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February 13, 2008

TO: PUBLIC SERVICE COMMISSION

FROM: DIVISION OF PUBLIC UTILITIES
Artie Powell, Interim Director
Bill Duncan, Manager, Telecommunications
Clair Oman, Utility Analyst

Re: Petition of Utah Rural Telecom Association (“URTA”) for rulemaking regarding Capital Structure for Telephone Cooperatives and Telephone Corporations Regulated on a rate of return basis in Docket No. 07-999-09

Recommendation (Rejection of proposed rule):

The Division of Public Utilities (“Division”) recommends the Public Service Commission reject the proposed rule submitted by Rural Telecom Association and appoint a Taskforce Committee to study the matter of capital structure and make recommendations to the Commission.

Summary:

In reviewing the petition for proposed rulemaking the Division finds no compelling reason nor substantiation that the proposed rule is necessary to allow the ILEC’s in question to earn an adequate return on equity. The Division finds that the proposed rule would create artificially high equity components in capital structure preventing just and reasonable rates in many instances. Financing the assets with a blend of debt and equity can lower the overall weighted average cost of capital, because rural ILEC’s as a general rule have access to debt at a cost lower than the commercial market. Using the individual ILEC’s actual cost of debt and using equity capital to match the weighted cost of debt will approximate the optimal capital structure.

The Division supports the Commission's appointment of a Taskforce to provide recommendations to the Commission in the following areas:

1. Suggested rule for capital structures for cooperative and non-cooperative rural ILEC's.
2. Recommendation to the Commission as to whether there is a necessity for the capital structure rule to be different for cooperatives non-cooperatives.
3. Recommendation as to whether a uniform rule is needed or should the issue of the appropriate capital structure be an issue to be determined in individual rate reviews.

Attachment

cc: Steve Mecham
Division of Public Utilities
Michael Ginsberg, Assistant Attorney General
Committee of Consumer Services