

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

JACOB WARNER

ON BEHALF OF BEEHIVE TELEPHONE CO. INC.

November 19, 2014

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 \$1,813,346 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.

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

53 A. Yes. The exchanges of Rush Valley and Vernon have EAS to Toole and currently pay
54 \$1.00 per month. The customers in Cedar Highlands have EAS to Cedar City and pay
55 \$3.15 per month. Cedar Highlands is a small area and currently only has 14 residential
56 customers at the end of the year 2013.

57

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

59 A. Beehive is seeking to increase its R1 and B1 rates, while decreasing its mandatory EAS
60 rate in the exchanges that have EAS.

61

62 **Q. Please explain.**

63 A. Last year Beehive filed to increase its R1 rates from \$11.67 to \$14.00 per month to the
64 FCC target rates of \$14.00. Now the FCC has increased the target rates and Beehive
65 proposes to increase its R1 rates by \$2.50 per line per month. Taking into consideration
66 the rate change last year, the residential customers will have seen an increase in the R1

67 local rate of \$4.83 in 18 months. The business rate did not change last year but the B1
68 rate will increase from \$16.00 to \$26.00 in this filing, which will bring the Beehive R1
69 and B1 rates to the Commission approved affordable base rates of \$16.50 (R1) and
70 \$26.00 (B1). With regard to the EAS rates, we are proposing to reduce the EAS rate for
71 Rush Valley and Vernon to \$0.50 per line per month and Cedar Highlands to \$0.65 per
72 line per month. We have reviewed the traffic between the respective EAS calling areas
73 and note that the EAS traffic flowing to the Beehive exchanges is more than twice the
74 EAS traffic from Beehive to the CenturyLink exchanges.

75

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

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

84

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

87 A. As indicated, Beehive is seeking to increase the R1 and B1 rates to the affordable base
88 rate as determined by the Commission, and decrease the EAS rate in the three exchanges

89 that have EAS service. The Beehive residential customers will see an overall rate
90 increase depending on the exchange from \$2.00 in Vernon and Rush Valley to \$2.50 in
91 the other exchanges per line per month. The Cedar Highlands exchange will see no
92 increase in rate due to the reduction in the current EAS charge. The business rate will
93 increase \$10.00 per line per month for all areas except Ticaboo which is currently at
94 \$27.50 per line per month and the Ticaboo B-1 rate will change to the same rate as all
95 other B-1 customers. The balance of the revenue deficiency is requested from the UUSF.

96

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

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

101

102 **REQUEST FOR UUSF DISBURSEMENT**

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

105 A. Yes. Beehive is currently experiencing a revenue deficiency in the amount of
106 \$1,813,346. Beehive is proposing that the revenue deficiency be recovered through
107 UUSF disbursements. This will enable Beehive to continue providing affordable service
108 to its customers, and to begin construction of capital projects that have been postponed by
109 our current financial situation.

110

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

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

115

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

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

124

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

127 A. Beehive made a decision a couple of years ago to become self-insured for Healthcare.
128 The Company is still initially learning about being the insurance provider. The Company
129 did experience savings the first year and it appears that costs have stabilized. Currently
130 we do not have enough historical information to request an adjustment for healthcare at
131 this time.

132

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

134 **Please explain.**

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

138

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

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

144

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

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

149

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

151 A. No.

152

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

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

156

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

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

162

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

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

171

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

174 A. No.

175

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

177 A. No.

178

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

180 A. Yes.

181