

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Telecommunications Division
Market Structure Branch

RESOLUTION T-15998
May 6, 1997

R E S O L U T I O N

RESOLUTION T-15998. THE CITIZENS TELECOMMUNICATIONS COMPANY OF TUOLUMNE (U-1023-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 reduction of \$376,214 for Citizens Telecommunications Company of Tuolumne (CTC-Tuolumne), based on an overall rate of return of 10.00%. Appendix B shows the calculation of the revenue reduction. Consistent with this rate reduction, we restructure CTC-Tuolumne's rates and credit its customers accordingly to refund overcollected charges from January, 1997 through May, 1997. The overcollected charges shall be refunded by a billing credit applicable to local exchange services 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-Tuolumne. Appendix A shows a comparison of CTC-Tuolumne's and Telecommunications Division's (TD) test year 1997 results of operations at present rates. Appendix D contains the restructured rates and the interim credit to the customers. Appendix E shows the adopted depreciation rates CTC-Tuolumne requested to be used for estimating its test year depreciation expenses and reserves.

BACKGROUND

Citizens Telecommunications Company of Tuolumne (CTC-Tuolumne) is a local exchange carrier (LEC) providing telephone service to two

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exchanges in Northern California, Shingletown and Oak Run, and the Tuolumne exchange in Tuolumne County in central 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 The Golden State (CTC-Golden State). It provides approximately 5,300 access lines in the three exchanges. CTC-Tuolumne's last general rate case was authorized by Resolution T-10753 in 1983.

In its Decision (D.) No. 94-09-065, Ordering Paragraph (OP) No. 45, the Commission required small LECs, like CTC-Tuolumne, 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, Tuolumne Telephone Company filed Advice Letter (AL) No. 213-T on December 27, 1995, with a 1997 test year. At the time of the AL filing, Tuolumne Telephone Company was a wholly owned subsidiary of ALLTEL Corporation though it was authorized by D. 95-07-037 to be acquired by Citizens. The acquisition was completed on January 1, 1996 and Tuolumne Telephone Company was renamed CTC-Tuolumne. On May 20, 1996, CTC-Tuolumne filed AL No. 7 to supplement and modified AL No. 213-T.

In its AL No. 7, CTC-Tuolumne requests an annual revenue increase of \$140,324 or 2.58% in its total operating revenues, which represents a \$205,758 less than the annual revenue increase of \$346,082 original requested by Tuolumne Telephone Company. CTC-Tuolumne's requested \$140,324 annual increase would generate an 10.50% rate of return on its intrastate rate base. To realize the requested increase, CTC-Tuolumne proposes the following for its intrastate operations:

Total Operating Revenues	\$ 4,229,010
Total Operating Expenses	2,742,713
Total Operating Taxes	510,497
Total Rate Base	9,283,852

At present rates, CTC-Tuolumne estimates that it will require an annual revenue increase of \$140,324 for a 10.50% rate of return in test year 1997. To attain the requested increase, CTC-Tuolumne proposes to restructure its residential and business service rates through a combination of increases and decreases, including the elimination of the 8.57% bill and keep intraLATA

surcharge. In addition, CTC-Tuolumne proposes to eliminate its mileage rates applicable to off-premises extension and suburban mileage, (Schedule No. A-4). Since CTC-Tuolumne 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 which are based on Pacific's toll and switched access rates adopted in D.94-09-065.

NOTICE/PROTESTS

CTC-Tuolumne 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.

Nearly a 100 protests and comments were received during the three months of January to March, 1996. The protests and comments expressed strong opposition to the rate increase requested in the original filing by Tuolumne Telephone Company in AL No. 213-T. CTC-Tuolumne's AL No. 7 lowered the request made in AL No. 213-T from an annual increase of \$346,082 to \$140,324. No protest to CTC-Tuolumne's AL No. 7 has been received.

The staff of the Telecommunications Division (TD) held two public meetings during the month of July, 1996 to explain to CTC-Tuolumne's customers the rate increase process and to receive public comments. The public meetings were held on July 15 and 24, 1996 in Tuolumne and Shingletown, respectively. Two customers attended the public meeting in Tuolumne while eight customers attended the public meeting in Shingletown. During the Tuolumne meeting, customers expressed satisfaction with the quality of service and did not comment on the proposed rate increase. The eight customers attended the Shingletown meeting were from the Woodman Hill area in the Oak Run exchange. They expressed a request to have expanded local calling area to Bella Vista, which they indicated was a community of interest. Presently a call made to Bella Vista from the Woodman Hill area is a toll call. The customers were informed during the meeting that CTC-Tuolumne was conducting a traffic study to determine the appropriateness of this request. No comments were made on service quality during the meeting.

DISCUSSION

Results of Operations

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

Total Operating Revenue

CTC-Tuolumne's estimate of intrastate operating revenue at present rates of \$4,305,891 is lower than TD's estimate of \$4,416,037 by \$110,145 or 2.5%. The differences are in CTC-Tuolumne's and TD's estimates of 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 Radiotelephone 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-Tuolumne'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 \$1,918,606 is higher than CTC-Tuolumne's estimate of \$1,839,698 by \$78,908. We agree with TD's use of NECA's more recent USF projection.

Miscellaneous exchange revenue is comprised of directory and rent revenues. CTC-Tuolumne's estimates was based on 6 month 1995 recorded data combined with forecasted line growth. TD's used a simple average of two year recorded actual miscellaneous revenues

to arrive at its test year estimate. TD's estimate of \$118,126 is \$9,104 higher than CTC-Tuolumne's estimate of \$109,022. We agree with TD's use of recorded data for its miscellaneous revenue estimate.

Total Operating Expenses

CTC-Tuolumne's estimate of intrastate operating expenses at present rates of \$2,742,713 is lower than TD's estimate of \$2,748,538 by \$5,825 or 0.2%. The difference in CTC-Tuolumne's and TD's estimates is due primarily to TD's inclusion of estimated expenses associated with the offering of Caller ID service. CTC-Tuolumne's A.96-05-020 to offer Caller ID was not approved until September 4, 1996 and the estimated expenses were not included in CTC-Tuolumne's expense estimates. TD's higher depreciation expenses estimate is due mainly to the use of CTC-Tuolumne's proposed depreciation rates and TD's use of recorded plant additions for 1995. CTC-Tuolumne requested to use the proposed depreciation rates for calculating depreciation expenses for the years 1995, 1996, and 1997. TD applies the current depreciation rates for 1995 and 1996, and the proposed depreciation rates for 1997.

Operating Taxes

The difference in tax estimates between CTC-Tuolumne 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-Tuolumne's taxable income level, TD used the federal tax rate of 34% for rate-making purpose while CTC-Tuolumne's use of 35% federal tax rate is based on the federal tax rate of the corporate company.

Rate Base

The total rate base requested by CTC-Tuolumne for test year 1997 is \$9,282,952, which is \$270,036 higher than TD's estimate of \$9,012,916. The difference is due partly 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-Tuolumne used forecasted 1995 plant additions and telephone plant under construction for its test year estimates. The difference in depreciation reserve is due to

TD's higher depreciation expenses estimate for the test year, applying the proposed depreciation rate for test year plant estimates, and TD's use of recorded 1995 plant additions. We agree with TD's test year rate base estimate.

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

Cost of Capital

CTC-Tuolumne and TD differ in their calculations of the overall rate of return (ROR). CTC-Tuolumne 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 staff and CTC-Tuolumne 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-Tuolumne. 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 be adopted for CTC-Tuolumne.

Consistent with our treatment of other small telephone companies, we decline to adopt a specific capital structure for CTC-Tuolumne. 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-Tuolumne's estimated 1997 cost of debt is 7.47%. TD agrees with CTC-Tuolumne'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-Tuolumne. 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-Tuolumne 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 \$269,028 interest deduction by multiplying the adopted ratebase by the 2.99% reasonable weighted cost of debt.

Rate Design

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-Tuolumne currently provides non-published service under Schedule A-7, Directory Listings, at the rate of \$.30 per month for both residential and business customers. The test year 1997 estimated units are 1,263 which results in \$4,546.80 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 \$4,546.8 be recovered as part of the local exchange rate. We find this proposal reasonable.

Other Rate Schedules

In its AL No. 7, CTC-Tuolumne 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-Tuolumne's requests reasonable.

CTC-Tuolumne 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-Golden State, for administrative ease and to minimize confusions associate with administering the different sets of rates and charges by the customer representatives. According to CTC-Tuolumne, the same group of customers representatives are providing customer support for the three affiliates. CTC-Tuolumne proposes to align its rates and charges with that for similar services adopted in D.95-11-024 for CTC-California. CTC-Tuolumne'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-Tuolumne exited the toll and access settlement pools as of January 1, 1997. Since CTC-Tuolumne 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-Tuolumne proposes to adopt Pacific's toll and switched access rates that the Commission adopted for Pacific in D.94-09-065 for its own use. We find this proposal reasonable.

Miscellaneous

8.57% IntraLATA Surcharge

CTC-Tuolumne proposes to eliminate the current 8.57% surcharge applied to local service, service area toll, and non-recurring charges. We find CTC-Tuolumne's proposal reasonable.

Surcharge/Credit

Pending a final determination on CTC-Tuolumne's GRC filing, the Commission, (through its Resolution No. T-15970, dated November 26, 1996), authorized that the current rates of CTC-Tuolumne continue on January 1, 1997. In this resolution, the Commission also ordered that after it decides on CTC-Tuolumne's GRC filing and adopts CTC-Tuolumne'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 intrastate 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 intrastate 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 a credit consistent with CTC-Tuolumne's adopted final rates. The credit is listed in Appendix D and will be applied to customer's local exchange services over a twelve month billing period from June 1997 to May 1998. To implement the rate changes and credit detailed in Appendix D, CTC-Tuolumne 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-Tuolumne filed its 1997 CHCF-A revenue requirement on November 1, 1996 by AL No. 12. In this advice letter filing, CTC-Tuolumne requested no CHCF funding for 1997. The Commission, through its Resolution T-15987 dated January 13, 1997, deferred the determination of CTC-Tuolumne's CHCF-A requirement to its present GRC filing. In this Resolution, we grant CTC-Tuolumne's request not to draw funds from the CHCF-A. For its 1998 CHCF-A advice letter filing, CTC-Tuolumne should base its 1998 CHCF-A requirement calculation on a zero 1997 CHCF-A requirement.

Depreciation Study

Before its acquisition by Citizens, Tuolumne Telephone Company submitted AL No. 211-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. 213-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. 213-T filed by Tuolumne Telephone Company, to use the same depreciation rates proposed in AL No. 211-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-Tuolumne 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-Tuolumne's Advice Letter No. 16, filed February 6, 1997, to detariff its payphone operations, will become effective on April 15, 1997. CTC-Tuolumne, however, does not address the ratemaking aspects associated with deregulation of its payphones. Therefore we shall order CTC-Tuolumne 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. 16.

FINDINGS

1. Tuolumne Telephone Company filed its GRC AL No. 213-T on December 27, 1995, in compliance with Decision No. 94-09-065 and CTC-Tuolumne filed AL No. 7 on May 20, 1996 to supplement and modified AL No. 213-T.

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

Net Revenue Requirement	\$	975,800
Rate Base		9,283,852
Overall Rate of Return		10.50%

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

Net Revenue Requirement	\$	901,679
Rate Base		9,012,916
Overall Rate of Return		10.00%

4. The differences in estimates between CTC-Tuolumne and TD result from use of: more recent data, different estimating methodology, 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-Tuolumne is 10.00%.
9. TD's proposals to eliminate CTC-Tuolumne'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 rate is reasonable.
10. CTC-Tuolumne's request to eliminate its mileage rates (Schedule A-4) is reasonable.
11. Pursuant to the provision of Resolution No. T-15970 dated November 26, 1996, we have calculated a credit for CTC-Tuolumne's customers as indicated in Appendix D to refund overcharges from January 1, 1997 through May, 1997. Consistent with the credit amount and rates adopted in Appendix D, CTC-Tuolumne should file a supplement to AL No. 7 to implement these changes.
12. CTC-Tuolumne's request not to draw funds from the CHCF-A in 1997 should be granted.
13. We find CTC-Tuolumne's proposed depreciation rates are acceptable for ratemaking purposes.
14. CTC-Tuolumne's request to eliminate the current 8.57% surcharge which is applied to local service, service area toll, and non-recurring charges, should be granted.
15. CTC-Tuolumne filed Advice Letter No. 16 to detariff its payphone operations, effective April 15, 1997, pursuant to FCC Order (Docket 96-388).

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

17. CTC-Tuolumne 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. 16.

THEREFORE, IT IS ORDERED that:

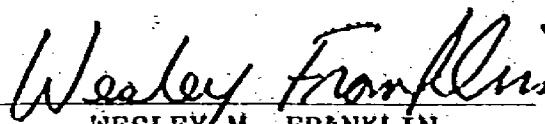
1. The revenues, expenses, and rate base amounts for test year 1997 as shown in Appendix B are adopted for Citizens Telecommunications Company of Tuolumne.
2. The rate design changes adopted in Appendix D are made effective on January 1, 1997. Also, Citizens Telecommunications Company of Tuolumne shall refund the credit adopted in Appendix D, pursuant to Resolution No. T-15970 dated November 26, 1996.
3. Citizens Telecommunications Company of Tuolumne 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 Tuolumne 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 Tuolumne in Advice Letter No. 7 is adopted for ratemaking purposes.
6. The Citizens Telecommunications Company of Tuolumne shall eliminate the application of 8.57% surcharge on local service, service area toll, and non-recurring charges.

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7. CTC-Tuolumne 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. 16.

8. The Advice Letter supplement filed in compliance with Ordering Paragraph No. 2 and the associated tariff sheets shall be marked to show that they were authorized by Resolution T-15998.

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-15998

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

Test Year 1997

	Intrastate Estimates		CTC-Tuolumne Exceeds TD	
	CTC-Tuolumne	TD	Amount	Percent
OPERATING REVENUES				
Local Network Services	\$1,636,026	\$1,658,622	(\$22,596)	-1.4%
Long Distance Network	\$436,463	\$436,453	\$0	0.0%
Network Access Service-IntraState	\$318,174	\$318,174	\$0	0.0%
Network Access Service-USF	\$1,839,698	\$1,918,606	(\$78,908)	-4.1%
Miscell Revenues	\$109,022	\$118,126	(\$9,104)	-7.7%
LESS: Uncollectibles	\$33,492	\$33,954	(\$463)	-1.4%
TOTAL OPER. REV.	\$4,305,891	\$4,416,037	(\$110,145)	-2.5%
OPERATING EXPENSES				
Plant Specific	\$619,889	\$624,937	(\$5,048)	-0.8%
Plant Non-Specific (less Depr.)	\$240,852	\$240,852	\$0	0.0%
Depreciation & Amortization	\$979,936	\$980,713	(\$777)	-0.1%
Customer Operations	\$371,208	\$371,208	\$0	0.0%
Corporate Operations	\$530,828	\$530,828	\$0	0.0%
TOTAL OPER. EXPS.	\$2,742,713	\$2,748,538	(\$5,825)	-0.2%
OPERATING TAXES				
Operating ITC-Net	\$0	\$0	\$0	0.0%
Operating Federal Inc. Taxes	\$380,909	\$384,945	(\$4,036)	-1.0%
Operating State Inc. Taxes	\$133,430	\$130,868	\$2,562	2.0%
Taxes Other Than Income	\$168,998	\$168,998	\$0	0.0%
Deferred Operating Inc. Taxes	(\$140,709)	(\$140,709)	\$0	0.0%
TOTAL OPER. TAXES	\$542,628	\$544,102	(\$1,474)	-0.3%
NET OPERATING REVENUE	\$1,020,550	\$1,123,397	(\$102,846)	-0.3%
RATE BASE (Average)				
Tel. Plant in Service	\$19,535,011	\$19,553,399	(\$18,388)	-0.1%
Tel. Plant Held for Future Use	\$0	\$0	\$0	0.0%
Tel. Plant Under Construction	\$319,952	\$444,403	(\$124,451)	-28.0%
Materials & Supplies	\$80,678	\$80,678	\$0	0.0%
Working Cash	\$167,200	\$168,500	(\$1,300)	-0.8%
LESS: Depreciation Reserve	\$9,911,908	\$10,326,083	(\$414,175)	-4.0%
Deferred Tax	\$902,105	\$902,105	\$0	0.0%
Cust. Adv. for Constr.	\$0	\$0	\$0	0.0%
Investment Tax Credit	\$0	\$0	\$0	0.0%
Customer Deposits	\$5,876	\$5,876	\$0	0.0%
TOT. AVG. RATE BASE	\$9,282,952	\$9,012,916	\$270,036	3.0%
RATE OF RETURN	10.99%	12.46%		3.0%

Appendix B, Resolution No. T-15998

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

Test Year 1997

Gross Operating Revenues		1.00000
Uncollectibles		<u>0.02047</u>
Net Revenues		0.97953
State Income Tax Rate (at 8.84% eff. 1/1/97)	8.84%	0.08659
Federal Taxable Income		0.89294
Federal Income Tax (at 34.00%)	34.00%	0.30360
Net Income		0.58934
Net to Gross Revenue Multiplier		1.696815517
State Rate Base		\$9,012,916
State Return on Rate Base (at 10.00%)	10.00%	\$901,292
State Net Operating Income		\$1,123,397
Net Deficit or (Over Earnings)		(\$221,718)
Incremental Gross Revenue Requirement		(\$376,214)
Interim Credit Applicable to Local Billing		12.22%

Appendix C, Resolution No. T-15998
Results of Operations at Present and Adopted Rates

Test Year 1997

	Total Intrastate	Proposed Changes in Rates	Adopted Intrastate
OPERATING REVENUES			
Local Network Services	\$1,658,622	(\$376,214)	\$1,282,408
Long Distance Network	\$436,463		\$436,463
Network Access Service-IntraState	\$318,174		\$318,174
Network Access Service-USF	\$1,918,606		\$1,918,606
Miscell Revenues	\$118,126		\$118,126
LESS: Uncollectibles	\$33,954	(\$7,702)	\$26,253
TOTAL OPER. REV.	\$4,416,037	(\$368,512)	\$4,047,524
OPERATING EXPENSES			
Plant Specific	\$624,937		\$624,937
Plant Non-Specific (less Depr.)	\$240,852		\$240,852
Depreciation & Amortization	\$960,713		\$960,713
Customer Operations	\$371,208		\$371,208
Corporate Operations	\$530,828		\$530,828
TOTAL OPER. EXPS.	\$2,748,538		\$2,748,538
OPERATING TAXES			
Operating ITC-Net	\$0		\$0
Operating Federal Inc. Taxes	\$384,945	(\$114,218)	\$270,727
Operating State Inc. Taxes	\$130,868	(\$32,576)	\$98,292
Taxes Other Than Income	\$168,998		\$168,998
Deferred Operating Inc. Taxes	(\$140,709)		(\$140,709)
TOTAL OPER. TAXES	\$544,102		\$397,307
NET OPERATING REVENUE	\$1,123,397	(\$221,718)	\$901,679
RATE BASE (Average)			
Tel. Plant in Service	\$19,553,399		\$19,553,399
Tel. Plant Held for Future Use	\$0		\$0
Tel. Plant Under Construction	\$444,403		\$444,403
Materials & Supplies	\$80,678		\$80,678
Working Cash	\$168,500		\$168,500
LESS: Depreciation Reserve	\$10,326,083		\$10,326,083
Deferred Tax	\$902,105		\$902,105
Cust. Adv. for Constr.	\$0		\$0
Investment Tax Credit	\$0		\$0
Customer Deposits	\$5,876		\$5,876
TOT. AVG. RATE BASE	\$9,012,916		\$9,012,916
RATE OF RETURN	12.46%		10.00%

Appendix D, Resolution No. T-15998

Rate Design Summary
Test Year 1997

SERVICE TYPES	PRESENT RATES	ADOPTED RATES	\$ RATE CHANGE	% RATE CHANGE
RECURRING SERVICES				
RESIDENCE				
Flat R-1 Oak Run	\$16.85	\$15.40	(\$1.45)	-8.6%
Flat R-1 Shingletown	\$16.85	\$15.40	(\$1.45)	-8.6%
Flat R-1 Zone 1	\$16.85	\$15.40	(\$1.45)	-8.6%
Flat R-1 Zone 2	\$16.85	\$15.40	(\$1.45)	-8.6%
Flat R-1 Zone 3	\$17.45	\$15.40	(\$2.05)	-11.7%
Measured R-1 Oak Run	\$11.45	\$10.35	(\$1.10)	-9.6%
Measured R-1 Shingletown	\$11.45	\$10.35	(\$1.10)	-9.6%
Measured Zone 1	\$11.50	\$10.35	(\$1.15)	-10.0%
Measured Zone 2	\$12.15	\$10.35	(\$1.80)	-14.8%
Measured Zone 3	\$13.15	\$10.35	(\$2.80)	-21.3%
Suburban Flat Oak Run	\$16.85	\$15.40	(\$1.45)	-8.6%
Suburban Flat Shingletown	\$16.75	\$15.40	(\$1.35)	-8.1%
Key Line Flat Oak Run	\$16.85	\$15.40	(\$1.45)	-8.6%
Key Line Flat Shingletown	\$16.85	\$15.40	(\$1.45)	-8.6%
Key Line Flat Zone 1	\$16.85	\$15.40	(\$1.45)	-8.6%
Key Line Flat Zone 2	\$16.85	\$15.40	(\$1.45)	-8.6%
Key Line Flat Zone 3	\$17.45	\$15.40	(\$2.05)	-11.7%
BUSINESS				
Measured B-1 Oak Run	\$28.25	\$20.25	(\$8.00)	-28.3%
Measured B-1 Shingletown	\$28.25	\$20.25	(\$8.00)	-28.3%
Measured B-1 Zone 1	\$28.55	\$20.25	(\$8.30)	-29.1%
Measured B-1 Zone 2	\$27.00	\$20.25	(\$6.75)	-25.0%
Measured B-1 Zone 3	\$26.75	\$20.25	(\$6.50)	-24.3%
Semi-Public Oak Run	\$40.60	\$20.25	(\$20.35)	-50.1%
Semi-Public Shingletown	\$40.60	\$20.25	(\$20.35)	-50.1%
Semi-Public Zone 1	\$40.15	\$20.25	(\$19.90)	-49.6%
Semi-Public Zone 2	\$37.10	\$20.25	(\$16.85)	-45.4%
Semi-Public Zone 3	\$36.00	\$20.25	(\$15.75)	-43.8%
PBX Trunk Zone 1	\$28.55	\$20.25	(\$8.30)	-29.1%
PBX Trunk Zone 2	\$27.00	\$20.25	(\$6.75)	-25.0%
PBX Trunk Zone 3	\$26.75	\$20.25	(\$6.50)	-24.3%
PBX Trunk Oak Run	\$52.85	\$20.25	(\$32.60)	-61.7%
PBX Trunk Shingletown	\$28.25	\$20.25	(\$8.00)	-28.3%
Digital Centrex Access Line Oak Run/Shingletown	\$28.25	\$20.25	(\$8.00)	-28.3%
Digital Centrex Access Line Zone 1	\$28.55	\$20.25	(\$8.30)	-29.1%
Digital Centrex Access Line Zone 2	\$27.00	\$20.25	(\$6.75)	-25.0%

Appendix D, Resolution No. T-15998
(continue)
Rate Design Summary
Test Year 1997

SERVICE TYPES	PRESENT RATES	ADOPTED RATES	\$ RATE CHANGE	% RATE CHANGE
RECURRING SERVICES				
MILEAGE				
Extension, 1/4 mile	\$1.75	\$0.00	(\$1.75)	-100.0%
Extension, Rate Band 1	\$1.50	\$0.00	(\$1.50)	-100.0%
Extension, Rate Band 2	\$3.00	\$0.00	(\$3.00)	-100.0%
Extension, Rate Band 3	\$4.50	\$0.00	(\$4.50)	-100.0%
Extension, Rate Band 4	\$6.00	\$0.00	(\$6.00)	-100.0%
Extension, Rate Band 5	\$7.00	\$0.00	(\$7.00)	-100.0%
DIRECTORY LISTINGS				
Foreign Listing Bus	\$0.75	\$1.00	\$0.25	33.3%
Foreign Listing Res	\$0.75	\$1.00	\$0.25	33.3%
Additional Listing Bus	\$0.75	\$1.00	\$0.25	33.3%
Additional Listing Res	\$0.50	\$1.00	\$0.50	100.0%
Reference Listing Bus	\$0.75	\$1.00	\$0.25	33.3%
Reference Listing Res	\$0.50	\$1.00	\$0.50	100.0%
Line of Information Bus	\$0.75	\$1.00	\$0.25	33.3%
Line of Information Res	\$0.50	\$1.00	\$0.50	100.0%
Non-published Service - Bus	\$0.30	\$0.00	(\$0.30)	-100.0%
Non-published Service - Res	\$0.30	\$0.00	(\$0.30)	-100.0%
NON-RECURRING SERVICES				
Service Order Initial - Bus	\$30.80	\$21.50	(\$9.30)	-30%
Service Order Initial - Res	\$16.80	\$14.00	(\$2.80)	-17%
Service Order Subsequent - Bus	\$22.40	\$21.50	(\$0.90)	-4%
Service Order Subsequent - Res	\$13.05	\$14.00	\$0.95	7%
Line Connection - Bus	\$39.20	\$38.50	(\$0.70)	-2%
Line Connection - Res	\$23.80	\$23.25	(\$0.55)	-2%
Premises Visit - Bus	\$56.00	\$30.75	(\$25.25)	-45%
Premises Visit - Res	\$56.00	\$30.75	(\$25.25)	-45%
Supercedure - Bus	\$30.80	\$21.50	(\$9.30)	-30%
Supercedure - Res	\$16.80	\$14.00	(\$2.80)	-17%
Non-Pay Reconnect - Bus	\$61.60	\$46.25	(\$15.35)	-25%
Non-Pay Reconnect - Res	\$36.85	\$23.25	(\$13.60)	-37%
FEX Installation - Bus	\$75.00	\$115.75	\$40.75	54%
FEX Installation - Res	\$75.00	\$75.25	\$0.25	0%
DID Activation of Reserved No.	\$70.00	\$77.00	\$7.00	10%
IntraLATA Lease Line & Private Line Termination	\$2.50	\$3.00	\$0.50	20%
IntraLATA Lease Line & Private Line Installation	\$10.00	\$23.00	\$13.00	130%
Lifeline - Initial Installation	\$8.40	\$7.00	(\$1.40)	-17%
Lifeline - Change in Grade of Service	\$6.53	\$7.00	\$0.47	7%

Appendix D, Resolution No. T-15998
(continue)
Rate Design Summary
Test Year 1997

SERVICE TYPES	PRESENT RATES	ADOPTED RATES	\$ RATE CHANGE	% RATE CHANGE
MISCELLANEOUS SERVICE				
CUSTOM CALLING				
Call Return Bus	\$4.95	\$5.00	\$0.05	1%
Call Return Res	\$3.95	\$3.50	(\$0.45)	-11%
Repeat Dialing Bus	\$4.95	\$4.25	(\$0.70)	-14%
Repeat Dialing Res	\$3.95	\$3.50	(\$0.45)	-11%
Priority Ringing Bus	\$4.95	\$4.25	(\$0.70)	-14%
Priority Ringing Res	\$3.95	\$4.00	\$0.05	1%
Selective Call Forwarding Bus	\$4.95	\$5.00	\$0.05	1%
Selective Call Forwarding Res	\$3.95	\$3.50	(\$0.45)	-11%
Selective Call Rejection Bus	\$4.95	\$5.00	\$0.05	1%
Selective Call Rejection Res	\$3.95	\$4.00	\$0.05	1%
Selective Call Acceptance Bus	\$4.95	\$4.50	(\$0.45)	-9%
Selective Call Acceptance Res	\$3.95	\$3.50	(\$0.45)	-11%
Call Trace Bus	\$4.95	\$4.00	(\$0.95)	-19%
Call Trace Res	\$3.95	\$4.00	\$0.05	1%
Call Forwarding Bus	\$3.00	\$3.75	\$0.75	25%
Call Forwarding Res	\$2.00	\$2.50	\$0.50	25%
Call Waiting/Cancel Call Waiting Bus	\$4.65	\$6.25	\$1.60	34%
Call Waiting/Cancel Call Waiting Res	\$3.00	\$3.75	\$0.75	25%
Three Way Calling Bus	\$4.65	\$6.25	\$1.60	34%
Three Way Calling Res	\$3.00	\$3.75	\$0.75	25%
Speed Calling 8 Bus	\$3.50	\$4.40	\$0.90	26%
Speed Calling 8 Res	\$2.00	\$2.50	\$0.50	25%
Speed Calling 30 Bus	\$5.00	\$6.25	\$1.25	25%
Speed Calling 30 Res	\$3.50	\$4.40	\$0.90	26%
Ring Plus Bus	\$4.65	\$5.25	\$0.60	13%
Ring Plus Res	\$3.50	\$5.25	\$1.75	50%
Toll Restriction Bus	\$4.00	\$3.00	(\$1.00)	-25%
Toll Restriction Res	\$2.65	\$2.50	(\$0.15)	-6%
Two Feature Discount Bus	(\$1.95)	(\$2.50)	(\$0.55)	28%
Two Feature Discount Res	(\$1.00)	(\$1.25)	(\$0.25)	25%
Three Feature Discount Bus	(\$3.70)	(\$3.75)	(\$0.05)	1%
Three Feature Discount Res	(\$2.50)	(\$1.85)	\$0.65	-26%
Four Feature Discount Bus	(\$7.35)	(\$5.25)	\$2.10	-29%
Four Feature Discount Res	(\$5.00)	(\$2.50)	\$2.50	-50%
Five or more Discount Bus	(\$10.00)	(\$6.50)	\$3.50	-35%
Five or more Discount Res	(\$7.50)	(\$3.20)	\$4.30	-57%

Appendix D, Resolution No. T-15998
(continue)
Rate Design Summary
Test Year 1997

SERVICE TYPES	PRESENT RATES	ADOPTED RATES	\$ RATE CHANGE	% RATE CHANGE
MISCELLANEOUS SERVICE				
Inside Wire & Maintenance	\$1.00	\$1.00	\$0.00	0%
Telephone Answering Service - up to 1/4 mile	\$9.40	\$9.40	\$0.00	0%
Telephone Answering Service - beyond 1/4 mile	\$11.25	\$11.25	\$0.00	0%
Line Extensions	\$65.00	\$65.00	\$0.00	0%
FOREIGN EXCHANGE SERVICE				
Access Line Business	\$18.60	\$26.80	\$8.20	44%
Access Line Residence	\$9.30	\$10.00	\$0.70	8%
Mileage per 1/4 mile Bus	\$3.00	\$4.00	\$1.00	33%
Mileage per 1/4 mile Res	\$3.00	\$4.00	\$1.00	33%
DIGITAL CENTREX				
Intragroup Calling Service Line	\$10.70	\$10.70	\$0.00	0%
Basic Features	\$3.75	\$3.75	\$0.00	0%
Enhanced Features	\$2.00	\$2.00	\$0.00	0%
Optional Features	\$1.50	\$1.50	\$0.00	0%
Additional Features	\$0.25	\$0.25	\$0.00	0%
Joint Use	\$7.00	\$0.00	(\$7.00)	-100%
DID 100 Numbers or Less	\$10.00	\$209.50	\$199.50	1995%
Interexchange Receiving Service	\$6.25	\$0.00	(\$6.25)	-100%
Switched 56 Data Service	\$45.00	\$45.00	\$0.00	0%
Directory Assistance Res	\$0.25	\$0.35	\$0.10	40%
Directory Assistance Bus	\$0.25	\$0.35	\$0.10	40%
IntraLata Lease Line & Private Line Mileage	\$2.25	\$4.00	\$1.75	78%
Eliminate 8.57% IntraLATA Surcharge	8.57%	0.00%		
Interim Credit Applicable to Local Billing		12.22%		

Appendix E, Resolution T-15998

Comparison of Current and Adopted Depreciation Rates
Test Year 1997

Acct. No.	Description	Total Company			1997 Depreciation Accrual
		Average 1997 Balance	Current Dép. Rate	Adopted Dép. Rate	
21120	Motor Vehicles	\$214,894	5.90%	4.70%	\$10,100
21160	Other Work Equipment	\$403,786	6.60%	0.40%	\$1,615
21210	Buildings	\$1,167,565	5.10%	1.90%	\$22,184
21220	Furniture	\$75,604	5.40%	3.10%	\$2,344
21230	Office Equipment	\$66,113	5.40%	8.00%	\$5,289
21240	General Purpose Computer	\$10,518	5.40%	4.40%	\$463
22120	COE-Digital Elec Switch	\$3,739,159	9.90%	9.10%	\$340,263
22310	COE-Radio/Mw System	\$513,227	9.90%	5.20%	\$26,688
22320	COE-Circuit Equipment	\$2,651,188	9.90%	4.80%	\$127,257
23510	Public Telephone Equipment	\$100,200	9.10%	7.70%	\$7,715
23620	Other Terminal Equipment	\$3,006	9.10%	7.70%	\$231
24110	Pole Lines	\$365,125	7.70%	7.10%	\$25,924
24210	Aerial Cable	\$782,140	7.10%	8.80%	\$68,828
24211	Aerial Cable Fiber	\$0	7.10%	8.80%	\$0
24220	Underground Cable	\$270,078	3.90%	4.40%	\$11,883
24221	Underground Cable Fiber	\$0	3.90%	4.60%	\$0
24230	Buried Cable	\$14,390,589	4.70%	4.30%	\$618,795
24231	Buried Cable Fiber	\$13,666	4.70%	4.00%	\$547
24310	Aerial Wire	\$15,270	3.90%	17.90%	\$2,733
24410	Underground Conduit	\$142,151	2.30%	1.90%	\$2,701
	Total	\$24,924,279			\$1,275,561