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- BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH -

In the Matter of the Petition of the Application for Increase in the USF Eligibility for Uintah Basin Telecommunications Association, Inc., and UBET Telecom, Inc.	**)))))))**	**DOCKET NO. 05-053-01** **Exhibit 9.0** **Direct Testimony Of Chris J. Luras**

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

CONFIDENTIAL PUBLIC VERSION

September 9, 2005

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I. IDENTIFICATION OF WITNESS

Q. PLEASE STATE YOUR NAME, EMPLOYER, AND BUSINESS ADDRESS.

A. My name is Chris J Luras. I am employed by the Division of Public Utilities ("Division") for the State of Utah. My business address is 160 East 300 South Salt Lake City, UT 84114.

Q. BRIEFLY OUTLINE YOUR EMPLOYMENT BACKGROUND.

A. For approximately the last two and a half years, I have worked for the Division as a utility analyst. During my tenure at the Division, I have specialized in the regulation of telecommunication utilities; specifically, I have performed analyses and presented recommendations relating to economic, statistical, and engineering issues concerning telecommunications.

Q. WHAT IS YOUR EDUCATIONAL BACKGROUND?

A. I received a Bachelor of Science degree in Economics, cum laude, and a Bachelors of Science degree in Speech Communications from the University of Utah in 2003. I am currently a student in the Masters of Business Administration program at the University of Utah.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE UTAH PUBLIC SERVICE COMMISSION?

A. No

II. SUMMARY

Q. PLEASE SUMMARIZE AND DESCRIBE THE PURPOSE OF YOUR TESTIMONY.

A. The Uintah Basin Telecommunications Association, Inc. ("UBTA") and UBET Telecom, Inc. ("UBET Telecom") (jointly referred to as "UBTA-UBET" or the "Companies") filing for State Universal Service Fund (USF) relief assumes a 7.6% cost of debt, the maximum allowable cost of debt that CoBank can charge the Companies under the variable interest rate provision of their loan agreement. The Division considers the use of the maximum allowable cost of debt to be unjustified and unreasonable. The Companies, thus far, have failed to substantiate their stated 7.6% cost of debt. The Division therefore proposes that the Commission should require UBTA-UBET to employ the weighted cost of debt incurred as of June 2005; the weighted cost of debt for this period was **** This is simply the Companies' actual interest rate applied to the cumulative balance of their loans in 2005. If applied, there would be a reduction of ********** to the Companies' interest expense. In conclusion, the Division proposes that the Commission find UBTA-UBET's weighted cost of debt as of June 2005 to be the most appropriate cost of long-term debt to be used in their revenue requirement calculation. In addition, Division witness Dr. George Compton employed the ***** cost of debt in his recommended revenue requirement.

III. TESTIMONY

Q. DOES THE DIVISION BELIEVE THAT THE MAXIMUM ALLOWABLE COST OF DEBT THAT UBTA-UBET FILED IS ACCEPTABLE FOR USE IN THEIR REVENUE REQUIREMENT CALCULATION?

A. No. UBTA-UBET have employed a 7.6% cost of debt in determining their revenue deficiency, however, this interest rate is not the actual rate the Companies have incurred.

(DPU Exhibit 9.1) In fact, this interest rate is simply the maximum allowable cost of debt under the "old" variable interest rate provision that CoBank can charge UBTA-UBET per their loan agreements. It is also the Division's understanding that this interest rate does not incorporate UBTA-UBET's additional, lower cost loans from RUS. Thus far, the Companies have failed to clearly validate the submission of their 7.6% cost of debt. The Division therefore believes that the 7.6% is unjustified and unreasonable, thus, it should not be used in calculating the Companies' revenue requirement.

Q. PLEASE EXPLAIN WHY THE DIVISION BELIEVES THAT THE INTEREST RATE IN QUESTION IS UNJUSTIFIED AND UNREASONABLE?

A. First, the maximum allowable rate does not reflect actual costs, nor does it reflect the entirety of UBTA-UBET's outstanding loans. Secondly, in an Amendment to the parties Master Loan Agreement dated September 28, 2004, CoBank amended their agreement with UBTA-UBET,**
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(DPU Confidential Exhibit 9.2)

Q. WHAT CAUSED COBANK TO AMMEND UBTA-UBET'S INTEREST RATE PROVISION IN THEIR LOAN AGREEMENT?

A. It is the Division's understanding that the amendment to the interest rate provision was partially due to UBTA-UBET's financial performance or risk. *****************
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*** (Tom Cosgrove & Lenny Blakesly, personal communication, August 30, 2005) ***************************

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Q. WHAT IMPACT DID THE AMENDMENT TO THE INTEREST RATE PROVISION HAVE ON UBTA-UBET'S APPLICATION?

A. As of June 30, 2005, there has been no measurable impact. ********************** *** (DPU Confidential Exhibit 9.3) **

Q. DOES THE DIVISION PROPOSE ANY ALTERNATIVES IN SUBSTITUTION FOR THE MAXIMUM ALLOWABLE INTEREST RATE THAT WAS FILED IN UBTA-UBET'S APPLICATION?

A. Yes. The Division proposes the following adjustment to the interest rate used for the determination of the Companies' cost of debt. In calculating the revenue requirement, the Division proposes using the 2005 weighted cost of debt incurred by UBTA-UBET; the weighted cost of debt incurred by the Companies as of June 2005 was 6.01%. (Confidential DPU Exhibit 9.4)

Q. PLEASE EXPLAIN WHY THE USE OF THE WEIGHTED COST OF DEBT FOR 2005 IS MORE REASONABLE IN CALCULATING THE COMPANIES' REVENUE REQUIREMENT THAN THE MAXIMUM ALLOWABLE COST OF DEBT USED BY THE COMPANY?

A. Based on assemblage of UBTA-UBET's RUS and CoBank loans, the weighted cost of debt is the actual interest rate that has been incurred as of June 2005; therefore, it is a known and measurable cost of debt. Specifically, the weighted cost of debt reflects the interest rate averaged from all of UBTA-UBET's outstanding debt.

Q. IF THE COMMISSION ADOPTED THE WEIGHTED COST OF DEBT FOR 2005, WHAT WOULD BE THE IMPACT ON UBTA-UBET'S APPLICATION?

A. If the weighted cost of debt of *****during 2005 was applied, assuming no additional changes, the interest expense in UBTA-UBET's application would be decreased by *********** Additionally, Division witness Dr. George Compton not only will employ the proposed **** in his analysis, but also will highlight the significance, and the consequent revenue requirement impact, of the Division's recommendation.

IV. CONCLUSION

Q. WHAT IS THE DIVISION'S RECOMMENDATION?

A. The Division believes that the Commission should find that the allowable cost of debt most appropriate in calculating UBTA-UBET's revenue requirement should be 6.01%, the weighted cost of debt as of June 2005. The Division considers the weighted cost of debt for 2005 to be reasonable given that, as of June 30, 2005, this was the cumulative interest rate applied to UBTA-UBET's unpaid balances.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes it does.