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BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

IN THE MATTER OF MANTI TELE-	:	
PHONE COMPANY'S APPLICATION	:	
FOR INCREASED USF ELIGIBILITY	:	DOCKET 13-046-01

REDACTED

DIRECT TESTIMONY

OF

DALLAS COX

ON BEHALF OF

MANTI TELEPHONE COMPANY

1	Q.	Please state your name, occupation and business address.
2	A.	Dallas Cox. I am General Manager, Manti Telephone Company ("Manti" or
3		"Company"). Manti's business address is 40 West Union Street, Manti UT 84642.
4		
5	Q.	Please state your educational background.
6	A.	I have a Bachelor of Science in Electrical Engineering from Utah State University.
7		
8	Q.	How long have you been employed by Manti?
9	A.	I have been employed by Manti since May of 2001, approximately 12 years. From 2001
10		to 2003, I was employed as the company's Engineer and switch technician. In
11		approximately 2003, I became the Assistant General Manager / Engineer, and on April 1,
12		2013, I became the General Manager. I now oversee the entire business operation.
13		
14	Q.	Why are you qualified to offer testimony in this case?
15	A.	I have been employed by Manti since 2001. Recently, I became the General Manager of
16		the Company. I have been working closely with our in-house accountant, Tami Hansen,
17		our consultants, our auditors, and our lender. I am familiar with the day to day operations
18		of Manti in my capacity as General Manager.
19		
20	Q.	What is the purpose of your testimony?
21	A.	My testimony serves two purposes. The first is to address the current revenue
22		requirement of Manti and to offer support for the information contained in the
23		Company's Application for Increase in UUSF. This includes discussion of the

- Company's current financial situation. The second purpose for my testimony is to
 discuss the impact of the Confidential and Proprietary Order issued by the Public Service
 Commission on December 28, 2013 on the Company.
- 27

28 Q. Why is discussion of the December 28, 2013 Order relevant in this proceeding?

29 A. Upon entry of the December 28, 2013 Order, Manti moved for reconsideration of the 30 order and moved for a stay of the interim UUSF pay back obligation that was ordered by the Public Service Commission ("Commission"). Pursuant to a Stipulation executed 31 32 between Manti, the Division of Public Utilities and the Office of Consumers Services, 33 and approved by the Commission on June 17, 2013, Manti's pay back obligation was 34 stayed to the conclusion of a new Application for USF Increase to be filed by the 35 Company on or before December 31, 2013. In the Commission Order approving the 36 Stipulation, the Commission ordered Manti to address the pay back obligation in its new 37 filing. On September 11, 2013 Manti filed its Application for Increase in UUSF. This 38 testimony is offered to address the timing and necessity of the interim payback 39 obligation, including discussion of the current financial position of Manti, and the 40 operational changes that the Company has implemented to address the concerns 41 identified by the Public Service Commission in its December 28, 2012 Order.

42

43 Q. Have others been authorized to testify on behalf of Manti in this proceeding?

44 A. Yes. Kevin Kelly and Dr. Curt Huttsell of TCA, Inc. – Telcom Consulting Associates
45 ("TCA") will file direct testimony on behalf of the Company. Their testimony will
46 provide the support and rationale for the proposed increase in UUSF distributions.

47		Additionally, Tami Hansen will file testimony on behalf of the Company. Ms. Hansen's
48		testimony will address the current financial position of the Company and provide
49		additional support for the proposed increase in UUSF Distribution.
50		
51	Q.	What steps has Manti taken to deal with the Public Service Commission's December
52		28, 2012 Order?
53	A.	
54		
55		
56		
57		
58		When the December 28, 2012 Order was issued, we immediately began
59		looking at our operations for drastic ways we could cut costs.
60		
61	Q.	What types of cost cutting measures did you employ?
62	A.	
63		We identified and kept those employees that were critical to
64		the operations, or that could provide more than one service, or fill more than one role,
65		and we laid off the remaining employees.
66		
67	Q.	How many employees did you lay-off?
68	A.	On January 25, 2013, our HR Manager, Connie Cox, retired and we laid off two
69		Customer Service Representatives, and three installers. On March 31, 2013, Paul Cox

70		retired as General Manager of Manti. At that time, I became General Manager of Manti
71		and Gavin Cox was brought into the company to assist with HR Management duties and
72		Assistant General Manager duties.
73		
74	Q.	What effect has the reduction in employees had on the company?
75	A.	Obviously, the reduction of the work force had the intended consequence of immediately
76		reducing our ongoing payroll costs.
77		
78		
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81		
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87		
88	Q.	What other cost saving methods have you employed?
89	A.	
90		
91		
92		

Q. In addition to cost cutting measures, what else have you done to address the

94 Commission's December 28, 2012 Order?

A. We have engaged a new consultant to provide us with an operational assessment and to
assist us with implementation of new procedures. We engaged TCA to review Manti's
operations and to provide us with an assessment regarding the operations and accounting
procedures employed by the Company.

99

100 Q. Has TCA provided you with an Operational Assessment?

101 A. Yes. TCA provided us with an assessment of our operations and recommendations

102 regarding our operations and accounting procedures. Manti has adopted virtually all of

103 TCA's recommendations for operational and accounting changes. The DPU was

104 provided with TCA's operational assessment – and it is my understanding that they have

agreed with and verified the adoption of many of the recommendations.

106

107 Q. What steps is the Company taking to implement the recommendations of TCA?

108 A. TCA has made specific recommendations regarding transactions between our regulated
 109 Company, Manti, and our non-regulated company, MTCC.

110

Q. Can you identify the specific recommendation of TCA and discuss what steps the Company is taking to implement those recommendations?

- 113 A. TCA recommended that Manti modify its rate for wholesale Digital Subscriber Line
- 114 ("DSL") services to appropriately compensate the regulated LEC for use of its network
- 115 over which retail broadband services are provisioned. Accordingly, Manti implemented

116		an increased rate for interstate wholesale broadband services to MTCC which mirrors the
117		rate in National Exchange Carriers Association ("NECA") cost-based DSL Broadband
118		Tariff rate. This change has increased Manti's monthly regulated revenues as indicated
119		in Confidential Schedule 5, attached to the Testimony of Kevin J. Kelly, and more
120		importantly, places Manti on an equal footing with virtually every other RLEC in the
121		nation.
122		TCA also recommended that expenses charged by MTCC to Manti should be
123		based on the lower of either cost or market rate, and expenses charged by Manti to
124		MTCC need to be based on the higher of cost or market rate. We have identified the
125		costs and market rates for expenses between the regulated and non-regulated companies
126		and have developed a lease carrying charge that has been applied.
107		
127		
127	Q.	How are you treating the costs and market rates associated with expenses between
	Q.	How are you treating the costs and market rates associated with expenses between the regulated and non-regulated companies?
128	Q. A.	
128 129	-	the regulated and non-regulated companies?
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128 129 130 131	_	the regulated and non-regulated companies?We have a limited number of expenses between the regulated and non-regulated companies. Specifically, these are equipment leases, warehouse space, office space, and
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128 129 130 131 132 133	_	 the regulated and non-regulated companies? We have a limited number of expenses between the regulated and non-regulated companies. Specifically, these are equipment leases, warehouse space, office space, and broadband services. With regard to equipment leases, we have obtained lease quotes from third parties identifying the market rate for leasing specific equipment. For
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to determine a fair market value for warehouse space. We established the fair market
value of the office space by contacting various rental properties and comparing price,
square footage, and layout. After establishing the cost and fair market value for each
expense, we have followed TCA's recommendations discussed above and have
implemented written leases for all such equipment and space and using the lease carrying
charge developed as the basis for the lease fee.

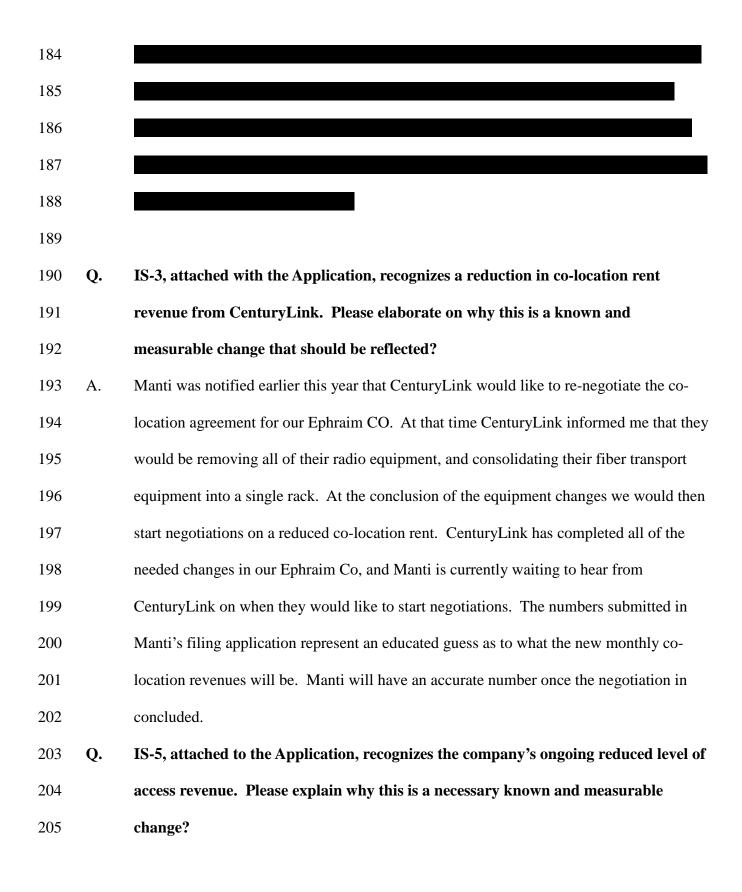
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146 Q. What other procedures did TCA recommend?

147 A. TCA recommended that we make an allocation of loaded labor for direct employees. This 148 means that MTCC is charged the loaded labor rate when employees who are employed by 149 Manti perform any work for MTCC. Similarly, Manti is charged the loaded labor rate 150 when MTCC employees perform work for Manti as reflected by daily timesheets for all 151 employees. We also allocate certain corporate and administrative expenses between the 152 regulated and non-regulated companies - which includes an allocation of management 153 costs. TCA has assisted us with developing an allocation factor to determine the 154 appropriate amount of corporate and administrative overhead to include in the loaded 155 labor rate charged to MTCC. In short, Manti has implemented all of the 156 recommendations of TCA so that its operations reflect a proper and acceptable allocation 157 between the regulated and non-regulated companies as required by state and federal 158 regulatory accounting and cost allocation rules, consistent with industry practice. 159

160 **Q.** What other procedures or changes have you made?

161	А.	Manti continues to improve our work order system to track Telephone Plant Under
162		Construction (TPUC) based on actual costs incurred, and supported by detailed work
163		orders and supporting documentation. We have also modified our CPRs to better track
164		our plant additions and rate base.
165		
166	Q.	Are these cost cutting and operational changes reflected in the Company's
167		Application for Increase in UUSF Distributions in this Docket?
168	A.	Yes. The Company's Application and supporting Schedules reflect each of these cost
169		cutting and operational changes. Although the Company's Application is based on a 2012
170		test year, the Company has made known and measurable changes identified in its
171		Application so that the revenue requirement is based on the test year, plus known and
172		measurable changes. These changes are identified in the Schedules filed with the
173		Application which are attached to the Testimony of Kevin Kelly and discussed in detail in
174		the Testimony filed by Kevin Kelly.
175		
176	Q.	IS-2 adjusts Utah Education Network ("UEN") revenues to current levels. Please
177		describe in detail this adjustment and why it is a necessary known and measurable
178		change?
179	A.	
180		
181		
182		
183		



206	A.	The FCC, in the USF/ICC Transformation Order, has put forth a plan to eliminate access
207		charges between telecommunications carriers. It involves a step down process with the
208		end result being access rates of zero. In addition, Manti's subscribers are transitioning
209		their long distance calling patterns to their cell phones, as cell phones have a perceived
210		zero cost long distance plan. So with reduction in rates on the Federal level, and changes
211		in customer calling patterns, we have seen a continual decline in access revenues.
212		
213	Q.	IS-11 normalizes regulated payroll costs at an anticipated, ongoing level of
214		employees. Please explain this adjustment.
215	A.	As indicated, in an effort to save costs, Manti has been working with a skeleton crew.
216		Continued operation with this level of staffing is not sustainable. Manti needs the ability
217		to hire back additional employees so we can engage in construction projects, complete
218		repairs on a timely basis, and be responsive to our customers.
219		
220	Q.	IS-12 recognizes the known increase in healthcare and employee benefit costs for
221		2013. Please explain.
222	A.	Health care rates continue to increase year over year. IS-12 identifies and accounts for
223		those health care increases.
224		
225		IS-12 identifies and accounts for commensurate increases in benefits costs.
226		
227	Q.	IS-14 normalizes the rate case expenses included in the Application. Please explain
228		this adjustment.

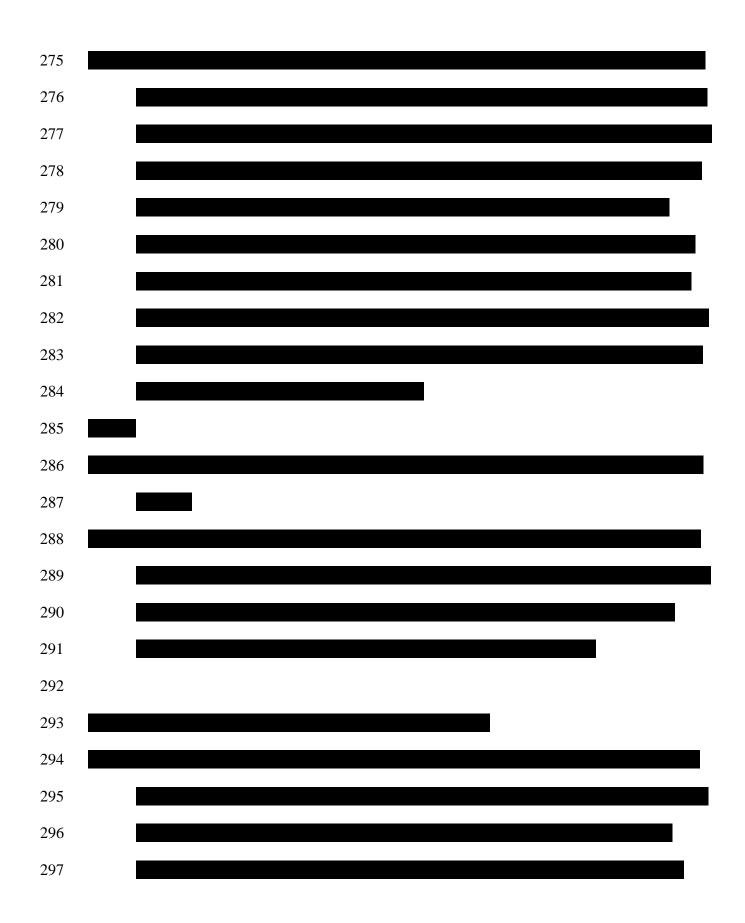
229	A.	We estimated that the rate case expense for this proceeding will be set of the set of t
230		the Company suggests using this number as a place holder for the actual costs and
231		expenses incurred in prosecuting this rate case. The Company is doing whatever it can to
232		minimize these expenses. This number has excluded expenses related to the previous rate
233		case and has included the unamortized rate case expenses that were approved in the
234		previous rate case, Docket No. 08-046-01.
235		
236	Q.	In the previous rate case, and throughout this proceeding, the Division of Public
237		Utilities, the Office of Consumer Services and the Public Service Commission have
238		been concerned with the allocations of expenses between Manti and MTCC. How
239		are you addressing these concerns?
240	A.	As indicated above, Manti has increased rate that MTCC pays for wholesale broadband
241		services that are provisioned over Manti's network. Manti has properly allocated non-
242		regulated expenses to MTCC, and has provided, in response to data requests and during
243		the on-site audit, supporting documentation of such allocations.
244		
245	Q.	Is Manti required to provide broadband capability to consumers?
246	A.	Yes. The FCC in the USF/ICC Transformation Order issued November 18, 2011 (FCC
247		11-161) ("Transformation Order") made it clear that carriers receiving support under
248		existing high-cost support mechanisms are required to offer broadband capability to
249		consumers. The FCC, in paragraph 86 of the Transformation Order states "as a
250		condition of receiving federal high-cost universal service support, all ETCs, whether
251		designated by a state commission or the Commission, will be required to offer broadband

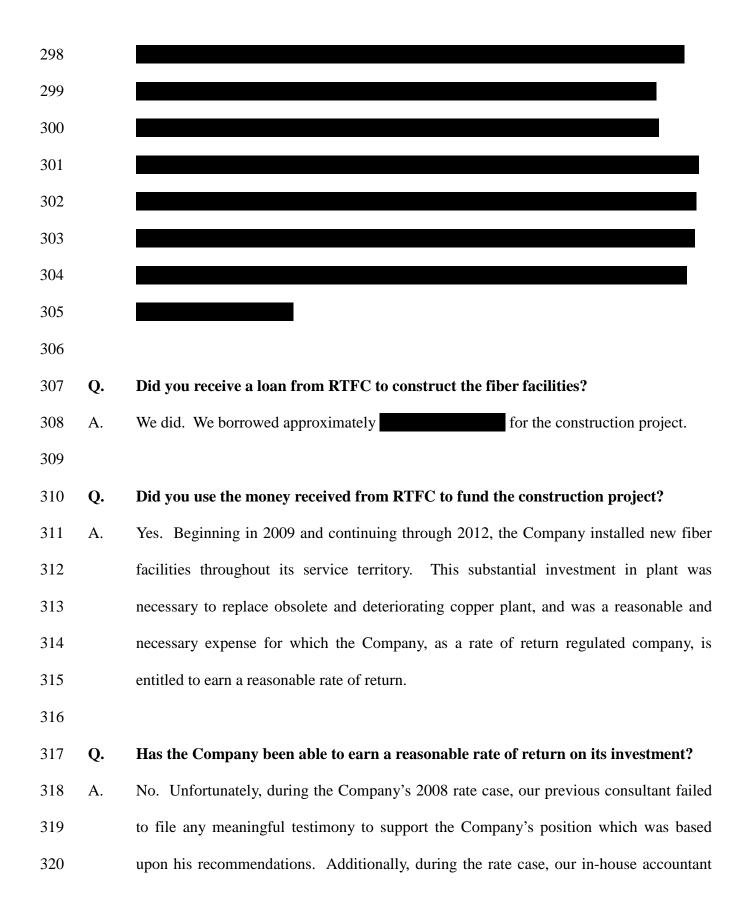
252	service in their supported area that meets certain basic performance requirements.
253	Additionally, providing customers with internet and cable provides stickiness for the
254	telephone customers. Manti believes, and the industry has confirmed, that providing
255	additional services to your telephone customers increases the likelihood that they will
256	continue with their regulated telephone service. We believe that if Manti's family of
257	companies did not offer internet or cable, our landline counts would decrease
258	substantially.



Q. Can you discuss Manti's current financial position?







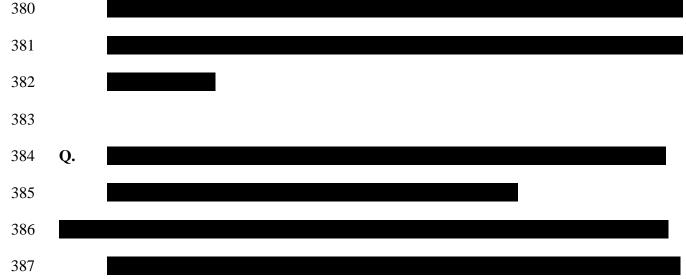
321 quit and Manti was left without meaningful assistance to support its positions. 322 323 As indicated, we have a new in-house accountant; have engaged a new 324 consulting firm; and have made substantial changes to our operations and financial 325 procedures. As demonstrated in our Application for Increase in USF including the 326 supporting Schedules, the Company is entitled to UUSF support in the amount of 327 \$1,559,173. 328 329 Do you believe that Manti has been entitled to that level of UUSF support since it Q. 330 filed its original rate case in 2008? 331 Yes. I believe Manti has been entitled to at least that level of UUSF support since 2008. A. 332 333 What evidence do you have to support that assertion? **Q**. 334 Generally speaking, since 2008, Manti has lost approximately A. in rate base 335 per year through depreciation. Additionally, the Company has lost approximately 336 per year in depreciation expense. The Company has slashed its operational 337 costs by reducing the workforce, resulting in cost savings of approximately 338 per year. Additionally, since 2008, Manti has lost approximately landline customers 339 without a concomitant reduction in costs. Therefore, I believe I can state with confidence 340 that over the past 5 years, the Company's entitlement to UUSF support has been at least 341 as much as is requested in this Application.

343	Q.	Did the Company receive interim UUSF support pending the outcome of the 2008
344		Rate Case Application?
345	A.	Yes. Upon application for interim UUSF support, the Company and the Division of
346		Public Utilities determined that the Company should receive \$908,763 in interim support
347		from October 1, 2008 through April 30, 2011. The interim UUSF distributions were
348		reduced to \$490,631.04 from May 1, 2011 through December 31, 2012.
349		
350	Q.	What were the terms of receiving that interim support?
351	A.	When the Interim UUSF support was awarded, Manti agreed to pay back any amounts it
352		received that were in excess of the amount finally awarded by the Commission at the
353		conclusion of the rate case.
354		
355	Q.	Why did the Company agree to the pay back arrangement?
356	A.	The Company believed that the amount of the interim support was set at a level that was
357		low enough that under no circumstances would the final award be for less than the
358		interim award.
359		
360	Q.	Do you believe Manti received interim support which was not justified?
361	A.	I don't. The calculation of the Company's current revenue requirement is \$1,559,173.
362		This calculation is based on investment that was made beginning in 2009 and continuing
363		through 2012, and is based on the reasonable and necessary operational expenses of the
364		Company after the implementation of substantial cost cutting measures, and operational
365		changes that have been developed with Manti's new consultant and have been reviewed

by the Division of Public Utilities. With the loss in rate base that Manti has had in the
past 5 years due to loss of depreciation, the Company's revenue requirement has been
reduced in the past 5 years. Therefore, with a current revenue deficiency of \$1,559,173,
Manti did not receive any interim funds to which it was not entitled. The current revenue
requirement substantially exceeds the interim award.

- 371
- 372 Q. Do you believe that based on the current Application it would be in the public
 373 interest for Manti to pay any funds back to the UUSF?

A. No. The UUSF is a fund that is used to offset the reasonable and necessary costs of providing basic telephone service in high cost service territories within the state of Utah. Manti has established in its Application, its responses to Data Requests, and in the testimony that it is entitled to distributions from the UUSF at a level that exceeds the amount it received in interim distributions. Therefore, pay back of such funds is not required.





- **391 Q. Does this conclude your testimony?**
- 392 A. Yes.