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BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

IN THE MATTER OF MANTI
TELEPHONE COMPANY'S
APPLICATION FOR INCREASED USF
ELIGIBILITY

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REDACTED/NON-CONFIDENTIAL
APPLICATION FOR INCREASE IN USF
ELIGIBILITY

DOCKET 13-046-01

Manti Telephone Company ("Manti" 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 Utah Universal Service Fund ("UUSF") eligibility for the purpose of defraying the cost for Manti to provide basic telephone service within its geographic service area. Manti represents and states as follows:

1. Manti is a Utah corporation qualified to transact business and operate as a local exchange carrier providing telecommunications within the State of Utah under authority issued to Manti. The Commission has jurisdiction over Manti's application and request for UUSF 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 Manti's request for increased UUSF 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 2012 financial information, and known and measurable changes to the operations for the 12 months ending December 31, 2012, ("Test Period"). In order to provide the financial and statistical information presented in this Application, Manti's operations for the Test Period were analyzed to identify and remove non-regulated costs. Manti's historical operations for the Test Period were then adjusted to reflect known and measurable changes in operations. Manti's pro forma cost of providing telecommunications services and including the necessary information to support the request for increased Utah UUSF support eligibility is reflected on the attached schedules.

4. Manti's Application is supported by the following Schedules which are considered confidential subject to Utah Public Service Rule 746-100-16. The schedules have been organized to support the amount of Manti's revenue deficiency provided in Schedule 1. The historical and Pro Forma results of operations are reflected in Schedule 2 through Schedule

5. **Schedule 1 - Computation of Earnings Shortfall.** This schedule compares the Company's authorized return to the normalized revenue requirement. The Company's resultant revenue deficiency is then subject to an income tax "gross up," which results in a total company revenue shortfall of \$1,559,173. Note that the Company's rate-of-return on regulated pro forma operations is **[Begin Confidential *** End Confidential]**%.

6. **Schedule 2 – Rate Base Summary.** This schedule calculates the Company’s total rate base of **[Begin Confidential *** End Confidential]**. The schedule begins with historical book amounts and contains adjustments to produce a pro forma regulated rate base as of December 31, 2012. Finally, the schedule allocates the Company’s regulated rate base to the appropriate jurisdiction based upon National Exchange Carrier Association’s (“NECA”) March 8, 2013 [Modification of Average Schedules](#) filing for use in the Weighting Percentages of the Weighted Rate of Return calculation.

7. **Schedule 3 - Rate Base Adjustments.** This schedule identifies the individual adjustments contained in Schedule 2.

RB-1 removes redundant copper plant.

RB-2 removes non-regulated voicemail investment.

RB-3 removes retired COE Radio Equipment

RB-4 removes the Ephraim acquisition premium.

RB-5 removes surrendered RTFC stock applied to offset loans.

RB-6 calculates Cash Working Capital.

8. **Schedule 4 – Income Statement Summary.** This schedule calculates the Company’s total normalized earnings of **[Begin Confidential *** End Confidential]** as specified in the Total Company Rule, R746-360-8, which became effective October 25, 2010. The schedule begins with historical book amounts and identifies and adjusts for fixed, known and measurable items necessary to produce a pro forma, regulated income statement.

9. **Schedule 5 – Income Statement Adjustments.** This schedule identifies the individual adjustments contained in Schedule 4. Column D includes the normalizing adjustments, as discussed below, included to reach the normalized 2012 Pro Forma Income.

IS-1 adjusts the wholesale broadband transmission rate from \$5 per month to the appropriate NECA Tariff 5 rate.

IS-2 adjusts Utah Education Network (“UEN”) revenues to current levels. The company reduced the contract amount to retain the customer and expects further reductions in these revenues in the coming months.

IS-3 recognizes a reduction in co-location rent revenue from CenturyLink, which removed most of their equipment in July 2013, and has indicated that it will renegotiate the rent contract at a reduced rate.

IS-4 removes non-regulated voicemail and revenue. The voicemail investment was removed in RB-2.

IS-5 recognizes the company’s ongoing reduced level of access revenue.

IS-6 recognizes the company’s current annualized level of bad debt expense.

IS-7 removes the non-regulated voicemail depreciation associated with the asset removed in RB-2.

IS-8 reduces the cost of Manti’s office DSL service to the current retail rate.

IS-9 removes the lease expense for the storage yard lease as recommended by the DPU in the previous proceeding.

IS-10 reduces depreciation expense as a result of the retirement of redundant copper in Adjustment RB-1.

IS-11 normalizes regulated payroll costs at an anticipated, ongoing level of employees. For all but three management employees, Manti has relied upon the DPU's proposed compensation levels (increased for a 2013 cost of living increase) in the previous proceeding. Manti has also appropriately allocated management and customer service compensation costs to non-regulated operations and included the costs associated with the rehiring of the five employees laid off earlier in 2013 due to loss of UUSF. The cumulative impact of these adjustments is to reduce Test Period payroll expense by **[Begin Confidential *** End Confidential]**.

IS-12 recognizes the known increase in healthcare and employee benefit costs for 2013.

IS-13 normalizes depreciation expense as of the end of the Test Period. Normalized depreciation expense was determined by applying the prescribed depreciation rates to end of Test Period plant in service amounts used in this Application.

IS-14 normalizes the rate case expenses included in the Application. The anticipated amount of expenses related to Manti's costs of filing this application, amortized over a period of two years. It is estimated that the rate case expense for this proceeding will be \$250,000. Manti has excluded expenses related to the previous rate case and has included the unamortized rate case expenses that were approved in the previous rate case, Docket No. 08-046-01.

IS-15 applies both state and federal tax rates to taxable income with a net gross multiplier, which is included in the deficiency calculation in schedule 1. This multiplier is

applied to project the impact of and include additional taxes that the additional UUSF would generate.

10. **Schedule 6 – Cost of Capital.** Manti utilizes a total company rate-of-return (“ROR”) of [Begin Confidential *** End Confidential]%, which represents the weighted average of the interstate ROR of 12.97% and the state ROR [Begin Confidential *** End Confidential]%. Manti’s intrastate cost of capital was derived using the DPU’s suggested imputed capital structure of 35% equity and 65% debt. For the individual components of its capital structure, Manti has used a cost of debt of [Begin Confidential *** End Confidential]% and a cost of equity of [Begin Confidential *** End Confidential]%, which results in a composite intrastate rate-of-return of [Begin Confidential *** End Confidential]%. The Company’s cost of debt was derived from their actual cost of debt. The cost of equity is consistent with recent authorized equity returns proposed by Staff.

11. Consistent with the DPU’s testimony in the Manti’s 2012 proceeding, the interstate return of 12.97% is derived from NECA’s most recent Form 492 filing with the Federal Communications Commission (“FCC”), which remains the filing on September 30, 2012 for calendar year 2011 Carrier Common Line (“CCL”) and Traffic Sensitive (“TS”) pool participants.

12. In accordance with Utah Rule R746-700-40-A.5, Manti is to provide a copy of the 2012 NECA Cost Study. This is not applicable to Manti as an average schedule company that does not file a cost study.

13. **Schedule 7 – Auditor Management Letters and Audit Entries.** In accordance with Utah Rule R746-700-40, Manti has provided a copy of the 2012 audited financial

statements accompanied by the Independent Auditor's Report from the Company's external auditors. Also included are copies of the adjusting audit journal entries (R746-700-40-A.6) and the Audited Trial Balance as of December 31, 2012, which reflects that Manti recorded all of the recommended 2012 audit adjustments.

14. **Schedule 8 - Summary of Bad Debts.** The Summary of Bad Debts provides the bad debt expense detail required by Rule 746-700-40-A.11, including the amount written off, the recoveries, the reserve adjustment, other charges and credits, and the ending reserve balance write offs for the two years prior to the historical period. In accordance with Rule 746-700-40-A.12, Manti has not changed collection policies or write-off policies.

15. **Schedule 9 – Organizational Charts.** In accordance with Utah Rule R746-700-40, Manti has provided a copy of the affiliate's organization chart and the personnel organization chart outlining names and line of authority as prescribed by 746-700-40-A. 9.

16. **Schedule 10 – Changes in accounting policy.** In accordance with Rule R746-700-40-A.4, Manti has included a list of 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.

17. In accordance with Rule R 746-700-40-A.13, Manti has paid no penalties or fines in the historical period or in the Test Period. In accordance with Rule 746-700-40-A.8 and A.10, Manti has conducted no internal audits nor have there been any corporate restructuring or changes in affiliate relationships.

18. Manti's current local rates are \$16.50 for residential customers and \$26.00 for business, which meet the current Utah Affordable Base Rate for basic telecommunications

service. Accordingly, Manti does not propose to revise basic local service rates. Manti's cost to provide basic telephone service to its customers is in excess of the Affordable Base Rate. Therefore, Manti requests that its entire revenue deficiency of \$1,559,173 be recovered through Utah Universal Service Fund support.

31. **Schedule 12-Depreciation Rates and Depreciation Lives.** In accordance with U.C.A. §54-7-12.1, Schedule 12 contains Manti's Depreciation Rates and Depreciation Lives.

WHEREFORE, Manti Communications, Inc. respectfully submits this Application for UUSF eligibility.

DATED this 11th day of September, 2013.

BLACKBURN & STOLL, LC

/s/Kira M. Slawson
Kira M. Slawson
Attorneys for Manti Telephone Company.

STATE OF UTAH)
) ss.
COUNTY OF SANPETE)

CERTIFICATION

The undersigned, Dallas Cox, CEO/General Manager of Manti Telephone Company, 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.

/s/Dallas Cox
Dallas Cox
CEO/GM
Manti Telephone Company.

Subscribed and sworn to before me on this 11th day of September, 2013.

/s/
Notary Public

My Commission Expires:

Index of data pursuant to R746-700-40

A. General Information

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2. Adjusted Operations – Schedule 4, Column E
3. Adjustments to Test Period
 - a. Rate Base Adjustments – Schedule 3
 - b. Income Statement Adjustments – Schedule 5
 - c. Description of Normalizing Adjustments – Application ¶ 9
4. Changes in Accounting Policies – Schedule 11
5. Cost Study – Application ¶13
6. Audit Entries – Schedule 7
7. Management Letters – Schedule 7
8. List of Internal Audits – Application ¶17
9. Organizational Charts – Schedule 9
10. Changes in Affiliate Relationships – Application ¶17
11. Bad Debt – Schedule 8
12. Changes in Collection Policy – Application ¶14
13. Penalties and Fines – Application ¶17

B. Tax Adjustment

1. Explanation of Tax Adjustment – Application ¶9, Schedule 5 (IS-15)
2. Tax Adjustment – Schedule 5 (IS-15)
 - Net Gross Multiplier – Schedule 1

CERTIFICATE OF MAILING

I hereby certify that a true and correct copy of the (Redacted/Non-Confidential) Manti Telephone Company Application for Increase in USF Eligibility, Docket No. 13-046-01 was sent to the following individuals by electronic mail, this 11th day of September, 2013.

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/s/Kira M. Slawson

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