



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: July 7, 2017

Re: Utah Docket No. 17-051-02, In the Matter of Beehive Telephone Company, Inc.'s Request for Rural Utility Service (RUS) Loan and Construction Approval

RECOMMENDATION (ACKNOWLEDGEMENT)

The Division of Public Utilities (Division) recommends the Public Service Commission of Utah (Commission) acknowledge the RUS loan in the amount of [REDACTED] to Beehive Telephone Company (Beehive). The Division recommends the Commission acknowledge Beehive Telephone Company's (Beehive) compliance with reporting requirements to the Commission of its [REDACTED] construction plan for capital infrastructure.

ISSUE

Beehive Telephone Company, Inc. (Beehive) is seeking:

- 1) permission from the Commission for a RUS loan, and

- 2) acknowledgement from the Commission of compliance with the Commission's rule R746-401-3, requiring a utility to inform the Commission of certain proposed capital expenditures.

DISCUSSION

On June 6, 2017 Beehive submitted a filing in accordance with Commission R746-401-1, Reporting of Construction, Purchase, Acquisition, Sale, Transfer or Disposition of Assets. Beehive is a small full service telecommunications provider serving [REDACTED] access lines in Utah as reported in their most recent annual report of December 31, 2016 with the Commission.

BEEHIVE IDENTIFICATION:

Beehive Telephone Company's main office is located at 2000 Sunset Road in Lake Point, UT 84074. The service area covers certain geographical areas within the state of Utah including the counties of Box Elder, Garfield, Iron, Juab, Kane, Millard, Tooele, Washington and Wayne.

Thirteen (13) wire centers or exchanges with central offices in the following towns:

- 1) Ibapah, Utah (435-234) in western Tooele County near the Nevada state line;
- 2) Caineville, Utah (435-456) in central Wayne County and north Garfield County;
- 3) Dangling Rope (435-661) in Kane County on Lake Powell.
- 4) Cedar Highlands, Utah (435-662) in central Iron County south of Cedar City;
- 5) Wendover, Utah (435-663) in western Tooele County on the Nevada state line;
- 6) Partoun, Utah (435-693) in western Juab County area near Nevada state line;
- 7) Kolob , Utah (435-712) in Washington County near Zion National Park;
- 8) Grouse Creek, Utah (435-747) in northwest Box Elder County near Nevada state line;
- 9) Ticaboo, Utah (435-788) in southeastern Garfield County near Lake Powell;
- 10) Rush Valley, Utah (435-837) in southeast Tooele County south of Dugway, Utah ;
- 11) Vernon, Utah (435-839) in Tooele, County south of Rush Valley;
- 12) Garrison, Utah (435-855) in western Millard County near Great Basin National Park; and
- 13) Park Valley (435-871) in northwestern Box Elder County near the Idaho state line.

Beehive provides local exchange service as well as access services for intrastate and interstate carriers.

SUBJECT TRANSACTION:

Beehive is embarking upon a [REDACTED] construction project that will deliver [REDACTED]

[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED] The RUS loan

will be used for the following projects:

[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

All of Beehive's exchanges will have some construction with the exception of Dangling Rope and Wendover. [REDACTED]

[REDACTED]
[REDACTED]
[REDACTED]

[REDACTED]
[REDACTED]
[REDACTED]

On the western side of the state of Utah, Beehive [REDACTED]

[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

[REDACTED]

PROPER AUTHORIZATION:

RUS rules require Beehive to obtain consent agreements, authorizations from regulatory bodies, permission for land use, joint use occupancy agreements with other utilities, agreements for road, railroads, water, right of-way, easements, franchise permits, plus environmental studies and clearances. Beehive must certify to RUS that they are in compliance with all the above requirements.

DATES AND CONSTRUCTION COSTS:

Beehive will generally begin the project during the construction season of [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

CONFLICT OR ADVERSE EFFECTS:

Beehive has stated it will not be building any facilities to or into another utility service area in the state of Utah. The RUS loan agreement states “Beehive is prohibited from using telecommunications loans or any portion of such loans for construction of telephone facilities to furnish or improve service to persons located outside Beehive’s certificated service area.” No

local service is or will be provided outside of the certificated service areas of Beehive Telephone Company, Inc. as approved by the Utah Public Service Commission.

FINANCIAL CAPACITY:

Beehive provided financial statements for 2015 and 2016 for the Division's review. Using the financial statements the Division used financial ratios and analysis to evaluate the financial capacity to properly operate the company. The areas reviewed were liquidity, profitability, leverage, and debt service coverage. Refer to Exhibit B.

Liquidity:

Using the liquidity ratio compares the most liquid assets to its short term (current) liabilities.

The formula illustrates [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

Profitability:

[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

Leverage:

A debt to equity ratio indicates how well creditors are protected in case of the company's insolvency. The formula is illustrated in Exhibit B. [REDACTED]

[REDACTED]

Debt Service Coverage:

The debt service coverage ratio (DSCR) measures the company's ability to pay its current debts. Typically, most commercial banks require the ratio of 1.15–1.35 (net operating income or NOI / annual debt service) to ensure cash flow sufficient to cover loan payments on an ongoing basis. A debt service coverage ratio of 1 or greater demonstrates the ability to pay current obligations.

[REDACTED]

In reviewing the proforma financial statements for future years that [REDACTED]

[REDACTED]

[REDACTED] The proforma financial statements illustrate the company will meet its required TIER requirement for RUS. RUS calculates a debt service coverage ratio based on net income plus interest expense plus depreciation and amortization expense divided by the annual debt service

payments, known as the cash flow DSCR [REDACTED]
[REDACTED]

UTILITY RATE EFFECT:

Beehive states that in preparing estimated financials for application of the RUS loan, it has assumed no changes in rates except for the Federal Communications Commission (FCC) projected changes in the urban rate for local telephone services.

CONCLUSION

The Division recommends the Commission acknowledge the report submitted by Beehive regarding the RUS loan and planning capital expenditures. The Division recommends the Commission takes notice that Beehive will need to file for UUSF to operate and provide affordable and reliable service to its customers.

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