

- BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH -

In the Matter of the Petition of BEEHIVE) DOCKET NO. 99-051-01
TELEPHONE COMPANY, INC., for)
Universal Service Funding) NOTICE OF PRE-HEARING

ISSUED: May 3, 1999

By The Commission:

On January 14, 1999, BEEHIVE TELEPHONE COMPANY, INC., Petitioner herein, filed its petition seeking funding from the Utah Universal Service Fund. The Commission referred the matter to the Division of Public Utilities, Utah Department of Commerce (DPU) for review. On February 25, 1999, the Division filed a memorandum, annexed hereto and incorporated herein as Exhibit "A", with a number of recommendations. In view of those recommendations, and possible impact on other pending or soon-to-be-filed proceedings, the Commission has determined to convene a pre-hearing conference on this matter. The issues to be discussed at the conference will be hearing scheduling, possible severance of part of the relief Petitioner seeks, and possible consolidation with other proceedings. Accordingly, all parties will take NOTICE

NOW, THEREFORE, IT IS HEREBY ORDERED, that:

A pre-hearing conference in the above-captioned matter will be convened the

1st day of June, 1999, at the hour of 9:00 a.m., in Room 457, Heber Wells Office Building,

160 East 300 South, Salt Lake City, Utah 84111.

In compliance with the Americans with Disabilities Act, individuals needing special accommodations (including auxiliary communicative aids and services) during this hearing should notify Julie Orchard, Commission Secretary, at 160 East 300 South, Salt Lake City, Utah, 84111, (801)530-6713, at least three working days prior to the hearing.

DATED at Salt Lake City, Utah, this 3rd day of May, 1999.

/s/ Stephen F. Mecham, Chairman

/s/ Constance B. White, Commissioner

/s/ Clark D. Jones, Commissioner

Attest:

/s/ Julie Orchard

Commission Secretary

EXHIBIT "A"

February 23, 1999

TO: PUBLIC SERVICE COMMISSION

FROM: DIVISION OF PUBLIC UTILITIES

Ric Campbell, Director

Ingo Henningsen, Manager Telecommunications

Re: DOCKET NO. 99-051-01, IN THE MATTER OF UNIVERSAL SERVICE FUNDING FOR BEEHIVE TELEPHONE CO, INC.

A. ISSUES:

On January 14, 1999, Beehive Telephone Co. (BTC) filed a request with the Commission to increase its Tariff Schedule 1 monthly rates for local residential service from \$11.67 to \$14.50, to have its eligibility to receive Utah Universal Service Funds reinstated, and to allow a change in its line extension charges. Beehive also requested that the Commission authorize that its service areas be included in the US West "Frame Relay" service areas (Cloud), along with "bill and keep" intercompany billing arrangements with US West for such service.

B. RECOMMENDATIONS:

1. The Division recommends that BTC's request for local rate increases and re-qualification for USF support be suspended, pending a complete audit and approval of BTC's filing of its rate case financial reports and jurisdictional separations studies, as required by Utah Code § 54-7-12 (5) & (6) and Commission rules R746-344. The docket number assigned to this filing could be held open for the future filings by BTC, the Division and other intervening parties. A rate case scheduling hearing could be held to establish the dates for the initial filings by BTC, and the responses by the Division and all other parties that may wish to intervene.
2. The Division also recommends that BTC's request to change its line extension allowance for new and added services from 1/4 mile to 100 feet be suspended pending potential changes in rates and services from the rate case revenue requirement adjustments.
3. The Division further recommends that BTC's request to have its serve areas be included the US West Frame Relay "Cloud" area be denied for the continuation of this docket. BTC should be instructed to file a separate petition that explains BTC's customer demand for Frame Relay services, the technical service problems that have been investigated, and the results of past formal negotiations and correspondence with US West for expanding their "Cloud". These matters can be best be negotiated and resolved outside of a rate case proceeding because they do not generally require changes to existing rates.

C. EVALUATIONS AND CONSIDERATIONS FOR RECOMMENDATIONS:

1. Request Local Rate Increases and Re-Qualification for USF.

Financial reports and jurisdictional separations studies are necessary to justify increasing any local exchange carrier's local rates or qualifying them for USF assistance, as required by Utah Code § 54-7-12 (5) & (6) and Commission rules R746-344. BTC has indicated that it desires local rate increases and USF assistance to offset the decreased revenues that resulted from the December 1, 1998 FCC order 98-320 that required BTC to decrease its interstate switched access rates. In general, the FCC decreased the BTC interstate rates because it disallowed unsupported interstate expenses, and because of other accounting and jurisdictional study irregularities. The disallowed expenses were primarily the \$1,080,000 paid by BTC to Joy Enterprises Inc. (JEI) in 1997 for the lease of JEI owned audio text equipment installed at BTC's Wendover office. The JEI expenses were incurred only for providing interstate long distance terminating services, based on a private contract between BTC and JEI. The FCC's disallowance of these expenses, should not now become an expense burden to BTC's local rates, or to the Utah USF. If BTC has intrastate jurisdictional justification for changes to its local rates, and renewed USF distributions, then a full rate case audit of the financial records, reports and separations studies will be necessary.

Mr. Brothers met with the Division staff in December 1998, wherein Mr. Brothers informed us that he was

going to file a Utah rate case using 1997 as the test year. The Division and Mr. Brothers agreed that preliminary audits could commence in advance of the official rate case petition and required filings. Division staff members immediately started an audit of the 1997 BTC financial data and reports. About 43 workdays have been spent by Division personnel for this effort, and many more days will be required before a complete audit can be finished.

The Division auditors have initially found that BTC has little or no supporting data for investments made prior to 1994. Also, there have been undocumented investment and service area transfers between, and expense and investment sharing with, the Utah BTC multi-shareowner corporation and the Nevada registered Beehive Telephone Co. that is wholly owned by Mr. Brothers. Therefore, physical site audits of the installed equipment and facilities investments and valuations, along with a detailed audit of the shared expense methodologies and recordings, may now be needed.

The FCC 98-320 order required that their Common Carrier Bureau staff begin an investigation, by March 1, 1999, of BTC and the Nevada Telephone Beehive Co. "for purposes of determining whether Beehive is in violation of any part of the Act based upon its Part 32 accounting methodologies and entries, Part 64 cost allocation methodologies, and separations methodologies". The outcome of the FCC investigations may change the separations results that the Division would use for its intrastate rate case. We should coordinate our efforts with those of the FCC to help reduce the duplication of work.

The Commission may also want to consider the facts and its decisions from the BTC quality of service Docket No. 98-051-04 in setting any rate increases or USF qualifications for BTC.

2. Request For Reducing The Line Extension Allowance.

BTC's request to change its line extension allowance for new and added services from 1/4 mile to 100 feet would appear unreasonable. Most of the new locations that BTC has been installing in recent years have required drop wires or cables, that were in excess of 100 feet. This would mean that BTC would be assessing line extension charges for most of the drop wires or cables they install. These added one-time charges may act to inhibit universal subscription to the wire-line telephone services. The other rural local exchange carriers in Utah allow at least 300 feet of distribution cable extension, plus up to 300 feet of drop wire or cable, before considering the need for construction charges. Since BTC serves the most rural of areas, it would be logical to assume that BTC should be required to allow at least as much line extension and drop facilities as the other rural carriers.