

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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)
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)
)**

Docket No. 14-051-01

DIRECT TESTIMONY

OF

RAYMOND HENDERSHOT

ON BEHALF OF BEEHIVE TELEPHONE CO. INC.

November 19, 2014

1 **DIRECT TESTIMONY OF RAYMOND HENDERSHOT**

2 **Q. Please state your name?**

3 **A. My name is Raymond Hendershot.**

4
5 **Q. Briefly describe your educational background and work experience.**

6 **A. I graduated from Brigham Young University with a Bachelor’s Degree in Accounting in**
7 **1972 and a Master’s Degree of Accounting in 1973. I received a CPA Certificate from**
8 **Texas. Upon graduation, I was employed by General Telephone and Electronics (“GTE”),**
9 **where I served in a variety of positions within the financial area of the company. In 1985,**
10 **I joined GVNW. GVNW provides a wide variety of management services within the**
11 **telecommunications industry. My primary areas of responsibility include the development**
12 **of rates and tariffs, preparation of toll cost separation studies and depreciation rate studies,**
13 **consulting on acquisitions and sales of telephone properties, and providing various other**
14 **management services.**

15
16 **Q. Have you previously testified before any regulatory commissions?**

17 **A. Yes. I have provided testimony on telecommunications issues before this Commission on**
18 **numerous occasions in various telephone company filings and generic regulatory**
19 **proceedings. I have also testified in various telephone company filings and generic**
20 **regulatory proceedings before the Arizona Corporation Commission, the Idaho Public**
21 **Utilities Commission, the Nevada Public Utilities Commission, the Texas Public Utilities**

22 Commission, the Washington Utilities and Transportation Commission, the Wisconsin
23 Public Service Commission, and the Wyoming Public Service Commission.

24

25 **Q. On whose behalf are you presenting testimony?**

26 A. I am presenting testimony on behalf of Beehive Telephone Co. Inc., (“Beehive” or
27 “Company”) in support of its application for increased local rates and request for support
28 from the Utah Universe Service Fund (“UUSF”).

29

30 **Q. What is the purpose of your testimony?**

31 A. The purpose of my testimony is to provide explanations for selected financial information
32 supporting Beehive’s Application for UUSF eligibility. I will provide testimony that will
33 support Confidential Exhibits which are attached to this Testimony.

34

35 **Q. Please identify the Exhibits to your testimony.**

36 A. The individual Exhibits include:

- 37 • Beehive RH 1 – Income Statement and Revenue Requirement (Confidential)
- 38 • Beehive RH 2 – Proposed Adjustments to Income Statement (Confidential)
- 39 • Beehive RH 3 – Rate Base Summary (Confidential)
- 40 • Beehive RH 4 - Cost of Capital Summary (Confidential)
- 41 • Beehive RH 5 – Proposed Local Rates (Confidential)

42

43 **Q. Were the Exhibits referred to above and the supporting work papers prepared by**
44 **you or someone under your direction?**

45 A. Yes, they were.

46

47 **Q. What is the proposed test period specified in the Application and how was it derived?**

48 A. In accordance with Utah Code Annotated Section 54-5-4(3), Beehive proposes to use
49 calendar year 2013 as the test period for the purpose of determining the appropriate amount
50 of UUSF support. Accordingly, the Confidential Exhibits are based upon audited financial
51 information for the 12 months ending December 31, 2013.

52

53 This historical “test period” has proposed adjustments that are “known and measurable”
54 changes in operations, which more accurately reflect Beehive’s cost of providing
55 telecommunications services.

56

57 **Q. How does Beehive Telephone Company determines its cost between the interstate and**
58 **state jurisdiction?**

59 A. Beehive is a regulated rate of return telephone company in both the interstate and state
60 jurisdictions. The Company keeps its accounting records in accordance with the FCC’s
61 Part 32 Uniform System of Accounts (“USOA”), as required by the FCC and the
62 Commission Rules. The rules of the FCC Part 36 and 69 are used to separate costs between
63 the state and interstate jurisdiction in preparing a cost separation study.

64

65 **Confidential Exhibit Beehive RH 1- Income Statement and Revenue**

66 **Requirement**

67 **Q. Have you calculated Beehive's Revenue Requirement?**

68 A. Yes. Confidential Exhibit Beehive RH 1 reflects a revenue requirement or deficiency of
69 \$1,813,346.

70
71 **Q. How was Beehive's revenue requirement or deficiency determined?**

72 This exhibit identifies the Company's 2013 revenues and expenses and corresponding rate
73 base. Lines 1 through 10 identify the Company's 2013 revenues and proposed adjustments.
74 Lines 11 through 19 identify the 2013 expenses. Line 29 identifies the Company's 2013
75 rate base from Confidential Exhibit RH 3. The Company's return on rate base is shown on
76 Line 30 and the calculations for the proposed return are found on Confidential Exhibit RH
77 4. Confidential Exhibit RH 2 provides the details to the adjustments made to the revenues
78 and expenses. The Company's rate base (Line 29) is multiplied by the proposed rate-of-
79 return (Line 30) to determine the allowable or required return, which is shown on Line 31
80 of Confidential Exhibit RH 1. The allowable or required return is after the Company's
81 operating expense and respective taxes as shown in Lines 19 through 28. The UUSF
82 revenue required for the Company to earn its required return is identified on Line 2 of
83 Confidential Exhibit RH 1.

84
85 **Q. How does Beehive propose to recover its revenue requirement?**

86 A. Beehive proposes to raise the local service rates for R-1 and B-1 service to the
87 Commission's UUSF affordable base rate benchmark of \$16.50 and \$26.00. At the same
88 time, the Company proposes to reduce its current Extended Area Service ("EAS") rates for
89 those areas that have EAS. The proposed EAS rate for Rush Valley and Vernon is \$0.50
90 and Cedar Highlands is \$0.65 to more closely reflect the costs for providing this service.
91 This is the second rate increase that customers will experience in less than two years. The
92 last increase was in July 2013 to bring the residential rates for R-1 to the FCC direct urban
93 rate level of \$14.00. The reason rates are being raised again is because of the new FCC
94 direct urban rate level of \$16.00. Since the Company has to raise rates, it determined to
95 raise its rates to the UUSF affordable base rate benchmark to be eligible for UUSF and the
96 opportunity to earn a fair return on its investment in facilities to provide
97 telecommunications service. Beehive proposes that the balance in its revenue requirement
98 be recovered through UUSF disbursements. This will enable Beehive to continue
99 providing service to its customers, and to initiate capital projects that have been delayed
100 by the Company's current insufficient earnings.

101

102 **Confidential Exhibit Beehive RH 2 – Proposed Adjustments to Income**

103 **Statement**

104 **Q. What adjustments are being proposed by the Company?**

105 A. The Company is proposing four primary adjustments. The first adjustment is for \$36,204
106 in additional local revenues from the increase in local rates and reduction in the EAS rates.
107 The second adjustment is a reversal of the credit balance in the Uncollectible Revenue

108 account to bring the account balance to zero. The previous credit balance in the account
109 was the result of revenues collected from interexchange carriers due from prior years. It is
110 assumed that this practice will not continue in the future.

111 The third adjustment is to revenues consists of two items, (1) the loss in National Exchange
112 Carrier Association (“NECA”) revenues due to an increase in the local rates to the FCC
113 Urban Rates and (2) an estimate by NECA on the impact of changes in the Federal USF
114 that the Company receives following the FCC directive on freezing the USF support.

115 The fourth adjustment consists of three items. The first item is a credit to expenses for
116 \$1,039 that Beehive has been paying to US West or CenturyLink for EAS service between
117 Cedar Highlands and Cedar City. The Company has been paying this amount annually in
118 June of each year for the service. The fee was established when service was initially
119 established in Cedar Highlands. In recent discussions with CenturyLink, CenturyLink has
120 agreed to no longer bill for the service. The second item is a reduction in expenses of
121 \$82,235 annually due to the reorganization that occurred in late 2013. The third item is an
122 estimate of the expense for the filing of this case with the costs amortized over two years
123 or \$30,000.

124

125 **Confidential Exhibit Beehive RH 3 - Rate Base Summary**

126 **Q. Please explain the information in Exhibit RH 3, Rate Base Summary.**

127 A. The Exhibit reflects the rate base at the beginning of 2013 and the end of 2013 and an
128 average for the year. No adjustments have been made to the rate base.

129

130 **Q. Why have no adjustments been made to the rate base?**

131 A. The Company is in the process of applying for a Rural Utility Service (“RUS”)
132 Construction Loan for future construction. The application for the loan has just been
133 submitted to RUS and no major construction has been completed this year.

134

135 **Confidential Exhibit Beehive RH 4 – Cost of Capital Summary**

136 **Q. How have you determined the cost of capital for Beehive for this proceeding?**

137 A. I have reviewed information that has been used in other case that have been filed with the
138 Commission this past year and have used the format and the cost of capital that has been
139 used in previous cases. The cost of equity used in the calculation was 12.13%.
140 Consideration was given in the calculation that Beehive was a cost company for interstate
141 purposes and that information has been used in the calculation of the cost of capital for the
142 total company used in this case.

143

144 **Confidential Exhibit Beehive RH 5 – Proposed Local Rates**

145 **Q. Please explain Exhibit RH 5, Proposed Local Rates.**

146 A. The exhibit shows the current and proposed R-1 and B-1 rates by exchange along with the
147 corresponding EAS rates for those exchanges that have EAS. The total annual impact of
148 the local rate increase is shown and the corresponding amount is used in Exhibits RH1 and
149 2 respectively.

150

151 **Q. Does that conclude your direct testimony?**

152 A. Yes it does.