

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Telecommunications Division
Carrier Branch

RESOLUTION T-16008
April 23, 1997

R E S O L U T I O N

RESOLUTION T-16008. WINTERHAVEN TELEPHONE COMPANY.
(U-1021-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. 64, FILED ON DECEMBER 28, 1995.

SUMMARY

This Resolution authorizes a general rate increase of \$144,774, or 15.9%, for Winterhaven Telephone Company (Winterhaven). A net revenue requirement of \$211,811 for the test year 1997 and a total rate base amount of \$2,118,112 are adopted, with an authorized overall rate of return figure of 10.00%. Winterhaven had requested a test year net revenue requirement of \$213,841 on a total rate base amount of \$2,211,860 for an authorized overall rate of return of 9.67%. Higher proposed rates of return for the other two California telephone companies under the same ownership would have raised the companies' combined overall rate of return to 11.50%.

Appendix A contains a comparison of the Telecommunications Division (TD) and Winterhaven 1997 Test Year Intrastate Results of Operations at present rates. Appendix B contains the calculation of the net-to-gross multiplier and the incremental revenue requirement for the authorized revenue requirement. Appendix C contains the results of operations forecast for 1997 with TD's proposed changes in rates. We adopt TD's proposed changes. Appendix C includes a rate design summary to reflect the gross revenue requirement increase of \$144,774. Appendix D lists the changes in rates that we adopt herein.

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. Winterhaven filed Advice Letter No. 64 on December 28, 1995, with its Test Year 1997 GRC filing. Winterhaven did not file an application seeking NRF authority.

In Decision No. 88-06-023, dated June 8, 1988, the Commission granted the application of Winterhaven Telephone Company for a certificate of public convenience and necessity. This decision authorized Winterhaven to acquire the Winterhaven exchange from Pacific Bell and to operate it. Prior to the current filing, Winterhaven had never filed a GRC since it began operating as an independent company.

Winterhaven is a small, rural LEC serving the Winterhaven exchange in Imperial County, bordering immediately on Arizona and Mexico. Winterhaven estimates that it will serve an average of 1,455 access lines during the test year 1997.

Winterhaven Telephone Company is owned by TDS Telecom (TDS), which also owns two other California LECs (Happy Valley Telephone Company and Hornitos Telephone Company.) TDS filed separate rate filing packages and advice letters for each of these three companies, but presented a combined revenue requirement for the three companies, and developed its proposed individual company rates and tariffs accordingly. TDS chose this approach in order to avoid substantial local rate shifts at individual companies. TD staff informed TDS personnel that, under CPUC ratemaking practices, the three LECs' GRCs would have to be evaluated based instead on each company's individual rate base, expenses, and revenues.

In Advice Letter No. 64, Winterhaven seeks a 1997 test year total operating revenue requirement of \$1,074,637, with total operating expenses and depreciation of \$736,299, and income taxes of \$124,498. Net revenue amounts to \$213,841, which for the company-proposed rate base of \$2,211,860, results in a 9.67% overall rate of return. Since at present rates Winterhaven estimates it would be underearning by \$174,465 in total operating revenues, Winterhaven proposes to increase various of its local

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exchange rates (Schedules A-5, A-6, A-9, A-12, A-13, and A-17) for revenue increases totaling \$26,678, and increase its switched and special access rates (Schedule B-5) for revenue increases totaling \$147,787. Winterhaven proposes retaining its 8.57% billing surcharge (Schedule A-15).

NOTICE/PROTESTS

Winterhaven 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. 64 was published in the Commission Daily Calendar of December 29, 1995.

Notice of the Advice Letter No. 64 filing was made to customers by bill insert. One protest to this Advice Letter was received from an attorney representing Sans End RV Park. In that protest, the party requested that the Commission require Winterhaven to amend Advice Letter No. 64 to include a provision for Extended Area Service (EAS) between Winterhaven, California, and Yuma, Arizona, which is only a few miles across the Colorado River and California border from Winterhaven, and where much of the business of Winterhaven residents is transacted. Winterhaven responded to this protest stating that an amendment to its Advice Letter No. 64 to include a provision for free or reduced-rate calling from Winterhaven to Yuma would be inappropriate, since this Commission does not have jurisdiction over such calling. Besides this one formal protest, TD staff received numerous letters from customers of Winterhaven urging the Commission to order Winterhaven to offer free or reduced-rate calling from Winterhaven to Yuma, and received an inquiry on the same issue from the office of the area's representative to the California Assembly.

Staff of the TD held a Public Meeting in Winterhaven on April 4, 1996, at which Winterhaven was offered an opportunity to explain its GRC filing to subscribers, and subscribers were offered the opportunity to ask questions of Winterhaven and the TD staff. Approximately 20 subscribers attended the Public Meeting. Several customers voiced criticism of Winterhaven, particularly on the issue of its charging toll rates for calls to Yuma. Three customers criticized aspects of the company's service quality, but no consistent or particularly worrisome pattern of service quality shortcomings was evident from the comments. By far, customer comments were mostly devoted to the issues of rates and affordability of the service, with free calling from Winterhaven

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to Yuma the most frequently requested change in the company's rates.

DISCUSSION

Discount Calling Plan

As previously stated, TD staff received many letters from customers of Winterhaven urging the Commission to order Winterhaven to offer free or reduced-rate calling between the Winterhaven exchange and nearby Yuma, Arizona, where much of the business of Winterhaven residents is transacted. Partly in response to TD staff encouragement, Winterhaven formulated a plan to provide discounted calling to Yuma. Winterhaven's plan would continue offering at no charge 60 minutes of calling per month per line from Winterhaven to Yuma, and then to offer succeeding blocks of minutes at successively lower per-minute rates, starting at 3.5 cents per minute with no subscription required (down from the current 11 cents per minute), ranging down to 1.5 cents per minute for a 600 minute per month subscription. Winterhaven described this discount calling plan at the public meeting held on April 4 and solicited the reactions to the plan from the meeting's attendees. In TD's view, the reaction by attendees to this calling plan was significantly positive, although most customers expressed a desire for unlimited calling to Yuma at no charge.

Winterhaven personnel determined that, because its service territory and the town of Yuma are separated by a state border, the proper jurisdiction for consideration of this discount calling plan was the Federal Communications Commission (FCC). Winterhaven filed with the FCC seeking approval of this plan on March 12, 1997. The FCC approved this filing on March 26, 1997, to be effective the following day.

TD agrees with Winterhaven's response to the Sans End RV Park's protest of Winterhaven's GRC Advice Letter that an amendment to Winterhaven's Advice Letter No. 64 to include free or reduced rate calling from Winterhaven to Yuma, Arizona would be inappropriate, since this Commission does not have jurisdiction over such calling. Given the significant customer interest, we nevertheless applaud the FCC's approval of Winterhaven's discount toll filing, and hope that this calling plan will meet the calling needs of the customers of Winterhaven.

Results of Operations / Rate of Return

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

The TD staff differed with Winterhaven's estimate of total 1997 operating revenues of \$900,158 at present rates only in TD's elimination of the \$1,067 of revenue currently generated from charges for nonpublished numbers (see discussion of Senate Bill 1035 below), and in TD's elimination of some inconsistencies in the company's revenue forecast. Differences between Winterhaven and TD staff in estimated expenses and taxes result from five sources: (1) the change in the state income tax rate (8.84%, effective January 1, 1997), (2) use of the current 34% federal income tax rate, (3) use of a 15-year depreciation life for central office equipment (digital switch), in accord with recent Commission practice, instead of the 10-year life proposed by Winterhaven, (4) use of a higher interest deduction from taxable income for computing income tax, due to TD's higher estimate of Winterhaven's cost of debt, and (5) the tax effect of TD's use of higher revenue estimates. TD Staff also requested updates from Winterhaven reflecting actual, rather than estimated year end 1995 account balances. We find TD's estimates to be reasonable.

Appendix C presents TD's proposed changes in rates to achieve the authorized revenue requirement. A major difference between TD Staff and Winterhaven concerns the overall rate of return (ROR). TD originally recommended that the Commission adopt a 9.00% figure instead of the 11.50% proposed by Winterhaven (for its three California companies combined). However, a ROR of 10.00% 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 10.00% ROR adopted for those five telephone companies should be adopted for Winterhaven.

Winterhaven requests a capital structure of 60.00% equity and 40.00% debt, and TD concurs. Consistent with our treatment for the other small telephone companies, 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

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with reduced income tax expense and shareholders with an additional source of funding for capital expenditures).

Winterhaven proposes to account for holding Rural Telephone Bank (RTB) stock with an upwards adjustment to rate base. The above decisions adopt 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 other telephone companies. TD's recommendation is reasonable and should be adopted, and Winterhaven's proposal to add its investment in RTB stock to rate base should not be adopted.

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

Winterhaven estimated its 1997 cost of debt at 5.31%. TD calculated a 5.51% cost of debt. This difference results from TD excluding Winterhaven's Rural Telephone Bank Stock (RTB) from its outstanding balance of long-term debt. TD's proposed cost of debt of 5.51% for the test year is reasonable and should be adopted.

As shown in the table below, the application of the 10.00% ROR we recently adopted for the five small telecommunications companies in the above decisions results in a 12.99% equity return for Winterhaven, 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.

	<u>RATIO</u>	<u>COST</u>	<u>WEIGHTED COST</u>
Long Term Debt	40.00%	5.51%	2.20%
Equity	<u>60.00%</u>	12.99%	<u>7.80%</u>
Total	100.00%		10.00%

Winterhaven 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

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the test year state and federal income tax expense. We derive a \$46,598 interest deduction by multiplying the adopted rate base by the 2.20% reasonable weighted cost of debt.

Rate Design

Winterhaven proposed increasing its intrastate interLATA switched access and special access rates to the rates as of August 1, 1995 in Interstate Tariff Number 5 published by the National Exchange Carriers' Association, which many independent LECs throughout the U.S. adopt and use. These rate increases would produce \$147,787 of increased revenue for Winterhaven. No protests to these proposed increases were received. TD recommends granting these proposed access rate increases.

Subtracting this increased revenue due to access rate increases from the \$144,774 total increase in local revenue requirement leaves -\$3,013 in revenue requirement available for decreases in other rates. Considering the Commission's expressed desire to reduce billing surcharges and surcredits where possible, TD added the amount of revenue currently generated by Winterhaven's 8.57% intraLATA surcharge, \$35,917, to the remaining revenue gap of -\$3,013, yielding \$32,904 to be met by increases in specific local rates if the current surcharge were to be eliminated entirely. To do so would require increases to both business and residential local rates of approximately \$2.00 per month.

TD concurs with Winterhaven's view that such a large increase in the monthly rate would be extremely unpopular, and the surcharge reduction it would allow would be much less visible than would be the increase in the monthly rates. For this reason, TD concurs with Winterhaven's recommendation to increase the monthly rate for residential exchange service by the lesser amount of \$0.65, to \$17.50 per month. Because Winterhaven's rates for business access lines and trunks are already more than twice as high as its residential rates, Winterhaven proposed a lesser increase of \$0.35 per month in these rates, to rates of \$35.50, \$53.10, and \$53.10, respectively, for one-party access lines, PBX access trunks, and key system access lines. These increases in residential and business access line rates yield \$9,819 in increased revenue.

Winterhaven proposed increases to various rates for optional services, including those for additional directory listings, for the "Not Sufficient Funds" check handling charge, and for its

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inside wiring maintenance plan. The company also proposed increases for certain custom calling services and decreases to others, in order to bring business and residence rates for these services into closer alignment. Winterhaven further proposed increases to charges for premise visits, initial service orders, and service restoration. TD finds all of these proposed rate changes to be reasonable. The total revenue effect of these changes is an increase in estimated test year revenue of \$13,119, leaving a balance of required revenue increase of \$9,966. TD proposes and Winterhaven concurs in recovering this amount by retaining the current intraLATA surcharge, but reducing its rate from 8.57% to 2.30%.

Resolution No. T-15970, November 26, 1996, authorized that the present rates of Winterhaven be made subject to refund or credit as of January 1, 1997 pending a final decision on Winterhaven's GRC filing. As discussed above, the net revenue requirement increase remaining after the adjustments proposed by TD is smaller than the estimated increase in revenue from the switched and special access rates requested by the company and granted herein. This would leave an annual overcollection of \$3,013; we dispose of this going forward by the previously discussed reduction to the billing surcharge. However, during the four months of the test year between January 1, 1997 and the end of April 1997 that will have passed when the rates in this order are implemented, one third of this potential overcollection, or \$1,004, will already have been collected. TD recommends that Winterhaven be ordered to refund this amount to its end-users by means of a one-time credit of \$0.69 per access line. This will allow the company to make one change fewer to its billing surcharge and still recover only the revenue requirement authorized herein.

Because Winterhaven's proposed rate design recovers the bulk of its increased revenue requirement from increases in switched and special access rates, the delay in authorization of increases to these rates is more problematic. Of the \$147,787 in increases in switched and special access rates authorized herein, the one-third of this amount foregone between January 1 and April 30, 1997 amounts to \$49,262. Recovering this authorized increase between May 1 and December 31, 1997, would require either a surcharge on these rates of 36.65% for eight months, or an equivalent temporary increase in access rates for eight months. TD staff recommends the latter approach, since surcharges on access rates are not often used, and it is unclear whether

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Winterhaven's billing system would be able to bill a surcharge on top of access rates.

TD finds Winterhaven's rate design proposals, as modified by mutual agreement and described herein, to be a reasonable way of raising the amount of revenue increase merited by its cost situation, while moving toward the Commission's expressed goal of reducing billing surcharges.

We find TD's recommended rate changes to be reasonable. Winterhaven should file a Supplement to Advice Letter No. 64 implementing the rate design changes adopted in Appendix D.

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. Winterhaven's Schedule A-6, Directory Listings, provides unlisted and unpublished service at the rate of \$.15 per month. Estimated units for 1997 are 593, which results in \$1,067 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 \$1,067 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.

Deregulation of Pay Telephone Service

In a separate advice letter filing, Winterhaven 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.

Winterhaven's Advice Letter No. 75, filed January 15, 1997, to detariff its payphone operations, will become effective on April 15, 1997. Winterhaven, however, does not address the ratemaking aspects associated with deregulation of its payphones. Therefore we shall order Winterhaven to file a new advice letter, within 90 days of the effective date of this resolution, to address the

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ratemaking effects of payphone deregulation and its pay telephone service detariffing accomplished with Advice Letter No. 75. We note that this effect may ultimately mitigate the billing surcharge that we previously ordered.

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 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 Winterhaven's California High Cost Fund (CHCF-A) requirement for 1997, as filed in Advice Letter No. 120 (November 4, 1996), to its present GRC. In that advice letter, Winterhaven calculated that its 1997 CHCF-A requirement is \$419,835, but did not request to draw funds from the CHCF-A pending the outcome of its GRC. Since Winterhaven is found herein to be underearning by

\$144,774 in 1997, we find that its actual 1997 CHCF-A requirement is \$144,774, which we grant in increases to its local and switched access rates. Therefore, in its 1998 CHCF-A advice letter filing, Winterhaven should use zero as its net 1997 CHCF-A requirement, from which the calculation of its 1998 CHCF-A requirement begins.

Depreciation Study

In workpapers accompanying Advice Letter No. 64, Winterhaven submitted a Depreciation Study as of January 1, 1996. As previously mentioned, TD staff took exception to the depreciation life of 10 years for central office equipment proposed by Winterhaven, but otherwise found Winterhaven's depreciation study reasonable. The TD staff recommends that, after making this one adjustment, the depreciation rates in Winterhaven's Depreciation Study be accepted for ratemaking purposes. We find this request to be reasonable.

FINDINGS

1. Winterhaven filed its GRC Advice Letter No. 64 on December 28, 1995, in compliance with Decision No. 94-09-065.
2. Winterhaven requested a 1997 test year net revenue requirement of \$213,841 and a total rate base amount of \$2,211,860 for an overall rate of return of 9.67%.
3. TD Staff recommends a 1997 test year net revenue amount of \$211,811, a total rate base amount of \$2,118,112, and an overall rate of return of 10.0%.
4. Differences between TD Staff and Winterhaven result from changes to the state and federal tax rates, depreciation rate for central office equipment, use of 1995 year-end accounts for estimates, differing revenue estimates, and overall rate of return.
5. We find TD's recommendation to adopt for Winterhaven a 10.0% 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 C to be reasonable.

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

8. TD's recommended test year 1997 \$144,774 increase in local revenues should be achieved in accord with the rate design changes adopted in Appendix D.

9. TD's proposal in response to Senate Bill 1035 to eliminate Winterhaven's charge for Non-Published service (Schedule A-6, \$.15 per month) effective May 1, 1997, but to retain a revenue requirement of \$1,067 per year as part of Schedule A-1, Exchange Service, is reasonable.

10. Winterhaven should file a Supplement to Advice Letter No. 64 to implement the rate changes approved in Appendix D.

11. Winterhaven should implement a one-time billing credit of \$0.69 per access line, pursuant to Resolution No. T-15970, November 26, 1996.

12. Resolution T-15987, January 13, 1997, deferred the determination of Winterhaven's California High Cost Fund (CHCF-A) requirement for 1997, as filed in Advice Letter No. 72 (November 1, 1996), to its present GRC.

13. Since Winterhaven is found to be underearning by \$144,774 in 1997, we find that its actual 1997 CHCF-A requirement for 1997 is \$144,774, rather than \$419,835 as stated in its Advice Letter No. 72. The rate increases authorized herein will leave Winterhaven with a net CHCF-A requirement of zero after contributions from local and switched access rates.

14. Winterhaven's Depreciation Study submitted in workpapers supporting Advice Letter No. 64 should be adopted for ratemaking purposes, with the exception noted in the discussion above.

15. Winterhaven filed Advice Letter No. 75 to detariff its payphone operations, effective April 15, 1997, pursuant to FCC Order (Docket 96-388).

16. Winterhaven has not addressed the ratemaking aspects of payphone deregulation associated with its pay telephone service detariffing accomplished in Advice Letter No. 75, effective April 15, 1997.

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17. Winterhaven 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. 75.

18. TD's recommendation to require Winterhaven to file an application with this Commission requesting a determination of the appropriate ratemaking treatment for the gain on redemption, if it redeems any RTB stock, 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 Winterhaven Telephone Company for test year 1997 in Appendix C are adopted for ratemaking purposes.

2. The rate design changes adopted in Appendix D are made effective January 1, 1997, pursuant to Resolution No. T-15970, November 26, 1996.

3. Winterhaven Telephone Company shall file a supplement to Advice Letter No. 64, effective on 5 days notice, to implement the rate design changes adopted in Ordering Paragraph 2 above.

4. The request by Winterhaven Telephone Company in Advice Letter No. 120, November 4, 1996, for a determination that \$419,835 is its CHCF-A requirement for 1997 is denied.

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

6. Except as noted herein, the depreciation rates in the Depreciation Study submitted by Winterhaven Telephone Company in support of Advice Letter No. 64 are adopted for ratemaking purposes.

7. Winterhaven 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. 75.

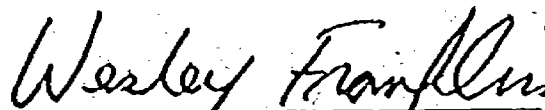
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8. Winterhaven Telephone Company shall implement a one-time billing credit of \$0.69 per access line by September 30, 1997 to refund the \$1,004 overcollected from its end-user customers between January 1, 1997 and April 30, 1997, pursuant to Resolution No. T-15970, November 26, 1996.

9. Winterhaven Telephone Company shall file an application to determine the appropriate ratemaking treatment for any gain on redemption if it redeems any Rural Telephone Bank stock.

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 M. FRANKLIN
Executive Director

P. GREGORY CONLON
President

JESSIE J. KNIGHT, Jr.

HENRY M. DUQUE

JOSIAH L. NEEPER

RICHARD A. BILAS

Commissioners

Appendix A
WINTERHAVEN TELEPHONE COMPANY
Estimated Results of Operations--Intrastate
At Present Rates

Test Year 1997

Line Number	Intrastate Estimates		Winterhaven Exceeds TD		
	Winterhaven	Telecom. Div.	Amount	Percent	
OPERATING REVENUES					
1	Local Network Revenues	\$458,226	\$467,782	(\$9,556)	-2.0%
2	Network Access Service--USF	\$379,474	\$379,474	\$0	0.0%
3	Network Access Service--IntraState	\$35,751	\$35,877	(\$126)	-0.4%
4	Toll Service	\$0	\$0	\$0	0.0%
5	B & C Intrastate	\$23,447	\$23,447	\$0	0.0%
6	Other Operating	\$5,185	\$5,185	\$0	0.0%
7	LESS: Uncollectibles	(\$1,925)	(\$1,925)	\$0	0.0%
8	TOTAL OPER. REV.	\$900,158	\$909,841	(\$9,683)	-1.1%
OPERATING EXPENSES					
9	Depreciation & Amortization	\$246,255	\$239,061	\$7,194	3.0%
10	Plant Specific	\$86,992	\$86,992	\$0	0.0%
11	Plant Non-specific (less Depr.)	\$65,450	\$65,450	\$0	0.0%
12	Customer Operations	\$134,026	\$134,026	\$0	0.0%
13	Corporate Operations	\$174,598	\$174,598	\$0	0.0%
14	Other Income & Expenses	(\$4,401)	(\$4,401)	\$0	0.0%
15	TOTAL OPER. EXPS.	\$702,921	\$695,727	\$7,194	1.0%
OPERATING TAXES					
16	Operating ITC	\$0	\$0	\$0	0.0%
17	Property Tax	\$33,360	\$33,360	\$0	0.0%
18	Other Taxes	\$18	\$18	\$0	0.0%
19	Federal Income Tax	\$36,208	\$40,311	(\$4,103)	-10.2%
20	Amort. Deferred FIT	\$2,770	\$2,770	\$0	0.0%
21	State Income Tax	\$10,607	\$11,497	(\$890)	-7.7%
22	Amort. Deferred SIT	\$1,092	\$1,092	\$0	0.0%
23	TOTAL OPER. TAXES	\$84,055	\$89,048	(\$4,993)	-5.6%
24	NET OPERATING INCOME	\$113,182	\$125,066	(\$11,884)	-9.5%
RATE BASE (Average)					
25	Plant in Service	\$3,647,402	\$3,647,402	\$0	0.0%
26	Materials & Supplies	\$14,414	\$14,414	\$0	0.0%
27	Working Cash	\$61,284	\$61,076	\$208	0.3%
28	RTB Stock	\$94,670	\$0	\$94,670	N/A
29	LESS: Depreciation Reserve	(\$1,546,841)	(\$1,543,300)	(\$3,540)	0.2%
30	LESS: Deferred Tax	(\$57,974)	(\$57,974)	\$0	0.0%
31	LESS: Customer Deposits	(\$3,505)	(\$3,505)	\$0	0.0%
32	TOT. AVG. RATE BASE	\$2,209,449	\$2,118,112	\$91,338	4.3%
33	RATE OF RETURN	5.12%	5.90%		

Appendix B
WINTERHAVEN TELEPHONE COMPANY
Calculation of Net to Gross Multiplier,
Incremental Revenue Requirement and Billing Surcharge

Test Year 1997

Calculation of Net to Gross Multiplier

Gross Operating Revenues		1.00000
Uncollectibles	0.412%	<u>(0.00412)</u>
Net Revenues		0.99588
State Income Tax Rate (at 8.84% eff. 1/1/97)	8.84%	0.08804
Federal Taxable Income		0.90785
Federal Income Tax (at 34.00%)	34.00%	0.30867
Net Income		0.59918
Net to Gross Revenue Multiplier		1.66895

Calculation of Incremental Revenue Requirement

State Rate Base		\$2,118,112
State Return on Rate Base (at 10.00%)	10.00%	\$211,811
State Net Operating Income		<u>\$125,066</u>
Net Deficit or (Over Earnings)		\$86,745
Incremental Gross Revenue Requirement (Net Deficit * N to G Multiplier)		\$144,774

Calculation of Billing Surcredit

Incremental Gross Revenue Requirement	\$144,774
Billing Surcharge Amount at Present Rates	<u>\$35,917</u>
Rate increase needed if surchg. eliminated	\$180,691
Rev. fr. Co-proposed switched access rate increase	<u>\$147,787</u>
Rev. Remaining to be raised from local rate incr.	\$32,904
Rev. from increase in monthly access line rates	\$9,819
Rev. from increase in other surchargeable rates	\$6,198
Rev. from increase in nonsurchargeable rates	<u>\$6,921</u>
Subtotal of Rev. from rate increases	<u>\$22,938</u>
Remaining Incremental Gross Revenue Requirement	<u>\$9,966</u>
IntraLATA Surch. Billing Base pre-GRC	\$419,107
IntraLATA Surch. Billing Base post-GRC	\$434,056
Adopted Billing Surcharge Percentage	2.30%

Appendix C
WINTERHAVEN TELEPHONE COMPANY
Results of Operations at Present and Adopted Rates

Test Year 1997

Line Number	Total Intrastate	Proposed Changes in Rates	Adopted Intrastate
OPERATING REVENUES			
1	\$467,782	(\$3,013)	\$464,769
2	\$379,474		\$379,474
3	\$35,877	\$147,787	\$183,665
4	\$0		\$0
5	\$23,447		\$23,447
6	\$5,185		\$5,185
7	(\$1,925)	(\$596)	(\$2,521)
8	TOTAL OPER. REV.	\$144,178	\$1,054,019
OPERATING EXPENSES			
9	\$239,061		\$239,061
10	\$86,992		\$86,992
11	\$65,450		\$65,450
12	\$134,026		\$134,026
13	\$174,598		\$174,598
14	(\$4,401)		(\$4,401)
15	TOTAL OPER. EXPS.	\$695,727	\$695,727
OPERATING TAXES			
16	\$0		\$0
17	\$33,360		\$33,360
18	\$18		\$18
19	\$40,311	\$44,687	\$84,998
20	\$2,770		\$2,770
21	\$11,497	\$12,745	\$24,242
22	\$1,092		\$1,092
23	TOTAL OPER. TAXES	\$57,433	\$146,481
24	NET OPERATING INCOME	\$86,746	\$211,811
RATE BASE (Average)			
25	\$3,647,402		\$3,647,402
26	\$14,414		\$14,414
27	\$61,076		\$61,076
28	\$0		\$0
29	(\$1,543,300)		(\$1,543,300)
30	(\$57,974)		(\$57,974)
31	(\$3,505)		(\$3,505)
32	TOT. AVG. RATE BASE	\$2,118,112	\$2,118,112
33	RATE OF RETURN	6.90%	10.00%

Appendix D
WINTERHAVEN TELEPHONE COMPANY
Present and Adopted Rates

Tariff Schedule	Description	Present Rates	Adopted Rates	Dollar Change	Percent Change
A-1	Local Access Line Service				
	Residence One - Party Touchtone	\$16.85	\$17.50	\$0.65	3.86%
	Residence One - Party Touchtone Seasonal (6 Mos.)	16.85	17.50	0.65	3.86%
	Residence One - Party Touchtone	16.85	17.50	0.65	3.86%
	Residence One - Party Touchtone Seasonal (6 Mos.)	16.85	17.50	0.65	3.86%
	Business One-Party Touchtone Access	35.15	35.50	0.35	1.00%
	PBX Touchtone Access Trunk	52.75	53.10	0.35	0.66%
	Business Key System Touchtone Access	52.75	53.10	0.35	0.66%
	Line Hunting - Business (Moved To A-12)				
A-2	Off-Premise Extension Mileage Rates				
	Ext. Mileage On Non-Cont. Prop First 1/4 Mile	2.00	2.00	0.00	0.00%
	Ext. Mileage On Non-Cont. Prop Addl 1/4 Miles	1.00	1.00	0.00	0.00%
A-3	Public Telephone Service	0.20	0.20	0.00	0.00%
A-4	Semi-Public Coin Box Service				
	Individual Line Coin Box Service	35.15	35.50	0.35	1.00%
	Minimum Daily Rate	0.25	0.00	(0.25)	-100.00%
A-5	Intralata Leased Line And Private Line Telephone Service				
	Private Line Channel Conditioning	15.80	15.80	0.00	0.00%
	Private Line Channel Termination	2.10	2.10	0.00	0.00%
	Private Line Channel Mileage	0.50	0.50	0.00	0.00%
	Intraexchange Service Mileage First 1/4 Mile	3.00	3.00	0.00	0.00%
	Intraexchange Service Mileage Addl 1/4 Miles	1.00	1.00	0.00	0.00%
	Interexchange Service (Concurs In PacBell Tariff)				
A-6	Directory Listings				
	Additional Directory Listing	0.50	1.00	0.50	100.00%
	Additional Directory Line	0.50	1.00	0.50	100.00%
	Nonpublished Number	0.15	0.00	(0.15)	-100.00%
	Reference Listing	0.50	1.00	0.50	100.00%

Appendix D
WINTERHAVEN TELEPHONE COMPANY
Present and Adopted Rates

Tariff Schedule	Description	Present Rates	Adopted Rates	Dollar Change	Percent Change
A-8	Line Ext. & Srv. Connect. Chrgs - Suburban Areas				
	Extension Footage First 100 Feet	50.00	50.00	0.00	0.00%
	Extension Footage Add'l Foot	1.10	1.10	0.00	0.00%
A-9	Visit Charge				
	Premise Srv Visit - Normal Hrs	39.65	50.00	10.35	26.10%
	Premise Srv Visit - Premium Hrs	59.45	75.00	15.55	26.16%
A-12	Custom Calling Services				
	Call Forwarding-Business	4.20	3.50	(0.70)	-16.67%
	Call Forwarding-Residence	3.50	3.50	0.00	0.00%
	Call Waiting-Business	4.20	3.50	(0.70)	-16.67%
	Call Waiting-Residence	3.50	3.50	0.00	0.00%
	Three Way Calling - Business	4.20	3.50	(0.70)	-16.67%
	Three Way Calling - Residence	3.50	3.50	0.00	0.00%
	Speed Call 8 - Business	4.20	2.00	(2.20)	-52.38%
	Speed Call 8 - Residence	3.50	2.00	(1.50)	-42.86%
	Speed Call 30 - Business	6.00	4.00	(2.00)	-33.33%
	Speed Call 30 - Residence	5.00	4.00	(1.00)	-20.00%
	Econ Pkg - Cw & Cf - Business	7.20	5.60	(1.60)	-22.22%
	Econ Pkg - Cw & Cf - Residence	6.00	5.60	(0.40)	-6.67%
	Econ Pkg - Cw & Cc - Business	7.20	5.60	(1.60)	-22.22%
	Econ Pkg - Cw & Cc - Residence	6.00	5.60	(0.40)	-6.67%
	Econ Pkg - Cf & Cc - Business	7.20	5.60	(1.60)	-22.22%
	Econ Pkg - Cf & Cc - Residence	6.00	5.60	(0.40)	-6.67%
	Econ Pkg - Cf & S8 - Business	7.20	4.40	(2.80)	-38.89%
	Econ Pkg - Cf & S8 - Residence	6.00	4.40	(1.60)	-26.67%
	Econ Pkg - Cf & S30 - Business	9.00	6.00	(3.00)	-33.33%
	Econ Pkg - Cf & S30 - Residence	8.00	6.00	(2.00)	-25.00%
	Econ Pkg - Cw & S8 - Business	7.20	4.40	(2.80)	-38.89%

Appendix D
WINTERHAVEN TELEPHONE COMPANY
Present and Adopted Rates

Tariff Schedule	Description	Present Rates	Adopted Rates	Dollar Change	Percent Change
A-12	Econ Pkg - Cw & S8 - Residence	6.00	4.40	(1.60)	-26.67%
(cont.)	Econ Pkg - Cw & S30 - Business	9.00	6.00	(3.00)	-33.33%
	Econ Pkg - Cw & S30 - Residence	8.00	6.00	(2.00)	-25.00%
	Econ Pkg - Cc & S8 - Business	7.20	4.40	(2.80)	-38.89%
	Econ Pkg - Cc & S8 - Residence	6.00	4.40	(1.60)	-26.67%
	Econ Pkg - Cc & S30 - Business	9.00	6.00	(3.00)	-33.33%
	Econ Pkg - Cc & S30 - Residence	8.00	6.00	(2.00)	-25.00%
	Econ Pkg - Cw, Cf & Cc - Business	9.60	8.40	(1.20)	-12.50%
	Econ Pkg - Cw, Cf & Cc - Residence	8.00	8.40	0.40	5.00%
	Econ Pkg - Cw, Cf & S8 - Business	9.60	7.20	(2.40)	-25.00%
	Econ Pkg - Cw, Cf & S8 - Residence	8.00	7.20	(0.80)	-10.00%
	Econ Pkg - Cw, Cf & S30 - Business	11.40	8.80	(2.60)	-22.81%
	Econ Pkg - Cw, Cf & S30 - Residence	9.50	8.80	(0.70)	-7.37%
	Econ Pkg - Cw, Cc & S8 - Business	9.60	7.20	(2.40)	-25.00%
	Econ Pkg - Cw, Cc & S8 - Residence	8.00	7.20	(0.80)	-10.00%
	Econ Pkg - Cw, Cc & S30 - Business	11.40	8.80	(2.60)	-22.81%
	Econ Pkg - Cw, Cc & S30 - Residence	9.50	8.80	(0.70)	-7.37%
	Econ Pkg - Cf, Cc & S8 - Business	9.60	7.20	(2.40)	-25.00%
	Econ Pkg - Cf, Cc & S8 - Residence	8.00	7.20	(0.80)	-10.00%
	Econ Pkg - Cf, Cc & S30 - Business	11.40	8.80	(2.60)	-22.81%
	Econ Pkg - Cf, Cc & S30 - Residence	9.50	8.80	(0.70)	-7.37%
	Econ Pkg - Cf, Cw, Cc & S8 - Business	12.00	10.00	(2.00)	-16.67%
	Econ Pkg - Cf, Cw, Cc & S8 - Residence	10.00	10.00	0.00	0.00%
	Econ Pkg - Cf, Cw, Cc & S30 - Business	13.80	11.60	(2.20)	-15.94%
	Econ Pkg - Cf, Cw, Cc & S30 - Residence	11.50	11.60	0.10	0.87%
	Line Hunting - Business	0.50	1.50	1.00	200.00%

Appendix D
WINTERHAVEN TELEPHONE COMPANY
Present and Adopted Rates

Tariff Schedule	Description	Present Rates	Adopted Rates	Dollar Change	Percent Change
A-13	Multi-Element Service Charges				
	Central Office Connection	16.85	21.00	4.15	24.63%
	Initial Service Order Charge	15.85	19.00	3.15	19.87%
	Subsequent Service Order - Residence	7.95	0.00	(7.95)	-100.00%
	Restoral Charge	16.35	20.00	3.65	22.32%
	Premises Visit Charge	59.45	0.00	(59.45)	-100.00%
Rule - 9	NSF Check Handling Charge	5.00	10.00	5.00	100.00%
A-14	Universal Lifeline Telephone Service (Units Included in A-1 & A-13)				
A-15	Billing Surcharge/Surcredits				
	Intrastate Intralata Billing Surcharge	8.57%	2.30%	--	-73.16%
A-17	Inside Wiring Maintenance Service				
	Repair Service First 15 Minutes M-F Reg. Hrs.	35.00	N/A	(35.00)	-100.00%
	Repair Service First 15 Min. M-F Prem. Hrs. & Sat.	40.00	N/A	(40.00)	-100.00%
	Repair Service First 15 Min. Sunday & Holidays	45.00	N/A	(45.00)	-100.00%
	Repair Service Add'L 15 Min. M-F Reg. Hrs.	15.00	12.50	(2.50)	-16.67%
	Repair Service Add'L 15 Min. M-F Prem. Hrs. & Sat.	15.00	18.75	3.75	25.00%
	Repair Service Add'L 15 Min. Sunday & Holidays	15.00	25.00	10.00	66.67%
	Maintenance Plan Per Line - Business	1.00	1.75	0.75	75.00%
	Repair Service First Hour M-F Reg. Hrs.	N/A	50.00	50.00	
	Repair Service First Hour M-F Non-Reg. Hrs & Sat.	N/A	75.00	75.00	
	Repair Service First Hour Sunday & Holidays	N/A	100.00	100.00	
A-19	Information Services Call Blocking				
	900 Call Blocking-New Connect Business	15.00	N/A	(15.00)	-100.00%
	900 Call Blocking-New Connect Residence	0.00	N/A	0.00	
	900 Call Blocking-Transfer Business	15.00	N/A	(15.00)	-100.00%
	900 Call Blocking-Transfer Residence	0.00	N/A	0.00	
	900 Call Blocking-Co. Initiated Business	0.00	N/A	0.00	

Appendix D
WINTERHAVEN TELEPHONE COMPANY
Present and Adopted Rates

Tariff Schedule	Description	Present Rates	Adopted Rates	Dollar Change	Percent Change
A-19	900 Call Blocking-Co. Initiated Residence	0.00	N/A	0.00	
(cont.)	900 Call Blocking-Removal Business	15.00	N/A	(15.00)	-100.00%
	900 Call Blocking-Removal Residence	5.00	N/A	(5.00)	-100.00%
	WATS (Automatically Blocked)	0.00	N/A	0.00	
A-22	Intra Building Network Cable				
	Premise Work First 15 Min. M-F Reg. Hrs.	35.00	N/A	N/A	N/A
	Premise Work First 15 Min. M-F Prem. Hrs. & Sat.	40.00	N/A	N/A	N/A
	Premise Work First 15 Min. Sunday & Holidays	45.00	N/A	N/A	N/A
	Premise Work Ea. Add'L 15 Min. M-F Reg. Hrs.	15.00	12.50	(2.50)	-16.67%
	Premise Work Ea. Add'L 15 Min. M-F Prem. Hrs. & Sat.	15.00	18.75	3.75	25.00%
	Premise Work Ea. Add'L 15 Min. Sunday & Holidays	15.00	25.00	10.00	66.67%
	Premise Work First Hour M-F Reg. Hrs.	N/A	50.00	15.00	42.86%
	Premise Work First Hour M-F Non-Reg. Hrs & Sat.	N/A	75.00	35.00	87.50%
	Premise Work First Hour Sunday & Holidays	N/A	100.00	55.00	122.22%

Appendix D
WINTERHAVEN TELEPHONE COMPANY
Present and Adopted Rates

Tariff Schedule	Description	Present Rates	Adopted Interim Rates 5/1/97- 12/31/97	Percent Change	Adopted Rates Effective 1/1/98	Percent Change
B-5	Switched Access					
	Carrier Common Line					
	Originating	\$0.00	\$0.01164	--	\$0.00830	-28.69%
	Terminating	0.00	0.01164	--	0.00830	-28.69%
	Traffic Sensitive					
	Local Switching	0.00315	0.05707	1712%	0.04070	-28.68%
	Local Transport	0.007146	0.02008149	181%	0.01432010	-28.69%
	Information (per 100 minutes)	0.00	0.000231	--	0.000165	-28.57%
	800 Database Query (per message)	0.00479	0.00982	105%	0.00700	-28.72%
	Special Access					
	Voice Grade Service					
	Channel Mileage Facility	2.73	4.82	77%	3.44	-28.63%
	Channel Mileage Termination	25.00	38.40	54%	27.38	-28.70%
	Channel Mileage Termination 4-Wire	42.40	85.84	102%	61.21	-28.69%
	Improved Return Loss 4-Wire	10.22	18.72	83%	13.35	-28.69%
Digital Data Service						
Channel Mileage Facility	8.58	5.97	-30%	4.26	-28.64%	
Channel Mileage Termination	5.00	38.40	668%	27.38	-28.70%	
Channel Mileage Termination 4-Wire	50.00	99.24	98%	70.77	-28.69%	

Appendix E
WINTERHAVEN TELEPHONE COMPANY
Annual Depreciation Accrual and Rate Determination
Straight Line Remaining Life Method as of January 1, 1996

Account Number	Description	Gross Plant	Net Salvage	Salvage Amount	Plant Reserve	Net Balance	Average Service Life	Remaining Life	Annual Accrual	% of Gross Plant
21120	Vehicles	\$ 82,042	5%	\$ 4,102	\$ 50,392	\$ 27,548	7	2.74	\$ 10,054	12.25%
21160	Other work equipmt.	34,841			4,142	30,699	15	11.64	2,637	7.57%
21210	Buildings	224,966			57,829	167,137	30	22.50	7,428	3.30%
21220	Furniture	17,961			2,701	15,260	15	12.60	1,211	6.74%
21231	Office equipmt.	11,511			4,760	6,751	7	3.87	1,744	15.15%
21232	Company Commun. equipmt.	4,470			1,337	3,133	7	2.89	1,084	24.25%
21240	Computers & Software	87,940			87,814	126	5	0.74	17,588	20.00%
22120	COE-Digital Switch	557,648			204,004	353,644	15	8.50	41,605	7.46%
22320	COE-Circuit Equipmt	611,158			440,635	170,523	10	4.66	36,593	5.99%
23510	Public Teleph. equipmt	71,254			58,885	12,369	10	4.39	2,818	3.95%
24110	Pole Lines	13,092	-23%	(3,011)	13,125	2,978	17	2.45	1,216	9.29%
24210	Aerial Cable	164,560	-28%	(46,077)	147,385	63,252	17	2.90	21,811	13.25%
24221	Underground Cable	163,121			30,405	132,716	17	11.24	11,807	7.24%
24230	Buried Cable	2,472,571			475,716	1,996,855	17	10.22	195,387	7.90%
24310	Aerial Wire	1,644	-20%	(329)	643	1,330	7	3.86	345	20.99%
24410	Underground Conduit	442,159			125,894	316,265	25	17.44	18,134	4.10%
	Total	\$ 4,960,938		\$ (45,315)	\$ 1,705,667	\$ 3,300,586			\$ 371,462	7.49%

Appendix F
WINTERHAVEN TELEPHONE COMPANY
Annual Depreciation Accrual and Rate Determination
Study Comparison With Theoretical Reserve as of January 1, 1996

Account Number	Description	Gross Plant	Present Deprec. Rate	Present Accrual	Proposed Deprec. Rate	Proposed Accrual	Change in Deprec. Rate	Change in Accrual
21120	Vehicles	\$ 82,042	17.76%	\$ 14,571	12.25%	\$ 10,054	-5.51%	\$ (4,517)
21160	Other work equipmt.	34,841	4.76%	1,658	7.57%	2,637	2.81%	979
21210	Buildings	224,966	3.31%	7,446	3.30%	7,428	-0.01%	(18)
21220	Furniture	17,961	6.47%	1,162	6.74%	1,211	0.27%	49
21231	Office equipmt.	11,511	16.75%	1,928	15.15%	1,744	-1.60%	(184)
21232	Company Commun. equipmt.	4,470	14.50%	648	24.25%	1,084	9.75%	436
21240	Computers & Software	87,940	24.30%	21,369	20.00%	17,588	-4.30%	(3,781)
22120	COE-Digital Switch	557,648	7.05%	39,314	7.46%	41,605	0.41%	2,291
22320	COE-Circuit Equipmt.	611,158	19.52%	119,298	5.99%	36,593	-13.53%	(82,705)
23510	Public Teleph. equipmt.	71,254	17.67%	12,591	3.95%	2,818	-13.72%	(9,773)
24110	Pole Lines	13,092	30.16%	3,949	9.29%	1,216	-20.87%	(2,733)
24210	Aerial Cable	164,560	27.96%	46,011	13.25%	21,811	-14.71%	(24,200)
24221	Underground Cable	163,121	4.39%	7,161	7.24%	11,807	2.85%	4,646
24230	Buried Cable	2,472,571	4.92%	121,650	7.90%	195,387	2.98%	73,737
24310	Aerial Wire	1,644	34.07%	560	20.99%	345	-13.08%	(215)
24410	Underground Conduit	442,159	4.51%	19,941	4.10%	18,134	-0.41%	(1,807)
	Total	\$ 4,960,938		\$ 419,257		\$ 371,462		\$ (47,795)