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PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Communications Division
Carrier Branch

RESOLUTION T-17158
January 29, 2009

R E S O L U T I O N

Resolution T-17158. Pinnacles Telephone Company (U-1013-C). General Rate Case filing in compliance with G.O. 96-A, Paragraph VI.

By Advice Letter Nos. 231, 231A Filed on December 19, 2007, and July 21, 2008, respectively.

Summary

This resolution addresses the General Rate Case (GRC) filed by Pinnacles Telephone Company (Pinnacles) through Advice Letters (AL) Nos. 231, and 231A on December 19, 2007, and July 21, 2008, respectively in compliance with G.O. 96-A, Paragraph VI. Pinnacles proposes, a) an increase in the California High Cost Fund-A (CHCF-A) support of $157,540, a 132% increase in year 2008 CHCF-A support for the year 2009, and b) various changes to its tariff schedules (see discussion).

This resolution authorizes total intrastate revenue in the amount of $763,744 for Pinnacles for the test year 2009. This represents a reduction of $56,032 to Pinnacles' estimate of $819,776 for total intrastate revenues for 2009. The total intrastate rate base amount adopted for Pinnacles is $776,792 with an overall intrastate rate of return of 10.00% for the test year 2009. This resolution also authorizes $234,490 CHCF-A support for Pinnacles for test year 2009. This amount represents a decrease of $42,106 or a 15.22% less from its proposed CHCF-A 2009 support of $276,596. This difference is due to adjustments Communications Division (CD) made to revenues, expenses and rate base estimates.

Appendix A to this resolution compares CD's and Pinnacles' AL 231 test year 2009 total company results of operations before any CHCF-A adjustment. Appendix B compares CD's and Pinnacles' AL 231 interstate and intrastate results of operations before any CHCF-A adjustment to reflect the 10.00% intrastate rate of return. Appendix C compares

CD's and Pinnacles' AL 231 Intrastate Results of Operations estimates after Pinnacles' proposed CHCF-A increase and after CD's proposed adjustments.
Appendix D shows CD's calculation of the net-to-gross multiplier and the change in the gross intrastate revenue requirement based on an adopted intrastate rate of return of 10.00%.

Background

Pinnacles Telephone Company (Pinnacles), a local exchange telephone utility based in San Benito County, California, provides local exchange telephone service within the boundaries of the Idria and Pinnacles exchanges. Pinnacles serves approximately 277 access lines in its two telephone exchanges.

In D.01-05-031, the California Public Utilities Commission (CPUC) set in motion the waterfall[1] provision in 2003 for seven[2] small LECs if they did not each file a General Rate Case (GRC) by the end of 2002. Pinnacles filed Advice Letter No. 231 on December 18, 2007, with a Test Year of 2009. Pinnacles filed its last GRC in 2002 through AL No. 188, and its latest intrastate results of operations were authorized by Resolution T-16755 dated October 30, 2003. Resolution T-16755 authorized $237,290 CHCF-A support for Pinnacles for test year 2004.

In AL 231, Pinnacles proposes an increase in the California High Cost Fund-A (CHCF-A) support of $157,540, which represents a 132% increase in year 2008 CHCF-A support for the year 2009. The total proposed 2009 CHCF-A support would be $276,596.

On August 21, 2008, CD held a meeting with Pinnacles management to share information. The meeting also served to provide data which assisted in making adjustments.

Notice/Protests

Pinnacles states that copies of these Advice Letters were mailed to competing and adjacent utilities and/or other utilities. Notice of AL 231 was published in the Commission Daily Calendar of January 11, 2008, and AL 231A was published in the Commission Daily Calendar of July 25, 2008. No protest to these Advice Letter filings has been received.

CD held a Public Meeting in Paicines, California, on May 21, 2008, at which time Pinnacles was given an opportunity to explain its filing to its customers and its customers were

[1] The waterfall provision refers to the 6-year phase down of the CHCF-A funding level beginning in 1998, the year after the completion of a GRC. The funding level 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.
[2] The seven companies are Calaveras Telephone Company, Cal-Ore Telephone Company, Ducor Telephone Company, Foresthill Telephone Company, Hornitos Telephone Company, Kerman Telephone Company, and Pinnacles Telephone Company.

given the chance to ask questions of Pinnacles and the CD staff. Pinnacles' customers were given notice of the Public Meeting through a bill insert. No customers attended the Public Meeting.

Discussion

Proposed tariff changes:

In AL. 231 and AL 231A, Pinnacles proposed the following tariff changes:

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

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

3. Increase the intrastate Primary Interexchange Carrier (PIC) charges to those authorized by the FCC for the interstate PIC in Schedule No. A-6, interexchange Carrier Section Process for Equal access. The intraLATA PIC charge will go from $5.00 to $5.50 and the 2-PIC will go from $2.50 to $2.75

4. Increase the business and residence monthly simple inside plans from 95 cents to $1.50 in Schedule No. A-21, Inside Wiring Maintenance Service.

5. Revise Schedule No. A-26, employee Concession Service, to expand the concession similar to what was approved for GVNI in Schedule No. A-16.

6. Remove 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.

7. Increase the local directory assistance charge from 25 cents to 50 cents and reduce both the business and residence allowance from 5 to 0 in Schedule No. B-8, Local Area Operator Assistance Service. CD recommends changing the allowance from 5 to 0 to 5 to 1.

8. Update Rule No. 8, Notices, in compliance with GO 96-B, D.07-09-019, Industry Rule 3.

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

CD reviewed Pinnacles' proposed tariff changes and found them reasonable. CD recommends the Commission adopt Pinnacles' proposed tariff changes.

Results of Operations

Appendix A compares total company results of operations for test year 2009, as estimated by the CD and Pinnacles at present rates. CD calculates in test year 2009 that Pinnacles will earn a total company overall rate of return of 5.74% at present rates as compared to Pinnacles' calculation of 3.17%. Since Pinnacles is earning at present rates below the Commission's authorized rate of return of 10.00%, CD's estimates for Pinnacles reflect revisions to Pinnacles' estimates of revenues, expenses, and rate base as discussed below.

Total Operating Revenues

For Test Year 2009 CD identified the regulated components of Pinnacles Total Operating Revenues as: Local Revenues, Access Revenues, Miscellaneous Revenues and Uncollectible.

Local Revenues

Pinnacles estimated local revenues by multiplying the number of Flat Rate Access lines reported in their filing by their applicable monthly tariffed rate and the incremental revenue from their proposed rate increases. Pinnacles forecasted Flat Rate Access lines by using historical growth information and judgment.

CD originally did not accept Pinnacles Access Line Count as estimated in its filing, as it did not include actual 2007 figures. Following a CD request, Pinnacles provided updated data and methodology to include an average of actual Access Line counts from 2002 through July 2008. CD accepted Pinnacles methodology with one modification: eliminating the high and low numbers and extrapolating an average to project test year 2009 access line counts. This Access Line number is more reflective of business conditions.

CD projects an increase of two (2) Business and three (3) Residential lines for 2009. This represents an increase of $1,304 at present rates, in Local Revenue. In a response to a data request from CD, Pinnacles states that due to an error, $1,824 of E-911 Revenue was included as Miscellaneous Revenues. This revenue has been added by CD to Local Revenues and subtracted from Miscellaneous Revenues.

CD does not accept Pinnacles proposed Tariff change of reducing local area Directory Assistance (DA) allowances from 5 to 0, Residential and Business. Instead, the California Public Utilities Commission (CPUC) does not find 0 allowances for residence to be acceptable. CD is revising the DA allowance for residence from 0 to 1. This change in DA allowances will result in $108 less in Local Revenues. Pinnacles projection for Local Revenues in Test Year 2009 is revised upward from $65,820 to $68,840 at present rates by CD. Due to D.08-09-042 as corrected by D.08-10-040, CD is recommending Pinnacles' increase its Basic Residential rate from the current $16.05 to $20.25, resulting in an upward revision in Local Revenues from $66,401 to $78,094 at proposed rates in Test Year 2009. CD is also recommending an increase in California Lifeline rates from the current $5.47 to

$6.11 at proposed rates in Test Year 2009.

Access Revenues

In its filing, Pinnacles forecasted for 2007 through 2009 by estimating the state access minutes of use based on historical data and applying the tariffed state access rates. Pinnacles also reported a decrease in TIC Access Revenues as a result of California Public Utilities Commission (CPUC) D. 07-12-020. Upon review of Pinnacles Access Revenues, CD was unable to verify the methodology used by Pinnacles and requested clarification and more quantitative data including actual 2007 Access Revenue. While Pinnacles responded with a revised actual 2007 Access Revenues, Pinnacles did not provide the specific amount of decrease from TIC Access Revenues, or the proportion in relation to overall Access Revenues.

As a result, CD undertook an analysis by utilizing the following methodology: actual Access Revenues from 2003-2007, eliminating the high and low number and extrapolating an average. In attempting to identify a trend from Pinnacles 2008 and 2009 forecasts, the average Access Revenue was reduced by 50% to come up with CD projected Access Revenues for test year 2009. Therefore, CD revised Pinnacles projection for Access Revenues in test year 2009 is revised upward from $38,562 to $39,042 at proposed rates by CD.

Miscellaneous Revenues.

Pinnacles reports Miscellaneous Revenues include: Directory Listings, Rendering and Payment of Bills and Late Payment Charges. In response for clarification of the methodology and components of Miscellaneous Revenues by CD, Pinnacles responded by stating it erroneously included E-911 Emergency Services Revenues as Miscellaneous Revenue instead of Local Services Revenue in the amount of $1,824. Pinnacles' revised projection for Miscellaneous Revenue is $572. Again, upon review of Pinnacles' projection for Miscellaneous Revenues, CD staff requested clarification of the methodology Pinnacles utilized and the actual amount for 2007. In their response to CD, Pinnacles reviewed historical demand units, projecting to Test Year 2009 and applying the tariffed rates. Because Pinnacles' response was lacking in quantitative data and specific methodology, CD chose to use a different methodology: Taking the actual Miscellaneous Revenue from 2003-2007, eliminating the high and low and extrapolating an average for test year 2009. Therefore, CD revised Pinnacles' projection of Miscellaneous Revenues in test year 2009 from $2,462 to $618.

Uncollectible

Uncollectible is based on bad debts associated with local revenue and intrastate access revenues. Pinnacles states the estimates of local debt at $800 and intrastate access debt at $4,500 are based on average of the historical record. CD has reviewed the historical record and does not agree with Pinnacles' estimate of test year 2009 uncollectible. CD took five-year average (2003-2007) to arrive at 1.33% uncollectible for local revenue and 6.26% uncollectible for intrastate access revenue. CD applies these percentages to derive the 2009 uncollectible. The use of this ratio is more representative of a business cycle and takes in consideration the difference between uncollectible from Pinnacles customers, and other carriers that may go out of business, or have larger past due balances. CD revised Pinnacles projection of Uncollectible from $5,329 at proposed rates to $3,471 for the test year 2009.

Tariff Changes

Due to a requested increase of 132% in CHCF-A support for Test Year 2009 over 2008, Pinnacles must increase Revenues before CHCF-A is granted. Therefore, CD accepted

Pinnacles proposed tariff changes with the exception of the Directory Assistance allowance. Under the submitted tariff changes in its filing, Pinnacles proposed changing its current 5 allowances to 0 allowances in Test Year 2009. CPUC does not find the 5 to 0 allowances acceptable, and recommends 1 allowance for residence instead. The rate for Local Area Operator Assistance Service will increase from $0.25 per call at current rates to $0.50 per call in Test Year 2009. The rate for Monthly Wire Maintenance Business and Residential will increase from $0.95 at current rates to $1.50 in Test Year 2009. The current rate for Interexchange Carrier Selection Process for Equal Access 2-PIC will increase from $2.50 to $2.75 in Test Year 2009. The total rate increase proposed by Pinnacles will increase Local Revenue by $580.95 at proposed rates, for Test Year 2009.

In addition, CD staff recommended an increase in Pinnacles' Flat Rate Residential Service from $16.05 to $20.25. 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. The increase is within the 150% threshold of AT&T at current rates as required to receive CHCF-A support. This will increase Pinnacles Local Revenue by $9,154 at proposed rates for Test Year 2009. Since General Order 153 currently ties the California Lifeline rate to AT&T's basic rate, CD staff is recommending Pinnacles' also increase its California Lifeline rate from $5.47 to $6.11.

In review of telephone rates throughout California, CD determined that Pinnacles Flat Rate Business Service of $30.25 was among the upper tier, and should remain at current service levels.

Total Operating Expenses

A comparison of CD's and Pinnacles' computation of total company operating expenses shows that overall Pinnacles' estimate is $1,181,530 or 4.16% higher than CD's estimate of $1,132,434 (Appendix A). The difference is discussed below.

Pinnacle's Test Year forecasts for operating expenses were calculated by annualizing seven (7) months actual expenses for January-July 2007. The 2008 and 2009 expenses were forecast based on an adjusted historical average growth rate for labor related expenses and for non-labor related expenses, plus an adjustment for rate case expenses in 2009 amortized over three (3) years. CD did not accept Pinnacles' methodology for forecasting operating expenses and used Pinnacles' recorded expense figures for the years 2005, 2006 and 2007 and then applied the Constant Dollar Method (CDM) to estimate expenses for labor and non-labor for each year[3]. This is done by using the inflation factors[4] for each year and compounding them to 2007 dollars.

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

At the meeting with Pinnacles on August 21, 2008, Pinnacles expressed concern that the February 2008 data CD factored for inflation was outdated. In response, CD utilized the latest Non-Labor and Wage Escalation Factors for 2008-2012 data issued from the November 2008 Global Insight U.S. Economic Outlook.

On October 2, 2008, Pinnacles responded to CD's data request for 2007 employee salaries and benefits. CD has reviewed Pinnacles' data request response and found that Pinnacles projected employee salaries and benefits for Test Year 2009 were based on 2006 historical data. While Pinnacles salaries remained fairly constant in 2005, 2006, and 2007, there was a more than 30% decrease in the cost of benefits from 2006 to 2007. Based on 2006 historical data, Pinnacles projected 2009 employee benefits appear to be excessively high. CD used

[3] Form M Schedule I-1 of Pinnacles' Annual Reports for 2005, 2006 and 2007.
[4] 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

CDM to forecast the cost of benefits estimates for Test Year 2009. Hence, CD reduced the estimated cost of benefits by 30% in test year 2009.

Pinnacles includes $135,000 rate case expense to amortize over 3 years in the Corporate Operation account. Pinnacles estimated rate case expense for the test year 2009 to be $45,000. In Pinnacles' 2004 GRC, the Commission allowed $90,000 to amortize for 3 years. The rate case expense for test year 2004 was $30,000. At the meeting of August 21, Pinnacles recognized that CD's expense calculations did not include rate case expense. CD re-evaluated the rate case expense and made necessary adjustments. CD used Pinnacles' 2004 allowed rate case expense of $30,000 and applied CDM calculation. CD included $37,000 rate case expense in its estimate for Test Year 2009. This change is reflected in Pinnacles Results of Operation Appendix C.

Taxes

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

Rate Base

In computing plant in service, CD reviewed Pinnacles' 2007 annual report and examined the additions and retirements as they compared to Pinnacles' submitted GRC proposal.

CD reviewed Pinnacles' telephone plant in service (TPIS) and short term telephone plant under construction (0.37% of TPIS for 2006) rate for 2009 and compared with other California small telephone companies' short term telephone plant under construction rates and found Pinnacles' estimate to be reasonable and accepts its estimate for 0.37% of TPIS as submitted.

Pinnacles budgeted $5,000 for General Purpose Computer for 2008, and $5,000 for 2009. Pinnacles asserts that the $5,000 budget for computer in 2008, and $5,000 budget for 2009 are to replace two aging computers that were purchased in 2003 and 2004. CD found there are no retirements shown in computer accounts for 2007, 2008 and 2009, and the depreciation rate for computers indicates at the most is 6 years. Therefore, CD proposed to retire a computer in 2008 and a computer in 2009. We agree with CD's position to retire two computers; one in 2008 and one in 2009.

Pinnacles budgeted $40,000 in 2008, and $120,000 in 2009 for Microwave Transmission Equipments. During the meeting with CD, Pinnacles claimed that the Microwave project had been delayed. CD disallowed $40,000 budget for Microwave Transmission Equipment in 2009.

Pinnacles calculated depreciation expense and accumulated depreciation by using the depreciation rates previously adopted by the Commission as part of its 1997 GRC. CD reviewed Pinnacles' depreciation rates and compared with other California small telephone companies' depreciation rates. CD found Pinnacles' depreciation rates to be reasonable and accepted its depreciation rates.

Pinnacles estimated the test year Materials and Supplies (M&S) amount by taking the ratio of the 2006 average M&S to the 2006 average TPIS. The 2006 ratio of 1.45% was then applied to the forecasted 2008 and 2009 TPIS to derive the 2009 M&S. Pinnacles' Deferred Income Taxes (DIT) were estimated by the utility by taking the ratio of the 2006 average DIT to the 2006 average TPIS. A negative 3.34% ratio was then applied to the forecasted 2008 and 2009 TPIS to derive the 2009 DIT. CD reviewed and analyzed Pinnacles' recorded M&S and DIT from the years 2002 though 2006 and compared with other California small telephone companies' M&S and DIT rates. CD found Pinnacles' estimates to be reasonable, and CD accepted Pinnacles' proposed M&S and DIT rates.

Both CD and Pinnacles used the Simplified Method described in Standard Practice U-16 to calculate working cash. The Simplified Method was authorized by the Commission for California small telephone companies to calculate working cash allowance. CD's estimate of intrastate working cash at $55,328 is 6.62% lower than that computed by Pinnacle at $59,252 (Appendix C). This difference is due to CD's lower expense estimates.

Separations

Pinnacles provides both intrastate and interstate telecommunications services, subject to the regulation of the CPUC and FCC, respectively. Because Pinnacles' property serves State and Federal jurisdictions, Pinnacles' expenses, taxes, investments, and reserves are allocated (separated) between interstate and intrastate services according to FCC rules. As required under FCC Part 36 jurisdictional separations' procedures, Pinnacles allocated its expenses and investments between interstate and intrastate. Appendix B compares Pinnacles' and CD's total company interstate and intrastate results of operations for test year 2009 using these separation factors.

Cost of Capital

Pinnacles is not requesting a change in its current authorized by Resolution T-16755 return on rate base of 10.00%.

The Return on Equity for all rural ILECs would be the same since the systematic and non-diversifiable risks faced by all rural ILECs are similar. As a matter of practice, Decision D.97-04-036 in A.95-12-073[5] adopted an 'overall' rate of return of 10.00% for <u>all</u> rural ILECs. The risks

[5] In D.97-04-036 the Commission authorized California-Oregon Telephone Company a 10.00% return on rate base for its 1997 test year as requested in A.95-12-073 (California-Oregon's 1997 General Rate Case application).

faced by rural ILECs appear similar today as in the recent past, therefore CD recommends that the Commission approve Pinnacles' 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 revenues. Appendix D shows CD's computation of Pinnacles' net-to-gross multiplier. The net-to-gross multiplier of 1.66207 means that a change of $1,662 in gross revenue to deduct State Income Tax 8.84%, and Federal Income Tax 34.00%, would be required to produce a change of $1,000 in net revenue. For Pinnacle, based on an intrastate rate base of $777,021and rate of return of 10%, CD estimates the intrastate revenue requirement change required an increase of $114,372.
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CHCF-A Support

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 150% of AT&T urban rates as necessary, and both the means test and the waterfall provisions should apply.

Pinnacles calculated CHCF-A support for test year 2009 at present rates to be $130,403 (Appendix A, column B). The CHCF-A 2009 support is derived from using 2008 initial draw of $119,056, adding the $452,341 National Exchange Carriers Association, Inc. (NECA) estimated USF Federal support for 2008, and subtracting Pinnacles' projected 2009 USF Federal support of $440,994. On October 10, 2008, CD received the adjusted USF number from NECA. The adjusted USF for Pinnacles for 2009 is $415,842. CD used the adjusted USF $415,842 to derive Pinnacles' CHCF-A requirement.

However, if Pinnacles is authorized to receive $130,403 in CHCF-A support, then based on CD's adjustments in revenues, expenses and rate base, Pinnacles' intrastate rate of return would be 1.30% (Appendix B, column F), which would be less than the Commission's authorized 10.00%. For test year 2009, CD's computation of Pinnacles' adopted CHCF-A requirement is $234,490 based on its recommended revenues, expenses rate base and overall intrastate rate of return of 10.00% as shown in Appendix C, column (B).

Regarding effective date and customer notice, CD recommends that the Commission waive the 30-day notice period required under G.O. 96-B allowing Pinnacles to file a Tier 2

Advice Letter supplement for 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 Pinnacles in its original GRC tariff change submissions and subsequently accepted by CD. The effective date for all changes contained in Pinnacles' AL supplement will be February 1, 2009. Pinnacles shall send a notice, within 7-days of adoption of the Resolution to all customers regarding the increases to all Pinnacles' rates and charges.

Comments

In compliance with PU Code §311 (g), a notice letter was e-mailed on October 22, 2008 to interested parties, to inform parties that this draft resolution is available on the Commission's website http://www.cpuc.ca.gov and is available for public comments. 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 Pinnacles. Cooper, White & Cooper LLP, points out:

- **This DR Should Not Increase Pinnacles' Basic Rate at This Time.**

Cooper, White & Cooper LLP states that Pinnacles is very concerned about elasticity of demand, as it faces competition from wireless and potentially other providers. More generally, the Commission should reexamine the requirement under the current CHCF-A program that CHCF-A recipients maintain rates that are least 150% of AT&T basic urban rate. This implementation and interpretation of this rule is not clear in an environment where AT&T will be detariffed and have the ability to offer geographically deaveraged rates, as AT&T is permitted to do under the Uniform Regulatory Framework.

In its comments Pinnacles argues that the magnitude of the increase to basic service proposed in the DR is not required. (Company) 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 are at least 150% of AT&T's urban rate, and it is for this reason that CD is increasing Pinnacles residential basic rate. 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 requesting to receive CHCF-A support must first be at 150% of the AT&T rate. The foot note 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 (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 Pinnacles' basic residential rate must be at the 150% level for Pinnacles to continue to be eligible to receive CHCF-A funding.

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.

Pinnacles further argues that an elasticity factor should also be applied to any basic rate increase ordered as well. In its comments Pinnacles states that the increase to its basic residential rate will result in access line losses which will further result in losses of revenues from associated custom feature and access revenues. Deteriorating economic conditions increase the risk of customers dropping off the network if basic service rates are increased significantly. Loss of customers will increase draws from the CHCF-A Fund in relatively short order, so increases of the magnitude proposed in the DR should be delayed for at least a year, and in not implemented unless required by Commission's CHCF-A rule.

In the draft resolution, CD has adjusted revenues for the customer calling and access services and charges which have been increase by 25% or more, in response to Pinnacles 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 Pinnacles that demonstrates its conclusion that the rate increase will result in lost access line revenues.

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

Findings

1. Pinnacles filed its GRC by Advice Letter Nos. 231 and 231A on December 19, 2007, and July 29, 2008, respectively for Test Year 2009.

2. Pinnacles requests the followings for the test year 2009.

    - An intrastate ROR of 10.00%, with a total intrastate rate base amount of $874,217;
    - CHCF-A support of $276,596 for the test year 2009, representing an increase of $157,548 or 132% increase in year 2008 CHCF-A support for year 2009.
    - An intrastate operating revenue of $819,805.
    - An intrastate rate base amount of $874,217
    - Tariff revisions as described in the Discussion section of this resolution.

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

    - An intrastate ROR of 10.00% with a total intrastate rate base amount of $776,792.
    - CHCF-A support of $234,490 for the test year 2009, representing a reduction of $42,106 or 15.22% less than the Pinnacles' proposed CHCF-A 2009 support of $276,596.
    - An intrastate operating revenue of $763,744.
    - An intrastate rate base amount of $776,792.
    - Tariff revisions as described in the Discussion section of this resolution.

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

5. The Commission finds CD's methodology in estimating revenues to be reasonable. The Commission therefore, adopts CD's recommended intrastate revenues as shown in Appendix C, column (E).

6. The Commission finds CD's methodology of using the constant dollar method in estimating expenses to be reasonable and adopts CD's recommended test year 2009 total company expenses contained in Appendix B and intrastate expenses identified in Appendix C.

7. The Commission finds CD's methodology in estimating rate base to be reasonable. The Commission therefore adopts CD's recommended intrastate rate base as shown in Appendix C.

8. The Commission finds CD's recommendation to approve Pinnacles' proposed tariff revisions outlined in the Discussion on section (Proposed Tariff Changes) of this resolution to be reasonable. The proposed tariff changes include an increase to the Flat Basic Residence Service Rate per D.08-09-42 as corrected by D.08-10-040, California Lifeline Rate per General Order 153, and the change in DA allowances from 5 to 0, to 5 to 1.

9. CD recommends that the Commission waive that the 30-day notice period required under G.O. 96-B allowing Pinnacles to fill a Tier 2 Advice Letter supplement revisions to its tariff schedule to be reasonable.

10. Commission approval is based only on the specifics of this Advice Letter.

11. The Commission finds CD's recommended overall intrastate rate of return of 10.00% for Pinnacles for test year 2009 to be reasonable.

THEREFORE, IT IS ORDERED that:

1. Pinnacles 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.

2. Pinnacles shall send a notice, within 7-days of adoption of the Resolution to all customers regarding the increases to all Pinnacles' rates and charges.

3. 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 charges by the carrier. The carrier must collect the differential before the conclusion of 2009.

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

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

6. Pinnacles Telephone Company is granted authority to make tariff changes described in this resolution.

7. Pinnacles' CHCF-A yearly support for 2009 is $234,490 with a resulting monthly support of $19,540.

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:

PAUL CLANON
Executive Director

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

APPENDIX A
PINNACLES TELEPHONE COMPANY
TOTAL COMPANY RESULTS OF OPERATIONS
AT PRESENT RATES
TEST YEAR 2009

				UTILITY EXCEED STAFF	
				($)	(%)
		PINNACLES	CD	AMOUNT	DIFF.
		(A)	(B)	(C)	(D)
	OPERATING REVENUES:				
1	Local Network Services	65,820	68,840	(3,020)	-4.59%
2	Local Service - CHCF - A	130,403	130,403	-	0.00%
3	Interstate USF	440,994	415,842	25,152	5.70%
4	Network Access Services:				
5	Intrastate	38,652	39,042	(390)	-1.01%
6	Interstate	553,664	553,664	-	0.00%
7	Miscellaneous	2,462	618	1,844	74.90%
8	Less: Uncollectible Revenue	(5,300)	(3,359)	(1,941)	36.62%
9	**Total Oper. Revenue**	1,226,695	1,205,050	21,645	1.76%
	OPERATING EXPENSES:				
10	Plant Specific	272,519	245,067	27,452	10.07%
11	Plant Non-Specific (less depr.)	163,656	154,901	8,755	5.35%
12	Customer Operations	62,765	58,665	4,100	6.53%
13	Corporate Operations	337,702	321,454	16,248	4.81%
14	**Subtotal**	836,642	780,087	56,555	6.76%
15	Depreciation & Amortization	297,626	286,910	10,716	3.60%
16	Other Taxes	17,360	17,360	-	0.00%
17	State Income Taxes	6,636	10,669	(4,033)	-60.78%
18	Federal Income Taxes	23,267	37,408	(14,142)	-60.78%
19	**Total Oper. Expense**	1,181,530	1,132,434	49,096	4.16%
20	**Net Revenues**	45,165	72,616	(27,451)	-60.78%
	AVERAGE RATE BASE:				
21	Telephone Plant-in-Service	4,639,403	4,465,518	173,885	3.75%
22	Tel. Plant Under Construct.	17,166	16,522	644	3.75%
23	Material & Supplies	67,157	64,750	2,407	3.58%
24	Working Cash	101,216	94,513	6,703	6.62%
25	Less: Deprec. Res.	(3,243,700)	(3,226,069)	(17,631)	0.54%
26	Def. Taxes	(155,071)	(149,148)	(5,923)	3.82%
27	Customer Deposit	-	-	-	-
28	**Total Rate Base**	1,426,171	1,266,086	160,085	11.22%
29	**Rate of Return**	3.17%	5.74%		

APPENDIX B
PINNACLES TELEPHONE COMPANY
RESULTS OF OPERATIONS AT PRESENT RATES
INTERSTATE AND INTRASTATE
TEST YEAR 2009

	PINNACLES			CD		
	TOTAL COMPANY (A)	INTERSTATE (B)	INTRASTATE (C)	TOTAL COMPANY (D)	INTERSTATE (E)	INTRASTATE (F)
OPERATING REVENUES:						
1 Local Network Services	65,820		65,820	68,840		68,840
2 Local Service - CHCF - A	130,403		130,403	130,403		130,403
3 Interstate USF	440,994		440,994	415,842		415,842
4 Network Access Services:						-
5 Intrastate	38,652		38,652	39,042		39,042
6 Interstate	553,664	553,664		553,664	553,664	
7 Miscellaneous	2,462	-	2,462	618	-	618
8 Less: Uncollectible Revenue	(5,300)		(5,300)	(3,359)		(3,359)
9 **Total Oper. Revenue**	1,226,695	553,664	673,031	1,205,050	553,664	651,386
OPERATING EXPENSES:						
10 Plant Specific	272,519	104,347	168,172	245,067	93,836	151,231
11 Plant Non-Specific (less depr.)	163,656	64,186	99,470	154,901	60,752	94,149
12 Customer Operations	62,765	24,773	37,992	58,665	23,155	35,510
13 Corporate Operations	337,702	156,761	180,941	321,454	149,219	172,235
14 **Subtotal**	836,642	350,067	486,575	780,087	326,962	453,125
15 Depreciation & Amortization	297,626	120,211	177,415	286,910	115,883	171,027
16 Other Taxes	17,360	6,876	10,484	17,360	6,876	10,484
17 State Income Taxes	6,636	6,763	(127)	10,669	9,189	1,481
18 Federal Income Taxes	23,267	23,714	(447)	37,408	32,217	5,192
19 **Total Oper. Expense**	1,181,531	507,631	673,900	1,132,434	491,126	641,308
20 **Net Revenues**	45,164	46,033	(869)	72,616	62,538	10,078
AVERAGE RATE BASE:						
21 Telephone Plant-in-Service	4,639,403	1,819,574	2,819,829	4,465,518	1,751,376	2,714,142
22 Tel. Plant Under Construct.	17,166	6,733	10,433	16,522	6,480	10,042
23 Material & Supplies	67,157	18,952	48,205	64,750	18,272	46,478
24 Working Cash	101,216	41,964	59,252	94,513	39,185	55,328
25 Less: Deprec. Res.	(3,243,700)	(1,274,450)	(1,969,250)	(3,226,069)	(1,267,523)	(1,958,546)
26 Def. Taxes	(155,071)	(60,819)	(94,252)	(149,148)	(58,496)	(90,652)
27 Customer Deposit	-	-	-	-	-	-
28 **Total Rate Base**	1,426,171	551,954	874,217	1,266,086	489,294	776,792
29 **Rate of Return**	3.17%	8.34%	-0.10%	5.74%	12.78%	1.30%

APPENDIX C
PINNACLES TELEPHONE COMPANY
INTRASTATE RESULTS OF OPERATIONS
AT ADOPTED RATE OF RETURN
TEST YEAR 2009

		PINNACLES PROPOSED (A)	CD PROPOSED (B)	UTILITY EXCEED STAFF AMOUNT (C)=(A)-(B)	UTILITY EXCEED STAFF PERCENTAGE DIFFERENCE (D)	ADOPTED (E)
OPERATING REVENUES:						
1	Local Network Services	66,401	77,223	(10,822)	-16.30%	77,223
2	Local Service - CHCF - A	276,596	234,490	42,106	15.22%	234,490
3	Interstate USF	440,994	415,842	25,152	5.70%	415,842
4	Network Access Services:			-		-
5	Intrastate	38,652	39,042	(390)	-1.01%	39,042
6	Interstate	-	-	-		-
7	Miscellaneous	2,462	618	1,844	74.90%	618
8	Less: Uncollectible Revenue	(5,329)	(3,471)	(1,858)	34.87%	(3,471)
9	**Total Oper. Revenue**	819,776	763,744	56,032	6.84%	763,744
OPERATING EXPENSES:						
10	Plant Specific	168,172	151,231	16,941	10.07%	151,231
11	Plant Non-Specific (less depr.)	99,470	94,149	5,321	5.35%	94,149
12	Customer Operations	37,992	35,510	2,482	6.53%	35,510
13	Corporate Operations	180,941	172,235	8,706	4.81%	172,235
14	**Subtotal**	486,575	453,125	33,450	6.87%	453,125
15	Depreciation & Amortization	177,415	171,026	6,389	3.60%	171,026
16	Other Taxes	10,484	10,484	-	0.00%	10,484
17	State Income Taxes	12,845	11,413	1,432	11.15%	11,413
18	Federal Income Taxes	45,036	40,017	5,019	11.15%	40,017
			-			-
19	**Total Oper. Expense**	732,355	686,065	46,290	6.32%	686,065
			-			
20	**Net Revenues**	87,421	77,679	9,742	11.14%	77,679
			-			-
AVERAGE RATE BASE:			-			-
			-			-
21	Telephone Plant-in-Service	2,819,829	2,714,142	105,687	3.75%	2,714,142
22	Tel. Plant Under Construction	10,433	10,042	391	3.75%	10,042
23	Material & Supplies	48,205	46,478	1,727	3.58%	46,478
24	Working Cash	59,252	55,328	3,924	6.62%	55,328
25	Less: Deprec. Res.	(1,969,250)	(1,958,546)	(10,704)	0.54%	(1,958,546)
26	Def. Taxes	(94,252)	(90,652)	(3,600)	3.82%	(90,652)
27	Customer Deposit	-	-	-	-	-
28	**Total Rate Base**	874,217	776,792	97,425	11.14%	776,792
29	**Rate of Return**	10.00%	10.00%			10.00%

APPENDIX D
PINNACLES 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		776,792
10	Net Revenues adopted at 10.00% (Ln. 9 Times 10%)		77,679
11	Net Revenue In Test Year 2009 At Present Rates		10,078
12	Change in Net Revenues (Ln. 10 Less Ln. 11)		67,601
13	**GROSS REVENUE CHANGE REQUIRED (Ln. 12 time Ln. 8)**		112,358
	CHCF-A SUPPORT		-
14	2009 CHCF-A SUPPORT AT PRESENT RATES		130,403
15	**2009 CHCF-A SUPPORT ESTIMATED** (Ln. 14 add Ln. 13)		**242,761**
			-
16	**PROPOSED NET RATE INCREASE**		**(8,271)**
17	**2009 CHCF-A ADOPTED** (Ln 15 add Ln 16)		**234,490**