Docket No. 08-046-01

DPU Exhibit 2.0

Paul A.Hicken

May 24, 2013

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

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In the Matter of the Increase of Rates And	:	
Charges and Increase in USF Eligibility for	:	Docket No. 08-046-01
Manti Telephone Company	:	DPU Exhibit 2.0 DIRECT
	:	
	:	

DIRECT TESTIMONY

OF

PAUL A. HICKEN
STATE OF UTAH
DIVISION OF PUBLIC UTILITIES

May 24, 2013

I. INTRODUCTION

Q: Please state your name for the record.

A: My name is Paul Allen Hicken.

Q: By whom are you employed and what is your business address?

A: I am employed by the Utah Department of Commerce, Division of Public Utilities (DPU). My business address is 160 East 300 South, 4th Floor, Salt Lake City, Utah, 84114.

Q: What is your position with the Division?

A: I am employed as a Utility Analyst.

Q: Please summarize your educational and professional experience.

A: I received a Masters of Business Administration from Utah State University in 1985. I am also a Certified Government Financial Manager. I was employed for nineteen years with the Utah Office of Legislative Auditor General as a Performance Auditor. I have been employed with the Division since June, 2005.

Q: Have you testified before the Commission on prior occasions?

A: Yes on several occasions, most recently in November 2012 as witness for DPU in this docket.

Q: Please describe your participation in the Division's review of Manti Telephone Company (MTC).

A: I have been involved with the review of Manti's operations and rate base since the initial application for state USF assistance in April 2008.

II. PURPOSE AND SCOPE OF TESTIMONY

Q: What is the purpose of your testimony in these proceedings?

A: My testimony addresses the compliance plan proposed by Manti Telephone Company (MTC) and their consultants Telcom Consulting Associates Inc. (TCA).

III. REVIEW OF COMPLIANCE WITH ISSUES

Q: Have you reviewed the company's efforts and progress to come into compliance and resolve the problems identified in the hearing and order in late 2012?

A: Yes, over the last few months the DPU has received and reviewed responses to several data requests looking for evidence of changes in operations and procedures that show the company is trying to make improvements and comply with accounting and reporting requirements. In addition, the DPU made an onsite visit to discuss changes with the company executives and consultants.

Q: Can you identify the problem areas or issues that the company is trying to resolve and come into compliance?

A: Yes. In the previous hearing most of the Division's adjustments stemmed from the following areas:

- Recording of assets in the Continuous Property Record (CPR)
- Concerns with accuracy and appropriate accounting procedures
- Concerns with the Cost Allocation Manual (CAM) and allocations of assets, expenses, and revenues to non-regulated affiliate companies
- Maintaining a simultaneous fiber overlay and copper network in the rate base
- Concerns that lease agreements were not at the lower of cost or market
- Concerns that other affiliate transactions were not at arm's length.

Q: What has DPU done to review and assess the company's progress and efforts to come into compliance with these issues?

A: For the past few months, the DPU has been reviewing many newly requested documents and records from the company, such as its most recent financial statements, Cost

Allocation Manuals (CAM), General Ledger (GL) transactions, Continuous Property Records (CPR) revisions, lease analysis, and other data in order to review changes or modifications to operations and record keeping. In addition, we made an onsite visit to discuss further questions with the company executives and its consultant.

Q: What specific changes did you review and discuss with the company executives and the consultants?

A: We discussed many changes that will help the company be more compliant with regulatory requirements, some of which are identified as follows:

***Continuous Property Records* –** Asset identification numbers have already been added to the CPR. In the future when assets are retired and no longer in service, net salvage values will be recorded (net of retirement costs) for any assets that are salvageable. Assets with an identifiable salvage value such as vehicles will be recorded and depreciated at the cost minus salvage value.

***Other Accounting Concerns* –** The DPU discussed other accounting concerns with depreciation, work orders, time keeping, and general appropriateness and accuracy of recording. It should be noted that MTC has hired a new accountant with a CPA designation and some accounting background. This change should be helpful in making the necessary modifications to accounting records and maintaining accuracy. In addition, there have been some internal changes with personnel at the executive level, and the company hired a new telecom consulting group. These changes will encourage improvements to the accounting. Single asset depreciation schedules will continue to be used. Assets will not be depreciated beyond their booked cost. Approved depreciation rates will continue to be used. Salvage values will be netted out of accumulated depreciation when an asset is actually salvaged. Some fully depreciated assets may remain in the CPR if the asset is still in use. Work orders were discussed and the company has indicated it will continue to train and educate employees of the importance of accurate daily timekeeping and recording correct job codes on the time keeping system. The company has started monitoring heavy equipment usage and it is trying to determine the best way to log equipment use so it can be helpful to management for lease/purchase decisions.

Cost Allocation Manual and Non-Regulated Allocations **–** The CAM will provide a general overview of allocations and arrangements between the regulated company (MTC) and the non regulated affiliates. The details of allocation for assets, revenues and expenses, as well as leases and other arrangements for shared company assets will be identified in the Master Service Agreement (MSA), which is currently being developed. The company has eliminated its old tariff rate for broadband services and replaced it with a new rate that mirrors the NECA tariff rates for broadband. This will do away with the need to allocate a portion of rate-base for fiber and wire transmission to the non-regulated affiliate. This NECA rate has already been implemented. During the DPU review, MTC management was very knowledgeable in understanding the NECA tariff and it was apparent they had studied the tariff thoroughly. Allocation of other expenses and revenues will be individually outlined in the Master Service Agreement (MSA). While these allocations have not been finalized, MTC management seemed knowledgeable in how to proceed in developing the non-regulated allocations.

***Redundant Copper Network* –** The aerial copper wire will be retired from the rate-base in phases as soon as customers are cut over to fiber. Copper will be salvaged whenever feasible. In some cases copper is supporting the fiber and it is not practical to remove the copper for salvage. It is not feasible to retrieve and salvage underground copper and messenger wire.

Lease Agreements – The company has agreed to look at lease agreements for property and equipment and consider modifications that are fair and reasonable considering the age of the equipment, availability, and the market cost. It has also agreed to consider other options such as lease versus purchase of similar equipment, or lease versus build of lowest cost warehousing space.

Affiliate Transactions – The company has indicated that all transactions between MTC and its affiliates will be identified and the details will be specified in the Master Service Agreement. This MSA is currently a work in progress.

Clearing Accounts – We discussed the spread of expenses through the Employee Benefits Clearing Account, Payroll Tax Clearing Account, and Motor Vehicle Expense Clearing Account. The company has assured us that no expenses related to any of these accounts will be spread through the regulated accounting if the expenses pertain to non MTC employees or vehicles. Only expenses pertaining to the MTC vehicles and its employees will be cleared through these accounts. During the site review, MTC demonstrated how costs from labor, and clearing accounts – taxes, benefits, and vehicles

– will be distributed. This fully distributed costing will spread the costs to the appropriate asset or expense accounts and will allow MTC to more accurately depreciate and retire the fully loaded cost of the assets in the future.

Q: Can you provide a general assessment and summary of the company's progress toward compliance?

A: Yes, generally the company appears to be willing to make the necessary changes to accounting and other operations in order to meet regulatory compliance standards. While the changes to come into compliance are in progress and ongoing, we feel the company is making a good faith effort to comply with regulatory requirements. Keep in mind that many compliance issues will require ongoing efforts and it will take some time to have an accounting period on the books in order for compliance to be fully reviewed and verified. The Division is cautiously optimistic that MTC will continue in its efforts to comply with relevant accounting and regulatory standards.

Q: Does this conclude your testimony?

A: Yes, it does.