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State of Utah
Department of Commerce
Division of Public Utilities

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ACTION REQUEST RESPONSE

To: PUBLIC SERVICE COMMISSION

From: DIVISION OF PUBLIC UTILITIES
Chris Parker, Director
Bill Duncan, Manager, Telecommunications and Water
Shauna Benvegna-Springer, Utility Analyst

Date: May 23, 2017

Re: Utah Docket No. 17-051-01, In the Matter of Beehive Telephone Company, Inc.'s Request for Depreciation Rate Change for Circuit Equipment

RECOMMENDATION (APPROVAL)

The Division of Public Utilities (Division) recommends the Public Service Commission of Utah (Commission) approve the depreciation rate of 12.5% for circuit equipment, which would give it a useful life of 8 years, and an effective date of January 1, 2017.

ISSUE

Beehive Telephone Company, Inc. (Beehive) is requesting that the Commission approve a depreciation rate of 12.5% for circuit equipment with a retroactive effective date of January 1, 2017. Beehive's current depreciation rate for circuit equipment is 20% with an asset life of 5 years.

DISCUSSION

Depreciation Rate:

Beehive's current depreciation rate of 20% (asset life of 5 years) was established and approved by the Commission in Docket 94-051-03. The book value of circuit equipment of December 31, 2016 is zero and fully depreciated. Beehive's proposed depreciation rate would decrease the depreciation expense for the circuit equipment recorded under accounts 2210 and 2230 by [REDACTED] when applied against calendar year 2016 for an additional 3 years. Refer to Exhibit No. 1, which illustrates the amount of additional income to be generated based on the asset balances as of December 31, 2016. The proposed depreciation rate would apply to new assets purchased in 2017 and future years. Further analysis reveals Beehive would not be over earning based on the proposed change using Beehive's Annual Report submitted for the period ending December 31, 2016.

The Division has studied the circuit equipment depreciation rates for other similar companies in Utah. The Division has determined the proposed depreciation rate falls within the range of depreciation rates and asset lives for similar industry assets. The Commission has previously approved similar depreciation rates for the same.

Depreciation Study:

Beehive did not perform a depreciation study to explain and support the depreciation rate change. Depreciation rates approved by the Commission in prior dockets have often been supported by a depreciation study. Gas and electric utilities require a depreciation study to explain and justify changes in the life of assets and depreciation rates. The cost of a depreciation study for each small rural telephone company is prohibitive not in the public interest. Existing depreciation rates for rural telephone companies were approved in dockets from 1994 to 2008. Technology has changed rapidly during that time. The Division recommends that the Commission consider sponsoring one depreciation study for all of Utah's rural telephone companies' depreciation rates. The Division envisions a study funded by the Utah Universal Service Fund (UUSF) as soon as practical. The Division further recommends the depreciation study results be considered for rulemaking for use in rate cases. Rulemaking could establish

presumptive depreciation rates for cases involving UUSF support. Periodic depreciation studies would be used to update those rule-based rates when the public interest requires.

Effective Date:

Beehive is requesting an effective date of January 1, 2017 to use for their current fiscal year (12 months) and future years. Since all circuit equipment as of December 31, 2016 has been fully depreciated, the proposed depreciation rate will be effective for new equipment purchased in 2017 and future years. The Division recommends the same rate be applied for all circuit equipment purchased in 2017 and the future with an effective date of January 1, 2017. It is in the best interest of the company and the subscribers for consistent reporting and comparability.

CONCLUSION

The Division believes the proposed circuit equipment depreciation rate is in the public interest for both Beehive and its subscribers, and it is just and reasonable. The Division recommends the Commission approve the effective date of January 1, 2017 and the depreciation rate of 12.5% (asset live of 8 years) for use by Beehive in depreciating its circuit equipment unless a depreciation study dictates otherwise.

CC: Jacob Warner, President, Beehive Telephone Company
 Ray Hendershot, Regulatory Manager, Beehive Telephone Company
 Justin Jetter, Assistant Attorney General, Utah Attorney General's Office