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## BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

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| **IN THE MATTER OF THE APPLICATION OF POTLATCH TELEPHONE COMPANY AND TROY TELEPHONE COMPANY FOR AUTHORITY TO MERGE INTO A SINGLE CORPORATION AND FOR AN AMENDED CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY.** | ) | **CASE NO. POT-T-01-1/ TRO-T-01-1**<br><br>**COMMENTS OF THE COMMISSION STAFF** |

**COMES NOW** the Staff of the Idaho Public Utilities Commission, by and through its Attorney of record, Lisa D. Nordstrom, Deputy Attorney General, submits the following comments in response to Order No. 28913 issued on December 13, 2001.

### APPLICATION OF POTLATCH AND TROY TELEPHONE COMPANIES

On November 19, 2001, Potlatch Telephone Company (Potlatch) and Troy Telephone Company (Troy) filed a Joint Application to merge into a single company. The Application requested that Potlatch's Amended Certificate of Public Convenience and Necessity No. 263 be further amended to reflect the addition of Troy's Amended Certificate No. 201. Potlatch will be the surviving corporation following the merger. Potlatch requests authority to continue applying Troy's rates and tariff provisions to the former Troy exchange areas indefinitely. According to the Application, Potlatch intends to apply for authority to combine the Potlatch and Troy tariff provisions, other than rates, into a single coherent tariff in the first half of 2002. Both Potlatch and Troy state that the proposed merger does NOT include a change in rates. The Application further indicates that the merger will not impact the day-to-day operations or services provided by these companies. Potlatch and Troy expect that the merger will reduce the administrative requirements and tariff updates currently required for these two companies. The requested effective date is January 1, 2002.

In addition, Potlatch and Troy have requested permission to blend the current approved depreciation rates of the two companies into a single set of rates. The companies estimate that the annual change in depreciation will result in increased expense, but do not seek to increase customer rates.

**STAFF ANALYSIS AND RECOMMENDATIONS**

Staff supports the Potlatch and Troy request to merge and blend the current approved depreciation rates. In July 2000, Staff conducted an audit of Potlatch, Troy and the allocations from their parent corporation, Telephone Data Systems, Inc. (TDS). In this audit, Staff found that all accounting functions for both Potlatch and Troy were done at TDS. The direct costs are assigned by TDS to each affiliate. TDS identified common costs and allocated these costs to regulated and non-regulated affiliates. The one exception Staff found was that not all costs and assets had been allocated to Troy from Potlatch. Staff also found that while Troy’s direct and management costs were properly charged, other items such as telephone plant in service, depreciation expense, and material and supplies were distorted because Troy’s operations took place in the Potlatch office.

In November 1997, Troy transferred all motor vehicles, work equipment, furniture, and office equipment to Potlatch. Since this date, Troy has had no employees and all operations were handled out of the Potlatch office. Moreover, the Troy exchange has a remote switch with the host switch at Potlatch. Therefore, Staff believes that merging the two companies would result in fewer allocation errors, better accounting records and reduced cost.

Given the fact that Troy is and has been controlled from the Potlatch office for some time, Staff believes that the merger will have no effect on the service being provided. Also, given that Potlatch and Troy desire to have the existing tariffs continued unchanged, Staff believes customers will be unaffected by the merger.

Staff has examined the proposed depreciation rates. Because the companies have not requested any increase in rates, Staff believes it is fair to allow Potlatch to book these rates until the surviving company files a general rate case. Staff would then examine depreciation rates in conjunction with any rate increase or decrease requested. However, Staff does not advocate retroactively adjusting depreciation rates or accumulated depreciation reserves at the time a rate increase or decrease is subsequently filed. An effective date of January 1, 2002 is reasonable for both the merger and booking the change in depreciation rates. January 1, 2002 is the beginning of the accounting year and this effective date will greatly simplify tax filings for Potlatch and Troy.

**RECOMMENDATION**

Staff recommends that the proposed merger be approved as requested in the Application. Staff recommends that the proposed depreciation rates be acknowledged, booked effective January 1, 2002 and reviewed for appropriateness in the next rate case. Staff recommends Potlatch be notified that depreciation rates or reserves cannot be retroactively adjusted in a rate case filing.

Respectively submitted this day of January 2002.

Lisa D. Nordstrom
Deputy Attorney General

Technical Staff: Madonna Faunce

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