

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

RE: THE INVESTIGATION AND SUSPENSION)
OF TARIFF SHEETS FILED BY NUCLA-NATURITA) Docket No. 05S-328T
TELEPHONE COMPANY WITH ADVICE LETTER)
NO. 82.)

STIPULATION AND SETTLEMENT AGREEMENT

This Stipulation and Settlement Agreement (Agreement) is entered into by and between Nucla-Naturita Telephone Company (Nucla), Staff of the Public Utilities Commission (Staff), and the Colorado Office of Consumer Counsel (OCC). Nucla, 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 8, 2005, Nucla filed Advice Letter No. 82 and accompanying tariff sheets. In its filing, Nucla 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 annual HCSM support from \$79,342 to \$231,605. The filing was made to comply with Commission Rule 723-41-18.6.1.1, which requires companies requesting a change in their HCSM support to make a filing with proper support. Nucla also requested additional increases in switched access from and special access (Access) revenues of \$56,296 and \$7,798, respectively. The 2004

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existing revenues for switched access were \$216,186, while the existing revenues for special access were \$31, 593. The tariffs accompanying Advice Letter No. 82 were suspended by the Commission on August 4, 2005 per Decision No. C05-0955 in Docket No. 05S-328T.

2. By Decision No. C05-0955, referenced above, the Commission suspended the effective date of the Nucla tariffs for 120 days until December 8, 2005 and set the matter for hearing on November 28, 2005. Staff and the OCC timely filed notices of intervention.

3. On September 29, 2005, Nucla filed the direct testimony and exhibits of Kevin J. Kelly and the direct testimony in support of the company's request to increase HCSM funding and access revenues.

4. By Decision No. C05-1399, referenced above, the Commission ordered further suspension of the effective date of the tariff for 90 days until March 8, 2005.

5. By Decision No. R05-1336-I, referenced above, the Commission granted a joint motion by the parties vacating the hearings on November 28, 2005 and set the matter for hearing on January 12 and 13, 2005.

6. By Decision No. R05-1456-I, referenced above, the Commission granted the parties request to modify the procedural schedule and set rebuttal or cross-answer testimony on or before December 9, 2005.

7. The parties met in settlement discussions, exchanged proposals and counter-proposals and agreed upon a stipulated resolution to the Nucla filing.

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

Settlement Agreement Terms

1. Cost of Capital, Capital Structure, Return on Equity, and HCSM and Access Calculations. 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 the issue in dispute, and with the acknowledgment that Nucla contested here and would contest in future proceedings the agreements reached in this paragraph, the Parties agree as agree as follows:

A. HCSM Support Amounts: The 1) imputed capital structure is a 40/60 debt to equity ratio; 2) return on equity is 9.50%; 3) cost of debt is 7.15%; 4) weighted average cost of capital is 8.56%; and 5) HCSM funding received by Nucla in the test period is \$198,580.

B. Access Amounts: The 1) imputed capital structure is a 40/60 debt to equity ratio; 2) return on equity is 10%; 3) cost of debt is 7.15%; 4) weighted average cost of capital is 8.86%; and 5) test year access revenues are \$255, 517 and \$35,241 for switched and special access, respectively.

C. Access Tariffs: Amended Advice Letter No. 82 containing the tariff 16th revised page 3 and 8th revised page 4 shall be a compliance filing on not less than one day notice.

D. Intrastate: The overall intrastate cost of capital is 8.62% with an intrastate revenue requirement of \$1,210,712 excluding Interexchange Carrier Billing and Collections.

2. HCSM Support Amount. For purposes of this settlement, the Parties agree that Nucla's request for HCSM funding is governed by § 40-15-208, C.R.S. and the

Commission's HCSM Rules. The Parties agree that Nucla has provided proper support for an increase consistent with Rules CCR 723-41-18.1 and 18.3. The Parties further agree that based upon the provision of paragraph 1 A. above, Nucla shall be entitled to HCSM support in the full amount of \$198,580. This HCSM support amount shall be retroactively effective to November 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. Access Revenues. Based on the adjusted revenue requirement as outlined in paragraph 1 B. above, Nucla shall be entitled to access revenues in the amount of \$290,758. **Exhibit A** is the rate development for switched and special access. The Parties agree the resulting rates are in the public interest and should be permitted to go into effect on not less than one day notice.

4. Schedule Reflecting the Agreement of the Parties. Attached hereto as **Exhibit B** is a schedule based upon the terms and conditions of the Parties' agreement regarding the entitlement of Nucla to future and retroactive HCSM funding support. **Exhibit B** is a result of the following adjustments to the revenue requirement:

- A. Revenues. The intrastate revenue requirement for the basic exchange and HCSM was adjusted by imputing \$38,836 of lost basic exchange revenues. Some of the previous lost revenues have been identified. The parties agree it is just and reasonable to impute the remaining unaccountable revenues.
- B. Federal Income Tax. Based on the Stipulation and Agreement in Docket No. 94S-332T, Decision No. R94-332T, the parties agreed

to use 26% and 4.63% for the federal income and the state income tax, respectively.

C. Investment

- 1) Conduit System: The parties agreed to remove the conduit investment of \$35,617 from Plant In Service and Short Term Plant Under Construction to Plant Held for Future Use recognizing the plant is not used or useful at this time. The associated accumulated depreciation and depreciation expense was adjusted to reflect the removal.
- 2) Intangible Assets and RTB Stock: The parties agreed to remove the investment associated with Intangible Assets and RTB Stock from the rate base.

D. Expenses

- 1) Lobbying, Dues, Advertising, Charities, Consulting, and Executive Salary Expenses: The parties agreed to eliminate expenses from the 2004 test year because some were prior period bookings and not allowed for ratemaking purposes. In addition, one employee's salary was eliminated due to lack of evidence of work associated with Nucla's operations.
- 2) Rate Case Expense: The parties include an additional rate case of \$12,500 above what Nucla requested. With this adjustment, the total rate case expense for the 2004 test year is \$22,500. This additional rate case expense is in recognition of the rule

change in CCR 723-41-18.6. Based on the Federal Communications Commission's fundamental principle of directly assigning investment and expenses¹, access services and the HCSM were directly assigned \$12,500 and \$10,000 of rate case expense.

- 3) Depreciation Expense. The parties agreed to adjust the BETRS depreciation to the Commission-prescribed lives and use seven percent.
- 4) Reclassification of Expenses. The parties agreed to reclassify some legal and consulting expenses which were incorrectly booked in plant accounts to the corporate expense account.

Additional Miscellaneous Settlement Terms

5. 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.

¹ 47 CFR 36.

6. 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.

7. 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.

8. 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.

9. 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.

10. 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 12th day of January, 2006.

APPROVED:

APPROVED AS TO FORM:

NUCLA-NATURITA TELEPHONE CO.

By: Thelma L. Tomlinson
Thelma L. Tomlinson
President

By: _____
Gary B. Witt, No. 09249
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Denver, Colorado 80203
(303) 795-8080

ATTORNEY FOR NUCLA-
NATURITA TELEPHONE
COMPANY

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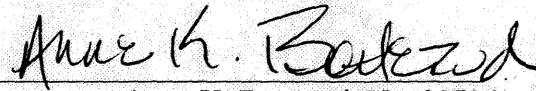
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THE STATE OF COLORADO

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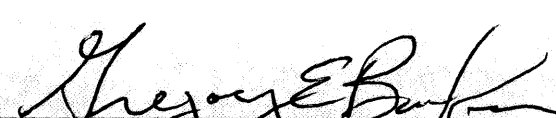
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ATTORNEY FOR COLORADO OFFICE
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NUCLA-NATURITA TELEPHONE COMPANY
COLORADO SWITCHED ACCESS RATE CALCULATION

Docket No. 05S-328T

Exhibit A

Page 1 of 3

ACCESS TARIFF RATE SUMMARY

RATE ELEMENT	PROPOSED RATE	CURRENT RATE	CHANGE INCR/(DECR)	PERCENTAGE CHANGE (F/E)
COMMON LINE				
ORIGINATING	0.0405	0.0334	0.0071	21.26%
TERMINATING	0.0607	0.0502	0.0105	20.92%
TRAFFIC SENSITIVE				
LOCAL SWITCHING	0.0284	0.0285	-0.0001	-0.35%
LOCAL TRANSPORT	0.0239	0.0164	0.0075	45.73%
INFORMATION	0.0001	0.0005	-0.0004	-80.00%
APPROXIMATE EFFECT ON REVENUE			\$39,198	

NUCLA-NATURITA TELEPHONE COMPANY
COLORADO SWITCHED ACCESS RATE CALCULATION

Docket No. 05S-328T

Exhibit A

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ACCESS TARIFF RATE DESIGN

CCL RATE ELEMENT	AMOUNT
CCL REVENUE REQUIREMENT	126,217
ORIGINATING MINUTES	1,156,594
TERMINATING MINUTES	1,308,013
BIFURFACTOR	1.5
REVISED TERMINATING	1,962,020
TOTAL MINUTES	3,118,614
ORIGINATING CCL RATE	0.0404721
TERMINATING CCL RATE	0.0607082
ORIGINATING REVENUE	46,810
TERMINATING REVENUE	79,407
TOTAL REVENUE	<u>126,217</u>

TRAFFIC SENSITIVE RATE ELEMENTS	ACCESS MINUTES AMOUNT	REVENUE REQUIREMENT	RATE(E/D)
LOCAL SWITCHING	2,464,607	70,087	0.028437
LOCAL TRANSPORT	2,464,607	58,897	0.023897
INFORMATION	2,464,607	316	0.000128

Intrastate Revenue Requirement Excluding B&C and Special

\$255,517

NUCLA-NATURITA TELEPHONE COMPANY
SPECIAL ACCESS RATE DESIGN

Docket No. 05S-328T
Exhibit A
Page 3 of 3

EXCHANGE	QUANTITIES			CHANNEL MILEAGE		CHANNEL TERMINATION	
	TWO WIRE	FOUR WIRE	CIRCUIT ONLY	MILES NOT<1	RATE 23.56	2-WIRE 35.62	4-WIRE 57.00
Bureau of Rec	0	1	0	8.73	205.70	0.00	57.00
E911 Circuits Only	0	0	13	8.73	2,674.05	0.00	0.00
	0	0	0	8.73	0.00	0.00	0.00
	0	0	0	8.73	0.00	0.00	0.00
	0	0	0	8.73	0.00	0.00	0.00
MONTHLY TOTALS					2,879.75	0.00	57.00
					x12	x12	x12
ANNUALIZED					34,557.00	0.00	684.00
TOTAL CHANNEL TERMINATION							684.00
ANNUAL REVENUE REQUIREMENT					34,557.00	0.00	684.00
TOTAL CHANNEL TERMINATION							684.00
CHECK TOTAL							35,241.00
CHECK TOTAL							35,241.00
DIFFERENCE							0.00

Docket No. 05S-328T
Proprietary Exhibit No. B

Attachment
Docket No. 05S-328T
Decision No. R06-0116
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