

In the Matter of Manti Telephone)	Docket No. 08-046-01
Company's (MTC) Second Amended)	DPU Exhibit 5.0 DIR-REV REQ
Application for Utah Universal)	
Service Fund (UUSF) Eligibility)	(REDACTED)
)	
)	

DIRECT TESTIMONY

OF

SHAUNA BENVEGNU-SPRINGER

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

OCTOBER 18, 2012

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1 **I. IDENTIFICATION OF WITNESS**

2 **Q. PLEASE STATE YOUR NAME, EMPLOYER, AND BUSINESS**
3 **ADDRESS FOR THE RECORD.**

4 **A.** My name is Shauna Benvegna-Springer. I am employed by the Department
5 of Commerce, Division of Public Utilities (“Division”) for the State of Utah.
6 My business address is Heber M. Wells Building, 4th Floor, 160 East 300
7 South, Salt Lake City, UT 84114-6751.

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

9 **A.** I have been employed by the State of Utah for over 35 years in a number of
10 capacities and departments. Prior to working for the Division, I served as the
11 Deputy Director of Finance for the Utah Department of Corrections, the
12 Director of Finance for the Utah Olympic Public Safety Command during the
13 2002 Salt Lake Olympic Winter Games and as a Utility Regulator for the
14 Utah Department of Commerce, Division of Public Utilities for the past five
15 years

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

17 A. I attended Westminster College of Salt Lake and graduated with a Bachelor
18 of Science Degree in Accounting and Management. I continue my education
19 by owning and participating in a tax, business management and accounting
20 services proprietorship for individuals and small businesses. I am a member of
21 the Association of Government Accountants and the Association of Certified
22 Fraud Examiners. I am certificated as a Certified Government Financial
23 Manager (CGFM), and am working toward my certification as a Certified
24 Fraud Examiner (CFE).

25 **Q. PLEASE DESCRIBE YOUR POSITION AND DUTIES WITH THE**
26 **DIVISION OF PUBLIC UTILITIES (“DIVISION”)?**

27 A. I am a Utility Analyst for the Division of Public Utilities. Among other
28 things, I perform assignments as an auditor and analyst on issues concerning
29 the terms, conditions and prices of utility service; industry and utility trends
30 and issues; and regulatory form, compliance and practices relating to public
31 utilities. I examine public utility financial data for determination of rates;
32 review applications for rate increases; conduct research; examine, analyze,
33 organize, document and establish regulatory positions on a variety of
34 regulatory matters; review operations reports and ensure compliance with
35 laws and regulations, etc.; testify in hearings before the Utah Public Service
36 Commission (“Commission”); assist in analysis of testimony and rate case

37 preparation; and I have participated in settlement conferences. I investigate
38 and audit water, telephone and energy companies. My extensive knowledge
39 of accounting and financial reporting allows me to prepare reliable and
40 justifiable reports and exhibits, fair and compliant recommendations, along
41 with testifying as an expert witness before the Public Service Commission of
42 Utah.

43

44 **Q. FOR WHICH PARTY WILL YOU BE OFFERING TESTIMONY IN**
45 **THIS CASE?**

46 **A.** I will be offering testimony on behalf of the Utah Division of Public Utilities
47 (“Division”).

48

49 **Q. WHAT AREAS IN THE APPLICATION WERE YOU ASSIGNED AS**
50 **PART OF YOUR EXAMINATION AND WHAT OTHER WORK DID**
51 **YOU DO RELATING TO MTC’S FILING?**

52 **A.** I was assigned to directly review or to assist in the review of corporate
53 expenses; allocation of direct, indirect and overhead expenses between
54 regulated and non-regulated affiliated transactions; rate case expenses and
55 income taxes. I specifically reviewed the following general ledger accounts:
56 Salaries & Benefits, General Support Expense, Customer Services, Executive

57 Expense, Accounting Expense, Legal Expense, Other General and
58 Administration Expense, and income tax calculation. I also reviewed the
59 responses to data requests of other interveners in this case and noted if the
60 response impacted the revenue requirement in this rate case. I participated
61 in the procurement and contracting of the compensation consultant, Jill
62 Carter, for this docket. I was involved with reviewing external auditor and
63 consultant reports in conjunction with my areas of assignment. I reviewed
64 MTC accounting records and documentation directly related to the assigned
65 areas of my review. I reviewed general rate case testimony, filings, and
66 stipulations for MTC previously filed in this docket. I submitted data
67 requests in conjunction with my review and analysis. In assisting other audit
68 team members, I assisted, reviewed, and suggested areas where possible
69 adjustments or corrections may be warranted.

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

72 **A.** Yes. I have testified before the Commission as an expert witness in Docket
73 Nos. 07-35-35, 07-2025-01, 08-010-01, 08-2199-01, 08-2438-01, 08-35-35, 09-
74 010-T01, 09-019-01, 09-2404-01, 09-2404-02, 09-2419-01, 09-2511-01, 10-
75 2423-01, 10-2423-02, 10-2508-01, 10-2533-01, 11-2195-01, and 11-2508-T01.

76

II. SUMMARY

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

78 **A.** The purpose of my testimony is to present adjustments to various company
79 account balances and company adjustments as presented by Manti
80 Telephone Company (“MTC”) in its Confidential Second Amended
81 Application and Confidential Supplement to Second Amended Application,
82 Exhibit A to increase state UUSF revenue from \$786,857 to \$3,566,386
83 annually, as set forth in the testimony of Raymond A. Hendershot and his
84 attached Revised Exhibit 1.

85 My testimony will focus on six specific areas of the application submitted by
86 MTC. First, my testimony discusses the normalizing adjustment for
87 accounting expenses for the test year in the application. Second, my
88 testimony will discuss the normalizing adjustment for legal expenses for the
89 test year. Third, my testimony will discuss the normalizing adjustment for
90 consultant services expense for the test year. Fourth, my testimony will
91 discuss the rate case expense adjustment made by MTC and the
92 appropriate rate case expenses. Fifth, my testimony will discuss the
93 normalizing adjustment for a one-time consultant expense on behalf of

94 URTA. Finally, my testimony discusses the income tax calculations and the
95 necessary correcting adjustment for the same.

96 **III. NORMALIZING ACCOUNTING EXPENSES (DPU 5.1)**

97 **Q. PLEASE EXPLAIN YOUR FIRST ADJUSTMENT AS SET FORTH IN**
98 **DPU EXHIBIT 5.1 DIR-REV REQ?**

99 **A.** The Division recommends making a normalizing adjustment to the
100 Accounting Expense Account 6720.20 in the amount of \$39,545.24.
101 In reviewing the 2011 General Ledger for MTC, Accounting Expense Account
102 6720.20 records ██████████ for audit, bookkeeping, miscellaneous accounting,
103 payroll tax, sales, tax, corporate tax return expenses plus discounts. As
104 stated in previous filed documents and comments by the Division, it was
105 agreed and stipulated that the bookkeeping accounting work would be
106 performed by an employee of MTC. Mr. Andrew Adamson, (son-in-law to
107 CEO/Manager, Paul Cox) was hired in 2008 to perform the accounting
108 bookkeeping functions. From 2008 through 2011 Hawkins, Cloward &
109 Simister (Hawkins) continued to perform, teach and assist Mr. Adamson in
110 performing the responsibilities required to bring the accounting records into
111 compliance with generally acceptable accounting principles (GAAP) proper
112 capitalization of assets, proper cost allocation of expense and revenue, etc.,

113 while Mr. Adamson attended college to learn the same. As of April 2012 all
114 bookkeeping functions were being performed by the Accounting Manager,
115 which created a cost savings of \$39,545.24 each year. In reviewing the
116 itemized invoices for work performed by Hawkins, Exhibit 5.1 demonstrates
117 the amounts for the annual audit of ██████████ bookkeeping expense
118 (entering and reconciling accounts) of ██████████, miscellaneous accounting
119 (which included more specialized accounting duties such as PSC reporting,
120 workers compensation and property tax reports, intangible asset valuation,
121 retirement plan administration, etc.), of ██████████, and payroll and other tax
122 preparation expenses of ██████████. For the test year MTC included both, the
123 Accounting Manager's salary of ██████████ per hour and benefits, plus the
124 contracted bookkeeping expenses of Hawkins at ██████████ per hour. My
125 adjustment eliminated the contracted amount of ██████████. In the test year,
126 the Accounting Manager's costs are required only for bookkeeping functions,
127 which are accounted for under Salary, Wages and Benefits. The annual audit
128 costs, specialized accounting and tax preparation expense remain in the 2011
129 base year. In other words, if the contract bookkeeping costs are left in the
130 future test year expenses then the cost savings is not recognized and it
131 becomes part of future costs even though the additional bookkeeping
132 spending is no longer taking place. Again, in the Direct Testimony of MTC
133 witness Raymond A. Hendershot, page 5, lines 87-91, states that MTC made

134 adjustments to "...wages, cost of an additional employee in accounting,
135 annual overtime compensation, health and dental insurance increase... and
136 rate case expenses..." MTC did not make any adjustments to normalize the
137 accounting expense and eliminate the contracted CPA expenses for
138 bookkeeping to demonstrate the cost savings for the test year period. My
139 adjustment to eliminate contracted bookkeeping expense is a decrease to
140 expense of \$39,545.24.

141 **IV. NORMALIZING LEGAL EXPENSE (DPU 5.2)**

142 **Q. PLEASE EXPLAIN YOUR SECOND ADJUSTMENT AS SET FORTH**
143 **IN DPU EXHIBIT 5.2 DIR-REV REQ?**

144 **A.** The Division recommends making a normalizing adjustment to the Legal
145 Expense Account 6720.30 in the amount of \$38,942.60.

146 In reviewing the 2011 General Ledger for MTC, Legal Expenses Account
147 6720.3, MTC expensed [REDACTED] between two legal firms, Blackburn & Stoll
148 and Blooston, Mordkofsky, Dickens, Duffy and Prendergast, LLP (Blooston)
149 in amounts of [REDACTED] and [REDACTED], respectively. After review on the
150 itemized statements describing the services performed, [REDACTED]
151 [REDACTED] were for non-regulated
152 activity and not for the purpose of providing basic wire line telephone
153 service. These expenses were for [REDACTED]

154 [REDACTED]
155 [REDACTED]
156 [REDACTED]
157 [REDACTED] of regulated legal activity [REDACTED]
158 [REDACTED]
159 [REDACTED] and [REDACTED] for legal services not related to the
160 Second Amended Application rate case filed on April 24, 2012. This
161 included work [REDACTED]
162 [REDACTED] all of which will not continue year each as a normal cost of
163 providing basic telephone service. The normal and customary legal expenses
164 that MTC should include, as an annualized expense for the test year to
165 MTC, equals [REDACTED] annually. In the Direct Testimony of MTC
166 witness Raymond A. Hendershot, page 5, lines 87-91, states that MTC made
167 adjustments to "...wages, cost of an additional employee in accounting,
168 annual overtime compensation, health and dental insurance increase... and
169 rate case expenses..." MTC did not make any adjustments to normalize the
170 legal expense for the test year period. My adjustment to remove the non-
171 regulated and non-routine legal expense is a decrease to expense of
172 \$38,942.60.

173

174

175 **V. NORMALIZING CONSULTING EXPENSE (DPU 5.3)**

176 **Q. PLEASE EXPLAIN YOUR THIRD ADJUSTMENT AS SET FORTH IN**
177 **DPU EXHIBIT 5.3 DIR-REV REQ?**

178 **A.** The Division recommends making a normalizing adjustment to the Other
179 General and Administrative Expense Account 6720.40 in the amount of
180 \$79,729.92.

181 In reviewing the 2011 General Ledger for MTC, the Other General and
182 Administrative Expense Account 6720.40 records [REDACTED]

183 [REDACTED] Again, the Direct Testimony of MTC witness Raymond A.
184 Hendershot, page 5, lines 87-91, states that MTC made adjustments to
185 “...wages, cost of an additional employee in accounting, annual overtime
186 compensation, health and dental insurance increase... and rate case
187 expenses...” MTC did not make any normalizing adjustment to remove
188 consulting expenses from the test year and included in the MTC adjustment
189 for rate case expenses. After reviewing the 2011 general ledger transactions
190 there were [REDACTED] for prior regulatory action expenses
191 not related to the cost of the Second Amended Application. My
192 computations to normalize the projected test year costs for consultant fees,

193 creates a decrease in expense of \$79,730 which can be found in DPU Exhibit
194 5.3 DIR-REV REQ.

195

196 **VI. ADJUSTMENT TO RATE CASE EXPENSE (DPU 5.4)**

197 **Q. PLEASE EXPLAIN YOUR FOURTH ADJUSTMENT AS SET FORTH**
198 **IN DPU EXHIBIT 5.4 DIR-REV REQ?**

199 **A.** The Division recommends making an adjustment to MTC's adjustment for
200 Rate Case Expense in the amount of \$382,198.00.

201

202 **Q. ARE THE RATE CASE EXPENSES, AS USED IN THE RATE CASE**
203 **ADJUSTMENT BY MTC, PRUDENT FOR A TELEPHONE UTILITY?**

204 **A.** No. In the Direct Testimony of Mr. Hendershot, page 6, line 107 to 110 he
205 states "This case has continued since it was initially filed and all of the
206 legal, auditor and consulting costs incurred in preparing and adhering to
207 the various recommendation/stipulations in the case have been included in
208 the case and amortized over two years." MTC used the amount of
209 \$1,017,156 which included expense for calendar years 2008, 2009, 2010 and
210 2011 plus an estimated amount for 2012 for the following firms:

211 1) Blackburn and Stoll for legal expenses,

212 2) GVNW for consulting expenses, and

213 3) Hawkins for accounting expenses less [REDACTED]

214 [REDACTED] based upon

215 audit expenses from 2004 to 2007.

216 Legal and consultant costs for PSU filings back to 2008 were one-time costs
217 and not on-going costs of the Second Amended Application for UUSF support.

218 During the period of 2008 through June 30, 2011, the Division found the

219 accounting records of MTC to be unreliable for regulatory purposes of

220 calculating and documenting UUSF support. MTC was registered to operate

221 as a telephone company in the state of Utah on May 23, 1907. Mr. Paul Cox,

222 CEO/Manager of MTC has been the constant management for the past 28

223 years. GVNW has a long established relationship with MTC. MTC has been

224 paying for accounting and management at rates that were sufficient to have

225 included proper record keeping for UUSF evaluation. The unusually high

226 expense and time expended on this docket would not be incurred but for lack

227 of regular accounting practices. Similar rural telephone utilities that are

228 regulated by the Public Service Commission have and are utilized generally

229 acceptable accounting principles and practices in their operations. These

230 include work orders for projects being capitalized, timesheets for allocating

231 appropriate costs to projects, asset management records, materials

232 inventories, policy and procedures for allocating costs, commonly known as
233 Cost Allocations Manuals, etc. Therefore, the DPU does not recommend that
234 MTC be entitled to UUSF funds to pay for the costs of bringing MTC's
235 accounting up to the point at which MTC can support an application for
236 UUSF funds.

237 **Q. WHAT SHOULD THE "TRUE" RATE CASE EXPENSES INCLUDE?**

238 **A.** The "true" costs for the rate case, or what this rate case should have cost had
239 MTC maintained adequate records, are those for period from July 2011
240 through the present. These are the expenses incurred after changes in record
241 keeping were implemented. MTC filed its Second Amended Application on
242 April 24, 2012. The costs for the rate case legal work, consultant services and
243 limited accounting expense for the Second Amended Application are "true"
244 rate case costs. The UUSF should not pay for expenses incurred to bring
245 Manti's records to the minimum level necessary for evaluating its claim for
246 UUSF funds.

247

248 **Q. WERE THERE ANY AUDITOR OR ACCOUNTING EXPENSES**
249 **RELATED TO THE "TRUE" RATE CASE EXPENSE ADJUSTMENT?**

250 A. The Division asked to review the Hawkins records from 2004 to present and
251 received invoices for November 1, 2007 to August 31, 2012. [REDACTED]

252 [REDACTED]

253 [REDACTED] The
254 accounting expenses are normal business operation costs that MTC should
255 have been doing all along, but are not rate case expenses. The actual audit
256 expenses have been declining over the past eight years. The annual audit
257 expenses for [REDACTED], respectively.

258 During 2012, the only amounts for “true” rate case information gathering
259 equaled \$1,648.36 for [REDACTED]

260 [REDACTED]

261 Q. WERE THERE ANY LEGAL EXPENSES RELATED TO THE “TRUE”
262 RATE CASE EXPENSE ADJUSTMENT?

263 A. The actual legal expenses for the period of the Second Amended Application
264 process (January 1, 2012 to September 30, 2012) equal [REDACTED]

265 [REDACTED]

266 [REDACTED]

267 Q. WERE THERE ANY CONSULTANT EXPENSES RELATED TO THE
268 “TRUE” RATE CASE EXPENSE ADJUSTMENT?

269 A. The actual consulting expenses for the period of the Second Amended
270 Application process (January 1, 2012 to September 30, 2012) equals

271

272

273 **Q. HOW IS THE TOTAL “TRUE” RATE CASE EXPENSE COMPUTED?**

274 A. My computation for the “true” rate case expense equals \$252,760.18
275 amortized over a two year period for an amount of \$126,380 instead of
276 \$508,578 as MTC indicated. It includes \$70,028.00 for legal expenses, plus
277 \$181,088.00 for consultant expense and \$1,648.36 for auditor/accounting
278 expense. The adjustment reduces the rate case expense by \$382,198.00.

279

280 **VII. NORMALIZING ADJUSTMENT FOR URTA CONSULTANT (DPU 5.5)**

281 **Q. PLEASE EXPLAIN YOUR FIFTH ADJUSTMENT AS SET FORTH IN**
282 **EXHIBIT DPU 5.5 DIR-REV REQ?**

283 A. The Division recommends a normalizing adjustment to eliminate a one-
284 time expense in the Other General and Administrative Account 6720.40 of
285 \$11,537.00.

286 During the review of the general ledger for 2011 and documents on the site
287 visit, it was noted that MTC hired a consultant on behalf of URTA to plan
288 and make event arrangements for the URTA conference, in addition to MTC's
289 membership dues and conference registration dues. MTC did not make
290 a proforma adjustment for this one- time expense for the future test year. My
291 adjustment computation is a decrease in Other General and Administrative
292 expense of \$11,537 for the URTA consultant costs paid by the MTC.

293 **VIII. ADJUSTMENT FOR INCOME TAX (DPU 5.6)**

294 **Q. PLEASE EXPLAIN THE DEFICIENCIES IN MTC'S CALCULATION**
295 **OF TAX LIABILITY IN ITS APPLICATION FOR UUSF SUPPORT?**

296 **A.** MTC made two errors in calculating income tax liability in both its Second
297 Amended Application and the Supplemental Second Amended Application.
298 First, MTC calculates the federal and state income based only on the
299 incremental amount of UUSF requested, i.e., \$2,779,529, rather than using
300 the net income amount. Proforma income taxes for the test year were not
301 included in the calculation, although state and federal income tax number
302 were presented as [REDACTED] respectively. There figures were
303 not used in calculating the final federal and tax income tax expense of
304 [REDACTED] respectively. The state income tax was simply

305 calculated by multiplying \$2,779,529 (the amount of additional UUSF
306 relief requested) by 5% for state income tax for [REDACTED]. Federal
307 income tax was calculated by subtracting the state income tax of
308 [REDACTED] from [REDACTED] and multiplying the difference by 35% for a
309 result of [REDACTED]. Second, MTC does not deduct interest payments of
310 [REDACTED] from a net income amount to determine taxable income. When
311 these two problems are corrected, without considering any other DPU
312 adjustments, the UUSF requested amount is reduced by [REDACTED].

313 **Q. PLEASE EXPLAIN YOUR SIXTH ADJUSTMENT AS SET FORTH IN**
314 **EXHIBIT DPU 5.6 DIR-REV REQ?**

315 **A.** The Division recommends an adjustment to decrease the federal and state
316 income tax expense by [REDACTED].

317 After all the adjustments have been made, the Net Income before
318 Interest and Tax amount, as shown on DPU Exhibit 1.1 DIR REV REQ
319 is [REDACTED]. DPU Exhibit 5.6 DIR-REV REQ demonstrates how the
320 summary information from Exhibit 1.1 is used to properly calculate the
321 state and federal income taxes. MTC did not deduct the interest
322 expense of [REDACTED] to calculate the income taxes, nor include it as an
323 expense in its revenue requirement calculation. Taxable Income after
324 interest is [REDACTED] which computes the state and federal income tax at

325 [REDACTED] respectively. After applying the DPU adjustments,
326 as discussed by other witnesses and myself, the decrease in MTC's federal
327 and state income tax equals [REDACTED].

328 **VI. CONCLUSION**

329 **Q. WHAT IS THE DIVISION'S RECOMMENDATION FOR THIS**
330 **PETITION?**

331 **A.** The Division recommends that the Commission recognize and accept the four
332 normalizing adjustments to the test year for accounting expenses of
333 \$39,545.24, legal expenses of \$38,942.60, consultant expense of \$79,729.92
334 and one-time URTA consultant expense of \$11,537.00 for a total of
335 \$169,754.76 to the test year. The Division recommends that the Commission
336 recognize and accept two adjustments to MTC's proforma adjustments for
337 rate case expense of \$384,697.91 and income tax expense of [REDACTED]

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

339 **A.** Yes, it does.