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Division of Public Utilities

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To: Public Service Commission

From: Division of Public Utilities
Chris Parker, Director
William Duncan, Manager Telecommunications
Paul Hicken, Utility Analyst
Bob Davis, Utility Analyst

Date: September 5, 2013

Re: In the Matter of the Petition of Beehive Telephone Company, Inc. for an Immediate Increase in Rates; and Notice to the Commission and the Company's Subscribers.
Docket No. 13-051-01

Recommendation: Approve requested rate increase

Background:

On May 31st, 2013, Beehive Telephone Company, Inc (Beehive) filed a notification of a forthcoming petition with the Public Service Commission (Commission) requesting an immediate increase in rates, effective July 1, 2013. The notification also requested that the Commission waive a hearing on the rate increase. This notification was filed pursuant to Utah Code Ann. § 54-7-12(8) and Commission rule R746-344-3.

The notification also described justification for the rate increase as compliance with the FCC mandated floor or target rate of $14 per residential access line on and after July 1, 2013. If Beehive is not at the mandated floor rate, it will lose, dollar for dollar, Federal USF support for the amount Beehive is under-collecting from subscribers.

On June 25th, 2013, the Commission held a hearing at which time the Division recommended conditional approval of the rate increase. The requested $2.33 per access line per month would increase the rate to the FCC mandated minimum rate of $14 per residential access line. The rate increase would not result in a net increase to Beehive in terms of total annual revenue. It would keep the company revenue neutral with neither a net loss nor net gain over the next year.

On August 2, 2013, the Commission issued an order authorizing a rate increase of $2.33 per residential access line per month effective July 1, 2013. The increase is conditional upon Beehive providing adequate support showing that the order FCC 11-161 applies to Beehive, and subject to an audit by the Division.

<u>Review & Findings</u>

The Division was able to begin a limited review of Beehive's CY 2012 operations immediately following the conclusion of the June 25th hearing. The audit as ordered by the Commission is now sufficiently complete. During the audit, the Division submitted two data requests of CY 2012 company records such as the General Ledger (GL), Adjusted Trial Balance (ATB), Chart of Accounts (COA), Continuing Property Records (CPR), Labor Distribution Reports, Payroll Distribution Summaries, and other documentation and details for several specific questions. On August 5, the Division conducted a site visit at Beehive's corporate offices to review facilities and gather additional information and documentation. During the review process, the company and its consultants have been cordial and cooperative.

As is often the case with detailed reviews, some data responses only lead to further questions. There are a number of assets and expenses in the company's operations that would normally require further review and the DPU could spend a great deal of additional time with continued examination. Nevertheless, with the received documentation, the DPU is able to conclude that the company is not currently over earning based on a calculated reasonable rate of return. It appears that even with significant adjustments to expenses and assets, the company would still not be over earning. Therefore, the Division concludes that the rate increase is warranted, just and reasonable.

Rate of Return - We reviewed historical dockets back to 1983 for a Commission approved rate of return with no avail, as apparently one has never been determined for Beehive. We determined a reasonable rate of return for this docket using guideline company metrics from Value Line and Yahoo Finance Capital IQ. We considered both the CAPM and DGM cost of equity models, an actual equity/debt structure and intrastate/interstate separations at the FCC allowed interstate rate similar to recent telecom dockets.

Assets – We reviewed the asset detail, including group depreciation for transmission, switching and support assets. There are a considerable number of assets such as vehicles and special purpose equipment which would normally require further scrutiny. With the documentation submitted, we still don't have a clear understanding of how they are used, who uses them, the dates they were put into service and how much depreciation expense is appropriate. In spite of these further questions, any adjustments we might make to the rate base would not put the company into a position of over earning.

Expenses – We reviewed expense account summaries from the Trial Balance and detail from the General Ledger. As with the asset review, we found a considerable number of expenses that were questionable. Further review of the expense detail would be necessary in order to make accurate adjustments. However, even with significant potential adjustments to expenses, the company does not appear to be over earning.

Revenues – We reviewed revenue account summaries from the Trial Balance and General Ledger. Revenue account totals did not raise any major concerns. There were some minor issues with uncollectible amounts and unused accounts that were used previously. However, these questions were answered sufficiently. The revenue appears to be reported appropriately and there is no reason for further review at this time.

Recommendations

The Division recommends the Commission approve of the requested rate increase of $2.33 per month to residential access lines.