

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

**IN THE MATTER OF THE PETITION OF)
BEEHIVE TELEPHONE CO. INC.,)
FOR AN INCREASE IN RATES)
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)
)
)
)**

Docket No. 14-051-01

DIRECT TESTIMONY

OF

JAKE WARNER

ON BEHALF OF BEEHIVE TELEPHONE CO. INC.

October 28, 2014

DIRECT TESTIMONY OF JAKE WARNER

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Q. Please state your name, occupation and business address.

A. Jake Warner. I am the President and General Manager of Beehive Telephone Co. Inc. (“Beehive” or “Company”). Beehive’s business address is 2000 East Sunset Road, Lake Point, UT 84074.

Q. Please state your educational background and professional background.

A. I have a Bachelor of Science degree with a dual major of Economics and Finance from Utah State University.

Q. Why are you qualified to offer testimony in this case?

A. I have been employed by Beehive since September 2005. During that time I have become very familiar with the history, records and procedures of Beehive. My current job duties involve overseeing the operations of the company and reporting to state and federal regulatory agencies. I have prepared state and federal regulatory filings and financial statements, continuing property records and annual reports submitted to the Federal Communications Commission (“FCC”), National Exchange Carriers Association (“NECA”), and the Utah Public Service Commission (“Commission”). I am a member of the management team at Beehive. I am familiar with the day to day operations of Beehive.

Q. What is the purpose of your testimony?

23 A. The purpose of my testimony is to address the current revenue requirement of Beehive
24 and to offer support for the information contained in the Company's Application for a
25 Rate Increase and Request for Utah Universal Service Fund ("UUSF") distribution.
26

27 **Q. Have others been authorized to testify on behalf of Beehive in this proceeding?**

28 A. Yes. Ray Hendershot will file direct testimony on behalf of the Company. The testimony
29 will provide the support and rationale for the proposed increase in rates and request for
30 UUSF distributions.
31

32 **Q. Are you familiar with the Company's Application for Rate Increase and Request for**
33 **UUSF Distributions in this Docket?**

34 A. Yes. The Company's Application is based on a 2013 test year plus known and
35 measurable changes. These changes are identified in the Testimony of Ray Hendershot
36 and corresponding Exhibits filed with the Application
37

38 **Q. Can you summarize your Application?**

39 A. Yes. As set forth in detail below, Beehive is seeking to increase its current R1 and B1
40 rates to the Commission approved affordable base rates of \$16.50 (R1) and \$26.00 (B1),
41 while at the same time, decreasing its extended service area ("EAS") rates where it is
42 available, to more properly reflect the costs of providing the EAS service. Beehive is
43 also currently experiencing a revenue deficiency of \$1,812,842 which it seeks to recover
44 from a disbursement from the Utah Universal Service Fund ("UUSF").

45

46

RATES

47 **Q. What are Beehive's current rates for residential (R1) and business (B1) service?**

48 A. Beehive's current residential rate for R1 service is set at \$14.00 per subscriber per month.

49 Our business rate for B1 service is currently \$16.00 per month with Ticaboo at \$27.50 per

50 month. We are not requesting a change in the Ticaboo B1 service rate as we anticipate

51 the FCC will continue to raise the urban rates and sometime in the future we may need to

52 request a change in the Ticaboo B1 rate.

53

54 **Q. In addition to the R1 and B1 rates, does Beehive have a mandatory extended area
55 service charge that is imposed on your customers?**

56 A. Yes. The exchanges of Rush Valley and Vernon have EAS to Toole and currently pay

57 \$1.00 per month. The customers in Cedar Highlands have EAS to Cedar City and pay

58 \$3.15 per month. Cedar Highlands is a small area and currently only has 14 residential

59 customers at the end of the year 2013.

60

61 **Q. Is Beehive seeking a rate increase in this proceeding?**

62 A. Beehive is seeking to increase its R1 and B1 rates, while decreasing its mandatory EAS

63 rate in the exchanges that have EAS.

64

65 **Q. Please explain.**

66 A. Last year Beehive filed to increase its R1 rates from \$11.67 to \$14.00 per month to the
67 FCC target rates of \$14.00. Now the FCC has increased the target rates and Beehive
68 proposes to increase its R1 rates by \$2.50 per line per month. Taking into consideration
69 the rate change last year, the residential customers will have seen an increase in the R1
70 local rate of \$4.83 in 18 months. The business rate did not change last year but the B1
71 rate will increase from \$16.00 to \$26.00 in this filing, which will bring the Beehive R1
72 and B1 rates to the Commission approved affordable base rates of \$16.50 (R1) and
73 \$26.00 (B1). With regard to the EAS rates, we are proposing to reduce the EAS rate for
74 Rush Valley and Vernon to \$0.50 per line per month and Cedar Highlands to \$0.65 per
75 line per month. We have reviewed the traffic between the respective EAS calling areas
76 and note that the EAS traffic flowing to the Beehive exchanges is more than twice the
77 EAS traffic from Beehive to the CenturyLink exchanges.

78

79 **Q. How was the current EAS rate established?**

80 A. The current mandatory EAS charge was set by the Commission when service was
81 established in the Beehive exchanges of Rush Valley and Vernon while the cost was
82 based on the corresponding EAS costs paid by the CenturyLink exchanges at the time.
83 Cedar Highlands EAS service was established when the exchange was built and was
84 based on an annual fee (\$1,039.21) paid under contract to U.S. West for EAS service to
85 Cedar City. CenturyLink has recently agreed to discontinue the annual fee for EAS
86 service between Cedar Highlands and Cedar City. The fee was paid annually in June.

87

88 **Q. Can you summarize the effect Beehive's rate rebalancing will have on its customers**
89 **and this proceeding?**

90 A. As indicated, Beehive is seeking to increase the R1 and B1 rates to the affordable base
91 rate as determined by the Commission, and decrease the EAS rate in the three exchanges
92 that have EAS service. The Beehive residential customers will see an overall rate
93 increase depending on the exchange from \$2.00 in Vernon and Rush Valley to \$2.50 in
94 the other exchanges per line per month. The Cedar Highlands exchange will see no
95 increase in rate due to the reduction in the current EAS charge. The business rate will
96 increase \$10.00 per line per month for all areas except Ticaboo which is currently at
97 \$27.50 per line per month. The balance of the revenue deficiency is requested from the
98 UUSF.

99

100 **Q. Do you believe this approach is in the public interest?**

101 A. Yes. Beehive, like all rural telecommunications providers has been struggling with line
102 loss with the advent of cell phone use. As proposed, Beehive's R1 and B1 rates will be
103 set at the affordable base rate as determined by the Commission.

104

105 **REQUEST FOR UUSF DISBURSEMENT**

106 **Q. In addition to the rate changes you have discussed above, Beehive's Application**
107 **seeks its revenue deficiency from the Utah USF disbursements, correct?**

108 A. Yes. Beehive is currently experiencing a revenue deficiency in the amount of
109 \$1,812,842. Beehive is proposing that the revenue deficiency be recovered through

110 UUSF disbursements. This will enable Beehive to continue providing affordable service
111 to its customers, and to begin construction of capital projects that have been postponed by
112 our current financial situation.

113

114 **Q. What test period is Beehive proposing in its Application?**

115 A. Beehive is proposing to use the historical test period of 2013, adjusted for known and
116 measurable changes. Ray Hendershot will discuss the Application and adjustments in
117 detail in his testimony.

118

119 **Q. Is the Company proposing any changes in its payroll costs in the Application and if
120 so, could you please explain any adjustment?**

121 A. Beehive went through a reorganization at the end of 2013. A review of salaries was done
122 and compared to the industry average and company salaries were realigned to the
123 industry average. The reorganization has resulted in savings to the company of
124 approximately \$82,235 for 2014. Beehive is a very small company and its management
125 and employees work on regulated and non-regulated activities and time is charged to the
126 appropriate account in accordance with the Company's cost allocation manual.

127

128 **Q. Does Beehive propose any changes in costs for healthcare and employee benefit costs
129 for 2014? Please explain.**

130 A. Beehive made a decision a couple of years ago to become self-insured for Healthcare.

131 The Company is still initially learning about being the insurance provider. The Company

132 did experience savings the first year and it appears that costs have stabilized. Currently
133 we do not have enough historical information to request an adjustment for healthcare at
134 this time.

135

136 **Q. Does Beehive propose to recover procedural costs in prosecuting this rate case?**

137 **Please explain.**

138 A. We have estimated the rate case expenses for this case and have amortized those expenses
139 over two years. An adjustment has been included in the filing as an adjustment to
140 expenses.

141

142 **Q. Has Beehive implemented any significant changes in accounting policies or
143 procedures for the 12 month period prior to the test period?**

144 A. No. Beehive has not implemented any significant changes in accounting policies or
145 procedures that would be referenced or noted in the financial statements or auditors'
146 notes.

147

148 **Q. Has Beehive included audited financial statements for 2013 with its Application?**

149 A. Yes. Audited Financial Statements and management letters are attached hereto as
150 Confidential Exhibit JW 1. Some auditor adjusting journal entries were required and
151 have been provided also as part of the exhibit.

152

153 **Q. Has Beehive conducted any internal audits during 2013 or 2014?**

154 A. No.

155

156 **Q. Has Beehive had any corporate restructuring or changes in its affiliate relationships**
157 **since its previous general rate case?**

158 A. Yes. Management was changed in late 2013 due to a reorganization.

159

160 **Q. R746-700-40 also requires Beehive to provide its affiliates organization chart**
161 **including a clear indication of affiliates, parent companies, divisions and**
162 **subsidiaries indicating their regulatory status, and a personnel organization chart.**
163 **Have you provided that?**

164 A. Yes. A copy of the required information is attached hereto as Beehive Exhibit JW 2.

165

166 **Q. Can you summarize Beehive's treatment of bad debt beginning in 2011 and through**
167 **the date of the Application?**

168 A. Beehive has had some difficulty with bad debts related to access charges that are from
169 years past. Some cases have resulted in litigation and the Company has settled all of the
170 cases. A Summary of the Allowance for Uncollectible has been attached to this
171 Testimony as Beehive Exhibit JW 3. This exhibit provides the beginning bad debt
172 reserve balance, the amount written off, the recoveries, the reserve adjustment, and other
173 charges or credits, and the ending reserve balance.

174

175 **Q. Has Beehive changed its collection policies or write-off policies in the last couple of**
176 **years?**

177 A. No.

178

179 **Q. Has Beehive had any penalties or fines assessed during the test period?**

180 A. No.

181

182 **Q. Does this conclude your testimony?**

183 A. Yes.

184