

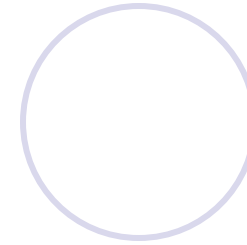
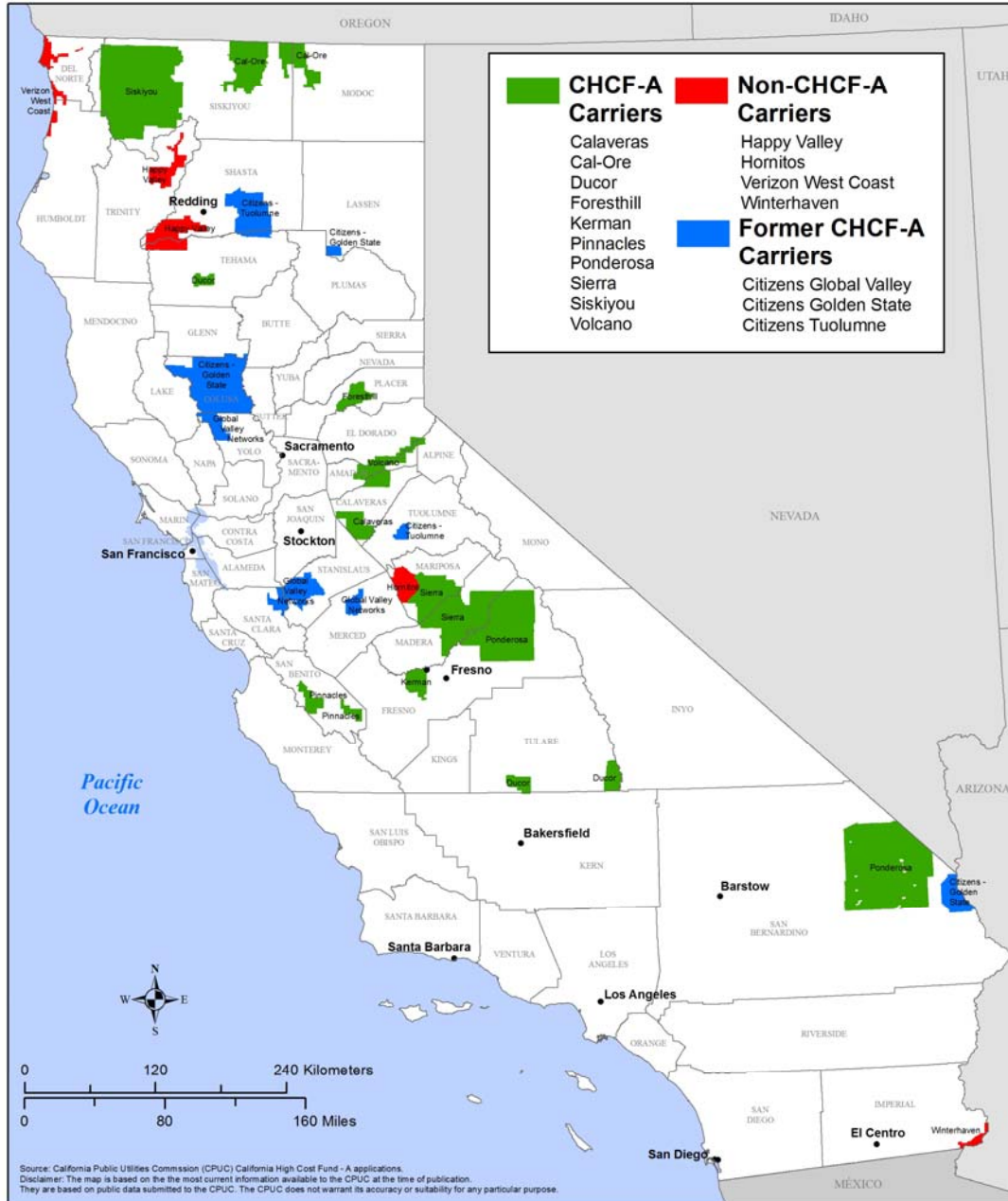
Comparative Analysis of Small ILEC CHCF-A Carriers to Non-CHCF-A Carriers 2011

Communications Division

December 2011



SMALL ILEC SERVICE AREAS

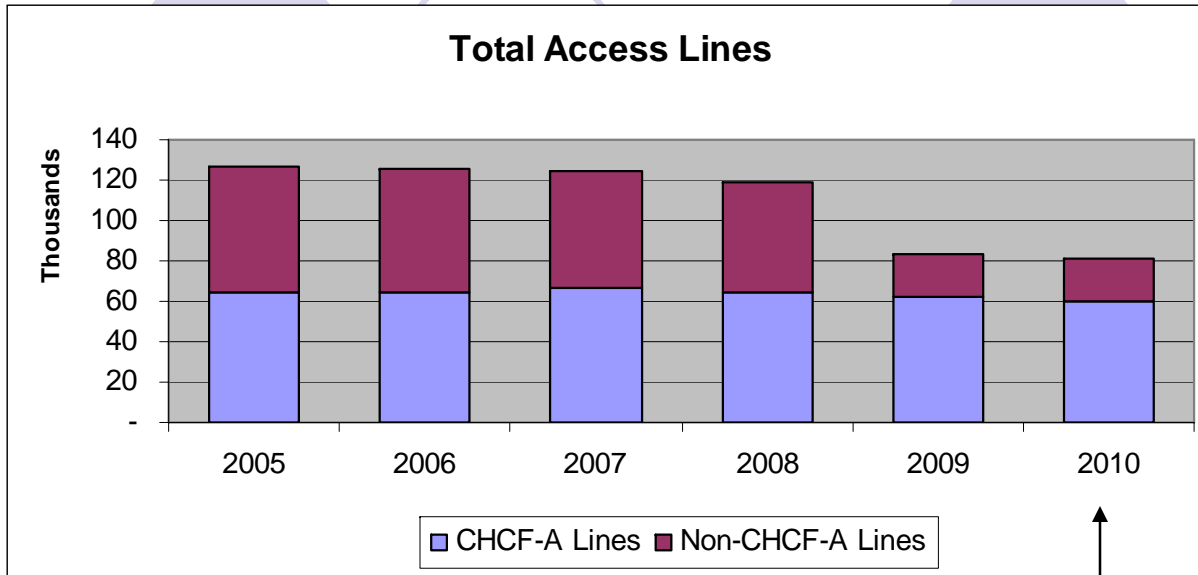


- This is an ongoing Communications Division study of small ILECs operating in California who are eligible to receive CHCF-A funding.
- The report covers the most recent six years of carrier financial data.
- The last report was released in 2009 and covered 2003-2008.
- This report has been updated for 2011 to include the most recent data and covers 2005-2010.

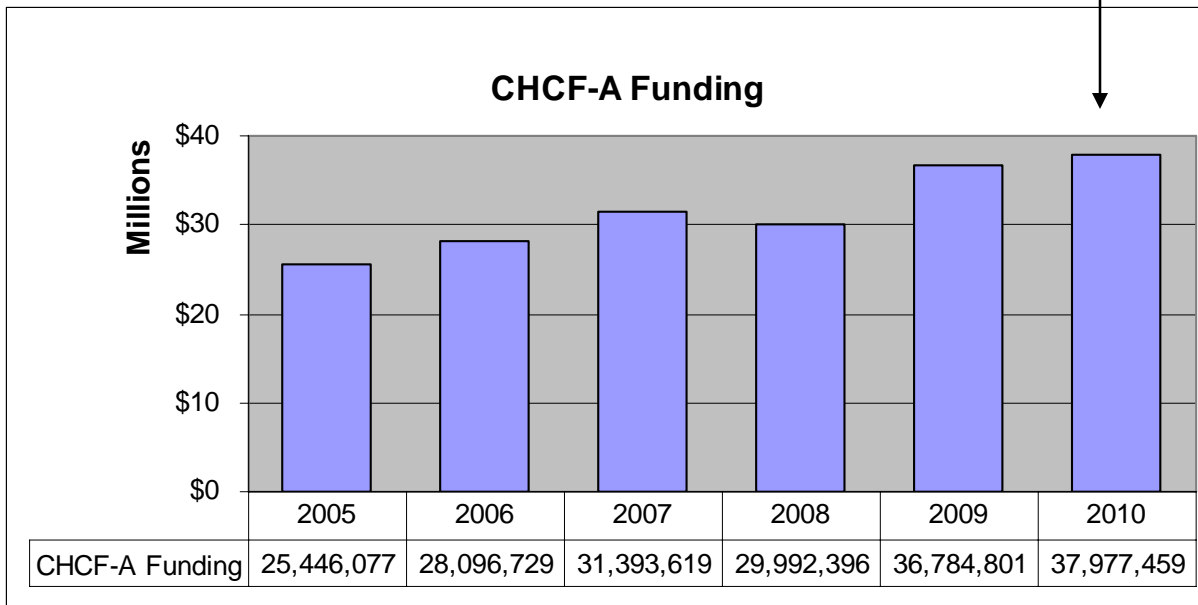
Carrier Comparison Statistics

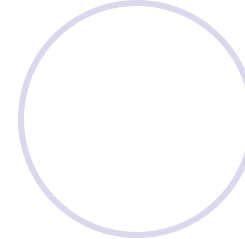
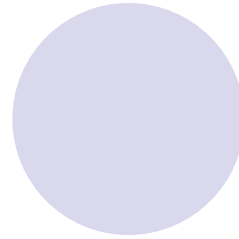
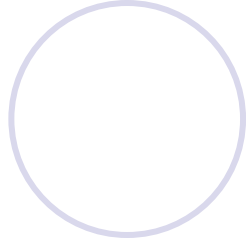
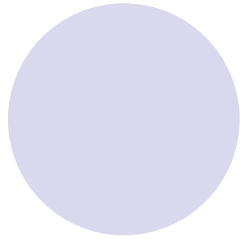


- Revenue per Access Line is **164% greater** for CHCF-A carriers than for Non-CHCF-A carriers on average, **301% greater** in 2010. Even after CHCF-A fund support is excluded, CHCF-A carriers still earned **100% more** revenues per Access Line than their Non-CHCF-A counterparts on average, **189% more** in 2010.
- Net Income per Access Line is **106% greater** for CHCF-A carriers than for Non-CHCF-A carriers on average, **43% higher** in 2010. Focusing on operating income, in 2010 CHCF-A carriers earned **773% more** than Non-CHCF-A carriers. When CHCF-A support is excluded from net income, CHCF-A companies net income becomes negative.
- Operating Expense per Access Line is **186% greater** for CHCF-A carriers than for Non-CHCF-A carriers on average, **252% greater** in 2010.
 - CHCF-A carriers expenses per Access Line versus Non-CHCF-A carriers in 2010:
 - ◆ **456% more** on Corporate Operating expenses
 - ◆ **236% more** on Plant Specific expenses
 - ◆ **52% more** on Customer Operating expenses
 - ◆ **294% more** on Other Operating expenses
- Net Average Total Plant In Service per Access Line is **207% greater** for CHCF-A carriers than for Non-CHCF-A carriers on average, **431% greater** in 2010.
 - CHCF-A carriers Plant per Access Line versus Non-CHCF-A carriers in 2010:
 - ◆ **333% more** Land and Support
 - ◆ **177% more** Cable and Wire
 - ◆ **10% more** Central Office Switching
 - ◆ **92% more** Transmission

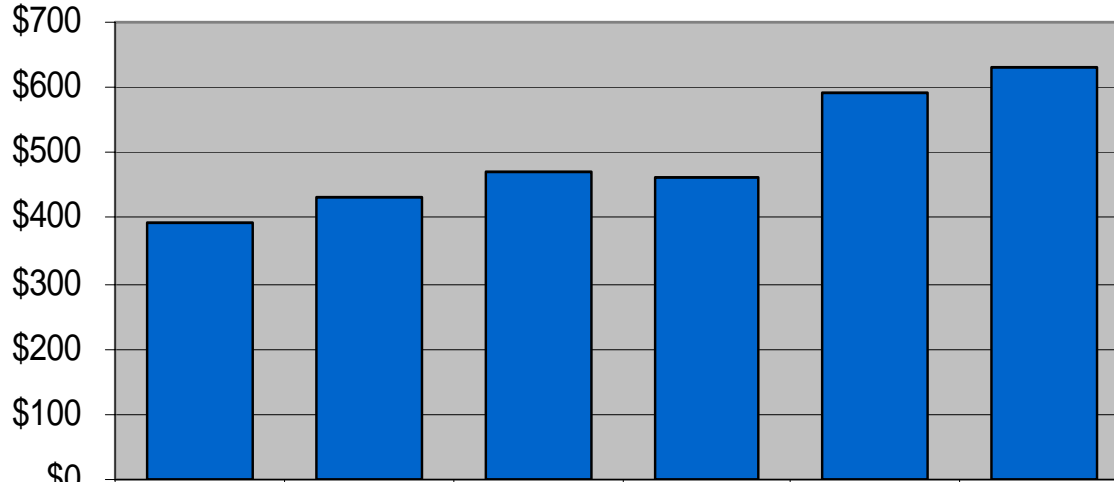


- The total number of Access Lines has been decreasing slightly.
- 2009 saw a large drop as three carriers became ineligible.
- Despite the loss of lines, the CHCF-A has continued to increase.



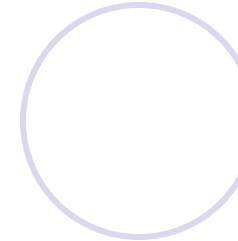
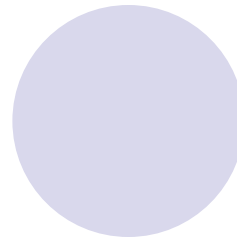
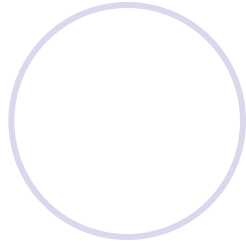
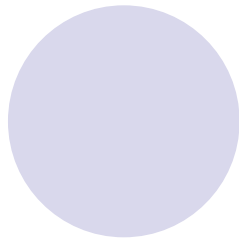


Annual CHCF-A Funding per Access Line

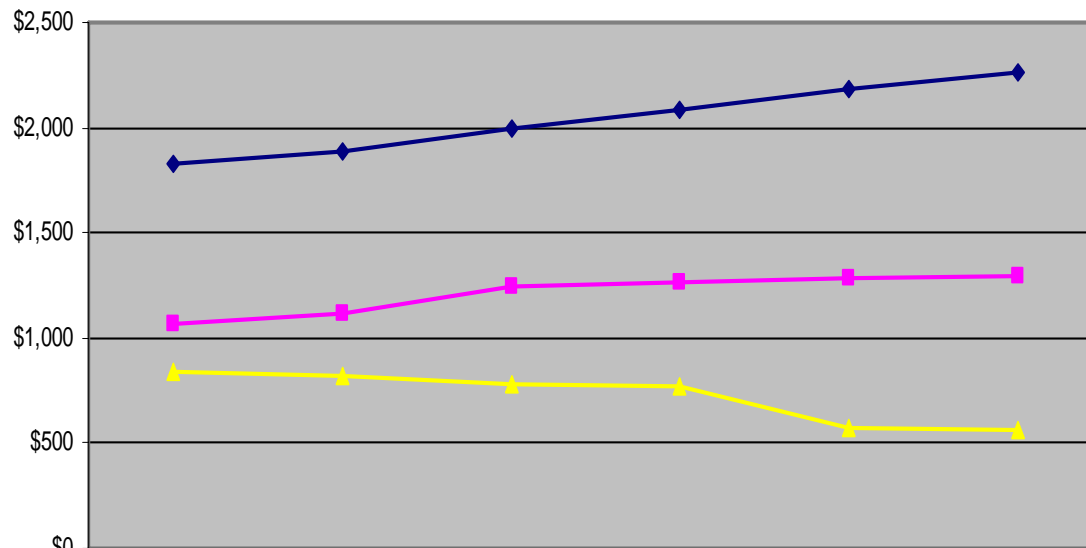


■ CHCF-A per AL	393	434	472	464	590	629
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- From 2005 to 2010 CHCF-A funding per Access Line increased by **\$236** or **60%**.
- In 2010, CHCF-A carriers received **\$629** per year, **\$52** per month per Access Line on average.

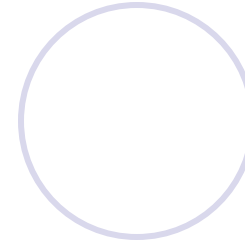
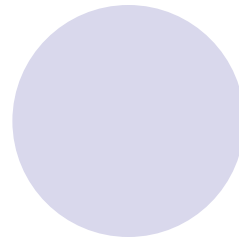
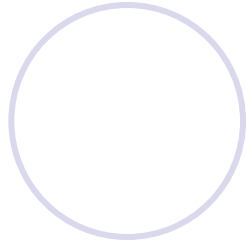
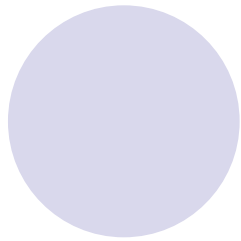


Average Revenue Per Access Line

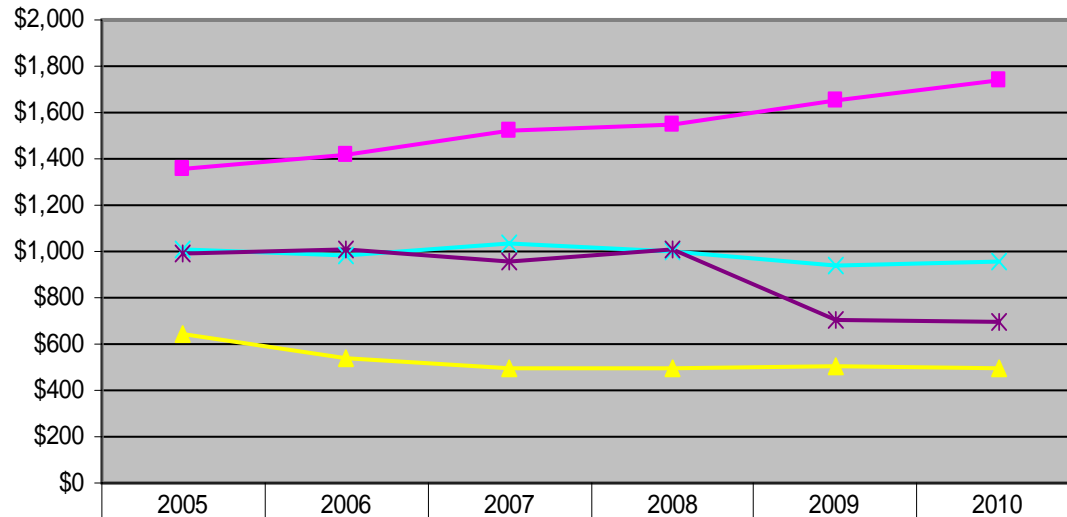


- Revenue per Access Line for CHCF-A carriers is **three times greater** than Non-CHCF-A carriers.
- If CHCF-A funding is subtracted, CHCF-A carriers' Revenues are still more than **twice as much**.

◆ CHCF-A Carriers	1,827	1,892	1,993	2,087	2,183	2,262
■ CHCF-A Carriers minus subsidy	1,065	1,118	1,242	1,269	1,283	1,290
▲ Non CHCF-A Carriers	838	824	782	776	573	565

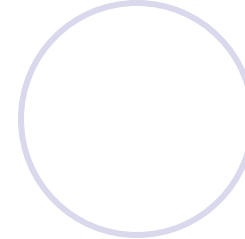
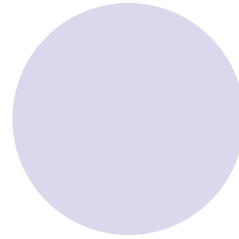
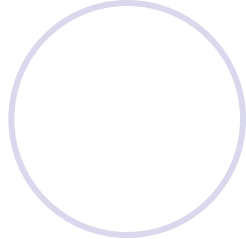
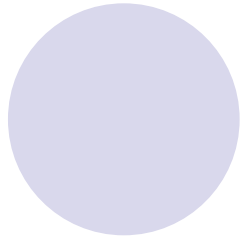


Average Operating Expenses Per Access Line



- The Operating Expenses of CHCF-A carriers are currently over **two times greater** than Non-CHCF-A carriers.

CHCF-A Carriers	\$1,361	\$1,417	\$1,526	\$1,552	\$1,652	\$1,739
Non-CHCF-A Carriers	\$645	\$543	\$492	\$493	\$501	\$495
Alpine Carriers	\$1,012	\$981	\$1,039	\$999	\$935	\$956
Valley Carriers	\$992	\$1,010	\$954	\$1,005	\$706	\$693

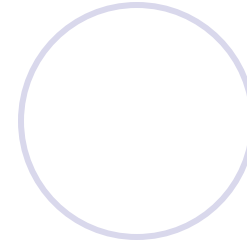
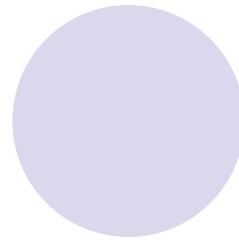
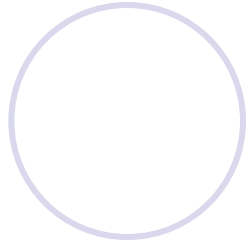
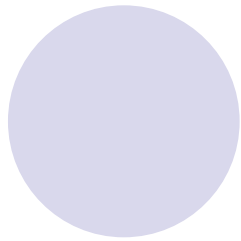


Average Operating Expense Components Per Access Line

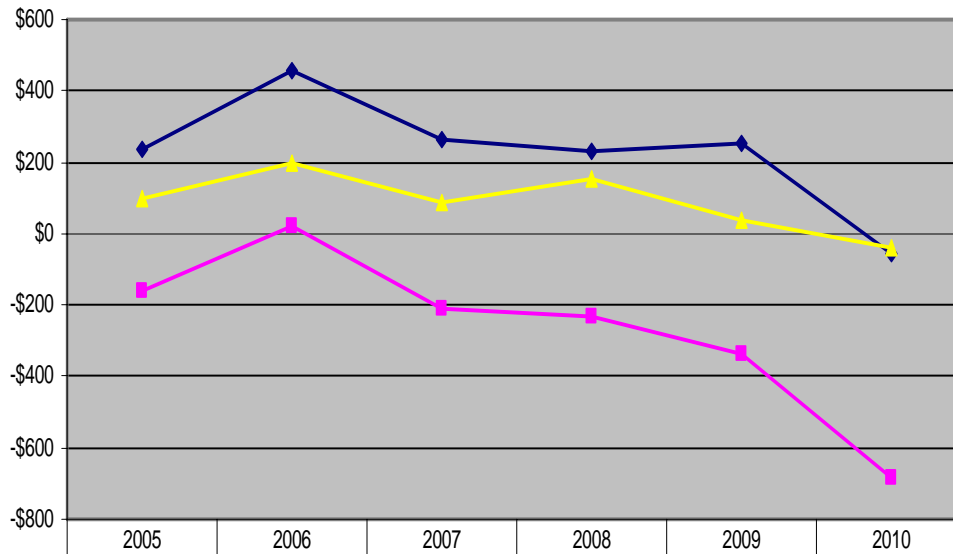
(Represents the percentage that CHCF-A carriers expense components per AL are greater than Non-CHCF-A carriers)

Expense Components:	2005	2006	2007	2008	2009	2010
Plant Specific Expense	164%	200%	249%	204%	257%	236%
Customer Operating Expense	62%	90%	85%	76%	223%	52%
Corporate Operating Expense	71%	212%	326%	490%	177%	456%
Total Operating Expense	111%	161%	210%	215%	230%	252%

- CHCF-A carriers are currently spending **52%** to **456%** more on operating expense components than Non-CHCF-A carriers.
- The Total Operating Expense disparity continues to increase.

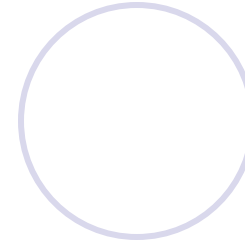
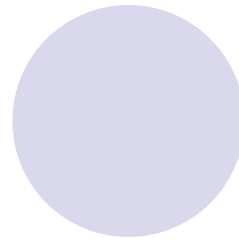
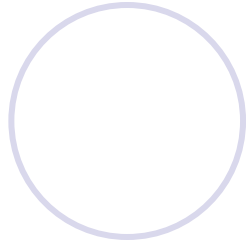
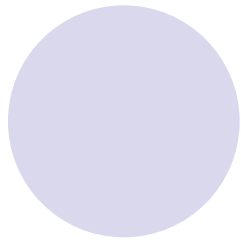


Average Net Income Per Access Line

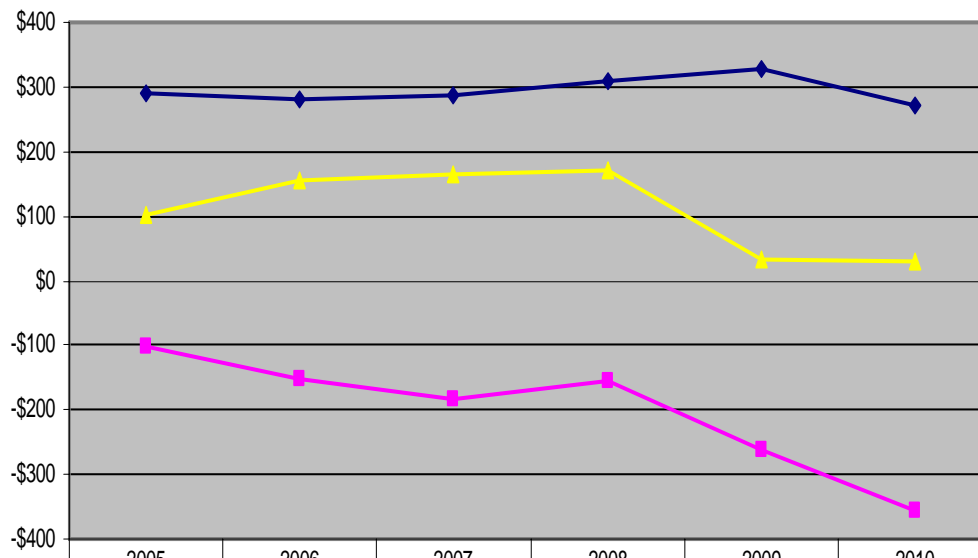


◆ CHCF-A Carriers	234	458	262	232	254	(58)
■ CHCF-A Carriers minus subsidy	(159)	24	(209)	(232)	(336)	(687)
▲ Non CHCF-A Carriers	99	196	89	151	37	(40)

- CHCF-A carriers are allowed to collect significantly higher Net Income per line than non CHCF-A carriers in order to make a similar return on their investment due to their greater amount of TPIS.
- In 2010, D.10-06-029 ordered the small LECs to repay \$31.3M they had received in 2006 from the Rural Telephone Bank (RTB). This is the cause of the spike in 2006 and the decline in 2010.

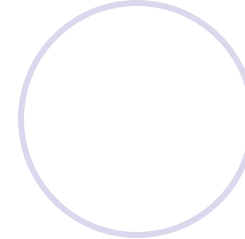
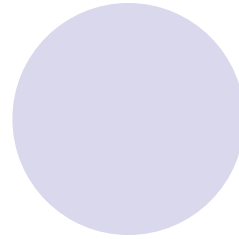
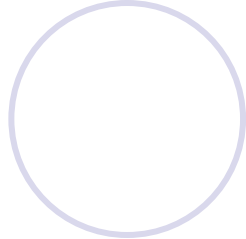
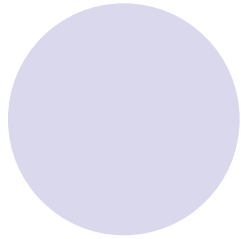


Average Operations Income Per Access Line



◆ CHCF-A Carriers	290	281	288	309	329	272
■ CHCF-A Carriers minus subsidy	(103)	(153)	(184)	(155)	(262)	(357)
▲ Non CHCF-A Carriers	103	157	165	172	33	31

- Operations Income excludes Other company income and expenses not directly related to operations, such as the \$31.3M from the RTB.
- Operations Income for CHCF-A carriers is currently over **eight times greater** than non CHCF-A carriers.

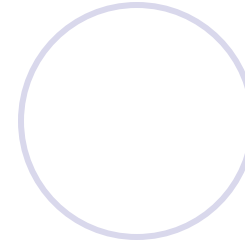
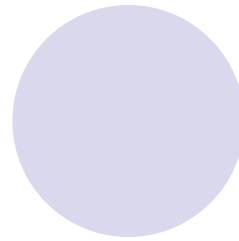
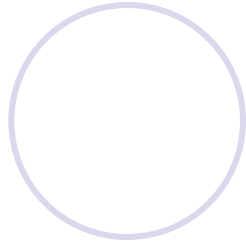
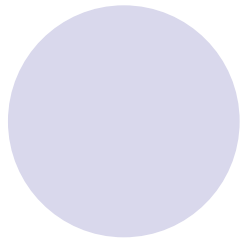


Total Plant in Service (TPIS) per Access Line

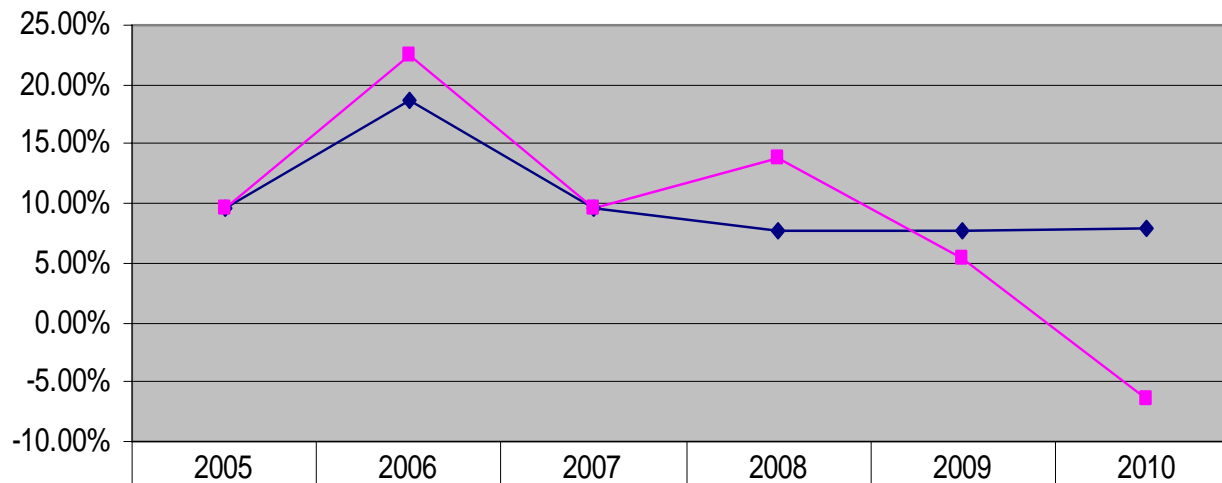
(Represents the percentages that CHCF-A carriers TPIS per AL are greater than Non-CHCF-A carriers)

TPIS Components:	2005	2006	2007	2008	2009	2010
Land and Support	189%	209%	211%	211%	320%	333%
Central Office Switching	4%	9%	11%	-3%	6%	10%
Transmission	68%	71%	71%	65%	99%	92%
Cable and Wire	88%	89%	113%	107%	151%	177%
Above Ground	-74%	-75%	-63%	-58%	-75%	-75%
Net Average TPIS	137%	179%	199%	175%	375%	431%

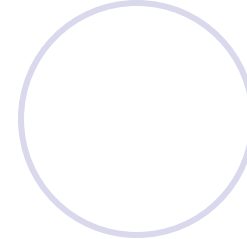
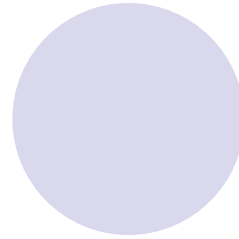
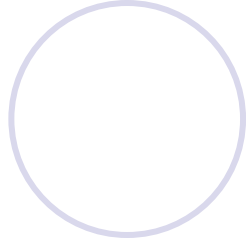
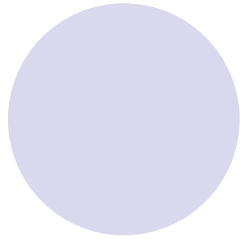
- CHCF-A carriers are currently spending **10%** to **333%** more on operating expense components and **431%** more total than Non-CHCF-A carriers.
- Non CHCF-A Carriers spend more on aerial cable



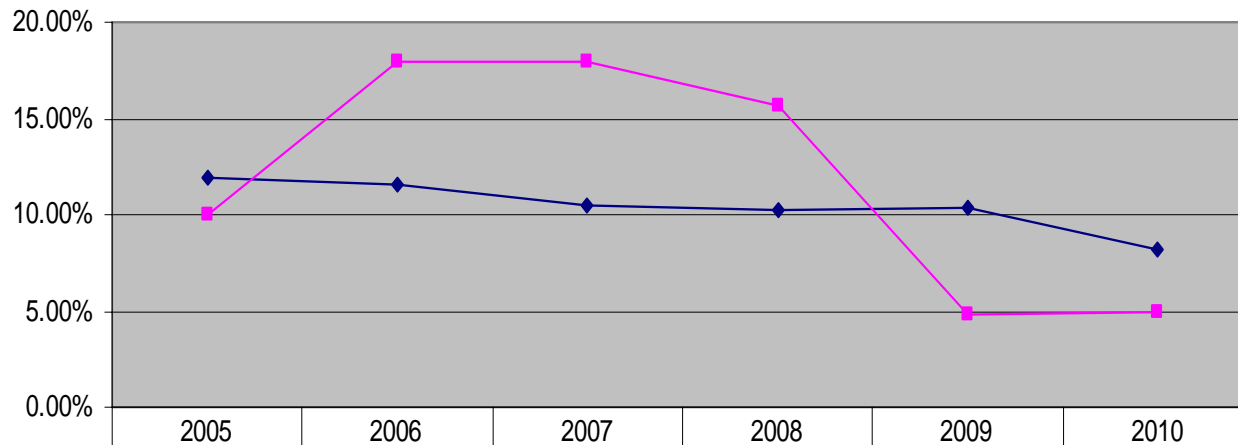
Return of Net Income on Net Average TPIS CHCF-A versus Non-CHCF-A Carriers



- D.10-06-029 affected Non-CHCF-A carriers much more than CHCF-A carriers as the RTB money comprised a larger share of their income.



**Return of Operating Income on Net Average TPIS
CHCF-A versus Non-CHCF-A Carriers**



- The Return of Operating Income for CHCF-A carriers is steadily declining.
- Non CHCF-A carriers rates of return are more volatile.

◆ CHCF-A	11.87%	11.53%	10.44%	10.19%	10.34%	8.14%
■ Non-CHCF-A	10.03%	17.94%	17.91%	15.61%	4.88%	4.95%

Findings



This second study of CHCF-A carriers was conducted as a continuing effort to determine whether significant differences continue to exist in the business practices of CHCF-A and Non-CHCF-A carriers that may explain their increasingly higher draws from the CHCF-A fund.

The 2009 report found that per line, CHCF-A carriers:

- Significantly outspent Non-CHCF-A carriers
- Employed more plant in service than Non-CHCF-A carriers
- Generated greater revenues and net income than non-CHCF-A carriers

These findings remain true in 2011. In fact the disparity between CHCF-A and Non-CHCF-A carriers has increased for all three categories. This growth in disparity is a result of changes in CHCF-A carrier finances. Non CHCF-A carriers' revenues, expenses, and plant remain relatively even.

Definitions and Information



- **Access lines:** Unique telecommunications access points. One Access Line generally indicates one customer.
- **Alpine Carriers:** Carriers with a substantial part of their territory in the mountainous / foothill terrain. They included all carriers except those listed as Valley below.
- **Valley Carriers:** Carriers with substantial parts of their territory in non mountainous/mostly flat terrain. For the purpose of this study they were; Ducor, Global Valley, Kerman, and Winterhaven.
- **CHCF-A:** California High Cost Fund-A
- **CHCF-A Carriers:** Small Local Exchange Carriers (LECs) that receive CHCF-A subsidy funding. They include; Calaveras, Cal-Ore, Ducor, Foresthill, Kerman, Pinnacles, Ponderosa, Sierra, Siskiyou, and Volcano.
- **Non-CHCF-A carriers:** Happy Valley, Hornitos, Verizon WC, Winterhaven and Citizens-G, Citizens-T, and Global Valley which, in 2009, become part of Citizens California and are no longer Non-CHCF-A carriers.
- **Revenue:** Local, Network, Long Distance, Miscellaneous, and Uncollectible Revenues.
- **Net income:** Operating Revenues less Operating Expenses less Taxes and Interest.
- **Operations income:** Operating Revenue less Operating Expenses less Other operating income and expenses less operating taxes.
- **Operating Expense Components:** Depreciations and Amortizations, (D&A), Plant Specifics, Customer Operations, and Corporate Operations.
- **Rate of Return:** Income as a percentage of net average TPIS.
- **TPIS:** Telephone Plant In Service.
- **TPIS Components:** Land and Support, Central Office Switching, Transmission, Cable and Wire, Above Ground
- **Net Average TPIS:** average of beginning year TPIS and end of year TPIS.

Data Collection

- Carrier information was obtained from reports based on FCC Form M filed annually with the Commission.
- CHCF-A and federal USF subsidy data were obtained from Commission records.