

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

RE: THE INVESTIGATION AND SUSPENSION)
OF TARIFF SHEETS FILED BY PINE DRIVE) Docket No. 03S-314T
TELEPHONE COMPANY WITH ADVICE)
LETTER NO. 70.)

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 June 26, 2003, Pine Drive filed Advice Letter No. 70 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), to increase its composite switched access rates by approximately 0.2% and to increase its HCSM support to \$493,629 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. The tariffs accompanying Advice Letter No. 70 were suspended by the Commission on July 28, 2003 per Decision No. C03-0804 in Docket No. 03S-314T.

2. By Decision No. C03-0804, referenced above, the Commission suspended the effective date of the Pine Drive tariffs for 120 days until December 1, 2003 and set the matter for hearing on November 20, 2003. Staff and the OCC timely filed notices of intervention.

3. By Decision No. R03-1071-I, ALJ Fritzel issued his Interim Order granting additional time to Pine Drive to file its Direct Testimony to and including September 29, 2003.

4. By Decision No. R03-1305-I, ALJ Fritzel issued the Interim Order granting the Motion to Vacate Procedural Schedule filed by Pine Drive Telephone Company. The parties were to file with the Commission a Stipulation and Settlement Agreement or a Status Report on or before December 5, 2003.

5. On September 29, 2003, Pine Drive filed the direct testimony and exhibits of Richard J. Sellers and the direct testimony and exhibits of Chad A. Duval in support of its proposed access rate increase and the company's increased HCSM funding request. In the Duval testimony, it is noted that Pine Drive will begin year 3 of its currently approved HCSM funding on October 1, 2003. As a consequence under the applicable Commission rule, Pine Drive's HCSM funding "phases down" from \$366,017 currently to \$301,964 on the above date. The Duval testimony also notes that the study contained in the exhibits filed with his testimony contains certain changes from the study originally filed with Advice Letter No. 70. These changes include: (a) adjustment of the proposed rate of return to 9.79% to reflect the Company's actual cost of debt of 5.75% and a proposed

return on equity of 11.25%; (b) removal of \$16,433 in office lease expenses based upon the review and application of the Commission's affiliate transaction rules; and (c) adjustment of the proposed intrastate access rates to reflect the average intrastate network access rate elements detailed in Staff's letter to ILECs dated August 8, 2003. These adjustments result in a change, and a reduction, in Pine Drive's requested HCSM support to \$449,024.

6. Subsequently, on October 31, 2003, Staff filed the Answer Testimony and Exhibits of Karlton R. Kunzie, John P. Trogonoski and Warren L. Wendling. Among other things, the Staff testimony suggested certain adjustments to the filing, including to the amount of revenues Pine Drive receives from the Federal USF. The Staff testimony proposed Pine Drive be entitled to a cost of equity of 9.5% and that after including its several proposed adjustments and utilizing its proposed cost of equity, Pine Drive be entitled to HCSM support in the amount of \$353,438.

7. Also on October 31, 2003, the Answer Testimony and Exhibits of PB Schechter were filed on behalf of the OCC. Mr. Schechter relied upon Mr. Trogonoski's cost of capital study, proposed a hypothetical capital structure for Pine Drive of 50 % equity and 50% debt, and suggested certain additional adjustments and recommended Pine Drive receive \$320,308 from the HCSM.

8. Subsequent to the filing of Staff and OCC testimonies, the parties met in settlement discussions, exchanged proposals and counter-proposals and agreed upon a stipulated resolution to the Pine Drive filing.

9. 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.

The Parties disagreed concerning a number of issues pertaining to the calculation of an appropriate rate of return for Pine Drive and an appropriate capital structure as the same relate to the calculation of the appropriate amount of HCSM support to be provided. For purposes of this settlement only, subject to all of the conditions set out below including those concerning the nonprecedential effect of the terms of this agreement, to avoid the cost and uncertainty of litigation of the issues 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 imputed capital structure is a 40/60 debt to equity ratio; (b) the return on equity is 9.5%, (c) the USF support amount received by Pine Drive in the test period is \$26,076 and (d) the weighted average cost of capital is 8.0%; and (e) the Pine Drive revenue requirement is \$1,049,476.

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. Pine Drive contested the application of the Commission's "phase down" rule: 4 CCR 723-41-18.6.1.1 in this docket and reserves the right to contest the application of the rule in any future proceedings. The Parties agree that Pine Drive has provided proper support for an increase in HCSM funding for high loop costs and high local switching costs consistent with Rule 4 CCR 723-41-18.1 and 18.2. The Parties further agree that based upon the provisions of paragraph 1 above, Pine Drive shall be entitled to HCSM support in the full amount of \$362,455 annually. This HCSM support amount shall be retroactively effective to October 1, 2003 and shall continue without

reduction for two year's time, to and including October 1, 2005, unless otherwise amended by subsequent legislation or rule change. This HCSM support amount is in the public interest and should be permitted to go into effect.

3. Switched Access Rates. As a result of the Parties settlement, Pine Drive's switched access rates decrease in the amount of about 14.8% as noted in Schedule 5 to Exhibit A, and also as confirmed in Mr. Duval's testimony at page 21, lines 15-16. As recommended in the testimony of Mr. Kunzie, after approval of this Agreement, Pine Drive will file an Amended Advice Letter No. 70 with updated tariff sheets, updated access rates and with a new effective date in the form of a compliance filing to be filed on one day's notice. These switched access rate changes are in the public interest and should be permitted to go into effect. The *pro forma* access rates are appended hereto and incorporated by reference as **Exhibit A, page 7.**

4. Schedule Reflecting the Agreement of the Parties. Attached hereto as **Exhibit A** is a schedule based upon a schedule attached to the prefiled testimony of Staff witness Karl Kunzie, and modified by Mr. Kunzie to reflect the terms and conditions of the Parties' agreement regarding the entitlement of Pine Drive to future and retroactive HCSM funding support.

5. The Rent Expense Issue. In the Duval direct testimony, Pine Drive proposed an adjustment to decrease corporate operations expense in the amount of \$16,433 to reflect acknowledgment of the requirement of the Commission's affiliate transaction rule at 4 CCR 723-27-13.3.2. Pine Drive agreed that the rule was applicable to the lease arrangement for its office space located at 8611 Central Avenue, Beulah, Colorado which is owned by Pine Drive's principals – Richard and Leeann Sellers. Staff

contested the proposed amount of the adjustment, asserting that under the applicable rule, the lease expense should be the lesser cost of either fair market value or fully distributed cost. Staff also recommended that the Sellers, as individuals, be required to "remit back to Pine Drive the difference between the actual cost, as finally determined, and the \$20,400 lease payment Pine Drive made for the test year 2002 and to date in 2003. Staff estimates this amount to be \$19,402 for 2002 and \$9,701 for the first half of 2003." The Parties agree that the Commission's affiliate transaction rule applies to Pine Drive's rent expense calculation for the purposes of this and any future Pine Drive rate case filing. Finally, the Parties agree that Staff has withdrawn its claim of obligation on the part of Richard and Leeann Sellers as individuals to reimburse Pine Drive for any past rent expense deductions taken by the Company. It is also agreed that Staff has withdrawn its recommendation that the Commission provide a copy of its order concerning this proposed "reimbursement" issue to both the Federal Communications Commission ("FCC") and the Universal Service Administrative Company ("USAC"). Neither Staff nor OCC will initiate, support or encourage any effort to secure such reimbursement, whether in connection with the application of the state or the counterpart federal "affiliate transaction" rule.

6. Other Adjustments. Attached hereto as **Exhibit A**, page 7, are additional adjustments including a \$40,000 rate case expense amortized over 3 years. The Parties agree that any other proposed adjustments not addressed herein or reflected in **Exhibit A** are conceded or waived for the purpose of securing settlement.

7. Implementation of Agreement. To implement the agreed upon tariffs, the Parties request that the Commission authorize Pine Drive to file tariff sheets reflecting

the *pro forma* access rates contained in **Exhibit A**, which are attached hereto and made a part hereof by this reference, with the applicable references to the Commission's anticipated decision in this docket inserted in the spaces provided, on not less than one day's notice.

Additional Miscellaneous Settlement Terms

8. 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.

9. 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.

10. 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.

11. 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.

12. 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.

13. 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 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 5th day of December, 2003.

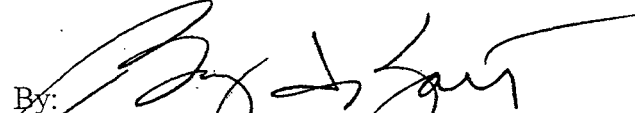
APPROVED:

APPROVED AS TO FORM:

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Determination of Revenue Requirement

Based on 12-Month Period Ending December 31, 2002

OPERATING REVENUES	12-mos. Net Regulated	(1) Wage Adjust- ments	(2) Other Adjust- ments	(3) Other Adjust- ments	(4) Other Adjust- ments	Adjusted Results	(5) Adjustments To Achieve Authorized ROR	Year @ 8.00%
Local Network	\$205,630	\$0	\$0	\$0	\$31,512	\$237,142	\$0	\$237,142
Interstate Access	\$320,828	\$0	\$0	\$0	\$14,694	\$335,521	\$0	\$335,521
USF	\$21,849	\$0	\$0	\$0	\$4,227	\$26,076	\$0	\$26,076
Intrastate Access	\$71,236	\$0	\$0	\$0	(\$3,882)	\$67,354	\$0	\$67,354
Colorado HCF	\$366,017	\$0	\$0	\$0	\$0	\$366,017	(\$3,562)	\$362,455
Nonregulated	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Miscellaneous	\$29,142	\$0	\$0	\$0	(\$13,755)	\$15,387	\$0	\$15,387
Operator Services	\$36	\$0	\$0	\$0	\$0	\$36	\$0	\$36
Directory Revenue	\$14,751	\$0	\$0	\$0	\$0	\$14,751	\$0	\$14,751
Uncoll. (Debit)/Credit	(\$9,247)	\$0	\$0	\$0	\$0	(\$9,247)	\$0	(\$9,247)
Ttl Oper Rev	\$1,020,242	\$0	\$0	\$0	\$32,796	\$1,053,038	(\$3,562)	\$1,049,476
OPERATING EXPENSES								
Plant Specific	\$262,660	\$2,574	\$0	(\$2,574)	\$0	\$262,660	\$0	\$262,660
Plant Nonspecific	\$15,023	\$0	\$0	\$0	\$0	\$15,023	\$0	\$15,023
Depreciation	\$216,951	\$0	\$0	\$0	\$0	\$216,951	\$0	\$216,951
Customer Oper.	\$171,180	\$1,833	\$0	(\$1,833)	\$0	\$171,180	\$0	\$171,180
Corporate Oper.	\$148,324	\$1,633	(\$3,100)	\$14,800	(\$20,981)	\$140,676	\$0	\$140,676
Nonregulated	N/A	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Ttl Oper Expense	\$814,139	\$6,040	(\$3,100)	\$10,393	(\$20,981)	\$806,491	\$0	\$806,491
OPERATING TAXES								
State and Local	\$5,257	\$0	\$0	\$0	\$0	\$5,257	\$2,725	\$7,981
Federal Income	\$27,915	\$0	\$0	\$0	\$0	\$27,915	\$19,453	\$47,368
Other Taxes	\$23,372	\$0	\$0	\$0	\$0	\$23,372	\$0	\$23,372
Ttl Oper Taxes	\$56,544	\$0	\$0	\$0	\$0	\$56,544	\$22,178	\$78,722
Net Oper Income	\$149,559	(\$6,040)	\$3,100	(\$10,393)	\$53,777	\$190,002	(\$25,740)	\$164,262

Rate of Return

9.25%

8.00%

(1), (2), (3), (4) & (5) See Exhibit No. 7 for detail of adjustments.

12/5/2003 10:04 AM

PINE DRIVE EXHIBITS Stip.XLS

Rate Base

	Beginning	Ending	Average	Average Adjustments	Adjusted Average
Plant in Service	\$3,762,234	\$4,023,994	\$3,893,114	\$352	\$3,893,466
TPUC	\$0	\$0	\$0	\$0	\$0
Material & Supplies	\$30,577	\$43,517	\$37,047	\$0	\$37,047
Custmr Deposits (incl 4360)	(\$153,437)	(\$59,768)	(\$106,603)	\$0	(\$106,603)
Def'd Tax Reserves	(\$125,464)	(\$145,131)	(\$135,298)	\$43,145	(\$92,153)
Accumulated Depr.	(\$1,574,795)	(\$1,782,135)	(\$1,678,465)	\$0	(\$1,678,465)
	\$1,939,115	\$2,080,476	\$2,009,796	\$43,497	\$2,053,293

Cost of Capital

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Exhibit A
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Description	Average Amount	Percentage	Cost	Weighted Cost	Imputed Percentage	Imputed W'ghted cost
Stockholder Equity	\$1,700,862	83.52%	9.50%	7.93%	0.60	5.70%
Long Term Debt	\$335,649	16.48%	5.75%	0.95%	0.40	2.30%
	<u>\$2,036,511</u>	<u>100.00%</u>		<u>8.88%</u>	Intrastate	<u>8.00%</u>
Interstate Revenue portion of total Revenue						0.00%
Interstate ROR @ 11.25% X I/S Rev portion = Weighted I/S ROR						0.00%
Weighted Intrastate portion of ROR (non-I/S)						8.00%
Total Company Weighted ROR						8.00%

Revenue Estimate - Return & Tax Calculation

Line # & Description		
1. Average Rate Base X	\$2,053,293	\$2,053,293
2. Rate of Return	8.00%	8.00%
3. Return on Investment	\$164,263	\$164,263
4. Less: Income Adds & Deducts	\$19,506	\$47,226
5. Interest Charged Construct.	\$0	\$0
6. Amortization of ITC	\$0	\$0
7. Balance before Federal Tax	\$144,757	\$117,037
8. Lower bracket level **	\$335,000	\$335,000
9. Federal Income Tax	\$65,091	\$47,368
10. Balance for SIT	\$209,848	\$164,405
11. State Income Tax	0.0463 State Rate	\$7,981
12. Return & Tax	\$239,541	\$219,612
13. Adjusted Expense	\$829,864	\$829,864
14. Full Cost	\$1,069,405	\$1,049,476

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. 7 X .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

** Based on 34% statutory rate.

Interest Synchronization computation:

Net Average Rate Base X	\$2,053,293	\$2,053,293
Weighted Cost of Debt	<u>0.95%</u>	<u>2.30%</u>
Synchronized interest expense	\$19,506 *	\$47,226

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Exhibit A
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Revenue Sources

Total Revenue Req. \$1,049,476

Intrastate Access

CCL Orig	\$14,709
CCL Term	\$18,491
Transp.	\$11,538
Loc Sw	\$22,307
Dir Asst	<u>\$309</u>

Total State Access \$67,354

Nonregulated	\$0
Directory	\$14,751
Local Service	\$252,564
Uncollectible	<u>(\$9,247)</u>

NECA CCL	\$111,161
Traffic Sens	\$176,491
Line Haul	\$31,885
SS7 Settlement	\$15,984
DSL	<u>\$0</u>

Total Interstate \$335,521 Includes LTS+LSS+ICLS

Federal USF \$26,076 2003 Support

Colorado HCF \$362,455

Total Rev Requirement \$1,049,476

Comparison of Present and Proposed Rates

Local Service	Current	Proposed	Percent Change	Customer Count	Proposed Revenue
One Party Service/Residence	\$17.05	\$17.05	0.0%	799	\$163,475
One Party Service/Business	\$18.63	\$18.63	0.0%	63	\$14,084
Seasonal Service	\$13.64	\$13.64	0.0%	67	\$11,652
Adjustment to Local to match existing local revenue					\$8,122
Misc. & Operator (excl. Directory)					\$15,423
Oth Local Exch.					\$13,755
Total				928	\$226,511
Over/(under) Rev. Req.					\$26,053.65

Access Service

Orig CCL	\$0.023713	\$0.019463	-17.9%
Term CCL	\$0.028097	\$0.031455	12.0%
Local Transport	\$0.015317	\$0.008587	-43.9%
Local Switching	\$0.018289	\$0.016602	-9.2%
Directory Assist Surcharge	\$0.000215	\$0.000230	7.0%

Average Per Minute	\$0.059726	\$0.050878	-14.8%
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Recording *	0.01	0.01
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* Recording is included in Billing & Collection Revenue.

Data Input

Minutes and Messages are 12 months of 2002 actual.

Acc Min	Orig	Term	CICP Orig	CICP Term	Adjusted Minutes Orig	Adjusted Minutes Term
IS inter	1,356,804	1,166,851	0	0	1,356,804	1,166,851
IS intra	0	0	0	0	0	0
ST inter	621,310	422,491	0	0	621,310	422,491
ST intra	134,441	165,363	0	0	134,441	165,363

Ttl State Minutes

755,751

587,854

CCL Orig \$0.019463
CCL Term \$0.031455
Transp. \$0.008587

Loc Sw \$0.016602
Dir Asst \$0.000230
Recording \$0.010000
Avg Local Rev 23.50
Local Sub 929

IS circ mi 0.00
IS circ term 83.50
Intertoll Trunks 0.00
Interstate

CCL (Loops greater than 439) 8.228408
CCL A/L Factor 1,619.19
CCL Return Ratio 0.1125
CCL Return Factor 0.718385
CCL Return Ratio Factor 2.503244
Monthly TS Amt 2,488.64
TS-min (less than 350 MOU/Ln.) 0.022380
TS-exch 609.49
A/L Factor 2.031049
A/L Factor Adj. 0.0001031050
USF-per line 0
No. of Exchanges 1
Annual Special Access Rev 27,708
USF (Annual) 26,076

Ln haul-mi (Less than 100 miles) 0.525591
Ln haul-mn 0.003071
Ln haul-term (less than 200 Terms/Exch.) 31.95
Ln haul-term adj 0.128745
TS Return Ratio 0.1125
TS Return Major Factor 0.747414
TS Return Ratio Factor 2.245209
Intertoll Dial Switching 18.76
SS7 Settlement-Full Connectivity \$1,332.00
SS7 Settlement-Not Full Conn. \$720.00
SS7 Offices w/Full Conn 1
SS7 Offices w/Not Full Conn 0
Special Access rev. Factor 0.836250

ADJUSTMENTS FOR EXHIBIT NO. 1

Footnote (1) Adjustments	
Description	Amount
Plant Specific Exp	\$2,574 (a)
Plant Nonspecific Exp	\$0 (b)
Customer Oper. Exp.	\$1,833 (c)
Corporate Oper. Exp	\$1,833 (d)
Nonregulated Exp.	\$0 (e)
Plant Assets	\$352 Assets

Note: See Wage Adjustments on Exhibit No. 8.

Footnote (2) Adjustments	
Description	Amount
Corp. Ops. Expense	\$13,333 (a)
Corp. Ops. Expense	(\$16,433) (b)

(a) To adjust test period for Rate Case expenses.

Footnote (3) Adjustments	
Description	Amount
Plant Specific	-\$2,574 (a)
Plant Nonspecific	\$0 (a)
Depreciation	\$0 (a)
Customer Oper.	-\$1,833 (a)
Corporate Oper.	\$14,800 (a)

(a) To reverse Pine Drive's adjustments (1) & (2)(b)

Footnote (4) Adjustments	
Description	Amount
Local Network Service Rev	\$13,755 (a)
Local Network Service Rev	\$17,757 (b)
Interstate Access Rev	\$14,694 (c)
Interstate Access Rev	\$4,227 (d)
Intrastate Access Rev	-\$3,882 (e)
Misc Revenues	-\$13,755 (f)
Corporate Oper.	(\$1,579) (g)
Corporate Oper.	(\$20,400) (h)
Corporate Oper.	\$998 (i)

- (a) To reclassify CLASS Feature Revenue as Local
- (b) To adjust local network Rev to imputed average
- (c) To adjust revenue to equal the estimated I/S Access Rev.
- (d) To adjust USF to 2003 level
- (e) To adjust revenue to equal the estimated State Access Rev.
- (f) To reclassify CLASS Feature Revenue as Local
- (g) Exclude Lobbying Expense
- (h) Office Lease Exclusion
- (i) Office Lease Inclusion

Footnote (5) Adjustments	
Description	Amount
Colorado HCF Rev	(\$3,562) (c)
State Income Tax	\$2,725 (d)
Federal Income Tax	\$19,453 (d)

- (c) To adjust Colorado HCF amount.
- (d) See Return and Tax Calculation on Exhibit 3. Amount shown here is difference between booked amount and estimated requirement.

Allocation of Salary and Benefit
Increases to Accounts

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Attachment
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Decision No. R03-1433
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Account	Descrip	% Distribn. 1/02-12/02	% of Total	Allocation of Salary & Benefit	Nonreg Indirect Allocation	Totals
67110	Executive	10.82010%	10.82%	\$760 (d)	-51 (a)	2,574
66231	Office	15.93770%	15.94%	1,120 (c)	(b)	0
67210	Acctg	5.37350%	5.37%	377 (d)	-10 (c)	1,833
66234	B & C	10.14590%	10.15%	713 (c)	(d)	1,633
22120	COE Asset	0.42980%	0.43%	30	(e)	635
62120	COE Expense	5.01270%	5.01%	352 (a)		
64210	Aerial Exp	0.47510%	0.48%	34 (a)		6,675
24210	Aer. Asset	0.00000%	0.00%	0		
64230	Buried Exp	23.07370%	23.08%	1,622 (a)	Assets	352
24230	Brd. Asset	4.57680%	4.58%	322		
61150	Garage	4.96230%	4.96%	349 (a)	Total	7,027
61210	Grounds	3.09110%	3.09%	217 (a)		
63110	Dereg	8.16890%	8.17%	574 (e)	61	
61240	Prog	0.00000%	0.00%	0 (a)		
67111	Exec-PUC	0.00000%	0.00%	0 (d)		
63510	Payphone	0.00000%	0.00%	0 (e)		
67281	Other G&A	7.92260%	7.92%	557 (d)		
		1.00	100.00%	\$7,027		

0 Adj for all Big Three Corp Ops. Exp.

760.00 Exec. before allocation to Nonreg
1,694.00 Corp. Ops. before allocation for Big Three (B&C Only)
377.00 Acctg. before allocation to Nonreg

2,002.00		
Gross Salaries	Percentage Increase	Dollar Increase
\$375,347	1.87%	\$7,028

- (a) Plant Specific Expense
- (b) Plant Non-specific Expense
- (c) Customer Operations
- (d) Corporate Operations
- (e) Non-regulated

2002	Full Time	Removal	Add Back Part Time	Net
Actual Gross Salary	\$375,347			\$375,347
11.44% Retirement	\$42,940			\$42,940
1.77% Long-term Disability	\$6,644			\$6,644
Retirement Buy-back	\$0			\$0
Health Benefits	\$77,873			\$77,873
Workmen's Comp.	\$7,922			\$7,922
FICA Expenses (7.65%)	\$27,849			\$27,849
	\$538,575			\$538,575

2003 Estimate:				
Gross Salary	\$396,354		\$396,354	5.60%
11.44% Retirement	\$45,343		\$45,343	5.60%
1.77% Long-term Disability	\$7,015		\$7,015	5.58%
Retirement Buy-back	\$0		\$0	
Health Benefits	\$86,713		\$86,713	11.35%
Workmen's Comp.	\$8,490		\$8,490	7.17%
FICA Expenses (7.65%)	\$29,326		\$29,326	5.30%
Productivity Offset on wage & benefit increase	5.6520% (\$27,638)		(\$27,638)	
	\$545,603		\$545,603	
	\$545,603	\$0	\$0	\$545,603
Difference in expense levels	\$7,028		\$0	
Difference / 2001 Gross Salary =	\$7,028	/	\$375,347	= 1.87%