

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF COLORADO**

2005 NOV -7 PM 4:24

RE: THE INVESTIGATION AND SUSPENSION)
OF TARIFF SHEETS FILED BY PINE DRIVE)
TELEPHONE COMPANY WITH ADVICE)
LETTER NO. 76.)

Docket No. 05S-330T

STIPULATION AND SETTLEMENT AGREEMENT

This Stipulation and Settlement Agreement ("Agreement") is entered into by and between Pine Drive Telephone Company ("Pine Drive"), Staff of the Public Utilities Commission ("Staff"), and the Colorado Office of Consumer Counsel ("OCC"). Pine Drive, Staff and OCC are referred to herein collectively as the "Parties" and individually as a "Party." This Agreement sets forth the terms and conditions by which the Parties have agreed to resolve all issues that have or could have been contested in this Docket. The Parties jointly state as follows:

Introduction

1. On July 5, 2005, Pine Drive filed Advice Letter No. 76 with accompanying tariffs. In its filing, Pine Drive sought authority, pursuant to the Commission's Rules Prescribing the High Cost Support Mechanism (HCSM) and Prescribing the Procedures for the Colorado High Cost Administration Fund, 4 *Code of Colorado Regulations* (CCR) 723-41 (HCSM Rules), and to increase its HCSM support to \$593,027 annually. The filing was made to comply with Commission Rule 18.6.1.1, which requires companies requesting a change in their HCSM support to make a filing with proper support. Pine Drive also requested the Commission to approve a rate of \$85.00 for switch translations associated with N11 requests. The tariffs accompanying

2005

Advice Letter No. 76 were suspended by the Commission on August 4, 2005 per Decision No. C05-0957 in Docket No. 05S-330T.

2. By Decision No. C05-0957, referenced above, the Commission suspended the effective date of the Pine Drive tariffs for 120 days until December 3, 2005, and with the authority to extend the tariff suspension for an additional 90 days thereafter, and set the matter for hearing on November 22, 2005. Staff and the OCC timely filed notices of intervention.

3. On September 23, 2005, Pine Drive filed the direct testimony and exhibits of Kevin J. Kelly and the direct testimony in support of the company's increased HCSM funding request.

4. Prior to the filing of Staff and OCC Answer Testimony and Exhibits, the Parties met in settlement discussions, exchanged proposals and counter-proposals and agreed upon a stipulated resolution to the Pine Drive filing.

5. The following terms and conditions set forth the Parties' agreement in resolution of this proceeding.

Settlement Agreement Terms

1. Cost of Capital, Capital Structure, USF Calculation, and Return on Equity.
HCSM Support Amount. For purposes of this settlement only, subject to all of the conditions set out below including those concerning the non-precedential effect of the terms of this agreement, to avoid the cost and uncertainty of the issue in dispute, and with the acknowledgment that Pine Drive contested here and would contest in future proceedings the agreements reached in this paragraph, the Parties agree as follows: (a) the Advice Letter No. 76 containing the original tariff page 56 instituting a N11 codes switch

translation nonrecurring charge shall be a compliance filing on not less than one (1) day's notice; (b) the imputed capital structure is a 40/60 debt to equity ratio; (c) the return on equity is 9.50%; (d) the cost of debt is 6.70%; (e) the weighted average cost of capital is 8.38%; (f) the incremental Colorado High Cost support amount to be received by Pine Drive under this agreement is \$107,575; and (g) the Pine Drive revenue requirement is \$1,139,104.

2. HCSM Support Amount. For purposes of this settlement, the Parties agree that Pine Drive's request for HCSM funding is governed by § 40-15-208, C.R.S. and the Commission's HCSM Rules. The Parties agree that Pine Drive has provided proper support for an increase consistent with Rule CCR 723-41-18.4. The Parties further agree that based upon the provision of paragraph 1 above, Pine Drive shall be entitled to HCSM support in the full amount of \$470,075 annually. This HCSM support amount shall be retroactively effective to October 1, 2005 and shall continue for one year, unless otherwise amended by subsequent legislation or rule change. The HCSM support amount is in the public interest and should be permitted to go into effect.

3. Schedule Reflecting the Agreement of the Parties. Attached hereto as **Exhibit A** is a schedule consisting of four (4) pages and providing support for the terms and conditions of the Parties' agreement regarding the entitlement of Pine Drive to future and retroactive HCSM funding support. The as-filed version of Exhibit A reflects each of the changes discussed in paragraphs 4 and 5, *infra*; no further revision to Exhibit A is necessary at this time.

4. Plant Specific Expenses. Attached hereto as **Exhibit A, on page 1 of 4,** and in Column (2) entitled "Other Adjustments," the Parties agree to decrease Plant

Specific Expenses by \$26,317 to reflect the Certified Public Accountant's Audit Report for 2004 in Exhibit A on page 4 of 4. The Parties agree to increase the Deferred Tax Reserves by \$9,961, as indicated in **Exhibit A on page 3 of 4**, and the Column labeled "Average Adjustments."

5. Other Adjustments. The Parties agree to increase the rate case expense amount by \$2,500 in **Exhibit A on page 4 of 4**.

6. Implementation of Agreement. To implement the agreed upon tariff, the Parties request that the Commission authorize Pine Drive to file a tariff sheet associated with the N11 code switch translation charge on not less than one (1) day's notice.

Additional Miscellaneous Settlement Terms

7. This Agreement has been entered into solely to resolve issues in this proceeding involving the Parties. Therefore, the issues and matters resolved by this Agreement apply only to this docket and the issues raised herein. Notwithstanding the resolution of the issues set forth in this Agreement, no methodology or principle contained herein shall be deemed or construed as a settled practice or of precedential value for the purposes of any other proceeding. No Party shall be deemed or construed to have agreed to any principle or methodology by entering into this Agreement, other than for the purpose of settling this docket without further litigation. The Parties reserve the right to advocate positions different from those stated in this Agreement in the future. Nothing herein shall constitute a waiver by any Party with respect to any matter not specifically addressed in this Agreement.

8. The Parties acknowledge that this Agreement is just and reasonable, reasonably balances the interests of the Parties and is in the public interest. In addition,

the Parties submit that reaching the Agreement set forth herein by means of a negotiated settlement, rather than through a formal adversarial process, is also in the public interest.

9. The Parties acknowledge that this Agreement represents a compromise of the positions each would assert if the issues resolved herein were litigated. Accordingly, evidence of conduct or statements made in negotiations and discussions in connection with this Agreement shall not be admissible in any proceeding. The Parties further agree that nothing contained in this Agreement shall constitute any precedent, admission, concession, acknowledgment or agreement that may be used by or against the Parties in any subsequent proceedings before the Commission or otherwise.

10. The Parties agree to present, to support and to defend, this Agreement before the Commission and urge the Commission to approve the same, without modification. The Parties agree, if necessary, to present testimony and exhibits to the Commission to secure the approval of this Agreement.

11. This Agreement is an integrated whole. To the extent that any individual term is later determined to be unlawful or administratively unenforceable, this entire Agreement shall be declared null and void and of no further effect.

12. This Agreement shall not become effective until the issuance of a final Commission order approving this Agreement, which order does not contain any modification of the terms and conditions of this Agreement that is unacceptable to any Party hereto. In the event that the Commission imposes modified terms or conditions that are unacceptable to any Party hereto, then this Agreement shall be considered null and void and of no force and effect in this or any other proceeding. Notice of unacceptability of any such modification to this Agreement shall be provided to the Commission and the

other Parties to this Agreement in writing within ten (10) days of the date of the Commission order. In the event that this Agreement is not approved, the settlement terms and conditions, as well as the negotiations or discussions undertaken in conjunction with the Agreement, shall not be admissible into evidence in this or any other proceeding.

DATED this 7th day of November, 2005.

APPROVED:

APPROVED AS TO FORM:

PINE DRIVE TELEPHONE COMPANY

By: Richard J. Sellers
Richard J. Sellers
President and General Manager
8842 Maryknoll Blvd.
Beulah, Colorado 81023

By: Gary B. Witt
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ATTORNEY FOR PINE DRIVE
TELEPHONE COMPANY

APPROVED:

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STAFF OF THE PUBLIC UTILITIES
COMMISSION

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ATTORNEY FOR STAFF OF THE
PUBLIC UTILITIES COMMISSION OF
THE STATE OF COLORADO

DATED this 7th day of November, 2005.

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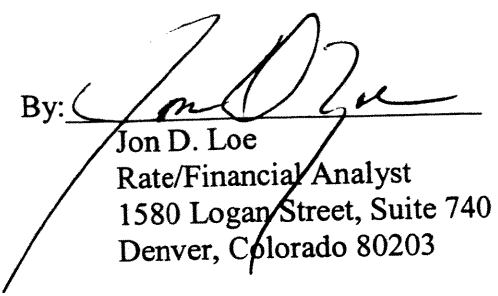
APPROVED:

COLORADO OFFICE OF
CONSUMER COUNSEL

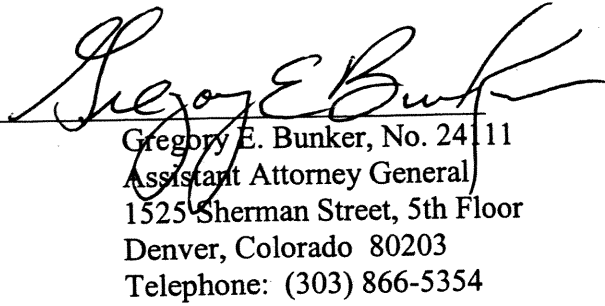
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ATTORNEY FOR COLORADO OFFICE
OF THE CONSUMER COUNSEL

Pine Drive Telephone Company
 Determination of Revenue Requirements

Based on 12-Month Period Ending December 31, 2004

OPERATING REVENUES	PUC 2004 12 mtd	(1) Non- regulated	(2) Other Adjustment	(3) Other Adjustments	Adjusted Results	(6) CHCF Adjustments	Proposed Staff's Adjustment	Year @ RORB of 8.38%
Local Network	\$ 213,295	\$ -	\$ -	\$ -	\$ 213,295	\$ -	\$ -	\$ 213,295
Interstate Access/USF	\$ 398,202	\$ -	\$ -	\$ 32,844	\$ 431,046	\$ -	\$ -	\$ 431,046
Intrastate Access	\$ 58,450	\$ -	\$ -	\$ (1,534)	\$ 56,916	\$ -	\$ -	\$ 56,916
Colorado HCF	\$ 362,500	\$ -	\$ -	\$ -	\$ 362,500	\$ 230,527	\$ (122,952)	\$ 470,075
Nonregulated	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Miscellaneous	\$ 48,283	\$ (28,301)	\$ -	\$ -	\$ 19,982	\$ -	\$ -	\$ 19,982
Operator Services	\$ 22	\$ -	\$ -	\$ -	\$ 22	\$ -	\$ -	\$ 22
Directory Revenue	\$ 8,641	\$ -	\$ -	\$ -	\$ 8,641	\$ -	\$ -	\$ 8,641
Uncoll. (Debit)/Credit	\$ (2,242)	\$ -	\$ -	\$ -	\$ (2,242)	\$ -	\$ -	\$ (2,242)
Total Oper Rev	\$ 1,087,151	\$ (28,301)	\$ -	\$ 31,310	\$ 1,090,160	\$ 230,527	\$ (122,952)	\$ 1,197,735

OPERATING EXPENSES								
Plant Specific	\$ 369,877	\$ (51,782)	\$ (26,317)	\$ -	\$ 291,778	\$ -	\$ -	\$ 291,778
Plant Nonspecific	\$ 25,667	\$ (1,089)	\$ -	\$ -	\$ 24,578	\$ -	\$ -	\$ 24,578
Depreciation	\$ 263,866	\$ (18,517)	\$ -	\$ -	\$ 245,349	\$ -	\$ -	\$ 245,349
Customers Ops.	\$ 195,951	\$ (9,395)	\$ -	\$ -	\$ 186,556	\$ -	\$ -	\$ 186,556
Corporate Ops.	\$ 157,135	\$ (5,474)	\$ -	\$ 20,000	\$ 171,661	\$ -	\$ 2,500	\$ 174,161
Nonregulated	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total Oper Expenses	\$ 1,012,496	\$ (86,257)	\$ (26,317)	\$ 20,000	\$ 919,922	\$ -	\$ 2,500	\$ 922,422

OPERATING TAXES								
State and Local	\$ 7,292	\$ -	\$ -	\$ -	\$ 7,292	\$ 9,093	\$ (1,841)	\$ 14,544
Federal Income	\$ 30,784	\$ -	\$ -	\$ -	\$ 30,784	\$ 83,969	\$ (39,633)	\$ 75,120
Other Taxes	\$ 21,452	\$ (899)	\$ -	\$ -	\$ 20,553	\$ -	\$ -	\$ 20,553
Total Oper Taxes	\$ 59,528	\$ (899)	\$ -	\$ -	\$ 58,629	\$ 93,062	\$ (41,474)	\$ 110,217

Net Income	\$ 15,127	\$ 58,855	\$ 26,317	\$ 11,310	\$ 111,609	\$ 137,465	\$ (83,978)	\$ 165,096
Rate of Return	0.77%				5.67%			8.38%

Colorado High Cost Fund	\$ 470,075							
- Total	\$ 107,575							

Pine Drive Telephone Company

Docket No. 05S-330T
 Proprietary Exhibit A
 Page 2 of 4

Cost of Capital

Description	Imputed Capital Structure	Percentage	Weighted Cost of Capital
Stockholder Equity	60%	9.50%	5.70%
Long Term Debt	40%	6.70%	2.68%
			<u>8.38%</u>

Revenue Estimate - Return and Tax Calculation

Line # & Description		
1. Average Rate Base	\$	1,970,090
2. Rate Of Return		8.38%
3. Return on Investment	\$	165,094
4. Less: Income Adds & Deducts	\$	52,798
5. Interest Charged Construct	\$	-
6. Amortization of ITC	\$	-
7. Balance before Federal Tax	\$	112,295
8. Lower bracket Level**	\$	335,000
9. Federal Income Tax	\$	44,336
10. Balance for SIT	\$	156,631
11. State Income Tax	\$	7,252
12. Tax & Return	\$	216,682
13. Adjusted Expense	\$	922,422
14. Full Cost	\$	1,139,104

FEDERAL TAX TEST

If Line 7 - (.1268657 x Ln 8) is negative, Use Formula A
 If Line 7 - (.1828358 x Ln 8) is negative, Use Formula B
 If Line 7 - (.2320895 x Ln 8) is negative, Use Formula C
 If Line 7 - (.66 x Ln 8) is negative, Use Formula D
 If Line 7 - (.66 x Ln 8) is positive, Use Formula E

FEDERAL TAX FORMULAS

A (Ln. 7x .17647 - Ln. 6)
 B (Ln 7 x .33333) - Ln. 6 - (.0198985 x Ln. 8)
 C (Ln 7 x .515151) - Ln. 6 - (.0531433 x Ln. 8)
 D (Ln 7 x .639344) - Ln. 6 - (.0819672 x Ln. 8)
 E (Ln 7 x .515151) - Ln. 6

Interest Synchroization		
Average Rate Base	\$	1,970,090
Weighted Cost of Debt		2.68%
	\$	<u>52,798</u>

State Income Tax Rate 4.63%

Pine Drive Telephone Company
 Rate Base

	YE 2003 Beginning	YE 2004 Ending	Average	Average Adjustments	Adjusted Average
Plant in Service - PUC Report	\$ 4,362,423	\$ 4,653,501	\$ 4,507,962	\$ -	\$ 4,507,962
Less Non-regulated	\$ (153,825)	\$ (194,926)	\$ (174,376)	\$ -	\$ (174,376)
Regulated Plant in Service	\$ 4,208,598	\$ 4,458,575	\$ 4,333,587	\$ -	\$ 4,333,587
TPUC	\$ -	\$ -	\$ -	\$ -	\$ -
Materials & Supplies	\$ 43,517	\$ 31,204	\$ 37,361	\$ -	\$ 37,361
Customer Deposits (incl 4360)	\$ (73,649)	\$ (67,511)	\$ (70,580)	\$ -	\$ (70,580)
Deferred Tax Reserves	\$ (178,897)	\$ (207,898)	\$ (193,398)	\$ 9,961	\$ (203,359)
Accumulated Depr. -PUC Report	\$ (2,111,592)	\$ (2,368,273)	\$ (2,239,933)	\$ -	\$ (2,239,933)
Less Non-regulated	\$ (119,184)	\$ (142,261)	\$ (130,723)	\$ -	\$ (130,723)
Regulated Accumulated Depr.	\$ (1,992,408)	\$ (2,226,012)	\$ (2,109,210)	\$ -	\$ (2,109,210)
Accumulated Amort. - PUC Report	\$ (17,590)	\$ (19,069)	\$ (18,330)	\$ -	\$ (18,330)
Less Non-regulated	\$ (596)	\$ (646)	\$ (621)	\$ -	\$ (621)
Regulated Accumulated Amort.	\$ (16,994)	\$ (18,423)	\$ (17,709)	\$ -	\$ (17,709)
Regulated Rate Base	\$ 1,990,167	\$ 1,969,935	\$ 1,980,051	\$ -	\$ 1,970,090
Net Income @ 8.38					\$ 165,096

**PINE DRIVE
ADJUSTMENTS**

Footnote (1) Adjustments

Description	Amount
REVENUE	
Miscellaneous	\$ 28,301
EXPENSE	
Plant Specific	\$ 51,782
Plant Nonspecific	\$ 1,089
Depreciation	\$ 18,517
Customer Oper.	\$ 9,395
Corporate Oper.	\$ 5,474
Other Taxes	\$ 899

To remove non-regulated activity, see Exhibit No. 4 for details

Footnote (2) Revenue Adjustments

Description	Amount
Interstate Access	\$ 18,396 (a)
Federal High Cost Loop	\$ 14,488 (b)
Subtotal	\$ 32,884
State Access	\$ (1,534) (c)

- (a) To recognize NECA average schedule access increases effective 7/1/05
 - (b) To recognize the increase in Federal High Cost support 2005 over 2004
 - (c) To adjust state access revenue to current demand level
- See Exhibit No. 5 for details

Footnote (2) Expense Adjustments

Description	Amount
Corp. Ops. Expense	\$ 20,000
Corp. Ops. Expense	\$ 2,500
	\$ 22,500

To amortize estimated for Rate Case expenses over two years

Plant Specific Expenses	\$ 26,317
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To reduce Plant Specific Expense to match CPA 2004 Audit Report

Footnote (3) Adjustments

Description	Amount
Colorado HCF Rev	\$ 230,527 (a)
State Income Tax	\$ 9,093 (b)
Federal Income Tax	\$ 83,969 (b)

- (a) To adjust Colorado HCF to the proposed amount
- (b) To recognize increased income tax expense

Deferred Tax Reserves	\$ 9,961
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To increase reserves to match the annual report

CERTIFICATE OF SERVICE

This is to certify that I have duly served the within Stipulation and Settlement Agreement upon all parties herein by e-mail (if so indicated below) and by depositing copies of same in the United States mail, first-class postage prepaid, at Denver, Colorado, this 7th day of November, 2005 addressed as follows:

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rsellers@fone.net

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