Ore that its primary need is to provide basic phone service, and would add that Cal-Ore also needs to provide DSL broadband service, in the cities of Dorris and Tulelake. It currently provides these services over copper facilities. No complaints from Cal-Ore's customers have been brought to the attention of CD about poor basic phone or DSL service. All of the customers in the cities of Dorris and Tulelake are close enough to the central offices to be able to receive DSL service on (existing) copper plant.

DR's Method for Computing Uncollectibles Is Not Consistent with the Methodology Employed to Compute Expenses and Should be Revised

Cal-Ore asserts that the method utilized in the draft resolution for computing uncollectibles is not consistent with the methodology used to compute other expenses categories as it does not include recorded data from 2007. CD agreed with Cal-Ore's assertion and therefore requested Cal-Ore to provide CD with 2007 recorded uncollectible data. In response CD has modified its calculation to include 5-year (2003, 2004, 2005, 2006, and 2007) average uncollectibles to arrive at an uncollectible rate of 0.78% for local service revenue, and 9.74% for intrastate access revenue. CD used these new percentages to derive its 2009 test year uncollectible estimates for proposed rate. (There is no change for intrastate access revenue in present and proposed rates.)

The DR Should be Revised to Upcoming NECA Separations Methodology Changes

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

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

Effective Date and Customer Notice

Cal-Ore comments that the adoption of this resolution on January 29, 2009 will not allow a 30-day notice to its customers. CD has recommended that the 30-day notice requirement be waived and that Cal-Ore send notice, within 7 days of adoption of this resolution, to all customers regarding the increases and changes to its rates and charges. Additionally, CD recommends that Cal-Ore file a Tier 2 advice letter supplement, within 7 days of the adoption of this Resolution, with a revision to its tariff schedules, for all the increases and changes to its rates and charges as proposed in this resolution and as discussed in the Revenue Section of this resolution. The effective date for all changes contained in Cal-Ore's AL supplement will be February 1, 2009.

Computational Revenue Errors

Cal-Ore indicated that the Revenue Section of the DR contains several apparent computational errors that may require correcting. CD reviewed its calculations and has revised its computations in Uncollectibles and Local Network Services using information provided by Cal-Ore. CD has reviewed its calculations and adjustments in the remaining DR and has found no further computational errors.

Computational Rate Base Errors

Cal-Ore comments that CD's proposed plant disallowances are $285,742 greater than what was indicated in the October meeting. CD is unable to find the discrepancy that Cal-Ore notes. CD provided its workpapers to Cal-Ore to examine this potential discrepancy further and found no errors.

Cal-Ore's Correction to Its Vacation Benefits

In response to discussion with CD related to Cal-Ore's vacation benefits, Cal Ore performed further analysis of the annual vacation accrual for all its current employees. Cal-Ore found that its employees accrue 15.87 days of vacation a year on average, not the 21 days referenced in their AL filing. CD therefore accepts Cal-Ore's vacation expense estimate as submitted.

To reflect CD's reply to Cal-Ore's comments, all dollar, numerical and percentage figures in this Resolution have been revised, where applicable.

Findings

1. Cal-Ore Telephone Company (Cal-Ore) filed its 2009 test year General Rate Case (GRC) by Advice Letter (AL) No. 320 on December 27, 2007.
2. Cal-Ore 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 $3,933,685;
   - Total intrastate operating expenses of $3,418,080;
   - Total intrastate rate base amount of $5,156,058; and
   - A California High Cost Fund-A (CHCF- A) draw of $1,461,446.
3. The Communications Division (CD) recommends the following for Cal-Ore 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 $3,604,658 ;
   - Total intrastate operating expenses of $3,113,571 ;
   - Total intrastate rate base amount of $4,910,875 ;
   - A California High Cost Fund-A (CHCF- A) draw of $489,682 ;
4. The Commission finds CD's recommendation to approve CD's and Cal-Ore's proposed tariff changes, as outlined in the "Revenue" 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 for business Directory Assistance (DA) allowance from 2 to 0, and residential DA allowance from 5 to 1.
5. The Commission finds that the differences in Cal-Ore's and CD's estimates result from the use of different assumptions for estimating revenues, expenses, and rate base.
6. The Commission finds CD's methodology to estimate revenues to be reasonable. Therefore the Commission adopts CD's recommended test year 2009 intrastate revenues as shown in Appendix C; Column E.
7. The Commission finds CD's ratemaking adjustments to each of the expense accounts, and CD's use of inflation factors to adjust the labor and non-labor 2008 expenses for test year 2009 to be reasonable. Therefore, the Commission adopts

CD's recommended test year 2009 intrastate expenses contained in Appendix C; Column E.

8. The Commission finds CD's methodology in estimating Cal-Ore's Telephone plant in service and other rate base items reasonable. CD's recommended plant and other rate base items for the 2009 test year are shown in Appendix C; Column E.
9. The Commission finds an overall intrastate rate of return of 10.00% for Cal-Ore for test year 2009, to be reasonable.
10. The Commission finds CD's recommended $489,682 in CHCF-A support for Cal-Ore for test year 2009, to be reasonable. The $489,682 CHCF-A support is based on the Commission's adoption of CD's Intrastate Results of Operations for Cal-Ore for test year 2009.
11. The Commission finds Cal-Ore's and CD's requests for rate increases in the amount of $168,145 (which are due to increases in basic rates, some optional services and non-recurring charges, to bring Cal-Ore's prices more in line with other companies in the telephone industry) 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 the Commission waive the 30-day notice period required under G.O. 96-B and to allow Cal-Ore 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.
14. The Commission finds CD's recommendation that Cal-Ore 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.
15. 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 Cal-Ore Telephone Company.
2. All the tariff changes listed in the Revenue Section of this Resolution are adopted.
3. Cal-Ore shall provide a notice to all customers, within 7 days after the adoption of this resolution, notifying them of the increases and changes to all Cal-Ore's rates and charges as contained in this resolution.
4. Cal-Ore 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 overall intrastate rate of return (ROR) of 10.00% is adopted for Cal-Ore for test year 2009.
6. Cal-Ore's California High Cost Fund-A (CHCF-A) draw for 2009 shall be $489,682 .

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
CAL-ORE TELEPHONE COMPANY
TOTAL COMPANY RESULTS OF OPERATIONS
PRESENT RATES TEST YEAR 2009

				UTILITY EXCEED STAFF	
				($)	**(%)**
		CAL-ORE	**CD**	**AMOUNT**	**DIFF.**
		(A)	(B)	(C)	(D)
OPERATING REVENUES:					
1	Local Network Services	734,132	734,132	-	0.00%
2	Local Service - CHCF - A	1,230,905	1,230,905	-	
3	Interstate USF	1,055,245	1,489,197	(433,952)	-29.14%
4	Network Access Services:				
5	Intrastate	464,161	534,204	(70,043)	-13.11%
6	Interstate	3,229,702	3,229,702	-	0.00%
7	Miscellaneous	382,362	382,362	-	0.00%
8	Less: Uncollectible Revenue	(86,824)	(57,758)	(29,066)	50.32%
9	**Total Oper. Revenue**	7,009,683	7,542,744	(533,061)	-7.07%
OPERATING EXPENSES:					
10	Plant Specific	1,234,950	**1,284,561**	**(49,611)**	**-3.86%**
11	Plant Non-Specific (less depr.)	201,065	218,233	(17,168)	-7.87%
12	Customer Operations	258,118	199,922	58,196	29.11%
13	Corporate Operations	2,335,424	2,190,693	144,731	6.61%
14	**Subtotal**	4,029,557	**3,893,409**	**136,148**	**3.50%**
15	Depreciation & Amortization	1,762,056	1,388,368	373,688	26.92%
16	Other Taxes	97,289	97,289	-	0.00%
17	State Income Taxes	99,077	**191,269**	**(92,192)**	**-48.20%**
18	Federal Income Taxes	347,379	**670,619**	**(323,240)**	**-48.20%**
19	**Total Oper. Expense**	6,335,358	**6,240,954**	**94,404**	**1.51%**
20	**Net Revenues**	674,325	**1,301,790**	**(627,465)**	**-48.20%**

AVERAGE RATE BASE:

21	Telephone Plant-in-Service	28,556,248	27,835,721	720,527	2.59%
22	Tel. Plant Under Construct.	119,937	116,910	3,027	2.59%
23	Material & Supplies	126,351	111,621	14,730	13.20%
24	Working Cash	425,563	**411,507**	**14,056**	**3.42%**
25	Less: Deprec. Res.	(20,494,336)	**(20,259,104)**	**(235,232)**	**1.16%**
26	Def. Taxes	(936,367)	(820,263)	(116,104)	14.15%
27	Customer Deposit	-	-	-	0.00%
28	**Total Rate Base**	7,797,396	**7,396,392**	**401,004**	**5.42%**
29	**Rate of Return**	8.65%	**17.60%**		

APPENDIX B
CAL-ORE TELEPHONE COMPANY
TOTAL COMPANY RESULTS OF OPERATIONS
AT PRESENT RATES TEST YEAR 2009

	APPENDIX B	CAL-ORE			CD		
		TOTAL COMPANY	INTERSTATE	INTRASTATE	TOTAL COMPANY	INTERSTATE	INTRASTATE
		(A)	(B)	(C)	(D)	(E)	(F)
OPERATING REVENUES:							
1	Local Network Services	734,132		734,132	734,132		734,132
2	Local Service - CHCF - A	1,230,905		1,230,905	1,230,905		1,230,905
3	Interstate USF	1,055,245		1,055,245	1,489,197		1,489,197
4	Network Access Services:						
5	Intrastate	464,161		464,161	534,204		534,204
6	Interstate	3,229,702	3,229,702	-	3,229,702	3,229,702	-
7	Miscellaneous	382,362	120,061	262,301	382,362	120,061	262,301
8	Less: Uncollectible Revenue	(86,824)		(86,824)	(57,758)		(57,758)
9	**Total Oper. Revenue**	7,009,683	3,349,763	3,659,920	7,542,744	3,349,763	4,192,981
OPERATING EXPENSES:							
10	Plant Specific	1,234,950	620,562	614,388	1,284,561	645,492	639,069
11	Plant Non-Specific (less depr.)	201,065	102,813	98,252	218,233	111,583	106,650
12	Customer Operations	258,118	112,173	145,945	199,922	86,886	113,036
13	Corporate Operations	2,335,424	1,204,845	1,130,579	2,190,693	1,130,179	1,060,514
14	**Subtotal**	4,029,557	2,040,394	1,989,163	3,893,409	1,974,139	1,919,270
15	Depreciation & Amortization	1,762,056	732,310	1,029,746	1,388,368	577,006	811,362
16	Other Taxes	97,289	39,490	57,799	97,289	39,490	57,799
17	State Income Taxes	99,077	47,521	51,556	191,269	67,107	124,162
18	Federal Income Taxes	347,379	166,616	180,763	670,619	235,287	435,332
19	**Total Oper. Expense**	6,335,358	3,026,331	3,309,028	6,240,954	2,893,029	3,347,925
20	**Net Revenues**	674,325	323,432	350,892	1,301,790	456,734	845,056
AVERAGE RATE BASE:							
21	Telephone Plant-in-Service	28,556,248	11,590,981	16,965,267	27,835,721	11,298,519	16,537,202
22	Tel. Plant Under Construct.	119,937	48,682	71,255	116,910	47,454	69,456
23	Material & Supplies	126,351	38,790	87,561	111,621	34,268	77,353
24	Working Cash	425,563	213,207	212,356	411,507	206,165	205,342
25	Less: Deprec. Res.	(20,494,336)	(8,865,850)	(11,628,486)	(20,259,104)	(8,764,088)	(11,495,016)
26	Def. Taxes	(936,367)	(384,472)	(551,895)	(820,263)	(336,800)	(483,463)
27	Customer Deposit	-	-		-		
28	**Total Rate Base**	7,797,396	2,641,338	5,156,058	7,396,392	2,485,517	4,910,875
29	**Rate of Return**	8.65%	12.25%	6.81%	17.60%	18.38%	17.21%

APPENDIX C
CAL-ORE TELEPHONE COMPANY
TOTAL COMPANY RESULTS OF OPERATIONS
AT PROPOSED RATES TEST YEAR 2009

				UTILITY EXCEED STAFF		
		CAL-ORE PROPOSED	CD PROPOSED	AMOUNT DIFFERENCE	PERCENTAGE DIFFERENCE	ADOPTED
OPERATING REVENUES:		**(A)**	**(B)**	**(C)=(A)-(B)**	**(D)**	**(E)**
1	Local Network Services*	780,086	888,234	(108,148)	-12.18%	888,234
2	Local Service - CHCF - A	1,461,446	489,682	971,764	198.45%	489,682
3	Interstate USF	1,055,245	1,489,197	(433,952)	-29.14%	1,489,197
4	Network Access Services:			-		-
5	Intrastate	464,161	534,204	(70,043)	-13.11%	534,204
6	Interstate	-	-	-		-
7	Miscellaneous	262,301	262,301	-	0.00%	262,301
8	Less: Uncollectible Revenue**	(89,554)	(58,960)	(30,594)	51.89%	(58,960)
9	**Total Oper. Revenue**	3,933,685	3,604,658	329,027	9.13%	3,604,658
OPERATING EXPENSES:						
10	Plant Specific	614,388	639,069	(24,681)	-3.86%	639,069
11	Plant Non-Specific (less depr.)	98,252	106,650	(8,398)	-7.87%	106,650
12	Customer Operations	145,945	113,036	32,909	29.11%	113,036
13	Corporate Operations	1,130,579	1,060,514	70,064	6.61%	1,060,514
14	**Subtotal**	1,989,163	1,919,270	69,893	3.64%	1,919,270
15	Depreciation & Amortization	1,029,746	811,362	218,383	26.92%	811,362
16	Other Taxes	57,799	57,799	-	0.00%	57,799
17	State Income Taxes	75,757	72,154	3,602	4.99%	72,154
18	Federal Income Taxes	265,615	252,985	12,630	4.99%	252,985
19	**Total Oper. Expense**	3,418,080	3,113,571	304,509	9.78%	3,113,571
20	**Net Revenues**	515,605	491,088	24,518	4.99%	491,088
AVERAGE RATE BASE:						-
21	Telephone Plant-in-Service	16,965,267	16,537,202	428,065	2.59%	16,537,202
22	Tel. Plant Under Construction	71,255	69,456	1,798	2.59%	69,456
23	Material & Supplies	87,561	77,353	10,208	13.20%	77,353
24	Working Cash	212,356	205,342	7,014	3.42%	205,342
25	Less: Deprec. Res.	(11,628,486)	(11,495,016)	(133,471)	1.16%	(11,495,016)
26	Def. Taxes	(551,895)	(483,463)	(68,432)	14.15%	(483,463)
27	Customer Deposit	-	-	-		
28	**Total Rate Base**	5,156,058	4,910,875	245,183	4.99%	4,910,875
29	**Rate of Return**	10.00%	10.00%			10.00%

APPENDIX D
CAL-ORE 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 times 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		**4,910,875**	
10	Net Revenues adopted at 10.00% (Ln. 9 times 10%)		**491,088**	
11	Net Revenue In Test Year 2009 At Present Rates		**845,056**	
12	Change in Net Revenues (Ln. 10 less Ln. 11)		**(353,970)**	
13	**GROSS REVENUE CHANGE REQUIRED (Ln. 12 times Ln. 8)**		**(588,323)**	
	CHCF-A SUPPORT			-
14	2009 CHCF-A SUPPORT AT PRESENT RATES		1,230,905	
15	**2009 CHCF-A SUPPORT ESTIMATED** (Ln. 14 add Ln. 13)		**642,582**	
16	**PROPOSED NET RATE INCREASE***		152,900	
17	**2009 CHCF-A ADOPTED** (Ln 15 minus Ln 16)		**489,682**	

(END OF ATTACHMENT 1)