

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

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

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REDACTED

October 18, 2012

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1

**INTRODUCTION**2 **Q. WHAT IS YOUR NAME, OCCUPATION AND BUSINESS ADDRESS?**

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

7

8 **Q. PLEASE SUMMARIZE YOUR PROFESSIONAL QUALIFICATIONS AND**  
9 **EXPERIENCE.**

10 A. I am an independent regulatory consultant and a practicing CPA with a  
11 specialization in telecommunications regulatory accounting and policy  
12 issues. I have over thirty-three years of regulatory and accounting  
13 experience. My firm Ostrander Consulting has been operating for twenty-  
14 two years. I previously worked for the public accounting firm Deloitte,  
15 Haskins and Sells (now “Deloitte”). And before starting my own firm, I  
16 previously served as the Chief of Telecommunications and the Chief  
17 Auditor for the Kansas Corporation Commission. I have addressed issues  
18 in numerous state jurisdictions and an international basis. I have  
19 addressed rate cases alternative regulation plans, state universal service  
20 funds, affiliate transactions, cost allocation, wholesale/retail cost studies,  
21 compensation issues, taxes, universal service, specialized regulatory  
22 accounting issues, competition policy, and other matters. I am a member

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23 in good standing of the Kansas Society of CPAs (“KSCPA”) and the  
24 American Institute of CPAs (“AICPA”).

25

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

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

30

31 **Q. ON WHOSE BEHALF ARE YOU APPEARING?**

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

38

39 **Q. HAVE YOU EVER TESTIFIED BEFORE THE PUBLIC SERVICE**  
40 **COMMISSION OF UTAH (“COMMISSION” or “PSC”)?**

41 A. No.

42

43 **Q. DO YOU HAVE EXHIBITS SUPPORTING YOUR TESTIMONY?**

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

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

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

52

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

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

62

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

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

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69 produce excessive earnings and Manti is receiving excessive revenues  
70 from the UUSF.

71

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

82

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

86

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<sup>1</sup> Mr. Hendershot's Direct Testimony, p. 8, line 139.

<sup>2</sup> 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.

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

91 A. Manti currently receives annual UUSF revenues of \$786,857 (or \$.8  
92 million), and Manti now claims that it needs additional UUSF revenues of  
93 about \$2.9 million, which means that Manti is seeking total revenues of  
94 \$3.7 million from the UUSF in this case.

95

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

100

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

103 A. The Commission's April 21, 2011 Order ("UUSF Interim Order") in the  
104 original Application approved the March 10, 2011 Revised Settlement  
105 Stipulation ("2011 Stipulation") between Manti and the Utah Division of  
106 Public Utilities ("DPU") for total UUSF relief of \$786,857 per year, of which  
107 \$299,129 is previously awarded UUSF and \$487,728 is interim USF that

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108 supersedes and replaces the 2008 USF revenues.<sup>3</sup> Manti started  
109 receiving its revised UUSF monthly disbursement of \$65,571.42 (based on  
110 annual UUSF of \$786,857) in May 2011.<sup>4</sup>

111

112 If the Commission adopts the OCS position or adopts a revenue surplus  
113 position exceeding Manti's annual interim UUSF of \$487,728 (\$40,644 per  
114 month), then the Commission will need to determine the treatment of  
115 these interim UUSF funds received by Manti. The funds in question would  
116 be the interim UUSF covering at least the period May 1, 2011 through the  
117 approximate 20 months ending December 31, 2012 (approximate end of  
118 240 days), and this total could be \$812,880 or more (depending on the  
119 actual cut-off date and if any accrued interest is owed).

120

121 **Q. WHAT ADDITIONAL RECOMMENDATIONS DO YOU PROPOSE?**

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

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

130

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

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<sup>3</sup> 2011 Stipulation, p. 4, ¶ 12.

<sup>4</sup> Memorandum from DPU Director Chris Parker to the Commission, dated April 25, 2011.



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

135

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

144

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

147 A. Manti seeks substantial increases in its UUSF revenues, increasing from  
148 \$.8 million today to about \$3.7 million in this proceeding, an increase of  
149 about \$2.9 million. Because these UUSF revenues represent funding  
150 provided by the public generally there should be an increased focus and  
151 overarching emphasis on transparency and public disclosure of  
152 information in this case to foster an objective evaluation.

153

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

160

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- 161 1) **Affiliate transactions** between Manti and other family owned
- 162 affiliates that are not being properly accounted for and are not
- 163 consistent with related regulatory practices – Most of the
- 164 adjustments that OCS proposes in this case are related to the
- 165 absence of appropriate affiliate transactions accounting and
- 166 supporting documentation, including significant adjustments related
- 167 to:
- 168 a) Fiber to the home (“FTTH”) facilities and assets between
- 169 MTC and affiliate MTCC.
- 170 b) Payroll allocation between MTC and affiliate MTCC.
- 171 c) Unsubstantiated charges from MTCC to MTC for various
- 172 vehicles, warehouses, internet-related services, and
- 173 advertising.
- 174
- 175 2) **Failure to provide supporting documentation and calculations**
- 176 for transactions related to affiliates, payroll costs, rate case costs
- 177 and professional fees, MTCC charges to MTC, income taxes, and
- 178 many other revenue requirement costs that OCS has reviewed.
- 179 Most of the OCS data requests were not provided with proper
- 180 responses and supporting documentation.
- 181
- 182 3) **Excessive Confidential assertions** have been made by Manti
- 183 such that almost every document and data request provided to
- 184 OCS has been cited as Confidential.
- 185

186 This virtual rubber stamping of “Confidential” documents is illustrated with

187 this example. Manti recently provided a stamped “Confidential” tariff page

188 that provided its basic local residential and business rates - - and I thought

189 this might be an oversight. In addition, Manti also does not provide its

190 basic local residential and business rate at its website. OPC DR 10-10

191 asked Manti why it does not show its basic local rate at its website (these

192 basic rates are commonly publicly disclosed by telcos at their websites)

193 and Manti’s response [BEGIN CONFIDENTIAL] [REDACTED]

194 [REDACTED]

195 [REDACTED]

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

206

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

213

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

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

223

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

234

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

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

240

241 **[BEGIN CONFIDENTIAL]**

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[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[END CONFIDENTIAL].

309

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

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

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<sup>5</sup> 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.

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

323 **[BEGIN CONFIDENTIAL]**

324 [REDACTED]  
 325 [REDACTED]  
 326 [REDACTED]  
 327 [REDACTED]  
 328 [REDACTED]  
 329 [REDACTED]  
 330 [REDACTED]  
 331 [REDACTED]  
 332 [REDACTED]

333 **[END CONFIDENTIAL]**

334

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

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

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<sup>6</sup> This is an example from Manti’s response to OCS DR 2-5 and 2-6.

<sup>7</sup> *Id.*

<sup>8</sup> *Id.*

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

351

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

358

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

---

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

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

377

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

382 A. Yes. I will summarize some examples of how the common sense,  
383 accounting, and operational “substance” of Manti and MTCC supercedes  
384 any intended “legal” form which was created to erect barriers for

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385 regulators, hide transactions, and favor the nonregulated interests of  
386 MTCC over the regulated operations of Manti. One way to view  
387 transactions between Manti and MTCC is to consider whether these  
388 companies would operate in the same manner if they were truly  
389 independent third parties or competitors (such as CentraCom is  
390 considered a competitor to Manti and MTCC) regarding their transactions.  
391 These examples which show that MTC and MTCC are more like affiliates  
392 include:

- 393  
394 1) Mr. Dallas Cox is both Assistant Manager and Director of Manti,  
395 and is President and Director of MTCC. An independent entity or  
396 competitor would not allow this common management, neither  
397 company would allow its employees to be supervised by another  
398 company, and neither entity would not allow an officer of another  
399 company to also plan and budget its competitive fiber operations  
400 while giving them access to their books and records.  
401  
402 2) Manti and MTCC send one bill to common customers for all  
403 services provided to both entities, with Manti's phone number is  
404 listed as the contact number. An independent entity or competitor  
405 would not send common bills with its services, and would not want  
406 a competitor to have complete access to their customers, to know  
407 the number of customers, and know the amount of related billed  
408 revenues. Also, another entity would not list only its competitor's  
409 phone number on the invoices and have all customer inquiries  
410 routed through its competitor.  
411  
412 3) An independent or competitive entity would not allow officers and  
413 employees to float back and forth between the two companies as is  
414 the case with certain employees of MTC and MTCC.  
415  
416 4) An independent or competitive entity would not allow the primary  
417 accountant of another entity to perform some of its purchasing,  
418 review its invoices, and allocate or assign costs to its books. Mr.  
419 Andrew Adamson was the primary accountant for Manti and he  
420 routinely performed these functions between MTC and MTCC as  
421 evidenced by my review of vouchers and invoices.

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422

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

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

430

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

438 The purpose of these regulatory practices is to protect the regulated entity  
439 and its related customers from manipulative or improper practices of  
440 nonregulated affiliates. These rules are intended to keep affiliates from  
441 improperly shifting their costs to regulated carriers so they can recover  
442 these costs in customer rates and universal service funding through the  
443 regulatory process. These rules also keep competitive affiliates from  
444 shifting their costs to regulated carriers so they can subsidize their

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445 competitive operations, reduce their retail prices, and gain an unfair  
446 economic advantage over their competitors that do not subsidize their  
447 operations. These rules are intended to provide the benefit of any doubt  
448 regarding affiliate transactions to the regulated carrier.

449

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

452

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

467

468

469 2) Part 64 Allocation of Costs and Cost Allocation Manual (“FCC §  
470 64.901 - .904”) - Section 64.901 requires carriers to separate their  
471 regulated costs from nonregulated costs and use the attributable  
472 cost method, whereby costs shall be directly assigned to either  
473 regulated or nonregulated activities whenever possible. Costs that  
474 cannot be directly assigned are called “common costs” and are  
475 grouped in homogenous cost categories to facilitate allocation. The  
476 first priority is to allocate these costs based on direct analysis of the  
477 origin, and if direct analysis is not possible then costs should be  
478 allocated based on indirect or cost-causative linkage, or if a direct  
479 or indirect allocation is not possible then a general allocator should  
480 be used.

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

- 485
- 486 a) A description of each carrier's nonregulated activities and a  
487 list of all activities the carrier records related accounting  
488 treatment.
  - 489 b) A chart showing corporate affiliates.
  - 490 c) A statement identifying each affiliate that will engage in  
491 transactions with the carrier and describing the nature,  
492 terms, and frequency of transactions.
  - 493 d) A cost apportionment table showing for each account, the  
494 related cost pools, the procedures used to place costs in  
495 each pool, and the method used to apportion costs in each  
496 cost pool.
  - 497 e) A description of the time reporting procedures, including  
498 studies to measure and allocate non-productive time.
  - 499 f) Information in the CAM should be accurate, updated  
500 annually, and with identification of all changes
  - 501 g) Historically, large carriers were required to have their CAM  
502 subject to an attest audit by an independent auditor every  
503 two years covering the two prior years - - and some state  
504 regulatory agencies impose different rules in this regard.  
505

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

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

- 515 • No final and completed CAM was provided that includes supporting  
516 documentation and calculations showing how specific costs are

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- 517 apportioned, no calculation of allocation factors and related  
518 assumptions, and no related time or motion studies were included.  
519
- 520 • No allocation/imputation of fiber-related plant asset costs between  
521 Manti and MTCC (and related depreciation, property taxes,  
522 overheads, and payroll costs).  
523
  - 524 • No allocation of payroll and benefit costs for: a) officers and  
525 common employees of Manti and MTCC; b) employees no longer  
526 employed by Manti but instead employed by MTCC; c) benefits  
527 provided by Manti to employees of MTCC.  
528
  - 529 • No determination of the lower of cost or fair market value for  
530 internet-related costs charged by MTCC to Manti (although all fiber  
531 facilities exist on Manti's books).  
532
  - 533 • No determination of the lower of cost or fair market value for rent  
534 charges from P&C Rental to Manti for warehouses, heavy vehicles,  
535 and other.  
536
  - 537 • No determination of the higher of cost or fair market value for rent  
538 charges from Manti to Breakaway Wireless for use of office space.  
539
  - 540 • No time or motion studies for the CAM in regards to allocating the  
541 time of customer service representatives that field inquiries for both  
542 Manti and MTCC (because only Manti's telephone number is listed  
543 on the customer bill for all inquiries).  
544
  - 545 • No determination of the lower of cost or fair market value for  
546 advertising costs charged by MTCC to Manti.  
547

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

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

- 552 • Manti retains the burden of proof in this proceeding, so the  
553 Commission retains its discretion to disallow or adjust all affiliate  
554 and other costs and revenues accordingly.  
555
- 556 • Manti's own Cost Allocation Manual identifies MTCC as an affiliate.  
557

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- 558                   • .Compliance with GAAP and the important accounting principles of  
559                   “substance over form” as previously addressed.  
560  
561                   • Compliance with regulatory best practices for Part 32 Affiliate  
562                   Transactions and Part 64 Cost Allocation Manual that requires  
563                   transactions between affiliates be presented in a specific manner  
564                   and supported by documents and calculations primarily related to  
565                   cost or fair market value.  
566  
567

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

570   A.    Yes. OCS first requested access to detailed affiliate financials in DRs 2-5  
571           and 2-6 (General Ledger and Trial Balance), and Manti’s response on May  
572           29, 2012 raised the “affiliate status” objection for the first time and refused  
573           to provide detailed financial statements. After various follow-up regarding  
574           this matter, four months later the Company provided a high level one page  
575           operating income statement and two page balance sheet for MTCC on  
576           October 9, 2012.

577

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

583   **[BEGIN CONFIDENTIAL]**

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

608  
609 **OCS USES HISTORIC TEST PERIOD DECEMBER 31, 2012**

610

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

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612 A. Yes. OCS used a test year ending December 31, 2011, as the starting  
613 point for its rate case adjustments.<sup>10</sup> Mr. Hendershot's testimony states  
614 that Manti used the actual financial information for the six months July 1,  
615 2011 to December 31, 2011, and then annualized these amounts, and he  
616 states that the 2011 Stipulation allowed for this method.<sup>11</sup> I will refer to  
617 this as a partially forecasted test period, and I have some concerns with  
618 Manti's position regarding the use of a six-month normalized test period.

619

620 **Q. DID MANTI FULLY COMPLY WITH THE 2011 STIPULATION?**

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

627

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

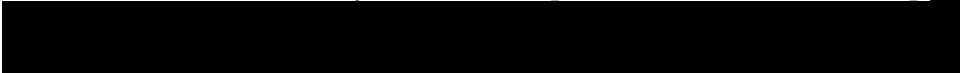

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<sup>10</sup> The December 31, 2011 balances are from Manti's Trial Balance and were traced to Manti's 2011 Audited Financial statements.

<sup>11</sup> Mr. Hendershot Direct Testimony, p. 3, lines 39 – 41, although he does not cite to specific language in the 2011 Stipulation.

<sup>12</sup> 2011 Stipulation, p. 5, para. 15, pp. 5 – 7, ¶¶ 15 – 17.

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- 630 1) Non-Compliance with R746-700-40 and 2011 Stipulation regarding  
631 Part 64 - The 2011 Stipulation requires Manti to make its amended  
632 rate filing "in compliance with R746-700-40,"<sup>13</sup> and both R746-700-  
633 40 A.5. and the 2011 Stipulation require Manti to provide a  
634 complete Part 64 Cost Allocation Manual ("CAM") for purposes of  
635 allocating nonregulated costs.<sup>14</sup> R746-700-40 A.5. requires a fully  
636 referenced Part 64 CAM, which requires that all amounts and  
637 source documents are included in the filing information, and the  
638 names and sources of allocators to determine nonregulated  
639 portions shall be included in lines with the allocated amounts. As I  
640 previously stated, Manti has not provided a CAM with proper  
641 supporting documentation.  
642
- 643 2) Manti's Amended Application claims compliance with Rules R746-  
644 360 and R746-700.<sup>15</sup> However, Manti did not make its filing in  
645 compliance with these cites to the rules. OCS DR 5-1 asked Manti  
646 to explain and provide supporting documentation and calculations  
647 to show how if its filing was compliant or noncompliant (and why)  
648 with "R746-360-8. Calculation of Fund Distributions in Rate-of-  
649 Return Incumbent Telephone Corporation Territories" and related  
650 R746-360-2.B regarding Average Revenue Per Line ("ARPL")  
651 calculations. Manti's response stated **[BEGIN CONFIDENTIAL]**  
652   
653   
654 **[END CONFIDENTIAL]**. However,  
655 OCS does not believe that Manti can or should be able to  
656 determine noncompliance with Utah Rules. Also, Manti's failure to  
657 use the required filing format allowed it to delay the provision of  
658 information to OCS regarding revenues, access lines, and other  
659 data that would have normally been available at the time of the  
660 filing.  
661
- 662 3) Manti's forecasted test period is flawed because it fails to reflect  
663 significant normalization and annualization adjustments related to  
664 affiliate transactions and other issues. Manti's forecasted test  
665 period is over-simplified and merely reflects a doubling of the  
666 revenues and expenses for the actual six months from July 2011 to  
667 December 2011 as a starting point, and this is not accurate or

---

<sup>13</sup> 2011 Stipulation, p. 6, ¶ 16.

<sup>14</sup> 2011 Stipulation, Attachment 4, item 7.

<sup>15</sup> Manti's Amended Application, April 24, 2012, opening paragraph.

668 reliable. This is because it does not consider that different types of  
669 expenses are paid at different times of the year, there can be  
670 duplication of errors, and it compounds the problems related to not  
671 properly allocating costs to MTCC for affiliate transactions.  
672  
673

674 **OCS PROPOSED ADJUSTMENTS**

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<sup>16</sup> Mr. Hendershot Direct Testimony, p. 6, lines 106 to 110.

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<sup>21</sup> 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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<sup>22</sup> My proposed adjustment includes an Assistant Accountant at a base salary of [Redacted]

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<sup>23</sup> Mr. Hendershot's Direct Testimony, p. 5, lines 87 – 88.

<sup>24</sup> *Id.*, p. 5, lines 87 – 88.



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<sup>25</sup> Mr. Hendershot's Direct Testimony, p. 5, lines 87 to 88.  
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<sup>26</sup> Manti Amended Application, April 24, 2012, p. 4, item 6.a.  
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1289 **Q. DOES THIS COMPLETE YOUR PREFILED DIRECT TESTIMONY?**

1290 **A. Yes.**