Docket:	:	A.15-12-001
Exhibit Number	:	ORA - ____
Commissioner	:	L. Randolph
Administrative Law Judge	:	E. Wildgrube
ORA Witnesses	:	C. Chitadje
		R. Keowen
		Y. Xue
		P. Hoglund

ORA
OFFICE OF RATEPAYER ADVOCATES

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CALIFORNIA PUBLIC UTILITIES COMMISSION

ORA's Report and Recommendations on the Application of Siskiyou Telephone Company to Review Intrastate Rates and Charges, Establish a New Intrastate Revenue Requirement and Rate Design, and Modify Selected Rates (Test Year 2017)

PUBLIC

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MEMORANDUM

This report was prepared by staff of the Communications & Water Policy Branch of the Office of Ratepayer Advocates ("ORA") under the general supervision of Program Manager, Chris Ungson, and Program & Project Supervisor, Richard Rauschmeier. ORA is represented in this proceeding by legal counsels, Travis Foss and Christa Salo.

The table below identifies the names of ORA witnesses and the sections of this report for which they are responsible. A statement of qualifications for each ORA witness is presented in Attachment A to this report.

SECTION OF REPORT	ORA WITNESS
Executive Summary	Charlotte Chitadje
Chapter 1: Revenues	Roy Keowen
Chapter 2: Expenses	Yanhua Xue
Chapter 3: Plant	Patrick Hoglund
Chapter 4: Depreciation	Patrick Hoglund
Chapter 5: Ratebase	Patrick Hoglund

In preparing this report, ORA prioritized analyses and recommendations based upon resources available. Therefore, the absence from this report of analysis or recommendation on any particular item contained within Application ("A.") A.15-12-001 should not be considered as ORA's agreement with any underlying request or policy position related to that item.

EXECUTIVE SUMMARY

In response to General Rate Case ("GRC") application cycle for the Small LECs listed in Group A in the California Public Utilities Commission ("Commission") Decision ("D.") 15-06-048, Siskiyou Telephone Company ("Siskiyou") filed Application ("A.") 15-12-001 on December 1, 2015. In its application, Siskiyou estimated intrastate revenue requirements of $[redacted] for test year ("TY") 2017. Contained in its estimated 2017 revenue requirements, Siskiyou proposed an increase of its California High Cost Fund –A ("CHCF-A") subsidy to $8,498,290 from its current amount of $2,427,760.29. [1]

After examining the books and records of Siskiyou and testing for reasonableness and prudency, ORA estimates Siskiyou intrastate revenue requirements of $[redacted] and CHCF-A draw of $[redacted] for TY 2017. These amounts are subject to change since they do not reflect the impact of the Rate of Return that will be used to determine Siskiyou's 2017 Revenue Requirement since that is currently being determined in A.15-09-005. In order to provide a more direct comparison of the differences between Siskiyou's proposals and ORA's recommendations that will be reconciled in the instant proceeding, ORA maintained the Rate of Return (14.60%) that Siskiyou utilized in its workpapers to calculate the 2017 Revenue Requirement. ORA understands the Commission will incorporate the Rate of Return determined in A.15-09-005 before authorizing Siskiyou's intrastate revenue requirement and CHCF-A for TY 2017. The following is a summary of ORA's foremost findings and conclusions.

[1] The CHCF-A was established in 1987 for the purpose of minimizing any basic telephone service rate disparity between rural and metropolitan areas. http://www.ora.ca.gov/chcfa.aspx

Comparable Rates for Basic Services

While ORA generally accepts Siskiyou's proposed demand forecasting methodology for TY 2017, ORA does not accept Siskiyou's rate design proposal, which is likely to result in a decrease in both residential and business customer monthly bills. Siskiyou's proposed rates for basic residential and business services are unreasonable when compared to rates for similar services in urban areas. Rates for Siskiyou customers should be increased to a level that is, at a minimum, on par with, but not in excess of 150% of the comparable urban rate. ORA's rate design increases the all-inclusive residential and business rates by $1.17 and $1.35 per month for TY 2017, respectively. As discussed in Chapter 1, ORA's recommendation for increases in residential and business rates is estimated to yield approximately $120,000 in additional 2017 revenue.

Corporate Expense Caps

ORA generally accepts Siskiyou's methodology to forecast TY 2017 expenses. However, as discussed in Chapter 2 of this report, the Federal Communications Commission ("FCC") corporate expense caps should be applied as adopted in D.14-12-084. ORA's recommendation to apply the FCC's corporate expense caps would reduce estimated intrastate revenue requirements in 2017 by $[redacted].

Allocation of Cost Proportional to Affiliates' Benefits

Siskiyou provides services to its affiliates using an allocation of cost methodology that is unreasonable. As a result, ORA developed and used allocation methods for expenses and capital costs (plant) to capture benefits accruing to Siskiyou's affiliates. ORA's proposed methodology to allocate cost proportional to Siskiyou's affiliate benefits is discussed in Chapter 2 and Chapter 3 for expenses and plant, respectively.

Based upon Siskiyou's affiliate relationships and to ensure consistent requirements with regards to affiliate relationships, the Commission should also require that within 60 days after a decision in the instant proceeding is finalized, Siskiyou and its affiliates shall accomplish the following:

- Be held in separate legal entities.
- Maintain separate books for all transactions.
- Maintain separate bank accounts for all transactions.
- Have no joint advertising or marketing.
- Have no overlapping of employees or responsibilities.
- Have no joint events, sponsorships, fundraisers, or charitable donations.
- Not transfer any physical assets without first obtaining the necessary approvals from the Commission.
- Conduct financial transactions with each other at "arms-length".
- Ensure that affiliate transactions are conducted at rates and upon terms no less advantageous than those otherwise available to Siskiyou from unaffiliated third parties for similar transactions.

Plant, Depreciation and Ratebase

ORA reviewed Siskiyou's requested network improvement projects and found them consistent with its Five Year plan to upgrade its network to meet California and FCC broadband aspirations. Several of the upgrade projects require new conduit to be placed in ground. This greatly increases the project costs compared to those projects where fiber can be placed in existing conduit. Siskiyou project costs are all well above the average 2015 CASF Infrastructure project costs. ORA accepts all but one of Siskiyou's network improvement projects requests.

ORA made several adjustments to the Buildings and Furniture plant accounts to reflect additional allocations to affiliates. Changes in Depreciation are the result of ORA's different plant additions estimates. ORA's estimates for ratebase are different as the result of different plant additions, different depreciation results, and a different Working Cash estimate. ORA's estimate for ratebase is about 2.66% lower than Siskiyou's request.

Rate of Return

As discussed above, the rate of return is currently being determined in the Cost of Capital proceeding, A. 15-09-005.

CHAPTER 1: REVENUES AND RATE DESIGN

A. INTRODUCTION

The design of rates and the forecasting of revenues that is anticipated to result from a particular rate design are important steps in creating the opportunity for a utility to cover expenses and earn a reasonable investor return. The combination of forecasted allowable expenses and reasonable investor return form a utility's revenue requirements. To meet its revenue requirements, Siskiyou receives both federal and state subsidies that help keep customer rates comparable with those of California's urban customers.[2]

Historically, "comparable" has meant that target rates for residential customers are no more than 150% of basic service rates for AT&T California's (AT&T) urban customers to be eligible for funding from the California High Cost Fund-A (CHCF-A).[3] [4] However, D.08-09-042 enabled AT&T to change basic rates via a Tier 1 advice letter and to vary rates geographically. In 2009, the small local exchange carriers (Small LECs), including Siskiyou, jointly filed Application (A.) 09-01-002 to clarify or modify the "150% formula."[5] The applicants' argued that AT&T's new pricing flexibility made it impossible to maintain the 150% relationship with AT&T's rates and that "As AT&T's basic rate changes, the Small LECs' rates set in general rate case (GRC) proceedings will no longer maintain the 150% relationship to AT&T's basic rate without a separate

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[2] Public Utilities Code Section 275.6 (c)(3) states "In administering the CHCF-A program the commission shall do all of the following:" …"Ensure that rates charged to customers of small independent telephone corporations are just and reasonable and are reasonably comparable to rates charged to customers of urban telephone corporations."

[3] AT&T California is a dba of Pacific Bell Telephone Company.

[4] The "150% formula" was originally established in D.91-09-042.

[5] D.10-02-016 at p.2.

adjustment.[67]" The proceeding concluded with Decision (D.) 10-02-016 which denied the applicants request to eliminate the 150% formula, affirmed the 150% formula as a requirement to qualify for CHCF-A funding, ordered a rulemaking to address all relevant issues with the CHCF-A, and set interim rates at $20.25 pending the results of the CHCF-A rulemaking proceeding. Siskiyou's basic single-line residential rates are currently set at $20.25.

Pursuant to D.10-12-016, the Commission opened a rulemaking to address all relevant issues with the CHCF-A program. D.14-12-084 concluded Phase 1 of the CHCF-A rulemaking proceeding. D.14-12-084 ordered that rates cannot exceed the target level of 150% and that rates must be established between $30-$37 inclusive of all taxes and surcharges, based on the 150% guideline.[8]

In application A.15-12-001, Siskiyou proposes changes to its residential and business rate design. Siskiyou proposes to increase basic residential rates from the current $20.25 to $21.63 and to eliminate the Access Recovery Charge (ARC) resulting in an all-inclusive charge of $30 for basic residential service.[9] For business customers, Siskiyou proposes to increase its single-line business rates from $22.25 to $24.14 and to eliminate the ARC resulting in an all-inclusive rate of $32.76.

Siskiyou proposes total intrastate revenues of $[redacted] for test year 2017. This amount represents an increase of 58% increase over 2010-2014 average intrastate revenues.[10] Siskiyou's proposed increase in intrastate revenues

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[6] D.08-09-042 enabled AT&T to change basic rates via a Tier 1 advice letter and to vary rates geographically.

[7] D. 10-02-016 at p.6

[8] D.14-12-84, Ordering Paragraph 24 and Ordering Paragraph 11, respectively.

[9] All-inclusive means inclusive off all taxes and surcharges.

[10] In the *Prefiled Testimony of David Lashua on Behalf of Siskiyou Telephone Company*, Exhibit

(continued on next page)

significant increase in CHCF-A draw from $2,322,588 in 2014 to $8,498,290 in test-year 2017.

B. SUMMARY OF RECOMMENDATIONS

In developing the following recommendations, ORA reviewed the application along with supporting testimonies and workpapers, relevant prior decisions, and Siskiyou's responses to ORA's data requests. The results of this review support the following recommendations.

ORA recommends intrastate revenues for Test-Year 2017 of $[redacted]. The recommendation is based on ORA review and cumulative recommended adjustments to revenues, expenses, taxes and return on rate base.

Siskiyou's request to increase single-line residential local exchange telephone service rates from $20.25 to $21.63 yields an all-inclusive rate of $30 and is not reasonable. Due to elimination of ARC, Siskiyou's proposal would actually result in an all-inclusive rate reduction for local residential customers while ratepayers statewide would be required to contribute more to the CHCF-A in order to fund Siskiyou's increasing revenue requirements. Siskiyou's residential rate proposal in conjunction with its proposed CHCF-A subsidies would result in local rates in Siskiyou's "high-cost" service area being just [redacted]% of the urban customer rate, far from the 150% maximum threshold established by numerous Commission decisions. To keep local customer rates more comparable to urban rates and avoid added burdens on all ratepayers statewide contributing to CHCF-A, a rate of $23.17 for single-line residential customers in test year 2017 should be adopted.

(continued from previous page)
DAL-1, shows 2014 intrastate revenues of $[redacted].

Similarly, Siskiyou's request to "increase" business rates from $22.25 to $24.14 is not reasonable because it too would only increase the current all-inclusive rate local business customers would pay by a few pennies more per month while ratepayers statewide would be required to make up the difference. To achieve greater comparability with urban customers, the monthly rate for single-line business service should be set at $25.33 beginning in Test Year 2017.

Furthermore, to be more consistent with Siskiyou's actual and forecasted annual increases in costs, both residential and business rates should increase [redacted]% annually beginning in 2018.

C. DISCUSSION

(a) Siskiyou's proposed residential rate design results in a rate reduction for customers.

Pursuant to D.14-12-084, rates must be set between $30 and $37, (inclusive of all taxes and surcharges), based on the 150% urban rates benchmark.[11] In the current proceeding, Siskiyou has proposed to establish local customer rates at the very bottom of the allowable range. In testimony, Siskiyou cites various statistics in an attempt to show the local community is generally disadvantaged and thus unable to afford anything higher than the new rates that Siskiyou proposes in its application. However, Siskiyou's new proposed rates result in customers paying less than what they are already paying currently. The table below compares Siskiyou's current and proposed rates.

[11] D.14-12-084, Ordering Paragraph 11.

Table 1-A: Comparison of Siskiyou's Current and Proposed Rate Design.

[redacted] [12]

As can be seen in the table above, if Siskiyou's rate design proposal is adopted residential customers and will pay $[redacted] *less* than they are currently paying each month and business customers will only see a mere $[redacted] increase. This is because Siskiyou's proposed increases in basic rates are offset by the elimination of ARC charges. Siskiyou's residential customers can and do afford higher rates than the new rates proposed by Siskiyou because they are already paying higher rates than those proposed, which directly contradicts Siskiyou's primary justification for its rate design in this proceeding.

As required by General Order (GO) 96-B, Siskiyou sent its customers a "Notice of Application to Establish New Regulated Revenue Requirement and Adjust Rates.[13]" In the notice, Siskiyou states rates will increase and that "Siskiyou belives that these proposed adjustments are necessary to cover increased costs necessitated by increases in expenses and by rapid technological changes in the telecommunications industry requiring significant plant modernization efforts

[12] Exhibit G from the *Direct Testimony of James T. Lowers on Behalf of Siskiyou Telephone Company.*

[13] Siskiyou's Response to MDR D(1).

in Siskiyou's service territory."[14] If Siskiyou has already informed its customers of rate increases due to higher costs, then Siskiyou's argument that its customers cannot afford anything more than an overall decrease in monthly bills further strains credibility.

PU Code 275.6(c)(3) requires the commission to ensure that CHCF-A support is not excessive so that the burden on contributers to the fund is limited. The recent CHCF-A Rulemaking decision states, "Separately, we acknowledge that, as the name 'California High Cost Fund' suggests, there is a higher cost to provide commensurate service to rural versus urban customers, some of which must be borne by those customers themselves."[15] Therefore, it is not at all reasonable for Siskiyou to propose changes to their rate design that result in an all-inclusive monthly rate reduction of [redacted]% for local residential customers while requesting that their CHCF-A subsidy collected from all ratepayers statewide increase [redacted]%. Siskiyou's rate design is not consistent with the CHCF-A statute and prior commission decisions and should therefore be rejected.

(b) Rate Comparisons Show that Siskiyou's Proposed Rate Design is Too Low.

D.14-12-084 established a rate range between $30 and $37 inclusive of all taxes and surchares, based on the 150% standard.[16] AT&T was authorized pricing flexibility in basic residential rates in 2008. AT&T's pricing remained flexible until 2015, when restrictions were once again placed on AT&T's pricing.[17] AT&T's basic residential rates are currently $25, exclusive of taxes and

[14] Siskiyou's Response to MDR D(1).
[15] D.14-12-084 at p. 69.
[16] D.14-12-084, Ordering Paragraph
[17] D.15-10-027.

surcharges,[18] which means that Siskiyou's basic residential rates could increase from their proposed rate of $21.63 to $37.50 before running afoul of the 150% standard for comparable affordability.[19] Although ORA is not recommending an increase of this magnitude in the instant proceeding, if such rate comparability was achieved (with corresponding modifications to business rates) the CHCF-A subsidy could be reduced by $[redacted] in Test Year 2017.

Uniform Regulatory Framework (URF) Carrier data on pricing from AT&T and others also provides guidance on comparable rates. Below is an excerpt from the URF Carrier Basic Service Rates on file with the Commission:

Table 1-B: URF Carrier Residential Basic Service Rates.

Carrier	Rate as of 1/1/2016
AT&T	$ 25.00
Verizon	$ 22.00
Frontier	$ 20.00
Consolidated	$ 21.99 [20]

In 2016, the average rate of the above carriers is $22.25, exclusive of taxes and surcharges. Applying the 150% standard to the most recent average of the four URF Carriers results in a basic residential rate of $33.38, which is nearly 44% more than the $23.17 rate that ORA recommends for basic residential service in Test Year 2017.

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[18] Price based on advertised price from AT&T's website found at https://www.att.com/shop/home-phone/landline.html, on February 9, 2016.

[19] $25 x 150% = $37.50. See Attachment 1-1 for calculation of taxes and surcharges.

[20] See "*URF Carrier Basic Service by Year"* found on the Commission website at: http://www.cpuc.ca.gov/uploadedFiles/CPUC_Public_Website/Content/Utilities_and_Industries/Communications_-_Telecommunications_and_Broadband/URFCarrierBasicServiceRatesbyYear2015.pdf

Siskiyou provided a pricing comparison for AT&T and Comcast, but Siskiyou did not perform an analysis showing how their proposed Test Year rates were at or below the 150% level of urban rates, only that its proposed rates were within the range prescribed by the D.14-12-084.[21] The rate comparisons and analysis above show that Siskiyou's request to set rates at the very bottom of the allowable range is not reasonable because it would be significantly less than comparable to urban rates.

(c) Monthly Residential All-Inclusive Rates Should Increase to $37 Over the Period of Time Covered in this Proceeding.

Although Siskiyou's monthly residential basic rates could justifiably be set at $28.07 immediately based on upon both the 150% standard and the allowable range established in D.14-12-084, a more prudent and reasonable approach is to phase in this increase over the years covered in the current GRC cycle. Siskiyou's basic residential rates are currently $20.25 and increasing rates to $28.07 would represent nearly a 40% increase. To avoid the impacts of a sudden and significant increase, local residential rates should increase by an annual percentage until residential rates, inclusive of taxes and surcharges reach an inclusive rate of $37.

To avoid a decrease in the all-inclusive rate which is currently $30.50 for residential customers, basic residential rates would need to be at least $22.09 per month.Table 1-C below shows the calculations.

Table 1-C: Basic Rate if Siskiyou's Current Inclusive Rate is Maintained.

[21] Siskiyou's response to Data Request RK2-001, Question 2.

Single Line Residential		
Local Service Rate		**22.09**
Subscriber Line Charge		6.50
ARC Charge		0.00
CHCF - A Surcharge	0.350%	0.08
ULTS Surcharge	5.500%	1.21
CASF Surcharge	0.464%	0.10
California Relay	0.500%	0.11
911 Tax	0.750%	0.17
Teleconnect Fund Surcharge	1.080%	0.24
Total	8.644%	**30.50**

ORA proposes a single line residential rate of $23.17. This is derrived by using $22.09 and applying an annual percentage increase for TY 2017.

The conclusion of Phase II of the CHCF-A rulemaking implemented a rate case plan for CHCF-A recipients.[22] The rate case plan calls for CHCF-A recipients, including Siskiyou, to file a General Rate Case (GRC) application every 5-years or receive reductions in authorized CHCF-A subisdies. Siskiyou's next GRC application should occur in 2020 with a 2022 Test-Year. Therefore, five years are available in the current GRC cycle (2017-2020) to gradually effectuate the necessary increase in local rates.

To increase rates from $22.09 to $28.07 ($30.50 to $37.00 inclusive rate) over a 5-year period requires rates to increase 4.91% annually. The proposed rate schedule in Table 1-D below uses an equivalent rate of $22.09, which represents no change to the current all inclusive rates to customers, then moderately increases the rate by 4.91% in Test-Year 2017, and continues to increase annually until rates reach $28.07 in 2020. Table 1-D below shows ORA's proposed annual rate increases:

[22] D.15-06-048.

Table 1-D: Proposed Increases to Monthly Residential Rates.

Year	Proposed Rate
Current Inclusive Rate Equivalent	$ 22.09
2017	$ 23.17
2018	$ 24.31
2019	$ 25.51
2020	$ 26.76
2021	$ 28.07

Table 1-D demonstrates how Siskiyou's residential rate could be increased over a 4-year period to reach an all inclusive $37 rate. This recommendation results in additional Test-Year 2017 revenues of $[redacted].

(d) Monthly Business Rates should Increase with Residential Rates.

Similar to Siskiyou's residential rates, Siskiyou's proposed rate for business customers represents a rate reduction when considering all taxes and surcharges. Siskiyou's proposed decrease in business customer rates is at odds with Siskiyou's assertions of increasing costs and requests for increased CHCF-A subsidies. Therefore, Siskiyou's business customers should continue paying at the level they are currently paying, inclusive of taxes and sucharges, which results in business customer rates of $24.14. The rates should increase annually, as ORA has proposed for residential customers. For consistency in rate increases, business rates should use the same escalation factor as that used for residential rates. Table 1-E below, shows ORA's recommended increase for business customer rates:

Total 1-E: Proposed Business Rate Increases

Year	Proposed Rate
Current Inclusive Rate Equivalent	$ 24.14
2017	$ 25.33
2018	$ 26.57
2019	$ 27.87
2020	$ 29.24
2021	$ 30.68

This adjustment results in incremental revenue of $[redacted] for Test-Year 2017 revenues.

(e) Revenue Forecasting Methodology and Adjustments.

Total revenues include both interstate and intrastate revenues. In this proceeding, Siskiyou proposes total Test-Year 2017 revenues of $[redacted]. Out of total revenues, Siskiyou proposes intrastate revenues of $[redacted]. Siskiyou's revenues are the sum of local network services, CHCF-A subsidies, Interstate universal support subsidies, long distance network access services, miscellaneous revenues and uncollectible revenues. The proposed increase in intrastate revenues primarily comes from the requested amount of CHCF-A draw. Siskiyou proposes $[redacted] in CHCF-A draw for Test-Year 2017 which is approximately 6 million more when compared to 2014 CHCF-A draw. ORA has reviewed Siskiyou's forecasting methodology and does not object to the methods employed in arriving at test-year 2017 amounts. The chart below demonstrates Siskiyou's 5-year average revenues with their proposed test-year 2017 revenues:

Table 1-F: Comparison of Siskiyou's Proposed Intrastate Revenues to Historical Averages.

[redacted]

Each revenue stream is forecasted a bit differently. Siskiyou uses annualized year-end 2014 customer counts multiplied by the current rate for 2015 and 2016 and proposed rate for test-year 2017. CHCF-A revenues are calculated based on any shortfalls in revenue from other sources in meeting Siskiyou's adopted revenue requirement. Interstate Universal Support Fund (USF) is calculated based on a method prescribed by the FCC in 47 C.F.R. § 54 Subpart M. Long distance network revenues are based on 2014 annual amounts. Intrastate access revenues are composed of origination switched access revenues, special access revenues, and intrastate eligibility revenues that are projected using various growth rates. Miscellaneous revenues amounts are forecasted using 2014 actual amounts. Siskiyou forecasts transition-year 2015 uncollectible revenues using 2014 amounts less a one-time write off for 2014.

ORA reviewed the forecasting methodologies utilized by Siskiyou in arriving at Test-Year 2017 revenues, and does not object to the methodologies. ORA applied several different forecasting methods to assess the reasonableness of Siskiyou's methods, which yielded similar or immaterial differences. ORA proposed an adjustment to the rate design, which results in slight differences in total projected local revenues; however, ORA does not propose to modify Siskiyou's forecasting methodology

D. CONCLUSION

Generally, ORA does not contest Siskiyou's revenue forecasting methodology. However, when it comes to rate design, the residential rates should be set at $23.17 in test year 2017 and increased annually by [redacted]% in order to achieve an all-inclusive rate of $37 by the time Siskiyou's next GRC application establishes new rates. Similarly, business rates should be set at $25.33 in TY 2017 and increased annually at the same rate as residential customers. ORA's recommendation would help to ensure that the CHCF-A subsidy is not excessive and that Siskiyou's "rates are reasonably comparable to rates charged to urban customers" as required in Public Utilities Code Section 275.6 (c)(3).

CHAPTER 2: OPERATING EXPENSES

A. INTRODUCTION

Siskiyou's forecasted operating expenses comprise approximately [redacted]% of the company's proposed intrastate Revenue Requirement in 2017. Siskiyou presents its forecasted expenses in four categories: [redacted]. Unlike capital investment and increases in rate base, an increase in expenses will generally result in an equally sized increase of the Revenue Requirement.

In its application filed on December 1, 2015, Siskiyou proposes total company operating expenses of $[redacted] with the forecasted intrastate portion totaling $[redacted] in test year 2017. From 2010 to 2014, Siskiyou's total company operating expenses have increased approximately [redacted]% while over the same period the number of customer access lines has declined by approximately [redacted]%.

Contained within its 2017 expense forecast, Siskiyou estimates total company [redacted] of $[redacted], which is $[redacted] more than the FCC's Corporate Expense limit adopted by the Commission in D.14-12-084 and referenced in the U.S. Code of Federal Regulations.

B. SUMMARY OF RECOMMENDATIONS

For test year 2017, ORA recommends a $[redacted] to Siskiyou's forecasted intrastate operating expenses for ratemaking purposes.

C. DISCUSSION

(a) FCC's Corporate Expense Caps

The expense category of Corporate Operations Expense (or Corporate Expenses) includes general and administrative expenses such as accounting and financial services, legal services, and public relations. In addition to the Commission's ratemaking, a portion of Corporate Expenses are eligible for recovery through the FCC High Cost Loop Support program. Beginning January 1, 2012, total Corporate Operations Expense was "capped" by the FCC based on the formula detailed in § 54.1308(a) (4) (ii) (A) of the U.S. Code of Federal Regulations.

In D.14-12-084, the Commission determined that "[a]dopting and applying the FCC Corporate Expense Caps will cap the amount of corporate expenditures that can be recovered from the CHCF-A program..."[23] However, the Commission also decided that "[i]f a Small Incumbent Local Exchange Carrier's actual corporate expense amounts exceed the Federal Communications Commission's corporate expenses caps, that carrier has the opportunity in the General Rate Case application to rebut the presumption of unreasonableness to seek additional support from the California High Cost Fund-A Program."[24]

In the instant proceeding, Siskiyou proposes total Corporate Expenses of $[redacted] for year 2017. However, Siskiyou's corporate expenditures should be set at the FCC Corporate Expense cap limit of $[redacted] for ratemaking purposes since Siskiyou did not provide adequate evidence rebutting the reasonableness of applying the FCC cap.

[23] D. 14-12-084 page 29.

[24] D.14-12-084, Ordering Paragraph No. 3, page 101.

(b) Siskiyou's Rebuttal to the Presumption of Unreasonableness

To rebut the presumption of unreasonableness provided for in D.14-12-084, Siskiyou's Opening Testimony proffers that, "[redacted]."[25] In this discussion, Siskiyou provided a summary of key corporate functions.[26] [redacted] Also, in Siskiyou witness Dale E. Lehman's [redacted]

(c) ORA's Analysis of Siskiyou's Corporate Expense

Siskiyou's Corporate Expense in 2014 was $[redacted] and its proposed Corporate Expense in 2017 is $[redacted]. 27 However, the FCC Corporate Expense cap for Siskiyou based on its [redacted] working loops is $[redacted] in 2017. The basis of this calculation is shown below:

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[25] Siskiyou David A. Lashua's Opening Testimony, page 8.

[26] Siskiyou David A. Lashua's Opening Testimony, Exhibit DAL-4

[27] Siskiyou David A. Lashua's Opening Testimony, Exhibit DAL-1 page 2 (OEDET - 1.1) and page 3 (OEDET - 1.2)

Table 2-1: Corporate Expenses Cap Calculation for Siskiyou	
	Year 2017
Price/Loop/Month	[redacted][28]
GDP-CPI Adjustment at 10.4998%	[redacted]06[29]
Price After Adjustment	[redacted][30]
Total Annual Corp Cap	[redacted][31]

In D.14-12-084, the Commission adopted the FCC Corporate Expense Caps. "If expenditures exceed the cap, there would be a presumption of unreasonableness and carriers would have the opportunity to rebut the presumed level of expenses imposed under the cap by demonstrating that a different level of corporate expenses is reasonable."[32] To support Siskiyou's request to exceed the FCC Corporate Expense cap of $[redacted], detailed accounting records should have been provided. For example, a Zero Based Budgeting method could have been used by Siskiyou to support the necessity and reasonableness of the Company's proposed Corporate Expenses. This method starts from a "zero base"

[28] Title 47 § 54.1308 (a) (4) (ii) (A) For study areas with 6,000 or fewer total working loops the amount monthly per working loop shall be $42.337 − (.00328 × the number of total working loops), or, $63,000/the number of total working loops, whichever is greater. $[redacted]

[29] GDP-CPI for 2017 at 1.104998; Source Data:

(1) https://research.stlouisfed.org/fred2/series/GDPCTPI

(2) Attachment 2-1 https://www.neca.org/USF_Landing_Page.aspx, Link "Loop Cost Algorithm" "Universal Service Fund Loop Cost and Expense Adjustment Algorithms"

[30] $[redacted]

31 $[redacted] working loops*12 months

[32] D. 14-12-084, page 29.

and each function is analyzed for its needs and costs as necessary. However, [redacted] justified with detailed information using a Zero Based Budgeting method or equally robust process in order for Siskiyou to overcome the presumption of unreasonableness.

In a data request,[33] ORA requested details of accounting records that support the financial data as presented in the working paper that Siskiyou submitted for rate making purposes. ORA requested the following details for each transaction:

"(1) date of the transaction,

(2) account number charged to,

(3) payee's name,

(4) dollar amount,

(5) number of check/other payment method,

(6) date of check/other payment method,

33 Attachment 2-2, ORA data request ORA-A.15-12-001 YPX-002, Question #3

(7) daily running balances for each subaccount and the account that subaccounts made up, and

(8) description of expense associated with each payment amount."

ORA requested the information above in an attempt to verify the expense balances that Siskiyou submitted in its application.

In Siskiyou's responses[34] to this data request, Siskiyou stated that "[redacted]

The following are the examples of transactions missing descriptions:

Table 2-2: Siskiyou's 2015 Sampled Transactions missing Descriptions							
GL Acct	Description	Effective Date	Batch Number	Application	Code	Ref # ***	Debit Amt
[redacted]		05282015	50599	AP	64	[redacted]	[redacted]
[redacted]		05282015	50599	AP	64	[redacted]	[redacted]
[redacted]		05282015	50599	AP	64	[redacted]	[redacted]
[redacted]		05282015	50599	AP	64	[redacted]	[redacted]

[34] Attachment 2-3 Siskiyou's Response and Sampled General Ledger for 2015

[redacted]		06282015	50699	AP	64	[redacted]	[redacted]
[redacted]		06282015	50699	AP	64	[redacted]	[redacted]
[redacted]		06282015	50699	AP	64	[redacted]	[redacted]
[redacted]		06282015	50699	AP	64	[redacted]	[redacted]

*** Ref # [redacted]

For the above sampled transactions provided by Siskiyou, [redacted] the FCC cap.

ORA reviewed sampled accounting transactions in Siskiyou's general ledger of expenses for year 2015 and reviewed Siskiyou's data responses to ORA's data requests. The results of the review show that [redacted] inappropriate for ratemaking purposes were included by Siskiyou.

The Commission has previously provided guidance on the type of expenses that are inappropriate for ratemaking purposes. For example, in regards to charitable dues and donations, the Commission declared, "We have indeed consistently prohibited the use of ratepayer funds for such activities."[35] In fact, this determination reaffirmed a previous finding where "The Commission declared a future policy of excluding dues, donations, and contributions by a utility from operating expenses for ratemaking purposes. Upon review, the California

[35] D.11-03-049, page 11.

Supreme Court expressly held that the policy adopted by the Commission to exclude such contribution form operating expense for rate fixing purposes is correct."[36]

To ensure that the Universal Service Fund support is used for its intended purposes, the FCC's Public Notice 15-133 [37] "encourages state commissions to look carefully at the information provided to them in advance of the annual certification and to report any areas of concern to the Commission for further investigation and potential enforcement action." In the Public Notice, the FCC listed a "non-exhaustive list of expenditures that are not necessary to the provision of supported services and therefore may not be recovered through universal service support." The items on the list are: "Personal travel; Entertainment; Alcohol; Food, including but not limited to meals to celebrate personal events, such as weddings, births, or retirements; Political contributions; Charitable donations; Scholarships; Penalties or fines for statutory or regulatory violations; Penalties or fees for any late payments on debt, loans or other payments Membership fees and dues in clubs and organizations; Sponsorships of conferences or community events; Gifts to employees; and Personal expenses of employees, board members, family members of employees and board members, contractors, or any other individuals affiliated with the ETC, including but not limited to personal expenses for housing, such as rent or mortgages."

[36] D.86794

[37] Attachments 2-4: FCC Public Notice FCC 15-133, "all universal service high-cost support recipients are reminded that support must be used for its intended purpose," page 2.

Regarding the items of expenses listed above, ORA issued a data request[38] instructing Siskiyou to provide information on whether any of the expenses presented by Siskiyou for ratemaking purposes in the instant proceeding could be classified into the categories listed in the FCC Public Notice mentioned above.

Siskiyou responded that [redacted]

ORA's review of sampled expense transactions shows that in 2015, under the Corporate Expense categories, Siskiyou [redacted]

[38] Attachment 2-5 p.1-5 ORA data request ORA-A.15-12-001 YPX-003 (Expenses) and p. 6-11, Siskiyou's data responses to ORA's data request ORA-A.15-12-001 YPX-003 (Expenses)

[39] Attachment 2-5 p. 9-11

[40] Attachment 2-5 p. 9-11

[redacted]:[41]

Table 2-3: Siskiyou's 2015 Membership Dues, Donation and Political Contribution	
Account #	[redacted]
67285540	[redacted]
67285840	[redacted]
67286240	[redacted]
67286540	[redacted]
67280040	[redacted]
67280040	[redacted]
67280040	[redacted]
67230040	[redacted]
67280040	[redacted]

ORA's review of sampled expense transactions under the Corporate Expense categories for year 2015 also shows expenses incurred for food, drink, an employee retirement gift and rental for a party in 2015 as follows:[42]

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[41] Attachment 2-6—ORA data request ORA-A.15-12-001 YPX-004 (Expenses) and Siskiyou's data responses (supporting documents)

[42] Attachment 2-7--Siskiyou's data responses (supporting documents) to ORA's data request ORA-A.15-12.001 YPX-004 (Expenses)

[redacted]			
[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]

(d) Rate Case Expenses

Rate case expenses are properly included in the expense category General and Administration under Corporate Operation expenses. Regarding Siskiyou's rate case expenses, Siskiyou's testimony indicates [redacted]

[redacted]." [43]

Siskiyou's rate case expenses should be included in its Corporate Expense cap. The U.S. Code of Federal Regulations [44] makes clear that General and Administration expense accounts shall include costs incurred in the provision of general and administrative services as follows:

"(d) Maintaining relations with government, regulators, other companies and the general public. This includes:

(2) Preparing and presenting information for regulatory purposes, including tariff and services cost filing …;

(g) Providing legal services: This includes conducting and coordinating litigation, providing guidance on regulatory and labor matters, preparing, reviewing and filing patents and contracts and interpreting legislation. Also included are court costs, filing fees, and the costs of outside counsel, depositions, transcripts and witnesses."

ORA requested Siskiyou to provide its recorded legal and consulting expense transactions in 2014 and 2015 related to the instant proceeding. [redacted]

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[43] David A. Lashua's Opening Testimony, line 6 of page 9

[44] FCC System of Accounts for Telecommunications Companies, § 32.6720

[redacted]

One of the goals of the Commission adopting the FCC Corporate Expense Caps in D.14-12-084 was to "create incentives to align expenditures with the cap to reduce rate case litigation costs." The Commission should not reverse direction and allow rate case expenses to be excluded from the Corporate Expense cap.

[redacted].

45 Attachment 2-8 Siskiyou's data responses (sampled supporting documents) to ORA's data request ORA-A.15-12.001 YPX-002 (Expenses)

Table 2-5: Application of FCC's Corporate Expense Caps	
Siskiyou's Estimated 2017 Corporate Expense	[redacted]
FCC Corporate Expense Cap	[redacted]
Total Company Corporate Expense Reduction	[redacted]
Intrastate Factor	[redacted]
Intrastate Corporate Expense Reduction	[redacted]
Interstate Corporate Expense Reduction	[redacted]

(e) Cost Allocation

Siskiyou's [redacted] indicates “all general support plant assets are considered to be regulated unless we pull a portion of it out and assign it to non-regulated use[redacted][46]

Also, Siskiyou's responses [47] to ORA's data request indicate that [redacted]

[46] Attachment 2-10 p. 1 and p. 3-14, Siskiyou's Cost Allocation Manual updated 7/13/15

[47] Attachment 2-9 p. 1-4, Siskiyou's data responses to ORA data request ORA-A.15-12-001 YPX-005 “Expenses-Cost Allocation”

[redacted],” [48]

It is unreasonable that Siskiyou only charged $[redacted]) [49] per year to its unregulated broadband division, parent company, subsidiary affiliate and phone store for using general support plant assets for their unregulated activities. Siskiyou's unregulated broadband division, parent company, subsidiary affiliate and phone store also use common areas, conference rooms, parking lots, restrooms, and furniture and computers shared with Siskiyou. Siskiyou did not allocate those costs. ORA believes costs for using the common areas and furniture and computer should be allocated to reflect the users' benefits. The Commission recommends the four factor methodology for indirect cost allocations where appropriate. The four factor methodology should be used to allocate Siskiyou's indirect costs, such as general support plant expenses, based on the available data provided by Siskiyou for the number of customers, expenses, plant and employees. The following table demonstrates the four factor methodology that ORA used for cost allocations based on the data provided by Siskiyou in its responses [50] to the ORA data request:

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[48] Attachment 2-9 p. 3 and 4, answers 4 (a) and (b)

[49] Attachment 2-10 p.1 (1of 3)

[50] Attachment 2-10 p.2 –Siskiyou's data responses (supporting documents) to ORA data request ORA-A.15-12.001 YPX-005 (“Expenses-Cost Allocation”)

[redacted]				
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

[redacted]

The four factor methodology shows that on average [redacted]% of the indirect expenses should be allocated to [redacted]

[51] Attachment 2-10, p, 1 & p. 15-26, ORA's calculation and Siskiyou's general ledger for expense accounts allocated

Table 2-7: Application of Cost Allocation Using Four Factor Methodology for Plant Specific	
ORA's Estimated 2017 Siskiyou Plant Specific Reduction	[redacted]
Siskiyou's Estimated 2017 Revenue Collection from Non-Regulated Activities	[redacted]
ORA's Estimated 2017 Net Plant Specific Reduction	[redacted]
Intrastate Factor	[redacted]
Intrastate Reduction	[redacted]

D. CONCLUSION

The Commission decided to use the FCC Corporate Expense Caps to limit the amount of corporate expenditures that can be recovered from the CHCF-A program, but allow an applicant higher corporate expenses if it is able to rebut the presumption that corporate expenses above that cap are unreasonable. Siskiyou had the opportunity in this GRC application to rebut the presumption of unreasonableness if exceeding the cap and did not do so. As discussed above, Siskiyou has not met its burden to prove the Corporate Expense cap of $[redacted] is unreasonable and an additional amount of [redacted] is needed. Siskiyou did not provide detailed accounting data information and accounting data analysis in its application, workpapers, or responses to ORA's data requests to justify its request to exceed the FCC Corporate Expense cap for ratemaking purposes. Instead, expense items inappropriate for rate making purposes were included in the expense data presented by Siskiyou in its application for test year 2017. Siskiyou's

Corporate Expense amount including rate case expenses should be limited to the FCC Corporate Expense cap of $[redacted].

Regarding the usage of general support plant assets, Siskiyou did not allocate the cost of using building conference rooms, common areas, parking lots, restrooms, furniture and computer properly. ORA estimated a net $[redacted] reduction from its Plant Specific expenses for year 2017.

CHAPTER 3: PLANT

A. INTRODUCTION

This chapter addresses the reasonableness of Siskiyou's proposed Plant in Service for Test Year 2017. A major component of Siskiyou's proposed Plant in Service is the "Five Year Plan" in which Siskiyou proposes continuation of Fiber to the Home (FTTH) deployment in the Siskiyou Service area.[52] The 2017 total estimated for these network projects, vehicles, and computers, in this rate case, is $[redacted].[53]

Siskiyou provided documentation of the associated Ratebase consisting of Plant in Service minus the Accumulated Depreciation Reserves that correlate with these and other previously completed capital projects that Siskiyou estimates will be in service for Test Year 2017.[54] Siskiyou's total estimated average balance for Plant in Service for Test Year 2017 is $[redacted]; with a corresponding average balance for Accumulated Depreciation Reserves of $[redacted]. The intrastate portions of these balances for Test Year 2017 are $[redacted] for Plant in Service and $[redacted], respectively. Subtracting the 2017 average Accumulated Depreciation Reserve balance from the Average Plant in Service Balance and

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[52] Opening Testimony of Larry Thompson, page 3

[53] Attachment 3-1, Lashua Exhibit DAL-1-Revised, page 6 of 38

[54] Attachment 3-1, Lashua Exhibit DAL-1-Revised, pages 1 of 38

adding the other components of intrastate Ratebase results in Siskiyou's proposed Test Year Ratebase of $[redacted].[55]

B. SUMMARY OF RECOMMENDATIONS

ORA recommends the Commission adopt its estimate of $[redacted] for Plant Additions for 2017. The recommended amount reflects adjustments to the vehicle account estimate and the removal of the Pines Fiber Drop & Fiber Pull (B) project. The resulting amount is in line with Siskiyou's sustainable capital budget and is reasonable and will allow Siskiyou to improve service to its customers by extending FTTH to additional customers. ORA also makes an allocation adjustment to the garage/OWE (2115 & 2116), buildings (21210), buildings MW (212110-30) and furniture (2122) accounts.

C. DISCUSSION

Siskiyou's planned network upgrades are consistent with its 5-year plan to upgrade its network and bring customers high speed broadband. The FCC has stated its intention to adopt increased broadband standard speeds of 25 MB down and 3 MB up.[56] The proposed projects would enhance and extend Siskiyou's broadband facilities to keep up with evolving broadband standards and bring those broadband speeds to more of its customers. The network projects account for more than two-thirds of Plant spending. The remaining portion of plant spending

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[55] Attachment 3-1, Lashua Exhibit DAL-1-Revised, page 15 of 38

[56] https://apps.fcc.gov/edocs_public/attachmatch/FCC-15-10A1.pdf, Paragraph 3:, and http://www.fcc.gov/document/chairman-remarks-facts-and-future-broadband-competition)

is made up of Crew Construction Projects (line extensions, replacement of damaged plant), Vehicles, Central Office, and IT (periodic replacement of computers) projects.

Vehicles

Siskiyou has proposed replacing [redacted] 4-wheel drive trucks (Vehicles # 4, #13, #22, and #26) and [redacted] small bucket truck (Vehicle #29) for a total capital spend of $[redacted] in 2017. Siskiyou's replacement schedule for 2016 shows replacement of Vehicles #3, #7, #8, #9, #12, #16, and #18 for a capital spend of $470,000. Siskiyou replaces vehicles at 100,000 miles or when they become failure prone.[57] ORA used the California Department of General Services (DGS) guidelines for vehicle replacement in determining its recommendation. The DGS guidelines recommend replacement at 120,000 miles for sedans, station wagons, vans, and light duty trucks and at 150,000 miles for 4-wheel drive vehicles or when cost-effective to do so.[58] ORA adjusted Siskiyou's 2016 request to reflect actual replacement of vehicles #8 and #16 in 2015.[59] Next, based on the DGS guidelines, age, and mileage of the vehicles, ORA deferred replacement of Vehicles #3, #7, #9, #12 to 2018 when they likely would meet the mileage requirement for replacement, and added Vehicle #18 to the planned capital spend in 2017. The resulting capital spend estimate for 2016 is $0.

[57] Attachment 3-2, Siskiyou MDR_C_3_page 2
[58] www.documents.dgs.ca.gov/ofa/handbook.pdf , page 4
[59] Attachment 3-5, ST Responses To ORA-A15-12-001 BG1-001, Q3 and Q4

Vehicle #22 was replaced in 2015, ahead of planned replacement, due to damage. ORA has removed this replacement vehicle from the estimate for 2017. During ORA's site investigation of Siskiyou facilities, ORA observed that Vehicles # 4, #13, and #26 had each accumulated about 76,000 miles. These trucks are 2 to 3 years old. Using the DGS guideline, and since Siskiyou did not claim excessive repair costs as the justification for replacement of Vehicles #4, #13, and #26, ORA recommends their replacement be deferred to 2018 or later.

Vehicle #29 will be 14 years old 2017. On the basis of age ORA does not oppose funding replacement of Vehicle #29. ORA accepts Siskiyou's cost estimate of $[redacted]. ORA recommends a total estimate of $[redacted] for all vehicle plant additions in 2017.

Computers

Under Siskiyou's project titled IT-Reg it proposes to spend $[redacted] to replace a number of general purpose computers. This is below the actual 2015 capital spend of $[redacted] and the planned 2016 capital spend of $61,500. 2015 spending is described in greater detail in Siskiyou's response to ORA's data requests ORA-A.15-12-001 BG1-001, Q18. In response to ORA's data request Siskiyou indicated that it followed a [redacted][60] year replacement cycle for its general computers. ORA accepts Siskiyou's estimate for 2017.

Central Office FTTH Gear

[60] Attachment 3-3, Siskiyou Response to ORA Data Request No. ORA-A.15-12-001 PHH-001 (Plant), Q9

Siskiyou proposes 2017 spending of $[redacted] for this project. This project consists of spending for Central Office equipment needed as additional FTTH is placed in service. Typical pieces of equipment installed under this account are fiber bays, shelves with active Ethernet cards, and power converters. ORA reviewed the account details for 2014 and 2015 provided in response to ORA data request ORA-A.15-12-001 BG1-001, Q15. The level of spending is commensurate with the number of FTTH projects planned in 2017. ORA reduces Siskiyou's estimate of $[redacted] for 2017 in proportion to ORA's recommended adjustment to the Pines Fiber Drop & Fiber Pull (B) (Contractor Portion). ORA's estimate is $[redacted]. Central Office FTTH Gear plant balances are in Account 2232.

Central Office

Siskiyou proposes 2017 spending of $[redacted] for this project. This project consists of spending on regular replacement of equipment and upgrades to Central Office gear such as switches, carrier systems, and microwave system components. ORA reviewed the account details for 2014 and 2015 provided in response to ORA data request ORA-A.15-12-001 BG1-001, Q16. The estimate is based on Siskiyou's historical spending in this account. ORA accepts Siskiyou's estimate of $[redacted] for 2017. Central Office plant balances also are in Account 2232.

Network Upgrades

Siskiyou's remote location and low population density contribute to its relative high cost of service per customer line. Siskiyou's proposed projects are all well above the California Advanced Services Fund (CASF) average approved project cost for 2015. The average CASF project cost in 2015 is about $1,500 per household with the highest approved cost per household of about $54,000.[61] ORA is using the range of approved CASF project costs as a reference point for evaluating Siskiyou's projects. Siskiyou's projects range from about $[redacted] per household to $[redacted] per household.[62] While most of Siskiyou's projects are a the higher end of the cost spectrum when compared to recently approved CASF projects, ORA only removes the most expensive project from the 2017 proposed plant additions that is many times more costly than even the highest cost approved CASF project for 2015.

Pines Fiber Drop & Fiber Pull (B) (Contractor Portion)

Siskiyou proposes 2017 spending of $[redacted] for this project. This project would bring FTTH to a total of [redacted] customers in the Etna exchange. The project would replace the existing buried copper with conduit. Siskiyou's preferred contractor would perform the work.

At $[redacted] per household this project is not reasonable. The cost is simply too high for the number of customers it serves. The cost per household is about [redacted] that of the highest cost CASF approved 2015 project. ORA recommends that this project be removed from the 2017 plan. ORA has removed the project cost of $[redacted] from its estimate for 2017 plant additions.

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[61] http://www.cpuc.ca.gov/uploadedFiles/CPUC_Public_Website/Content/Utilities_and_Industries/Communications_-_Telecommunications_and_Broadband/Reports_and_Presentations/CASF%202015%20Annual%20Report(1).pdf , pg 45

[62] Attachment 3-4, Siskiyou MDR_B_04 – Capital Spending – TY 2017

Crew Construction Projects

Siskiyou proposes 2017 spending of $[redacted] for these projects. This level of spending is the long term historical average for these types of minor construction projects made up of facilities' replacements and extensions. The types of projects and costs are described in response to ORA data request ORA-A.15-12-001 BG1-001, Q11. The requested amount is also about 33% below the actual 2012-2015 average. This level of spending has been forecasted by Siskiyou for 2016 through 2020. ORA accepts Siskiyou's estimate.

Allocation to Unregulated Affiliates

ORA makes an allocation of common plant to Siskiyou's unregulated operations. The allocation is based on ORA's 4-factor analysis discussed in Chapter 2 Expenses. Based on this analysis ORA allocates 14% of the common plant costs. Conservatively, these shared common plant costs are limited to the garage/OWE (2115 & 2116), buildings (21210), buildings MW (212110-30) and furniture (2122) accounts. Siskiyou already recovers some of these costs via rent and a monthly per customer charge that is intended to recover the costs of billing related costs. ORA's additional allocation attempts to capture the costs associated with portions of the headquarters building such as conference rooms, bathrooms, and customer lobby that are not captured by Siskiyou's current allocation methodology. The allocation adjustment is made to the garage/OWE, buildings, buildings MW, and furniture plant accounts. These changes then flow through the depreciation and rate base accounts and result in a slightly lower calculated revenue requirement. ORA estimates that its allocation results in over $[redacted] in reduction to revenue requirement for 2017.

D. CONCLUSION

Incorporating ORA's adjusted Vehicles estimate and removing the cost of the Pines Fiber Drop & Fiber Pull (B) (Contractor Portion) project results in ORA's recommendation of $[redacted] for 2016 plant additions and $[redacted] for 2017 plant additions.

CHAPTER 4: DEPRECIATION

A. INTRODUCTION

The Commission's rate case plan adopted in Decision 15-06-048 does not require that a depreciation study be prepared or that depreciation rates be modified. However, Siskiyou has prepared a depreciation study to update its current depreciation rates in the current GRC. The present and proposed depreciation rates used are shown below.

DEPRECIATION RATES

Account	Description	Present 2011-2016	Proposed 2017
2112	Vehicles	[redacted]	[redacted]
2114	Special Vehicles	[redacted]	[redacted]
2115/2116	Garage Oth WE	[redacted]	[redacted]
21210	Buildings	[redacted]	[redacted]
212110	Buildings MW	[redacted]	[redacted]
2122	Furniture	[redacted]	[redacted]
21231	Office Eq.	[redacted]	[redacted]
21240	Computers	[redacted]	[redacted]
2212	CO Digital	[redacted]	[redacted]
2232X	CO Circuit	[redacted]	[redacted]
2231	COE Radio	[redacted]	[redacted]
2410	Pole Lines	[redacted]	[redacted]
241110	Towers & Passives	[redacted]	[redacted]
2421	Aerial Ca. Metallic	[redacted]	[redacted]
24211	Aerial Fiber	[redacted]	[redacted]
2422	Under. Ca. Metallic	[redacted]	[redacted]
242210	Under. Fiber	[redacted]	[redacted]
2423	Buried Ca. Metallic	[redacted]	[redacted]
242310	Buried Fiber	[redacted]	[redacted]
2431	Aerial Wire	[redacted]	[redacted]
2441	Under. Con	[redacted]	[redacted]
2680	Lease Impr.	[redacted]	[redacted]

Siskiyou's forecasted depreciation accrual for 2017 is ([redacted]) using their proposed depreciation rates. ORA does not disagree with Siskiyou's methods used in determining the new depreciation rates used. However, ORA disagrees with Siskiyou's use of a [redacted] year Service Life for Pole Lines. As seen in the table above the resulting proposed depreciation rate for Pole Lines is substantial. ORA recalculated the Pole Lines depreciation rate using a [redacted] year Service Life. ORA recommends using a proposed depreciation rate of [redacted]% instead of Siskiyou's proposed [redacted]%. Siskiyou's and ORA's Depreciation Accruals for 2017 are shown in Table 4-1 below.

Table 4-1

Depreciation Accrual

2017	
Siskiyou	ORA
[redacted]	[redacted]

B. SUMMARY OF RECOMMENDATIONS

ORA recommends adoption of Siskiyou's proposed depreciation rates. The calculation of the new depreciation rates is shown in the company's workpaper titled "Lashua Exhibit DAL-2 Workpaper" submitted with the application. The revised rates reflect an analysis of the remaining life of assets and the average service life of the different categories of assets. ORA reviewed the analysis and accepts the updated depreciation rates except for the rate for Pole Lines. For Pole

Lines ORA recalculated the Pole Lines depreciation rate using a [redacted] year Service Life instead of Siskiyou's [redacted] year Service Life.[63] ORA recommends using a proposed depreciation rate of [redacted]% instead of Siskiyou's proposed [redacted]%. ORA is also concerned, but makes no adjustment at this time, to the proposed depreciation rate for computers and suggests the Service Life may be [redacted]% larger than indicated by Siskiyou's replacement schedule.

C. DISCUSSION

The depreciation rates used by Siskiyou to estimate the depreciation expense for 2017 are the result of a recent depreciation study and reflect changes to the currently adopted rates as shown previously. A description of the depreciation study is contained in the "Final Lashua Confidential Testimony With Exhibits" and the calculations are shown in "Lashua Exhibit DAL-2 Workpaper".

Depreciation expense is calculated on a mass asset basis as prescribed by the FCC. This method uses a simple average plant balance multiplied by the depreciation rate by account. Siskiyou's and ORA's depreciation amounts differ as a result of different plant additions, ORA's different depreciation rate for Pole Lines, and ORA's allocation of plant to the unregulated operations.

[63] http://www.utilityproducts.com/articles/print/volume-18/issue-9/product-focus/overhead-underground/wood-pole-life-extension-and-the-case-for-capitalization.html

D. CONCLUSION

ORA recommends the Commission adopt Siskiyou's proposed depreciation rates modified to reflect ORA's depreciation rate for Pole Lines and ORA's resulting estimate of depreciation expense of ([redacted]) for 2017.

CHAPTER 5: RATEBASE

A. INTRODUCTION

Ratebase represents the amount of investment (Plant-in-service, plant under construction, Materials & Supplies, and Working cash), less depreciation, deferred taxes, and customer deposits, that is necessary for the company to provide safe, reliable voice service and access to a broadband-capable network to its customers. Siskiyou's revenue requirement incorporates a return on the ratebase. ORA's lower estimate for plant additions, adjusted deferred taxes, and its recommended allocation of plant result in a lower ratebase estimate for 2017.

Siskiyou's and ORA's estimated 2017 average ratebase estimates are shown in Table 5-1 below.

Table 5-1

RATEBASE

2017	
Siskiyou	ORA
[redacted]	[redacted]

B. SUMMARY OF RECOMMENDATIONS

ORA does not object to Siskiyou's method of calculation of the Ratebase. ORA has reviewed the calculation and estimates incorporated for 2016 that are incorporated into the 2017 estimates and finds them reasonable and consistent with descriptions provided in the testimony of Mr. Lashua. ORA makes an adjustment to the estimate for deferred taxes in 2016 and 2017. Siskiyou's and

ORA's estimates differ as a result of different plant additions, ORA's deferred taxes adjustment, and allocations to unregulated operations.

C. DISCUSSION

ORA reviewed the calculations and workpapers for 2010 through 2016 and the assumptions underlying the 2017 calculation of ratebase. The methodology for calculating the Working Cash component is unchanged from that previously found to be reasonable by the Commission.

The calculated ratebase has grown steadily since 2010 though the year over year growth rate is estimated to slow to about a [redacted]% increase from 2016 to 2017, whereas year over year growth in ratebase was over [redacted] % as recently as 2012. Growth in ratebase is largely attributable to significant plant additions during the 2010 through 2014 time period. The more gradual increase in ratebase estimated for 2017 results from more moderate plant additions and will result in slower growth in revenue requirement.

Materials & Supplies

The Materials & Supplies amount estimated for 2017 is calculated as a percentage of total plant in service. Siskiyou used a factor of [redacted]% to determine its estimate for Materials and Supplies. ORA finds the factor used to be reasonable and the resulting Materials & Supplies amount of $[redacted] reasonable, the portion allocated to intrastate operations is $[redacted].

Working Cash

ORA's working cash estimate differs from Siskiyou's as a result of ORA's different expense recommendations discussed in Chapter 2 and ORA's different revenue estimates discussed in Chapter 1. ORA's calculated working cash is $[redacted], the portion allocated to intrastate operations is $[redacted]

Deferred Taxes

Siskiyou estimated 2016 and 2017 deferred taxes at the same level of 2015. The Deferred Taxes amount has been growing over time. ORA used the recent average growth rate, [redacted]% to develop estimates for 2016 and 2017, ORA used ($[redacted]) for 2016 and ($[redacted]) for 2017.

ORA's ratebase estimate for 2017 is $[redacted], the portion allocated to intrastate operations is $[redacted].

D. CONCLUSION

ORA's review confirms Siskiyou's method for calculating ratebase is consistent with accepted methods and with ORA's adjustments is reasonable. ORA recommends the Commission adopt its estimated 2017 ratebase of $[redacted], the portion allocated to intrastate is $[redacted].

ATTACHMENT A

STATEMENT

OF

QUALIFICATIONS

OF

ORA WITNESSES

1 **QUALIFICATIONS AND PREPARED TESTIMONY**

OF
CHARLOTTE CHITADJE

Q1. Please state your name, business address, and position with the California Public Utilities Commission (Commission).

A1. My name is Charlotte Chitadje and my business address is 505 Van Ness Avenue, San Francisco, California. I am a Public Utility Regulatory Analyst in the Communications Branch of the Office of Ratepayer Advocates.

Q2. Please summarize your education background and professional experience.

A2. I received a Bachelor of Science degree in Business Administration with a concentration in Accounting from San Francisco State University in 2004. I received my Professional License as a Certified Public Accountant in the State of California in 2009. I joined the Office of Ratepayer Advocates (ORA) –Communications and Water Policy Branch, in September 2014. Prior to joining ORA, I was a Public Utilities Financial Examiner IV in the Division of Water and Audits –Utility Audit, Finance and Compliance Branch at the Commission, where I worked from April 2012 to September 2014. Before coming to the Commission, I worked from 2004 to March 2012 as a Corporations Examiner in the Department of Corporations.

I attended the Michigan State University Institute of Public Utilities: Basics of Utility Regulation and Ratemaking Seminar in June 2014.

Q3. What is your responsibility in this proceeding?

A3. I am the project lead and the author of the Executive Summary.

Q4. Does this conclude your prepared direct testimony?

A4. Yes, it does.

2

QUALIFICATIONS AND PREPARED TESTIMONY
OF
ROY KEOWEN

Q1. Please state your name and business address.

A1. My name is Roy Keowen. My business address is 505 Van Ness Avenue, San Francisco, California, 94102.

Q2. By whom are you employed and in what capacity?

A2. I am employed by the California Public Utilities Commission (CPUC) in its Office of Ratepayer Advocates (ORA) as a Financial Examiner II.

Q3. Briefly describe your pertinent educational background.

A3. I graduated from the California State University, Los Angeles with a degree in Business Administration, Option in Accounting.

Q4. Briefly describe your professional experience.

A4. Prior to joining the CPUC, I worked as a Tax Auditor at the Board of Equalization for 1 year. In my experience at the CPUC, I have worked on 3 general rate cases where I reviewed and prepared testimony for the balancing and memorandum accounts, one general rate case where I prepared testimony for operating expenses and one cost of capital proceeding.

Q5. What is your responsibility in this proceeding?

A5. I am responsible for providing testimony related to Revenues and Rate Design.

Q6. Does that conclude your testimony?

A6. Yes, at this time.

QUALIFICATIONS AND PREPARED TESTIMONY
OF

YANHUA XUE

Q1. Please state your name and business address.

A1.Yanhua Xue – 505 Van Ness Ave, San Francisco, CA 94102

Q2. By whom are you employed and in what capacity?

A2. I am employed by the California Public Utilities Commission (CPUC) in its Office of Ratepayer Advocates (ORA) as an Auditor I

Q3. Briefly describe your pertinent educational background.

A3. 2001 Graduate of San Francisco State University with a BS Degree in Accounting

Q4. Briefly describe your professional experience.

A4. Prior to joining the CPUC, I worked as a Corporations Examiner for the Department of Corporations from 2002 to 2005. I conducted examinations on securities broker/dealers and investment advisors. From 2006 to 2015, I worked at the Bureau of Real Estate as an Auditor and then as an Audit Supervisor starting in 2010. With the Bureau of Real Estate, I conducted financial audits on real estate brokers and testified to my audit findings at administrative law hearings

Q5. What is your responsibility in this proceeding?

A5. I am responsible for Chapter 2-operating expenses and providing testimony

Q6. Does that conclude your testimony?

A6. Yes, at this time.

QUALIFICATIONS AND PREPARED TESTIMONY OF

PATRICK E. HOGLUND

Q.1. Please state your name and business address.

A.1. My name is Patrick E. Hoglund. My business address is 505 Van Ness Avenue, San Francisco, California.

Q.2. By whom are you employed and in what capacity?

A.2. I am employed by the California Public Utilities Commission - ORA Communications and Water Policy Branch - as a Senior Utilities Engineer. My current assignment is within ORA – Communications and Water Policy Branch. I am assigned to various communications related matters.

Q.3. Please briefly describe your educational background and work experience.

A.3. I am a graduate of the University of California, Berkeley, with a Bachelor of Science Degree in Industrial Engineering and Operations Research. I am also a graduate of the University of Rochester, William E. Simon School of Business with a Master of Business Administration Degree with concentrations in Finance and Corporate Accounting. I am a licensed professional Industrial Engineer.

I have been employed by the California Public Utilities Commission since 2005. From July 1999 through August 2004, I was a Senior Rates Analyst at Pacific Gas and Electric Company, where I worked on a variety of revenue requirements issues related to natural gas. From 1990 through 1997, I was employed by the California Public Utilities Commission. During this time I worked on small water utility rate cases, large water utility rates cases, and also worked in the Telecommunications and Energy Branches of the former Commission Advisory and Compliance Division, as well as in the Division of Ratepayer Advocates.

I have completed regulatory training provided by NARUC in 2005 and a regulatory accounting seminar provided by Financial Accounting Institute in 2009. I have prepared testimony in numerous water rate case proceedings. Most recently in A.12-07-005, A.10-07-007, A.09-01-013, and A.09-07-001.

Q.4. What are your responsibilities in this proceeding?

A.4. I am responsible for the Plant, Depreciation, and Ratebase chapters.

Q.5. Does this conclude your prepared testimony?

A.5. Yes, it does.

Attachment B

SEPARATED RESULTS OF OPERATIONS
FOR
PROPOSED TEST YEAR 2017

[redacted]

Attachment 1-1

Single Line Residential		
Local Service Rate		37.5
Subscriber Line Charge		6.50
ARC Charge		0.00
CHCF - A Surcharge	0.350%	0.13
ULTS Surcharge	5.500%	2.06
CASF Surcharge	0.464%	0.17
California Relay	0.500%	0.19
911 Tax	0.750%	0.28
Teleconnect Fund Surcharg	1.080%	0.41
Total	8.644%	47.24

CHAPTER 2 – ATTACHMENTS

ALL CONFIDENTIAL

CHAPTER 3 – ATTACHMENTS

ALL CONFIDENTIAL