

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

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In the Matter of the        )  
Increase of Rates And        )     Docket No. 08-046-01  
Charges and Increase in    )  
USF Eligibility for         )  
Manti Telephone Company    )

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TRANSCRIPT OF HEARING PROCEEDINGS

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TAKEN AT:           Public Service Commission  
                      160 East 300 South, Fourth Floor  
                      Salt Lake City, Utah 84111

DATE:                December 29, 2008

TIME:                12:59 p.m.

REPORTED BY:        Kelly L. Wilburn, CSR, RPR

(December 29, 2008 - Manti Telephone Company)

1 APPEARANCES

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1 DECEMBER 29, 2008 12:59 P.M.

2 P R O C E E D I N G S

3 THE COURT: We're on the record. I'm Ruben  
4 Arredondo, ALJ for the Commission. I've been assigned  
5 to hear this matter In the Matter of Increase of Rates  
6 and Charges and Increase in USF Eligibility for Manti  
7 Telephone Company, Docket No. 08-046-01. And notice  
8 of this hearing was issued on December 15, 2008.

9 With that let's go ahead and take  
10 appearances, please.

11 MR. STOLL: Stanley K. Stoll and Kira M.  
12 Slawson for the law firm of Blackburn & Stoll on  
13 behalf of Manti Telephone Company.

14 THE COURT: All right. Thank you, Mr. Stoll.

15 MR. GINSBERG: Michael Ginsberg. And with me  
16 today is Claire Oman will be the Division's witness  
17 for the Division of Public Utilities.

18 THE COURT: Okay. Can you spell your last  
19 name for me Mr. Morobe?

20 MR. OMAN: O-m-a-n, Oman.

21 THE COURT: Oh, Oman, okay. All right. Then  
22 I think what we'll go ahead and do is proceed with  
23 Mr. Ginsberg.

24 MR. GINSBERG: Actually, we discussed it a  
25 little bit ahead of time.

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1 THE COURT: Okay.

2 MR. GINSBERG: And Manti has a witness also.

3 And they --

4 THE COURT: Okay.

5 MR. GINSBERG: -- they were gonna go first,  
6 and then we would follow up.

7 THE COURT: Okay. All right. Then go ahead,  
8 Mr. Stoll.

9 MR. STOLL: Thank you, your Honor. Just as a  
10 matter of brief background. It's fairly well laid out  
11 in the Request For Interim USF Eligibility that we  
12 filed on December the 11th. Manti Telephone Company  
13 filed on April 25, 2008, its Application For Rate  
14 Increase and Increase in USF Eligibility.

15 During the ensuing months the companies have  
16 worked together to resolve certain accounting issues.  
17 It became fairly apparent in the fall that these  
18 issues were gonna take a longer period of time than  
19 the 240 days provided under Utah Code. And so Manti  
20 waived the 240-day requirement as it applied to rate  
21 increases.

22 The Company and the Division have also agreed  
23 to a number of matters arising out of some of these  
24 accounting issues that, that we generally describe in  
25 the, in the request as well as the attached



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1 Stipulation.

2           And it was determined that the better course  
3 was to seek interim USF eligibility to provide the  
4 Company with revenues sufficient to meet its operating  
5 and capital needs, as well as meet certain loan  
6 covenants that it had with its principal lender.

7           The, the idea is to resolve the accounting  
8 issues. Have a full year of, of operation under a  
9 rate base that will be established and the accounting  
10 principals that will be implemented so that the  
11 permanent rate case would be held sometime in the  
12 early part of 2010.

13           THE COURT: Okay.

14           MR. STOLL: I have today a copy of the  
15 Request For Interim Increase in USF Eligibility. As  
16 well as a document was filed with the Commission on  
17 December 18th that was -- that is part of the  
18 Stipulation, which was a Request For Approval of  
19 Depreciation Rates.

20           And I have filed this day, based on  
21 conversations that we've had and an agreement that  
22 we've come to with the Division, an Amended Request  
23 For Depreciation Rates.

24           Paragraph 13 of the Stipulation provides that  
25 the Company and the Division will determine

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1 depreciation rates for underground conduit and  
2 underground cable. The Amended Request includes only  
3 those, while the original request included a broader  
4 category of depreciation rates.

5 And those we will hold for a, a later day,  
6 once we get through a number of these accounting  
7 issues.

8 THE COURT: Okay.

9 MR. STOLL: I have the three documents. I'd  
10 like to mark, mark them as exhibits if that would be  
11 possible.

12 THE COURT: That's fine, uh-huh  
13 (affirmative.)

14 MR. STOLL: The Request For Interim Increase  
15 in USF Eligibility we would mark -- which includes an  
16 attach -- the attached Stipulation, we would mark as  
17 Manti No. 1.

18 The Stipulation would be marked as Manti 1.A.  
19 The original Request For Approval of Depreciation  
20 Rates will be marked as Manti 2. And the Amended  
21 Request as Manti 3.

22 (A discussion was held off the record.)

23 THE COURT: Do you need the --

24 MR. STOLL: The Amended Request.

25 THE COURT: Okay.

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1 MR. STOLL: May I approach, your Honor?

2 THE COURT: Sure.

3 MR. STOLL: Okay.

4 THE COURT: Thank you.

5 MR. STOLL: Here are copies of the three  
6 documents.

7 THE COURT: Okay.

8 MR. STOLL: And I move for their admission.

9 THE COURT: All right. We'll go ahead and  
10 admit those if there's no objections.

11 MR. GINSBERG: None.

12 (Exhibit Nos. Manti 1 through Manti 3  
13 were admitted.)

14 MR. STOLL: We would like to call Ray  
15 Hendershot.

16 THE COURT: Okay. Mr. Hendershot, is it?

17 MR. HENDERSHOT: Hendershot.

18 THE COURT: Okay. Mr. Hendershot, actually  
19 if you'd like you can sit at the table there if you  
20 prefer.

21 MR. HENDERSHOT: That would be fine.

22 MR. STOLL: I really wanted him on the stand.

23 THE COURT: You want him on the stand?

24 MR. STOLL: No, I'm just kidding.

25 THE COURT: Okay. Make him more nervous?

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1           Mr. Hendershot if you could raise your right  
2 hand for me. Actually, if you could look at your  
3 microphone and make sure that little green light is  
4 on. Hit that button that says "Push."

5           THE WITNESS: It is.

6           (Mr. Hendershot was sworn.)

7           THE COURT: All right, thank you.

8           MR. STOLL: Thank you, your Honor.

9                                 RAYMOND HENDERSHOT,  
10           called as a witness, having been duly sworn,  
11           was examined and testified as follows:

12                                 DIRECT EXAMINATION

13         BY MR. STOLL:

14           Q. Mr. Hendershot, would you please state your  
15 full name?

16           A. It's Raymond Albert Hendershot.

17           Q. And by whom are you employed?

18           A. I'm employed by GVNW Consulting.

19           Q. And in what capacity are you appearing at  
20 this hearing today?

21           A. I'm appearing as a witness on behalf of Manti  
22 Telephone Company.

23           Q. Okay. Have you had an opportunity to review  
24 the Request For Interim Increase in USF Eligibility,  
25 which has been marked as Manti No. 1?



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1 A. Yes, I have.

2 Q. And were you involved in the negotiation of  
3 the Stipulation that's attached as Manti No. 1.A?

4 A. Yes, I have.

5 Q. Okay. I direct your attention to  
6 paragraph 11 of the Stipulation and agreement. In  
7 which Manti and the Division agree that an interim  
8 annual USF increase of \$908,763 is reasonable?

9 A. Yes.

10 Q. Could you explain for us how that number was  
11 derived?

12 A. Basically that was taking the, the loan  
13 obligation the company had and the interest, and then  
14 determine based on the covenants that the lender has  
15 provided to Manti Telephone Company in the loan that  
16 they need to keep -- they need to meet a certain times  
17 interest earned ratio, which is 1.5.

18 And that in turn to meet that with the  
19 revenues they have, this is the amount that they  
20 needed to meet their loan obligations that they have  
21 with the lender. Now, their loan -- they had to take  
22 out a loan this summer to replace the aerial cable,  
23 because it had deteriorated to a point that it needed  
24 to be replaced.

25 Q. Okay. Is it your opinion that the amount

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1 that's specified in paragraph 11 is fair and  
2 reasonable?

3 A. Yes, it is.

4 Q. Are there any other comments or thoughts that  
5 you might have on the Stipulation that you'd like to  
6 express?

7 A. I don't have any at this time.

8 Q. Okay.

9 MR. STOLL: Your Honor, we tender  
10 Mr. Hendershot for cross examination.

11 THE COURT: Do you have any questions you'd  
12 like to ask, Mr. Ginsberg?

13 MR. GINSBERG: No.

14 THE COURT: All right. Is that all from your  
15 witness, Mr. Stoll?

16 MR. STOLL: That is all.

17 THE COURT: All right, thank you.

18 Thank you, Mr. Hendershot.

19 Mr. Ginsberg?

20 MR. GINSBERG: You want to swear him?

21 THE COURT: Yeah, I'm sorry.

22 (Mr. Oman was sworn.)

23 THE COURT: Thank you.

24 CLAIR OMAN,

25 called as a witness, having been duly sworn,

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1           "Subsequent to Manti's filing for  
2           rate relief and for an increase in  
3           annual USF eligibility the Division  
4           began a review of submitted information  
5           and the financial status of Manti.

6           "During the course of the field work  
7           at Manti's offices sufficient -- current  
8           concerns regarding the proprietary  
9           prop -- properly recording of accounting  
10          records for proposed test year were  
11          found to determine that 2007 financial  
12          information did not allow an acceptable  
13          determination of rate base, nor present  
14          acceptable results of operations for the  
15          year ended December 31st of '07.

16          "After discussion and review of  
17          the circumstances Manti and the Division  
18          agreed that summary statement of the  
19          accounting records were needed in order  
20          to determine a reliable rate base  
21          amount. And changes in accounting  
22          procedures were also needed for the  
23          accumulation of financial statements  
24          that fairly present the results of  
25          operation for a test year.



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1           "Therefore, a joint proposal was  
2           accepted that Manti would revise the  
3           accounting procedures in question on a  
4           non -- on a going-forward basis to  
5           provide the necessary information upon  
6           which the calendar year of 2009 would be  
7           expected to become the test year for the  
8           final determination of rate relief, and  
9           proper calculation of USF -- annual USF  
10          eligibility.

11          "Also the corrections of  
12          misstatements of the rate base amount  
13          carried on the financial records of  
14          Manti were to be recorded prior to the  
15          recording of accounting transactions for  
16          the calendar year 2009.

17          "Manti also agrees to provide  
18          quarterly reports containing details of  
19          changes made in accounting processes  
20          that will improve financial reporting  
21          reliability and thereby rate base  
22          reporting.

23          "It should be noted that the lag of  
24          normal accounting procedures present --  
25          prevents the accurate rate base amount

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1 from being established by December 31,  
2 2008, as was agreed to in the  
3 Stipulation.

4 "It is therefore the agreement of  
5 Manti and the Division that the  
6 agreeable rate base amount will be  
7 determined prior to March 31st of '09,  
8 and that any adjustments required to the  
9 financial (voice trails off.)

10 THE COURT REPORTER: I'm sorry, you need to  
11 speak up. Any adjustments required to what?

12 THE WITNESS: "And that any  
13 adjustments required to the financial  
14 and plant records of Manti will be  
15 included in the general ledger for the  
16 year ending December 31, 2008.

17 "As a result of the agreement  
18 between Manti and the Division that the  
19 accounting records of Manti did not  
20 provide the financial information  
21 necessary to determine the annual USF  
22 eligibility, the Division suggests the  
23 use of the -- one of the financial  
24 ratios required by the holder of Manti's  
25 long-term debt, being the Rural

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1 Telephone Finance Cooperative, or RFTC.

2 "The required times earned -- times  
3 interest earned ratio, or TIER, of 1.5  
4 appears in the loan agreement executed  
5 by Manti and RFTC. The use of this  
6 ratio provides the interim estimate of  
7 USF needed by Manti until the required  
8 accounting procedure modifications  
9 provide the needed financial information  
10 upon which to base a more definitive and  
11 accurate amount.

12 "Since Manti has recently secured a  
13 new loan, the use of which will  
14 determine -- well. The use of this  
15 ratio to determine interim USF also  
16 requires the estimation of interest  
17 amounts to be paid by Manti in the  
18 coming calendar year 2009.

19 "Manti is currently involved in a  
20 construction project to replace a  
21 significant portion of the outside  
22 plant. According to company officials  
23 this project will be completed or  
24 essentially completed by December 31,  
25 2008, requiring the disbursement of all

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1 or essentially all of this latest loan,  
2 the amount of which is confidential.

3 "Therefore the estimate, estimate of  
4 additional interim USF calculated by the  
5 Division and included in the Stipulation  
6 is based upon the assumption that the  
7 above-expected occurrence will be  
8 accomplished.

9 "Calculation of the expected  
10 interest, based on the foregoing  
11 assumptions, is that the amount of the  
12 interest will be \$605,842. Which,  
13 multiplied by the required TIER ratio of  
14 1.5, produces the USF increase of  
15 908,763 indicated in the Stipulation.

16 "This is not a normally-used method  
17 of determining USF disbursement amounts.  
18 The use of this unorthodox method was  
19 chosen to provide a reasonable amount  
20 for interim support and avoid possible  
21 default on loans pending the accounting  
22 system procedures upgrade. Which should  
23 provide test year results which will  
24 allow the full case to be heard.

25 "The 908,763 is an increased amount



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1           to be received by Manti in addition to  
2           the USF prior to the effect of this  
3           increase. The total amount of the USF  
4           to be received by Manti on an annual  
5           basis will be a combination of the  
6           current amount of 296,226 and the  
7           increased amount of 908,763, bringing  
8           the total to 1,204,989.

9           "The semiannual financial statements  
10          and projections for the remainder of  
11          2008 provided to the Division by Manti  
12          indicate a break-even situation for  
13          2008. Which provides the basis of  
14          support by the Division for the total  
15          amount of interim USF.

16          "As Manti and the Division have  
17          agreed, if this total amount exceeds the  
18          amount to which Manti is eligible based  
19          upon the 2009 test year, after agreed  
20          adjustments to the rate base amount and  
21          the effect of agreeable accounting  
22          procedural changes effective during  
23          2009, any excess will be refunded to the  
24          USF fund, including interest as  
25          indicated by the Stipulation.

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1            "If, however, it is determined that  
2            the funding total is inadequate, any  
3            increase required will be prospective  
4            from the date the final change is  
5            authorized by the Commission.

6            "And then the Division and Manti  
7            have agreed in the Stipulation to  
8            recommend the Commission that additional  
9            depreciation rates be approved. Those  
10           were discussed as per that exhibit."  
11           And I don't remember the exhibit number.

12           MR. STOLL: Three.

13           THE WITNESS: Three.

14           "And the Stipulation also agrees  
15           that -- Manti and the Division agree  
16           that local service and EAS rates should  
17           not be changed in interim for customers  
18           until final review of Manti's total  
19           revenue requirement occurs.

20           "Manti and the Division further  
21           agree that any increase in the revenue  
22           requirement by changes in Manti's rates  
23           ultimately determined by the Commission  
24           to be just and reasonable will be  
25           imputed back to October 1, 2008, as

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1 revenues available to reduce USF  
2 distributions for Manti."

3 And that concludes my statement.

4 THE COURT: All right. Thank you, Mr. Oman.

5 Anything else, Mr. Ginsberg?

6 MR. GINSBERG: No, that was.

7 THE COURT: Mr. Stoll, any cross examination?

8 MR. STOLL: Nope.

9 THE COURT: All right. Anything else either  
10 party would like to add? Okay then. We'll note that  
11 the Commission will take administrative notice of the  
12 filings that have been made up to this point.

13 Mr. Stoll, you did file a copy of the Amended  
14 Request?

15 MR. STOLL: Yes, I think it's been filed.

16 THE COURT: Okay. Also the exhibits that  
17 were submitted today. And I'll make a recommendation  
18 to the Commission and have the order out shortly.  
19 Thank you.

20 (The hearing was concluded at 1:17 p.m.)

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C E R T I F I C A T E

STATE OF UTAH                    )  
                                          ) ss.  
COUNTY OF SALT LAKE         )

This is to certify that the foregoing proceedings were taken before me, KELLY L. WILBURN, a Registered Professional Reporter and Notary Public in and for the State of Utah.

That the proceedings were reported by me in stenotype and thereafter caused by me to be transcribed into typewriting. And that a full, true, and correct transcription of said proceedings so taken and transcribed is set forth in the foregoing pages, numbered 1 through 20, inclusive.

I further certify that I am not of kin or otherwise associated with any of the parties to said cause of action, and that I am not interested in the event thereof.

WITNESS MY HAND AND OFFICIAL SEAL AT KEARNS, UTAH  
THIS 4th DAY OF January, 2009.

\_\_\_\_\_  
Kelly L. Wilburn, CSR, RPR  
My Commission Expires:  
May 16, 2009



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