Witness OCS – 2R 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** **Rebuttal Revenue Requirement Testimony of Bion C. Ostrander For the Office of Consumer Services**

REDACTED – REBUTTAL TESTIMONY

Subject to R 746-100-16

October 30, 2012

TABLE OF CONTENTS – BION C. OSTRANDER

INTRODUCTION

Q. WHAT IS YOUR NAME AND BUSINESS ADDRESS?

A. My name is Bion C. Ostrander. My business address is 1121 S.W. Chetopa Trail, Topeka, Kansas 66615-1408.

Q. ARE YOU FILING REBUTTAL TESTIMONY ON BEHALF OF THE UTAH OFFICE OF CONSUMER SERVICES ("OCS")?

A. Yes. I previously filed direct testimony and I am now filing rebuttal testimony on behalf of OCS regarding the revenue requirements of Manti Telephone Company ("Company", "Manti" or "MTC") related to its second amended application for increased Utah Universal Service Funds ("UUSF").

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. First, I will briefly address the difference in test periods and adjustment approaches used by OCS and the Utah Division of Public Utilities ("DPU"). Second, I will primarily focus on Ms. Jill Carter's testimony that addresses her compensation study that in turn provides the foundation for Mr. Robert A. Davis' adjustment to significantly increase Manti's payroll costs to purported market levels. I will also address concerns with some of the calculations used in Mr. Davis' payroll adjustment that is linked to Ms. Carter's compensation study. Third the OCS proposed rate-of-return

("ROR") of 8.01% is essentially the same as DPU's proposed ROR of 8.16%, therefore the OCS is willing to adopt DPU's 8.16% ROR. Finally, the issues addressed in this rebuttal testimony are not intended to represent all differences of opinion with DPU regarding matters in this proceeding. However, despite OCS and DPU using different methodologies for various adjustments, both parties share many common concerns and arrive at similar positions regarding a final recommendation.

Q. DO YOU HAVE EXHIBITS SUPPORTING YOUR TESTIMONY?

A. Yes. OCS Exhibit 2.1R Ostrander is attached to this testimony.

Q. CAN YOU BRIEFLY EXPLAIN THE DIFFERENCE IN THE STARTING POINT FOR OCS ADJUSTMENTS VERSUS DPU ADJUSTMENTS, AND DO THESE APPROACHES EVENTUALLY REACH A SIMILAR BOTTOM LINE?

A. Manti started with a forecasted test period that essentially doubled the operating expenses for the last six months of 2011 (July to December 2011), and then proposed adjustments to those amounts. It appears that DPU started with Manti's proposed forecasted test period amounts for their adjustments, but then in many cases they initially reversed (removed) Manti's proposed adjustment and then substituted their own adjustment.

OCS technically started with Manti's forecasted test period but Adjustment BCO-1 reversed and removed the impact of both: a) Manti's forecasted test period; and b) all Manti proposed adjustments - - to arrive at a starting point of a December 31, 2011, test period. Therefore, OCS removed all of the Manti proposed adjustments up front in one adjustment and DPU removed many of Manti's proposed adjustments as part of each specific adjustment that they propose. In the end, the OCS and DPU final recommended revenue surplus positions are not that far apart, each party just used a different starting point for adjustments. Therefore, the starting point of a test period is not that important in this case, it is the final adjusted amounts that are most important.

Q. WILL YOU SUMMARIZE THOSE PAYROLL ISSUES WHERE OCS AND DPU APPEAR TO DISAGREE AND AGREE?

A. Yes. OCS disagrees primarily with the largest component of DPU's proposed increase in Manti payroll costs that is based on Ms. Carter's underlying compensation study and analysis. It appears that Ms. Carter addresses the underlying compensation study and policy testimony supporting this overall payroll increase and Mr. Davis reflects the actual related payroll adjustment impact in the revenue requirements.[1] DPU first removed Manti's significant payroll adjustment (which Manti asserts is

[1] Mr. Davis Direct Testimony, lines 171 to 213, with related payroll salaries, wages and taxes adjustment at DPU Exhibit 4.4 REV-EXP and related payroll health/dental benefits at DPU Exhibit 4.5 REV-EXP

based on adjusting its payroll to market levels). But then DPU implemented a smaller, but still significant, increase in payroll costs based on Ms. Carter's approach to adjust Manti payroll costs to median market levels.[2]

In summary, the payroll cost issues where OCS disagrees with DPU include:

1) The DPU's proposed payroll increase based upon Ms. Carter's compensation study should be rejected for the following reasons:

   a) Although Ms. Carter criticizes Manti's compensation policy as being unusual and favoring above market pay for higher level positions compared to lower positions, her recommendations incorporate this same flaw by rewarding some higher level positions with significant pay increases.

   b) DPU's payroll adjustment is not consistent with Ms. Carter's recommendation that any of Manti's base salary and wages within a 10% margin of error of the market are reasonable, and instead DPU adjusted payroll for the entire market difference - - including the 10% margin of error.

   c) DPU's proposed pay increase could repeat the problems of the past, whereby DPU agreed to provide Manti with an allowance of UUSF to **[BEGIN CONFIDENTIAL]** [redacted] **[END CONFIDENTIAL].**

   d) Ms. Carter's analysis cannot adequately match market job positions and salaries with those of Manti, because the actual job description and total salaries paid to common officers and employees of both Manti and its affiliates is not known and has not been provided by Manti or MTCC.

---

[2] Ms. Carter recommends some increases and some decreases in salaries and wages for individual Manti personnel, but the overall impact is a net increase in payroll costs.

e) The assumptions underlying compensation studies are highly subjective and result in broad and significant differences in both amounts and opinions regarding proper “market” payroll levels.

f) DPU’s adjustment fails to address the ”competent personnel” issue raised by Ms. Carter, and substantial payroll increases can unduly reward Manti management for the history of issues and problems stemming from the 2008 review through today.

2) I disagree with Ms. Carter’s approach to cost of living (“COLA”) increases. Ms. Carter rejects Manti’s proposed **[BEGIN CONFIDENTIAL]** [redacted] **[END CONFIDENTIAL]** In contrast, I have included a separate **[BEGIN CONFIDENTIAL]** [redacted] **[END CONFIDENTIAL]** COLA adjustment for Manti “non-management” wage employees only, and I have not awarded any pay increases to Manti management employees.

3) It appears that DPU may have inadvertently allocated 100% of Ms. Carter’s payroll changes to expense, instead of allocating a proper amount to capitalized payroll accounts, thus overstating the cost of service. Whereas my adjustment to payroll costs correctly allocates payroll costs between expense and capital amounts, as reflected in my direct testimony at Confidential OCS Exhibit 2.4D Ostrander.

4) I disagree with DPU’s treatment of the projected costs of an employee that has never been hired by Manti since the 2008 period. DPU removes these costs, but OCS allows these costs to make Manti more efficient and to reduce the role and significant costs of outside consultants in the future.[3]

5) There appears to be some differences between OCS and DPU regarding the starting point for Manti’s unadjusted salaries/wages, and DPU may have included payroll for one less construction

[3] This is also one reason that supports the OCS adjustment to outside professional fees.

worker in their analysis, but OCS is hopeful that these differences can be reconciled and resolved.

Some of the primary payroll cost issues where OCS agrees with DPU include:

1) DPU removes the costs of a Manti employee that no longer works for Manti (but works for MTCC), and OCS agrees and has also removed these costs in its payroll adjustment.

2) DPU has reflected a more precise calculation of payroll taxes and health/dental benefit costs in its payroll adjustment, and I have applied a more general payroll loadings factor to reflect these same payroll costs. I agree with DPU's approach and will incorporate this approach in future calculations.

Q. WHAT IS THE OCS POSITION AND ADJUSTMENT ON PAYROLL ISSUES AFTER CONSIDERING DPU'S TESTIMONY?

A. I am not proposing any changes to the underlying reasons supporting my payroll adjustment or to the most important calculations. However, in my final revenue requirement I will revise the payroll taxes and benefits portion of my payroll adjustments using Mr. Davis' more precise method reflected in his related spreadsheet, instead of using my original payroll loadings factor.

Q. WILL YOU BRIEFLY EXPLAIN MS. CARTER'S COMPENSATION STUDY THAT IS THE PRIMARY BASIS FOR DPU'S PAYROLL ADJUSTMENT?

A. Ms. Carter's compensation study is intended to compare the current salaries and wages of job positions at Manti with comparable job positions in the market, and then use these results to adjust Manti's payroll costs of individual employees up or down to be in line with market levels of these comparable positions at the 50% median.

Q. WHAT IS THE IMPACT OF MS. CARTER'S ANALYSIS ON DPU'S PAYROLL ADJUSTMENT?

A. DPU's total payroll adjustment is a net decrease of **[BEGIN CONFIDENTIAL]** [redacted][4] **[END CONFIDENTIAL]** consisting of the following increases and decreases:

1) DPU reverses and <u>reduces</u> Manti's proposed payroll increase of **[BEGIN CONFIDENTIAL]** [redacted] **[END CONFIDENTIAL]**, thus resulting in a decrease in payroll costs.

2) DPU then <u>increases</u> payroll costs by **[BEGIN CONFIDENTIAL]** [redacted] **[END CONFIDENTIAL]** for the impact of Ms. Carter's compensation study. This adjustment also reflects the impacts of removing non-MTC employees from the payroll costs.[5]

3) DPU then proposes a <u>net reduction</u> in health/dental insurance benefits costs of **[BEGIN CONFIDENTIAL]** [redacted] **[END CONFIDENTIAL].**

Mr. Davis' testimony states that DPU's proposed base salary payroll increase of **[BEGIN CONFIDENTIAL]** [redacted] **[END**

[4] Mr. Davis exhibits, DPU Exhibit 4.4 REV-EXP for payroll salaries/wages and payroll taxes and DPU Exhibit 4.5 REV-EXP for health/dental insurance.
[5] There is a small rounding error between this amount and the amount shown at DPU Exhibit 4.4 REV-EXP (2).

CONFIDENTAL] is attributed to Ms. Carter's compensation study and reflecting payroll at median market levels.[6]

Q. DOES MS. CARTER CRITICIZE MANTI'S COMPENSATION PRACTICES AND THEN PROPOSE PAYROLL INCREASES WITH THESE SAME FLAWS?

A. Yes. Ms. Carter concludes that most of the <u>higher level positions</u> are paid at levels above market and the <u>lower level positions</u> are paid at levels below market, and she states that this is unusual and suggests that higher level positions have been favored over lower level positions in terms of payroll and this is "not in accordance with usual and customary standards of compensation."[7] It appears that Manti's existing payroll practices are a significant concern to Ms. Carter.

Despite this criticism of Manti's compensation practices, Ms. Carter's compensation study continues this unusual and irregular practice by rewarding two of the four highest paid management employees with payroll increases of **[BEGIN CONFIDENTIAL]** [redacted] **[END CONFIDENTIAL].** Thus it appears Ms. Carter's compensation study has some of the same flaws that she alleges of Manti's payroll practices.

---

[6] Mr. Davis Direct Testimony – p. 10, line 180, and p. 11, line 181.

[7] Ms. Carter's Direct Testimony – p. 11, lines 231 to 235, p. 12, lines 236 to 241.

Ms. Carter's recommendations results in a DPU adjustment that increases Manti employee payroll costs by **[BEGIN CONFIDENTIAL]** [redacted] **[END CONFIDENTIAL].**

Q. CAN YOU EXPLAIN THE CONCEPT OF "ACCEPTABLE MARKET RANGE" ADDRESSED IN MS. CARTER'S COMPENSATION STUDY?

A. Some compensation consultants establish an acceptable market range (also called a margin of error) to allow for the imprecision and subjectivity in underlying market survey data, and to account for issues that may be difficult to precisely quantify such as geographic differences in pay across the country, inflation factors used in an attempt to true-up payroll costs in historic surveys to current levels, along with other subjective factors. Some compensation consultants use a margin of error range of 10% to 15%, and if the actual payroll for a specific job position is within an acceptable market range (or margin of error) that is either 10% to 15% above or below market, then no revisions or changes are necessary for that job position.

Ms. Carter recommends a 10% margin of error in this case. But as another example, a 15% margin of error was proposed by compensation consultant Mr. Christopher McGee (Partner with Mercer Human Resource Consulting) in his testimony on behalf of a utility company in a 2011 Maryland rate case.[8] The bottom line is that these margins of error are just another subjective factor used in compensation studies, and Ms. Carter has not included any documentation to show how she determined a 10% margin of error.

Q. DOES THE DPU'S PAYROLL ADJUSTMENT FAIL TO CONSIDER MS. CARTER'S RECOMMENDED 10% MARGIN OF ERROR?

A. Yes, and this has overstated DPU's adjustment to increase payroll costs. Ms. Carter states, "Any MTC base salary data that was +10% or -10% from the market median base salary was considered to be within an acceptable market range.[9] Therefore, at the very minimum, it is not reasonable to adjust or propose changes for payroll costs that fall within Ms. Carter's 10% margin of error. However, DPU's payroll adjustment incorrectly reflects this entire 10% margin of error.

[8] Before the Public Service Commission of Maryland. *In the Matter of the Application of Washington Gas Light Company for Authority to Increase Existing Rates and Charges and to Revise its Terms and Conditions for Gas Service*, Case No. 9267. Direct Testimony of Mr. Christopher McGee, April 15, 2011, page 6, lines 18 and 19. Mr. McGee stated, "Mercer considers any job within +/- 15% to be within the competitive range.

[9] Ms. Carter's Direct Testimony – p. 6, lines 121 to 123.

Q. HOW SHOULD THIS MARGIN OF ERROR ISSUE BE TREATED IF THE COMMISSION ADOPTS THE COMPENSATION STUDY APPROACH?

A. I recommend that the Commission reject Mr. Carter's compensation study for all of the apparent problems and adopt the OCS payroll adjustment. However, if the Commission adopts Ms. Carter's compensation study approach, then I believe the Commission should make a revision to DPU's payroll adjustment regarding this margin of error issue (along with other changes recommended later). Specifically, the Commission should reduce DPU's payroll adjustment by the amount of at least a 10% to 15% margin of error at the very minimum.

Q. DOES DPU'S PROPOSED PAY INCREASE OPEN THE DOOR FOR MANTI TO REPEAT PROBLEMS FROM THE PAST AND NOT USE THESE FUNDS FOR INTENDED PURPOSES?

A. Yes. DPU previously reached agreement with Manti to provide a UUSF allowance of **[BEGIN CONFIDENTIAL]** [redacted] **[END CONFIDENTIAL].** However, Manti used these UUSF amounts in 2011 to pay outside consultants to perform these same functions.[10] Manti never did provide OCS with a detailed accounting of how these UUSF amounts were actually spent. Also, Manti has refused to specifically identify how much UUSF has been used to pay outside

[10] Mr. Ostrander Direct Testimony – p. 29, lines 808 to 817.

regulatory consultants GVNW Consulting ("GVNW"), accountant Hawkins Cloward & Simister LC ("Hawkins") and attorneys Blackburn & Stoll LC("Blackburn") for the 2008-related proceeding, cleaning up the regulatory and accounting books as required by the 2011 Stipulation, and used for nonregulated matters.

It does not seem prudent at this this time to reward Manti with an even greater UUSF allowance of **[BEGIN CONFIDENTIAL]** [redacted] **[END CONFIDENTIAL]** (DPU's compensation study payroll increase) in this case, given the problems as recent as 2011 with this similar type of approach and given Manti's failure to fully account for these funds after-the-fact.

If Manti is given a significant UUSF allowance for adjusting payroll to market median levels, there are no assurances Manti will use it for these purposes (although there would also be some problems with how to administer payroll reductions for certain employees). In fact, the use of Ms. Carter's compensation study approach can have a compounding negative impact over time that allows for significant manipulation of UUSF amounts.

First, let us assume for illustration purposes that Manti is given an additional $100,000 in UUSF in this case to reflect its payroll at market levels. Second, let us assume that Manti does not use this $100,000 for payroll changes, but instead uses this for other purposes. Third, let us assume that a year from now Manti files another case for increased UUSF and that Ms. Carter's compensation study reaches a similar conclusion that Manti still needs a $100,000 allowance to bring its payroll to market levels, because Manti never used the $100,000 from the previous case to implement pay changes. It would appear that the use of compensation studies will continue to unjustly reward Manti year-over-year with additional revenue requirement allowance amounts that are not being used by Manti (or at least not used as intended) and should therefore not be included as a continued part of the cost of service in revenue requirement calculations.

Finally, and most importantly, OCS has significant concerns that any allowance for market level pay increases will continue to be improperly diverted to nonregulated operations (either directly or indirectly) as we have already determined in this case. OCS does not believe that rewarding Manti with allowance for UUSF funds related to compensation study based market pay levels is a prudent decision at this time based on the problems addressed in this proceeding.

Q. DOES MS. CARTER'S COMPENSATION STUDY ADEQUATELY COMPARE MANTI'S JOB POSITIONS (AND ACTUAL SALARIES)

WITH MARKET JOB POSITIONS (AND RELATED MARKET SALARIES)?

A. No, I don't believe this can be done under the current circumstances. One of the fundamental and most important starting points of a compensation study is to be able to properly compare a company's specific job position (and related actual salaries paid) to the same type of benchmark job positions in the market (and related market salaries paid) from appropriate surveys. I don't believe Ms. Carter's compensation study can accurately achieve this proper comparison between Manti's job positions and those in the market, although she probably made her best effort in this regard.

First, Ms. Carter's testimony explains the limitations and restrictions placed on her by Manti in regards to interviewing employees regarding their job descriptions and other matters, and she only interviewed personnel that were permitted by Manti, her interview process was cut short by one-half day, and the Manti attorney was in the room the entire time and this could have inhibited clear and accurate responses by personnel.[11]

Second, some of the job descriptions attached to Ms. Carter's testimony are not accurate in my opinion, although I do not fault Ms. Carter for

[11] Mr. Carter's Direct Testimony – page 4, lines 68 to 72.

Manti's failure to fully disclose job responsibilities. For example, Mr. Dallas Cox (Assistant General Manager/Plant Engineer for Manti) is identified as a full-time employee of Manti and his job description does not mention any duties or responsibilities for MTCC. However, just by the general description of his duties for Manti, it is clear that these same responsibilities related to **[BEGIN CONFIDENTIAL]** [redacted] **[END CONFIDENTIAL]** with fiber to the home ("FTTH") plant that is also clearly beneficial to MTCC (Mr. Dallas Cox is also President of MTCC). Therefore, without accurate and complete job descriptions for all employees, this can impact the results of the compensation study.

Third, as I explained in my direct testimony, Manti has not provided the amount of payroll that is paid to common officers and employees of Manti and MTCC, and Manti has not properly allocated related payroll costs between Manti and MTCC.[12] Manti failed to provide payroll costs paid by MTCC to common officers and employees of Manti and MTCC in OCS DR 2-29 and 2-30. If only the Manti portion of payroll costs for common officers and employees of Manti and MTCC is included in the compensation study, this can make it appear that Manti employee

[12] Mr. Ostrander Direct Testimony – page 39, line 1067, to page 44, line 1180.

compensation is below the market because not all compensation for both Manti and MTCC has been properly included in the compensation study for comparison purposes.

Q. CAN YOU EXPLAIN HOW MS. CARTER'S COMPENSATION STUDY IS HIGHLY SUBJECTIVE AND COULD RESULT IN SIGNIFICANTLY DIFFERENT RESULTS?

A. Most compensation studies have some fairly significant level of subjectivity that can impact results. However, the substantial unrecorded affiliate transactions between Manti and MTCC, failure to identify payroll amounts for common officers and employees of Manti and MTCC, and the general overall failure of Manti to provide requested documentation to OCS raises additional concerns about Ms. Carter's compensation study in this case.

Ms. Carter's testimony addresses concerns with certain subjective assumptions that Manti incorporated into its compensation analysis, including salary range length is too long, pay increases in certain salary steps, pay structure based on seniority, and certain pay discrepancy between two groups. Ms. Carter appears to have addressed these concerns in her compensation study, but these are several examples of subjective issues that can impact pay levels.

In addition, in my experience I have seen subjective issues that can significantly impact the results of any compensation studies, including:

1) Selection of comparable companies – companies can be subjectively selected based on one or a variety of factors such as total revenues, number of customers, total assets, market value, type of industry (utility specific, telecom specific, general industry), and other considerations;

2) Geographic pay differences – market payroll can vary from region to region based on economic and demographic factors and different regions can produce different results;

3) Inflation or other growth factors used to convert "old" studies to "current" studies – for example a compensation consultant may take a 2008 study and attempt to convert it to a 2012 study by subjectively increasing the included market payroll levels by a certain percentage each year (although this annual growth rate is subjective) and this can affect study results;

4) Utah specific, region-specific or nationwide surveys – the number of survey benchmark positions used from Utah specific, region-specific or nationwide surveys can influence compensation study results;

5) Using "mean" or "median" when identifying market pay levels - the use of a 25%, 50%, or 75% median (or something in-between) has a substantial impact on study results;
6) Number of positions included in survey - the number of positions included for comparison in a survey, and for which results are applied to all other positions or employees that are "similar" to these job positions; and

7) Selection of positions - whether the compensation consultant or the company selects the positions to be included in the compensation analysis can affect objectivity and the results.

With all of these highly subjective factors it is easy to understand how two compensation studies can arrive at vastly different results or how an inadvertent or intentional error can significantly impact study results. The subjectivity in compensation studies does not easily translate to important regulatory rate-making decisions regarding payroll costs.

Q. DOES DPU ADDRESS THE "COMPETENCY" ISSUE RAISED BY MS. CARTER'S TESTIMONY?

A. No. Ms. Carter's testimony states that bringing Manti employee base salary levels to the market median "provides MTC with adequate funds to staff each position with competent personnel."[13] The context of Ms. Carter's reference to "competent personnel" is not completely clear.

Ms. Carter and DPU Staff do not provide any assessment of "competent" Manti personnel in their testimony, so this may be another step that is required to be performed before Ms. Carter's market payroll levels should be adopted.

Also, Ms. Carter's testimony appears to indicate that Manti's compensation adjustment method and practices do not adequately consider merit or performance of employees and she states this is unusual and is not reasonable and customary compensation practice.[14] If my understanding of Ms. Carter's testimony is correct, Manti does not

[13] Ms. Carter's Direct Testimony, p. 13, lines 270 to 271.

[14] Mr. Carter's Direct Testimony, p. 10, lines 211 to 213, and p. 11, lines 214 to 223.

properly evaluate, measure, or reward employees based on merit or performance. Many problems with Manti's accounting and regulatory books that were first identified in 2008 are still ongoing. For example, Manti does not have a fully implemented Cost Allocation Manual and has appears to have failed to retain important documents related to its loan with RTFC. These and other issues raise concerns about competency and proper decision making. Such concerns should be considered before allowing any salary increases (especially for the higher level positions in Manti that are both owners and family members) because these competency issues are likely not applicable for hourly wage employees.

Q. DOES DPU'S PAYROLL ADJUSTMENT INADVENTENTLY ALLOCATE ALL OF THE AMOUNT TO EXPENSE?

A. It appears that Mr. Davis (at DPU Exhibit 4.4 REV-EXP (2) may have inadvertently allocated the entire amount of the payroll changes to expense, instead of allocating part of the adjustment to capital accounts. I have used Mr. Davis' exhibit as the starting point and shown revised calculations at "OCS Exhibit 2.1R Ostrander" that reduces payroll expense by the amount of **[BEGIN CONFIDENTIAL]** [redacted] **[END CONFIDENTIAL]** related to amounts that should be capitalized.[15] I

[15] This same type of adjustment would need to be applied to Mr. Davis' related

used Mr. Davis' exhibit and entered the capitalized amounts for each Manti employee from the 2011 Labor Distribution Report, and these same amounts were also shown at OCS Exhibit 2.4D Ostrander, Adjustment BCO-3, of my direct testimony. I then calculated the ratio of this capitalized payroll to Mr. Davis' beginning payroll amounts for each Manti employee. This "capitalized ratio" was then applied to the DPU proposed payroll change and the result was treated as an adjustment to reduce DPU's payroll expense.

There are some differences between Mr. Davis and myself regarding starting salaries/wages of some Manti employees, and I was not able to locate the wages of one of the construction workers in Mr. Davis' exhibit. However, I am hopeful that these differences can be resolved and reconciled.

Q. DOES OCS PROPOSE TO ADOPT THE ROR OF DPU?

A. Yes. There is not a significant difference between the proposed OCS ROR of 8.01% and the proposed DPU ROR of 8.16%, so OCS is proposing to adopt the DPU ROR.

Q. PLEASE SUMMARIZE YOUR TESTIMONY.

---

adjustment for payroll taxes and health/dental benefits expense.

A. I make the following recommendations to the Commission:

- Although the OCS uses a different test period, the net result of our methodology is not substantially different than that used by the DPU, both parties share many common concerns, and both parties arrive at a final revenue requirement that is very similar.

- The Commission should reject the DPU's payroll adjustments based on Ms. Carter's compensation study because it rewards some Manti management employees with unwarranted significant pay raises, it does not account for the 10% margin of error in Ms. Carter's analysis, it repeats the problems of the past whereby Manti was provided UUSF funds for payroll costs of an employee that was never hired, it is not possible to match market positions and salaries with comparable Manti personnel due to Manti's failure to provide critical information, compensation studies are problematic and highly subjective with results that can vary significantly based on underlying assumptions, and DPU fails to address the "competent personnel" issue raised by Ms. Carter.

- It appears that DPU may have inadvertently allocated the entire amount of its payroll adjustment to expense, instead of properly allocating some portion to capital accounts.

- DPU has removed the cost of an employee that was never hired by Manti since the 2008 period, but OCS has allowed these costs in order to make Manti more efficient and to reduce the role and significant costs of outside consultants in the future.

- There appears to be some differences between OCS and DPU regarding the starting point for Manti's unadjusted salaries/wages, and DPU may have included payroll for one less construction worker in their analysis, but OCS is hopeful that these differences can be reconciled and resolved.

I also indicate that the OCS intends to adopt the DPU more precise calculation of payroll taxes and health/dental benefit costs and the DPU's proposed ROR of 8.16%.

Q. DOES THIS COMPLETE YOUR PREFILED REBUTTAL TESTIMONY?

A. Yes.