

- BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Increase of Rates	:	Docket No. 05-2302-01
And Charges and USF Eligibility for	:	Utah Division of Public Utilities
Carbon/Emery Telecom, Inc.	:	Exhibit No. DPU 5.0
	:	
	:	

Prefiled Direct Testimony of

David T. Thomson

For the Division of Public Utilities

Department of Commerce

State of Utah

November 15, 2005

PUBLIC VERSION

1 **Q. Please state your name and business address for the record.**

2 A. David T. Thomson. My business address is Heber M. Wells Building 4th Floor,
3 160 East 300 South, Salt Lake City, Utah 84114-6751.

4 **Q. For which party will you be offering testimony in this case?**

5 A. I will be offering testimony on behalf of the Utah Division of Public Utilities
6 (Division).

7 **Q. Please describe your position and duties with the Division of Public Utilities?**

8 A. I am a Utility Analyst II. Among other things, I serve as an in-house consultant
9 on issues concerning the terms, conditions and prices of utility service; industry
10 and utility trends and issues; and regulatory form, compliance and practice
11 relating to public utilities. I examined public utility financial data for
12 determination of rates; review applications for rate increases; conduct research,
13 examine, analyze, organize, document and establish regulatory positions on a
14 variety of regulatory matters; review operations reports and ensure compliance
15 with laws and regulations, etc.; testify in hearings before the Utah Public Service
16 Commission (Commission); assist in analysis of testimony and case preparation;
17 and participate in settlement conferences, etc.

18 **Q. What is the purpose of your testimony?**

19 A. The purpose of my testimony is to explain certain adjustments that I am proposing
20 to be made to the Increase of Rates and Charges and USF eligibility supplemental
21 filing (filing) of Carbon/Emery Telecom, Inc. (Carbon/Emery) submitted to the
22 Commission on September 1, 2005 under Docket number 05-2302-01. This
23 supplement is an updated version of the original filing to the Commission which

1 was filed on June 17, 2005, that modified that original filing for four factors.
2 Those factors were (1) the use in the supplement of a new finalized 2004 cost
3 study with its associated new factors. (2) Additions were made to known and
4 measurable adjustments. (3) The treatment of for all known and measurable
5 investment was change from a mid-year convention to a full year convention.
6 And (4) a correction to the use of excess depreciation expense in the filing.

7 **Q. Have you conducted an investigation in regards to the adjustments that you**
8 **are proposing?**

9 A. I have.

10 **Q. Please describe your investigation.**

11 A. I have reviewed the information contained in the filing regarding rate base and the
12 known and measurable adjustments to rate base, certain operating expenses, year-
13 end adjusting journal entries to revenue and expense accounts, Federal and State
14 income taxes and the corresponding tax returns; deferred taxes and schedule M
15 adjustments. I reviewed the known and measurable additions to rate base in the
16 filing and the associated depreciation and accumulated depreciation accounting
17 for additions in the filing. The information reviewed consisted of reading the
18 direct testimony filed by the Company and the exhibits associated with that
19 testimony; onsite meetings and questioning of personnel at the home office in
20 Orangeville, Utah with review of documentation during the onsite visits. I also
21 reviewed pertinent information provide by Carbon/Emery in response to data
22 requests prepared for the Division and other Interveners in the proceeding.

1 **Q. What conclusions have you reached after conducting your investigation and**
2 **review of the above information?**

3 **A.** I have concluded that certain Carbon/Emery rate base amounts and related
4 expenses amounts, which I specifically examined during my investigation and
5 review of the filing, should be adjusted.

6 **Known and measurable Plant Adjustment**

7 **Q. What is your First adjustment?**

8 **A.** My first adjustment is to reduce the amount recorded in the filing that is added to
9 Rate Base for known and measurable Plant additions.

10 **Q. Please explain this adjustment.**

11 **A.** The test year period proposed by Carbon/ Emery in its filing is historical 2004
12 with known and measurable adjustments. The filing adjusts the Rate Base for
13 known and measurable plant additions in the amount of [REDACTED] for Total
14 Company and [REDACTED] for Intrastate. Exhibit S-5.2 entitled "Projects to Be
15 Stared and Completed in 2005 or Early 2006", with references to other supporting
16 exhibits to S-5.2 in the filing, provide the detail of these total amounts.

17 As part of the Division's investigation it was provided a general ledger
18 accounting from January 1 to August 31, 2005. Based on the amounts for plant
19 additions through August 31, 2005 and the balances of Plant under Construction
20 amounts at December 31, 2004 and August 31, 2005, the projects to be started
21 and projects completed through August 31, 2005 are approximately [REDACTED]
22 less that the above Total Company amount. None of the projects in Exhibit S-5.2
23 of the filing for known and measurable plant investment had closed through

1 August 31, 2005. The only investment to be closed was the Spring Canyon buried
2 cable project and it is not one of the items in Exhibit S-5.2. After reviewing
3 opened work orders and the list of projects with company personnel at the end of
4 October, it appears that most of the known and measurable plant investment in
5 the filing are just started or in preliminary stages of approval and budgeting but
6 have yet to be started. The Fiber to Gordon Creek in the amount of [REDACTED] in
7 filing Exhibit S-5.2 is completed and the work order is just waiting for labor to be
8 determined and added to it before being closed.

9 Through August 31, 2005, I could find no additions to the plant in service
10 accounts, other than the above mentioned Spring Canyon project, greater than
11 \$25,000 in the Plant in Service accounts. There were some large dollar invoices
12 posted to the Plant under Construction account for costs that appeared to be for
13 transmission but these had not been closed to Transmission Plant accounts at
14 August 31, 2005.

15 In its investigation, the Division encountered several unanswered
16 questions. How can the projects in the filing be considered as known and
17 measurable plant additions when they have in the most part not been started or
18 completed through October 31, 2005? Is it possible to fund, obtain material,
19 construct, hire contractors, or use a finite number of employees of Carbon/Emery
20 to complete the approximate [REDACTED] dollars worth of projects, mentioned
21 earlier, two months before year end and even into early 2006? Known and
22 measurable rate base investment to have a return computed on it should be
23 completed and the company should have made the investment in the Rate Base as

1 explained by Division witness Wes Huntsman in his testimony. Again, a review
2 of the Plant in Service and Plant under Construction and the work orders not
3 started indicates the majority if not all of the projects added to 2004 Rate Base as
4 known and measurable in the filing are not known and measurable plant
5 investment because no investment has taken place. Also they are not used and
6 useful and can not be tested as to prudence of cost because total costs are not
7 known.

8 At this point, the amounts used in the Company's filing for known and
9 measurable plant addition amounts are more like projections to a future test year
10 but this filing is not a future test year filing and has not been prepared as such
11 with revenue and expenses rolled into a future test year along with all future rate
12 base items to present a proper matching of revenue to expenses in the future test
13 period.

14 Therefore, the Division proposes to adjust the filing to not include the
15 projects from the Exhibit S-5.2 of the filing except for the Gordon Creek project
16 which in all likelihood will be closed to Plant in Service prior to December 31,
17 2005. In so doing, the Division is reversing the whole adjustment in the filing of
18 [REDACTED] for Total Company and [REDACTED] for Intrastate for post 2004 known
19 and measurable amounts and replaces it with the Division's proposed known and
20 measurable plant additions amounts post 2004 through 2005.

21 The Division has determined to allow the actual plant additions through
22 August 31, 2005, the Fiber to Gordon Creek project in the filing, the black-
23 topping of the Price Business Office and Price Yard plus a new gate at the Price

1 Yard (See John Gothard Jr.'s testimony and Exhibit No. 10.1 - [REDACTED]) and the
2 Plant under Construction balances through August 31, 2005 as Rate Base
3 additions or Plant in Service through 2005.

4 The Plant under Construction amount at August 31, 2005 was included in
5 Rate Base because it is representative of the account balance through out the year
6 and thus the probable amount of investment in Rate Base for November and
7 December 2005. Since the Division is including Plant under Construction in Rate
8 Base my first adjustment also takes out the Plant under Construction amounts in
9 the filing for Total Company and Intrastate so that there is not a double
10 accounting for this account in the adjusted Rate Base proposed by the Division.

11 The Division believes that in this Case, known and measurable Rate Base
12 adjustments to historical 2004 amounts should not go beyond 2005. It is felt that
13 the Commission will have a final determination on this filing in December or
14 early January and thus rates will be in place to cover the known and measurable
15 rate base investment and related expense through 2005. Again, the actual capital
16 of the Carbon/Emery has been invested in these amounts and they are known and
17 measurable by actual investment made to Rate Base or will soon be made to Rate
18 Base when the Plant under Construction amount is closed out to Plant in Service.

19 See Exhibit 5.1.1 and 5.1.2 for the computations supporting the adjustment.

20 **Depreciation and Depreciation reserve for 2005 Rate Base**

21 **Q. What is your second adjustment?**

22 A. My second adjustment is to reverse the associated depreciation and depreciation
23 reserve to the Plant Adjustment (Note b; Column F) in the filing and record the

1 proposed proper amounts as computed by the Division. In this adjustment the
2 associated depreciation and depreciation reserve that is related to the amounts that
3 are being allowed in the Rate Base by the Division is recorded and the original
4 amounts in the filing are being adjusted to zero. The net amount is being recorded
5 to the Divisions revised Exhibits S-1 and S-9. The adjusting entry and the support
6 for the entry are in Exhibits 5.2 to 5.2.2.

7 The Division's computation of Depreciation and Accumulated
8 Depreciation generally uses the Company's new depreciation rates put in the
9 filing as applied to its proposed amounts for known and measurable rate base
10 through 2005. However, the Division is not accepting the proposed change of the
11 depreciation rate for Buildings in the filing. The filing has changed the rate for
12 Buildings from a 3.33% to 5.00% rate or from a 30 life to a 20 year life. The
13 Division does not support this change. The 30 year rate was used in the Divisions
14 computation of known and measurable depreciation in the adjustment and is
15 considered by the Division as the proper rate for Buildings. Paul Anderson of the
16 Division in his testimony discusses why this change is not proper.

17 The Division is also proposing to depreciate the land improvements
18 amounts discussed above by 15 years which is the IRS recommended life for such
19 additions for tax depreciation purposes.

20 My second adjustment also includes some adjustments that are correcting
21 certain clerical errors that the Division found in the filing. First, the Division
22 makes an adjustment to filing Exhibit S-9 line 38 - Depreciation Reserve under
23 Column F - (note b; Plant adjustment). The Total Company amount in the filing

1 is a positive [REDACTED] but to be consistent with the treatment of Depreciation
2 Reserve in the filing it should be a negative amount. Second, the Division makes
3 an adjustment to line 42 – Materials in Exhibit S-1 Columns K and M. The filing
4 did not take this amount from Column D across the Exhibit to be properly
5 included in the Columns K and M of the filing. This adjustment adds the amount
6 to those columns for both Intrastate and Total Company revenue requirement
7 determination.

8 **Depreciation and Depreciation Reserve for Known and Measurable Rate Base 2004**

9 **Q. What is your third adjustment?**

10 A. My third adjustment is to reverse the depreciation and depreciation reserve in the
11 filing for the 2004 test year and replace the reversed amounts with the Divisions
12 computed known and measurable 2004 depreciation and depreciation reserve
13 amounts.

14 The Division's methodology in adjusting depreciation and depreciation
15 reserve amounts in the filing consists of two parts. The first part is to adjust the
16 2005 known and measurable amounts for depreciation and depreciation reserve to
17 the Division's adjusted amounts and the second part is to adjust the 2004 test year
18 period depreciation and depreciation reserve known and measurable amounts to
19 the end of the period (2005) to the proper amounts per the Division's analysis of
20 the 2004 test year amounts in Exhibit No. 5.3.1. The first part was done in
21 adjustment 5.2 and the second part is done in this adjustment (DPU Exhibit No.
22 5.3). Thus when both adjustments are made the filing has the proper 2004 test
23 year and 2005 known and measurable amounts in the filing to end of period.

1 Because of this methodology the original amounts in the filing which adjusted
2 2004 test year amounts or that were made to record 2005 known and measurable
3 amounts for depreciation in the filing must be reversed to zero so that double
4 accounting does not take place when the Division's adjustments are made to the
5 filing. The original adjustments so affected were adjustments C and D to
6 supplemental filing Exhibits S-1 and S-9.

7 The difference in depreciation expense in the filing and in the Division's
8 computed depreciation expense is [REDACTED] and [REDACTED] for Total Company
9 and Intrastate, respectively. The depreciation expense in the filing is lowered by
10 these amounts. The large difference is mainly due to fact that the original filed
11 amount was including depreciation on fully depreciated asset pools through the
12 end of period. Depreciation expense on these asset pools should not be in the
13 filing using a 2004 test year with known and measurable amounts through 2005.
14 The asset pools Microwave Transmission, Subs Circuits and Aerial Cable were
15 fully depreciated at December 31, 2004 and the asset pool Digital Electronic
16 became fully depreciated August 31, 2005. See DPU Exhibit No. 5.3.1.

17 The bottom of DPU Exhibit 5.3.1 then shows how the Division computed
18 the amount for depreciation reserve to the end of period for Total Company and
19 Intrastate. These amounts were then compared to the original amounts in the
20 filing in exhibits S-1 and S-9. The original filing amounts were adjusted to agree
21 to the Division's amounts. The required adjustment was [REDACTED] and
22 [REDACTED] for Total Company and Intrastate, respectively. These amounts are
23 increases to the original filing amounts. The major reason for the large difference

1 is due to the fact that the original filing did not record the 2004 rate base expense

2 for depreciation to the depreciation reserve to the end of the period.

3 **Q. Does this conclude your testimony?**

4 A. Yes.