PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Telecommunications Division
Carrier Branch

RESOLUTION T-16007
April 9, 1997

R E S O L U T I O N

RESOLUTION T-16007. THE VOLCANO TELEPHONE COMPANY. (U-1019-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. 206, FILED ON DECEMBER 27, 1995.

SUMMARY

This Resolution authorizes a general rate reduction of $403,218, or 4.3% for The Volcano Telephone Company (Volcano). A net revenue requirement of $2,120,660 for the test year 1997 and a Total Rate Base amount of $21,206,615 is adopted with an authorized Overall Rate of Return figure of 10.0%. Volcano had requested a test year net revenue requirement of $2,232,157 for a Total Rate Base amount of $19,410,059 for an authorized Overall Rate of Return of 11.5%.

Appendix A contains a comparison of Telecommunications Division (TD) and Volcano 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 the test year billing surcharge calculation to achieve the authorized revenue requirement change (a surcredit of 2.90%). Appendix D contains a temporary billing surcredit calculation (a surcredit of 5.74%) 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. Volcano filed Advice Letter No. 206 on December 27, 1995, with its Test Year 1997 GRC filing. Volcano did not file an application seeking NRF authority. Volcano's last GRC filing was in 1983 and was authorized by Resolution No. T-10732.

Volcano is a small rural LEC located in Pine Grove and serves portions of Amador, Calaveras and El Dorado counties. Volcano estimates that it will serve an average of 9,588 access lines during the test year 1997.

In Advice Letter No. 206, Volcano seeks a 1997 test year total operating revenue requirement of $9,138,056, with total operating expenses of $3,711,288. Taxes and Depreciation and Amortization amount to $3,194,611. Net revenue amounts to $2,232,157, which for the authorized Rate Base of $19,410,059, results in an 11.5% overall rate of return. Since at present rates Volcano estimates it would be underearning by $121,563 in total operating revenues, Volcano proposes to reduce some rates, increase others, and to raise its Schedule A-28, Billing Surcharge, from 8.57% to 10.54%.

NOTICE/PROTESTS

Volcano states that copies of the Advice Letter and related tariff sheets were mailed to competing and adjacent utilities and/or other utilities. Notice of Advice Letter No. 206 was published in the Commission Daily Calendar of December 29, 1995.

Notice of the Advice Letter No. 206 filing was made to customers by bill insert. No protest to this Advice Letter has been received. However, informal comments have been received from subscribers in response to the customer notice.

Staff of the TD held a Public Meeting in Pine Grove on April 25, 1996, at which Volcano was offered an opportunity to explain its GRC filing to subscribers and subscribers were offered the opportunity to ask questions of Volcano and the TD staff. About 30 subscribers attended the Public Meeting; no complaints were received about service quality issues, but many subscribers questioned the reasonableness of present rates and objected to any increase.

DISCUSSION

Results of Operations/Rate Base

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

The TD staff estimates total 1997 operating revenues of $9,360,135 at present rates. This estimate is $343,642 more than Volcano's estimate. The differences in these estimates are due to 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.

Another difference results from TD Staff eliminating customer related one-way radio paging and two-way radiotelephone (IMTS) revenues, expenses, and rate base items from the results of operations. One-way radio paging has been deregulated by law, and two-way radiotelephone service has been detariffed. Volcano will retain non-customer allocated one-way radio paging and IMTS facilities for its own use as other work equipment. TD Staff also requested updates from Volcano reflecting actual, rather than estimated year end 1995 account balances.

In updating its rate base accounts, Volcano increased its 1997 Plant Under Construction (PUC) budget from $1,974,447 to $3,449,863. Upon inquiry by TD, Volcano explained that the new estimate was a result of the capital projects Volcano plans for the $22,857,350 Rural Electrification Administration (currently known as Rural Utilities Service) construction loan approved by the Commission in Decision No. 96-05-003, May 8, 1996. TD reviewed Volcano's 5-year Summary of Capital Projects and agrees that the test year PUC figure is reasonable. We concur with TD's finding.

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 Volcano concerns the overall rate of return (ROR). TD originally recommended that the Commission adopt a 9.0% ROR instead of the 11.50% proposed by Volcano. 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 companies should be adopted for Volcano, as explained following.

Volcano requests a capital structure of 51.62% equity and 48.38% debt. TD recommends that Volcano strive to decrease the debt component in its capital structure. TD points out that leverage higher than the range adopted for the other telephone companies may impede Volcano's ability to find additional financing at a reasonable cost. Consistent with our treatment for the other small size telephone companies, we decline to adopt a specific capital structure. However, we find that Volcano's proposed common equity ratio is not within the reasonable range of common equity for small telephone companies. Volcano has the flexibility to increase or decrease its equity return through the management of its debt cost and equity ratio.

Volcano's estimated 1997 cost of debt is 7.10%, which includes the impact of accounting for its Rural Telephone Bank (RTB) Stock consistent with the treatment adopted for the other telephone companies. TD agrees with Volcano's calculation of its cost of debt. The recommended 7.10% cost of debt for the test year is reasonable and should be adopted.

TD recommends that when any RTB stock is redeemed, Volcano 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.

Although Volcano's capital structure is not within a reasonable range, the application of TD's proposed 10.0% ROR results in a 12.73% equity return for Volcano, which is well within the reasonable range of common equity we adopted in the decisions for small telephone companies. This calculation is shown in the table following. 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	48.38%	7.10%	3.43%
Equity	51.62%	12.73%	6.57%
Total	100.00%		10.00%

An interest deduction must be reflected in calculating the test year state and federal income tax expense. We derive a $727,387 interest deduction by multiplying the adopted ratebase by the 3.43% weighted cost of debt.

Rate Design

TD recommends that the $403,218 decrease in local revenues be achieved by eliminating the 8.57% surcharge (Schedule A-28) and refunding the balance through a surcredit. Appendix C shows how the surcredit necessary to refund the $403,218 to customers is calculated. The annual billing surcredit is 2.90%, effective May 1, 1997.

Since Resolution No. T-15970 dated November 26, 1996 authorized the present rates of Volcano be made subject to refund as of January 1, 1997 pending a final decision on Volcano's GRC filing, a temporary surcredit has been calculated (see Appendix D) to refund excess rates collected between January 1, 1997 and the end of April 1997. TD staff recommends that a surcredit of 5.74%, effective May 1, 1997, be used to refund the overcollection. This temporary surcredit expires December 31, 1997. We find this temporary surcredit to be reasonable.

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 Volcano's California High Cost Fund (CHCF-A) funding request for 1997 made in Advice Letter No. 214 -(November 4, 1996) to its present GRC. In that advice letter, Volcano calculated that its 1997 CHCF-A requirement to be $863,174, but did not request to draw funds from the CHCF-A pending the outcome of its GRC. Since Volcano is found herein to be overearning by $403,218 in 1997, we find that its actual 1997 CHCF-A requirement is zero. In its 1998 CHCF-A advice letter filing, Volcano should use zero as its 1997 CHCF-A requirement, from which the calculation of its 1998 CHCF-A requirement begins.

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. Volcano's Schedule A-12, Directory Listings, provides unlisted and unpublished service at the rate of $.30 per month. 1997 estimated units are 1532 which results in $5,515 of annual revenues. 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 $5,515 annual revenue requirement remain as part of local network revenues. Volcano should include in its Supplement to Advice Letter No. 206 the elimination of the $.30 per month charge for Non-Published Service, Schedule A-12. We find this proposal to be reasonable.

Depreciation Study

In workpapers accompanying Advice Letter No. 206, Volcano submitted a Depreciation Study as of January 1, 1995. Volcano's represcription rates were last approved for ratemaking purposes in its previous GRC, Resolution No. T-10732, July 28, 1983. The TD staff recommends that current Volcano's 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, Volcano 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.

Volcano's Advice Letter No. 213, filed January 15, 1997, will become effective on April 15, 1997. Volcano, however, does not address the ratemaking aspects associated with deregulation of its payphones. Therefore we shall order Volcano 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. 213.

Pending Extended Area Service (EAS) Complaint

A complaint was filed against Volcano on February 28, 1995 (Case 95-02-019), in which Complainants Jack H. Shields and Billie L. Shields seek enlarged toll-free calling areas from the West Point Exchange to at least San Andreas, and preferably to also include Valley Springs, Angels Camp and Jackson. Volcano proposes an alternative to an EAS from West Point to San Andreas, by providing toll-free calling from its West Point Exchange to Pacific Bell's San Andreas Exchange for calls placed to specifically identified organizations and entities by either an 800 number or suppression of toll charges, with Volcano bearing the cost of these calls.

No decision has been reached yet in the EAS complaint case. No revenues or costs for an EAS route or toll-free calling alternative have been considered herein and incorporated in the revenue requirement adopted in Appendix B.

Volcano should be authorized to include in its annual CHCF-A Advice Letter filing the reporting of any net annual revenue and the recovery of any net annual costs (to the extent provided in the complaint case) for any EAS route adopted by the Commission in Case 95-02-019.

FINDINGS

1. Volcano filed its GRC Advice Letter No. 206 on December 27, 1995, in compliance with Decision No. 94-09-065.

2. Volcano requested a 1997 test year net revenue requirement of $2,232,157 and a total Rate Base amount of $19,410,059 with an overall Rate of Return of 11.5%.

3. TD Staff recommends a general rate reduction of $403,218, or 4.3%, for a 1997 test year net revenue amount of $2,120,660, a total Rate Base amount of $21,206,615, and an overall Rate of Return of 10.0%.

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

5. Revenues, expenses, and rate base items for one-way paging and two-way radiotelephone (IMTS) service should be eliminated from Volcano's results of operations; Volcano should detariff its Schedule No. A-26, Dial Mobile Radiotelephone Service (including Signaling Service).

6. Volcano requests a capital structure of 51.62% equity and 48.38% debt.

7. Although we decline to adopt a specific capital structure for Volcano, Volcano's proposed common equity ratio is not within the reasonable range of common equity for small telephone companies.

8. We find reasonable TD's recommendation to adopt for Volcano a 10.0% overall Rate of Return.

9. Volcano should file an application requesting a determination of the appropriate ratemaking treatment for the gain on redemption of any RTB stock.

10. We find reasonable TD's recommendations for test year 1997 revenues, expenses, and rate base contained in Appendix B.

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

12. TD's recommended test year 1997 reduction of $403,218 in local revenues should be refunded to customers in the form of a billing surcharge as calculated in Appendix C.

13. Volcano's 8.57% billing surcharge (Schedule A-28) should be changed to a 2.90% billing surcredit, effective May 1, 1997.

14. The overcollection of rates from January through April 1997 should be refunded to customers by the temporary billing surcredit calculated in Appendix D.

15. The temporary billing surcredit of 5.74% is effective May 1, 1997, and should expire December 31, 1997.

16. TD's proposal in response to Senate Bill 1035 to eliminate Volcano's charge for Non-Published service (Schedule A-12, $.30 per month) effective May 1, 1997, but to retain a revenue requirement of $5,515 per year as part of local network revenues, is reasonable.

17. Volcano should file a Supplement to Advice Letter No. 206 to implement the billing surcredits approved in Appendices C and D. Volcano should include in its Supplement the elimination of the $.30 per month charge for Non-Published service (Schedule A-12) effective May 1, 1997.

18. Resolution T-15987 dated January 13, 1997, deferred the determination of Volcano's California High Cost Fund (CHCF-A) requirement for 1997, as filed in Advice Letter No. 214, November 4, 1996, to its present GRC.

19. Since Volcano is found to be overearning by $403,218 for 1997, we find that its actual CHCF-A requirement for 1997 is zero, rather than $863,174 as stated in its Advice Letter No. 214.

20. Volcano's Depreciation Study submitted in workpapers supporting Advice Letter No. 206 should be adopted for ratemaking purposes.

21. Volcano filed Advice Letter No. 213 to detariff its payphone operations, effective April 15, 1997 pursuant to FCC Order (Docket 96-388).

22. Volcano has not addressed the ratemaking aspects of payphone deregulation associated with its pay telephone service detariffing accomplished in Advice Letter No. 213, effective April 15, 1997.

23. Volcano 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. 213.

24. No decision has been reached in a pending complaint case (Case 95-02-019) regarding EAS service from the West Point Exchange to San Andreas, Valley Springs, Angels Camp and/or Jackson.

25. Volcano should be authorized to file in its annual CHCF-A Advice Letter filing (October 1, 1997) the reporting of any net annual revenues and the recovery of net annual costs (to the extent provided in the complaint case) for any EAS service to be authorized by the Commission.

THEREFORE, IT IS ORDERED that:

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

2. The 8.57% billing surcharge in Schedule A-28 of The Volcano Telephone Company is changed to a 2.90% billing surcredit effective May 1, 1997.

3. A temporary billing surcredit of 5.74%, effective May 1, 1997, and expiring December 31, 1997, is adopted to refund overcollection of rates charged during the months of January through April 1997 pursuant to Resolution No. T-15970 dated November 26, 1996.

4. The Volcano Telephone Company shall file a supplement to Advice Letter No. 206, effective on 5 days notice, to implement the billing surcredits adopted in Ordering Paragraphs No. 2 and 3 above. The Volcano Telephone Company shall include in this supplement the elimination of its charge for Non-Published Service (Schedule A-12) effective May 1, 1997. The Volcano Telephone Company shall also detariff its Schedule No. A-26, Dial Mobile Radiotelephone Service (including Signaling Service).

5. The request by The Volcano Telephone Company in Advice Letter No. 214 dated November 4, 1996, for a determination that $863,174 is its CHCF-A requirement for 1997 is denied.

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

7. The Depreciation Study submitted by The Volcano Telephone Company in support of Advice Letter No. 206 is adopted for ratemaking purposes.

8. The Volcano Telephone Company shall file an application requesting the appropriate ratemaking treatment for the gain on the redemption of any RTB stock, when any RTB stock is redeemed.

9. The Volcano 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. 213.

10. Volcano is authorized to include in its annual California High Cost Fund - A (CHCF-A) Advice Letter filing the reporting of any net annual revenues and the recovery of any net annual costs (to the extent provided in Case 95-02-019) for any EAS service to be authorized by the Commission in Case 95-02-019.

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-16007, April 9, 1997

The Volcano Telephone Company

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

Line Number		Intrastate Volcano	Intrastate TD	Volcano > TD Amount	Volcano > TD Percent
	OPERATING REVENUES				
1	Local Network Revenues	$3,714,353	$3,622,609	$91,744	3%
2	Network Access Service	$2,667,559	$3,143,333	($475,774)	-15%
3	Long Distance Network Serv.	$2,349,288	$2,501,861	($152,573)	-6%
4	Miscellaneous	$326,334	$98,758	$227,576	230%
5	LESS: Uncollectibles	($41,041)	($6,426)	($34,615)	539%
6	TOTAL OPER. REV.	$9,016,493	$9,360,135	($343,642)	-4%
	OPERATING EXPENSES				
7	Plant Specific	$1,005,005	$998,209	$6,796	1%
8	Plant Non-Specific (less Depr.)	$511,724	$517,253	($5,529)	-1%
9	Depreciation & Amortization	$1,981,461	$2,056,093	($74,632)	-4%
10	Customer Operations	$957,798	$963,151	($5,353)	-1%
11	Corporate Operations	$1,236,761	$1,224,364	$12,397	1%
12	TOTAL OPER. EXPS.	$5,692,749	$5,759,070	($66,321)	-1%
	OPERATING TAXES				
13	Oper. Federal Income Tax	$769,442	$842,722	($73,280)	-9%
14	Oper. State Income Tax	$232,045	$240,355	($8,310)	-3%
15	Taxes Other than on Income	$162,870	$154,728	$8,142	5%
16	TOTAL OPER. TAXES	$1,164,357	$1,237,805	($73,448)	-6%
17	NET OPERATING INCOME	$2,159,387	$2,363,260	($203,873)	-9%
	RATE BASE (Average)				
18	Plant in Service	$28,573,756	$28,653,349	($79,593)	0%
19	Tel. Plant Under Constr.	$1,974,447	$3,449,863	($1,475,416)	-43%
20	Materials & Supplies	$323,334	$339,528	($16,194)	0%
21	Working Cash	$534,317	$526,167	$8,150	2%
22	LESS: Depreciation Reserve	($10,672,954)	($10,526,039)	($146,915)	1%
23	LESS: Deferred Tax	($1,322,841)	($1,236,253)	($86,588)	7%
24	LESS: Customer Deposits	$0	$0	$0	0%
25	TOT. AVG. RATE BASE	$19,410,059	$21,206,615	($1,796,556)	-8%
26	RATE OF RETURN	11.13%	11.14%		

Appendix B, Resolution No. T-16007, April 9, 1997

The Volcano 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	$3,622,609	($403,218)	$3,219,391
Network Access Service	$3,143,333		$256,129
Long Distance Network Serv.	$2,501,861		$266,895
Miscellaneous	$98,758		$9,782
LESS: Uncollectibles	($6,426)		($2,725)
TOTAL OPER. REV.	$9,360,135	($403,218)	$8,956,917
OPERATING EXPENSES			
Plant Specific	$998,209		$998,209
Plant Non-Specific (less Depr.)	$517,253		$517,253
Depreciation & Amortization	$2,056,093		$2,056,093
Customer Operations	$963,151		$963,151
Corporate Operations	$1,224,364		$1,224,364
TOTAL OPER. EXPS.	$5,759,070		$5,759,070
OPERATING TAXES			
Oper. Federal Income Tax	$842,722	($124,974)	$717,748
Oper. State Income Tax	$240,355	($35,644)	$204,711
Taxes Other than on Income	$154,728		$154,728
TOTAL OPER. TAXES	$1,237,805	($160,618)	$1,077,187
NET OPERATING INCOME	$2,363,260	($242,600)	$2,120,660
RATE BASE (Average)			
Plant in Service	$28,653,349		$28,653,349
Tel. Plant Under Constr.	$3,449,863		$3,449,863
Materials & Supplies	$339,528		$339,528
Working Cash	$526,167		$526,167
LESS: Depreciation Reserve	($10,526,039)		($10,526,039)
LESS: Deferred Tax	($1,236,253)		($1,236,253)
LESS: Customer Deposits	$0		$0
TOT. AVG. RATE BASE	$21,206,615		$21,206,615
RATE OF RETURN	11.14%		10.00%

Appendix C, Resolution No. T-16007, April 9, 1997

The Volcano 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	34.0000%	0.30994
Net Income		0.60166
Net to Gross Revenue Multiplier		1.662079328
State Rate Base		$21,206,615
State Return on Rate Base	10.00%	$2,120,662
State Net Operating Income		$2,363,260
Net Deficit or (Over Earnings)		($242,599)
Gross Revenue Requirement Change		($403,218)

The Volcano Telephone Company
Billing Surcharge Calculation
Test Year 1997

Present Rate Design:	
1997 Billing Surcharge @ 8.57%	$297,380
Divided by Surcharge Percentage	8.57%
Billing Base (12 months)	$3,470,012
less: Revenue for Nonpublished Numbers	($5,515)
Proposed Billing Base (12 months)	$3,464,497
Proposed Rate Design:	
Revenue from present surcharge	$297,380
Gross Revenue Requirement Change	($403,218)
Addl Revenue for Nonpublished Numbers	$5,515
Revenues required from surcharge	($100,323)
Divided by billing base (12 months)	$3,464,497
Proposed Annual Billing Surcharge, effective May 1, 1997	-2.90%

Appendix D, Resolution No. T-16007, April 9, 1997

The Volcano Telephone Company

Temporary Billing Surcredit
To Refund Overpayment January to April 1997

1997 Billing Surcharge at present rates		$297,380
divided by		8.57%
1997 Billing Base at present rates		$3,470,012
Reduction for Nonpublished Numbers		($5,515)
Twelve month Billing Base		$3,464,497
Eight month Billing Base		$2,309,664
Overpayment Calculation		
Pres. Surcharge Revenues	($297,380)	
Revs. req. from Surcredit	($100,323)	
Annual Total	($397,703)	
Divided by 4/12 months	($132,568)	
Overpayment for first four months		($132,568)
divided by		$2,309,664
Temporary Billing Surcredit (May through December 1997) Effective May 1, 1997; Expires December 31, 1997		-5.74%