PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Telecommunications Division
Market Structure Branch

RESOLUTION T-16003
May 6, 1997

# R E S O L U T I O N

RESOLUTION T-16003. KERMAN TELEPHONE COMPANY. (U-1012-C). GENERAL RATE CASE FILING IN COMPLIANCE WITH DECISION NO. 94-09-065, ORDERING PARAGRAPH 45, AND SECTION 454 OF THE PUBLIC UTILITIES CODE.

BY ADVICE LETTER NO. 226, FILED ON DECEMBER 29, 1995.

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## SUMMARY

This Resolution authorizes a general rate reduction of $222,261 or 4.83% for Kerman Telephone Company (Kerman). A net revenue requirement of $479,151 for Kerman Telephone Company for the test year 1997 and a total rate base amount of $4,791,349 is adopted with an authorized overall rate of return figure of 10.00%. Kerman had requested a test year net revenue requirement of $560,109 for a total rate base amount of $4,791,349 for an authorized overall rate of return of 11.69%.

Appendix A contains a comparison of Telecommunications Division (TD) and Kerman 1997 test year intrastate results of operations at present rates. Appendix B contains the results of operations forecast for 1997 with TD's proposed changes in rates. We adopt TD's proposed changes. Appendix C contains the calculations of the net to gross multiplier and incremental revenue requirement and determination of the authorized gross revenue requirement. Appendices C and D include a rate design summary, a surcharge reduction from 8.57% to 1.76% and a reduction in revenue due to an expansion of the base rate area, to reflect the decrease in gross revenue requirement by $222,261. Appendix D contains a computation of the refund that must be made due to the excess rates collected January 1, 1997 through May 31, 1997.

## BACKGROUND

Decision No. 94-09-065, O.P. No. 45, required all small Local Exchange Companies (LECs) to file general rate cases (GRCs) on or before December 31, 1995. The decision also permitted the small LECs to file applications for New Regulatory Framework (incentive regulation) authority by application. Kerman filed Advice Letter No. 226 on December 29, 1995, with its Test Year 1997 GRC filing. Kerman did not file an application seeking NRF authority. Kermans' last GRC filing was in 1983 and was authorized by Resolution No. T-10743.

Kerman is a small rural LEC serving the Kerman Exchange in Fresno County. Kerman estimates that it will serve an average of 5,100 access lines during the test year 1997.

In Advice Letter No. 226, Kerman seeks a 1997 test year total operating revenue requirement of $4,520,612, with total operating expenses of $3,566,314. Taxes, depreciation and amortization amount to $394,189. Net income amounts to $560,109, which for the authorized rate base of $4,791,349, results in an 11.69% overall rate of return. Since at present rates and at their requested rate of return of 11.69%, Kerman estimates it would be overearning by $42,998 in total operating revenues. Kerman proposes to refund this amount by expanding the base rate area by ½ mile and thus reduce mileage revenues in suburban areas (Schedule A-4), decreasing multi-element service charges (Schedule A-24) and discontinue the offering of mobile telephone service (Schedule L-1). Since the requested revenue or rate changes would decrease earnings below the requested rate of return, Kerman proposed to increasing its 8.57% billing surcharge (Schedule Z-1) to 11.62%. All changes were to be effective January 1, 1997.

## NOTICE/PROTESTS

Kerman states that a copy of the Advice Letter and related tariff sheets was mailed to competing and adjacent utilities and/or other utilities. Notice of Advice Letter No. 226 was published in the Commission Daily Calendar of December 29, 1995. Notice of the Advice Letter No. 226 filing was made to customers by bill insert. No protest to this Advice Letter has been received.

Staff of the TD held a Public Meeting in Kerman on March 28, 1996, at which Kerman was offered an opportunity to explain its GRC filing to subscribers and subscribers were offered the opportunity to ask questions of Kerman and the TD staff. No subscribers attended the Public Meeting.

## DISCUSSION

### Results of Operations

Appendix A compares the test year 1997 revenue estimates made by the TD staff and Kerman.

TD made several adjustments to the estimate of expenses provided by Kerman for test year 1997. Plant related costs, $2,000, related to discontinued Mobile Radio Telephone Service were eliminated. Legal and consulting expenses, $10,000, related to the local competition proceeding and $20,000 of marketing expense increase were eliminated because these expenses were estimated with increases far greater than the historical trend in expense growth. In addition, both the legal consulting and the marketing expense growth estimates appear to be related to proceedings that will probably not be continuing expenses. TD made no adjustments to rate base.

TD also adjusted the access and toll pool settlements estimated by Kerman. Kerman used the rate of 4.20% for toll settlements and 2.32% for access rates of return. TD used 5.20% for toll settlements and 3.32% for access as rates of return. The different rates resulted in an increase of $25,943 for access revenue and $23,444 for toll settlements revenue.

The TD staff estimates total 1997 net operating income of $612,485 at present rates. Differences between Kerman and staff result from changes in the state income tax rate (8.84%, effective January 1, 1997), higher access and toll pool settlement rates of return agreed to by the Commission's Office of Ratepayer Advocates (ORA), and the small LECs who filed General Rate Case Applications. TD Staff also reduced some Plant Specific and Customer Operations expenses as described above. TD believes that the allowed expenses fairly reflect the costs that can be expected to be incurred in an average year. TD staff requested updates from Kerman reflecting actual, rather than estimated year end 1995 account balances. Except as reflected in adjustments, we find TD's estimates to be reasonable.

Rate of Return

Appendix B presents TD's proposed changes in rates to achieve the authorized revenue requirement. A major difference between TD staff and Kerman concerns the overall rate of return (ROR). TD staff originally recommended that the Commission adopt a 9.00% figure instead of the 11.69% proposed by Kerman. However, an 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 Kerman.

Consistent with our treatment for the other small size telephone companies, we decline to adopt a specific capital structure. However we do find TD's 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 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).

TD recommends a cost of debt of 5.64%, based on the test year average embedded cost of debt of the eleven other small telephone companies which have 1997 test year general rate cases pending before the Commission on an advice letter basis and the five that filed by application. TD's proposal to use the average cost of comparable small telephone companies reasonably reflects the imputation of debt cost based on a series of debt issuance over a period of time. TD's recommended 5.64% cost of debt for the test year is reasonable and should be adopted.

TD recommends that when any Rural Telephone Stock (RTB) is redeemed, Kerman should file an application with the Commission requesting a determination of the appropriate ratemeking 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 11.45% equity return for Kerman, which is well within the reasonable range of common equity we 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 | 25.00% | 5.64% | 1.41% |
| Equity | 75.00% | 11.45% | 8.59% |
| Total | 100.00% | | 10.00% |

TD recommends that the $222,261 decrease in local revenue be achieved by reducing the 8.57% surcharge and expanding the base rate area as proposed by Kerman, a $46,246 decrease. Appendix C presents the net to gross multiplier calculation and summarizes the rate design changes. TD recommends reducing the 8.57% billing surcharge (Schedule Z-1), and reducing mileage revenue in suburban areas (Schedule A-4) by expanding the base rate area. We find TD's recommendations to be reasonable.

Rate Design

Kerman proposes extension of the base rate area for customers paying single party mileage. The change will benefit an average of 2141 customers. The reduction will be about $1.80 per month for the specific group of customers. The total amount of reduction is $46,246 annually. TD concurs with the extension of the base rate area.

Kerman had requested that service ordering, connections and restoral charges be reduced as part of its rate design proposal. TD placed the reduction of surcharges and base rate area expansion as higher priorities because they apply to a larger number of customers. We find TD's recommendations to be reasonable.

Mobile Radio Telephone Service

Kerman also requested that they be allowed to discontinue providing mobile radio telephone services. Their customers will be migrated to cellular telephone services. All of the mobile telephone plant is fully depreciated and all related expenses have been eliminated in the expense adjustments. Forecast revenues for this service were eliminated as part of the adjustments to revenues. TD recommends that Kerman be allowed to discontinue mobile radio telephone services. We concur with TD's recommendation.

Unpublished Numbers

Senate Bill 1035 (Chapter 675, 1996), approved by the Governor, September 20, 1996, prohibits any telephone corporation in a noncompetitive market from charging any subscriber for having an unlisted or unpublished telephone number. Kerman's Schedule A-14, Directory Listings Service, provides unlisted and unpublished service at the rate of $.30 per month. The 1997 estimates for this service is 2667 customers which results in about $9,600.00 revenue per year. 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 June 1, 1997, but that the $9,600.00 annual revenue requirement remain as part of local revenues. We find TD's proposal reasonable.

Since Resolution No. T-15970, November 26, 1996, authorized the present rates of Kerman be made subject to refund as of January 1, 1997 pending a final decision on Kermans' GRC filing, a credit has been calculated to refund excess rates charged between January 1, 1997 and the end of May 1997. The credit is listed in Appendix D and is to be refunded during the month of June 1997. Refunds of $13.73 will be made for each line due to surcharge overcollection. A refund of $9.16 will be made to the customers who paid the suburban mileage charge from January though May 1997. (For the purpose of the refund computation, the actual number of customers in each refund group was used. We find TD's recommended rate changes reasonable. Kerman should file a Supplement to Advice Letter No. 226 implementing the rate design changes adopted in Appendix D.

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 Resolution ruling on them. The term "CHCF-A requirement is used customarily to refer to the amount a LEC calculates as its revenue shortfall due to the net settlements effects of specified events beyond its control. 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, its fund request.

Resolution T-15987, January 13, 1997, deferred the determination of Kermans' California High Cost Fund (CHCF-A) funding request for 1997 made in Advice Letter No. 235 (November 4, 1996) to its present GRC. In that advice letter, Kerman calculated that its 1997 CHCF-A requirement is zero and did not request to draw funds from the CHCF-A pending the outcome of its GRC. Since Kerman is found herein to be overearning by $222,261 in 1997, we find that its actual 1997 CHCF-A requirement is zero. In its 1998 CHCF-A advice letter filing, Kerman should use zero as its 1997 CHCF-A requirement, from which the calculation of its 1998 CHCF-A requirement begins.

<u>Depreciation Study</u>
In workpapers accompanying Advice Letter No. 226, Kerman submitted a Depreciation Study as of January 1, 1995. The TD staff recommends that Kermans' Depreciation Study be accepted for ratemaking purposes. We find this request to be reasonable. Kerman's Depreciation Study is included as Appendix E.

Payphone Operations

In a separate advice letter filing, Kerman 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 a unregulated premises equipment and to transfer associated telephone plant to unregulated service accounts.

Kerman's Advice Letter No. 238, filed January 15,1997, to detariff its payphone operations, became effective on April 15, 1997. Kerman, however, did not address the ratemaking aspects associated with deregulation of its payphones. Therefore, we shall order Kerman 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. 238.

FINDINGS

1. Kerman filed its GRC Advice Letter No. 226 on December 29, 1995, in compliance with Decision No. 94-09-065.

2. Kerman requested a 1997 test year net revenue requirement of $560,109 and a total rate base amount of $4,791,349 with an overall rate of return of 11.69%.

3. TD staff recommends a 1997 test year net revenue amount of $479,151, a total rate base amount of $4,791,349, and an overall rate of return of 10.00%.

4. Differences between TD staff and Kerman result from changes to the state tax rate, pooled settlement rates of return, adjusted expense estimates, and overall rate of return.

5. We find TD's recommendation to adopt for Kerman a 10.00% overall rate of return to be reasonable.

6. We find TD's recommendation for test year 1997 revenues, expenses, and rate base contained in Appendix B to be reasonable.

7. Resolution No. T-15970, November 26, 1996, made Kerman's present rates subject to refund effective January 1, 1997.

8. TD's recommended test year 1997 $222,261 decrease in local revenues should be refunded to customers in accordance with the rate design changes adopted in Appendices C and D.

9. TD's proposal in response to Senate Bill 1035 to eliminate Kerman's charge for unlisted and unpublished rates (Schedule A-14, $.30 per month) effective June 1, 1997 is reasonable.

10. Kerman should file a Supplement to Advice Letter No. 226 to implement the rate changes approved in Appendices C and D.

11. Kerman should include in its Supplement to Advice Letter No. 226 the credits indicated in Appendix D necessary to refund excess rates charged between January 1, 1997, and the rates adopted today, pursuant to Resolution No. T-15970, November 26, 1996.

12. Resolution T-15987, January 13, 1997, deferred the determination of Kerman's California High Cost Fund (CHCF-A) requirement for 1997, as filed in Advice Letter No. 235, November 4, 1996, to its present GRC.

13. Since Kerman is found to be overearning by $222,261 for 1997, we find that its actual CHCF-A requirement for 1997 is zero.

14. Kermans' Depreciation Study submitted in workpapers supporting Advice Letter No. 226 should be adopted for ratemaking purposes.

15. Kerman filed Advice Letter No. 238 to detariff its payphones operations, effective April 15, 1997, pursuant to FCC Order (Docket 96-388).

16. Kerman has not addressed the ratemaking aspects of payphone deregulation associated with its pay telephone service detariffing accomplished in Advice Letter No. 238, effective April 15, 1997.

17. Kerman 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. 238.

18. Kerman should be authorized to withdraw its mobile radio telephone service

19. TD's recommendation to require Kerman to file an application if RTB stock is redeemed, in order to determine the appropriate ratemaking treatment for the gain on the redemption, is reasonable and should be adopted.

**THEREFORE, IT IS ORDERED that:**

1. The revenues, expenses, and rate base amounts recommended by the Telecommunications Division for Kerman Telephone Company for test year 1997 in Appendix B are adopted for ratemaking purposes.

2. The rate design changes adopted in Appendices C and D are made effective January 1, 1997. Kerman Telephone Company shall refund the credit adopted in Appendix D pursuant to Resolution No. T-15970, November 26, 1996.

3. Kerman Telephone Company shall file a supplement to Advice Letter No. 226, effective on 5 days notice, to implement the rate design changes adopted in Ordering Paragraph 2 above.

4. Kerman Telephone Company shall use zero as its 1997 CHCF-A requirement when it files its 1998 CHCF-A advice letter.

5. The Depreciation Study submitted by Kerman Telephone Company in support of Advice Letter No. 226 is adopted for ratemaking purposes.

6. Kerman 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. 238.

7. Kerman Telephone Company's request to withdraw mobile telephone service is granted.

8. Kerman shall file an application, to determine the correct ratemaking treatment of any gain on redemption, if it redeems any RTB stock.

This Resolution is effective today.

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 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-16003
KERMAN TELEPHONE COMPANY
Comparison of TD's and Kerman's Estimated Intrastate Results of Operations
at Present Rates

Test Year 1997

| Line Number | | Intrastate Estimates Kerman | TD | Kerman Exceeds TD Amount | Percent |
|---|---|---|---|---|---|
| | OPERATING REVENUES | | | | |
| 1 | Local Network Revenues | $2,598,083 | $2,588,483 | $9,600 | 0% |
| 2 | Network Access Service | $473,128 | $499,071 | ($25,943) | -5% |
| 3 | Long Distance Network Serv. | $1,289,264 | $1,312,708 | ($23,444) | -2% |
| 4 | B & C Intrastate | $0 | $0 | | |
| 5 | Other Operating | $210,410 | $210,410 | $0 | 0% |
| 6 | LESS: Uncollectibles | ($7,275) | ($7,248) | ($27) | 0% |
| 7 | TOTAL OPER. REV. | $4,563,610 | $4,603,424 | ($39,814) | -1% |
| | OPERATING EXPENSES | | | | |
| 8 | Depreciation & Amortization | $959,637 | $959,637 | $0 | 0% |
| 9 | Plant Specific | $516,259 | $514,259 | $2,000 | 0% |
| 10 | Plant Non-Specific (less Depr.) | $535,175 | $535,175 | $0 | 0% |
| 11 | Customer Operations | $558,839 | $528,839 | $30,000 | 6% |
| 12 | Corporate Operations | $996,404 | $996,404 | $0 | 0% |
| 13 | TOTAL OPER. EXPS. | $3,566,314 | $3,534,314 | $32,000 | 1% |
| | OPERATING TAXES | | | | |
| 14 | Operating ITC | $0 | $0 | $0 | 0% |
| 15 | Property Tax | $0 | $0 | $0 | 0% |
| 16 | Other Taxes | $51,000 | $51,000 | $0 | 0% |
| 17 | Federal Income Tax | $263,672 | $315,523 | ($51,851) | -16% |
| 18 | Amort. Deferred FIT | $0 | $0 | $0 | 0% |
| 19 | State Income Tax | $79,517 | $90,103 | ($10,586) | -12% |
| 20 | Amort. Deferred SIT | $0 | $0 | $0 | 0% |
| 21 | TOTAL OPER. TAXES | $394,189 | $456,625 | ($62,436) | -14% |
| 22 | Other Income & Expenses | $0 | $0 | $0 | 0% |
| 23 | NET OPERATING INCOME | $603,107 | $612,485 | ($9,378) | -2% |
| | RATE BASE (Average) | | | | |
| 24 | Plant in Service | $9,258,098 | $9,258,098 | $0 | 0% |
| 25 | Tel. Plant Under Constr. | $565,579 | $565,579 | $0 | 0% |
| 26 | Materials & Supplies | $59,725 | $59,725 | $0 | 0% |
| 27 | Working Cash | $296,400 | $296,400 | $0 | 0% |
| 28 | RTB Stock | $0 | $0 | $0 | 0% |
| 29 | LESS: Depreciation Reserve | $4,670,497 | $4,670,497 | $0 | 0% |
| 30 | LESS: Deferred Tax | $717,795 | $717,795 | $0 | 0% |
| 31 | LESS: Customer Deposits | $161 | $161 | $0 | 0% |
| 32 | TOT. AVG. RATE BASE | $4,791,349 | $4,791,349 | $0 | 0% |
| 33 | RATE OF RETURN | 12.59% | 12.78% | | |

Appendix B, Resolution No. T-16003
KERMAN TELEPHONE COMPANY
Results of Operations Forecast with TD's Proposed Changes in Rates

Test Year 1997

| Line Number | | Total Intrastate | Proposed Changes in Rates | Adopted Intrastate |
|---|---|---|---|---|
| | OPERATING REVENUES | | | |
| 1 | Local Network Revenues | $2,588,483 | ($222,261) | $2,366,222 |
| 2 | Network Access Service | $499,071 | | $499,071 |
| 3 | Long Distance Network Serv. | $1,312,708 | | $1,289,264 |
| 4 | B & C Intrastate | $0 | | $0 |
| 5 | Other Operating | $210,410 | | $210,410 |
| 6 | LESS: Uncollectibles | ($7,248) | $625 | ($6,623) |
| 7 | TOTAL OPER. REV. | $4,603,424 | ($221,636) | $4,381,788 |
| | OPERATING EXPENSES | | | |
| 8 | Depreciation & Amortization | $959,637 | | $959,637 |
| 9 | Plant Specific | $514,259 | | $514,259 |
| 10 | Plant Non-Specific (less Depr.) | $535,175 | | $535,175 |
| 11 | Customer Operations | $528,839 | | $528,839 |
| 12 | Corporate Operations | $996,404 | | $996,404 |
| 13 | TOTAL OPER. EXPS. | $3,534,314 | | $3,534,314 |
| | OPERATING TAXES | | | |
| 14 | Operating ITC | $0 | | $0 |
| 15 | Property Tax | $0 | | $0 |
| 16 | Other Taxes | $51,000 | | $51,000 |
| 17 | Federal Income Tax | $315,523 | ($68,687) | $246,836 |
| 18 | Amort. Deferred FIT | $0 | | $0 |
| 19 | State Income Tax | $90,103 | ($19,615) | $70,488 |
| 20 | Amort. Deferred SIT | $0 | | $0 |
| 21 | TOTAL OPER. TAXES | $456,625 | ($88,302) | $368,323 |
| 22 | Other Income & Expenses | $0 | | $0 |
| 23 | NET OPERATING INCOME | $612,485 | ($133,334) | $479,151 |
| | RATE BASE (Average) | | | |
| 24 | Plant in Service | $9,258,098 | | $9,258,098 |
| 25 | Tel. Plant Under Constr. | $565,579 | | $565,579 |
| 26 | Materials & Supplies | $59,725 | | $59,725 |
| 27 | Working Cash | $296,400 | | $296,400 |
| 28 | RTB Stock | $0 | | $0 |
| 29 | LESS: Depreciation Reserve | $4,670,497 | | $4,670,497 |
| 30 | LESS: Deferred Tax | $717,795 | | $717,795 |
| 31 | LESS: Customer Deposits | $161 | | $161 |
| 32 | TOT. AVG. RATE BASE | $4,791,349 | | $4,791,349 |
| 33 | RATE OF RETURN | 12.78% | | 10.00% |

Appendix C, Resolution No. T-16003
**KERMAN TELEPHONE COMPANY**
Calculation of Kerman Telephone's Net to Gross Multiplier
and Incremental Revenue Requirement

Test Year 1997

| | | |
|---|---|---|
| Gross Operating Revenues | | 1.00000 |
| Uncollectibles | | (0.00280) |
| Net Revenues | | 0.99720 |
| | | |
| State Income Tax Rate (at 8.84% eff. 1/1/97) | 8.84% | 0.08815 |
| Federal Taxable Income | | 0.90905 |
| Federal Income Tax (at 34.00%) | 34.00% | 0.30908 |
| | | |
| Net Income | | 0.59997 |
| | | |
| Net to Gross Revenue Multiplier | | 1.666746217 |
| | | |
| State Rate Base | | $4,791,349 |
| State Return on Rate Base (at 10.00%) | 10.00% | $479,135 |
| State Net Operating Income | | $612,485 |
| Net Deficit or (Over Earnings) | | ($133,350) |
| | | |
| Gross Revenue Requirement | | ($222,261) |

Calculation of Kerman Telephone's
Billing Surcharge Calculation
Test Year 1997

Present Rate Design:

| | |
|---|---|
| 1997 Billing Surcharge @ 8.57% | $221,451 |
| Divided by Surcharge Percentage | 8.57% |
| Billing Base (12 months) | $2,584,026 |

Proposed Rate Design:

| | |
|---|---|
| Revenue from present surcharge | $221,451 |
| Gross Revenue Requirement | ($222,261) |
| Revenue required from surcharge | ($810) |
| plus: Rev loss from base rate area expansion | $46,246 |
| Additional revenue required | $45,436 |
| Divided by billing base | $2,584,026 |

Surcharge for adopted Rate Design 1.76% effective 6/1/97

Appendix D, Resolution No. T-16005
KERMAN TELEPHONE COMPANY

Rate Design - Local Network Revenues

| Schedule | Customers | Present rates | Present Annual Revenue | Proposed rates | Proposed Ann Revenue |
|---|---|---|---|---|---|
| Test Year 1997 | | | | | |
| Billing Surcharge, Schedule Z-1 | | 8.57% | $221,451 | 1.76% | $45,737 |
| Decrease local mileage, Sched. A-4 | 2141* | $1.00 | $308,304 | $1.00 | $262,058 |
| | | Total Revenue | $529,755 | | $307,796 |

Approximate change in annual revenue ($221,959)

*An average of 2141 customers will pay $1.80 per month less due to calling area expansion.

| | |
|---|---|
| Surcharge Billing period January to April @ 8.57% | $92,271 |
| Surcharge Billing period January to April @ 1.76% | $18,951 |
| Overcollection of Surcharge | $73,322 |
| Local mileage Jan to April | $19,269 |
| Total overcollection | $92,591 |
| | |
| Surcharge Refund: 5341 Lines @ $13.73 the month of June | $73,279 |
| Suburban Mileage Refund: 2104 Lines @ $9.16 the month of June | $19,273 |
| Total | $92,551 |