

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Telecommunications Division
Market Structure Branch

RESOLUTION T-15997
May 6, 1997

R E S O L U T I O N

RESOLUTION T-15997. THE CITIZENS TELECOMMUNICATIONS COMPANY OF THE GOLDEN STATE (U-1025-C). GENERAL RATE CASE FILING IN COMPLIANCE WITH DECISION NO. 94-09-065, ORDERING PARAGRAPH NO. 45, AND SECTION 454 OF THE PUBLIC UTILITIES CODE.

BY ADVICE LETTER NO. 7, FILED ON MAY 20, 1996.

SUMMARY

This Resolution authorizes a general rate increase of \$1,029,410 for Citizens Telecommunications Company of The Golden State (CTC-Golden State), based on an overall rate of return of 10.00%. Appendix B shows the calculation of the revenue increase. Consistent with this rate increase, we restructure CTC-Golden State's rates and include an interim surcharge accordingly to collect undercollected charges from January, 1997 through May, 1997. The undercollected charges shall be collected by an interim billing surcharge applicable to local service, service area toll, and non-recurring charges over a twelve month billing period from June, 1997 to May, 1998.

Appendix C details the adopted operating revenues, expenses, and rate base at adopted rates for CTC-Golden State. Appendix A shows a comparison of CTC-Golden State's and Telecommunications Division's (TD) test year 1997 results of operations at present rates. Appendix D contains the restructured rates and an interim surcharge to the customers. Appendix E shows the adopted depreciation rates CTC-Golden State requested to be used for estimating its test year depreciation expenses and reserves.

BACKGROUND

Citizens Telecommunications Company of The Golden State (CTC-Golden State) is a local exchange carrier (LEC) providing

telephone service to eight exchanges in Northern California, and the Needles exchange in Southern California. It is a wholly owned subsidiary of Citizens Utilities Company (Citizens) and an affiliate of Citizens Telecommunications Company of California (CTC-California) and Citizens Telecommunications Company of Tuolumne (CTC-Tuolumne). It provides approximately 13,000 access lines in its nine exchanges. CTC-Golden State's last general rate case was authorized by Resolution T-10986 in 1985.

In its Decision (D.) No. 94-09-065, Ordering Paragraph (OP) No. 45, the Commission required small LECs, like CTC-Golden State, to file a general rate case (GRC) on or before December 31, 1995. In that decision, the Commission also permitted the small LECs to request for a New Regulatory Framework (NRF) authority through a formal application process. In compliance with D.94-09-065, OP No. 45, CP National Telephone Company filed Advice Letter (AL) No. 332-T on December 27, 1995, with a 1997 test year. At the time of the AL filing, CP National Telephone Company was a wholly owned subsidiary of ALLTEL Corporation though it was authorized by D.95-08-026 to be acquired by Citizens. The acquisition was completed on January 1, 1996 and CP National Telephone Company was renamed CTC-Golden State. On May 20, 1996, CTC-Golden State filed AL No. 7 to supplement and modified AL No. 332-T.

In its AL No. 7, CTC-Golden State requests an annual revenue increase of \$1,345,891 or 11.76% in its total operating revenues. Although CTC-Golden State's request of annual revenue increase of \$1,345,891 is \$49,014 higher than the request of \$1,296,877 annual revenue increase made by CP National Telephone Company in the original filing, CTC-Golden State's proposed rate design seeks a much smaller increase in local exchange rates. Unlike the original rate design proposed by CP National Telephone Company, most of CTC-Golden State's requested annual revenue increase will be from raising its present concurrence with Pacific's switched access rates to CTC-California's switched access rates adopted in D.95-11-024. The estimated annual revenue increase from raising the switched access rates is \$900,529. CTC-Golden State's requested \$1,345,891 annual increase would generate an 10.50% rate of return on its intrastate rate base. To realize this requested increase, CTC-Golden State proposes the following for its intrastate operations:

Total Operating Revenues	\$ 9,970,810
Total Operating Expenses	6,521,081

Total Operating Taxes	1,431,847
Total Rate Base	19,245,998

At present rates, CTC-Golden State estimates that it will require an annual revenue increase of \$1,345,891 for a 10.50% rate of return in test year 1997. To attain the requested increase, CTC-Golden State proposes to restructure its residential and business service rates through a combination of increases and decreases, including the elimination of mileage rates applicable to off-premises extension and suburban mileage, (Schedule No. A-4) and the increase of switched access rates. Since CTC-Golden State is no longer a pooling participant to the toll and access settlement pools, it requests to establish its own intraLATA Message Toll (MTS) and intraLATA and interLATA switched access rates. The proposed MTS rates are based on Pacific's MTS rates adopted in D.94-09-065 and the proposed switched access rates are CTC-California's switch access rates adopted in D.95-11-024.

NOTICE/PROTESTS

CTC-Golden State states that a copy of AL No. 7 and related tariff sheets were mailed to interested parties and adjacent utilities and/or other utilities. Notice of AL No. 7 was published in the Commission Daily Calendar of May 22, 1996.

About 120 protests and comments were received during the three months of January to March 1996. The protests and comments basically expressed opposition to the rate increase requested in the original filing by CP National Telephone Company in AL No. 332-T. CTC-Golden State's AL No. 7 revised the request made in AL No. 332-T. No protest to CTC-Golden State's AL No. 7 has been received.

The staff of the Telecommunications Division (TD) held three public meetings during the month of July 1996 to explain to CTC-Golden State's customers the rate increase process and to receive public comments. The public meetings were held on July 17, 22, and 23, 1996 in Needles, Colusa, and Westwood, respectively. No customers showed up at the public meeting in Needles, one customer attended the public meeting in Colusa, and two customers attended the public meeting in Westwood. The customers attending the public meetings asked questions about the availability of Internet access and about whether flat rate service was the most economic option. No complaints were expressed with the quality of service or the proposed rate increase.

DISCUSSION

Results of Operations

Appendix A shows CTC-Golden State's intrastate results of operations for test year 1997 as estimated by CTC-Golden State and TD at present rates. In addition, Appendix A displays our adopted results.

Total Operating Revenue

CTC-Golden State's estimate of intrastate operating revenue at present rates of \$8,719,016 is higher than TD's estimate of \$8,701,014 by \$18,002 (0.2%). This estimating differences which are discussed in the following paragraphs address local, network access-USF (Universal Service Fund), and miscellaneous revenues.

As more fully discussed in the rate design section below, Senate Bill (SB) 1035 provides that telephone corporations not charge customers for unlisted or unpublished telephone numbers. Consistent with this bill, TD eliminated the revenue associated with this service from its estimate of local revenues. In addition, revenue adjustments were made to reflect the detariffing of Mobile Telephone Service (Schedule L-1), TD's higher revenue estimate of the 8.57% bill-and-keep surcharge, and the inclusion of estimated revenues from the offering of Caller ID service. We agree with TD's adjustments.

The Universal Service Fund (USF) is a FCC program that allows part of the cost of providing local telephone service to be recovered from interstate revenues. The fund's purpose is to provide financial support to high-cost local companies to help keep telephone service rates at affordable levels. CTC-Golden State's estimate of network access service-USF revenues was based on 6 month recorded 1995 data annualized while TD's estimate used a more recent projection by the National Exchange Carrier Association (NECA), which administers the USF. Thus TD's USF estimate of \$1,692,650 is lower than CTC-Golden State's estimate of \$1,757,952 by \$65,302. We agree with TD's use of NECA's more recent USF projection.

Miscellaneous exchange revenue is comprised of directory and rent revenues. CTC-Golden State's estimate was based on 6 month 1995

recorded data combined with forecasted line growth. TD used a simple average of recorded actual miscellaneous revenues to arrive at its test year estimate. TD's estimate of \$520,112 is \$26,940 higher than CTC-Golden State's estimate of \$493,172. We agree with TD's use of recorded data for its miscellaneous revenue estimate.

Total Operating Expenses

CTC-Golden State's estimate of intrastate operating expenses at present rates of \$6,521,082 is lower than TD's estimate of \$6,523,994 by \$2,912. The difference in CTC-Golden State's and TD's estimates is due primarily to TD's inclusion of estimated expenses associated with the offering of Caller ID service. CTC-Golden State's A.96-05-021 to offer Caller ID was not approved until September 4, 1996 and the estimated expenses were not included in CTC-Golden State's expense estimates. TD's lower depreciation expenses estimate is the result of a combination of TD's adjustments including a lower plant additions estimate for 1997, the use of recorded 1995 plant additions, and the use of CTC-Golden State's proposed depreciation rates.

Operating Taxes

The difference in tax estimates between CTC-Golden State and TD is due mainly to the differences in estimates of revenues, expenses, debt interest deduction, and the use of different tax rates for both state tax and federal tax calculations. In calculating the state tax, TD used 8.84%, which is the state tax effective on January 1, 1997. Based on CTC-Golden State's taxable income level, TD used the federal tax rate of 34% for rate-making purpose. In contrast, CTC-Golden State used a 35% federal tax rate which was based on the federal tax rate of the corporate company.

Rate Base

The total rate base requested by CTC-Golden State for test year 1997 is \$19,227,996, which is \$147,904 lower than TD's estimate of \$19,375,900. The difference is due to TD's use of recorded 1995 plant additions and telephone plant under construction in estimating test year plant additions and telephone plant under construction whereas CTC-Golden State used forecasted 1995 plant additions and telephone plant under construction for its test year estimates. TD's estimate for test year plant additions is

also lower than CTC-Golden State's estimate by \$380,000. The difference in depreciation reserve is due to TD's lower depreciation expense estimate, the use of current depreciation rates for calculating depreciation expenses for 1995 and 1996, and the proposed depreciation rates for estimating 1997 depreciation expense. CTC-Golden State's proposed test year depreciation reserve was developed using CTC-Golden State's proposed depreciation rates for estimating 1995, 1996, and 1997 depreciation accruals.

The difference in CTC-Golden State's and TD's working cash estimates is the result of previous discussed differences in estimating expenses and revenues. Since we are adopting TD's total operating revenue and total operating expenses, we are also adopting TD's working cash calculation.

Cost of Capital

CTC-Golden State and TD differ in their calculations of the overall rate of return (ROR). CTC-Golden State requests an overall ROR of 10.50%. This is based on an estimated test year capital structure of: 40.00% debt at a cost of 7.47%, and 60.00% equity at a cost of 12.67%.

Appendix D presents TD's proposed changes in rates to achieve the authorized revenue requirement. A major difference between TD and CTC-Golden State concerns the overall rate of return (ROR). TD originally recommended that the Commission adopt a 9.00% figure instead of the 10.50% proposed by CTC-Golden State. However, a ROR of 10.00% with a determination that equity components in the range of 60.00% to 80.00% is reasonable was adopted for California-Oregon, Calaveras, Ducor, Foresthill, and Sierra Telephone Companies in Decisions issued in their respective Applications (A.95-12-073, A.95-12-075, A.95-12-076, A.95-12-078, and A.95-12-077). TD concurs that the 10.00% ROR adopted for those five telephone companies should also be adopted for CTC-Golden State.

Consistent with our treatment of other small telephone companies, we decline to adopt a specific capital structure for CTC-Golden State. However, we do find the proposed common equity is within the reasonable range of common equity for small telephone companies, providing a reasonable balance of benefits between customers and shareholders (customers with a reduced revenue requirement for the company as a result of reduced income tax

expense and shareholders with an additional source of funding for capital expenditures).

CTC-Golden State's estimated 1997 cost of debt is 7.47%. TD agrees with CTC-Golden State's calculation of its cost of debt. The recommended 7.47% cost of debt for the test year is reasonable and should be adopted.

As shown in the table below, the application of the 10.00% ROR we recently adopted for the five small LECs in the above decisions results in a 11.69% equity return for CTC-Golden State. This equity return is within the range of common equity we found reasonable in our recent decisions for the small LECs. Accordingly, we find that the use of a 10.00% overall ROR to calculate the authorized revenue requirement to be reasonable.

	<u>Ratio</u>	<u>Cost</u>	<u>Weighted Cost</u>
Long Term Debt	40.00%	7.47%	2.99%
Equity	<u>60.00%</u>	11.69%	<u>7.01%</u>
Total	100.00%		10.00%

CTC-Golden State has the flexibility to increase or decrease its equity return through the management of its debt cost and equity ratio.

To correct the imbalance of benefit from a leveraged capital structure, an interest deduction must be reflected in calculating the test year state and federal income tax expense. We derive a \$580,250 interest deduction by multiplying the adopted ratebase by the 2.99% reasonable weighted cost of debt.

Rate Design

Residential Service

In order to meet the revenue requirement increase adopted in this Resolution, TD has proposed to increase residential rates in its rate design. The proposed monthly residential one-party flat rate is an increase of \$1.35 from the current rate of \$16.85 to \$18.20, representing a 8.0% rate increase, and the proposed increase to residential one-party measured rate is \$1.00 from the current rate of \$12.10 to \$13.10, equating a 8.3% rate increase. Although the proposed increase would put CTC-Golden State's

residential rates over 150% of the comparable Pacific Bell's residential rates, they are still well below the 150% GTEC's residential one-party flat rate of \$17.25 and measured rate of \$10.00. In D.95-11-024, the Commission set for CTC-California, an affiliate of CTC-Golden States and serving similarly rural areas in California, residential one-party flat rate at \$17.85 as appropriate since it meets the Commission's universal service objective and is less than 150% of GTEC's comparable service rate. Since over 87% of the revenue requirement increase adopted in this Resolution will be from increasing the switched access rates and TD's proposed residential rates are well below 150% of GTEC's comparable service rates, we find TD's proposed residential rates reasonable for meeting the revenue requirement increase.

Unlisted or Unpublished Telephone Numbers (Schedule A-7)

On September 20, 1996, the Governor approved Senate Bill (SB) 1035 (Chapter 675, 1996). This bill prohibits any telephone corporation in a noncompetitive market from charging any subscriber for having an unlisted or unpublished telephone number. CTC-Golden State currently provides non-published service under Schedule A-7, Directory Listings, at the rate of \$.75 per month for both residential and business customers. The test year 1997 estimated units are 2393 which results in \$21,537 revenue per year. SB 1035 provides that the charge shall not be eliminated until offsetting rates are implemented by the Commission. To comply with this provision, TD proposes that the charge be eliminated as of June 1, 1997 and that the annual revenue of \$21,537 be recovered as part of the local exchange rate. We find this proposal reasonable.

Other Rate Schedules

In its AL No. 7, CTC-Golden State requests to eliminate mileage rates associated with off-premises extension and suburban mileage in its Schedule A-4. The proposed mileage rates elimination would enable customers currently living outside of the base rate areas to pay similar rates as customers living inside the base rate areas. We find CTC-Golden State's requests reasonable.

CTC-Golden State also requests to align a number of its recurring rates and non-recurring charges for similar services with that of its two affiliates, CTC-California and CTC-Tuolumne, for administrative ease and to minimize confusions associate with

administering the different sets of rates and charges by the customers representatives. According to CTC-Golden State, the same group of customers representatives are providing customer support for the three affiliates. CTC-Golden State proposes to align CTC-Golden State's rates and charges with that of similar services adopted in D.95-11-024 for CTC-California. CTC-Golden State's customers were informed of the proposed rates and charges by a customer notice associated with its GRC AL No. 7 filing. We find the requested rates and charges alignment reasonable.

CTC-Golden State exited the toll and access settlement pools as of January 1, 1997. Since CTC-Golden State is no longer a pooling participant, it proposes to establish its own toll and switched access rates. Instead of concurring in Pacific's toll and switched access rates as a pooling participant would do, CTC-Golden State proposes to adopt Pacific's toll rates that the Commission adopted for Pacific in D.94-09-065 for its own use. As for switched access rates, CTC-Golden State proposes to use the switched access the Commission adopted for CTC-California in D.95-11-024. We find this proposal reasonable.

Surcharge/Credit

Pending a final determination on CTC-Golden State's GRC filing, the Commission, (through its Resolution No. T-15970, dated November 26, 1996), authorized that the current rates of CTC-Golden State continue on January 1, 1997. In this resolution, the Commission also ordered that after it decides on CTC-Golden State's GRC filing and adopts CTC-Golden State's final rates, an appropriate surcharge or a credit shall be calculated. If the final adopted intrastate operating revenue is higher than the estimated test year operating revenue at present rates, a surcharge will apply to collect additional rates from January, 1997 to May, 1997. However, if the final adopted intrastate operating revenue is lower than the estimated test year operating revenue at present rates, a credit will apply to refund overcollected rates from January, 1997 to May, 1997. In compliance with Resolution No. T-15970, we have calculated an interim surcharge consistent with CTC-Golden State's adopted final rates. The interim surcharge is listed in Appendix D and will be applied to customer's local service, service area toll, and non-recurring charges over a twelve month billing period from June 1997 to May 1998. To implement the rate changes and the interim surcharge detailed in Appendix D, CTC-Golden State should file a Supplement to AL No. 7.

California High Cost Fund - A (CHCF-A)

Through D.88-07-022 and D.91-09-042, the Commission ordered small LECs to file, by October 1 of each year, advice letters setting forth calculations of their CHCF-A funding requirements for the following year. On page 1 of its appendix, D.91-09-042 stated that:

"Those companies with a revised local exchange revenue requirement (the sum of the present level of local exchange revenues and the net positive and negative settlements effects for such company herein specified) which cannot be met from the local exchange rate designs incorporating the 150% threshold shall be eligible to receive the balance of their revised local exchange revenue requirement from the HCF, ..."

This appendix went to state on page 2:

"Utilities shall be eligible for support from the fund limited to the amount (sic) which are forecasted to result in earnings not to exceed authorized intrastate rates of return or to the current funding level amount for the year for which CHCF is being requested, whichever is lower."

Annual CHCF-A advice letters are required of each small LEC, even if the LEC does not need to draw funds from the CHCF-A. In both the annual CHCF-A advice letters and in the Commission Resolution ruling on them, it has become customary to refer to the amount a LEC calculates as its revenue shortfall, due the net settlements effects of specified events beyond its control, as the LEC's "CHCF-A requirement." This phrase is also used by a LEC which requests not to draw funds from the CHCF-A. A LEC's CHCF-A requirement of a given year becomes the starting point for the calculation of its following year's CHCF-A requirement and potential fund request

In compliance with D.88-07-022 and D.91-09-042, CTC-Golden State filed its 1997 CHCF-A revenue requirement on November 1, 1996 by AL No. 13. In this advice letter filing, CTC-Golden State requested no CHCF funding for 1997. The Commission, through its Resolution T-15987 dated January 13, 1997, deferred the determination of CTC-Golden State's CHCF-A requirement to its present GRC filing. In this Resolution, we grant CTC-Golden

State's request not to draw funds from the CHCF-A. For its 1998 CHCF-A advice letter filing, CTC-Golden State should base its 1998 CHCF-A requirement calculation on a zero 1997 CHCF-A requirement.

Depreciation Study

Before its acquisition by Citizens, CP National Telephone Company submitted AL No. 330-T on November 8, 1995 workpapers in support of its Depreciation Study proposing new depreciation rates as of January 1, 1995; the proposed depreciation rates were filed in conjunction with its GRC AL No. 332-T filing ordered in D.94-09-065. Subsequent to the acquisition, CTC-Tuolumne requested in AL No. 7, which supplemented and modified the GRC AL No. 332-T filed by CP National Telephone Company, to use the same depreciation rates proposed in AL No. 332-T. After reviewing the proposed depreciation rates, TD recommends that the proposed depreciation rates be accepted for ratemaking purposes for the test year. We find this request reasonable.

Deregulation of Pay Telephone Service

In a separate advice letter filing, CTC-Golden State proposes to detariff its payphone service pursuant to Federal Communications Commission (FCC) Order (Docket 96-388) dated September 20, 1996. The order directs all LECs to reclassify their payphone operations as unregulated customer premise equipment and to transfer associated telephone plant to unregulated service accounts.

CTC-Golden State's Advice Letter No. 17, filed February 6, 1997, to detariff its payphone operations, will become effective on April 15, 1997. CTC-Golden State, however, does not address the ratemaking aspects associated with deregulation of its payphones. Therefore, we shall order CTC-Golden State to file a new advice letter, within 90 days of the effective date of this resolution, to address the ratemaking effects of payphone deregulation and its pay telephone service detariffing accomplished with Advice Letter No. 17.

FINDINGS

1. CP National Telephone Company filed its GRC AL No. 332-T on December 27, 1995, in compliance with Decision No.94-09-065 and

CTC-Golden State filed AL No. 7 on May 20, 1996 to supplement and modified AL No. 332-T.

2. For a 1997 test year, CTC-Golden State requests the following:

Net Revenue Requirement	\$ 2,017,882
Rate Base	19,245,998
Overall Rate of Return	10.50%

3. For a 1997 test year, TD recommends the following:

Net Revenue Requirement	\$ 1,937,590
Rate Base	19,375,900
Overall Rate of Return	10.00%

4. The differences in estimates between CTC-Golden State and TD result from use of: more recent data, different estimating methodology, debt interest deduction, state tax rate, federal tax rate, and different overall rate of return.

5. We find TD's use of more recent data for its estimates reasonable. Therefore, we adopt TD's recommended test year 1997 revenues at present rates contained in Appendix A.

6. We find TD's estimates of expenses and rate base reasonable and adopt TD's recommended test year 1997 expenses and rate base contained in Appendix A.

7. We find TD's use of 8.84% state tax rate and 34% federal tax rate for rate-making purpose reasonable.

8. The reasonable rate of return for CTC-Golden State is 10.00%.

9. TD's proposals to eliminate CTC-Golden State's charge for non-published service (Schedule A-7) effective June 1, 1997 and to retain the revenue associated with said service as part of local exchange service is reasonable.

10. CTC-Golden State's request to eliminate its mileage rates (Schedule A-4) is reasonable.

11. TD's proposed residential rates, which are well below 150% of GTEC's comparable service rates, are reasonable for meeting the revenue requirement increase.

12. Pursuant to the provision of Resolution No. T-15970 dated November 26, 1996, we have calculated an interim surcharge for CTC-Golden State's customers as indicated in Appendix D to charge undercollections from January, 1997 through May, 1997. Consistent with the surcharge amounts and rates adopted in Appendix D, CTC-Golden State should file a supplement to AL No. 7 to implement these changes.

13. CTC-Golden State's request not to draw funds from the CHCF-A in 1997 should be granted.

14. We find CTC-Golden State's proposed depreciation rates are acceptable for ratemaking purposes.

15. CTC-Golden State filed Advice Letter No. 17 to detariff its payphones operations, effective April 15, 1997, pursuant to FCC Order (Docket 96-388).

16. CTC-Golden State has not addressed the ratemaking aspects of payphone deregulation associated with its pay telephone service detariffing accomplished in Advice Letter No. 17, effective April 15, 1997.

17. CTC-Golden State should file a new advice letter within 90 days of the effective date of this resolution, to address the ratemaking effects associated with payphone deregulation and its pay telephone service detariffing accomplished in its Advice Letter No. 17.

THEREFORE, IT IS ORDERED that:

1. The revenues, expenses, and rate base amounts for test year 1997 as shown in Appendix B are adopted for Citizens Telecommunications Company of The Golden State.

2. The rate design changes adopted in Appendix D are made effective on January 1, 1997. Also, Citizens Telecommunications Company shall apply the surcharge adopted in Appendix D, pursuant to Resolution No. T-15970 dated November 26, 1996.

3. Citizens Telecommunications Company of The Golden State shall file a supplement to Advice Letter No. 7, effective on a five days notice, to implement the rate design adopted in Ordering Paragraph No. 2 above. The Advice Letter supplement and the associated tariffs filed in compliance with Ordering Paragraph No. 2 shall become effective upon Telecommunications Division's approval.

4. Citizens Telecommunications Company of The Golden State shall base its 1998 California High Cost Fund-A requirement calculation on a zero 1997 California High Cost Fund-A requirement.

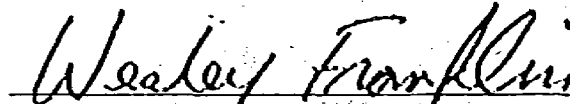
5. The depreciation rates requested by Citizens Telecommunications Company of The Golden State in Advice Letter No. 7 is adopted for ratemaking purposes.

6. CTC-Golden State shall file a new advice letter, within 90 days of the effective date of this resolution, to address the ratemaking effects associated with payphone deregulation and its pay telephone service detariffing accomplished in its Advice Letter No. 17.

May 6, 1997

7. The Advice Letter, its supplement and the associated tariff sheets shall be marked to show that they were authorized by Resolution T-15997.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on May 6, 1997. The following Commissioners approved it.


WESLEY M. FRANKLIN
Executive Director

P. GREGORY CONLON
President
JESSIE J. KNIGHT, Jr.
HENRY M. DUQUE
JOSIAH L. NEEPER
RICHARD A. BILAS
Commissioners

Appendix A, Resolution No. T-15997

Comparison of TD's and CTC-Golden State's Estimated Intrastate Results of Operations
at Present Rates

Test Year 1997

Line Number	Intrastate Estimates		CTC-Golden State Exceeds TD		
	CTC-Golden State	TD	Amount	Percent	
	OPERATING REVENUES				
1	Local Network Services	\$4,973,008	\$4,993,822	(\$20,814)	-0.4%
2	Long Distance Network	\$882,514	\$882,514	\$0	0.0%
3	Network Access Service-IntraState	\$720,854	\$720,854	\$0	0.0%
4	Network Access Service-USF	\$1,757,952	\$1,692,650	\$65,302	3.9%
5	Miscell Revenues	\$493,172	\$520,112	(\$26,940)	-5.2%
6	LESS: Uncollectibles	\$108,484	\$108,938	(\$454)	-0.4%
7	TOTAL OPER. REV.	\$8,719,016	\$8,701,014	\$18,002	0.2%
	OPERATING EXPENSES				
8	Plant Specific	\$1,499,277	\$1,512,246	(\$12,969)	-0.9%
9	Plant Non-Specific (less Depr.)	\$504,618	\$504,618	\$0	0.0%
10	Depreciation & Amortization	\$2,288,492	\$2,278,435	\$10,057	0.4%
11	Customer Operations	\$1,026,283	\$1,026,283	\$0	0.0%
12	Corporate Operations	\$1,202,412	\$1,202,412	\$0	0.0%
13	TOTAL OPER. EXPS.	\$6,521,082	\$6,523,994	(\$2,912)	0.0%
	OPERATING TAXES				
14	Operating ITC-Net	\$0	\$0	\$0	0.0%
15	Operating Federal Inc. Taxes	\$483,180	\$420,711	\$62,469	14.8%
16	Operating State Inc. Taxes	\$81,422	\$64,416	\$17,006	26.4%
17	Taxes Other Than Income	\$300,853	\$300,853	\$0	0.0%
18	Deferred Operating Inc. Taxes	\$59,290	\$59,290	\$0	0.0%
19	TOTAL OPER. TAXES	\$924,745	\$845,270	\$79,475	9.4%
20	NET OPERATING REVENUE	\$1,273,189	\$1,331,750	(\$58,561)	9.4%
	RATE BASE (Average)				
21	Tel. Plant in Service	\$32,044,530	\$31,968,272	\$76,258	0.2%
22	Tel. Plant Held for Future Use	\$0	\$0	\$0	0.0%
23	Tel. Plant Under Construction	\$1,126,091	\$962,883	\$163,208	16.9%
24	Materials & Supplies	\$148,352	\$148,352	\$0	0.0%
25	Working Cash	\$336,300	\$334,600	\$1,700	0.5%
26	LESS: Depreciation Reserve	\$12,791,871	\$12,402,801	\$389,070	3.1%
27	Deferred Tax	\$1,623,890	\$1,623,890	\$0	0.0%
28	Cust. Adv. for Constr.	\$0	\$0	\$0	0.0%
29	Investment Tax Credit	\$0	\$0	\$0	0.0%
30	Customer Deposits	\$11,516	\$11,516	\$0	0.0%
31	TOT. AVG. RATE BASE	\$19,227,996	\$19,375,900	(\$147,904)	-0.8%
32	RATE OF RETURN	6.62%	6.87%		-0.8%

Appendix B, Resolution No. T-15997

Calculation of CTC-Golden State Telephone's Net to Gross Multiplier
and Incremental Revenue Requirement

Test Year 1997

Gross Operating Revenues		1.00000
Uncollectibles		<u>0.02181</u>
Net Revenues		0.97819
State Income Tax Rate (at 8.84% eff. 1/1/97)	8.84%	<u>0.08647</u>
Federal Taxable Income		0.89171
Federal Income Tax (at 34.00%)	34.00%	0.30318
Net Income		0.58853
Net to Gross Revenue Multiplier		1.699145334
State Rate Base		\$19,375,900
State Return on Rate Base (at 10.00%)	10.00%	\$1,937,590
State Net Operating Income		\$1,331,750
Net Deficit or (Over Earnings)		\$605,840
Incremental Gross Revenue Requirement		\$1,029,410
Interim Surcharge Applicable to Local & Toll Billing		7.79%

**Appendix C, Resolution No. T-15997
Results of Operations at Present and Adopted Rates**

Test Year 1997

	Total Intrastate	Proposed Changes in Rates	Adopted Intrastate
OPERATING REVENUES			
Local Network Services	\$4,993,822	\$128,881	\$5,122,703
Long Distance Network	\$882,514		\$882,514
Network Access Service-IntraState	\$720,854	\$900,529	\$1,621,383
Network Access Service-USF	\$1,692,650		\$1,692,650
Miscell Revenues	\$520,112		\$520,112
LESS: Uncollectibles	\$108,938	\$22,456	\$131,394
TOTAL OPER. REV.	\$8,701,014	\$1,006,954	\$9,707,968
OPERATING EXPENSES			
Plant Specific	\$1,512,246		\$1,512,246
Plant Non-Specific (less Depr.)	\$504,618		\$504,618
Depreciation & Amortization	\$2,278,435		\$2,278,435
Customer Operations	\$1,026,283		\$1,026,283
Corporate Operations	\$1,202,412		\$1,202,412
TOTAL OPER. EXPS.	\$6,523,994		\$6,523,994
OPERATING TAXES			
Operating ITC-Net	\$0		\$0
Operating Federal Inc. Taxes	\$420,711	\$312,099	\$732,810
Operating State Inc. Taxes	\$64,416	\$89,015	\$153,431
Taxes Other Than Income	\$300,853		\$300,853
Deferred Operating Inc. Taxes	\$59,290		\$59,290
TOTAL OPER. TAXES	\$845,270		\$1,246,384
NET OPERATING REVENUE	\$1,331,750	\$605,840	\$1,937,590
RATE BASE (Average)			
Tel. Plant in Service	\$31,958,272		\$31,968,272
Tel. Plant Held for Future Use	\$0		\$0
Tel. Plant Under Construction	\$962,883		\$962,883
Materials & Supplies	\$148,352		\$148,352
Working Cash	\$334,600		\$334,600
LESS: Depreciation Reserve	\$12,402,801		\$12,402,801
Deferred Tax	\$1,623,890		\$1,623,890
Cust. Adv. for Constr.	\$0		\$0
Investment Tax Credit	\$0		\$0
Customer Deposits	\$11,516		\$11,516
TOT. AVG. RATE BASE	\$19,375,900		\$19,375,900
RATE OF RETURN	6.87%		10.00%

Appendix D, Resolution No. T-15997

Rate Design Summary
Test Year 1997

SERVICE TYPES	PRESENT RATES	ADOPTED RATES	\$ RATE CHANGE	% RATE CHANGE
RECURRING SERVICES				
RESIDENCE				
Flat R-1	\$16.85	\$18.20	\$1.35	8.0%
Flat R-1 College City	\$16.85	\$18.20	\$1.35	8.0%
Flat R-1 Clear Creek	\$16.85	\$18.20	\$1.35	8.0%
Measured R-1	\$12.10	\$13.10	\$1.00	8.3%
Measured R-1 College City	\$12.10	\$13.10	\$1.00	8.3%
Measured Clear Creek	\$12.10	\$13.10	\$1.00	8.3%
Flat R-2	\$14.25	\$14.50	\$0.25	1.8%
Flat R-2 College City	\$14.75	\$15.00	\$0.25	1.7%
Flat R-4	\$13.30	\$13.55	\$0.25	1.9%
Flat R-4 College City	\$14.00	\$14.25	\$0.25	1.8%
Suburban Flat	\$15.10	\$15.25	\$0.15	1.0%
Suburban Flat Clear Creek	\$15.10	\$15.25	\$0.15	1.0%
Key Line Flat	\$16.85	\$18.20	\$1.35	8.0%
Key Line Flat College	\$16.85	\$18.20	\$1.35	8.0%
Key Line Flat Clear Creek	\$16.85	\$18.20	\$1.35	8.0%
BUSINESS				
Measured B-1	\$28.65	\$31.40	\$2.75	9.6%
Measured B-1 College City	\$28.65	\$31.40	\$2.75	9.6%
Measured B-1 Clear Creek	\$28.65	\$31.40	\$2.75	9.6%
Semi-Public	\$43.40	\$31.40	(\$12.00)	-27.6%
Semi-Public College City	\$38.70	\$31.40	(\$7.30)	-18.9%
Semi-Public Clear Creek	\$40.70	\$31.40	(\$9.30)	-22.9%
PBX	\$28.65	\$31.40	\$2.75	9.6%
PBX Westwood/Lake Almanor	\$52.15	\$31.40	(\$20.75)	-39.8%
PBX Clear Creek	\$49.10	\$31.40	(\$17.70)	-36.0%
PBX College City	\$46.00	\$31.40	(\$14.60)	-31.7%
Digital Centrex Access Line	\$28.65	\$31.40	\$2.75	9.6%
MILEAGE				
Primary	\$0.75	\$0.00	(\$0.75)	-100.0%
Two-party	\$0.50	\$0.00	(\$0.50)	-100.0%
PBX Trunk	\$0.75	\$0.00	(\$0.75)	-100.0%
Extension, 1/4 mile	\$1.75	\$0.00	(\$1.75)	-100.0%

Appendix D, Resolution No. T-15997
(continue)
Rate Design Summary
Test Year 1997

SERVICE TYPES	PRESENT RATES	ADOPTED RATES	\$ RATE CHANGE	% RATE CHANGE
DIRECTORY LISTINGS				
Non-published Service - Bus	\$0.75	\$0.00	(\$0.75)	-100.0%
Non-published Service - Res	\$0.75	\$0.00	(\$0.75)	-100.0%
SWITCHED ACCESS SERVICE				
Local Switching	\$0.0031500	\$0.0172800	\$0.014130	448.6%
Local Switching - Set Up	\$0.0143800	\$0.0207791	\$0.006399	44.5%
Local Transport Termination	\$0.0071460	\$0.0103316	\$0.003186	44.6%
NON-RECURRING SERVICES				
Service Order Initial - Bus	\$46.25	\$21.50	(\$24.75)	-53.5%
Service Order Initial - Res	\$23.25	\$14.00	(\$9.25)	-39.8%
Service Order Subsequent - Bus	\$27.75	\$21.50	(\$6.25)	-22.5%
Service Order Subsequent - Res	\$18.50	\$14.00	(\$4.50)	-24.3%
Line Connection - Bus	\$30.75	\$38.50	\$7.75	25.2%
Line Connection - Res	\$30.75	\$23.25	(\$7.50)	-24.4%
Premises Visit - Bus	\$46.25	\$30.75	(\$15.50)	-33.5%
Premises Visit - Res	\$46.25	\$30.75	(\$15.50)	-33.5%
Supercedure - Bus	\$46.25	\$21.50	(\$24.75)	-53.5%
Supercedure - Res	\$23.25	\$14.00	(\$9.25)	-39.8%
Non-Pay Reconnect - Bus	\$58.50	\$46.25	(\$12.25)	-20.9%
Non-Pay Reconnect - Res	\$19.25	\$23.25	(\$26.00)	-52.8%
Telephone Answering Service	\$6.25	\$6.25	\$0.00	0.0%
FEX Installation - Bus	\$100.00	\$115.75	\$15.75	15.8%
FEX Installation - Res	\$160.00	\$75.25	(\$84.75)	-53.0%
DID Activation of Reserved No. - Installation	\$70.00	\$77.00	\$7.00	10.0%
IntraLATA Lease Line & Private Line	\$10.00	\$23.00	\$13.00	130.0%
Lifeline Installation - Initial	\$10.00	\$7.00	(\$3.00)	-30.0%
Lifeline Change in Grade of Service	\$9.25	\$7.00	(\$2.25)	-24.3%

Appendix D, Resolution No. T-15997
(continue)
Rate Design Summary
Test Year 1997

SERVICE TYPES	PRESENT RATES	ADOPTED RATES	\$ RATE CHANGE	% RATE CHANGE
RECURRING SERVICES/MISCELLANEOUS				
Custom Calling				
Call Return Bus	\$4.95	\$5.00	\$0.05	1.0%
Call Return Res	\$3.95	\$3.50	(\$0.45)	-11.4%
Repeat Dialing Bus	\$4.95	\$4.25	(\$0.70)	-14.1%
Repeat Dialing Res	\$3.95	\$3.50	(\$0.45)	-11.4%
Priority Ringing Bus	\$4.95	\$4.25	(\$0.70)	-14.1%
Priority Ringing Res	\$3.95	\$4.00	\$0.05	1.3%
Selective Call Forwarding Bus	\$4.95	\$5.00	\$0.05	1.0%
Selective Call Forwarding Res	\$3.95	\$3.50	(\$0.45)	-11.4%
Selective Call Rejection Bus	\$4.95	\$5.00	\$0.05	1.0%
Selective Call Rejection Res	\$3.95	\$4.00	\$0.05	1.3%
Selective Call Acceptance Bus	\$4.95	\$4.50	(\$0.45)	-9.1%
Selective Call Acceptance Res	\$3.95	\$3.50	(\$0.45)	-11.4%
Call Trace Bus	\$4.95	\$4.00	(\$0.95)	-19.2%
Call Trace Res	\$3.95	\$4.00	\$0.05	1.3%
Call Forwarding Bus	\$4.65	\$3.75	(\$0.90)	-19.4%
Call Forwarding Res	\$3.50	\$2.50	(\$1.00)	-28.6%
Call Waiting/Cancel Call Waiting Bus	\$4.65	\$6.25	\$1.60	34.4%
Call Waiting/Cancel Call Waiting Res	\$3.50	\$3.75	\$0.25	7.1%
Three Way Calling Bus	\$4.65	\$6.25	\$1.60	34.4%
Three Way Calling Res	\$3.50	\$3.75	\$0.25	7.1%
Speed Calling 8 Bus	\$4.65	\$4.40	(\$0.25)	-5.4%
Speed Calling 8 Res	\$3.50	\$2.50	(\$1.00)	-28.6%
Speed Calling 30 Bus	\$4.65	\$6.25	\$1.60	34.4%
Speed Calling 30 Res	\$3.50	\$4.40	\$0.90	25.7%
Ring Plus Bus	\$4.65	\$5.25	\$0.60	12.9%
Ring Plus Res	\$3.50	\$5.25	\$1.75	50.0%
Toll Restriction Bus	\$4.00	\$3.00	(\$1.00)	-25.0%
Toll Restriction Res	\$2.65	\$2.50	(\$0.15)	-5.7%
Two Feature Disct Bus	(\$1.25)	(\$2.50)	(\$1.25)	100.0%
Two Feature Disct Res	(\$1.00)	(\$1.25)	(\$0.25)	25.0%
Three Feature Disct Bus	(\$3.70)	(\$3.75)	(\$0.05)	1.4%
Three Feature Disct Res	(\$2.50)	(\$1.85)	\$0.65	-26.0%
Four Feature Disct Bus	(\$7.35)	(\$5.25)	\$2.10	-28.6%
Four Feature Disct Res	(\$5.00)	(\$2.50)	\$2.50	-50.0%
Five or More Disct Bus	(\$10.00)	(\$6.50)	\$3.50	-35.0%
Five or More Disct Res	(\$7.50)	(\$3.20)	\$4.30	-57.3%

Appendix D, Resolution No. T-15997

(continue)

Rate Design Summary

Test Year 1997

SERVICE TYPES	PRESENT RATES	ADOPTED RATES	\$ RATE CHANGE	% RATE CHANGE
RECURRING SERVICES/MISCELLANEOUS				
FarmerLine Svc. - Bus	\$5.20	\$0.00	(\$5.20)	-100.0%
FarmerLine Svc. - Res	\$3.20	\$0.00	(\$3.20)	-100.0%
Public Telephone Svc. Messages	\$0.20	\$0.20	\$0.00	0.0%
Semi-Pub Tel Svc. Messages	\$0.20	\$0.20	\$0.00	0.0%
Semi-Pub Tel Svc. Extension	\$1.20	\$1.20	\$0.00	0.0%
Directory Listings				
White Pages - One Eighth	\$50.00	\$50.00	\$0.00	0.0%
White Pages - Quarter Column	\$25.00	\$25.00	\$0.00	0.0%
Foreign Listing Bus	\$1.50	\$1.00	(\$0.50)	-33.3%
Foreign Listing Res.	\$0.75	\$1.00	\$0.25	33.3%
Additional Listing Bus.	\$1.50	\$1.00	(\$0.50)	-33.3%
Additional Listing Res.	\$0.75	\$1.00	\$0.25	33.3%
Reference Listing	\$0.75	\$1.00	\$0.25	33.3%
Line of Info. - Bus/Res	\$0.75	\$1.00	\$0.25	33.3%
Dual Name Listing	\$0.75	\$1.00	\$0.25	33.3%
Inside Wire & Maintenance	\$1.00	\$1.00	\$0.00	0.0%
Telephone Answering Svc.				
Within 1/4 mile	\$9.40	\$9.40	\$0.00	0.0%
Beyond 1/4 mile	\$11.25	\$11.25	\$0.00	0.0%
Line Extension beyond allowance	\$150.00	\$150.00	\$0.00	0.0%
Foreign Exchange Svc.				
Access Line Bus	\$16.70	\$26.80	\$10.10	60.5%
Access Line Res	\$8.30	\$10.00	\$1.70	20.5%
Mileage per 1/4 mile - Bus	\$4.50	\$4.00	(\$0.50)	-11.1%
Mileage per 1/2 mile - Bus	\$9.00	\$8.00	(\$1.00)	-11.1%
Mileage per 1/4 mile - Res	\$4.50	\$4.00	(\$0.50)	-11.1%
Off Premise Contiguous Exchange	\$2.25	\$4.00	\$1.75	77.8%
Off Premise Non-contiguous Exchange	\$8.00	\$12.00	\$4.00	50.0%
Digital Centrex				
Intragroup Calling Svc Line	\$10.70	\$10.70	\$0.00	0.0%
Basic Features	\$3.75	\$3.75	\$0.00	0.0%
Enhanced Features	\$2.00	\$2.00	\$0.00	0.0%
Additional Features	\$0.25	\$0.25	\$0.00	0.0%
Optional Features	\$1.50	\$1.50	\$0.00	0.0%
Joint User	\$7.00	\$0.00	(\$7.00)	-100.0%

Appendix D, Resolution No. T-15997
 (continue)
 Rate Design Summary
 Test Year 1997

SERVICE TYPES	PRESENT RATES	ADOPTED RATES	\$ RATE CHANGE	% RATE CHANGE
RECURRING SERVICES/MISCELLANEOUS				
Message Center				
Greeting Only	\$3.95	\$2.95	(\$1.00)	-25.3%
Basic	\$3.95	\$4.95	\$1.00	25.3%
Enhanced	\$4.95	\$5.95	\$1.00	20.2%
Premium	\$14.95	\$8.95	(\$6.00)	-40.1%
Options	\$5.00	\$5.00	\$0.00	0.0%
Miscellaneous	\$15.00	\$7.00	(\$8.00)	-53.3%
Direct Inward Dialing (DID)				
100 Numbers or less	\$10.00	\$209.50	\$199.50	1995.0%
Premium Svc.	\$42.00	\$8.00	(\$34.00)	-81.0%
Interexchange Receiving Svc.	\$9.00	\$0.00	(\$9.00)	-100.0%
Switched 56 Data Svc.	\$45.00	\$45.00	\$0.00	0.0%
Directory Assistance Res	\$0.25	\$0.35	\$0.10	40.0%
Directory Assistance Bus	\$0.25	\$0.35	\$0.10	40.0%
IntraLata Lease Line & Private Line				
Mileage	\$3.40	\$4.00	\$0.60	17.6%
Termination	\$2.50	\$3.00	\$0.50	20.0%
Interim Surcharge Applicable to Local & Toll Billing		7.79%		

Appendix E, Resolution T-15997

Comparison of Current and Adopted Depreciation Rates
Test Year 1997

Acct. No.	Description	Total company			
		Average 1997 Balance	Current Dep. Rate	Adopted Dep. Rate	1997 Depreciation Accrual
21120	Motor Vehicles	\$500,328	8.90%	10.00%	\$50,033
21160	Other Work Equipment	\$680,615	5.00%	5.40%	\$36,753
21210	Buildings	\$2,311,066	2.90%	3.20%	\$73,954
21220	Furniture	\$223,960	5.00%	4.80%	\$10,750
21230	Office Equipment	\$502,044	9.60%	11.30%	\$56,731
21240	General Purpose Computer	\$385,740	9.60%	15.50%	\$59,790
22120	COE-Digital Elec Switch	\$6,746,229	7.90%	9.90%	\$667,877
22310	COE-Radio/Mw System	\$380,178	11.40%	6.40%	\$24,331
22320	COE-Circuit Equipment	\$4,382,340	9.70%	10.80%	\$473,293
23510	Public Telephone Equipment	\$532,512	12.40%	3.40%	\$18,105
23620	Other Terminal Equipment	\$11,707	12.40%	3.40%	\$398
24110	Pole Lines	\$1,721,656	9.30%	8.20%	\$141,176
24210	Aerial Cable	\$5,846,395	8.20%	7.90%	\$461,865
24211	Aerial Cable Fiber	\$0	8.20%	7.90%	\$0
24220	Underground Cable	\$1,254,829	4.60%	6.40%	\$80,309
24221	Underground Cable Fiber	\$26,387	3.10%	4.60%	\$1,214
24230	Buried Cable	\$12,041,576	5.20%	6.00%	\$722,495
24231	Buried Cable Fiber	\$1,890,838	3.50%	4.00%	\$75,634
24310	Aerial Wire	\$111,359	22.60%	23.60%	\$26,281
24410	Underground Conduit	\$1,600,300	2.50%	2.40%	\$38,407
	Total	\$41,150,054			\$3,019,395