

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION

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APPLICATION OF

SHENANDOAH TELEPHONE COMPANY,
SHENTEL BROADBAND OPERATIONS LLC,
and
SHENANDOAH CABLE TELEVISION, LLC

2024 JUL 15 P 4: 34
CASE NO. PUR-2024-00069

For approval of affiliate transactions pursuant to
Chapter 4 of Title 56 of the Code of Virginia

ORDER GRANTING APPROVAL

On April 18, 2024, Shenandoah Telephone Company ("Shenandoah"), Shentel Broadband Operations LLC ("Shentel Operations"), and Shenandoah Cable Television, LLC ("SCT") (collectively, "Applicants"),¹ filed an Application ("Application") with the State Corporation Commission ("Commission"), pursuant to Chapter 4 of Title 56 of the Code of Virginia ("Code"),² requesting approval of two asset transfers and two corresponding lease agreements between Shenandoah and SCT.

Specifically, the Applicants request approval of the following transactions: (1) the transfer by SCT of certain telecommunications network facilities ("Network Facilities") located in Shenandoah County to Shenandoah (the "Asset Transfer"); (2) the transfer by Shenandoah to SCT of assets located on broadband customer premises ("Customer Premise Equipment") (collectively, the "Transfers"); (3) a lease agreement under which SCT will lease the use of the Network Facilities and other fiber optic facilities owned by Shenandoah to provide voice, video, and broadband services to customers in Shenandoah County ("Cable Lease"); and (4) a lease

¹ The Applicants are all indirect, wholly-owned subsidiaries of Shenandoah Telecommunications Company ("ShenCom").

² Code § 56-76 *et seq.* ("Affiliates Act").

agreement under which Shenandoah will lease the use of the Customer Premise Equipment and other similar assets owned by SCT to provide regulated voice service and related services to customers in Shenandoah County ("Telco Lease") (collectively, the "Lease Agreements").³ Hereafter, the Transfers and the Lease Agreements are collectively referred to as the "Affiliate Transactions."

In addition, the Applicants seek two additional Commission findings related to the Affiliate Transactions. First, the Applicants request that they be allowed to make future revisions to the Cable Lease and Telco Lease rates ("Lease Rates") without separate approval. Second, the Applicants request that: (a) they be permitted to reflect on their accounting records an effective date of April 1, 2024, for the Affiliate Transactions or that (b) the Commission issue an order so that they are permitted to reflect an effective date of no later than July 1, 2024 for the Affiliate Transactions.⁴

The Applicants state that the Asset Transfer will result in the Network Facilities being transferred to Shenandoah so that the assets are held in the appropriate ShenCom subsidiary in order to maximize the ability to provide service to customers efficiently. The Applicants also state that the Asset Transfer will support Shenandoah's plan to upgrade its network to facilitate faster broadband Internet speeds in Shenandoah County using a combination of hybrid fiber optic coaxial cable and fiber optic networks and to support the future retirement of its legacy copper network. The Applicants further state that, by moving the network facility assets to Shenandoah, Shenandoah's ability to support, expand, and increase broadband speeds will be

³ See Application at 1-2.

⁴ See *id.* at 2 and 8; See also, Applicants' Response to Staff Data Request Set 1-4, attached to the Commission Staff's ("Staff") Action Brief filed concurrently with this Order.

enhanced as it will be able to access funding to support the provision of broadband through its membership in the National Exchange Carriers Association and Universal Service Administrative Co.⁵

In addition, the Applicants state that Shenandoah currently holds a small inventory of assets, the Customer Premises Equipment, which are primarily optical network terminals located at customer premises for facilitating broadband service. The Applicants further represent that, although Shenandoah has a limited use for a small number of these assets in providing regulated voice service and related services where it does not provide these services over its copper network, the Applicants believe it is more appropriate for SCT to hold the Customer Premises Equipment as it can be better used and maintained by SCT, who will maintain the customer relationships for voice (IP-based), video, and data services following the Affiliate Transactions.

The Applicants represent that, consistent with prior transfers of assets between Shenandoah and its affiliates approved by the Commission, the Applicants intend to record the Asset Transfer of the Network Facilities, through the dividend process described in the Application at net book value ("NBV"), which totals approximately \$8.3 million. Similarly, the Applicants intend to record the transfer of the Customer Premises Equipment through the dividend process described in the Application at NBV, which totals approximately \$270,000.⁶

The Applicants state that, following the Asset Transfer, the Applicants intend for SCT to continue to maintain the customer relationships for providing voice (IP-based), video, and data

⁵ See Applicants' Response to Staff Data Request Set 1-4, attached to Staff's Action Brief filed concurrently with this Order.

⁶ See Application at Attachment A, pages 3-4, Attachment F, and Applicants' Response to Staff Data Request Set 1-2 (including Applicants' Attachment Staff 1-2), attached to Staff's Action Brief filed concurrently with this Order.

services. According to the Application, and pursuant to the Cable Lease,⁷ SCT will lease the Network Facilities and other fiber and broadband related facilities from Shenandoah. Under the Cable Lease, SCT will pay monthly fees to Shenandoah on a per-subscriber basis for use of the facilities as set forth in Exhibit A to the Cable Lease. The Applicants represent that, to ensure that the Applicants can adjust the compensation for use of Shenandoah's facilities under the Cable Lease efficiently, the Applicants request that the Commission approve the structure of the Cable Lease in this proceeding⁸ and permit the Applicants to update the rates set forth in Exhibit A to the Cable Lease without the need of separate Commission approval.⁹ The Applicants propose that instead they be permitted to provide copies of any revisions to Exhibit A to the Commission Staff within thirty (30) days of execution of the lease, and to include any revisions in Shenandoah's Annual Report of Affiliate Transactions ("ARAT"), as well as in any application to the Commission to renew approval of the Cable Lease.¹⁰

According to the Application, and pursuant to the Telco Lease,¹¹ Shenandoah will lease the Customer Premises Equipment and other similar facilities from SCT. Under the Telco Lease, Shenandoah will pay monthly fees to SCT on a per-subscriber basis for use of the assets as set forth in Exhibit A to the Telco Lease. The Applicants state that to ensure that Applicants can make appropriate adjustments to the fees under the Telco Lease efficiently, similar to the Cable

⁷ See Application at Attachment D.

⁸ The Applicants cite Case No. PUR-2018-00138. *Application of Virginia-American Water Company and American Water Works Service Company, Inc., For approval of a leasing arrangement under Chapter 4 of Title 56 of the Code of Virginia*, Case No. PUR-2018-00138, 2018 S.C.C. Ann. Rept. 522, Order Granting Approval (Nov. 15, 2018). See Application at 6.

⁹ Application at 6-7.

¹⁰ *Id.*

¹¹ See Application at Attachment E.

Lease, the Applicants request that the Commission approve the structure of the Telco Lease in this proceeding¹² and permit the Applicants to update the rates set forth in Exhibit A to the Telco Lease without the need of separate Commission approval. The Applicants propose that instead they be permitted to provide copies of any revisions to Exhibit A to the Commission Staff within thirty (30) days of execution of the lease, and to include any revisions in Shenandoah's ARAT, as well as in any application to the Commission to renew approval of the Telco Lease.

The Applicants request approval of the proposed Affiliate Transactions, emphasizing the importance of these actions for maintaining and improving broadband services and network infrastructure in Shenandoah County.

NOW THE COMMISSION, upon consideration of this matter, having been advised by the Commission Staff through Staff's Action Brief, and having considered the Applicants' comments thereon, is of the opinion and finds that the Affiliate Transactions are in the public interest and should be approved subject to certain requirements set forth in the Appendix attached hereto.

The Commission specifically finds that, as requested by the Applicants,¹³ the Lease Rates shall be revised as necessary without separate Commission approval, provided that copies of such revisions are submitted to the Commission's Director of the Division of Utility Accounting and Finance ("UAF Director") within thirty (30) days of execution and such revisions are included in Shenandoah's ARAT. We further find that the Applicants' request to have the

¹² The Applicants cite Case No. PUR-2018-00138. *Application of Virginia-American Water Company and American Water Works Service Company, Inc., For approval of a leasing arrangement under Chapter 4 of Title 56 of the Code of Virginia*, Case No. PUR-2018-00138, 2018 S.C.C. Ann. Rept. 522, Order Granting Approval (Nov. 15, 2018). See Application at 7.

¹³ See Application at 6-7.

Commission direct a specific date for booking the Affiliate Transactions should be denied. We find that the Applicants should follow the applicable accounting guidance for recording the Affiliate Transactions.

Accordingly, IT IS ORDERED THAT:

(1) Pursuant to Code § 56-77, the Applicants are hereby granted approval of the Affiliate Transactions effective as of the date of this Order Granting Approval, subject to the requirements set forth in the Appendix attached hereto.

(2) The Applicants are hereby granted approval to revise the Lease Rates as necessary without separate Commission approval, provided that copies of such revisions are submitted to the Commission's UAF Director within thirty (30) days of execution, and such revisions are included in Shenandoah's ARAT.

(3) The Applicants' request to have the Commission direct a specific date for booking the Affiliate Transactions is denied. The Applicants should follow the applicable accounting guidance for recording the Affiliate Transactions.

(4) This case is dismissed.

A COPY hereof shall be sent electronically by the Clerk of the Commission to all persons on the official Service List in this matter. The Service List is available from the Clerk of the Commission.

APPENDIX

- (1) The Commission's approval of the Transfers shall be limited to the specific Network Facilities and Customer Premises Equipment assets identified in the Application. If Shenandoah wishes to dispose of or acquire additional assets not specifically identified in the Application, separate Commission approval shall be required.
- (2) The Commission's approval of the Transfers shall require that the consideration paid for each Transfer is net book value at the date of closing.
- (3) Shenandoah shall file a report of action ("Report") within thirty (30) days after closing of the Transfers. The Report shall include: (a) the case number; (b) the names of the affiliates involved; (c) the closing date of the Transfers; (d) the list of assets transferred; (e) the Transfers' actual consideration; and (f) Shenandoah's and SCT's journal entries to record the Transfers. Shenandoah shall note the Transfers by case number and Report filing date in its ARAT submitted to the UAF Director.
- (4) The Commission's approval of the Lease Agreements shall be limited to five (5) years from the date of the Order in this case. Should the Applicants wish to continue under the Lease Agreements beyond that date, separate Commission approval shall be required.
- (5) The Commission's approval shall have no accounting or ratemaking implications.
- (6) The Commission's approval shall not preclude the Commission from exercising its authority under Va. Code § 56-76 *et seq.*, hereafter.
- (7) The Commission shall reserve the right to examine the books and records of any affiliate in connection with the approval granted in this case, whether or not such affiliate is regulated by this Commission.
- (8) Separate Commission approval shall be required for any changes in the terms and conditions of the Lease Agreements, except for the Lease Rates as described below.
- (9) Shenandoah shall be required to maintain records demonstrating that the Lease Agreements are cost beneficial to ratepayers. Both the Cable Lease and the Telco Lease shall be priced at cost. The Lease Rates shall be revised as necessary without separate Commission approval provided that copies of such revisions must be submitted to the UAF Director within thirty (30) days of execution and such revisions must be included in Shenandoah's ARAT. Shenandoah shall bear the burden, in any rate proceeding, of demonstrating that the Lease Agreements are priced in accordance with the Commission's affiliate pricing policy as described above.
- (10) Shenandoah shall follow the appropriate accounting guidance for booking the Affiliate Transactions.

- (11) Shenandoah shall file with the Commission signed and executed copies of the Lease Agreements approved in this case within ninety (90) days after the effective date of the Lease Agreements, with such filing date subject to administrative extension by the UAF Director.
- (12) Shenandoah shall include all transactions associated with the Lease Agreements in its ARAT, submitted to the UAF Director on April 1 of each year, subject to administrative extension by the UAF Director. The ARAT shall include:
 - (a) The case number in which the transactions were approved;
 - (b) Identification of the specific affiliate(s) involved in each transaction;
 - (c) A description of each transaction;
 - (d) The transactions by month; and,
 - (e) The dollar amount charged for each transaction per month.