

Agenda Date: November 28, 2007
Item Number: A2

Docket: UT-060760
Company Name: Beaver Creek Telephone Company, d/b/a Timberline Telecom

Staff: Kristen Russell, Telecommunications Regulatory Analyst
Bob Shirley, Telecommunications Policy Analyst
Tim Zawislak, Telecommunications Regulatory Analyst
Paula Strain, Deputy Assistant Director, Telecommunications

Recommendation

Issue Order 02 in Docket UT-060760 granting Beaver Creek Telephone Company's adjusted WECA pool revenue objective of \$105,436, to be effective January 1, 2008.

Background

Beaver Creek Telephone Company, d/b/a Timberline Telecom (Timberline) is a relatively new telecommunications company that began offering service in August 2006. At the June 14, 2006, open meeting, Timberline was granted a Washington Exchange Carrier Association (WECA) pool revenue objective of \$319,150, based on expected estimated revenue and expense projections, and the recognition of a lag in the receipt of federal universal service high cost loop (HCL) support. This revenue objective expires December 31, 2007, based on Order 01 in this proceeding. The company has operated for over one year, and is in a better position to request a revenue objective based on *actual* revenues and expenses.

Discussion

On September 18, 2007, Timberline met with commission staff and submitted a preliminary proposal for its revenue objective. The company presented a WECA pool revenue objective of \$157,526 based upon actual operations and updated financial information – a 51 percent decrease from what Timberline was granted last year.

Commission staff reviewed this proposal and requested additional information from Timberline. Based on the company's responses, we adjusted the company's corporate operations expenses and rate of return which resulted in a lower WECA pool revenue objective of \$105,436. This analysis is summarized as Attachment 1. A comparison to last year's analysis is included as Attachment 2.

Corporate Operations: Based on its review, commission staff found that Timberline's corporate operations expense accounts included one-time expenses, and expenses that exceeded levels expected to be normal in the future. Therefore, commission staff proposed reducing corporate operations expenses by \$23,000.

Rate of Return: Timberline's preliminary calculation used an overall rate of return of 10.50 percent. Commission staff evaluated the proposed return in light of a) the company's capital structure, b) the rate of return it was granted last year, and c) recent returns for other regulated companies.

The company's most recent balance sheet, September 30, 2007, was used to determine the ratio of debt (87.74 percent) to equity (12.26 percent). Based on this capital structure, the 10.5 percent overall return proposed by Timberline equates to a 42.44 percent return on equity, which commission staff believes is more than the company needs to improve its capital structure. With an improved capital structure, Timberline is more likely to obtain lower-cost debt in the future.

Timberline was granted an overall return of 5.52 percent last year, which was based on its actual capital structure (87.62 percent debt, 12.38 percent equity) and cost of debt at that time, and a 10 percent return on equity. Commission staff believes this return would be too low to allow the company to attain a more prudent capital structure in the future.

Commission staff researched recent rate cases, and determined that the 8.68 percent rate of return agreed to and approved in the Verizon Northwest Inc. rate case (Docket UT-040788) produces a return on equity of 27.6 percent and will allow the company the opportunity to build its equity and operate for more than one year before requesting another revenue objective. We have had several phone conversations with Timberline's representatives and they have concurred with our analysis. On November 13, 2007, Timberline submitted a final proposal with a revenue objective of \$105,436, in agreement with our calculations.

High Cost Loop (HCL) Support: Timberline estimates that it will receive approximately \$274,916 in federal universal service HCL support during calendar year 2008. Both commission staff and the company have adjusted for this new revenue stream in the determination of the new revenue objective as shown on Attachment 2.

Conclusion

Based on commission staff's analysis of Timberline's WECA pool revenue objective and underlying supporting information, commission staff recommends the commission approve the company's adjusted WECA pool revenue objective of \$105,436, and issue Order 02 in Docket UT-060760, to be effective January 1, 2008.