

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application for Increase)	
In USF Eligibility for Unitah Basin)	Docket No. 05-053-01
Telecommunications Association and)	Exhibit No. DPU 7.0
UBET Telecom, Inc.		

PREFILED DIRECT TESTIMONY OF
MARY H. CLEVELAND

FOR THE
DIVISION OF PUBLIC UTILITIES
DEPARTMENT OF COMMERCE
STATE OF UTAH

SEPTEMBER 9, 2005

CONFIDENTIAL – PUBLIC VERSION

1 **I. QUALIFICATIONS**

2 **Q. PLEASE STATE YOUR NAME FOR THE RECORD.**

3 **A.** Mary H. Cleveland

4 **Q. BY WHOM ARE YOU EMPLOYED AND WHAT IS YOUR BUSINESS**
5 **ADDRESS?**

6 **A.** I am employed by the Utah Department of Commerce, Division of Public
7 Utilities (Division). My business address is 160 East 300 South, Suite 400, Salt
8 Lake City, Utah, 84114.

9 **Q. WHAT IS YOUR POSITION?**

10 **A.** Technical Consultant.

11 **Q. BRIEFLY DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL**
12 **BACKGROUND.**

13 **A.** I hold a Bachelor of Business Administration, as well as a Master of
14 Business Administration, from the University of Missouri-Kansas City. I am a
15 licensed Certified Public Accountant (CPA) in the state of Kansas and I am a
16 member of the Institute of Certified Public Accountants. In addition I have
17 attended the National Association of Regulatory Utility Commissioners
18 (NARUC) Staff Subcommittee on Accounts meetings and have served on the
19 NARUC Securities and Exchange Commission (SEC) Subcommittee.

20 I have over twenty years of utility regulatory experience, both as a
21 consultant and as an employee of state regulatory agencies. I have participated in
22 regulatory proceedings in the states of Alaska, Arizona, Connecticut, Kansas,
23 Missouri, New Mexico, Ohio, Utah and Wisconsin. I have also testified before

1 the Kansas Supreme Court. Further details regarding my background are
2 provided in Appendix A.

3 **II. PURPOSE OF TESTIMONY**

4 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

5 **A.** My testimony addresses Uintah Basin Telecommunications Association
6 and UBET Telecom, Inc's (UBTA-UBET) cost allocation methodology and its
7 accounting for non-regulated activities. As a part of this investigation I obtained
8 and reviewed a copy of UBTA-UBET's Cost Allocations Manual, dated
9 September 13, 2004, effective for the test period ending December 31, 2004. I
10 also received a copy of UBTA-UBET's Cost Allocations Manual, dated March
11 21, 2005, which is in effect for the current calendar year. The current Cost
12 Allocations Manual contains significant changes in the methodology used to
13 assign costs to UBTA-UBET's non-regulated enterprises. I will discuss these
14 changes and recommend corresponding action be taken by the Utah Public
15 Service Commission (Commission) in regard thereto.

16 Additionally my investigation encompassed a review of invoices from
17 outside service providers, to determine whether the service was appropriately
18 charged to regulated UBTA-UBET operations, a non-regulated enterprise's
19 operations, or applied to the corporate entity as a whole and should have been
20 allocated. I traced the expenses for select management and Board individuals to
21 determine if each expense had been appropriately charged to UBTA-UBET, a
22 non-regulated enterprise, or the corporate entity as a whole. This review resulted
23 in recommended adjustments to UBTA-UBET's filed case.

1 **III. COST ALLOCATIONS**

2 **Q. WHAT IS THE APPROPRIATE METHODOLOGY FOR ALLOCATING**
3 **COSTS TO THE VARIOUS SUBSIDIARIES AND/OR ENTERPRISES**
4 **WITHIN AN ORGANIZATION?**

5 **A.** First, costs specifically attributable to a single entity should be directly
6 assigned to that entity. Second, shared or indirect costs should be allocated based
7 upon the primary cost-driving factors. For example, the costs associated with an
8 employee newsletter would be allocated among the entities based on the entity's
9 number of employees. In the absence of a primary cost driver a relevant proxy
10 should be identified and used to allocate costs. The allocation method should not
11 result in subsidization of non-regulated services or products by a regulated entity.

12 For USF payment consideration, the Code of Federal Regulations, Title
13 47, Section 254, Universal Service, Section (k), prohibits subsidization of non-
14 regulated services:

15 **(k) Subsidy of Competitive Services Prohibited:** A
16 telecommunications carrier may not use services that are not
17 competitive to subsidize services that are subject to competition.
18 The Commission, with respect to interstate services, and the States,
19 with respect to intrastate services, shall establish any necessary
20 cost allocation rules, accounting safeguards, and guidelines to
21 ensure that services included in the definition of universal service
22 bear no more than a reasonable share of the joint and common
23 costs of facilities used to provide those services.
24

25 **Q.** *****.
26 **A.** *****
27 *****
28 *****

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23 *****

1 A. Yes, I would recommend the Commission require not only UBTA-UBET,
2 but all companies receiving USF funds be required to submit a Cost Allocation
3 Manual to the Commission for approval. Any subsequent changes to the
4 currently approved cost allocation methodology should like-wise be submitted to
5 the Commission for approval. In addition adequate “ring fencing”, as described
6 in DPU Witness Peterson’s testimony should be required.

7 **IV. ADJUSTMENTS**

8 **1. Attorney Fees**

9 **Q. PLEASE EXPLAIN YOUR ADJUSTMENT TO ATTORNEY FEES.**

10 **A.** *****
11 *****
12 *****
13 *****
14 *****
15 *****
16 *****
17 *****
18 *****
19 *****
20 *****
21 *****
22 *****
23 *****

1 billings have been adjusted to assign a portion ** ** ** ** to non-regulated
2 operations ***** ** ** ** ***** ** ** ***** *****

3 *****
4 *****
5 *****

6 **2. Board of Directors**

7 **Q. PLEASE EXPLAIN YOUR ADJUSTMENT TO THE BOARD OF**
8 **DIRECTORS**

9 **A.** *****
10 *****
11 *****
12 *****

13 ***** This adjustment assigns a portion
14 of the Board’s expenses to non-regulated operations

15 *****
16 ***** It reduces intrastate jurisdictional operations ***** as
17 shown in Confidential Exhibit DPU 7.2.

18 **3. Non-Regulated Activities**

19 **Q. PLEASE EXPLAIN YOUR ADJUSTMENT FOR NON-REGULATED**
20 **ACTIVITIES.**

21 **A.** *****
22 ***** Included in these charges was
23 travel ***** relating to a UBET Wireless matter.

1 UBET Wireless is a non-regulated subsidiary. Costs incurred for UBET Wireless
2 matters should be charged directly to UBET Wireless.

3 *****
4 *****
5 ***** It reduces intrastate jurisdictional operations ***** as shown in
6 Confidential Exhibit DPU 7.3.

7 **4. Out-of-Period Expenses**

8 **Q. PLEASE EXPLAIN YOUR ADJUSTMENT TO OUT-OF-PERIOD**
9 **EXPENSES.**

10 **A.** This adjustment removes from 2004 results of operations *****
11 November 2003 ***** bill, plus late charges; as well as invoices
12 ***** covering the period from July 2003 to November
13 2003. It reduces intrastate jurisdictional operations ***** as shown on
14 Confidential Exhibit DPU No. 7.4. These expenditures were incurred outside of
15 the test year.

16 **Travel Costs**

17 **Q. PLEASE EXPLAIN YOUR ADJUSTMENT TO TRAVEL COSTS.**

18 **A.** This adjustment removes spouse and related family travel, *****
19 ***** Spouse travel
20 serves no business purpose related to the provision of regulated utility service.
21 The adjustment reduces intrastate jurisdictional operations, ***** as shown on
22 Confidential Exhibit DPU 7.5.

1 **Q. AT IS UBTA-UBET'S COMPANY POLICY REGARDING SPOUSE AND**
2 **FAMILY TRAVEL?**

3 **A.** The Employee Handbook, which applies to UBTA and its subsidiary
4 companies, ********* sets forth the policy on paid spouse travel for employees:

5 *****
6 *****
7 *****
8 *****
9 *****
10 *****
11 *****

12
13 The policy for Board Members is contained in the response to DPU Data Request
14 3.22, Board Member Compensation and Benefits:

15 *****
16 *****
17 *****
18 *****
19 *****
20 *****
21 *****
22 *****
23 *****

25 **Q. WHAT WAS THE DOLLAR AMOUNT OF SPOUSE TRAVEL CHARGED**
26 **TO REGULATED OPERATIONS DURING CALENDAR YEAR 2004?**

27 **A.** As shown in Confidential DPU Exhibit No. 7.5, I identified approximately
28 ********* in spouse and dependent travel charged to regulated operations.

29
30 **Q. DID EMPLOYEES OR BOARD MEMBERS EXCEEDED THE**
31 **ESTABLISHED LIMIT?**

1 **A.** Yes. *****

2 *****

3 *****

4 *****

5 *****

6 *****

7 **Q. HOW MUCH DID UBTA-UBET REGULATED OPERATIONS SPEND ON**
8 **TRAVEL RELATED EXPENDITURES IN CALENDAR YEAR 2004?**

9 **A.** I was able to identify in the neighborhood of ***** excluding family
10 travel. This amount does not include registration fees paid for various
11 conferences.

12 *****

13 *****

14 *****

15 *****

16 *****

17 *****

18 *****

19 *****

20 *****

21 *****

22 *****

1 ***** There
2 appears to be no cost control imposed at the executive level.

3 This type of observation raises serious concerns regarding fiduciary
4 controls at UBTA-UBET. With respect to the USF, it raises the very issues
5 discussed in DPU Witness Coleman’s testimony.

6 **Q. ARE YOU PROPOSING ANY ADJUSTMENTS OTHER THAN SPOUSE
7 AND DEPENDENT TRAVEL TO UBTA-UBET’s TRAVEL EXPENSES?**

8 **A.** Normally business related travel is allowed in rates. But, the apparent lack
9 of internal controls with regard to some travel is disconcerting, particularly when
10 USF funds are being requested. *****

11 *****

12 *****

13 ***** The DPU currently has an outstanding data request seeking
14 additional information ***** and may
15 propose a further adjustment to travel expenditures as warranted.

16 **6. Dues, Donations & Misc. Expenses**

17 **Q. PLEASE EXPLAIN YOUR ADJUSTMENT TO DUES, DONATIONS &
18 MISCANEOUS EXPENSES.**

19 **A.** This adjustment removes certain dues, donations and miscellaneous
20 expenditures from results of operations. These expenditures are not necessary for
21 the provision of service.

22 Ratepayers should not be required through their utility bills to provide
23 contributions to various organizations to which they may or may not have chosen

1 to contribute on their own. In some instances a ratepayer choosing to contribute
2 to an organization directly will qualify for a tax-deductible contribution. This is
3 not the case when the contribution is included in rates.

4 This adjustment reduces intrastate jurisdictional rates ***** as shown
5 in Confidential DPU Exhibit No. 7.6.

6 **Q. HAS THE COMMISSION PREVIOUSLY DISALLOWED DUES,
7 DONATIONS AND OTHER MISCELLANEOUS EXPENSES IN RATES?**

8 **A.** Yes, in its Order dated April 11, 1969, Re the Mountain States Telephone
9 and Telegraph Company, Case No. 5972, the Commission specifically disallowed
10 the inclusion in rates of contributions made to various organizations, as well as
11 dues and expenses for service clubs and other organizations paid on behalf of
12 employees. The Commission's Order additionally stated:

13 In the past the commission has included miscellaneous income
14 charges as a part of total expenses in determining the revenue
15 requirements of Mountain States Telephone, but such items have
16 been excluded by the commission in fixing the rates of the other
17 major utilities operating in Utah.
18

19 **DOES THIS CONCLUDE YOUR TESTIMONY?**

20 **A.** Yes.

RESUME
MARY H. CLEVELAND

EDUCATION:

BBA-Accounting: University of Missouri-Kansas City, 1971
MBA-Accounting: University of Missouri-Kansas City, 1974

HONORS:

Beta Gamma Sigma

CPA STATUS:

Licensed in Kansas

EMPLOYMENT:

Mar. 1998 to present: Utah Division of Public Utilities
 160 East 300 South, Suite 400
 Salt Lake City, UT 84114

Position: Utility Regulatory Analyst IV

Description: Primarily responsibilities include reviewing utilities' affiliated transactions and accounting for regulated and non-regulated activities. Most recently involved in the evaluation of the ScottishPower / PacifiCorp merger. Also review gas procurement activities, participate in rate case investigations, prepare written testimony and testify before the Utah Public Service Commission.

Aug. 1991 to Mar. 1998: Utah Committee of Consumer Services
 160 East 300 South, Suite 408
 Salt Lake City, UT 84114

Position: Utility Regulatory Analyst IV

Description: Represented residential, small commercial and agricultural customers in utility matters. Monitored, assessed and reported on current issues facing the utility industry. Planned and conducted audits of gas and electric utilities in conjunction with rate applications, prepared written testimony and testified before the Utah Public Service Commission. Assignments included participation in the IndeGO (proposed independent system operator for the Northwest region) Pricing Work Group and Steering Committee, evaluating PacifiCorp's integrated resource planning process, participating in PacifiCorp's Demand-Side

Management Advisory Group, and assisting in the evaluation of PacifiCorp's stranded cost exposure. Also evaluated gas procurement activities of Questar Gas.

- Oct. 1998 - Aug. 1991: Utah Division of Public Utilities
160 East 300 South
Salt Lake City, UT 84114
Position: Utility Rate Engineer
Description: Participated in audits of utilities in conjunction with rate applications, prepared written testimony and testified before the Utah Public Service Commission. Evaluated and prepared written recommendations on utility tariff and special contract filings. Assisted in the evaluation of the PacifiCorp / Utah Power & Light merger.
- Apr. 1985 - Oct. 1998: LMSL, Inc.
10955 Lowell
Overland Park, KS 66210
Position: Senior Regulatory Consultant
Description: Participated in rate case investigations and other special studies on behalf of state utility commissions, prepared written testimony and testified in various proceedings.
- Aug. 1983 - Apr. 1985: Troupe Kehoe Whiteaker and Kent
800 Penn Tower Building
3100 Broadway
Kansas City, MO 64111
Position: Senior Regulatory Consultant
Description: Local CPA firm specializing in regulated industries. Work included rate case investigations, preparation of written testimony and testifying before various state regulatory commissions. Also participated in year-end financial audits of small independent telephone companies and rural electric companies and assisted in tax return preparation.
- Mar. 1981 - Aug. 1983: Kansas Corporation Commission
Utilities Division
1500 S.W. Arrowhead Road
Topeka, KS 66604-4027
Position: Senior Utility Regulatory Auditor
Description: Planned and conducted audits of utilities in conjunction with rate case applications, prepared written testimony and served as an expert witness in rate hearings before the Commission.

Aug. 1977 - Mar. 1981: University of Kansas Medical Center
Institutional Research & Planning / Budget Office
3900 Rainbow Boulevard
Kansas City, KS
Position: Analyst / Accountant
Description: Conducted special operational and long-range planning studies.
Work involved programming with SPSS, SAS and Mark IV;
program documentation and report writing.

Jun. 1973 - Aug. 1977: Midwest Research Institute
425 Volker
Kansas City, MO 64110
Position: Operations Analyst
Description: Performed operational audits and developed management
information systems for a variety of clients. Also conducted
workshops on long-range planning. Work involved programming
with FORTRAN and SPSS, program documentation and report
writing.

Apr. 1969 - Jun 1973: University of Missouri - Kansas City
Library Accounting / Acquisitions
5100 Rockhill Road
Kansas City, MO 64110
Position: Accountant
Description: General accounting, budget preparation and fiscal reporting.

MEMBERSHIPS:

American Institute of Certified Public Accountants.
