Witness OCS – 2D Ostrander

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application for the Increase of Rates and Charges by Manti Telephone Company	)))))))	**Docket No. 08-046-01** **Direct Revenue Requirement Testimony of Bion C. Ostrander For the Office of Consumer Services**

REDACTED

October 18, 2012

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INTRODUCTION

Q. WHAT IS YOUR NAME, OCCUPATION AND BUSINESS ADDRESS?

A. My name is Bion C. Ostrander. I am an independent regulatory consultant and a Certified Public Accountant ("CPA") with a permit to practice in the State of Kansas. I am President of Ostrander Consulting. My business address is 1121 S.W. Chetopa Trail, Topeka, Kansas 66615-1408.

Q. PLEASE SUMMARIZE YOUR PROFESSIONAL QUALIFICATIONS AND EXPERIENCE.

A. I am an independent regulatory consultant and a practicing CPA with a specialization in telecommunications regulatory accounting and policy issues. I have over thirty-three years of regulatory and accounting experience. My firm Ostrander Consulting has been operating for twenty-two years. I previously worked for the public accounting firm Deloitte, Haskins and Sells (now "Deloitte"). And before starting my own firm, I previously served as the Chief of Telecommunications and the Chief Auditor for the Kansas Corporation Commission. I have addressed issues in numerous state jurisdictions and an international basis. I have addressed rate cases alternative regulation plans, state universal service funds, affiliate transactions, cost allocation, wholesale/retail cost studies, compensation issues, taxes, universal service, specialized regulatory accounting issues, competition policy, and other matters. I am a member in good standing of the Kansas Society of CPAs ("KSCPA") and the American Institute of CPAs ("AICPA").

Q. HAVE YOU PREPARED AN EXHIBIT SUMMARIZING YOUR QUALIFICATIONS AND EXPERIENCE?

A. Yes. I have attached Appendix I, which is a summary of my regulatory experience and qualifications.

Q. ON WHOSE BEHALF ARE YOU APPEARING?

A. Ostrander Consulting (and subcontractor David Brevitz) were retained by the Utah Office of Consumer Services ("OCS") to review Manti Telephone Company's ("Company", "Manti" or "MTC") revenue requirements regarding its second amended application for increased Utah Universal Service Funds ("UUSF"). Accordingly, I am appearing on behalf of the OCS.

Q. HAVE YOU EVER TESTIFED BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH ("COMMISSION" or "PSC")?

A. No.

Q. DO YOU HAVE EXHIBITS SUPPORTING YOUR TESTIMONY?

A. Yes. OCS Exhibit 2.1D – 2.10D Ostrander which is attached to this testimony.

Q. IN WHAT ORDER WILL YOU PRESENT YOUR RECOMMENDED ADJUSTMENTS?

A. Adjustments for rate base and operations will not be grouped together, because some adjustments impact both rate base and operations. Myself and Mr. Brevitz are each numbering adjustments sequentially in our respective testimonies.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. I am presenting the overall revenue requirement for Manti as recommended by the OCS and I will address policy matters and sponsor specific adjustments to the test period ending December 31, 2011. The overall revenue requirement includes the adjustments and recommendations of other OCS witnesses presented in the underlying schedules. It includes the adjustments contained in Mr. Brevitz's testimony and is consistent with policy recommendations of OCS Staff witness Mr. Eric Orton.

Q. HOW DOES THE OCS FINAL REVENUE SURPLUS POSITION COMPARE TO MANTI'S REVENUE DEFICIENCY POSITION?

A. The OCS adjustments produce a revenue surplus of $978,288. ($1.0 million). A revenue surplus position normally requires a reduction in rates or revenues and is sometimes called excess earnings or negative revenue requirement. This means that Manti's adjusted rate base and earnings produce excessive earnings and Manti is receiving excessive revenues from the UUSF.

Manti's Amended Application in this docket (dated April 24, 2012) requested additional UUSF funds of $2,960,615 ($2.9 million) based on its revenue requirement calculations, and Mr. Ray Hendershot's Direct Testimony (on behalf of Manti) filed on September 21, 2012 shows a slightly downward revised request of **[BEGIN CONFIDENTIAL]** [redacted][1] **[END CONFIDENTIAL]** - - although Manti now claims that this revised UUSF amount is Confidential.[2] I will use Manti's original "public" revenue requirement amount of $2.9 million as a proxy in my testimony to promote transparency and an open discussion of these issues.

The OCS' calculated excess earnings of $1.0 million and Manti's proposed increased revenue requirement of about $2.9 million produces a total difference of $3.9 million in the two positions.

[1] Mr. Hendershot's Direct Testimony, p. 8, line 139.
[2] The Commission previously expressed its concern regarding MTC's designation of Confidential data, and the Commission required that this same information of (original revenue requirement of $2,097,304) and other information be provided as public information in the March 2011 Revised Stipulation. Per Commission's April 21, 2011, Order approving the 2011 Stipulation, p. 3.

Q. HOW MUCH DOES MANTI CURRENTLY RECEIVE IN ANNUAL UUSF REVENUES AND HOW IS THIS POTENTIALLY IMPACTED BY THE OCS REVENUE SURPLUS POSITION AND THE MANTI REVENUE DEFICIENCY POSITION?

A. Manti currently receives annual UUSF revenues of $786,857 (or $.8 million), and Manti now claims that it needs additional UUSF revenues of about $2.9 million, which means that Manti is seeking total revenues of $3.7 million from the UUSF in this case.

In contrast, the OCS total revenue surplus is $1.0, and this is about $.2 million greater than Manti's total annual UUSF draws of $786,857. This means that Manti's annual UUSF draws could be eliminated. There are other policy issues to consider also.

Q. WHAT IMPACT DOES THE OCS RECOMMENDATION HAVE ON MANTI'S INTERIM UUSF DRAWS?

A. The Commission's April 21, 2011 Order ("UUSF Interim Order") in the original Application approved the March 10, 2011 Revised Settlement Stipulation ("2011 Stipulation") between Manti and the Utah Division of Public Utilities ("DPU") for total UUSF relief of $786,857 per year, of which $299,129 is previously awarded UUSF and $487,728 is interim USF that supersedes and replaces the 2008 USF revenues.[3] Manti started receiving its revised UUSF monthly disbursement of $65,571.42 (based on annual UUSF of $786,857) in May 2011.[4]

If the Commission adopts the OCS position or adopts a revenue surplus position exceeding Manti's annual interim UUSF of $487,728 ($40,644 per month), then the Commission will need to determine the treatment of these interim UUSF funds received by Manti. The funds in question would be the interim UUSF covering at least the period May 1, 2011 through the approximate 20 months ending December 31, 2012 (approximate end of 240 days), and this total could be $812,880 or more (depending on the actual cut-off date and if any accrued interest is owed).

Q. WHAT ADDITIONAL RECOMMENDATIONS DO YOU PROPOSE?

A. I am proposing that the Commission adopt the following additional recommendations.

a) The Annual Report that is filed with the Commission shall disclose much information which Manti deems to be Confidential in this proceeding, and this shall include officer and all family member payroll amounts, the number of FTTH lines, affiliate transaction impacts, and some other information that is still being evaluated at this stage.

b) Manti's website (which is maintained by MTCC) should be cleaned up and show proper and current phone numbers, addresses, and

[3] 2011 Stipulation, p. 4, ¶ 12.
[4] Memorandum from DPU Director Chris Parker to the Commission, dated April 25, 2011.

other information for Manti and all affiliates included at this same website.

c) All of Manti's regulated tariffed and basic local service rates should be publicly disclosed at its website. Manti claims that its basic local service rates are Confidential, but OCS disagrees and this rate information is otherwise publicly available at other locations. Customers, and potential customers, should be allowed to know the basic local rates that are charged by Manti, and especially because these rates support the "universal service" for which Manti receives UUSF revenues.

Q. WHAT ARE THE BROAD CONCERNS AND POLICY ISSUES IN THIS PROCEEDING?

A. Manti seeks substantial increases in its UUSF revenues, increasing form $.8 million today to about $3.7 million in this proceeding, an increase of about $2.9 million. Because these UUSF revenues represent funding provided by the public generally there should be an increased focus and overarching emphasis on transparency and public disclosure of information in this case to foster an objective evaluation.

Instead, Manti has clearly followed a completely opposite approach of conceal, delay, and manipulation of information that significantly impacts the financial and operational aspects of this proceeding. And when Manti does provide information, most of it is marked as "confidential", although it is my experience that most of this information is public data. The most substantive over-riding concerns in this proceeding are:

1) **Affilliate transactions** between Manti and other family owned affiliates that are not being properly accounted for and are not consistent with related regulatory practices – Most of the adjustments that OCS proposes in this case are related to the absence of appropriate affiliate transactions accounting and supporting documentation, including significant adjustments related to:
   a) Fiber to the home ("FTTH") facilities and assets between MTC and affiliate MTCC.
   b) Payroll allocation between MTC and affiliate MTCC.
   c) Unsubstantiated charges from MTCC to MTC for various vehicles, warehouses, internet-related services, and advertising.

2) **Failure to provide supporting documentation and calculations** for transactions related to affiliates, payroll costs, rate case costs and professional fees, MTCC charges to MTC, income taxes, and many other revenue requirement costs that OCS has reviewed. Most of the OCS data requests were not provided with proper responses and supporting documentation.

3) **Excessive Confidential assertions** have been made by Manti such that almost every document and data request provided to OCS has been cited as Confidential.

This virtual rubber stamping of "Confidential" documents is illustrated with this example. Manti recently provided a stamped "Confidential" tariff page that provided its basic local residential and business rates - - and I thought this might be an oversight. In addition, Manti also does not provide its basic local residential and business rate at its website. OPC DR 10-10 asked Manti why it does not show its basic local rate at its website (these basic rates are commonly publicly disclosed by telcos at their websites) and Manti's response **[BEGIN CONFIDENTIAL]** [redacted]

[END CONFIDENTIAL]. It now appears from Manti's response to this data request that it was Manti's intent to stamp its basic local service tariff as "Confidential", and this is one very good example of such overzealous actions on Manti's behalf. Manti's basic local rates are publicly available from Commission orders and other sources; this information is clearly not considered as "Confidential." Most importantly, it is these same basic local service rates that provide the "universal service" for which Manti receives UUSF revenues. Existing and potential customers are entitled to have access to the basic service rates supported by UUSF revenues that come from the public.

Manti should not convey any perception of "entitlement" to UUSF revenues without being accountable to the public and the Commission regarding proper transparency and supporting documentation to justify its UUSF draws. There should be zero tolerance for a company that is not willing to provide substantive supporting documentation to support its UUSF publicly-derived revenues.

The review of Manti's operations in this proceeding has revealed a tangled web of significant financial transactions between management family members that work for both Manti and its affiliates, family members working for other companies that have transactions with Manti, and related party transactions with another family member that no longer works for

Manti or its affiliates. Many of these significant transactions are not properly allocated between Manti and its family-owned and managed affiliates and are not supported by documentation reflecting regulatory practices related to accounting for nonregulated and affiliate transactions.

It is my opinion that Manti, its customers, and regulators all benefit from an objective process where all parties share the same underlying facts and documentation in an attempt to minimize misunderstanding, promote clarity, and hopefully bring parties closer together in a more unified position rather than creating significant disparate positions. OCS has been very diligent throughout this process and we have provided Manti numerous opportunities to provide requested supporting documentation and related information. However, much of this information has not been provided to date, and Manti's case suffers substantially in its failure to meet a reasonable burden of proof.

Q. CAN YOU DESCRIBE THE SERVICES PROVIDED BY MANTI AND ITS AFFILIATES?

A. Yes. First I will generally describe the various entities and their lines of business, and then the family members involved in these operations. OCS Exhibit 2.10D shows some of this same information in table form.

[BEGIN CONFIDENTIAL]

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[END CONFIDENTIAL].

Q. DOES MANTI OBJECT TO PROVIDING SIGNIFICANT IMPORTANT INFORMATION BECAUSE IT CLAIMS IT DOES NOT HAVE ANY AFFILIATES OR SUBSIDIARIES OVER WHICH THE COMMISSION HAS JURISDICTION?

A. Yes. OCS requested various financial records of MTCC, along with documentation and explanations to support Manti's transactions with MTCC, P&C Rental and others. Sometimes OCS data requests referred

[5] Because MTCC is the parent company for MLD and Breakaway Wireless, all references to MTCC in this testimony are intended to incorporate the related transactions of all MLD, Breakaway Wireless, and all entities operating under MTCC's direct or indirect control.

to these other entities by specific name and sometimes OCS used the terminology of "affiliates," "subsidiaries" or "related parties" when requesting information regarding MTCC, P&C Rental, and others. However, in either case, Manti (and/or its Counsel) usually objected and did not provide the requested information because Manti asserts that MTCC and P&C Rental are not affiliates as specifically set forth below:

[BEGIN CONFIDENTIAL]

[redacted]

[END CONFIDENTIAL]

Q. DO YOU AGREE WITH THE ASSERTION THAT MANTI AND MTCC ARE NOT AFFILIATES?

A. No. I do not agree with Manti's claims or rationale to withhold information that has a significant financial and policy impact regarding Manti's UUSF revenues and revenue requirement. I agree that technically MTCC is a legally separate entity because it is separately incorporated and is not an affiliate or subsidiary that files consolidated financial statements or

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[6] This is an example from Manti's response to OCS DR 2-5 and 2-6.
[7] *Id.*
[8] *Id.*

consolidated tax returns with Manti. However, contrary to its unsupported claims in this proceeding, Manti's own Cost Allocation Manual (Sections and 2 and 3, Affiliate Transactions, pages 7 and 8) **clearly identifies Manti, MTCC, MLD, and P&C Rental as "affiliates" numerous times** and without any conditional language or exceptions. Manti's argument regarding non-affiliate status with MTCC is an obvious red herring designed to inhibit discovery and production of important information which would eventually show that Manti and MTCC both substantially ignore regulatory best practices regarding affiliate transactions.

The irony in the timing of events is telling. On May 11, 2012, Manti provided its CAM, which admits affiliate status among all entities.[9] However, just 18 days later, Manti's responses to OCS Second series of data requests) raised the objection of affiliate status for the first time, although Manti did not attempt to reconcile this position with its CAM that was filed just 18 days earlier.

Q. IS MANTI'S ASSERTION THAT MTCC IS NOT AN AFFILIATE CONSISTENT WITH THE 'SUBSTANCE OVER FORM' ACCOUNTING PRINCIPLE?

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[9] Manti's Supplemental Filing in this procedure, which failed to provide the required CAM as part of its original Application.

A. No. The substance over form principle does not allow entities to hide behind legal or artificial barriers with the intent of misinforming, misrepresenting, or improperly recording financial or other transactions. The substance over form accounting principle is intended to ensure that financial statements provide a complete, relevant, and accurate snapshot of transactions and events, so that the related financial statements will show the financial reality or “economic substance” of a transaction instead of the “legal form” of the transaction. In accounting for business transactions and other events, accountants are generally required to measure and report the economic impact of an event instead of its legal form. Substance over form is absolutely critical for reliable and accurate financial reporting. Substance over form is a priority and important concept underlying Generally Accepted Accounting Principles (“GAAP”), which requires that transactions be recorded in specific manner to reflect economic substance over legal form.

Q. REGARDING THE PREVIOUS DISCUSSION OF SUBSTANCE OVER FORM, CAN YOU PROVIDE SOME EXAMPLES THAT SHOW MTC AND MTCC ARE MORE LIKE AFFILIATES THAN INDEPENDENT THIRD-PARTY VENDORS?

A. Yes. I will summarize some examples of how the common sense, accounting, and operational “substance” of Manti and MTCC supercedes any intended “legal” form which was created to erect barriers for regulators, hide transactions, and favor the nonregulated interests of MTCC over the regulated operations of Manti. One way to view transactions between Manti and MTCC is to consider whether these companies would operate in the same manner if they were truly independent third parties or competitors (such as CentraCom is considered a competitor to Manti and MTCC) regarding their transactions. These examples which show that MTC and MTCC are more like affiliates include:

1) Mr. Dallas Cox is both Assistant Manager and Director of Manti, and is President and Director of MTCC. An independent entity or competitor would not allow this common management, neither company would allow its employees to be supervised by another company, and neither entity would not allow an officer of another company to also plan and budget its competitive fiber operations while giving them access to their books and records.

2) Manti and MTCC send one bill to common customers for all services provided to both entities, with Manti's phone number is listed as the contact number. An independent entity or competitor would not send common bills with its services, and would not want a competitor to have complete access to their customers, to know the number of customers, and know the amount of related billed revenues. Also, another entity would not list only its competitor's phone number on the invoices and have all customer inquiries routed through its competitor.

3) An independent or competitive entity would not allow officers and employees to float back and forth between the two companies as is the case with certain employees of MTC and MTCC.

4) An independent or competitive entity would not allow the primary accountant of another entity to perform some of its purchasing, review its invoices, and allocate or assign costs to its books. Mr. Andrew Adamson was the primary accountant for Manti and he routinely performed these functions between MTC and MTCC as evidenced by my review of vouchers and invoices.

Q. IS MANTI COMPLIANT WITH REGULATORY BEST PRACTICES FOR AFFILIATE TRANSACTIONS AND ALLOCATION OF NONREGULATED COSTS?

A. No. Manti is not compliant with these two regulatory practices, will not provide important documentation regarding related transactions, and ignores significant impacts of these practices on revenue requirements and UUSF revenues in this proceeding.

FCC Part 32 Affiliate Transactions ("Part 32 AT") and FCC Part 64 Cost Allocation Manual ("CAM") are the two primary regulatory best practices regarding the recording of transactions with affiliates and/or regarding the apportionment of costs to nonregulated operations. And although some carriers may be exempt from specifically meeting these requirements for FCC purposes, various state regulatory agencies either formally or informally require these best practices to be used in rate cases.

The purpose of these regulatory practices is to protect the regulated entity and its related customers from manipulative or improper practices of nonregulated affiliates. These rules are intended to keep affiliates from improperly shifting their costs to regulated carriers so they can recover these costs in customer rates and universal service funding through the regulatory process. These rules also keep competitive affiliates from shifting their costs to regulated carriers so they can subsidize their competitive operations, reduce their retail prices, and gain an unfair economic advantage over their competitors that do not subsidize their operations. These rules are intended to provide the benefit of any doubt regarding affiliate transactions to the regulated carrier.

I have summarized relevant elements of Part 32 AT and Part 64 CAM below:

1) Part 32 Affiliate Transactions ("FCC § 32.27") – Generally for most assets sold or transferred **from a regulated carrier to its affiliate**, the assets shall be recorded at the **higher** of net book cost/net book value ("NBV") or fair market value ("FMV'), generally referred to as the higher of cost or FMV. For most assets sold or transferred **from an affiliate to a regulated carrier**, the assets shall be recorded at the lower of cost of FMV. Carriers are required to make a good faith determination of FMV. For all other services **provided by a carrier to its affiliate**, the services shall be recorded at the higher of fully distributed cost ("FDC") or FMV,and for all other services provided by an affiliate to a carrier, the services shall be recorded at the lower of FDC or FMV. There are some other conditions, but these are the most important components of Part 32 AT.

2) Part 64 Allocation of Costs and Cost Allocation Manual ("FCC § 64.901 - .904") - Section 64.901 requires carriers to separate their regulated costs from nonregulated costs and use the attributable cost method, whereby costs shall be directly assigned to either regulated or nonregulated activities whenever possible. Costs that cannot be directly assigned are called "common costs" and are grouped in homogenous cost categories to facilitate allocation. The first priority is to allocate these costs based on direct analysis of the origin, and if direct analysis is not possible then costs should be allocated based on indirect or cost-causative linkage, or if a direct or indirect allocation is not possible then a general allocator should be used.

Section 64.903 addresses the CAM, and requires carriers to allocate costs between regulated and nonregulated activities including some of the primary requirements:

a) A description of each carrier's nonregulated activities and a list of all activities the carrier records related accounting treatment.
b) A chart showing corporate affiliates.
c) A statement identifying each affiliate that will engage in transactions with the carrier and describing the nature, terms, and frequency of transactions.
d) A cost apportionment table showing for each account, the related cost pools, the procedures used to place costs in each pool, and the method used to apportion costs in each cost pool.
e) A description of the time reporting procedures, including studies to measure and allocate non-productive time.
f) Information in the CAM should be accurate, updated annually, and with identification of all changes
g) Historically, large carriers were required to have their CAM subject to an attest audit by an independent auditor every two years covering the two prior years - - and some state regulatory agencies impose different rules in this regard.

Q. CAN YOU PROVIDE EXAMPLES OF HOW MANTI IS NOT COMPLIANT WITH THESE AFFILIATE TRANSACTION BEST PRACTICES AND RELATED CONTROLS?

A. Yes. Manti is not compliant with Part 32 Affiliate Transaction requirements or Part 64 CAM requirements for most material transactions related to its affiliates MTCC and P&C Rental, and this is why myself and fellow OCS witness Mr. Brevitz independently calculated and proposed significant adjustments to reflect these impacts. Manti has not properly allocated costs between affiliates and/or to nonregulated operations in regards to:

- No final and completed CAM was provided that includes supporting documentation and calculations showing how specific costs are apportioned, no calculation of allocation factors and related assumptions, and no related time or motion studies were included.

- No allocation/imputation of fiber-related plant asset costs between Manti and MTCC (and related depreciation, property taxes, overheads, and payroll costs).

- No allocation of payroll and benefit costs for: a) officers and common employees of Manti and MTCC; b) employees no longer employed by Manti but instead employed by MTCC; c) benefits provided by Manti to employees of MTCC.

- No determination of the lower of cost or fair market value for internet-related costs charged by MTCC to Manti (although all fiber facilities exist on Manti's books).

- No determination of the lower of cost or fair market value for rent charges from P&C Rental to Manti for warehouses, heavy vehicles, and other.

- No determination of the higher of cost or fair market value for rent charges from Manti to Breakaway Wireless for use of office space.

- No time or motion studies for the CAM in regards to allocating the time of customer service representatives that field inquiries for both Manti and MTCC (because only Manti's telephone number is listed on the customer bill for all inquiries).

- No determination of the lower of cost or fair market value for advertising costs charged by MTCC to Manti.

Q. PLEASE SUMMARIZE THE REASONS WHY MANTI AND MTCC SHOULD BE CONSIDERED AFFILIATES.

A. For purposes of this case, Manti and MTCC should be considered affiliates for the following reasons:

- Manti retains the burden of proof in this proceeding, so the Commission retains its discretion to disallow or adjust all affiliate and other costs and revenues accordingly.

- Manti's own Cost Allocation Manual identifies MTCC as an affiliate.

- .Compliance with GAAP and the important accounting principles of “substance over form” as previously addressed.

- Compliance with regulatory best practices for Part 32 Affiliate Transactions and Part 64 Cost Allocation Manual that requires transactions between affiliates be presented in a specific manner and supported by documents and calculations primarily related to cost or fair market value.

Q. DID THE COMPANY EVENTUALLY PROVIDE AFFILIATE FINANCIAL STATEMENTS OF MTCC AND WHAT ARE YOUR CONCERNS?

A. Yes. OCS first requested access to detailed affiliate financials in DRs 2-5 and 2-6 (General Ledger and Trial Balance), and Manti’s response on May 29, 2012 raised the “affiliate status” objection for the first time and refused to provide detailed financial statements. After various follow-up regarding this matter, four months later the Company provided a high level one page operating income statement and two page balance sheet for MTCC on October 9, 2012.

However, this abbreviated financial data is not much assistance in evaluating affiliate transactions between Manti and MTCC, because it can be subject to material modifications, is not shown to be compliant with generally accepting accounting principles, and it only creates additional questions and concerns.

[**BEGIN CONFIDENTIAL]**

[redacted]

[END CONFIDENTIAL]

OCS issued a Tenth set of follow-up discovery to Manti regarding these MTCC limited financial statements. However, Manti's responses dated October 11, 2012 failed to provide the requested information and did not specifically explain or reconcile the differences in balances between Manti and MTCC books or explain other significant or unusual expenses recorded on MTCC's books. Therefore, the MTCC limited financials were of little or no use for this proceeding.

<u>OCS USES HISTORIC TEST PERIOD DECEMBER 31, 2012</u>

Q. DID OCS USE A DIFFERENT TEST PERIOD THAN MANTI?

A. Yes. OCS used a test year ending December 31, 2011, as the starting point for its rate case adjustments.[10] Mr. Hendershot's testimony states that Manti used the actual financial information for the six months July 1, 2011 to December 31, 2011, and then annualized these amounts, and he states that the 2011 Stipulation allowed for this method.[11] I will refer to this as a partially forecasted test period, and I have some concerns with Manti's position regarding the use of a six-month normalized test period.

Q. DID MANTI FULLY COMPLY WITH THE 2011 STIPULATION?

A. Manti did not comply with the 2011 Stipulation. The 2011 Stipulation states that Manti shall file a revised rate case using a test year consisting of six months of historical normalized and annualized amounts after DPU Staff has agreed that its <u>accounting systems</u> operate as intended and required by the Stipulation.[12] It appears that DPU Staff did agree that Manti's accounting system were in compliance with the 2011 Stipulation.

However, Manti did not comply with all conditions of the 2011 Stipulation, as set forth below:

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[10] The December 31, 2011 balances are from Manti's Trial Balance and were traced to Manti's 2011 Audited Financial statements.
[11] Mr. Hendershot Direct Testimony, p. 3, lines 39 – 41, although he does not cite to specific language in the 2011 Stipulation.

[12] 2011 Stipulation, p. 5, para. 15, pp. 5 – 7, ¶¶ 15 – 17.

1) Non-Compliance with R746-700-40 and 2011 Stipulation regarding Part 64 - The 2011 Stipulation requires Manti to make its amended rate filing "in compliance with R746-700-40,"[13] and both R746-700-40 A.5. and the 2011 Stipulation require Manti to provide a complete Part 64 Cost Allocation Manual ("CAM") for purposes of allocating nonregulated costs.[14] R746-700-40 A.5. requires a fully referenced Part 64 CAM, which requires that all <u>amounts and source documents are included in the filing information, and the names and sources of allocators to determine nonregulated portions shall be included in lines with the allocated amounts.</u> As I previously stated, Manti has not provided a CAM with proper supporting documentation.

2) Manti's Amended Application claims compliance with Rules R746-360 and R746-700.[15] However, Manti did not make its filing in compliance with these cites to the rules. OCS DR 5-1 asked Manti to explain and provide supporting documentation and calculations to show how if its filing was compliant or noncompliant (and why) with "R746-360-8. Calculation of Fund Distributions in Rate-of-Return Incumbent Telephone Corporation Territories" and related R746-360-2.B regarding Average Revenue Per Line ("ARPL") calculations. Manti's response stated **[BEGIN CONFIDENTIAL]** [redacted] **[END CONFIDENTIAL].** However, OCS does not believe that Manti can or should be able to determine noncompliance with Utah Rules. Also, Manti's failure to use the required filing format allowed it to delay the provision of information to OCS regarding revenues, access lines, and other data that would have normally been available at the time of the filing.

3) Manti's forecasted test period is flawed because it fails to reflect significant normalization and annualization adjustments related to affiliate transactions and other issues. Manti's forecasted test period is over-simplified and merely reflects a doubling of the revenues and expenses for the actual six months from July 2011 to December 2011 as a starting point, and this is not accurate or

[13] 2011 Stipulation, p. 6, ¶ 16.

[14] 2011 Stipulation, Attachment 4, item 7.

[15] Manti's Amended Application, April 24, 2012, opening paragraph.

reliable. This is because it does not consider that different types of expenses are paid at different times of the year, there can be duplication of errors, and it compounds the problems related to not properly allocating costs to MTCC for affiliate transactions.

OCS PROPOSED ADJUSTMENTS

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[16] Mr. Hendershot Direct Testimony, p. 6, lines 106 to 110.

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[21] Manti did not provide requested information showing how it specifically determined the amount of rate case related expenses in 2011 and each of the other years.

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[22] My proposed adjustment includes an Assistant Accountant at a base salary of [redacted]

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[23] Mr. Hendershot's Direct Testimony, p. 5, lines 87 – 88.
[24] *Id*., p. 5, lines 87 – 88.

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[25] Mr. Hendershot's Direct Testimony, p. 5, lines 87 to 88.

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[26] Manti Amended Application, April 24, 2012, p. 4, item 6.a.

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[END CONFIDENTIAL]

Q. DOES THIS COMPLETE YOUR PREFILED DIRECT TESTIMONY?

A. Yes.