Mailed: January 30, 2009

CD/jhs/mwc/eyt

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Communications Division **RESOLUTION T-17157**
Carrier Branch **January 29, 2009**

R E S O L U T I O N

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

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

Summary

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

This resolution authorizes total intrastate revenue in the amount of $4,053,739 for Ducor for the test year 2009. This represents a reduction of $297,041 to Ducor's estimate of $4,350,780 for total intrastate revenue for 2009. The total intrastate rate base amount for Ducor is $6,507,721 with an overall intrastate rate of return of 10.00% for the test year 2009. Ducor is requesting a total intrastate rate base amount of $6,538,434 and an authorized overall intrastate rate of return of 10.00%. This resolution also authorized CHCF-A support for Ducor for test year 2009 of $2,514,450. This amount represents a decrease of $478,945 or 16.00% less from Ducor proposed CHCF-A 2009 support of $2,993,395. This difference is due to adjustments CD made to revenue, expense and rate base estimates.

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

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

Background

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

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

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

On September 3, 2008, CD held a meeting with Ducor management so as to provide an opportunity for the company to discuss CD's proposal. The meeting served to share information and for more recent data to be provided which assisted in making adjustments

Notice/Protests

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

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

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

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

Discussion

Proposed tariff changes:

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

1. Adding the symbol (P) in the Preliminary Statement from Decision No. 07-01-024, Section 8.5.3.

2. Clarifying the rates for the services described in Schedule No. A-4, California Teleconnect Fund Discounted Services.

3. Increasing intrastate Primary Interexchange Carrier (PIC) charges to those authorized by the FCC for the interstate PIC in Schedule No. A-7, Interexchange Carrier Selection Process for Equal Access. The intaLATA PIC charge will go from $5.00 to $5.50 and the 2-PIC will go from $2.50 to $2.75.

4. Increasing the reconnect charge for nonpayment from $35.50 to $40.00 in Schedule No. A-14, Multi-Element Service Charge. This charge can be avoided if the customer pays their bill. Ducor also proposes to add the returned check charge to this Schedule. The returned check charge is also shown in Rule No. 9.

5. Increasing the visit charge in Schedule No. A-32, inside wiring maintenance service repair charge in Schedule No. A-34 and intrabuilding network cable charge in Schedule No. A-36. The normal hour charge will go from $46.25 to $70.00 and the other hour charge will go from $69.50 to $87.00.

6. Establishing an Employee Concession Service offering in Schedule No. A-37, similar to that approved for GVNI in Schedule No. A-16.

7. Removing the Transport Interconnection Charge in Schedule No. B-6, Access Service, that is billed to interexchange carriers as suggested in Proceeding R.03-08-018.

8. Increasing the local directory assistance charge from 25 cents to 50 cents and reduce both the business and residential allowance from 5 to 3 in Schedule No. B-7, Local Area Operator Assistance Service.

9. Updating Rule No. 8, Notice, in compliance with GO 96-B, D07-09-019, Industry Rule 3.

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

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

Results of Operations

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

CD calculates in test year 2009 that Ducor will earn a total company overall rate of return of 5.91% compared to Ducor's calculation of 2.22%. Since CD concludes Ducor is earning below the Commission's authorized rate of return of 10.00%, CD's estimates for Ducor reflect revisions to Ducor's estimates of revenues, expenses, and rate base as discussed below.

Total Operating Revenues

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

A comparison of CD's and Ducor's estimates of intrastate company operating revenues for test year 2009 is shown in Appendix C. Ducor's estimate of intrastate company operating revenues is $4,350,780, a difference of $297,041 from CD's estimate of $4,053,739. The reasons for the differing estimates are further described below.

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

Additionally, CD proposes rate increases for the following services:

- Increasing the Business Call Forwarding monthly rate from $2.00 to $3.50.

- Increasing the Business Caller ID Number Service monthly rate from $4.50 to $6.00.

- Increasing the Business Call Waiting monthly rate from $3.50 to $4.00.

- Increasing the Residential Call Forwarding monthly rate from $$1.50 to $2.50.

- Increasing the Residential Call Waiting monthly rate from $2.00 to $3.00.

- Increasing the Residential Toll Restriction monthly rate from $2.00 to $2.50.

- Increasing the Residential Call Forwarding Busy Line monthly rate from $2.50 to $3.00.

- Increasing the Residential Caller ID Number Service monthly rate from $3.00 to $4.00.

- Increasing the Residential Call Forwarding & Call Waiting package monthly rate from $2.50 to $4.00.

- Increasing the Residential Call Waiting & Three-Way package monthly rate from $3.00 to $4.50.

- Increasing the Residential Call Forward & Call Waiting & Three-Way package monthly rate from $3.50 to $4.50.

- Increasing the Anonymous Call Rejection monthly rate from $1.50 to $2.50.

- Increasing the Multi-Element Service Charges for connecting New Service Order from $21.50 to $23.50, for changing existing service or adding new or additional service other than central office lines from $10.75 to $11.50, and for Central Office Connection Work from $24.75 to $25.50.

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

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

- Increase the IntraLATA Service Change Charge, as described in schedule A-7, from $5.00 to $5.50.

- Increasing the rate of 2-PIC, as described in schedule No. A-7, from $2.50 to $2.75.

- Increasing the Reconnect charge, as described in schedule A-14, from $30.75 to $40.00.

- In schedule No. A-32, an increase to the Visit Charge for Normal Charge from $46.25 to $70.00 per hour or fraction thereof and from $69.50 to $87.00 per hour or fraction thereof for Overtime.

- For Inside Wiring Maintenance Service, as described in schedule No. A-34, an increase from $46.25 to $70.00 per hour or fraction thereof for Normal Charge. An increase from $69.50 to $87.00 per hour or fraction thereof for Overtime.

- In schedule No. A-36, an increase to the Intrabuilding Network Cable charges for Normal Charge from $46.25 to $70.00 per hour or fraction thereof and from $69.50 to $87.00 per hour or fraction thereof for Overtime.

- Increasing the Returned Check Charge from $10.00 to $20.00.

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

Uncollectibles

Uncollectibles are based on bad debts associated with local revenue and intrastate access revenues. Ducor states the estimated local debt at $1,800 and intrastate access debt at $40,694 are based on average of the historical record. CD has reviewed the annual reports and does not agree with Ducor's estimates of test year 2009 uncollectible. CD analyzed five years (2003-2007) of recorded data to arrive at an average of zero uncollectible for local revenue and 8.04% uncollectible for intrastate access revenue. CD applies these percentages to derive the 2009 uncollectible. Therefore, CD disallows $27,540 of bad debt associated with intrastate revenue and estimates intrastate uncollectibles to be $18,553 for the test year 2009.

Operating Expenses

Ducor's test year forecasts for operating expenses are calculated by annualizing seven months actual expenses from January – July, 2007. The 2008 and 2009 expenses are forecast based on an adjusted historical average growth rate for labor related and non-labor related expenses plus an adjustments for additional employees in 2008/2009 and rate case expenses in 2009 amortized over 3 years. CD used Ducor's recorded years 2005, 2006 and 2007 labor and non-labor expenses and applied the constant dollar method to estimate Ducor's 2009 expenses.

The constant dollar method is 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." [2]

Therefore, CD used Ducor' recorded expense figures for the years 2005, 2006 and 2007 and then applied the recorded inflation factors[3] 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

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

[3] CD used the Division of Ratepayers Advocates estimates of Non-Labor and Wage Escalation Factors for 2008-2012 from the November 2008 Global Insight U.S. Economic Outlook as follows:

Year	Labor	Non-Labor
2005	1.0400	1.0540
2006	1.0375	1.0540
2007	1.0375	1.0300
2008	1.0290	1.0680
2009	1.0390	0.9950

then applied the cumulative inflation factors for 2008 and 2009 to the base estimate to arrive at the test year 2009 estimate. Because rents are not subject to the same fluctuations as other types of expenses, the constant dollar method was not applicable.

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

CD reviewed Ducor's employee wages and benefits, and CD found Ducor executives' wages and employee benefits to be excessively high. CD adjusted Ducor's executive wages to be in to more appropriately reflect those paid by other California small utilities by limiting the salary of the president to $250,000 per year, the Executive Vice President to $160,000, and the Vice President to $140,000. Ducor's benefit to total wages and salaries ratio has also subsequently been adjusted for ratemaking purposes. According to 2007 data provided by Ducor in response to a CD data request Ducor's benefit to salary ratio 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[4] for those indicators relevant to small ILECs operating in California

CD found the average benefit to salary ratio for the water survey group to be 33%[5]. 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%[6]. The BLS ratio supports CD's proposed rate of 42% therefore, CD caps the ratio of regulated benefit to salaries/wages for the test year 2009 and concludes that its proposed benefit to salary ratio of 42% for Ducor is appropriate and adequate.

Plant Specific Expenses

Plant specific expenses include expenses related to telephone plant. These include components for network support, general support, central office switching, operator systems, transmission, originations and termination, and cable and wire. Ducor estimates plant specific expenses for test year 2009 to be $1,484,760. CD's estimate for

[4] http://www.bls.gov/news.release/ecec.nr0.htm.
[5] 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%.
[6] Ibid, Table 8.

plant specific expenses for 2009 is $1,217,013. This represents a reduction of $267,747 from Ducor's estimate. This reduction is due to CD using constant dollars method (CDM) and the limitation of executives' wages and adjusted employee benefits changes.

Plant Non-Specific Expenses

Plant non-specific expenses include such expenses as those related to network administration, testing, engineering, access to the network and power. Ducor annualized seven months actual expenses for January – July, 2007 to forecast 2009 test year expenses. Ducor's plant non-specific expenses estimate for test year 2009 is $192,511. CD used recorded year 2007 amount to forecast 2009 test year expenses. CD's estimate for plant specific expenses for 2009 is $201,300. This represents a difference of $8,789 from Ducor's estimate. The difference is due to CD using constant dollars method (CDM) and the limitation of executives' wages and adjusted employee benefits changes.

Customer Operations Expense

Customer operations expenses include components for marketing and customer operations. For customer operations expenses Ducor's estimate is $330,139 for test year 2009. CD's estimate for this expense category is $272,174. This represents a reduction of $57,965 from Ducor's estimate for test year 2009 customer operations expenses. This reduction is due to CD using constant dollars method (CDM) and the limitation of executives' wages and adjusted employee benefits changes.

Corporate Operations Expense

The corporate operations expense account included components for executive and planning, general and administrative. Ducor includes $180,000 rate case expenses to amortize over 3 years in the Corporate Operation account. Ducor estimates rate case expenses for the test year 2009 to be $60,000. In Ducor's 2004 GRC, the Commission allowed $40,000 associated with rate case expense in test year. CD uses this $40,000 to apply the 2007 constant dollar inflation factors to develop 2009 rate case expense. CD includes $49,000 for rate case expense for test year 2009.

Ducor estimates its test year 2009 corporate operations expenses to be $1,248,079. CD's estimate for corporate operations expense is $1,160,445. This represents a reduction of $87,634 from Ducor's test year estimate. This reduction is due to CD using constant dollars method (CDM), the limitation of executives' wages and the adjustment to employee benefits.

Taxes

The differences in tax estimates are due to variations in Ducor's and CD's revenue and expense estimates. Ducor and CD each used a Corporate State Franchise Tax (CCFT) rate of 8.84% and a Federal Income Tax rate of 34%. CD estimates Ducor's test year 2009 intrastate taxes for CCFT and Federal Income Tax to be $56,619 and $198,517, respectively.

Depreciation

To calculate depreciation expenses, both Ducor and CD utilized the same methodology and depreciation rates previously adopted by the Commission for Ducor. Ducor estimates its depreciation expense to be $1,376,880 whereas CD's estimate is $1,359,772. The difference of $33,468 in depreciation expense is due to differing plant-in-service estimates. CD's depreciation expense estimate was calculated using CD's plant-in-service estimate for the test year 2009, multiplied by the depreciation rates authorized by the Commission in Ducor's 1997 general rate case, to derive its test year depreciation expense estimate.

Rate Base

Plant in Service

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

Ducor's estimated plant in service as of December 31, 2007, was forecasted based on actual balances as of November 30, 2007, plus December 31, 2007, forecasted additions and retirements. Ducor's estimates average plant in service for test year 2009 to be $19,048,800. CD used 2007 recorded ending plant in service balance to develop 2009 plant in service. CD estimates average plant in service for test year 2009 to be $18,825,509. This difference is the result of CD adjusted additions for Vehicle purchases for all three exchanges: Ducor, Kennedy Meadows and Rancho Tehama, Buildings from 2007 actual, Furniture for Kennedy Meadows, Circuit Subscriber projects for Ducor, Kennedy Meadows and Rancho Tehama, Cable projects for 2007 actual and Kennedy Meadows, Fiber Optic projects to a weather station in Ducor and Ducor and Rancho Tehama for redundant fiber access route project.

The adjustments to additions for the Circuit Subscriber projects for Ducor, Kennedy Meadows and Rancho Tehama exchanges were based in part on the $538,722 Ducor spent in 2007 on underground cable projects including two digital loop carriers (DLC) in the Rancho Tehama exchange. With the allowance of the two additional DLC's at a cost of $366,000 in 2009, the cost per Rancho Tehama subscriber will be over $1,000. Ducor asserts that with this investment it will have the ability to offer digital subscriber line services with the DLC's by reducing the central office distance from potential customers. However, CD has disallow one of two DLC's in the Ducor exchange as it has not been demonstrated to be a reasonable investment for ratepayers to fund.

Construction Work in Progress

Ducor estimated Construction Work in Progress for test year 2009 is $285,732. Ducor's estimate was based on an average ratio of 1.5% between construction work in progress and plant in service. CD finds Ducor's ratio to be reasonable. As compared with other California small telephone companies, CD estimates construction work in progress for test year 2009 to be $282,383. The difference is due to variations in Ducor's and CD's plant in service estimates.

Materials and Supplies

Ducor estimated materials and supplies by analyzing their historical relationship to plant in service. Ducor used 1.21% of the average plant in service balance to determine its test year total company materials and supplies estimate of $229,971. As compared with other California small telephone companies, CD finds Ducor's percentage reasonable and estimates materials and supplies expense of $227,789 for the 2009 test year based on CD's average plant in service.

Working Cash

Ducor estimates its 2009 test year working cash requirement to be $300,397 whereas CD's estimate is $264,198. CD and Ducor both utilized the Simplified Method described in the Commission Standard Practice U-16 to calculate working cash and arrive at the above estimates. The Simplified Method was authorized by the Commission for California small telephone companies to calculate working cash allowance. The differences in the figures are the result of differing expense and revenue estimates.

Deferred Income Taxes

Ducor estimated the deferred income taxes by taking the ratio of the 2006 average deferred income taxes to the 2006 average plant in service. A negative 4.74% ratio was then applied to the forecasted 2009 plant in service to derive the 2009 deferred income taxes. CD reviewed Ducor's recorded deferred income taxes and plant in service from the years 2002 through 2006. As compared with other California small telephone companies, CD finds Ducor's estimation method to be reasonable. CD accepted Ducor's deferred income taxes' ratio. Ducor estimates its 2009 test year deferred income taxes to be $902,080, whereas CD estimates Ducor's test year 2009 DIT to be $891,506.

Separations

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

Separations are the process of apportioning a telephone company's property costs, related reserves, operating expenses and taxes, and revenues between the state and federal jurisdictions. It is a vehicle by which a telephone company can separately identify the amount of expenses, investments and revenues associated with the production of a given service. These apportionments are made on the basis of relative usage and direct assignment whenever possible. The costs of the classification of accounts as prescribed by the Federal Communications Commission's (FCC's) Part 32, Uniform System of Accounts (USOA) for Telecommunications Companies.

As required under FCC Part 36 jurisdictional separations' procedures, Ducor used the most recent available separation factors to allocate its expenses and investments between interstate and intrastate. CD used the separation factors provided by Ducor to separate its estimates for total company expenses and plant to derive CD's estimates for Ducor's intrastate results of operations.

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

Cost of Capital

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

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

Net-to-Gross Multiplier

The net-to-gross multiplier indicates the unit change in gross revenues required to produce a unit change in net revenue. Appendix D shows CD's computation of Ducor's net-to-gross multiplier. The net-to-gross multiplier of 1.66208 means that a change of $1,662 in gross revenue would be required to produce a change of $1,000 in net revenue. For Ducor, based on an adopted intrastate rate base of $6,507,722 and an adopted rate of return of 10.00%, the adopted intrastate revenue requirement change required is $659,103.

CHCF-A

D.01-02-018 approved Settlement Transition Agreements (STAs) between Pacific Bell and the small Local Exchange Carriers (small LECs). Funds that Pacific Bell paid the small LECs through toll and access pool settlement payments were replaced by authorized draws from the CHCF-A. The CHCF-A itself was originally established by D.85-06-115 as a means of subsidizing reasonable basic exchange rates for the customers of small LECs that adopted Pacific Bells statewide average toll, toll private line, and access rates (settlement pools). D.01-02-018 required the small LECs' replacement funding for the STAs be subject to the same rules that apply to current draws from the CHCF-A, namely, basic residential rates shall be increased to a ceiling equal to 1.5 times urban rates as necessary, and both means test and the waterfall provisions shall apply.

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

For the test year 2009, CD's computation of Ducor's CHCF-A requirement is $2,514,450 based on CD's projected revenues, expenses, rate base and 10.00% overall intrastate rate of return.

Comments

In compliance with PU Code §311 (g), a notice letter was e-mailed on October 22, 2008, to the interested parties, and informing these parties that this draft resolution is available on the Commission's website http://www.cpuc.ca.gov and is available for public comment.

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

On November 18, 2008, Cooper White & Cooper LLP, filed timely comments on behalf of Ducor. Cooper, White & Cooper LLP, points out:

- **The Commission Should Not Reduce Executive Compensation Expense Or Employee Benefits.**

Ducor argues in its comments that the Commission should not reduce its employee expenses. Ducor states that its central office in Ducor, CA is separated from the Kennedy Meadows central office by more than 80 miles and Ducor's Rancho Tehama exchange is more than 380 miles away. Ducor asserts that the dispersed nature of Ducor's facilities and operations requires that high level supervisors be present each location and therefore they have a higher executive pay expense.

In response CD has not eliminated any executives or employees in its adjustments. However, CD has found there were duplication of task between President and Executive Vice President, and Ducor salaries were higher than other California utilities. In response to Ducor's comments CD has revised it's adjustments to more accurately reflect the salary levels of its employees as they relate to other small telephone companies operating in California. For rate making purpose, CD adjusted Ducor executives' wages and spread the adjusted differences into expense accounts for the test year 2009.

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[7] for those indicators relevant to small ILECs operating in California

CD found the average benefit to salary ratio for the water survey group to be 33%[8]. 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%[9]. The BLS ratio supports CD's proposed rate of 42% therefore, CD caps the ratio of regulated benefit to salaries/wages at 42%, for the test year 2009 and concludes that its proposed benefit to salary ratio of 42% for Ducor is appropriate and adequate.

- **This DR Should Not Increase Ducor's Basic Rate At This Time.**

In its comments Ducor argues that the magnitude of the increase to basic service proposed in the DR is not required. Ducor 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 time, with offsetting increases in CHCF-A draws to replace revenues.

[7] http://www.bls.gov/news.release/ecec.nr0.htm.
[8] 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%.
[9] Ibid, Table 8.

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 recommending increasing Ducor'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 Ducor' basic residential rate must be at the 150% level for Ducor to continue to be eligible to receive CHCF-A funding.

Ducor 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 Ducor' 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 Ducor 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's Method For Computing Uncollectible is Not Consistent With The Methodology Employed To Compute Expenses And Should Be Revised**

Ducor asserts that the method utilized in the draft resolution for computing uncollectibles is not consistent with the methodology used to compute other expense categories as it does not include recorded data from 2007. CD agreed with Ducor's assertion and therefore requested that Ducor provide CD with the 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 0.00% for local service revenue, and 8.04% for intrastate access revenue. CD used these new percentages to derive a 2009 test year uncollectible amount of $18,553 for present rate and $18,553 for proposed rate. (There is no change for intrastate access revenue in present rate and proposed rates).

- **The DR Unreasonably Disallows $406,291 of Test Year Rate Base**

Ducor states that the purported reasons for the largest reductions are that Ducor's overall investment per customer is high in certain exchanges and that Ducor's small ISP should bear a large proportion of proposed test year investment in DLCs. Ducor argues that it is unique among the smallest of LECs in having three widely separated exchanges with very low customer density. This necessarily means that plant investment per customer will be higher. CD agrees with this assertion and for that reason, the Commission must carefully evaluate all requests for additions to rate base due to the high cost to California ratepayers and the slow growth of the three exchanges.

CD agrees with Ducor about the need to improve the plant at Rancho Tehama exchange and has added back, two DLC's, in the amount of $366,000, to improve residential service and replace aging copper plant. CD is confident that the rate base additions to be approved in this resolution will also assure that Ducor's customers are provided with good basic telephone service on an ongoing basis.

- **Effective Date and Customer Notice**

Ducor states the DR needs to be revised to reflect the fact that it is scheduled for adoption at the Commission's regular meeting on December 4, 2008. Its adoption on that date would not permit the normal 30 day period for implementation of the advice letters.

CD recommends that the Commission waive the 30-day notice period required under G.O. 96-B allowing Ducor to file a Tier 2 Advice Letter supplement or revisions to its tariff schedules, for all the rate and charge increases that CD has proposed in the resolution, as well as for any changes proposed by Ducor in its original GRC tariff change submissions and subsequently accepted by CD. The effective date for all changes contained in Ducor's AL supplement will be February 1, 2009. Ducor shall send a notice, within 7-days of adoption of the Resolution to all customers regarding the increases to all Ducor's rates and charges.

- **Other Computational Corrections**

Ducor states the CD has not provided Ducor with detailed work papers that support the calculations of the proposed revenue, expenses, and investments in the DR. Because of this, Ducor is unable to confirm the CD's calculations.

On December 17, 2008, Moss Adams' met with CD to review the proposed resolution and supporting work papers on behalf of Ducor. On December 30, 2008, Moss Adams submitted its finding of possible calculations errors to CD. CD has reviewed these possible calculation errors and made corrections/changes where appropriate.

Findings

1. Ducor filed its GRC by Advice Letter Nos. 318 and 318A on December 19, 2007, and July 21, 2008, respectively for test year 2009.

2. Ducor requests the following for test year 2009.

   - An increase in the CHCF-A support of $1,211,337, which represents a 68% increase in year 2008 CHCF-A support for the year 2009.
   - Various changes to its tariff schedules as described in the Discussion section of this resolution.
   - An intrastate rate of return of 10.00%.
   - An intrastate operating revenue of $4,350,780.
   - A total intrastate rate base amount of $6,538,434.

3. The Communications Division recommends the following for Ducor for test year 2009 (Appendix C, column B):

   - An intrastate ROR of 10.00% with a total intrastate rate base amount of $6,507,721.

- A California High Cost Fund-A (CHCF-A) support of $2,514,450, representing a reduction of $478,945 or 16.00% less than the Ducor's proposed CHCF-A 2009 support of $2,993,395.
- An intrastate operating revenue of $4,053,739
- Various changes to its tariff schedules as described in the Discussion section of this resolution
- Tariff increases as described in the Discussion section of this resolution.

4. The difference in estimates for Ducor and CD is the result of the use of different assumptions and methodologies for estimating revenues, expenses, and rate base.

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

6. The Commission finds CD's recommended overall rate of return of 10.00% for Ducor to be reasonable.

7. The Commission finds CD's methodology in estimating revenues, expenses, and rate base reasonable. The Commission therefore adopts CD's recommended intrastate estimates shown in Appendix C.

8. The Commission finds CD's recommended $2,514,450 CHCF-A support for Ducor for 2009 to be reasonable. The $2,514,450, support is based on the Commission's adoption of CD's Intrastate Results of Operations for Ducor for test year 2009.

9. The Commission finds CD's recommendation to approve Ducor's proposed tariff revisions outlined in the Discussion section of this resolution to be reasonable. The proposed tariff changes include an increase to the Flat Residential Service Rate per D.08-09-042 as corrected by D.08-10-040, California Lifeline Rate per General Order 153, and the change in DA allowances from 5 to 3, to 5 to 1.

10. The Commission finds CD's proposed rate increases in the Discussion section of this resolution to be reasonable.

11. The Commission finds CD's proposed reduction in Local Area Operator Assistance Service allowance to be reasonable.

12. CD's proposed rate increase should be reflected in Ducor's tariff revisions.

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. 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. Ducor shall file a Tier 2 Advice Letter supplement revision to its tariff schedules for all increase s 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.

2. The intrastate revenues, expenses, and rate base amounts for test year 2009 identified in Appendix C, column (E) are adopted for Ducor Telephone Company.

3. The overall intrastate rate of return of 10.00% is adopted for Ducor Telephone Company for test year 2009.

4. Ducor shall send a notice, within 7 days of adoption of this resolution, to all customers regarding the increases and changes to all Ducor's rates and charges as contained in this resolution.

5. 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.

6. Ducor Telephone Company's CHCF-A yearly support for 2009 is $2,514,450 with a resulting monthly support of $209,538.

7. Ducor is granted authority to revise the tariffs for the changes described in this resolution. The revised tariff sheets will include the updated Table of Contents and the renumbering of the tariff sheets using the latest tariff sheet numbers.

This Resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on 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
Ducor Telephone Company
Total Company Results of Operations
Test Year 2009

		DUCOR	CD	UTILITY EXCEED STAFF ($) AMOUNT	(%) DIFF.
		(A)	(B)	(C)	(D)
OPERATING REVENUES:					
1	Local Network Services	333,459	333,459	-	0.00%
2	Local Service - CHCF - A	1,907,971	1,907,971	-	
3	Interstate USF	816,101	922,918	(106,817)	-13.09%
4	Network Access Services:				
5	Intrastate	230,760	230,760	-	0.00%
6	Interstate	1,699,012	1,699,012	-	0.00%
7	Miscellaneous	18,081	18,081	-	0.00%
8	Less: Uncollectible Revenue	(42,494)	(18,553)	(23,941)	56.34%
9	**Total Oper. Revenue**	4,962,890	5,093,648	(130,758)	-2.57%
OPERATING EXPENSES:					
10	Plant Specific	1,484,760	1,217,013	267,747	18.03%
11	Plant Non-Specific (less depr.)	192,511	201,300	(8,789)	-4.57%
12	Customer Operations	330,139	272,174	57,965	17.56%
13	Corporate Operations	1,248,079	1,160,445	87,634	7.02%
14	**Subtotal**	3,255,489	2,850,932	404,557	12.43%
15	Depreciation & Amortization	1,376,880	1,359,772	17,108	1.24%
16	Other Taxes	101,691	101,691	-	0.00%
17	State Income Taxes	6,790	56,619	(49,829)	-733.81%
18	Federal Income Taxes	23,808	198,517	(174,708)	-733.81%
19	**Total Oper. Expense**	4,764,659	4,567,531	197,128	4.14%
20	**Net Revenues**	198,231	526,117	(327,886)	-165.41%
AVERAGE RATE BASE:					
21	Telephone Plant-in-Service	19,048,800	18,825,509	223,291	1.17%
22	Tel. Plant Under Construct.	285,732	282,383	3,349	1.17%
23	Material & Supplies	229,971	227,789	2,182	0.95%
24	Working Cash	300,397	264,198	36,199	12.05%
25	Less: Deprec. Res.	(10,019,259)	(9,807,252)	(212,007)	2.12%
26	Def. Taxes	(902,080)	(891,506)	(10,574)	1.17%
27	Customer Deposit	(111)	(111)	-	0.00%
28	**Total Rate Base**	8,943,450	8,901,010	42,440	0.47%
29	**Rate of Return**	2.22%	5.91%		

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

	DUCOR			CD		
	TOTAL COMPANY (A)	INTERSTATE (B)	INTRASTATE (C)	TOTAL COMPANY (A)	INTERSTATE (B)	INTRASTATE (C)
OPERATING REVENUES:						
1 Local Network Services	333,459		333,459	333,459		333,459
2 Local Service - CHCF - A	1,907,971		1,907,971	1,907,971		1,907,971
3 Interstate USF	816,101		816,101	922,918		922,918
4 Network Access Services:						
5 Intrastate	230,760		230,760	230,760		230,760
6 Interstate	1,699,012	1,699,012		1,699,012	1,699,012	
7 Miscellaneous	18,081	-	18,081	18,081	-	18,081
8 Less: Uncollectible Revenue	(42,494)		(42,494)	(18,553)		(18,553)
9 **Total Oper. Revenue**	4,962,890	1,699,012	3,263,878	5,093,648	1,699,012	3,394,636
OPERATING EXPENSES:						
10 Plant Specific	1,484,760	424,344	1,060,416	1,217,013	347,822	869,191
11 Plant Non-Specific (less depr.)	192,511	52,382	140,129	201,300	54,774	146,526
12 Customer Operations	330,139	99,801	230,338	272,174	82,278	189,896
13 Corporate Operations	1,248,079	394,643	853,436	1,160,445	366,933	793,512
14 **Subtotal**	3,255,489	971,170	2,284,319	2,850,932	851,807	1,999,125
15 Depreciation & Amortization	1,376,880	397,918	978,962	1,359,772	392,974	966,798
16 Other Taxes	101,691	27,670	74,021	101,691	27,670	74,021
17 State Income Taxes	6,790	23,063	(16,272)	56,619	34,322	22,297
18 Federal Income Taxes	23,808	80,862	(57,053)	198,517	120,339	78,178
19 **Total Oper. Expense**	4,764,659	1,500,682	3,263,976	4,567,531	1,427,112	3,140,419
20 **Net Revenues**	198,231	198,330	(98)	526,117	271,900	254,217
AVERAGE RATE BASE:						
21 Telephone Plant-in-Service	19,048,800	5,183,178	13,865,622	18,825,509	5,122,421	13,703,088
22 Tel. Plant Under Construct.	285,732	77,748	207,984	282,383	76,836	205,547
23 Material & Supplies	229,971	56,826	173,145	227,789	56,287	171,502
24 Working Cash	300,397	88,857	211,539	264,198	78,150	186,048
25 Less: Deprec. Res.	(10,019,259)	(2,755,296)	(7,263,963)	(9,807,252)	(2,696,994)	(7,110,258)
26 Def. Taxes	(902,080)	(246,268)	(655,812)	(891,506)	(243,381)	(648,125)
27 Customer Deposit	(111)	(30)	(81)	(111)	(30)	(81)
28 **Total Rate Base**	8,943,450	2,405,015	6,538,434	8,901,010	2,393,288	6,507,722
29 **Rate of Return**	2.22%	8.25%	0.00%	5.91%	11.36%	3.91%

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

		DUCOR PROPOSED (A)	CD PROPOSED (B)	UTILITY EXCEED STAFF AMOUNT (C)=(A)-(B)	UTILITY EXCEED STAFF % DIFFERENCE (D)	ADOPTED (E)
OPERATING REVENUES:						
1	Local Network Services	335,053	386,083	(51,030)	-15.23%	386,083
2	Local Service - CHCF - A	2,993,395	2,514,450	478,945	16.00%	2,514,450
3	Interstate USF	816,101	922,918	(106,817)	-13.09%	922,918
4	Network Access Services:					-
5	Intrastate	230,760	230,760	-	0.00%	230,760
6	Interstate	-	-	-	-	-
7	Miscellaneous	18,081	18,081	-	0.00%	18,081
8	Less: Uncollectible Revenue	(42,610)	(18,553)	(24,057)	56.46%	(18,553)
9	**Total Oper. Revenue**	4,350,780	4,053,739	297,041	6.83%	4,053,739
OPERATING EXPENSES:						
10	Plant Specific	1,060,416	869,191	191,225	18.03%	869,191
11	Plant Non-Specific (less depr.)	140,129	146,526	(6,397)	-4.57%	146,526
12	Customer Operations	230,338	189,896	40,442	17.56%	189,896
13	Corporate Operations	853,436	793,512	59,924	7.02%	793,512
14	**Subtotal**	2,284,319	1,999,125	285,194	12.48%	1,999,125
15	Depreciation & Amortization	978,962	966,798	12,164	1.24%	966,798
16	Other Taxes	74,021	74,021	-	0.00%	74,021
17	State Income Taxes	79,810	80,562	(752)	-0.94%	80,562
18	Federal Income Taxes	279,826	282,463	(2,637)	-0.94%	282,463
19	**Total Oper. Expense**	3,696,938	3,402,969	293,969	7.95%	3,402,969
20	**Net Revenues**	653,842	650,770	3,072	0.47%	650,770
AVERAGE RATE BASE:						
21	Telephone Plant-in-Service	13,865,622	13,703,088	162,534	1.17%	13,703,088
22	Tel. Plant Under Construction	207,984	205,547	2,437	1.17%	205,547
23	Material & Supplies	173,145	171,502	1,643	0.95%	171,502
24	Working Cash	211,539	186,048	25,491	12.05%	186,048
25	Less: Deprec. Res.	(7,263,963)	(7,110,258)	(153,705)	2.12%	(7,110,258)
26	Def. Taxes	(655,812)	(648,125)	(7,687)	1.17%	(648,125)
27	Customer Deposit	(81)	(81)	-	0.00%	(81)
28	Total Rate Base	6,538,434	6,507,721	30,713	0.47%	6,507,721
29	**Rate of Return**	10.00%	10.00%			10.00%

Appendix D
Ducor Telephone Company
Net-to-Gross Multiplier
Test Year 2009

1	Gross revenue		1.00000
2	Uncollectible		0.00000
3	Net Revenues		1.00000
4	State Income Tax (Tax Rate times Ln. 3)	8.84%	0.08840
5	Federal Taxable Income (Ln. 3 Less Ln. 4)		0.91160
6	Federal Income Tax (Tax Rate time Ln. 5)	34.00%	0.30994
7	Net Income (Ln. 5 Less Ln. 6)		0.60166
8	**Net-To-Gross Multiplier** (Ln.1 Divided by Ln. 7)		**1.66207**
	Intrastate Revenue Requirement		
9	Adopted State Rate Base		6,507,722
10	Net Revenues adopted at 10.00% (Ln. 9 Times 10%)		650,772
11	Net Revenue In Test Year 2009 At Present Rates		254,217
12	Change in Net Revenues (Ln. 10 Less Ln. 11)		396,555
13	**GROSS REVENUE CHANGE REQUIRED (Ln. 12 time Ln. 8)**		659,103
	CHCF-A SUPPORT		-
14	2009 CHCF-A SUPPORT AT PRESENT RATES		1,907,971
15	**2009 CHCF-A SUPPORT ADOPTED** (Ln. 14 add Ln. 13)		**2,567,074**
16	**PROPOSED NET RATE INCREASE**		(52,624)
17	**2009 CHCF-A ADOPTED** (Ln 15 add Ln 16)		**2,514,450**