-BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH-

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

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REBUTTAL TESTIMONY

OF

RAYMOND A. HENDERSHOT

ON BEHALF OF

MANTI TELEPHONE COMPANY

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

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

Q. ARE YOU FILING REBUTTAL TESTIMONY ON BEHALF OF MANTI TELEPHONE COMPANY?

A. Yes, I previously filed direct testimony in this case and I am now filing rebuttal testimony on behalf of Manti Telephone Company (“Manti” or “MTC”), the Applicant in this case.

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. My rebuttal testimony will briefly address several items address by the Utah Division of Public Utilities (“DPU”) and the Utah Office of Consumer Services (“OCS”). I will discuss some of the methodology used by the OCS and DPU, the costs of this case and the financial condition of the company.

Q. DOES MTC COMPLY WITH PART 32 OR PART 64 OF THE FCC REGULATIONS?

A. Yes. MTC is an average schedule company for interstate settlements with the National Exchange Carrier Association (“NECA”). In other words what this means that an average schedule company receives compensation for services it provides on an interstate basis based upon the national average of cost companies across the country. MTC follows the FCC Part 32 accounting on a lesser level than required for cost companies. MTC has a cost allocation manual to keep costs separated between regulated and non-regulated services. MTC sells its services to a non-regulated company Manti Telecommunications Company (“MTCC”) that has some common owners with MTC Services. MTC sells services to MTCC and any other customer at its tariff rates. Any service that MTC sells that is not listed in the tariff is sold at market rates. MTC tries to keep a separation between the regulated and non-regulated side of the business.

Q. DO YOU HAVE AN EXAMPLE OF SOME THING THAT THE DPU REQUIRED MORE ACCOUNTING THAN NECESSARY?

A. Yes. When MTC implemented a work order system as directed by the DPU, the Division wanted the work orders system to track all construction activity regardless of time and cost and record the project to Plant Under Construction (Account 2003). Part 32 provides the latitude for a company that if a construction project is completed in less than two months and the costs is less than $100,000 (Part 32.2003 (b)) it may be charged directly to the plant account. Many projects that MTC does outside of replacement of a switch or new building, the project is generally completed within two months and less than $100,000. The current upgrade to outside plant to fiber is generally done in sections consisting of small projects costing less than $100,00 and completed within 60 days as financial resources permit.

Q. HOW DOES MTCC PRICE ITS SERVICES TO MTC?

A. MTCC sells its services to MTC at its cost or retail based upon the service. An example of a service sold at cost is the Internet circuit provided to MTC at the same pricing that services are sold to the UTAH Educational Network or UEN. The prices paid by UEN are lower than tariff rates and the retail rates that MTCC sells its services to other customers. Other services provided to MTC are sold at retail or fully loaded labor if a MTCC employee is involved. Likewise if a MTC employee does something for MTCC, the service is provided at the loaded labor rate.

Q. DOES MTC LEASE THE BASEMENT IN THE STERLING BUILDING TO MTCC?

A. Yes. MTCC leases the basement for $200 a month. MTC also uses a section of the basement to store some equipment, parts and records.

Q. IS THE RENTAL RATE PAID BY MTCC COMPARABLE FOR THE MARKET?

A. Yes. A small business in Manti pays $50 a month for about 150 square feet at street level. When you consider the basement in Sterling that MTC rents to MTCC for $200 a month and a section of the basement is used by MTC for storage, the price for rent is very comparable for the area. Comparing rental rates in Utah county is not comparable to Sanpete county.

Q. WHY HAS MTC INCURRED SO MUCH EXPENSE TO FILE AND COMPLETE THE RATE CASE BEFORE THE UPSC?

A. There are probably several items that have driven up the cost to MTC. The stipulation previously reached in the case, provided that MTC could use a six month test period normalized and annualized for the filing in the case. Both the DPU and OCS have basically ignored the six month test period and used the entire year of 2011. In addition the DPU and OCS seem to be in a contest to see who could render the most Data Requests and work for MTC. MTC has incurred great expense at the company level and expense for consulting services and legal work to complete all of the filings and requests for the DPU and OCS. The financial demands on the Company have been significant and it is questionable whether the Company can recover financially in the end. This case is for a small company and not a large company that has unlimited resources. This case has been more involved and demanding than any I have ever been involved with in a rate filing.

Ms. Benvegnu-Springer has proposed adjustments in this filing to normalize the cost of the rate case which are totally inappropriate considering that the number of data requests and the amount of information requested has far exceeded normal expectations.

Q. DID MTC PROVIDE THE SUPPORTING DOCUMENTATION FOR THE COSTS INCURRED FOR CONSULTING SERVICES, LEGAL WORK AND SUPPORT FROM THE CPA IN THE RATE CASE?

A. Yes. In the responses to Data Request OCS DR 5 and the DPU DR 27 all of the invoices were provided for the CPA and the consultant. The invoices for legal work were provided also. So both the DPU and OCS had all of the invoices and MTC is still incurring costs to bring the case to closure / hearing. The high cost for this case is the direct result of the OCS and DPU.

Q. MR. COLEMAN OF THE DPU USED A FILING MADE BY NECA WITH THE FCC TO DETERMINE AN ALLOCATION OF THE PLANT ASSETS TO THE INTERSTATE'S JURISDICTION AS REQUIRED BY UT RULE. DO YOU AGREE WITH MR. COLEMAN'S ALLOCATION?

A. No. The filing made by NECA with the FCC showed ranges for selective plant assets allocated to the interstate jurisdiction for companies across the country. Mr. Coleman used the middle range since he thought it was a good average. When one looks at the state of Utah, it is very rural comparable to the states in the South, East coast and West coast. The cost companies in the state of Utah have a higher allocation to interstate because of the rural nature of the state of Utah. It would have been better for Mr. Coleman to have used the higher number in the range to better reflect the state or use the sample of cost companies that I used in the state of Utah. I believe he has under estimated the allocation to interstate with his methodology and thus understated the interstate rate of return used in the calculation of a rate of return for the company in this case. I used Mr. Coleman's model using the higher allocation of the NECA filing and it only produces an allocation of 37.46% to interstate. This number does not represent the rural companies in Utah. I believe the methodology I used with a sample of rural telephone companies in the state is a better representation of a true interstate allocation. No recent telephone company rate case completed in the state has had this low of a rate of return as proposed by the DPU or the OCS. I believe that my calculation using a sample allocation of companies is a better representation of the rate of return that Manti should receive in this case.

Q. MR. HICKEN OF THE DPU PROPOSED THAT THE CALCULATION OF DEPRECIATION EXPENSE SHOULD TAKE INTO CONSIDERATION SALVAGE VALUE. DO YOU AGREE WITH THIS PROPOSAL?

A. No. When the depreciation rates were reviewed and proposed for many independent telephone companies in the last major change in depreciation rates in the state for the rural telephone companies, no salvage value was assume by the DPU due to changes in technology and obsolesce. Part 32 allows for depreciation to be calculated on a group or account basis not taking into consideration the over depreciation that may occur with some assets that may still be in service. MTC maintains its depreciation calculation on an individual asset basis. When MTC calculates its depreciation expense, it is done on an individual asset basis. Once an asset is fully depreciated, no further depreciation is taken on the asset. This approach of taking depreciation on an individual account basis provides a fair approach to depreciation no over depreciation of assets and in today's world where very few assets have any real significant salvage value, the approach done by MTC is the best approach for depreciation.

Q. MR. HICKEN HAS PROPOSED AN ALLOCATION OF EXPENSES AND ASSETS TO NON-REGULATED. DO YOU AGREE WITH THIS METHODOLOGY?

A. No. MTC follows the FCC Part 32 rules and allocates costs between regulated and non-regulated services. MTC sells its services in accordance with its tariff. The allocations proposed by the DPU are based on customer counts in the use of plant. In the allocation of fiber plant assets in conduit, no consideration was taken in consideration of the transmission facility between Manti and Ephraim and to the POC. Mr. Hicken assumed that all outside plant facilities were distribution plant and connection to the protector at the house. Some of this plant is used for special access transmission to schools, college, business, etc. The copper facility was incapable in providing the services needed by customers, this is partly one reason MTC has lost special access circuits to competition. If the amount paid by MTCC for the use of MTC's facilities or services, then the tariff rate for the use of MTC's facilities should be increased not just allocating the plant between regulated and non-regulated. If the allocation is done, then the revenues paid by MTCC to MTC for use of its facilities should be removed.

Mr. Hicken took the revenues and expenses from both companies, MTC and MTCC and added them together and took the percentage of MTCC revenue and expenses of the total to determine a portion that is non-regulated on the assumption that the companies are like one. The fallacy in this logical is that no adjustments were made to reflect the revenues of MTC that were expenses of MTCC and the complete opposite. Expenses that have no relationship to a common business should be removed all together. An example is the cost that MTCC pays for the rights for retransmission of television programming which has no relationship to the telephone company operation. The allocation Mr. Hicken did are completely wrong and inappropriate.

Q. DO YOU HAVE ANY COMMENTS ON THE PROPSED WAGE SCHEDULES PRESENTED BY MTC IN THIS CASE?

A. I would like to make a comment that most small telephone companies hire employees at low salaries and over time the wages continue to increase. Generally the employees stay in the community and work for the company. As the knowledge of the employee expands, the employee is generally given additional responsibilities with little or no change in title. Very little promotional opportunities exist but the expansion of employee responsibility occur and the employee is recognized for this through the wage steps that MTC proposed in its wage schedule.

Q> DO YOU AGREE WITH THE WAGE ADDJUSTMENTS MADE BY THE DPU AND OCS?

A. No. The adjustments made by the DPU and OCS are wrong and inappropriate. The schedule put together by the Company takes into consideration the progress of an employee in a small rural company and is comparable to the national data from the National Telephone Cooperative Association ("NTCA") which was the general source of data used for wage and salary comparison. NTCA does an annual wage and salary survey of telephone companies across the country and makes it results available to any party for its costs. Other telephone companies in the industry use this survey to set their wage and salary schedules.

Q. DO YOU KNOW IF MTC IS CURRENTLY IN COMPLIANCE WITH ITS LOAN COVENANTS?

A. No. I spoke with MTC's CPA and he prepared an initial analysis based on the financials through September 2012 and MTC was not in compliance. MTC has incurred significant expenses this year associated with the rate case, changes and uncertainty in the federal policies relative to the telecommunications industry and competition have all contributed to the financial condition of the company.

Q. HAVE YOU DONE AN ANALYSIS OF THE FINANCIALS OF THE COMPANY OF THE MINIMUM OF WHAT WOULD BE NECESSARY TO BE IN COMPLIANCE WITH THE LOAN COVENANTS?

A. Yes, I have reviewed the financials and looked at the minimum that MTC will need to be in compliance with its loan covenants. Cash is very tight for MTC, in fact, they are currently holding checks due to insufficient cash flow. MTC needs an increase in state USF to be in compliance with its loan covenants.

Q. DOES THAT CONCLUDE YOUR TESTIMONY?

A. Yes, it does.