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- BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH -

**In the Matter of the Application For
Increase of Rates and Charges and USF
Eligibility For Carbon/Emery Telcom, Inc.**

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DOCKET NO. 05-2302-01

Exhibit 9.0

**Direct Testimony Of
Chris J. Luras**

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

PUBLIC VERSION

November 11, 2005

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I. IDENTIFICATION OF WITNESS

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

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

6 **Q. BRIEFLY OUTLINE YOUR EMPLOYMENT BACKGROUND.**

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

12 **Q. WHAT IS YOUR EDUCATIONAL BACKGROUND?**

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

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

19 A. Yes, I filed testimony in the Matter of the Petition of the Application for Increase in the
20 USF Eligibility for Uintah Basin Telecommunications Association, Inc., and UBET
21 Telecom, Inc., Docket No. 05-053-01.

47 9.1) In fact, this interest rate is simply the maximum allowable cost of debt under the
48 variable interest rate provision that CoBank can charge Carbon/Emery per their loan
49 agreements. The maximum allowable rate does not reflect actual costs, nor does it reflect
50 the entirety of Carbon/Emery's outstanding loans. Thus far, the Company has failed to
51 clearly validate the submission of their 7.6% cost of debt. The Division therefore believes
52 that the 7.6% is unreasonable, thus, it should not be used in calculating the Companies'
53 revenue requirement.

54 **Q. PLEASE EXPLAIN WHY THE USE OF THE WEIGHTED COST OF DEBT FOR**
55 **2005 IS MORE REASONABLE IN CALCULATING THE COMPANIES'**
56 **REVENUE REQUIREMENT THAN THE MAXIMUM ALLOWABLE COST OF**
57 **DEBT USED BY THE COMPANY?**

58 A. Based on the assemblage of Carbon/Emery's CoBank loans and the loan from Emery
59 Telecom, its parent, the weighted cost of debt is the actual interest rate that has been
60 incurred as of August 31, 2005; therefore, it is a known and measurable cost of debt.
61 Specifically, the weighted cost of debt reflects the interest rate averaged from all of
62 Carbon/Emery's outstanding debt and, most importantly, reflects the actual cost of debt.

63 **Q. IN RESPONSE TO THE COMMITTEE OF CONSUMER SERVICES DATA**
64 **REQUEST 3.12.3, CARBON EMERY STATED THAT THE WEIGHTED COST OF**
65 **DEBT AS OF AUGUST 31, 2005 WAS [REDACTED] PLEASE EXPLAIN WHY THE**
66 **DIVISION ADJUSTED THIS WEIGHTED COST OF DEBT TO [REDACTED]**

67 A. In each of the past 3 years, Carbon/Emery recorded a credit to interest expense for
68 CoBank patronage distribution in their general ledger. From 2003 to 2005, the numbers
69 were [REDACTED], respectively. For financial reporting purposes, these
70 credits are deducted from Carbon/Emery's accrued interest on CoBank loans. Thus, in
71 calculating the weighted cost of debt as of August 31, 2005, the Division subtracted the
72 patronage distribution from the interest expense. Carbon/Emery's filing, however, did
73 not incorporate the credit to interest expense in their weighted cost of debt calculation.

98

IV. CONCLUSION

99 **Q. WHAT IS THE DIVISION'S RECOMMENDATION?**

100 A. The Division believes that the Commission should find that the allowable cost of debt
101 most appropriate in calculating Carbon/Emery's revenue requirement should be [REDACTED]
102 the adjusted weighted cost of debt for the period ending August 31, 2005. The Division
103 considers the adjusted weighted cost of debt to be reasonable given that, as of August 31,
104 2005, this reflects the actual interest rate applied to Carbon/Emery's unpaid balances.

105 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

106 A. Yes it does.