

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

In the Matter of the Application of Citizens)
Telephone Company of Higginsville,)
Missouri to Authorize a Minimum)
Depreciation Rate and to Record)
Depreciation Expense in Excess of Such)
Minimum Rate.)

Case No. IO-2009-0032

STAFF RECOMMENDATION

COMES NOW the Staff of the Missouri Public Service Commission and for its recommendation states:

1. On July 22, 2008, Citizens Telephone Company of Higginsville, Missouri filed an application with the Missouri Public Service Commission requesting authority to establish a minimum depreciation rate of 6.67% for Account 2212, Digital Circuit Equipment, and to record depreciation expense at a rate of 16.67% for a period of one year beginning January 1, 2008, in excess of such minimum rate pursuant to Section 392.280.2 RSMo 2000. According to its application, Citizens purchased and placed into service a Coppercom switch in 2004, but Citizens will retire the switch early because Coppercom has announced its intention to cease doing business and has declared that it will suspend all feature development, provide no future upgrades, and offer only limited technical support.

2. Section 392.280.2 RSMo provides that a telecommunications company may request the Commission to authorize minimum depreciation rates in lieu of fixed rates, and to record depreciation expense on the basis of depreciation rates in excess of such minimum rates.

3. In the attached Memorandum, labeled Appendix A, the Staff concurs with the Company that it may request the Commission to authorize minimum depreciation rates in lieu of fixed rates, and to record depreciation expense on the basis of depreciation rates in excess of

such minimum rates as provided in Missouri Revised Statutes, Chapter 392, Section 392.280. The Staff recommends that the Commission approve the Company's request in this application, as it will allow the Company an opportunity to recover its investment in its current digital switch through depreciation expense prior to its planned retirement at December 31, 2008.

WHEREFORE, the Staff recommends that the Commission approve Citizens' application.

Respectfully submitted,

/ William K. Haas

William K. Haas
Deputy General Counsel
Missouri Bar No. 28701

Attorney for the Staff of the
Missouri Public Service Commission
P. O. Box 360
Jefferson City, MO 65102
(573) 751-7510 (Telephone)
(573) 751-9285 (Fax)
william.haas@psc.mo.gov

CERTIFICATE OF SERVICE

I hereby certify that copies of the foregoing have been mailed, hand-delivered, transmitted by facsimile or electronically mailed to all counsel of record this 11th day of September 2008.

/ William K. Haas

MEMORANDUM

Staff Recommendation

To: Missouri Public Service Commission Official Case File
Case No. IO-2009-0032, Citizens Telephone Company

From: Guy C. Gilbert, PE, RG
Engineering & Management Services Department

Myron E. Couch
Telecommunications Department

Subject: Application of Citizens Telephone Company to Authorize A Minimum Depreciation Rate and to Record Depreciation Expense in Excess of Such Minimum Rate.

Date: September 11, 2008

Recommendation

Staff recommends that the Commission approve the Company's application and authorize the Company to book a higher depreciation rate of 16.67% for Account 2212, Digital Circuit Equipment, for a one-year period beginning January 1, 2008 and ending December 31, 2008, and to record depreciation expense on the basis of this depreciation rate, in excess of the minimum 6.67% depreciation rate established in Case No. IR-2005-0024. Due to business factors beyond the Company's control, its current digital switch will be retired as of December 31, 2008. Accordingly, the Company has requested that the accelerated depreciation rate of 16.67% terminate concurrent with the planned retirement of the switch. The Company has indicated that the additional depreciation expense resulting from the higher depreciation rate will be included in the Company's interstate cost study. In that the Company files annual cost studies as required by the FCC, the additional expense claimed in 2008 from accelerated depreciation will be included in the cost study calculations and the Universal Service Fund filings performed for the year ended December 31, 2008. Any accelerated recovery of depreciation expense, which will be received in 2010, will be offset by a reduction in recovery in subsequent years, such that the total depreciation expense recovered by the Company remains the same.

History

Citizens Telephone Company's (Citizens) is requesting accelerated depreciation rates for the company's existing CopperCom switch installed in 2004. Citizens will attempt to replace the switch in November this year.

The proposal is made at this time because the manufacturer of the CopperCom switch has stopped producing the switch. More importantly the manufacturer plans to no longer provide

technical support or replacement parts for the switch by the year 2011. According to Citizens officials replacements parts for the switch may be difficult to obtain prior to 2011, since CopperCom has sold a number of switches through out the country and any of those units may need replacement parts during that period of time.

The CopperCom switch was originally purchased for \$288,000. The CopperCom switch replaced a GTD-5 switch originally installed in 1985 and retired by the end of 2007. The company bought the CopperCom switch, primarily to have the capacity for local number portability and to meet CALEA requirements. In addition, the CopperCom switch enabled Citizens to conduct data dips in order to work with Verizon's cell technology, since Citizens has a direct interconnection with Verizon. Citizens is planning to replace the CopperCom switch with a Northern Telecom soft switch.

The Staff of the Telecommunications Department (Staff) recommends the Commission allow the early retirement of this CopperCom switch so that Citizens can replace the switch to ensure technical support and replacement parts are available in the future. In Staff's opinion, the decision to originally purchase the CopperCom switch was based on the best information available at the time. CopperCom has been in the communications business since 1982 and was one of the first companies to introduce a soft switch capable of handling both circuit switched and packet switched traffic.

If the Commission allows an early depreciation for the CopperCom switch, there will be an impact on the funds Citizens will receive from USF. Citizens plans to fully depreciate the switch in this year (2008). If approved, the company will apply a depreciation rate of 16.67 %, instead of the usual 6.67 %, against their central office account. Company officials project the higher depreciation rate will increase universal service fund high cost support by an additional \$60,397 in the year 2010. Staff is aware of at least one other Missouri company with a CopperCom switch.

Citizens is compliant in paying the Commission's assessment, MoUSF assessment, Relay Missouri, and has submitted an annual report to the Commission. The company's quality of service has been acceptable with the company's quarterly quality of service report results meeting all of the Commission's service objectives.

Conclusion

Staff concurs with the Company that it may request the Commission to authorize minimum depreciation rates in lieu of fixed rates, and to record depreciation expense on the basis of depreciation rates in excess of such minimum rates as provided in Missouri Revised Statutes, Chapter 392, Section 392.280. The Staff recommends that the Commission approve the Company's request in this application, as it will allow the Company an opportunity to recover its investment in its current digital switch through depreciation expense prior to its planned retirement at December 31, 2008.

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AFFIDAVIT OF Guy C. Gilbert, PE, RG

STATE OF MISSOURI)
) ss:
COUNTY OF COLE)

Myron E. Couch, employee of the Missouri Public Service Commission, being of lawful age and after being duly sworn, states that he has participated in preparing the accompanying document and that the facts therein are true and correct to the best of his knowledge and belief.



GUY C. GILBERT, PE, RG

Subscribed and affirmed before me this 11th day of September 2008.
I am commissioned as a notary public within the County of Callaway,
State of Missouri and my commission expires on 9-21-10



SUSAN L. SUNDERMEYER
My Commission Expires
September 21, 2010
Callaway County
Commission #06942086



NOTARY PUBLIC

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AFFIDAVIT OF Myron E. Couch

STATE OF MISSOURI)
) ss:
COUNTY OF COLE)

Myron E. Couch, employee of the Missouri Public Service Commission, being of lawful age and after being duly sworn, states that he has participated in preparing the accompanying document and that the facts therein are true and correct to the best of his knowledge and belief.

Myron E. Couch
Myron E. Couch

Subscribed and affirmed before me this 11th day of September 2008
I am commissioned as a notary public within the County of Callaway,
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SUSAN L. SUNDERMEYER
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Susan L. Sundermeyer
NOTARY PUBLIC