STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

At a session of the Public Service
Commission held in the City of
Albany on November 17, 2016

COMMISSIONERS PRESENT:

Audrey Zibelman, Chair
Patricia L. Acampora
Gregg C. Sayre
Diane X. Burman

CASE 16-C-0241 – Minor Rate Filing of Chazy & Westport Telephone Corporation to access the SUSF.

ORDER AUTHORIZING RATE INCREASES AND STATE UNIVERSAL SERVICE FUND SUPPORT

(Issued and Effective November 17, 2016)

BY THE COMMISSION:

INTRODUCTION

In this order the Commission authorizes Chazy & Westport Telephone Corporation to recover, on an annual basis, $227,382 from the State Universal Service Fund and $4,864 from increases in various local non-basic rates. This determination was made after adopting certain adjustments and local rate increases proposed by Department Staff and discussed in detail below. The Company's intrastate revenue deficiency is $232,246; therefore it shall be allowed to recover $232,246 annually in additional revenues. The Commission authorizes the Company to withdraw $227,382 annually from the State Universal Service Fund until the expiration of that fund in 2020.

BACKGROUND

Chazy & Westport Telephone Corporation (C&W or the Company) is a rural local exchange telephone corporation organized and existing under the Transportation Corporation's Law of the State of New York. As of December 31, 2015, the Company served 1,964 residential access lines and 423 business lines out of three exchanges located in rural upstate Essex and Clinton Counties. The Chazy and West Chazy exchanges, serving 727 and 778 access lines, respectively, are located just south of Plattsburgh. The non-contiguous Westport exchange, serving 882 access lines, is located 55 miles south of Chazy/West Chazy. The Company provides excellent service quality to its customers, having been the recipient of the Commission's service quality commendation awards for the past 10 consecutive years.

C&W, through its non-regulated subsidiary, Westelcom, provides digital subscriber line (DSL) broadband services to 1,483 customers, representing approximately 62% broadband penetration. The Company provides DSL with 5 Mbps download speed and 1 Mbps upload speed.

The Commission established the State Universal Fund (SUSF) by order issued on August 17, 2012 in Case 09-M-0527 to provide financial support to rural incumbent local exchange carriers (ILECs), helping to ensure the continued availability of basic local residential service across the State.[1] The SUSF was initially approved for a four-year period, 2013 – 2016. Eligible ILECs could draw from the fund, if after a rate case review, the Commission authorized a revenue requirement that exceeded revenues generated through local rates provided their basic local

[1] Case 09-M-0527, Proceeding to Examine Issues Related to a Universal Service Fund, Order Adopting Phase II Joint Proposal (issued and effective August 17, 2012).

service rate was at the Commission's $23.00 statewide benchmark, set in the Commission's Competition III Proceeding.[2] The SUSF was extended for an additional four years in an order issued on September 16, 2016.[3] That SUSF Extension Order continues the SUSF through December 31, 2020 and imposes new requirements on companies currently receiving or seeking SUSF funding for the first time. Specifically, companies will now be required to "submit a plan to the Commission describing significant investments, maintenance, or other operational expenditures that it expects to incur, and to also provide a good faith description of how the recipient may reduce its future need for SUSF support" (SUSF Transition Plan).[4] This SUSF Transition Plan is required to be updated annually and such updates must include "a description of the recipient's progress in achieving its expenditures and milestones, along with an explanation of significant differences."[5] The Commission stated that these plans "would assist the eligible recipients in transitioning to a competitive market and allow all parties to monitor and assess the progress of the SUSF as an aid during this transition

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[2] Case 05-C-0616, Proceeding on Motion of the Commission to Examine Issues Related to the Transition to Intermodal Competition in the Provision of Telecommunications Services, Statement of Policy on Further Steps Toward Competition in the Intermodal Telecommunications Market and Order Allowing Rate Filings (issued April 11, 2006).

[3] Case 15-M-0742, Proceeding on Motion of the Commission to Review the State Universal Service Fund, Order Adopting Joint Proposal (issued and effective September 16, 2016) (SUSF Extension Order).

[4] Id., p. 10.

[5] Id.

period."[6] This requirement as it applies to this case is discussed below.

PETITION

On April 29, 2016, C&W filed a petition seeking to recover an intrastate local revenue deficiency of $344,007.[7] The Company presents support for its intrastate revenue deficiency based on an historic test year ending December 31, 2015. C&W states that as its basic local residential rate is currently equal to the Commission's statewide benchmark of $23.00, it proposes to recover its entire intrastate revenue deficiency via disbursements from the SUSF. The Company included with its filing enabling tariff amendments, shown in Appendix 1 hereto, scheduled to go into effect on October 1, 2016. On September 22, 2016 the Company postponed the effective date of the tariff amendments to November 1, 2016, and on September 28, 2016 filed a subsequent postponement, changing the effective date of the tariffs to December 1, 2016.

C&W states that its claimed revenue requirement shortfall includes the impact of the Federal Communications Commission's (FCC) rulings regarding intrastate terminating access charge reductions through the 2016 rate year, and requests that, as these future intrastate terminating access revenue reductions will continue beyond 2016, recovery of these future revenue reductions be addressed in the context of this proceeding.

On June 8, 2016, the Secretary to the Commission issued a Notice of Rate Filing with respect to the requested disbursements from the SUSF to C&W. No comments were received.

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[6] Id.

[7] Under Public Service Law §92, this amount constitutes a minor rate filing.

DISCUSSION

The Commission will reduce the Company's intrastate revenue deficiency, from $344,007 to $232,246, and authorize recovery of this deficiency through annual disbursements of $227,382 from the SUSF, and increases to certain non-basic rates in the amount of $4,864. The calculation of C&W's revenue requirement is shown in Appendix A. The reduction to the Company's revenue deficiency is a result of various adjustments made to the Company's proposed revenue requirement determination, most notably in the areas of employee bonuses, executive compensation, payroll expense, depreciation expense, operating taxes, rate base, and rate of return. The major adjustments are discussed below and all adjustments are listed in Appendix B.

Employee Bonuses

The Commission will reduce the Company's revenue requirement determination by $15,809 ($10,288 Intrastate) to remove employee bonuses paid during the test year totaling $25,001 ($15,809 allocated to regulated operations). C&W provided no established policy supporting the bonus program, including either pre-established performance standards on which to base the bonuses paid, or pre-established guidance for bonus distribution. C&W reported a net operating loss in the historic test year.[8]

Executive Compensation – Base Salary

C&W reported a combined base salary of $502,640 for its three executives in the historic test year. However, C&W did not provide any documentation to demonstrate the overall reasonableness of its executive compensation. Therefore, a reduction of $193,341 ($121,031 Intrastate) will be made to

[8] 2015 Annual Report to the Public Service Commission, Schedule 12, line 48.

bring C&W's executive base salaries in line with those recently allowed in rates for Germantown Telephone Company (Germantown). Germantown is comparable to C&W in terms of revenues, access lines and number of employees. Moreover, Germantown's executive compensation expense was thoroughly examined and adjusted in that company's last two rate cases.[9] In Germantown's penultimate rate case, Case 09-C-0532, the Commission adjusted the company's proposed executive compensation expense based on the annual survey of compensation and benefits for the independent telecommunications industry taken by the National Telecommunications Cooperative Association (NTCA). From that survey, the Commission used the statistics (i.e., average base salary) for a company the size of Germantown (in terms of Operating Revenues, Number of Employees and Access Lines) to adjust Germantown's proposed executive expense. In Germantown's recently decided rate case, Case 15-C-0628, it was determined that the company's executive compensation expense was in line with the executive compensation expense allowed in Case 09-C-0532 adjusted for inflation from 2009 to 2015.

Allocation of Corporate Expenses to Non-regulated Operations

The Company reported a total of $502,640 in executive compensation during the rate year, but allocated only 17.07% of this expense to non-regulated operations. This allocation is understated and therefore results in an excessive level of

[9] Case 09-C-0532, Minor Rate Filing of Germantown Telephone Company Inc. to Increase its Annual Revenues by $300,000 in its PSC No. 9 Telephone Tariff, Order Authorizing Rate Increase (Issued and Effective February 12, 2010) and Case 15-C-0628, Minor Rate Filing of Germantown Telephone Company Inc. d/b/a GTel Teleconnections to Increase its Annual Revenues by $500,000 and to Receive Disbursements from the State Universal Service High-Cost Fund as Authorized by Case 09-M-0527, Order Authorizing Rate Increase and State Universal Service Fund Support, (Issued and effective March 17, 2016).

expenses allocated to regulated operations, as it does not adequately reflect the executives' role in other aspects of the business. This is evidenced by the financial results of the Company's regulated and non-regulated operations. For example, C&W's Consolidated Operating Revenues in 2015 were $7,381,459 while Non-regulated Operating Revenues were $4,984,229 or 67.5% of Total Operating Revenues. The Consolidated Gross Plant in Service for 2015 was $26,535,765 while Non-regulated Gross Plant was $11,258,701 or 42.4% of Total Plant. Finally, Consolidated Gross Payroll Expense (without executive compensation) in 2015 was $756,476 while Regulated payroll (without executive compensation expense) was $245,944 or 32.5% of Total Payroll Expense.

Use of a Global Allocation Factor (GAF) provides a more reasonable allocation of executive payroll to regulated operations. The GAF used here is based on average percentages of each affiliate's gross plant, revenues, and payroll relative to the total company gross plant, revenues, and payroll.[10] Use of the GAF to allocate executive compensation is appropriate because it reflects the overall nature of an executive's involvement in managing all the business of the company. Applying the GAF allocation percentage (52.51%) to an executive

[10] The GAF formula is determined based on the average of gross plant (original plant in service), gross payroll charges (salaries and wages, including overtime, shift premium and lost time, but excluding pension, payroll taxes and other employee benefits), and gross revenues during a calendar year. It may be adjusted for any known and reasonable quantifiable events or at such time as may be required due to significant changes. This formula is commonly referred to as the Massachusetts Formula. See also the Commission Order in Case 09-C-0532, Minor Rate Filing of Germantown Telephone Company Inc. to Increase its Annual Revenues by $300,000 in its PSC No. 9 Telephone Tariff, Order Authorizing Rate Increase (issued February 12, 2010).

compensation expense level of $502,460 results in $263,852 being allocated to regulated operations, as opposed to the $416,698 allocated by the Company. A downward adjustment of $152,846 to the $416,698 regulated portion of executive compensation expense proposed by the Company, absent any other adjustments to executive compensation would be appropriate. But accounting for the $193,341 downward adjustment made to regulated executive compensation, discussed above, the Commission will make a net upward adjustment of $40,495 ($25,350 Intrastate) to the portion of executive compensation allocated to regulated operations.

Consistently, the GAF is also applied to the executives' benefits expenses, resulting in a downward adjustment of $29,242 ($18,305 Intrastate), the difference from the $78,148 amount that the Company allocated to Regulated Expenses for Executive Benefits.

It is also appropriate to use the GAF to allocate Corporate Common expenses to regulated operations. During the historic test year the Company allocated 87.20% of its Corporate Common expenses to regulated operations. The Commission reduces the portion of Corporate Common expenses allocated to regulated operations by $6,136 ($3,841 Intrastate) to reflect the use of the GAF to allocate these expenses to regulated operations.

Payroll and Benefit Growth

The Commission will make downward adjustments to the Company's projected 2017 labor and benefits costs, in the amounts of $16,443 ($10,701 Intrastate) and $4,369 ($2,843 Intrastate), respectively. These adjustments reflect the use of a 1.68% per year growth rate based on forecasts for the GDP Price Indices for 2016-2017 from the latest 2016 Blue Chip Economic Indicators, as compared to the 6% growth factor proposed by the Company, for which it provides no compelling support.

Vehicle Expenses

The Commission will reduce the Company's Telephone Plant in Service and Depreciation Reserve in the amounts of $10,525 ($6,765 Intrastate) and $5,687 ($3,584 Intrastate), respectively, to reflect the removal of 50% of the cost of a vehicle assigned to the Company's Chief Executive Officer. The documentation provided by the Company detailing the expenses associated with this vehicle, a Lincoln MKZ, did not include a travel log that would indicate, for example, the use of this vehicle for business and/or non-business related matters. Taking into consideration the car's mileage and the Company's service territory, it is estimated that the car is used 50% of the time for business matters. The Commission will also remove 50% of the annual Insurance and Maintenance expenses associated with this vehicle, totaling $2,811 ($1,843 Intrastate). C&W is directed to develop and maintain a detailed travel log so allocations can be made more precisely for such vehicles in future rate proceedings. In addition, the Company is directed to book the portion of this asset used for non-business purposes to non-operating plant and expense accounts.

In its filing, the Company reduced its historic test year Telephone Plant in Service (TPIS), Depreciation Expense and Depreciation Reserve to reflect the removal of an additional car used by a retired executive. These adjustments are appropriate, but the Company is directed to make the proper accounting entries such that this asset is booked to non-operating plant and expense accounts. The Commission will also reduce the Company's annual expenses by $969 ($635 intrastate) to reflect the removal of insurance expenses associated with this vehicle contained in the historic test year.

Depreciation Expense

The Commission will make an upward adjustment to the Company's test year depreciation expense of $144,586 ($96,670) Intrastate). C&W submitted a depreciation reserve study using book balances as of December 31, 2015, identifying current Depreciation Rates, Average Service Lives and Average Salvage Values consistent with the last recommendations made by Staff when it performed a depreciation reserve study for the Company using book balances as of December 31, 2001. The Company's Depreciation Reserve Study shows an excess in the Book Reserve which the Company proposes to amortize over a ten-year period, reflected as an adjustment to annual Depreciation expense by the Company.

In its study, the Company inadvertently misstates the proposed Depreciation Rate, Annual Service Life and Average Salvage Value for the Circuit Equipment account; correction of this mistake results in an increase to annual depreciation expense of $25,890 ($17,310 Intrastate).

In addition, the Commission will reverse an adjustment made by the Company in its Depreciation Reserve Study for the retirement of a legacy digital central office switch to be replaced by new softswitch technology, as the Company has acknowledged it is still in the process of comparing switch manufacturers, has not yet committed to the purchase of a new switch; thus the replacement of the old switch has been delayed. This results in an upward adjustment of $126,926 ($84,863 Intrastate) to annual depreciation expense, and an upward adjustment to Depreciation Reserve of $82,300 ($55,026 intrastate), thereby increasing the Depreciation Reserve excess by the same amount.[11]

Finally, the disallowance of 50% of the costs associated with the Company's Lincoln MKZ vehicle, as discussed above, results in a decrease of $1,790 ($1,197 Intrastate) to annual depreciation expense.

The Commission agrees with the Company's proposal to amortize the total Book Reserve excess over a ten-year period. The increase in the excess book reserve of $82,300 ($55,026 Intrastate), discussed above, shall also be amortized over a ten-year period, resulting in a reduction to annual depreciation expense of $8,230 ($5,503 Intrastate).

The Company also proposes new Depreciation Rates, Average Service Lives and Average Salvage Values to become effective going forward, and reflects these changes as adjustments to the historic test year. With the correction to the Circuit Equipment proposed values discussed above, the Commission finds the Company's proposals reasonable. Consistent with Commission regulations and previous rate orders,[12] the Company should continue accruing depreciation in accordance with the "group method" of depreciation accounting, using the proposed depreciation rates, as corrected, until the assets are retired and, then, to any new plant balances until such time

[11] It is noted here that although the Company reflected an anticipated retirement in the context of its Depreciation Reserve Study, it did not make any adjustments to its historic year rate base.

[12] See, 16 NYCRR §664.1 and 16 NYCRR §667.1 Glossary, Item (17) "Group Plan" and Item (30) "Service Life". See also, Case 13-C-0333, Vernon Telephone Company, Order Approving Rate Increases and State Universal Service Fund Support (issued February 21, 2014); and, Case 13-C-0332, Oriskany Falls Telephone Company, Order Approving Rate Increases and State Universal Service Fund Support (issued February 21, 2014).

that the Company files new depreciation rates with the Commission.

Rate Base

The adjustments discussed above have consequential effects on rate base, the details of which are described below. The Commission will therefore decrease the Company's rate base by $43,369 ($22,602 Intrastate). The disallowance of 50% of the costs associated with Company's Lincoln MKZ vehicle resulted in a $10,525 ($6,765 Intrastate) decrease to TPIS and a $5,687 ($3,584 Intrastate) decrease to the Depreciation Reserve, resulting in a $5,687 ($3,584 Intrastate) decrease to rate base; deferred taxes related to this decrease results in an increase to rate base of $1,934 ($1,032 Intrastate).

The increase to annual depreciation expense related to Circuit Equipment, Digital Switching and the disallowance of 50% of the Lincoln MKZ total $152,816 ($102,173 Intrastate), and result in a $75,513 ($40,309 Intrastate) decrease to rate base. Factoring in deferred taxes related to this amount increases rate base by $25,675 ($13,705 Intrastate).

The reduction of $8,230 ($5,503 Intrastate) in annual depreciation expense made for the purposes of amortizing the increase to the excess depreciation reserve over a ten-year period results in an increase to rate base of $4,115 ($2,197 Intrastate), and deferred taxes related to this amount decreases rate base by $1,399 ($747 Intrastate).

Accumulated Deferred Income Taxes

The Commission will increase the Company's Accumulated Deferred Income Taxes by $30,457 ($19,657 Intrastate) to reflect the correction of an error contained in the Company's filing.

Rate of Return

The Company's filing reflects an overall after-tax rate of return of 6.35% based on C&W's 2015 year-end capitalization ratios and a return on equity (ROE) of 6.40%, as depicted in the table below.

	Amount	Percent	Cost	Weighted Cost
Long-Term Debt	$73,786	1.51%	5.79%	0.09%
Customer Deposits	490	0.01%	1.15%	0.00%
Preferred Stock	130,000	2.67%	5.00%	0.13%
Common Equity	4,667,230	95.81%	6.40%	6.13%
Total	$4,871,506	100.00%		6.35%

The Company's proposed use of a 95.81% common equity ratio is reasonable in the context of the methodology used for small telephone companies, which focuses on the overall pre-tax rate of return of the company. The use of such a high common equity ratio will not affect the resulting pre-tax rate of return, as the ROE allowed is adjusted downward to reflect the lower financial risk C&W faces as opposed to the proxy group which is employed to derive the ROE. This financial risk adjustment will result in the pre-tax rate of return being the same regardless of the capital structure employed by the Company. However, the allowed ROE will be adjusted to reflect current market conditions (as seen in the proxy group ROE estimate) and the level of competition the Company is facing.

In estimating the ROE of C&W, Staff employs the basic methodology historically used for small telephone companies, with an adjustment to account for the differences in capital structure and business risk between the companies in the electric utility proxy group employed to derive the ROE and that of the particular small telephone company whose rate request is being examined. Accordingly, using the most recent three months data, Staff performed a Discounted Cash Flow analysis using a proxy group of 26 investment-grade electric utility holding companies and a Capital Asset Pricing Model analysis using the median beta of the companies in the proxy group and determined an ROE of 8.14%.[13] This base ROE is adjusted downward to account for the lower financial risk a company with a 95.81% equity ratio faces. The adjustment results in an ROE of 5.52% (not yet taking into account any business risk adjustment).

As previously discussed, the base ROE must also be adjusted to reflect the disparity in business risk between C&W and the proxy group. While the electric utility holding companies are largely monopoly providers of utility services, C&W faces significant competition from wireless and cable telephone service.[14] An upward adjustment to this base ROE will therefore be made to reflect the loss of access lines experienced by the Company since 2000 as compared to the decline in these metrics experienced by Verizon. This adjustment could increase a company's ROE up to 150 basis points, subject to the proportion of access lines lost in comparison to Verizon. In the case of C&W, the business risk adjustment is 53 basis points. Therefore, in consideration of the competition the Company is facing in their respective market, the ROE estimate of 5.52% for an ILEC with a 95.81% common equity ratio has been raised to 6.05% for C&W. The complete capital structure and cost rates proposed by Staff are included in Appendix A. The Commission will adopt Staff's ROE calculation and will allow C&W an ROE of 6.05%, as opposed to the Company's 6.40% ROE request, which decreases the Company's revenue requirement by $2,710.

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[13] It should be noted that in light of concerns that certain external factors might be unduly affecting the financial markets and suppressing the results of its typical DCF analysis at this time, Staff's analysis reflects the DCF average rather than the median it has typically used.

[14] C&W is classified as a Scenario 1 company in the Commission's Framework Proceeding, Case 07-C-0349, In the Matter of Examining a Framework For Regulatory Relief, Order Adopting Framework (Issued and Effective March 4, 2008).

Rate Design

C&W did not propose any increases to its rates in this case, stating that its basic local residential rates are currently at the $23.00 statewide benchmark. Although the Company is correct that a basic local service rate over $23.00 will not be allowed, the Commission will authorize increases to certain of the Company's rates for non-basic local services, that, for the most part, have not been revised for some ten years, despite increases to the Company's overall cost of providing service. The increases are in line with general inflation and/or the prevailing competitive rates for these services, and will increase the Company's annual local service revenue by $4,864, and thus lessen the burden on the SUSF. A complete listing of the rate changes and their corresponding revenue impacts is included as Appendix C.

C&W will be required to provide notice of the rate changes authorized in this Order to its customers. Allowing 30 days for customer notice, the revised tariff pages implementing the authorized rate increases will be allowed to go into effect on January 1, 2017.

SUSF Funding

As C&W's basic local residential rate is currently at the Commission's $23.00 benchmark; it is eligible to receive SUSF support to cover the portion of its $232,245 revenue requirement not recoverable by the local service rate increases described above. The Commission therefore authorizes C&W to withdraw $227,382 annually from the SUSF. The Company will be allowed to file the appropriate tariff revisions to effect disbursement from the SUSF in this amount on one days' notice to the Commission.

As the Company filed its rate case before the SUSF Extension Order, the Company did not include such an SUSF

Transition Plan with its filing. The Commission will require C&W to file its plan no later than January 1, 2017, and updated on an annual basis, beginning on May 15, 2018 until the expiration of the SUSF in December 2020.

Phase-Out of Terminating Access Charges

The Commission will not address the recovery of future intrastate terminating access revenue losses in this proceeding, as requested by the Company. As the Commission has allowed in other recent minor rate cases, the Company may file requests for additional funding to recover revenue deficiencies resulting from the phase-out of terminating access charges for intrastate calls, together with a calculation demonstrating the annual losses from the phase-out over the multi-year period of terminating access charges for intrastate calls and a statement providing the amounts of federal funding it receives during each year of the FCC's phase-out of access charges.

CONCLUSION

Based on the foregoing discussion, the Commission determines that C&W has justified an intrastate revenue deficiency of $232,246. The Commission authorizes the Company to withdraw $227,382 from the SUSF on an annual basis until its expiration in December 2020, and further authorizes the Company to implement the local rate changes described above and detailed in Appendix C hereto in order to generate additional annual local revenues of $4,864.

The Commission orders:

1. On or before December 1, 2016, Chazy & Westport Telephone Corporation shall file tariff amendments for local rate changes, in accordance with the description in the body of this Order and Appendices. The tariff amendments are allowed to

go into effect on 30 days' notice, not earlier than January 1, 2017.

2. Chazy & Westport Telephone Corporation is authorized to withdraw $227,382 annually from the State Universal Service Fund (SUSF) until the SUSF's expiration in December 2020.

3. Chazy & Westport Telephone Corporation's tariff revisions, listed on Appendix 1, are suspended and the Company is directed to file a cancellation supplement, effective on not less than one day's notice.

4. Chazy & Westport Telephone Corporation shall file a tariff amendment, to take effect upon one days' notice, replacing the tariff amendment scheduled to go into effect on December 1, 2016, listed on Appendix 1, stating the total amount of money it is authorized to receive from the State Universal Service Fund, in accordance with the discussion in the body of this Order.

5. The requirement of newspaper publication of the tariff amendments authorized in this Order (Public Service Law §92(2) (a)) is waived, provided that Chazy & Westport Telephone Corporation notifies its customers in writing of the changes in the tariff and sends a copy of the notice to the Secretary to the Commission no later than 30 days after the issuance of this Order. The notice shall contain information on how to contact the Company and the Commission regarding questions about the tariff changes.

6. The Secretary in her sole discretion may extend the deadlines set forth in this order, provided the request for such extension is in writing, including a justification for the extension, and filed on a timely basis, which should be on at least one day's notice prior to any affected deadline.

7. This proceeding is closed pending compliance with the above Ordering clauses.

By the Commission,

(SIGNED) KATHLEEN H. BURGESS
Secretary

APPENDIX 1

ADMINISTRATIVE DETAILS

Filing by: Chazy & Westport Telephone Corp.

Revisions to: P.S.C. No. 5 – Telephone
Section 3
Original Page 5.1

Issued: April, 22, 2016 Effective: October 1, 2016*

*Postponed until November 1, 2016 by Supplement No. 8. Further postponed until December 1, 2016 by Supplement No. 9

Chazy & Wesport Telephone Corporation
Revenue Requirement Calculation
Year Ending December 31, 2015

Description	Intrastate 12/31/15	Staff Adjustments	As adjusted by staff
Adjusted Rate Base	$1,238,409	-$56,013	$1,182,396
Required Rate Of Return	6.35%	-0.34%	6.02%
Required Net Operating Income	$78,675	$ (7,523)	$71,151
Adjusted Net Operating Income	$ (141,214)	$68,095	$ (77,478)
Operating Income Deficiency	$219,889	$ (75,618)	$148,629
Retention Factor	63.9200%	0.08%	64.00%
Revenue Deficiency	**$344,007**	**$ (111,761)**	**$232,246**

Chazy & Wesport Telephone Corporation
Revenue Requirement Calculation
Year Ending December 31, 2015

Retention Factor Calculation	As Adjusted by Staff	Per Company	Per Staff
Sales Revenues	2,436,052	100.00%	100.00%
Revenue Taxes/Other State Taxes	100,798	2.96%	2.96%
Late Payment	0	0.00%	0.00%
Advertising	0	0.00%	0.00%
Uncollectibles	(1,844)	0.2000%	0.08%
Retention Factor before FIT	$ 2,337,098	96.84%	96.96%
Income Tax @FIT 34%	76,566	32.92%	32.97%
Retention Factor	148,452	63.9200%	64.00%

Chazy & Wesport Telephone Corporation
Net Operating Income Statement
Year Ending December 31, 2015

	Subject to Seperation 12 Months Ending 12/31/2014	Adjustment	Regulated Subject to Separation	Adjustments per Company	Adjusted Subject to Separation		Staff Adjustments: Subject to Separation	Staff Adjustments: Intrastate	As Adjusted by Staff: Subject to Separation	Intrastate Allocation	Adjusted Intrastate Test year	Revenue Requirement: Intrastate	After Revenue Requirement: Intrastate
Net Operating Income													
Operating Revenues													
Local Network	902,150		902,150	29,726	931,876	1)	4,864	4,864	936,740	100.00%	936,740	232,246	1,168,986
Network Access -	1,280,832		1,280,832	6,076	1,286,908		-	-	1,286,908	9.53%	122,637		122,637
	-		-	-	-		-	-	-	100.00%	-		-
Long Distance Network	7,559		7,559	-	7,559		-	-	7,559	100.00%	7,559		7,559
B & C-	-		-	-	-		-	-	-	0.00%	-		-
			-	-	-		-	-	-	100.00%	-		-
Miscellaneous	206,689		206,689	-	206,689		-	-	206,689	73.7103%	152,351		152,351
Settlement	-	-	-	-	-		-	-	-	0.00%	-		-
Uncollectible	(1,844)	-	(1,844)	-	(1,844)		-	-	(1,844)	100.0000%	(1,844)	(176)	(2,020)
Total Operating Revenues	2,395,386	-	2,395,386	35,802	2,431,187		4,864	4,864	2,436,052		1,217,443	232,070	1,449,513
													-
Operating Expenses													-
Plant Specific	506,814	-	506,814	(25,612)	481,202		-	-	481,202	65.57%	315,524		315,524
Plant Non-Specific	169,340	-	169,340	15,481	184,821		-	-	184,821	64.28%	118,803		118,803
Access	64,563	-	64,563	-	64,563		-	-	64,563	1.66%	1,071		1,071
Depreciation	469,393	-	469,393	(64,779)	404,614	2)	142,797	95,474	547,411	66.86%	365,999		365,999
Customer Operations	246,036	-	246,036	8,830	254,866		-	-	254,866	69.56%	177,285		177,285
Corporate Operations	827,830	-	827,830	(68,101)	759,729	3)	(229,365)	(144,600)	530,365	62.60%	330,990		330,990
Total Expenses	2,283,976	-	2,283,976	(134,181)	2,149,795		(86,568)	(49,126)	2,063,227		1,309,671	-	1,309,671
Other Income & Expenses	-	-	-	-	-		-		-				
Operating Income before Taxes	111,410	-	111,410	169,983	281,391		(81,704)	(44,262)	372,825		(92,228)		139,842
Operating Taxes													-
Other Operating Taxes	99,919	-	99,919	879	100,798		-	-	100,798	63.3300%	64,158	6,874	71,033
Operating FIT	80,036	-	80,036	48,470	128,506	4)	31,087	18,357	159,593		(10,056)	76,566	66,511
Operating ITC	-		-	-	-		-	-	-		-		-
Deferred Operating FIT	(64,078)	-	(64,078)	(6,322)	(70,400)	5)	(48,551)	(32,461)	(118,951)	57.8835%	(68,853)		(68,853)
Total Operating Taxes	115,877	-	115,877	43,028	158,904		(17,464)	(14,104)	141,440		(14,750)	83,441	68,690
Net Operating Income	(4,467)	-	(4,467)	126,955	122,489		108,896	68,095	231,385		(77,478)	148,629	71,151
Rate Base					1,828,865		(103,426)	(56,014)	1,725,440		1,182,396		1,182,396
Rate Of Return					6.70%				13.41%		-6.55%		6.02%
Required Revenue To Achieve Target ROR													232,246
Return on Equity													6.05%

Chazy & Wesport Telephone Corporation
Rate Base
Year Ending December 31, 2015

	Per Company				Staff Adjustments			As Adjusted By staff		
	13 Month Average	**Intrastate Allocation**	**Intrastate Rate Base**		**13 Month Average**	**Intrastate Allocation**	**Intrastate Rate Base**	**13 Month Average**	**Intrastate Allocation**	**Intrastate Rate Base**
Telephone Plant in Service	14,444,117	0.6428	9,284,678	1)	(10,525)	0.6428	(6,765)	14,433,592	0.6428	9,277,913
								-		
Non- Interest Bearing Telephone								-		
Plant Under Construction	10,432	0.6428	6,705		$ -	0.6428	-	10,432	0.6428	6,706
							-	-		-
Materials and Supplies	202,809	0.7207	146,164		0	0.7207	-	202,809	0.7207	146,164
							-	-		-
Prepayments	78,198	0.6428	50,265		$ -	0.6428	-	78,198	0.6428	50,266
								-		
Cash Working Capital	145,136		52,597	4)	(19,075)		(6,989)	126,061	-	45,608
								-		
Depreciation & Amortization Reserve	(12,106,884)	0.6302	(7,629,758)	2)a.	$ 5,687	0.6302	3,584	(12,101,197)	0.6302	(7,626,174)
Effect of Depreciation Expense Adjustment				2)c.	$ (75,513)	0.5338	(40,309)	(75,513)	0.5338	(40,309)
						0.5338				
Reserve Tax on Deprec Exp Adjustment				2)d.	$ 25,675	0.5338	13,705	25,675	0.5338	13,705
						0.5338				
Effect of Am,ortization of Excess Reserve				2)e.	$ 4,115	0.5338	2,197	4,115	0.5338	2,197
					$ 0	0.5338	0	0	0.5338	0
						0.5338			0.5338	
Amortization of Excess Reserve Tax				2)f.	$ (1,399)	0.5338	(747)	(1,399)	0.5338	(747)
						0.5338				
Depreciation Reserve Tax				2)b.	$ (1,934)	0.5338	(1,032)	(1,934)	0.5338	(1,032)
							-	-		-
Accumulated Deferred Taxes	(566,961)	0.6454	(365,938)	3)	(30,457)	0.6454	(19,658)	(597,418)	0.6454	(385,596)
								-		
Accumulated Deferred ITC	-		-				-	-		-
								-		
Regulatory Asset	-	1.0000	-					-	1.0000	-
Unamortized Deferrals	(177,321)	1.0000	(177,321)		0	1.0000	-	(177,321)	1.0000	(177,321)
								-		
Life Line Deferral Adjustment	-	1.0000	-		0	1.0000	-	-	1.0000	-
								-		
Earnings Base Over Capitalization	(200,660)	0.6428	(128,984)		$ -	0.6428	-	(200,660)	0.6428	(128,984)
Total Rate Base	1,828,865		1,238,409		(103,426)		(56,014)	1,725,440		1,182,396
Net Operating Income	122,488		(141,214)					231,385		(77,478)
Rate of Return on Rate Base	6.70%		-11.40%					13.41%		-6.55%

Chazy & Wesport Telephone Corporation
Rate of Return
Year Ending December 31, 2015

Company

Description	13-Month Average	Percentages	Cost	Weighted Cost
Common Equity	4,667,230	95.81%	6.40%	6.13%
Preferred Stock	130,000	2.67%	5.00%	0.13%
Customer Deposits	490	0.01%	1.15%	0.0001%
Notes Payable	0	0.00%	0.00%	0.00%
Current Maturities	27,196	0.56%	5.79%	0.03%
Long Term Debt	46,591	0.96%	5.79%	0.06%
Total Capitalization	4,871,506	100.00%		6.35%

Staff

Description	13-Month Average	Percentages	Cost	Weighted Cost
Common Equity	4,667,230	95.807%	6.05%	5.80%
Preferred Stock	130,000	2.669%	5.00%	0.13%
Customer Deposits	490	0.01%	1.15%	0.00%
Notes Payable	0	0.000%	0.00%	0.00%
Current Maturities	27,196	0.558%	5.79%	0.03%
Long Term Debt	46,591	0.956%	5.79%	0.06%
Total Capitalization	4,871,506	100.00%		6.02%

Chazy & Westport Telephone Corporation
Summary of Staff Adjustments

Staff Adjustments		Total		Intra
Operating Revenues				
Local Network				
1) To Bring Local Service Revenues in line with Industry Levels	$	4,864	$	4,864
Operating Expenses				
2) Depreciation Expense				
a. To Reflect an Increase in Depreciation Expense	$	152,816	$	102,173
b. To Reflect Amortization of Excess Reserve	$	(8,230)	$	(5,503)
c. To Adjust Vehicle Depreciation Expense for lack of Documentation	$	(1,790)	$	(1,197)
Total Depreciation Expense:	**$**	**142,797**	**$**	**95,473**
3) Corporate Operations				
a. Eliminate Unsupported Payroll Bonuses	$	(15,809)	$	(10,288)
b. Adj. to Bring Officers' Salaries to Industry Level	$	(193,341)	$	(121,031)
c. Adj. to Reflect Allocation of Exec. Salaries using the Global Allocation Factor (GAF)	$	40,495	$	25,350
d. Adj. to Reflect the use of GAF to Allocate Executives' Benefits	$	(29,242)	$	(18,305)
e. Adj. to Reflect the Use of GAF to Allocate Common Expenses	$	(6,136)	$	(3,841)
f. Adj. to Payroll Growth to Reflect the Latest 2016 Blue Chip Economic Indicators	$	(16,443)	$	(10,701)
g. Adj. to Benefit Growth to Reflect the Latest 2016 Blue Chip Economic Indicators	$	(4,369)	$	(2,843)
h. Adj. to Vehicle Insurance and Maitenance Expenses for Lack of Documentation	$	(2,811)	$	(1,843)
i. Adj. to Remove Insurance Expenses Associated with Former Executive Cadillac	$	(969)	$	(635)
j. Adj. to Remove Additional Personnal Non-Recurring Expenses	$	(740)	$	(463)
Total Corporate Operations:	**$**	**(229,365)**	**$**	**(144,600)**
Operating Taxes				
4) Federal Income Taxes				
To Reflect Federal Income Tax Effect of Various Adjustments	$	31,087	$	18,357
5) Deferred Operating Federal Income Taxes				
To Reflect Deferred Federal Income Taxes for Staff's Depreciation Adjustment	$	(48,551)	$	(32,461)
Rate Base				
1) Total Plant in Service (TPIS)				
To Adjust Vehicle Costs from TPIS for lack of Documentation	$	(10,525)	$	(6,765)
2) Depreciation Reserve				
a. To Decrease depreciation Reserve for Adjustment to Unsupported Vehicle Expenses	$	5,687	$	3,584
b. To Reflect Corresponding Income Taxes on (a)	$	(1,934)	$	(1,032)
c. To Reflect Rate Base Effect of Depreciation Expense Adjustment	$	(75,513)	$	(40,309)
d. To Reflect Corresponding Income Taxes on (c)	$	25,675	$	13,705
e. To Reflect Rate Base Effect of Amortization of Excess Reserve	$	4,115	$	2,197
f. To Reflect Corresponding Income Taxes on (e)	$	(1,399)	$	(747)
Total Depreciation Reserve:	**$**	**(43,369)**	**$**	**(22,602)**
3) Accumulated Deferred Taxes				
To Correct for a Typographical Error	$	(30,457)	$	(19,658)
4) Cash Working Capital				
To Reflect Cash Working Capital Effect of Various Adjustments	$	(19,075)	$	(6,989)
	$	**(103,426)**	**$**	**(56,014)**

Chazy Westport Telephone Corporation
Rate Design

Service Description	Current Rate	Annual Units	Percent Rate Change	Revised Rate	Rate Change	Annual Revenue Effect
Recurring Charges						
Residence Centrex Line Charge	$27.00	-	15.79%	$ 31.25	$ 4.25	$ -
Business Centrex Line Charge	$27.00	-	15.74%	$ 31.25	$ 4.25	$ -
Residence and Business FX Service (per 1/10 Mile) Intracompany circuits Adj Exhanges W/O Toll	$5.75	300	15.65%	$ 6.65	$ 0.90	$ 270.00
Residence and Business Toll Substiture Administrative Charge	$3.85	12	15.58%	$ 4.45	$ 0.60	$ 7.20
Residence and Business Directory - Additional Standard Listing	$1.00	840	15.00%	$ 1.15	$ 0.15	$ 126.00
Residence and Business Non-published Number	$1.00	5,640	15.00%	$ 1.15	$ 0.15	$ 846.00
Non-Recurring Charges						
Residence Service Order Charge	$16.00	292	19.35%	$ 19.10	$ 3.10	$ 905.20
Residence Line Change Charge	$19.00	-	19.47%	$ 22.70	$ 3.70	$ -
Residence Central Office Line Charge	$25.15	317	19.28%	$ 30.00	$ 4.85	$ 1,537.45
Residence Premise Visit Charge	$39.00	63	19.35%	$ 46.55	$ 7.55	$ 475.65
Residence Additional Line Charge	$22.00	-	19.32%	$ 26.25	$ 4.25	$ -
Business Service Order Charge	$34.00	26	19.41%	$ 40.60	$ 6.60	$ 171.60
Business Line Change Charge	$26.00	-	19.23%	$ 31.00	$ 5.00	$ -
Business Central Office Line Charge	$39.00	33	19.35%	$ 46.55	$ 7.55	$ 249.15
Business Premise Visit Charge	$58.00	15	19.40%	$ 69.25	$ 11.25	$ 168.75
Business Additional Line Charge	$34.00	-	19.41%	$ 40.60	$ 6.60	$ -
Residence and Business Maintenance Service Charge - First 1/2 hour	$14.00	39	19.64%	$ 16.75	$ 2.75	$ 107.25
Residence and Business Maintenance Servcie Charge - Each Addtl 1/2 hour	$14.00	-	19.64%	$ 16.75	$ 2.75	$ -
Residence and Business Telecommunications Service Priority Administrative Charge	$54.63	-	19.35%	$ 65.20	$ 10.57	$ -
Residence and Business Centrex Service Order Charge	$16.00	-	15.94%	$ 18.55	$ 2.55	$ -
Residence and Business Centrex Central Office Charge	$14.00	-	15.71%	$ 16.20	$ 2.20	$ -
Residence and Business Centrex Premise Visit Charge	$27.00	-	15.74%	$ 31.25	$ 4.25	$ -
						$ 4,864.25

Chazy & Westport Telephone Corporation
Chazy & Westport SUSF Funding

		Commission Authorized Rates Year: 2016 - 2020
Residential Rates Before Rate Case in Chazy/Westport Exchange	$ 23.00	$ 23.00
Commission Determined Shortfall	$ 232,246	
Rev. Requirement Shortfall Below Benchmark	$ 4,864	
Revenue Generated by Tariffs		$ 4,864
Funding over $23	$ -	$ 227,382
Transitional Funding From SUSF		$ -
	Total Funding From SUSF	**$ 227,382**

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Chazy Westport Telephone Corporation
Depreciation Rates

Acct No.	Description	Staff Adjusted Dep. rate	Company Proposed Dep. Rates	Company Current Dep. rate
2112.1	Cars	17.00%	17.00%	17.00%
2112.2	Small Trucks	11.50%	11.50%	11.50%
2112.3	Large Trucks	9.00%	9.00%	9.00%
2116	Other Work Equipment	5.63%	5.63%	5.63%
2116	Tools	6.64%	6.64%	6.64%
2121	Buildings	2.63%	2.63%	2.63%
2122	Furniture	4.73%	4.73%	4.73%
2123.1	Office Equipment	5.85%	5.85%	5.85%
2123.2	Co. Comm. Equip.	8.90%	8.90%	8.90%
2124	Computers	15.22%	15.22%	15.22%
2212	Digital Switching	7.33%	7.33%	8.53%
	2017 Retirement	7.33%	7.33%	8.53%
	2017 Softswitch	10.00%	10.00%	8.53%
2232	Circuit Equipment	6.44%	5.58%	5.58%
2362	Other Terminal Equipment	8.43%	8.43%	8.43%
2411	Poles	4.11%	4.11%	4.40%
2421	Aerial Cable - Metallic	3.93%	3.93%	4.62%
2421	Aerial Cable - Fiber	3.78%	3.78%	4.44%
2421	Embedded Drops	2.67%	2.67%	2.67%
2422	Underground Cable	2.56%	2.56%	2.56%
2423	Buried Cable	2.82%	2.82%	2.97%
2423	Buried Cable - Fiber	2.84%	2.84%	2.99%
2423	Embedded Drops	1.76%	1.76%	1.76%
2431	Aerial Wire	10.68%	10.68%	10.68%
2441	Conduit	1.96%	1.96%	1.96%