PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Telecommunications Division
Carrier Branch

RESOLUTION T-16004
April 9, 1997

RESOLUTION

RESOLUTION T-16004. PINNACLES TELEPHONE COMPANY. (U-1013-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. 115, FILED ON DECEMBER 27, 1995.

SUMMARY

This Resolution authorizes a general rate reduction of $24,535, or 3.6%, for Pinnacles Telephone Company (Pinnacles). A net revenue requirement of $81,260 for the test year 1997 and a Total Rate Base amount of $812,593 is adopted with an authorized Overall Rate of Return figure of 10.0%. Pinnacles had requested a test year net revenue requirement of $94,962 for a Total Rate Base amount of $825,759 for an authorized Overall Rate of Return of 11.5%.

Appendix A contains a comparison of Telecommunications Division (TD) and Pinnacles 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 calculation of the Net to Gross Multiplier and Incremental Revenue Requirement determination for the authorized revenue requirement. Appendix C includes a rate design summary to reflect the gross revenue requirement decrease of $24,535. Appendix D lists the changes in rates that we adopt herein, including a credit necessary to refund excess rates charged between January 1, 1997, and the rates adopted today, pursuant to Resolution No. T-15970, November 26, 1996.

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. Pinnacles filed Advice Letter No. 115 on December 27, 1995, with its Test Year 1997 GRC filing. Pinnacles did not file an application seeking NRF authority. Pinnacles' last GRC filing was in 1984 and was authorized by Resolution No. T-10862.

Pinnacles is a small rural LEC serving the Idria and Pinnacles exchanges in San Benito County. Pinnacles estimates that it will serve an average of 233 access lines during the test year 1997.

In Advice Letter No. 115, Pinnacles seeks a 1997 test year total operating revenue requirement of $691,704, with total operating expenses of $375,289. Taxes and Depreciation and Amortization amount to $221,453. Net revenue amounts to $94,962, which for the authorized Rate Base of $825,759, results in an 11.5% overall rate of return. Since at present rates Pinnacles estimates it would be overearning by $5,265 in total operating revenues, Pinnacles proposes to refund this amount by eliminating local mileage rates (Schedule A-3), and decreasing its 8.57% billing surcharge (Schedule A-19) to 6.62%, effective January 1, 1997.

NOTICE/PROTESTS

Pinnacles 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. 115 was published in the Commission Daily Calendar of December 29, 1995.

Notice of the Advice Letter No. 115 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 Paicines on March 29, 1996, at which Pinnacles was offered an opportunity to explain its GRC filing to subscribers and subscribers were offered the opportunity to ask questions of Pinnacles and the TD staff. No subscribers attended the Public Meeting.

DISCUSSION

Results of Operations/Rate Base

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

The TD staff estimates total 1997 operating revenues of $672,264 at present rates. Differences between Pinnacles and staff result from changes in the state income tax rate (8.84%, effective January 1, 1997), and 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. No disallowances were made by TD. Differences between TD Staff and Pinnacles also result from updates made by TD Staff to reflect actual, rather than estimated year end 1995 account balances. We find TD's changes 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 Pinnacles concerns the overall rate of return (ROR). TD originally recommended that the Commission adopt a 9.0% ROR instead of the 11.5% proposed by Pinnacles. However, a ROR of 10%, with a determination that equity components in the range of 60 to 80% 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% ROR adopted for those five telephone companies should be adopted for Pinnacles.

Since Pinnacles has no debt outstanding, TD recommends an imputed capital structure of 75% equity and 25% debt. 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 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).

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 issuances over a period of time. TD's recommended 5.64% cost of debt for the test year is reasonable and should be adopted.

As shown in the table below, the application of the 10.0% ROR we recently adopted for the five small telecommunications companies in the above decisions results in a 11.45% equity return for Pinnacles, 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 10.0% 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%

Since Pinnacles has no outstanding debt, Pinnacles did not utilize an interest deduction in calculating their state and federal income tax expense at present rates. However, we find that a hypothetical test year capital structure with 25% debt is reasonable for Pinnacles. This debt ratio is within the range found reasonable for small telephone companies in these proceedings.

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 $11,458 interest deduction by multiplying the adopted ratebase by the 1.41% imputed weighted debt cost.

Rate Design

TD recommends that the $24,535 decrease in local revenue be achieved by eliminating the 8.57% surcharge and local mileage rates and reducing local exchange service rates, business and residence. Appendix C presents the Net to Gross Multiplier Calculation and summarizes the rate design changes necessary to refund the $24,535 to customers. TD recommends eliminating the 8.57% billing surcharge (Schedule A-19), eliminating mileage rates (Schedule A-3), and lowering the Schedule A-1 business line rate from $31.55 to $23.00 and lowering the residence line rate from $16.85 to $12.20 (the Lifeline - ULTS rate remains at $5.62).

Senate Bill 1035

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. Pinnacles' Schedule A-10, Non-Published Service, provides unlisted and unpublished service at the rate of $.30 per month. 1997 estimated units are 24 which results in $86.40 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 May 1, 1997, but that the $86.40 annual revenue requirement remain as part of local revenues to be recovered as part of the local exchange rate (Schedule A-1, residence). We find this proposal to be reasonable.

Since Resolution No. T-15970, November 26, 1996, authorized the present rates of Pinnacles be made subject to refund as of January 1, 1997 pending a final decision on Pinnacles' GRC filing, a credit has been calculated to refund excess rates charged between January 1, 1997 and the end of April 1997. The credit is listed in Appendix D and will exist until December 31, 1997. We find TD's recommended rate changes to be reasonable. Pinnacles should file a Supplement to Advice Letter No. 115 implementing the rate design changes adopted in Appendix D.

California High Cost Fund

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, 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 Pinnacles' California High Cost Fund (CHCF-A) funding request for 1997 made in Advice Letter No. 120 (November 4, 1996) to its present GRC. In that advice letter, Pinnacles calculated that its 1997 CHCF-A requirement is $135,000, but did not request to draw funds from the CHCF-A pending the outcome of its GRC. Since Pinnacles is found herein to be overearning by $24,535 in 1997, we find that its actual 1997 CHCF-A requirement is zero. In its 1998 CHCF-A advice letter filing, Pinnacles should use zero as its 1997 CHCF-A requirement, from which the calculation of its 1998 CHCF-A requirement begins.

Depreciation Study

In workpapers accompanying Advice Letter No. 115, Pinnacles submitted a Depreciation Study as of January 1, 1995. Resolution T-15644, December 21, 1994, approved these represcription rates for accounting purposes. The TD staff recommends that Pinnacles' Depreciation Study be accepted for ratemaking purposes. We find this request to be reasonable.

Deregulation of Pay Telephone Service

In a separate advice letter filing, Pinnacles proposes to detariff its payphone service pursuant to Federal Communications (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.

Pinnacles' Advice Letter No. 123, filed January 15, 1997, to detariff its payphone operations, will become effective on April 15, 1997. Pinnacles, however, does not address the ratemaking aspects associated with deregulation of its payphones. Therefore we shall order Pinnacles 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. 123.

FINDINGS

1. Pinnacles filed its GRC Advice Letter No. 115 on December 27, 1995, in compliance with Decision No. 94-09-065.

2. Pinnacles requested a 1997 test year net revenue requirement of $94,962 and a total Rate Base amount of $825,759 with an overall Rate of Return of 11.5%.

3. TD Staff recommends a general rate reduction of $24,535, or 3.6 %, for a 1997 test year net revenue amount of $81,260, a total Rate Base amount of $812,593, and an overall Rate of Return of 10.0%.

4. Differences between TD Staff and Pinnacles result from changes to the state tax rate, pooled settlement rates of return, use of 1995 year-end accounts for estimates, and overall Rate of Return.

5. We find TD's recommendation to adopt for Pinnacles a 10.0% overall Rate of Return to be reasonable.

6. Pinnacles has no debt outstanding.

7. While we decline to adopt a specific capital structure, TD's recommended capital structure of 75% equity and 25% debt is within a reasonable range of capital structures for a telephone utility of this size.

8. An interest deduction of $11,458 for test year state and federal income tax expense is reasonable.

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

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

11. TD's recommended test year 1997 $24,535 decrease in local revenues should be refunded to customers in accord with the rate design changes adopted in Appendix C.

12. TD's proposal in response to Senate Bill 1035 to eliminate Pinnacles' charge for Non-Published service (Schedule A-10, $.30 per month) effective May 1, 1997, but to retain a revenue requirement of $86.40 per year as part of Schedule A-1, Residence Service, is reasonable.

13. Pinnacles should file a Supplement to Advice Letter No. 115 to implement the rate changes approved in Appendix D.

14. Pinnacles should include in its Supplement to Advice Letter No. 115 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.

15. Resolution T-15987, January 13, 1997, deferred the determination of Pinnacles' California High Cost Fund (CHCF-A) requirement for 1997, as filed in Advice Letter No. 120, November 4, 1996, to its present GRC.

16. Since Pinnacles is found to be overearning by $24,535 for 1997, we find that its actual CHCF-A requirement for 1997 is zero, rather than $135,000 as stated in its Advice Letter No. 120.

17. Pinnacles' Depreciation Study submitted in workpapers supporting Advice Letter No. 115 should be adopted for ratemaking purposes.

18. Pinnacles filed Advice Letter No. 123 to detariff its payphone operations, effective April 15, 1997, pursuant to FCC Order (Docket 96-388).

19. Pinnacles has not addressed the ratemaking aspects of payphone deregulation associated with its pay telephone service detariffing accomplished in Advice Letter No. 123, effective April 15, 1997.

20. Pinnacles 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. 123.

THEREFORE, IT IS ORDERED that:

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

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

3. Pinnacles Telephone Company shall file a supplement to Advice Letter No. 115, effective on 5 days notice, to implement the rate design changes adopted in Ordering Paragraph 2 above.

4. The request by Pinnacles Telephone Company in Advice Letter No. 120, November 4, 1996, for a determination that $135,000 is its CHCF-A requirement for 1997 is denied.

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

6. The Depreciation Study submitted by Pinnacles Telephone Company in support of Advice Letter No. 115 is adopted for ratemaking purposes.

7. Pinnacles 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. 123.

This Resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on April 9, 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-16004, April 9, 1997

Pinnacles Telephone Company

Comparison of TD's and Pinnacles' Estimated Intrastate Results of Operations
at present rates, Test Year 1997

Line Number		Intrastate Pinnacles	Intrastate TD	Pinnacles > TD Amount	Pinnacles > TD Percent
	OPERATING REVENUES				
1	Local Network Revenues	$149,139	$147,167	$1,972	1%
2	Network Access Service	$237,678	$253,786	($16,108)	-6%
3	Long Distance Network Serv.	$293,608	$264,954	$28,654	11%
4	Miscellaneous	$18,638	$9,782	$8,856	91%
5	LESS: Uncollectibles	($2,094)	($2,725)	$631	-23%
6	TOTAL OPER. REV.	$696,969	$672,964	$24,005	4%
	OPERATING EXPENSES				
7	Plant Specific	$139,524	$135,407	$4,117	3%
8	Plant Non-Specific (less Depr.)	$444	$409	$35	9%
9	Depreciation & Amortization	$150,163	$151,901	($1,738)	-1%
10	Customer Operations	$30,911	$36,301	($5,390)	-15%
11	Corporate Operations	$204,410	$186,416	$17,994	10%
12	TOTAL OPER. EXPS.	$525,452	$510,434	$15,018	3%
	OPERATING TAXES				
13	Oper. Federal Income Tax	$38,848	$32,461	$6,387	20%
14	Oper. State Income Tax	$14,019	$11,499	$2,520	22%
15	Taxes Other than on Income	$20,775	$20,991	($216)	-1%
16	TOTAL OPER. TAXES	$73,642	$64,951	$8,691	13%
17	NET OPERATING INCOME	$97,875	$97,579	$296	0%
	RATE BASE (Average)				
18	Plant in Service	$1,702,926	$1,720,620	($17,694)	-1%
19	Tel. Plant Under Constr.	$45,011	$45,080	($69)	0%
20	Materials & Supplies	$0	$0	$0	0%
21	Working Cash	$63,342	$60,109	$3,233	5%
22	LESS: Depreciation Reserve	($829,274)	($831,405)	$2,131	0%
23	LESS: Deferred Tax	($156,246)	($181,811)	$25,565	-14%
24	LESS: Customer Deposits	$0	$0	$0	0%
25	TOT. AVG. RATE BASE	$825,759	$812,593	$13,166	2%
26	RATE OF RETURN	11.85%	12.01%		

Appendix B, Resolution No. T-16004, April 9, 1997

Pinnacles Telephone Company

Results of Operations Forecast for 1997
with TD's Proposed Changes in Rates

	Total Intrastate	Proposed Changes in Rates	Adopted Intrastate
OPERATING REVENUES			
Local Network Revenues	$147,167	($24,535)	$122,632
Network Access Service	$253,786		$256,129
Long Distance Network Serv.	$264,954		$266,895
Miscellaneous	$9,782		$9,782
LESS: Uncollectibles	($2,725)		($2,725)
TOTAL OPER. REV.	$672,964	($24,535)	$648,429
OPERATING EXPENSES			
Plant Specific	$135,407		$135,407
Plant Non-Specific (less Depr.)	$409		$409
Depreciation & Amortization	$151,901		$151,901
Customer Operations	$36,301		$36,301
Corporate Operations	$186,416		$186,416
TOTAL OPER. EXPS.	$510,434		$510,434
OPERATING TAXES			
Oper. Federal Income Tax	$32,461	($6,047)	$26,414
Oper. State Income Tax	$11,499	($2,169)	$9,330
Taxes Other than on Income	$20,991		$20,991
TOTAL OPER. TAXE	$64,951	($8,216)	$56,735
NET OPERATING INCOME	$97,579	($16,319)	$81,260
RATE BASE (Average)			
Plant in Service	$1,720,620		$1,720,620
Tel. Plant Under Constr.	$45,080		$45,080
Materials & Supplies	$0		$0
Working Cash	$60,109		$60,109
LESS: Depreciation Reserve	($831,405)		($831,405)
LESS: Deferred Tax	($181,811)		($181,811)
LESS: Customer Deposits	$0		$0
TOT. AVG. RATE BASE	$812,593		$812,593
RATE OF RETURN	12.01%		10.00%

Appendix C, Resolution No. T-16004, April 9, 1997

Pinnacles Telephone Company

Net to Gross Multiplier
and Incremental Revenue Requirement
Test Year 1997

Gross Operating Revenues		1.00000
Uncollectibles		0.00000
Net Revenues		1.00000
State Income Tax Rate (at 8.84% eff. 1/1/97)		0.08840
Federal Taxable Income		0.91160
Federal Income Tax	27.0350%	0.24645
Net Income		0.66515
Net to Gross Revenue Multiplier		1.503422677
State Rate Base		$812,593
State Return on Rate Base	10.00%	$81,259
State Net Operating Income		$97,579
Net Deficit or (Over Earnings)		($16,320)
Gross Revenue Requirement Change		($24,535)

Rate Design - Local Network Revenues

Schedule	Units	Present rates	Present Annual Revenue	Proposed rates	Prop. Annual Revenue
A-1 Business Serv	44	$31.55	$16,658	$23.00	$12,144
A-1 Residence Serv	166	$16.85	$33,565	$12.20	$24,302
A-3 Mileage Rates	283	$1.00	$3,396	$0.00	$0
A-19 Billing Surcharge		8.57%	$7,360	0%	$0
		Total Revenue	$60,980		$36,446
		Change in Annual Rev	($24,533)		

Appendix D, Resolution No. T-16004, April 9, 1997

Pinnacles Telephone Company

Rate Changes, May 1, 1997

Schedule No.	Service	Present Rate	Adopted Rate	Credit*
A-1	Business	$31.55	$23.00	$4.28
A-1	Residence	$16.85	$12.20	$2.33
A-3	Mileage	$1.00	$ 0.00	$0.50
A-10	Non-Published	$0.30	$ 0.00	NA
A-17	Lifeline (ULTS)	$5.62	$ 5.62	NA
A-19	Billing Surch.	8.57%	0.0%	$1.46/line

* Refund per month, May through December, in accordance with Resolution T-15970, November 26, 1996, to reflect overcharges collected in the first four months of 1997. Refund expires December 31, 1997.