-BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH-

In the Matter of the Increase of Rates And Charges and Increase in USF Eligibility for Manti Telephone Company	)))	DOCKET NO. 08-046-01

REDACTED

DIRECT TESTIMONY

OF

RAYMOND A. HENDERSHOT

ON BEHALF OF

MANTI TELEPHONE COMPANY

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Raymond A. Hendershot. My business address is 2270 LaMontana Way, P.O. Box 25969, Colorado Springs, Colorado 80936.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am a Vice President for GVNW Consulting, Inc. (“GVNW”).

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND WORK EXPERIENCE.

A. I graduated from Brigham Young University with a Bachelor’s Degree in Accounting in 1972 and a Master’s Degree of Accounting in 1973. I received a CPA Certificate from Texas. Upon graduation, I was employed by General Telephone and Electronics (“GTE”), where I served in a variety of positions within the financial area of the company. In 1985, I joined GVNW. GVNW provides a wide variety of management services within the telecommunications industry. My primary areas of responsibility include the development of rates and tariffs, preparation of toll cost separation studies and depreciation rate studies, consulting on acquisitions and sales of telephone properties, and providing various other management services.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE ANY REGULATORY COMMISSIONS?

A. Yes. I have provided testimony on telecommunications issues before this Commission on numerous occasions in various telephone company filings and generic regulatory proceedings. I have also testified in various telephone company filings and generic regulatory proceedings before the Arizona Corporation Commission, the Idaho Public

Utilities Commission, the Nevada Public Utilities Commission, the Texas Public Utilities Commission, the Washington Utilities and Transportation Commission, the Wisconsin Public Service Commission, and the Wyoming Public Service Commission.

Q. FOR WHOM ARE YOU APPEARING IN THIS PROCEEDING?

A. I am appearing on behalf of Manti Telephone Company ("Manti" or "MTC"), the Applicant in this case. I have treated this filing in accordance with the stipulation in this case.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. My testimony explains why Manti Telephone Company is applying for an increase in Utah Universal Service Fund ("Utah USF") Eligibility. I have included exhibits regarding MTC's financial condition and I have calculated a pro forma revenue requirement for the company. Finally, I will use this financial information to quantify the additional amount of annual Utah USF distributions MTC is entitled to receive.

Q. PLEASE DESCRIBE THE GENERAL METHODOLOGY UTILIZED IN CALCULATING MTC'S REVENUE DEFICIENCY.

A. This filing has been prepared following the pattern used by other local exchange companies when filing for rate increases. The stipulation in this case provided for the Company to use financial information of the Company for July 1, 2011 through December 31, 2011, annualized. The first step is to list the 2011 booked plant balances, expenses, and revenues, and make proforma changes to these amounts. Revenues and expenses are calculated and adjusted for proforma changes. MTC is not a cost company for interstate settlement purposes and does not use the methodology of the Federal

Communications Commission ("FCC") Part 36 and 69 rules and procedures. The FCC allows for small companies to participate in settlements on an interstate basis on an average schedule basis. Average schedule companies participate in the National Exchange Carrier Association ("NECA") pooling process based on national averages of cost companies using density, mileage, revenues, etc. in determining what compensation an average schedule company receives from the NECA pooling process.

Q. SINCE MTC IS AN AVERAGE SCHEDULE COMPANY, HOW DID YOU CALCULATE THE INTERSTATE/INTRASTATE ALLOCATIONS?

A. A proxy model consisting of a blended cost of capital structure was developed using an average of the interstate allocations of three cost companies in the state of Utah and this average was applied to the plant assets of MTC to get an overall average of the telephone plant assets that would be allocated to the interstate jurisdiction. This percentage was used in the development of an overall cost of capital for the Company which was a blending of a theoretical interstate and intrastate cost of capital. This blended cost of capital for the company was used to determine the appropriate earnings level for the Company. This blended rate of return (Revised Exhibit 1.1, note (d)) is applied to the Company's rate base to determine a return on rate base. The estimated net income from end of period financials is then subtracted from the return to determine a return deficiency. The resulting shortfall is grossed up for state and federal taxes. Normally you would also gross-up for uncollectible revenue but state USF is assumed with no concern for uncollectible revenue by the Company. The Revised Exhibit 1 quantifies these steps in analysis.

Q. WHAT TEST YEAR IS THE COMPANY USING IN THIS FILING?

A. The stipulation in this case provided for the Company to use financial information of the Company for July 1, 2011 through December 31, 2011, annualized. Proforma adjustments have been made in the case for known and measureable items.

Q. PLEASE DESCRIBE REVISED EXHIBIT NO. 1.

A. This exhibit identifies the Company's 2011 revenues and expenses and corresponding rate base balances and adjustments made which are shown in columns E through I. Lines 1 through 12 identify the Company's 2011 revenues and proforma adjustments. Lines 14 through 22 identify the 2011 expenses and proforma changes. Proforma adjustments to revenues and expenses are shown in columns E through I. Lines 32 through 47 identify the Company's 2011 rate base and proforma changes. Line 48 identifies the Company's return on rate base. Revised Exhibit 1.1 provides the details to the notes to the adjustments made in Columns E through I. Column K shows the additional revenues required by the Company to earn its rate of return.

Q. PLEASE DESCRIBE REVISED EXHIBIT 1.1, WHICH IS ENTITLED "NOTES TO REVENUE REQUIRENENT CALCULATION".

A. This exhibit identifies the notes for expense adjustments, capital / plant additions adjustments, revenue adjustments, rate of return and the income tax gross up factor in this case.

Q. PLEASE DESCRIBE THE EXPENSE ADJUSTMENTS IN REVISED EXHIBIT 1.1.

A. The expense adjustments made in this case reflect the recommendations of the consultant hired by the Division of Public Utilities ("DPU") regarding the wages of the Company, cost of an additional employee in accounting, annual overtime compensation, health and dental insurance increase for 2012, and rate case expense incurred over the period to process this case.

Q. PLEASE DESCRIBE THE ADJUSTMENT MADE FOR WAGES.

A. In the spring of 2012, the DPU hired a wage consultant to audit the wages paid by MTC. The DPU consultant reviewed the Company's wages and job duties of employees and made a recommendation on the median salary for each job description / job duties of the employees of the company. The Company was advised to establish a salary range with the same number of steps below the median salary as above. The wages for each position would be established using the wage range for each position, taking into consideration the experience, performance, knowledge and years of service of each employee in each position. The Company prepared a Salary and Wage Schedule following the recommendations of the consultant with a salary schedule of nine steps, four below the median and four above. Each employee of the Company was placed on the salary schedule considering the above enumerated factors recommended by the consultant. An adjustment was made in the rate case to reflect the changes in salaries to be in compliance with the DPU consultant's recommendations.

Q. PLEASE DESCRIBE THE ADJUSTMENT FOR RATE CASE EXPENSES.

A. This case has continued since it was initially filed and all of the legal, auditor and consulting costs incurred in preparing and adhering to the various recommendation/stipulations in the case have been included in the case and amortized over two years.

Q. PLEASE DESCRIBE THE CAPITAL / PLANT ADDITIONS ADJUSTMENTS IN REVISED EXHIBIT 1.1.

A. The plant adjustments include the proposed asset purchases and construction activity planned for 2012, removal of voice mail equipment since the FCC deregulated voice mail several years earlier, property tax increase and associated depreciation expense due to changes in plant additions and construction activity. The Company has been in the process of updating and replacing its outside aerial plant since the copper sheathing has deteriorated through cracked and broken sheathing.

The capital budget of *CONFIDENTIAL* for the company reflects normal additions in capital expenditures for vehicle replacement, fiber installation and corresponding electronics along with funds for normal construction activity planned and underway for the current year. The capital budget includes *CONFIDENTIAL* for fiber construction projects planned to upgrade facilities. Also the budget includes *CONFIDENTIAL* for the Don Thompson and surrounding subdivisions to be upgraded to fiber facilities. The upgrading of outside plant facilities is what is being done in the industry across the country.

Q. PLEASE DESCRIBE THE REVENUE ADJUSTMENTS IN REVISED EXHIBIT 1.1.

A. The revenue adjustments reflect changes in local rates to incorporate various services such as EAS charges, bundle packages incorporating caller ID and various vertical features and changes in FCC policy regarding reductions in state access rates, lower federal Lifeline support and lower interstate support from NECA.

Q. PLEASE DESCRIBE REVISED EXHIBIT 1.1 INCOME TAX GROSS UP FACTOR AND HOW IT IS USED TO CALCULATE THE REVENUE REQUIREMNT?

A. The income tax gross up factor is used to determine the additional revenue that is necessary to indemnify the company for the additional state and federal tax liability as a result in a change in revenue. In calculating the revenue requirement, on Exhibit 1, the adjusted total rate base (J47) of *CONFIDENTIAL* times the rate of return of *CONFIDENTIAL*shown in the heading of column K, minus the net operating income (J31) or loss of *CONFIDENTIAL* times the gross up factor of 1.61943 (Exhibit 1.1, note (e)) for a revenue requirement of *CONFIDENTIAL* (K1).

Q. ARE THESE NORMAL PROFORMA ADJUSTMENTS?

A. Yes. The Commission has accepted these types of proforma adjustments in rate cases as a normal part of business. The Commission has accepted a two-year amortization of rate case expenses in the past.

Q. ARE THE EXPENSES OF THE COMPANY REASONABLE?

A. Yes. The expenses of MTC are comparable and reasonable for a rural telephone company. I have reviewed the data and done some comparisons to other independent telephone companies and they are comparable and in some areas more efficient because of economies of scale.

Q. DOES THAT CONCLUDE YOUR TESTIMONY?

A. Yes, it does.