Stanley K. Stoll (A3960)
Kira M. Slawson (7081)
BLACKBURN & STOLL, L.C.
Attorneys for South Central Utah Telephone Association, Inc.
257 East 200 South, Suite 800
Salt Lake City, Utah 84111
Telephone: (801) 521-7900
Fax: (801) 578-3568

Andrew A. Denzer
WARINNER, GESINGER & ASSOCIATES, LLC
10561 Barkley Street, Suite 550
Telephone: (913) 599-3236
Facsimile: (913) 599-3737
E-Mail: denzer@wgacpa.com

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

IN THE MATTER OF SOUTH CENTRAL UTAH TELEPHONE ASSOCIATION, INC.'s APPLICATION FOR USF ELEGIBILITY	APPLICATION FOR USF ELIGIBLITY DOCKET NO. 10-052-01

South Central Utah Telephone Association, Inc. ("SCUTA" or "Company") pursuant to Utah Code Annotated §54-8b-11, §54-8b-15, and Rules R746-360 and R746-700 of the Commission's Rules of Practice and Procedure, hereby applies to the Public Service Commission of Utah ("Commission") for State Universal Service Fund ("USF") eligibility. SCUTA represents and states as follows:

1. SCUTA is a Utah corporation organized as a cooperative and qualified to transact business and operate as a local exchange carrier providing telecommunications within the State of Utah under authority issued to SCUTA. The Commission has jurisdiction over SCUTA's application and request for USF eligibility under Utah Code Title 54, § 54-1-1; §54-8b-15 and R746-360 and R746-700 of the Commission's Rules of Practice and Procedure.

2. The purpose of this Application is to present financial and statistical information supporting SCUTA's request for USF eligibility in compliance with Utah Administrative Code § R746-360; R746-700, and §54-8b-15 of the Utah Code.

3. This Application is based upon audited 2009 financial information, the 2009 National Exchange Carrier Association's ("NECA") cost study, SCUTA's Cost Allocation Manual ("CAM"), and known and measurable changes to the operations for the 12 months ending December 31, 2009, ("test period"). In order to provide the financial and statistical information presented in this Application, SCUTA's operations for the test period were analyzed to identify and remove non-regulated costs. SCUTA's historical operations for the test period were then adjusted to reflect known and measurable changes in operations, and the investments and expenses for SCUTA's Arizona operations were excluded. SCUTA's pro forma cost of providing Utah intrastate telecommunications services is reflected on *Confidential Schedules 1 and 3* of the cost data supporting this Application requesting Utah USF support eligibility.

4. SCUTA's Application is supported by the following Schedules which are considered confidential subject to Utah Public Service Rule 746-100-16 and subject to the protective order issued in this docket:

<u>Revenue Deficiency</u>

Schedule 1 Summary of Pro Forma Utah Operating Revenue Deficiency

<u>Historical Results of Operations</u>

Schedule 2 Historical Results of Operations - Total Company

Schedule 2a Historical Rate Base Summary

Pro Forma Results of Operations

Supporting Schedules

Schedule 7 Part 36 for the Period Ending December 31, 2009, Interexchange Access Cost Study Report of Interstate Operations, filed July 30, 2010

Schedule 8 Consolidated Financial Statements and Additional Information with Independent Auditors' Report, Years ended December 31, 2009 and 2008

Schedule 9 Changes in Affiliate Relationships

Schedule 10 Summary of Bad Debt

Schedule 11 Cost of Service, Proposal for Obtaining the Utah Revenue Deficiency

Schedule 12 Depreciation Rates and Lives

5. The schedules have been organized to support the amount of SCUTA's revenue deficiency provided in *Schedule 1*. The historical results of operations are reflected in *Schedule 2* through *Schedule 2d*. The historical information was then adjusted for fixed, known and measurable items and the pro forma results are provided in *Schedule 3* through *Schedule 3c*. *Schedule 4* through *Schedule 8* provide the additional support for amounts contained in SCUTA's historical and pro forma operating results. *Schedule 9, Schedule 10, Schedule 11, and Schedule 12* provide information related to requirements specified in Utah Rule § R746-700. Following is a narrative of the processes and procedures that were used in determining the amount of Utah state revenue deficiency reflected in *Schedule 1*.

Revenue Deficiency

6. The "Summary of Pro Forma Utah Operating Revenue Deficiency" provided on *Schedule 1* indicates that SCUTA's pro forma revenues from Utah state regulated services are not adequate to cover its pro forma operating costs, including a reasonable return on its Utah rate

base. The amount of the annual Utah state revenue deficiency is [Begin Confidential] XXXX [End Confidential] as shown on *Schedule 1*, Line 13.

Historical Results of Operations

7. The "Historical Results of Operations" is presented on *Schedule 2*[1] and is supported by the "Rate Base Summary", *Schedule 2a*, the "Revenue and Expense Summary", *Schedule 2b*, and the "Summary of Historical Cost Study and Part 64 Adjustments", *Schedule 2c*. The "Historical Results of Operations" represents the December 31, 2009 audited balances by Part 32 accounts which were subsequently adjusted as required for preparation of the "Interexchange Access Cost Study Report of Interstate Operations" that was filed with the National Exchange Carrier Association ("NECA") on July 30, 2010. The Part 36 jurisdictional allocation from the 2009 cost study for the period ending December 31, 2009 is provided as *Schedule 7*[2] of this application and serves as the basis for the jurisdictional allocation of pro forma investments and expenses in *Schedule 3a* of the cost support material. The Total State Operating Margin for the historical test period of [Begin Confidential] XXXX [End Confidential], provided on *Schedule 2*, Col (e), Line 20, indicates a Utah state return on investment of only [Begin Confidential] XXXX [End Confidential], *Schedule 2*, Col (e), Line 31. The Total Regulated Operating Margin of [Begin Confidential] XXXX [End Confidential], *Schedule 2*, Col (c), Line 20, includes historical adjustments as shown in Column (b). The regulated historical amounts serve as the starting points for the "Pro Forma Detailed Results for Utah Operations" provided in *Schedule 3a;* Column (a), Line 37 provides the Total Company Operating Margin of [Begin Confidential] XXXX [End Confidential].

[1] Provided as required by Utah Rule R746-700-40, A.1
[2] Provided as required by Utah Rule R746-700-40, A.5

8. The "Historical Rate Base Summary" presented in Column (a) of *Schedule 2a* and the "Historical Revenue and Expense Summary" presented in Column (a) of *Schedule 2b*[3] provide the detail analysis of the account balances as of December 31, 2009, shown in Column (a) of *Schedule 2*. The year-end account balances presented in *Schedules 2a and 2b* agree with amounts reflected in the Independent Auditor's Report for 2009 that were subsequently adjusted for the Interexchange Access Cost Study Report for Interstate Operations as discussed below. The adjusted regulated cost study balance is shown in Column (g). The jurisdictional factors from SCUTA's Part 36 cost study provided in *Schedule 7* were applied to total company regulated amounts in Column (g) to arrive at the historical State amounts shown in Column (k). The Part 36 jurisdictional allocation factors are provided on *Schedule 2d.1*, "Part 36 Rate Base Factors", and *Schedule 2d.2*, "Part 36 Expenses Factors".

9. *Schedule 2c*, "Summary of Historical Cost Study and Part 64 Adjustments",[4] provides a summary of the adjustments by account applied to the historical records of SCUTA for the 2009 "Interexchange Access Cost Study Report for Interstate Operations" submitted to NECA on July 30, 2010. The 2009 book and cost study adjustments were provided as supporting documentation with SCUTA's cost study submission. *Schedule 2c.1* contains the "Historical Book Adjustments", *Schedule 2c.2* contains the "Historical Part 64 adjustments", and *Schedule 2c.3* contains the "Historical Cost Study Adjustments" that were provided to NECA with the cost study submission. These adjustments were necessary to appropriately classify plant and expenses for cost study purposes. Because each account and or category may have a different allocation method, it was appropriate to adjust certain amounts from the audited financial records for compliance with Part 36 and 69 of the Federal Communications

[3] Provided as required by Utah Rule R746-700-40, A.14
[4] Provided as required by Utah Rule R746-700-40, A.1

Commission's ("FCC") rules and procedures. Following is an explanation of the adjustments that were made to the 2009 financial records for the 2009 cost study.

9a. Book Adjustment 1 presented on *Schedule 2c.1* was required to assign the Telephone Relay Service ("TRS") expense to the correct category of Customer Services as instructed by NECA's Cost Issue 2.15. SCUTA performed an analysis of the account to identify the amount that was adjusted for the cost study for the assignment to Category 3 in order to comply with Part 36 separations rules.

9b. Book Adjustment 2 on *Schedule 2c.1* was necessary to reconcile the recorded amounts in Central Office Equipment ("COE") with the 2009 COE Continuing Property Record ("CPR") categorization after common and power were allocated. SCUTA performed a categorization analysis of its COE equipment for its annual 2009 cost study. It was necessary to adjust the book amounts to agree with the categorization analysis to appropriately classify the COE amounts for the cost study and High Cost Loop ("HCL") support data submission. The switching and transmission accounts for the accumulated depreciation and depreciation expense accounts were also adjusted to properly reflect the different depreciation rates.

9c. Book Adjustment 3 on *Schedule 2c.1* was made to appropriately reflect SCUTA's costs in free-standing towers as stated in Part 32.2441. These towers should be booked to the pole line account; SCUTA had recorded the towers in the building account. The building CPR provided the amounts related to the free-standing tower. This book adjustment reclassified the investment, and adjusted the accumulated depreciation and depreciation expense into the appropriate associated accounts.

9d. Book Adjustment 4 on *Schedule 2c.1* adjusted prior year NECA interstate settlement revenue from current year interstate settlements. Book Adjustment 5 was necessary to reverse the December journal entry for NECA interstate settlements for the common line and traffic sensitive interstate settlements that were inadvertently reversed.

9e. Book Adjustment 6 on *Schedule 2c.1* was made to capitalize the cost of a term agreement for high bandwidth capacity services in accordance with NECA cost issue 2.19. This adjustment recognizes an interstate revenue replacement calculation whereby the cost of the term agreement for bandwidth services was converted into "related plant investment", allowing the plant to be categorized based upon its use. SCUTA was utilizing a portion of the high bandwidth capacity services obtained by its affiliate South Central Communications ("SCC") from a third party vendor to transport regulated switched and special access services beyond its exchange boundary to the tandem in Salt Lake City. This arrangement was utilized for January 1, 2009 through July 15, 2009 during which the cost of transport between Monroe and Salt Lake City was included in the cost study and the interstate transport revenues billed to inter-exchange carriers were reported to NECA for interstate settlements. On July 16, 2009, SCC began billing this section of transport as a Competitive Access Provider ("CAP") and the costs were excluded from the cost study and the interstate transport facility revenue beyond SCUTA's exchange boundary was no longer reported to NECA. The transition to billing by the CAP has no impact on intrastate revenues.

9f. Book Adjustment 7 on *Schedule 2c.1* was not used in the 2009 cost study. Book Adjustment 8 was made to recognize the use of fiber to transport the regulated circuits between Panguitch and the point-of-connection at Monroe.

10. Part 64 adjustments were included in the 2009 rate base and expense summaries and applied to SCUTA's total company amounts by Part 32 account in order to determine the regulated amounts for input into the Part 36 jurisdictional cost study. *Schedule 2c.2*, "Historical Part 64 Adjustments" provides a summary of the Part 64 adjustments which are presented in Column (d) of *Schedule 2a*, "Historical Rate Base Summary", and *Schedule 2b*, "Historical Revenue and Expense Summary". The 2009 Cost Allocation Manual ("CAM") is provided in *Schedule 6* and documents the divisional accounting procedures used to identify the assignment of costs between regulated and non-regulated departments, company divisions or services and the subsequent assignment of costs, including the allocation of common costs, to SCUTA. The accounts that were identified as non-regulated were excluded from the cost study. After this assignment, there were only a few common accounts on SCUTA's general ledger that required further allocation between regulated and non-regulated operations. In order to adjust the appropriate amounts to non-regulated operations, Part 64 rules (specifically 64.901 and 64.904) were applied to allocate common costs in the corporate building at Escalante and the Cable and Wire Facilities ("CWF") for specific cable pairs and circuits associated with non-regulated activities. The building methodology is provided as supporting documentation to the 2009 CAM presented in *Schedule 6*. The non-regulated CWF amount was categorized in the CWF outside plant study as Category 5.0 for strands of fiber used by SCUTA's cable television ("TV") affiliate in various sections of SCUTA's fiber between remote switches and the host switch in Panguitch. A portion of land and building expense and business office expense were also adjusted to non-regulated operations.

11. *Schedule 2c.3*, "Historical Cost Study Adjustments" provides a summary of the five cost study adjustments that were made to the 2009 cost study. These adjustments were

required to reclassify costs to the proper account or to assign items to a distinct category utilized in the separation process. Following is a description of these adjustments: Cost Study Adjustment 1 was made to separate computer expenses into three primary functions for Carrier Access Billing Services ("CABS"), Accounting and Finance, and other billing which uses a unique allocation factor within the separation process; Cost Study Adjustment 2 updated the estimated cable TV lease revenue from the amount based on the prior year to the actual amount based on current CWF allocations; Cost Study Adjustment 3 revised the Universal Service Administration Company's ("USAC") expense to agree with the amount reported to NECA for the Federal Universal Service Charge ("FUSC") revenue as required by NECA; Cost Study Adjustment 4 was made to reclassify the FCC regulatory fees from the account originally recorded to Account 7240, as required by NECA's cost issue 3.7 to allow for the direct assignment of the FCC regulatory fee to the interstate jurisdiction; and Cost Adjustment 5 removed the Local Number Portability ("LNP") investment and expenses from the interstate cost study as instructed by NECA for compliance with the FCC's LNP Order.

12. Adjustments were made to SCUTA's test period operating investments, revenues and expenses to recognize known and measurable adjustments in operations as permitted by Utah rules.[5] In accordance with Utah rules, these "adjustments shall include, but are not limited to, normalization adjustments, annualization adjustments, accounting adjustments, adjustments to reflect prior Utah regulatory decisions and policies made by the Commission". As supported by the rule, it is customary to identify fixed, known and measureable changes that impact SCUTA's operations in future periods and restate the financials to incorporate these changes. Pro forma

[5] Refer to Utah Rule R746-700-40, A.2

adjustments were applied to the historical operating revenues, expenses and investments to reflect known changes in SCUTA's operations.

Pro Forma Results of Operations

13. The financial information provided in *Schedule 2*, "Historical Results of Operations", reflects SCUTA's 2009 Interstate Interexchange Cost Study and includes both Arizona and Utah operations. Therefore, in order to provide the regulated amounts applicable to Utah operations, Utah percentages were developed and are provided on *Schedule 3c*, "Development of Utah Allocation". *Schedule 3a*, "Pro Forma Detailed Results for Utah Operations" reflects the beginning balances from the historical regulated detailed amounts which were provided in Column (g) of *Schedule 2a*, "Historical Rate Base Summary", and *Schedule 2b*, "Historical Revenue and Expense Summary". The historical amounts were subsequently adjusted with the pro forma adjustments as provided in *Schedule 3b*, "Summary of Pro Forma Adjustments". Following are explanations of the pro forma adjustments to SCUTA's operations for the test period ending December 31, 2009. [6]

13a. The first pro forma adjustment on *Schedule 3b*, "Summary of Pro Forma Adjustments" revises the allocations to SCUTA related to the following accounts: (1) 6120, Network Support for common computer expense; (2) 6710, Executive and Planning for board of directors, general manager and support staff expenses; and (3) 6720, General and Administrative expense for common accounting and finance, human resources and other general and administrative expenses. While the Company directly assigns the majority of its transactions between its regulated and non-regulated operations, the aforementioned accounts contain

[6] Provided as required by Utah Rule R746-700-40, A.3

expenses that cannot be attributed entirely to regulated operations. Management developed and implemented allocation procedures to apportion these accounts which contain "common" expenses between regulated and non-regulated operations. In preparation for this filing, management performed a review of these common accounts and updated its CAM. Pro Forma Adjustment 1 provides the resulting adjustments to these accounts based on management's CAM updates. This adjustment reduces total company regulated expenses by [Begin Confidential] XXXX [End Confidential].

13b. High Cost Loop ("HCL") support for 2010 is anticipated to increase [Begin Confidential] XXXX [End Confidential] over the booked revenue for 2009 based on the annualized amount of disbursements from the Universal Service Administrative Company ("USAC") to SCUTA through August, 2010 and is included as Pro Forma Adjustment 2.

13c. NECA's policy on the direct assignment of wholly interstate cost study expenses will not allow SCUTA to direct assign cost study expenses to the interstate jurisdiction in 2010 due to the filing of a general rate case. Therefore, Pro Forma Adjustment 3 was made to reclassify General and Administrative ("G&A") expenses of [Begin Confidential] XXXX [End Confidential] to common expenses. This amount was previously assigned to the interstate jurisdiction in the cost study submission filed with NECA. G&A expense is allocated to the jurisdictions in Part 36 through the Big-3 Expense allocation method as detailed in Part 36.392. This change results in an additional allocation of G&A expenses to state of [Begin Confidential] XXXX [End Confidential], of which [Begin Confidential] XXXX [End Confidential] is applicable to Utah.

13d. Pro Forma Adjustment 4 represents the anticipated amount of expenses related to SCUTA's costs required to satisfy the filing requirements in this docket, 10-052-01, amortized over a period of two (2) years. This amount will ultimately be based upon the actual cost of this proceeding. It is estimated that the rate case expense will be [Begin Confidential] XXXX [End Confidential]. Therefore, [Begin Confidential] XXXX [End Confidential] for the adjusted test period has been added to the State expenses.

13e. State Billing and Collection ("B&C") revenue of [Begin Confidential] XXXX [End Confidential] was removed as a Part 64 adjustment from the historical period ending December 31, 2009 during the preparation of the interstate cost study. For purposes of this Application, the State B&C revenue of [Begin Confidential] XXXX [End Confidential] has been included as Pro Forma Adjustment 5.

13f. The changes in expenses for the pro forma adjustments resulted in an adjustment to Cash Working Capital ("CWC") of [Begin Confidential] XXXX [End Confidential] which is calculated on Line 24, Column (d) of *Schedule 4*, "Calculation of Cash Working Capital". The adjustment to CWC is provided as Pro Forma Adjustment 6. CWC is a component of the regulated rate base.

13g. In addition to the pro forma adjustments referenced above, normalization adjustments for the effects of known facts on operations beyond the test period are provided on Schedule 3b, "Summary of Pro Forma Adjustments". [Begin Confidential] XXXX [End Confidential].

13h. Based upon an analysis of access lines and revenue from 2008 through August 31, 2010, SCUTA has experienced a decline in its basic local service lines and related revenue. It is anticipated that local revenue will decline by [Begin Confidential] XXXX [End Confidential] from 2009, which is supported by the decline in access lines. Pro Forma Adjustment 8 provides the anticipated local revenue loss of [Begin Confidential] XXXX [End Confidential].

13i. SCUTA included an intrastate access service revenue loss of [Begin Confidential] XXXX [End Confidential] in Pro Forma Adjustment 9 based on the June 30, 2010 intrastate access revenue balance annualized for twelve months compared to twelve months of 2009. SCUTA reviewed the minutes-of-use since January 2009 and this analysis supports an adjustment for a decrease to intrastate revenues. However, SCUTA will determine the final amount for this adjustment prior to the final resolution of this Application. It is anticipated that the actual difference in the amount of intrastate revenue for 2010 compared to 2009 will be available in January 2011.

13j. Pro Forma Adjustment 10 recognizes the normalization of depreciation expense as a known and measurable change to the test period. Normalized depreciation expense was determined by applying the prescribed depreciation rates to the pro forma plant in service amounts used in this Application. Due to SCUTA's rate base level and the fact that several plant accounts have become fully depreciated, the amount of depreciation expense is anticipated to be [Begin Confidential] XXXX [End Confidential] less in 2010 than in 2009. The supporting documentation for this adjustment is provided with Pro Forma Adjustment 10.

13k. SCUTA uses the allowance method of accounting for uncollectible accounts receivable to determine the proper net realizable value of accounts receivable on the balance sheet. Periodically during the year and at each year end, the company evaluates the aged end user and interexchange accounts receivable. Based on collection experience of past due accounts, management established parameters to apply in order to establish its reserve for uncollectible account. The adjustments to the reserve accounts increase or decrease the amount recorded to Account 5301, Uncollectible Revenue in accordance with Part 32. When SCUTA actually performs writes-offs, this charge decreases the reserve accounts. Subsequent recoveries on accounts previously written off are recorded as increases to the reserve accounts. During 2009, SCUTA increased its collection efforts and, as a result, accounts receivable were considerably more current, thus reducing the past due accounts. Accordingly, the previously recorded reserve accounts were decreased in 2009 resulting in revenue of [Begin Confidential] XXXX [End Confidential] recorded in the uncollectible expense account. This is not representative of actual bad debt expense because the 2009 results in this account represented the reversal of prior year estimates of uncollectible accounts receivable. Based on an analysis of actual write-offs and recoveries, Pro Forma Adjustment 11 provides an adjustment to the 2009 amount for uncollectibles of [Begin Confidential] XXXX [End Confidential]. The "Summary of Bad Debt", *Schedule 9*, provides additional supporting documentation for this Pro Forma Adjustment.

13l. As described in Paragraph 13g, [Begin Confidential] XXXX [End Confidential]. In addition to the impact on the Company's CAM as provided in Pro Forma Adjustment 7, management also reviewed its work force requirements for its regulated and remaining non-regulated operations. Management identified certain employees that will be retained or re-assigned to other operations [Begin Confidential] XXXX [End Confidential]. Based on a review of hire dates, five of the eight employees to be retained were hired in 2009 or 2010. Pro Forma Adjustment 12 normalizes labor cost for twelve (12) months, allocates the labor to regulated and non-regulated operations based on anticipated re-assigned job functions, and includes benefit costs based on historical benefit loading factor. This adjustment increases regulated expenses by [Begin Confidential] XXXX [End Confidential].

13m. SCUTA provides healthcare coverage for its employees through a benefit plan established with the National Telephone Cooperative Association ("NTCA"). SCUTA has experienced increased health insurance cost in 2010 and, based on data supplied by NTCA, the cost of insurance is expected to increase further in 2011. In addition, because of declining net margins, SCUTA has not provided pay increases to its employees since January 2008. Pro Forma Adjustment 13 provides for the known increase in healthcare costs for 2010 and 2011 of [Begin Confidential] XXXX [End Confidential] and provides for the proposed wage increases of [Begin Confidential] XXXX [End Confidential] for a total increase to expenses for salary and benefits of [Begin Confidential] XXXX [End Confidential].

13n. Because of the network changes described in Paragraph 9e, Book Adjustment 6 provided in the 2009 interexchange cost study is no longer required. Pro Forma Adjustment 14 reverses Book Adjustment 6.

13o. Pro Forma Adjustment 15 reflects the amount required for replacement of sixteen (16) vehicles purchased between 1997 and 2005, all of which have over 189,999 miles. The purchase price for these vehicles was [Begin Confidential] XXXX [End Confidential] and the replacement cost is anticipated to be [Begin Confidential] XXXX [End Confidential] with [Begin Confidential] XXXX [End Confidential] of salvage. Depreciation expense is estimated to increase by [Begin Confidential] XXXX [End Confidential], based on a twenty percent (20%) depreciation rate. It is anticipated that these vehicles will be replaced during 2011 as cash-flow improves as a result of obtaining Utah USF support.

13p. An adjustment was included in the 2009 interstate interexchange cost study to remove the allocated non-regulated portion of the Escalante headquarter building based on a building study as discussed in Paragraph 10. Upon further review, it was determined that an adjustment should have been made to the land associated with the Escalante building. Pro Forma Adjustment 16 removes [Begin Confidential] XXXX [End Confidential] of land cost from the regulated rate base.

13q. SCUTA provides for retirement and security benefits for its employees through a benefit plan established with NTCA. SCUTA experienced increases in these costs in 2010. Pro Forma Adjustment 17 provides for an increase to expenses of [Begin Confidential] XXXX [End Confidential]. This amount represents the increase in payment to the NTCA, net of amounts contributed by SCUTA employees. The allocation of this increase of [Begin Confidential] XXXX [End Confidential] that documents the associated amounts to the various accounts is provided with Pro Forma Adjustment # 13.

14. The Company maintains separate ledgers for Utah and Arizona operations. Amounts that cannot be directly assigned to Utah or Arizona are allocated based on a ratio of access lines in each state. In order to provide the financial information specific to Utah for this Application, the "Development of Utah Allocation", *Schedule 3c*, was prepared to demonstrate the ratios computed to arrive at Utah-only financial information. The Utah-only ratios were developed from Utah, Arizona, and total company combined amounts from the specific totals from each ledger. To determine the Utah regulated amounts as shown in the "Pro Forma Detailed Results for Utah operations" Column (e), the 2009 Utah percentages provided on *Schedule 3c* were applied to the Pro Forma Regulated amounts as shown in Column (c).

15. Utah's regulated Pro Forma Regulated amounts on the "Pro Forma Detailed Results for Utah Operations", *Schedule 3a*, Column (e), were allocated to the State jurisdiction based on the Part 36 factors provided in *Schedules 2.d1* and *2.d2* and summarized on *Schedules 2a* and *2b*. The Utah State regulated amounts are provided on *Schedule 3a*, Column (g). The summary of the information provided on *Schedule 3a* is provided on the "Pro Forma Summary Results of Utah operations", *Schedule 3*. The Utah percentages shown on *Schedule 3*, Column (d) are either from *Schedule 3a* or calculated from *Schedule 3a* based upon the amounts in the related summary of accounts, e.g. Plant Specific Operations, Column (d), Line 11 is 93.29% as determined by Line 18, Column (d) on *Schedule 3a*.

16. The "Pro Forma Summary Results of Utah Operations", *Schedule 3*[7], provides the adjusted Utah State Operating Margin loss from regulated operations of [Begin Confidential] XXXX [End Confidential] prior to interest on funded debt, as shown in Column (g), Line 20. When the proposed Utah USF amount of [Begin Confidential] XXXX [End Confidential], determined by SCUTA to recover the revenue deficiency, is added to the [Begin Confidential] XXXX [End Confidential] Pro Forma State Operating Margin loss, the result is [Begin Confidential] XXXX [End Confidential] which agrees to the amount determined on *Schedule 1* with the proposed [Begin Confidential] XXXX [End Confidential] return on Utah's rate base of [Begin Confidential] XXXX [End Confidential].

<u>Supporting Schedules</u>

17. The "Calculation of Cash Working Capital" ("CWC"), *Schedule 4*, is based upon SCUTA's most recent Lead Lag study with approximately twenty-three (23) cash working days

[7] Provided as required by Utah Rule R746-700-40, A.2

which produces a [Begin Confidential] XXXX [End Confidential] ratio, ([Begin Confidential] XXXX [End Confidential] divided by 365). *Schedule 4* provides the expense determination of CWC before and after adjustments for the historical period and after pro forma adjustments. As stated above, CWC is a component of the Rate Base, and is provided as Line 33 in the "Historical Rate Base Summary", *Schedule 2a* and Line 29 in the "Pro Forma Summary Results of Utah Operations", *Schedule 3*.

18. The calculated ROR as provided in *Schedule 5*, "Weighted Cost of Capital and Rate of Return" is [Begin Confidential] XXXX [End Confidential], based on an imputed capital structure of 50% debt and 50% equity. The test period average cost of debt is calculated at [Begin Confidential] XXXX [End Confidential], and the cost of equity is estimated at [Begin Confidential] XXXX [End Confidential]. The cost of equity was supported in a rate case originally filed in Kansas in Docket No. 07-PLTT-1289-AUD. SCUTA will provide a copy of this testimony if requested by the Utah Public Service Commission. SCUTA's actual 2009 capital structure, also shown on *Schedule 5*, is [Begin Confidential] XXXX [End Confidential] debt and [Begin Confidential] XXXX [End Confidential] equity, which produces a ROR of [Begin Confidential] XXXX [End Confidential].

19. SCUTA's "2009 Cost Allocation Manual" is provided as *Schedule 6*[8] and includes the affiliate organization chart. *Schedule 6.1*, "Management Organization Chart", provides the line of authority for management, including joint responsibilities for non-regulated operations. There have been no changes in these relationships between the historical period and the end of the test period used in the application.[9] The method for allocating the common area of

[8] Provided as required by Utah Rule R746-700-40, A.5 and A.9
[9] Provided as required by Utah Rule R746-700-40 A.10

the Escalante building is provided as Exhibit VI-1 to the CAM; Exhibit VI-2 provides the method for allocating common costs.

20. Provided as *Schedule 7* is Part 36 of the "Interexchange Access Cost Study Report of Interstate Operations" that was filed July 30, 2010 for the period of January 1, 2009 to December 31, 2009. SCUTA provided a copy of the 2009 Cost Study, the supporting documentation, and the Cost Study Support file to the Utah Public Service Commission under separate cover.

21. The "Consolidated Financial Statements and Additional Information with Independent Auditor's Report Reports for the years ended December 31, 2009 and 2008" is presented in *Schedule 8*[10]. Provided as *Schedule 8.1* is an analysis that compares "Annual Report of SCUTA to the Public Service Commission of Utah for the period of January 1, 2009 to December 31, 2009" and the audited financial statements for the same period. Except for material and supplies and customer deposits, the beginning balances are the same. The audit balances were subsequently adjusted for the preparation of the 2009 cost study, as discussed above. Supporting *Schedules 8.2, 8.3 and 8.4* provide copies of the adjusting audit journal entries, and *Schedule 8.5* provides a copy of the management letter from SCUTA's outside auditors for 2009. SCUTA recorded all of the recommended 2009 audit adjustments.

22. There have been no changes in SCUTA's collection policies or write-off policies[11]. There have been no penalties or fines in the historical period or in the test period.[12] There have been no internal audits conducted by SCUTA.[13]

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[10] Provided as required by Utah Rule R746-700-40, A.6 and A.7
[11] Explanation provided as required by Utah Rule R746-700-40, A.12
[12] Explanation provided as required by Utah Rule R746-700-40, A.13

23. SCUTA has not made any significant changes in accounting policies or procedures for the 12-month period prior to the historical period or through the date of the general rate case application.[14]

24. “Changes in Affiliate Relationships”, *Schedule 9*, documents the changes in affiliate relationships since the prior general rate case[15] beginning with March 1997 through January 2008.

25. The “Summary of Bad Debt”, *Schedule 10*[16] provides the beginning bad debt reserve with the two years prior to the historical period and through the date of the application, including the amount written off, the recoveries, the reserve adjustment, other charges and credits, and the ending reserve balance. Supporting documentation was provided with Pro Forma Adjustment 11, Uncollectibles. Also provided for the same period is the total amount of retail revenue from retail sales and total retail bad debt expense.

26. SCUTA’s residential rates are $16.50 for residential and $26.00 for business, which meet the current Utah Affordable Base Rate. “Cost of Service” *Schedule 11* provides SCUTA’s response to Rule 746-700-41 and SCUTA does not propose to revise basic local service rates. Therefore, SCUTA requests that the revenue deficiency of [Begin Confidential] XXXX [End Confidential] be recovered through Utah Universal Service Fund support.[17]

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[13] Explanation provided as required by Utah Rule R746-700-40, A.8
[14] Explanation provided as required by Utah Rule R746-700-40, A,4
[15] Provided as required by Utah Rule R746-700-40 A.10
[16] Provided as required by Utah Rule R746-700-40, A.11
[17] Refer to Utah Rule R746-700-41, Cost of Service and Rate Design Information

27. *Schedule 12* contains Depreciation Rates and Depreciation Lives for SCUTA's depreciable assets. SCUTA requests that the Commission, pursuant to Utah Code Annotated §54-7-12.1, approve the depreciation rates reflected in *Schedule 12*

WHEREFORE, South Central Utah Telephone Association, Inc. respectfully submits this Application for USF eligibility.

DATED this _______ day of November, 2010.

BLACKBURN & STOLL, LC

____
Stanley K. Stoll
Kira M. Slawson
Attorneys for South Central Utah Telephone Association, Inc.

STATE OF UTAH)
) ss.
COUNTY OF GARFIELD)

CERTIFICATION

The undersigned, Brant Barton, CEO and General Manager of South Central Utah Telephone Association, Inc., being duly sworn upon his oath hereby certifies, pursuant to Commission Rule R746-700-40-C that the following documents have been prepared and are available:

1. Financial audit work papers for the most recent completed financial audit;

2. Any revenue ruling requests, IRS responses, and correspondence between the utility and the IRS since the last general rate case; and

3. Copies of the most recent State and Federal income tax returns in which the utility participated.

Copies of this information are being contemporaneously delivered as Confidential Documents to the Division of Public Utilities.

____
Brant Barton
CEO/General Manager
South Central Utah Telephone Association, Inc.

Subscribed and sworn to before me on this ______ day of October, 2010.

____
Notary Public

My Commission Expires:

____

CERTIFICATE OF MAILING

I hereby certify that a true and correct copy of the South Central Utah Telephone Association, Inc. Application for USF Eligibilty, Docket No. 10-052-01 was sent to the following individuals by electronic mail, this _____ day of November, 2010.

Patricia Schmid
Assistant Attorney General
Division of Public Utilities
pschmid@utah.gov

Paul Proctor
Assistant Attorney General
Committee of Consumer Services
pproctor@utah.gov

____
Kira M. Slawson