

Agenda Date: December 11, 2008
Item Number: A1

Docket: UT-060762
Company Name: Westgate Communications LLC, d/b/a WeavTel

Staff: Kristen Russell, Telecommunications Regulatory Analyst
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Recommendation

Issue Order 05 in Docket UT-060762 granting Westgate Communications LLC, d/b/a WeavTel its adjusted WECA pool revenue objective of \$38,623, on a temporary basis, to be effective March 1, 2009, through February 28, 2010.

Background

Westgate Communications LLC, d/b/a WeavTel (WeavTel or company) is a relatively new telecommunications company that began offering service in the fall of 2006. The company offered intermittent service to Stehekin customers until March 14, 2007. Weave Tel has offered normal telecommunications service since March 14, 2007. On March 1, 2007, in Order 03, the commission granted WeavTel a Washington Exchange Carrier Association (WECA) pool revenue objective of \$253,572, subject to conditions, based on estimated revenue and expense projections, and the recognition of a lag in the receipt of federal universal service support. This revenue objective was due to expire on June 30, 2008. In Order 04, the commission granted WeavTel an extension of the expiration date to February 28, 2009. Although the company has operated for more than one year, and requested a revenue objective based on *actual* revenues and expenses, it has not conducted traffic studies to enable staff to determine an appropriate permanent revenue objective.

Discussion

On March 1, 2007, the commission approved in Order 03 a settlement agreement establishing a temporary revenue objective for WeavTel, with a sunset date of June 30, 2008. The Order became effective on March 22, 2007. Staff encouraged WeavTel to submit a new revenue objective in March 2008 to allow staff the necessary time for review and allow WECA to process an access tariff revision before the June expiration date. During staff's review, it became apparent that WeavTel's financial data and traffic studies would not be completed in time to implement the revision to WECA's access revenue tariff.

On April 10, 2008, WeavTel filed a motion to extend the expiration date of its Washington Carrier Access Plan (WCAP) revenue objective until February 28, 2009. On

April 23, 2008, the Commission granted WeavTel's request with the following conditions: (1) WeavTel was required to file its 2007 audited financial statements by August 31, 2008; and (2) file its updated traffic studies and a proposal for a permanent revenue objective by October 15, 2008. WeavTel filed its audited financial statements on August 14, 2008. However, the company contacted staff shortly before the October 15 deadline indicating the traffic studies would not be available as a system programming error would not allow the company to capture the appropriate traffic data. The company submitted a revenue objective request of \$406,323 on October 15, 2008.

Commission staff reviewed the proposal and requested additional information from WeavTel. Based on the company's responses, staff made adjustments which resulted in a revenue objective of \$38,623. This analysis is summarized in Attachment 1, and adjustments with multiple calculations are shown on Attachment 2. The following is a summary of the adjustments:

Plant Specific: WeavTel paid the National Parks Service (NPS) an environmental assessment fee, which staff normalized as a start-up cost.

Plant Non-Specific: Staff analyzed the company's profit and loss statement. There were several months in which the company reported significant expense accruals to the plant administration account. The increase in these expenses was attributable to start-up costs. Staff has normalized these expenses. Staff's adjustment reduced the Plant Non-Specific account by \$8,483.

Corporate Operations: Staff made an adjustment reducing the two vehicles to one vehicle for the test period. The vehicle that was disallowed was used by an owner not working for the company. Staff's adjustment to remove the vehicle reduced rate base, reduced depreciation expense, and increased accumulated depreciation.

Federal Income Tax: WeavTel is a limited liability company. It does not pay federal income tax: the individual owners pay federal income tax on their share of net income. Staff removed \$11,674 recorded as federal income tax. The company actually reported \$0 federal income tax on its profit and loss statement. This adjustment is consistent with an adjustment agreed to in the previous settlement agreement. Staff also made an adjustment to increase rate base by \$25,683, for Accumulated Deferred Federal Income Tax.

Rate of Return: WeavTel is 100 percent debt-financed. Staff used the company's actual debt in the capital structure applying the weighted cost of debt to derive the return element applied to rate base. Staff calculated the \$60,816 amount by multiplying the 5.32 percent return times the rate base of \$1,143,154. This return calculation is consistent with the calculation used in the prior settlement agreement.

Federal Support: WeavTel estimates that it will receive approximately \$240,000 in federal universal service support during calendar year 2009. The high cost loop support to be applied to intrastate loop costs is estimated to be approximately \$109,000.

Commission staff adjusted the company's intrastate revenue to include high cost support in deriving the new revenue objective.

Conclusion

Based on staff's analysis of WeavTel's WECA pool revenue objective and underlying supporting information, staff recommends the commission issue Order 05 in Docket UT-060762, approving an adjusted WECA pool revenue objective of \$38,623 on an annual temporary basis, to be effective March 1, 2009, through February 28, 2010.

Attachments