PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Telecommunications Division
Market Structure Branch

RESOLUTION T-16001
April 23, 1997

R E S O L U T I O N

RESOLUTION T-16001. THE HAPPY VALLEY TELEPHONE COMPANY (U-1010-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. 158, FILED ON DECEMBER 28, 1995.

SUMMARY

This Resolution authorizes a general rate decrease of $38,138 for Happy Valley Telephone Company (HVT), based on an overall rate of return of 10.00%. Consistent with this rate decrease, we restructure HVT's rates and credit its customers accordingly, to refund overcollected charges from January through April, 1997. The overcollected charges shall be refunded over an eight month period from May through December, 1997 in a Billing Surcharge reduction of 1.70%.

Appendices A, B and C detail the adopted operating revenues, expenses and rate base (at adopted rates) for HVT. Appendix D details adopted monthly rates and credits for HVT ratepayers, and Appendices E and F contain adopted depreciation rates for HVT.

BACKGROUND

HVT is a local exchange carrier (LEC) providing telephone service to portions of Trinity, Shasta and Tehama Counties with headquarters in Anderson, California. HVT serves approximately 2,800 access lines in five exchanges including: Olinda, Igo, Platina, Minersville and Trinity Center.

On December 28, 1995 HVT filed Advice Letter (A.L.) 158 in response to Ordering Paragraph No. 45 of D.94-09-065, which required small LECs to file a general rate case (GRC) on or before December 31, 1995. HVT has chosen a test year of 1997 in this A.L. filing. Also, in D.94-09-065 the Commission permitted small LECs to request regulatory treatment under the New Regulatory Framework (NRF) authority through a formal application process. HVT has not filed for such authority. According to HVT management HVT's last GRC before the Commission was in the 1950's. No records of that A.L., Resolution or Decision were found.

In A.L. No. 158, HVT requested the following:

Total Operating Revenues	$2,954,632
Total Operating Expenses	2,031,455
Total Operating Taxes	377,818
Total Rate Base	5,143,859

At present rates the net operating income from HVT's estimates is $545,359 resulting in a 10.60% rate of return on intrastate rate base. Since HVT is requesting an 11.50% rate of return on intrastate rate base the resulting operating deficit is $53,928 (5.39%). HVT requests that the majority of this deficit be recovered by a combination of a reduced billing surcharge and revised rates in the following tariff schedules: A-1 Local Access Line Service, A-3 Mileage Rates, and A-7 Directory Listings.

NOTICE/PROTESTS

HVT has stated that a copy of A.L. No. 158 and accompanying tariff sheets were mailed to competing and adjacent utilities and/or other utilities. Notice of A.L. No. 158 was published in the Commission's Daily Calendar of December 30, 1995.

HVT has notified its customers of A.L. No. 158 by billing insert. One protest to A.L. No. 158 was received and HVT is investigating this problem relating to Internet access. One customer informally expressed concerns about the burdensome amount of advertising from HVT.

The Telecommunications Division (TD) held a Public Meeting in Olinda, California on April 2, 1996 to apprise HVT's customers of the Commission's role in GRC process and to collect public comments regarding HVT's provision of service, rates and quality of service. Five customers attended the public meeting and voiced concerns about high rates for rural LECs when compared to Pacific Bell and certain desired new services.

DISCUSSION

Results of Operations and Revenue Requirement

Attached Appendix A details the comparison of intrastate results of operation between HVT and TD staff at present rates. Appendix B details intrastate results of operations at both present and adopted rates for the test year 1997. Appendix C details the net to gross multiplier calculation for HVT to arrive at a revenue requirement change, a reduction of $38,138, to make HVT whole for the test year 1997 with an adopted rate of return on intrastate rate base of 10.00%.

Operating Revenues

In attached Appendix A, HVT's and TD's estimates of present rate operating revenue estimates are $2,954,632 and $3,063,447, respectively. These differences are accounted for in the calculation of local revenues (unlisted/nonpublished telephone number charges), in intrastate revenue settlement calculations (toll and access pool rates of return), and in calculation of intraLATA Billing Surcharge.

Senate Bill 1035 (Chapter 675, 1996), signed into law on September 20, 1996, prohibits any telephone corporation in a noncompetitive market from charging any subscriber for having an unlisted or unpublished telephone number. For the test year, HVT's estimated annual revenues from this service is $1,919. SB 1035 states that the charge shall not be eliminated until offsetting rates are implemented by the Commission. TD staff proposes that the charge be eliminated as of May 1, 1997, but that the $1,919 annual revenue requirement remain as part of local revenues, and be recovered as part of the local revenues.

In estimating intrastate access and toll revenues, HVT calculated revenues used a 3.00% pool rate of return for intrastate access, and a 3.00% rate of return for intrastate toll revenues. Consistent with the agreement between the five small LECs and the Office of Ratepayer Advocates (ORA) for the GRCs filed as

Applications with the Commission, TD employed a 3.32% pool rate of return for intrastate access and a 5.20% rate of return for intrastate toll to estimate settlement revenues.[1] TD's estimate of total access and toll settlement revenues, $2,039,775, exceeds HVT's estimate of $1,947,730 by $92,045. We agree with TD's use of a 3.32% pool rate of return for intrastate access and a 5.20% rate of return for intrastate toll and will therefore adopt TD's settlement revenue estimate of $2,039,775.

In estimating revenues from intraLATA Billing Surcharge, HVT calculated revenues using an estimated billing base of $912,609. TD adjusted estimated billing base to $1,131,230 to reflect intraLATA service revenues. TD's estimate of local revenues, based on an 8.57% intraLATA Billing Surcharge, exceeds HVT's estimate by $18,735. We agree with TD's use of the adjusted billing base for the test year.

Depreciation

HVT's current Depreciation Study for represcription of depreciation rates for all telephone plant as of January 1, 1996 was submitted as a workpaper during in conjunction with A.L. No. 158. We authorize the straight line remaining life depreciation rates as set forth in attached Appendices E and F based upon the following adjustments suggested by TD: Average service life for central office equipment (digital switching, Account No. 22120) is 15 years and average service life of certain outside plant (cable, line and wire: Account Nos. 24110, 24210, 24221, 24230) is 17 years.

These adopted rates are approved for the purposes of ratemaking in this GRC for test year 1997 for a depreciation expense of $909,947 based on plant in service of $11,070,311. Acceptance of these depreciation rates is for accounting purposes only.

Operating Taxes

Estimates of both Federal and State income tax for the test year are based upon an updated tax rate for California of 8.84% which

[1] Five small LECs complied with D.94-09-065, O.P. No. 45, by filing GRCs by Application, they were: California-Oregon Telephone Company (A.95-12-073), Calaveras Telephone Company (A.95-12-075), Ducor Telephone Company (A.95-12-076), Foresthill Telephone Company (A.95-12-078), and Sierra Telephone Company (A.95-12-077). The Applicants and ORA reached agreements on several issues including rates of return on settlement pools to estimate settlement revenues.

became effective on January 1, 1997. We adopt operating taxes based on our adopted results of operations.

Rate Base

With two exceptions there is no disagreement between HVT and TD on estimated rate base for the test year. TD has requested that HVT reduce rate base for all plant in service relating to providing one-way paging and two-way mobile radio telephone service ($35,342). TD has also requested that HVT remove all Rural Telephone Bank (RTB) stock from rate base ($29,440). TD and HVT agree that these items should not be included in rate base and earning a rate of return, therefore we adopt an estimated average rate base for the test year of $5,034,184.

Cost of Capital

Appendix B presents TD's proposed changes in rates to achieve the authorized revenue requirement. A major difference between TD staff and HVT concerns the overall rate of return (ROR). TD originally recommended that the Commission adopt the 9.00% figure recommended by ORA in the Small LEC applications, instead of the 11.50% proposed by HVT. 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, A.95-12-077). TD concurs that the 10.00% ROR adopted for those five telephone companies should be adopted for HVT.

HVT requests a capital structure of 33.00% equity and 67.00% debt and TD concurs. Consistent with our treatment for the above-mentioned LECs, we decline to adopt a specific capital structure. However, we do find the proposed common equity ratio 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).

HVT proposes to account for holding RTB stock with an upwards adjustment to rate base. The Decision issued for Sierra

Telephone Company in A.95-12-077 adopts a different treatment for RTB stock, excluding RTB stock from the outstanding balance of long-term debt when calculating the embedded cost of debt. TD concurs with the treatment adopted in the decisions for the above-mentioned LECs. TD's recommendation is reasonable and should be adopted, and HVT's proposal to add its investment in RTB stock to rate base should not be adopted.

HVT's estimated 1997 cost of debt is 5.61%. TD calculated a 5.63% cost of debt. This difference results from TD excluding HVT's RTB stock from its outstanding balance of long-term debt. TD's proposed cost of debt of 5.63% for the test year is reasonable and should be adopted.

TD recommends that when any RTB stock is redeemed, HVT should file an application with this Commission requesting a determination of the appropriate ratemaking treatment for the gain on the redemption of the RTB stock. TD's recommendation 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 telecommunications companies in the above decisions results in a 12.15% equity return for HVT, which is well within the reasonable range of common equity we also adopted in those decisions for small telephone companies. Accordingly, we find the use of 10.00% overall ROR to calculate the authorized revenue requirement to be reasonable.

	Ratio	Cost	Weighted Cost
Long Term Debt	33.00%	5.63%	1.86%
Equity	67.00%	12.15%	8.14%
Total	100.00%		10.00%

HVT 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 $93,636 interest deduction by multiplying the adopted rate base by the 1.86% reasonable weighted cost of debt.

California High Cost Fund-A

Small LECs were authorized and ordered by D.88-07-022 and D.91-09-042 to file with the Commission, by October 1 of each year, advice letters setting forth calculations of their California High Cost Fund (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 on 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 HCF is being requested, whichever amount is lower."

CHCF-A advice letters are required of each small LEC annually, regardless of whether the LEC is actually requesting to draw funds from the CHCF-A. In both the annual CHCF-A advice letters and in the Commission Resolutions ruling on them, it has become customary to refer to the amount a LEC calculates as its revenue shortfall, due to the net settlements effects of specified events beyond its control, as the LEC's "CHCF-A requirement". This phrase is used regardless of whether the LEC is actually requesting 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, potentially, fund request.

Resolution T-15987, January 13, 1997, deferred the determination of HVT's California High Cost Fund (CHCF-A) requirement for 1997, as filed in Advice Letter No. 171 (November 1, 1996), to its present GRC. In that advice letter, HVT calculated its 1997 CHCF-A requirement to be $664,973, but did not request to draw funds from the CHCF-A pending the outcome of its GRC. Since HVT is found herein to be overearning by $38,138 in 1997, we find that its actual 1997 CHCF-A requirement is zero. In its 1998 CHCF-A advice letter filing, HVT should use zero as its 1997

CHCF-A requirement, from which the calculation of its 1998 CHCF-A requirement begins.

Deregulation of Pay Telephone Service

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

HVT's A.L. No. 177, filed January 15, 1997, to detariff its payphone operations, will become effective on April 15, 1997. HVT, however, does not address the ratemaking aspects associated with deregulation of its payphones. Therefore we shall order HVT to file a new A.L., 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 A.L. No. 177.

Rate Design

TD's recommendation for rates and charges to be adopted in this Resolution for HVT are detailed in attached Appendix D with further explanation below by tariff schedule. If a service has been eliminated but poses no revenue impact, the service is not detailed in Appendix D.

<u>Schedule A-1 Local Access Service</u>. HVT proposed to eliminate residential 4-Party service in the Igo and Platina Exchanges and to eliminate business 2-Party service in the Igo, Olinda and Platina Exchanges. This is adopted as detailed in Appendix D.

HVT proposed to reduce rates for businesses in the Trinity Exchange. This is adopted as detailed in Appendix D.

<u>Schedule A-2 Suburban Service</u>. HVT proposed to eliminate business 10-Party service in the Igo, Olinda and Platina Exchanges. This is adopted as detailed in Appendix D.

<u>Schedule A-3 Mileage Rates</u>. HVT proposed to reduce certain mileage rates for the Trinity Exchange. This is adopted as detailed in Appendix D.

Schedule A-5 Semi-Public Coin Box Service. HVT proposed to eliminate minimum daily rates in the Platina exchange. This is adopted.

Schedule A-7 Directory Listing. As mentioned in the Operating Revenues section above HVT is prohibited by Senate Bill 1035 from charging any subscriber for having an unlisted or unpublished telephone number. TD staff proposes that the charge be eliminated as of May 1, 1997, but that the annual revenue requirement remain as part of local revenues, and be recovered as part of the local revenues. This is adopted as detailed in Appendix D.

Schedule A-12 Interexchange Receiving Service. HVT proposed to eliminate interexchange receiving service. This is adopted.

Schedule A-17 Multi-Element Service Charges. In A.L. No. 158 HVT proposed to eliminate service charges for premises visits for all exchanges. This is adopted.

Schedule A-23 Inside Wire Maintenance. In A.L. No. 158 HVT proposed to eliminate charges for the first 15 minutes of a premises visit for all exchanges. This is adopted.

Schedule A-27 Intra-Building Network Cable. In A.L. No. 158 HVT proposed to eliminate charges for the first 15 minutes of a premises visit for all exchanges. This is adopted.

Schedule L-1 Mobile Telephone Service. TD staff recommends eliminating tariffs for one-way paging services which has been deregulated, and two-way radio telephone services which has been detariffed. As mentioned above in the Rate Base section TD and HVT have agreed to reduce rate base for all plant in service relating to providing one-way paging and two-way mobile radio service. This is adopted.

Surcharge/Credit

Pending a final determination on HVT's GRC filing, the Commission, (through its Resolution No. T-15970, dated November 26, 1996), authorized that the current rates of HVT continue on January 1, 1997. In this resolution, the Commission also ordered that after it decides on HVT's GRC filing and adopts HVT's final rates, an appropriate surcharge or a credit shall be calculated. A surcharge will apply to collect additional rates charged from January to April, 1997, while a credit will apply over the same period of time to refund overcollected rates. In compliance with Resolution No. T-15970, we have calculated a 4.47% surcharge which is a reduction in the billing surcharge consistent with HVT's adopted final rates. The Surcharge reduction is detailed in Appendix C and will be refunded from May to December, 1997. To implement the rate changes and credits detailed in Appendices C and D, HVT should file a Supplement to A.L. No. 158.

FINDINGS

1. HVT filed its GRC A.L. No. 158 on December 28, 1995, in compliance with D.94-09-065.

2. For the 1997 test year at present rates, HVT requests the following:

Net Operating Income	$545,359
Rate Base	$5,143,859
Rate of Return on Rate Base	10.60%

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

Net Operating Income	$526,301
Rate Base	$5,034,184
Rate of Return on Rate Base	10.45%

4. For the 1997 test year the differences between HVT and TD result from use of different: pool settlement rates of return, local revenues for unlisted/nonpublished numbers, amounts allowed in rate base and rates of return on rate base.

5. TD's proposals to eliminate HVT's charge for nonpublished service effective April 1, 1997 and to retain the revenue associated with said service as part of Schedule A-1, (Network Access Line Service), are reasonable.

6. We find TD's recommended pool rates of return of 2.32% (for intrastate access) and 5.20% (for intrastate toll) reasonable.

Therefore, we adopt TD's recommended test year 1997 intrastate access and toll revenues contained in Appendix A.

7. We find TD's recommendation to adjust intraLATA Billing Surcharge billing base to $1,131,230 for the test year to be reasonable.

8. We find HVT's Depreciation Study acceptable for ratemaking purposes as updated by TD.

9. A corporate tax rate for California of 8.84% became effective on January 1, 1997. We adopt operating taxes in Appendix A based on our adopted results of operations.

10. HVT's intrastate rate base for the test year 1997 should be reduced for the following items: plant in service relating to providing one-way paging and two-way mobile radio service and Rural Telephone Bank (RTB) stock. We adopt an average rate base for the test year of $5,034,184.

11. The reasonable rate of return on rate base for HVT is 10.00% and is adopted based on the following capital structure:

	Ratio	Cost	Weighted Cost
Long Term Debt	33.00%	5.63%	1.86%
Equity	67.00%	12.15%	8.14%
Total	100.00%		10.00%

12. Resolution T-15987, January 13, 1997, deferred the determination of HVT's CHCF-A requirement for 1997, as filed in Advice Letter No. 171 (November 1, 1996), to its present GRC.

13. Since HVT is found to be overearning by $38,138 for 1997, we find that its actual CHCF-A requirement for 1997 is zero, rather than $664,973 as stated in its Advice Letter No. 171.

14. HVT filed A.L. No. 177 to detariff its payphones operations, effective April 15, 1997, pursuant to FCC Order (Docket 96-388).

15. HVT has not addressed the ratemaking aspects of payphone deregulation associated with its pay telephone service

detariffing accomplished in A.L. No. 177, effective April 15, 1997.

16. HVT should file a new A.L. 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 A.L. No. 177.

17. TD's recommendation for changes to rates, charges and services for HVT are reasonable, reflect our policies and should be adopted as detailed in Appendix D.

18. Pursuant to the provision of Resolution No. T-15970 dated November 26, 1996, we have calculated credits for HVT's customers as indicated in Appendix C to refund overcharges from January to April, 1997. Consistent with the credit amounts and rates adopted in Appendix D, HVT should file a supplement to A.L. No. 158 to implement these changes.

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 the Happy Valley Telephone Company.

2. The rate design changes, including the Billing Surcharge reduction to 6.17%, adopted in Appendix D are made effective on January 1, 1997. However, pursuant to Resolution No. T-15970 dated November 26, 1996, the Happy Valley Telephone Company shall adjust the adopted Billing Surcharge to 4.47%, for the period of May to December 1997 only, to refund overcollection of revenues from January to April 1997.

3. The Happy Valley Telephone Company shall file a supplement to Advice Letter No. 158, effective on a five days notice, to implement the rate design adopted in Ordering Paragraph No. 2 above.

4. The Depreciation Study submitted by the Happy Valley Telephone Company in support of Advice Letter No. 158 is adopted for ratemaking purposes.

5. The request by Happy Valley Telephone Company in Advice Letter No. 171, November 1, 1996, for a determination that $664,973 is its CHCF-A requirement for 1997 is denied.

6. The Happy Valley Telephone Company shall use zero as its 1997 CHCF-A requirement when it files its 1998 CHCF-A advice letter.

7. The Happy Valley Telephone Company 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. 177.

This Resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on April 23, 1997. The following Commissioners approved it.

Wesley Franklin
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-16001

Comparison of TD's and Happy Valley's Estimated Intrastate Results of Operations
at Present Rates

Test Year 1997

Line Number		Intrastate Estimates: Happy Valley	Intrastate Estimates: TD	Happy Valley Exceeds TD: Amount	Happy Valley Exceeds TD: Percent
	OPERATING REVENUES				
1	Local Network Revenues	$1,000,850	$1,017,666	($16,816)	-1.7%
2	Network Access Service-USF	$948,492	$948,492	$0	0.0%
3	Network Access Service-IntraState	$467,272	$503,119	($35,847)	-7.1%
4	Toll Service	$426,126	$474,263	($48,137)	-10.1%
5	B & C Intrastate	$105,840	$113,901	($8,061)	-7.1%
6	Other Operating	$8,816	$8,816	$0	0.0%
7	LESS: Uncollectibles	($2,764)	($2,810)	$46	-1.7%
8	TOTAL OPER. REV.	$2,954,632	$3,063,447	($108,815)	-3.6%
	OPERATING EXPENSES				
9	Depreciation & Amortization	$749,790	$909,947	($160,157)	-17.6%
10	Plant Specific	$292,225	$292,225	$0	0.0%
11	Plant Non-Specific (less Depr.)	$195,576	$195,576	$0	0.0%
12	Customer Operations	$336,013	$336,013	$0	0.0%
13	Corporate Operations	$464,615	$464,615	$0	0.0%
14	Other Income & Expenses	($6,764)	($6,764)	$0	0.0%
15	TOTAL OPER. EXPS.	$2,031,455	$2,191,612	($160,157)	-7.3%
	OPERATING TAXES				
16	Operating ITC	($17,766)	($17,766)	$0	0.0%
17	Property Tax	$96,619	$96,619	$0	0.0%
18	Other Taxes	$41	$41	$0	0.0%
19	Federal Income Tax	$235,216	$211,514	$23,702	11.2%
20	Amort. Deferred FIT	($1,822)	($1,822)	$0	0.0%
21	State Income Tax	$68,909	$60,327	$8,582	14.2%
22	Amort. Deferred SIT	($3,379)	($3,379)	$0	0.0%
23	TOTAL OPER. TAXES	$377,818	$345,534	$32,284	9.3%
24	NET OPERATING INCOME	$545,359	$526,301	$19,058	3.6%
	RATE BASE (Average)				
25	Plant in Service	$11,105,653	$11,070,311	$35,342	0.3%
26	Materials & Supplies	$22,902	$22,902	$0	0.0%
27	Working Cash	$191,513	$192,277	($764)	-0.4%
28	RTB Stock	$29,440	$0	$29,440	100.0%
29	LESS: Depreciation Reserve	($5,578,607)	($5,624,264)	$45,657	-0.8%
30	LESS: Deferred Tax	($622,634)	($622,634)	$0	0.0%
31	LESS: Customer Deposits	($4,408)	($4,408)	$0	0.0%
32	TOT. AVG. RATE BASE	$5,143,859	$5,034,184	$109,675	2.2%
33	RATE OF RETURN	10.60%	10.45%		

Appendix B, Resolution No. T-16001

Results of Operations at Present and Adopted Rates

Test Year 1997

Line Number		Total Intrastate	Proposed Changes in Rates	Adopted Intrastate
	OPERATING REVENUES			
1	Local Network Revenues	$1,017,666	($38,138)	$979,529
2	Network Access Service-USF	$948,492		$948,492
3	Network Access Service-IntraState	$503,119		$503,119
4	Toll Service	$474,263		$474,263
5	B & C Intrastate	$113,901		$113,901
6	Other Operating	$8,816		$8,816
7	LESS: Uncollectibles	($2,810)	$105	($2,705)
8	TOTAL OPER. REV.	$3,063,447	($38,032)	$3,025,414
	OPERATING EXPENSES			
9	Depreciation & Amortization	$909,947		$909,947
10	Plant Specific	$292,225		$292,225
11	Plant Non-Specific (less Depr.)	$195,576		$195,576
12	Customer Operations	$336,013		$336,013
13	Corporate Operations	$464,615		$464,615
14	Other Income & Expenses	($6,764)		($6,764)
15	TOTAL OPER. EXPS.	$2,191,612		$2,191,612
	OPERATING TAXES			
16	Operating ITC	($17,766)		($17,766)
17	Property Tax	$96,619		$96,619
18	Other Taxes	$41		$41
19	Federal Income Tax	$211,514	($11,788)	$199,726
20	Amort. Deferred FIT	($1,822)		($1,822)
21	State Income Tax	$60,327	($3,362)	$56,965
22	Amort. Deferred SIT	($3,379)		($3,379)
23	TOTAL OPER. TAXES	$345,534	($15,150)	$330,384
24	NET OPERATING INCOME	$526,301	($22,882)	$503,418
	RATE BASE (Average)			
25	Plant in Service	$11,070,311		$11,070,311
26	Materials & Supplies	$22,902		$22,902
27	Working Cash	$192,277		$192,277
28	RTB Stock	$0		$0
29	LESS: Depreciation Reserve	($5,624,264)		($5,624,264)
30	LESS: Deferred Tax	($622,634)		($622,634)
31	LESS: Customer Deposits	($4,408)		($4,408)
32	TOT. AVG. RATE BASE	$5,034,184		$5,034,184
33	RATE OF RETURN	10.45%		10.00%

Appendix C, Resolution No. T-16001

Calculation of Happy Valley Telephone's Net to Gross Multiplier, Incremental Revenue Requirement and Billing Surcharge

Test Year 1997

<u>Calculation of Net to Gross Multiplier</u>

Gross Operating Revenues		1.00000
Uncollectibles	0.26%	(0.00276)
Net Revenues		0.99724
State Income Tax Rate (at 8.84% eff. 1/1/97)	8.84%	0.08816
Federal Taxable Income		0.90908
Federal Income Tax (at 34.00%)	34.00%	0.30909
Net Income		0.59999
Net to Gross Revenue Multiplier		1.666682125

<u>Calculation of Incremental Revenue Requirement</u>

State Rate Base		$5,034,184
State Return on Rate Base (at 10.00%)	10.00%	$503,418
State Net Operating Income		$526,301
Net Deficit or (Over Earnings)		($22,882)
Incremental Gross Revenue Requirement (Net Deficit * N to G Multiplier)		($38,138)

<u>Calculation of Reduced Billing Surcharge</u>

Incremental Gross Revenue Requirement	($38,138)
Billing Surcharge Amount at Present Rates	$96,946
Billing Surcharge at Proposed Rates	$58,809
Revenues Changes for Adopted Rates (See Appendix D)	$10,312
	$69,121
Annual Billing Base at Proposed Rates	$1,120,918
Billing Surcharge Percentage (Surcharge at Proposed Rates/Billing Base)	6.17%

<u>Calculation of Billing Credit</u>

Overcollected Revenues (January-April 1997)	$12,713
Monthly Amount Subject to Refund (May-December 1997)	$1,589
Monthly Local Billing Base	$93,410
Credit Percentage	1.70%
Adjusted Billing Surcharge for May-December 1997	4.47%

Appendix D, Resolution No. T-16001
Present and Adopted Rates and Credit Calculation for Happy Valley Telephone

Tariff Schedule	Units	Present Rates	Present Annual Revenues	Units	Adopted Rates	Adopted Annual Revenues	Revenue Changes for Adopted Rates
<u>Schedule A-1 Local Bus</u>							
Trinity 1-Party Touchtone	63	$45.15	$34,133	63	$35.00	$26,460	($7,673)
Trinity PBX Sys Touchtone	2	$56.15	$1,588	2	$52.50	$1,260	($328)
<u>Schedule A-3 Mileage Rates</u>							
Trinity Ext Mile NC Prop 1st 1/4	12	$5.85	$842	12	$4.00	$576	($266)
Trinity Ext Mile NC Prop Add 1/4	11	$2.95	$389	11	$2.00	$264	($125)
<u>Schedule A-7 Direct Listing</u>							
Non-Published Number	838	$0.15	$1,508	838	$0.00	$0	($1,508)
Non-Published Number Trinity	57	$0.60	$410	57	$0.00	$0	($410)
Total Revenue Changes for Adopted Rates							($10,312)
<u>Schedule A-20 Bill Surcharge</u>							
Billing Surcharge	N/A	8.57%	$96,946	N/A	6.17%	$69,120	($27,826)
TOTAL RATE CHANGES = INCREMENTAL REVENUE REQUIREMENT							($38,138)

Appendix E, Resolution No. T-16001

Annual Depreciation Accrual and Rate Determination for Happy Valley Telephone
Straight Line Remaining Life Method as of January 1, 1996

Acct No.	Description	Gross Plant	Net Salvage	Salvage Amount	Plant Reserve	Net Balance	Average Service Life	Remaining Life	Annual Accrual	% of Gross Plant
21102	Vehicles	$295,930	5%	$14,797	$131,761	$149,372	7	3.04	$49,136	16.60%
21160	Other Work Equipment	$180,235			$64,561	$115,674	15	8.67	$13,342	7.40%
21210	Buildings	$1,244,385			$623,942	$620,443	30	13.96	$44,444	3.57%
21220	Furniture	$86,756			$29,775	$56,981	15	8.81	$6,468	7.46%
21231	Office Equipment	$39,920			$28,303	$11,617	7	2.46	$4,722	11.83%
21232	Company Comm. Equipment	$133,381			$134,940	($1,559)	7	0.83	$19,073	14.29%
21240	Computers & Software	$227,780			$227,780	$0	5	0.71	$45,556	20.00%
22120	COE - Digital Switch	$2,352,525			$1,285,998	$1,066,527	15	9.55	$111,678	4.75%
22320	COE - Circuit Equipment	$1,828,504			$1,466,762	$361,742	10	2.7	$133,979	7.33%
23510	Public Telephone Equipment	$101,615			$103,823	($2,208)	10	2.57	$10,162	10.00%
24110	Pole Lines	$145,633	-33%	($48,059)	$53,853	$139,839	17	5.94	$23,542	16.17%
24210	Aerial Equipment	$603,698	-50%	($301,849)	$187,179	$718,368	17	8.95	$80,265	13.30%
24221	Underground Cable	$109,170			$37,426	$71,744	17	3.2	$22,420	20.54%
24230	Buried Cable	$6,177,006			$2,258,298	$3,918,708	17	6.48	$604,739	9.79%
24310	Aerial Wire	$16,115	-7%	($1,128)	$4,365	$12,878	7	3.85	$3,345	20.76%
24410	Underground Conduit	$201,426			$76,490	$124,936	25	13.71	$9,113	4.52%
	TOTAL	$13,744,079		($336,239)	$6,715,256	$7,365,062			$1,181,983	8.60%

Appendix F, Resolution No. T-16001

Annual Depreciation Accrual and Rate Determination for Happy Valley Telephone
Depreciation Study Comparison With Theoretical Reserve as of January 1, 1996

Acct No.	Description	Gross Plant	Present Deprec. Rate	Present Accrual	Proposed Deprec. Rate	Proposed Accrual	Change in Deprec. Rate	Change in Accrual
21102	Vehicles	$295,930	15.66%	$46,343	16.60%	$49,136	0.94%	$2,793
21160	Other Work Equipment	$180,235	9.14%	$16,473	7.40%	$13,342	-1.74%	($3,132)
21210	Buildings	$1,244,355	4.23%	$52,637	3.57%	$44,444	-0.66%	($8,193)
21220	Furniture	$86,756	13.24%	$11,486	7.46%	$6,468	-5.78%	($5,019)
21231	Office Equipment	$39,920	33.82%	$13,501	11.83%	$4,722	-21.99%	($8,779)
21232	Company Comm. Equipment	$133,381	20.88%	$27,850	14.29%	$19,054	-6.59%	($8,796)
21240	Computers & Software	$227,780	23.70%	$53,984	20.00%	$45,556	-3.70%	($8,428)
22120	COE - Digital Switch	$2,352,525	16.36%	$384,873	4.75%	$111,678	-11.61%	($273,195)
22320	COE - Circuit Equipment	$1,828,504	15.17%	$277,384	7.33%	$133,979	-7.84%	($143,406)
23510	Public Telephone Equipment	$101,615	26.07%	$26,491	10.00%	$10,162	-16.07%	($16,330)
24110	Pole Lines	$145,633	5.53%	$8,054	16.17%	$23,542	10.64%	$15,488
24210	Aerial Equipment	$603,698	5.21%	$31,453	13.30%	$80,265	8.09%	$48,812
24221	Underground Cable	$109,170	4.90%	$5,349	20.54%	$22,420	15.64%	$17,071
24230	Buried Cable	$6,177,006	4.63%	$285,995	9.79%	$604,739	5.16%	$318,744
24310	Aerial Wire	$16,115	11.08%	$1,786	20.76%	$3,345	9.68%	$1,559
24410	Underground Conduit	$201,426	4.53%	$9,125	4.52%	$9,113	-0.01%	($12)
	TOTAL	$13,744,079		$1,252,784		$1,181,964		($70,820)