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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

Q. Please state your name, occupation and business address.

A. Dallas Cox. I am General Manager, Manti Telephone Company ("Manti" or "Company"). Manti's business address is 40 West Union Street, Manti UT 84642.

Q. Please state your educational background.

A. I have a Bachelor of Science in Electrical Engineering from Utah State University.

Q. How long have you been employed by Manti?

A. I have been employed by Manti since May of 2001, approximately 12 years. From 2001 to 2003, I was employed as the company's Engineer and switch technician. In approximately 2003, I became the Assistant General Manager / Engineer, and on April 1, 2013, I became the General Manager. I now oversee the entire business operation.

Q. Why are you qualified to offer testimony in this case?

A. I have been employed by Manti since 2001. Recently, I became the General Manager of the Company. I have been working closely with our in-house accountant, Tami Hansen, our consultants, our auditors, and our lender. I am familiar with the day to day operations of Manti in my capacity as General Manager.

Q. What is the purpose of your testimony?

A. My testimony serves two purposes. The first is to address the current revenue requirement of Manti and to offer support for the information contained in the 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.

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

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

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

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

Additionally, Tami Hansen will file testimony on behalf of the Company. Ms. Hansen's testimony will address the current financial position of the Company and provide additional support for the proposed increase in UUSF Distribution.

Q. What steps has Manti taken to deal with the Public Service Commission's December 28, 2012 Order?

A. [redacted] When the December 28, 2012 Order was issued, we immediately began looking at our operations for drastic ways we could cut costs.

Q. What types of cost cutting measures did you employ?

A. [redacted] We identified and kept those employees that were critical to the operations, or that could provide more than one service, or fill more than one role, and we laid off the remaining employees.

Q. How many employees did you lay-off?

A. On January 25, 2013, our HR Manager, Connie Cox, retired and we laid off two Customer Service Representatives, and three installers. On March 31, 2013, Paul Cox retired as General Manager of Manti. At that time, I became General Manager of Manti and Gavin Cox was brought into the company to assist with HR Management duties and Assistant General Manager duties.

Q. What effect has the reduction in employees had on the company?

A. Obviously, the reduction of the work force had the intended consequence of immediately reducing our ongoing payroll costs. [redacted]

Q. What other cost saving methods have you employed?

A. [redacted]

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

Q. Has TCA provided you with an Operational Assessment?

A. Yes. TCA provided us with an assessment of our operations and recommendations regarding our operations and accounting procedures. Manti has adopted virtually all of TCA's recommendations for operational and accounting changes. The DPU was 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.

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

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

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

A. TCA recommended that Manti modify its rate for wholesale Digital Subscriber Line ("DSL") services to appropriately compensate the regulated LEC for use of its network over which retail broadband services are provisioned. Accordingly, Manti implemented an increased rate for interstate wholesale broadband services to MTCC which mirrors the rate in National Exchange Carriers Association ("NECA") cost-based DSL Broadband Tariff rate. This change has increased Manti's monthly regulated revenues as indicated in Confidential Schedule 5, attached to the Testimony of Kevin J. Kelly, and more importantly, places Manti on an equal footing with virtually every other RLEC in the nation.

TCA also recommended that expenses charged by MTCC to Manti should be based on the lower of either cost or market rate, and expenses charged by Manti to MTCC need to be based on the higher of cost or market rate. We have identified the costs and market rates for expenses between the regulated and non-regulated companies and have developed a lease carrying charge that has been applied.

Q. How are you treating the costs and market rates associated with expenses between the regulated and non-regulated companies?

A. 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 example, we have received two quotes for leasing of a backhoe since Manti leases a backhoe from MTCC. We used that information to set the lease rate from MTCC to Manti at the lower of cost or market rates. We have done the same thing with regard to the bucket truck and the trencher that are leased to Manti. With regard to warehouse space, in the previous rate case that Ray Hendershot contacted several realtors in the area 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.

Q. What other procedures did TCA recommend?

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

Q. What other procedures or changes have you made?

A. Manti continues to improve our work order system to track Telephone Plant Under Construction (TPUC) based on actual costs incurred, and supported by detailed work orders and supporting documentation. We have also modified our CPRs to better track our plant additions and rate base.

Q. Are these cost cutting and operational changes reflected in the Company's Application for Increase in UUSF Distributions in this Docket?

A. Yes. The Company's Application and supporting Schedules reflect each of these cost cutting and operational changes. Although the Company's Application is based on a 2012 test year, the Company has made known and measurable changes identified in its Application so that the revenue requirement is based on the test year, plus known and measurable changes. These changes are identified in the Schedules filed with the Application which are attached to the Testimony of Kevin Kelly and discussed in detail in the Testimony filed by Kevin Kelly.

Q. IS-2 adjusts Utah Education Network ("UEN") revenues to current levels. Please describe in detail this adjustment and why it is a necessary known and measurable change?

A. [redacted]

[redacted]

Q. IS-3, attached with the Application, recognizes a reduction in co-location rent revenue from CenturyLink. Please elaborate on why this is a known and measurable change that should be reflected?

A. Manti was notified earlier this year that CenturyLink would like to re-negotiate the co-location agreement for our Ephraim CO. At that time CenturyLink informed me that they would be removing all of their radio equipment, and consolidating their fiber transport equipment into a single rack. At the conclusion of the equipment changes we would then start negotiations on a reduced co-location rent. CenturyLink has completed all of the needed changes in our Ephraim Co, and Manti is currently waiting to hear from CenturyLink on when they would like to start negotiations. The numbers submitted in Manti's filing application represent an educated guess as to what the new monthly co-location revenues will be. Manti will have an accurate number once the negotiation in concluded.

Q. IS-5, attached to the Application, recognizes the company's ongoing reduced level of access revenue. Please explain why this is a necessary known and measurable change?

A. The FCC, in the USF/ICC Transformation Order, has put forth a plan to eliminate access charges between telecommunications carriers. It involves a step down process with the end result being access rates of zero. In addition, Manti's subscribers are transitioning their long distance calling patterns to their cell phones, as cell phones have a perceived zero cost long distance plan. So with reduction in rates on the Federal level, and changes in customer calling patterns, we have seen a continual decline in access revenues.

Q. IS-11 normalizes regulated payroll costs at an anticipated, ongoing level of employees. Please explain this adjustment.

A. As indicated, in an effort to save costs, Manti has been working with a skeleton crew. Continued operation with this level of staffing is not sustainable. Manti needs the ability to hire back additional employees so we can engage in construction projects, complete repairs on a timely basis, and be responsive to our customers.

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

A. Health care rates continue to increase year over year. IS-12 identifies and accounts for those health care increases. [redacted] IS-12 identifies and accounts for commensurate increases in benefits costs.

Q. IS-14 normalizes the rate case expenses included in the Application. Please explain this adjustment.

A. We estimated that the rate case expense for this proceeding will be [redacted], however, the Company suggests using this number as a place holder for the actual costs and expenses incurred in prosecuting this rate case. The Company is doing whatever it can to minimize these expenses. This number 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.

Q. In the previous rate case, and throughout this proceeding, the Division of Public Utilities, the Office of Consumer Services and the Public Service Commission have been concerned with the allocations of expenses between Manti and MTCC. How are you addressing these concerns?

A. As indicated above, Manti has increased rate that MTCC pays for wholesale broadband services that are provisioned over Manti's network. Manti has properly allocated non-regulated expenses to MTCC, and has provided, in response to data requests and during the on-site audit, supporting documentation of such allocations.

Q. Is Manti required to provide broadband capability to consumers?

A. Yes. The FCC in the USF/ICC Transformation Order issued November 18, 2011 (FCC 11-161) ("Transformation Order") made it clear that carriers receiving support under existing high-cost support mechanisms are required to offer broadband capability to consumers. The FCC, in paragraph 86 of the Transformation Order states "as a condition of receiving federal high-cost universal service support, all ETCs, whether designated by a state commission or the Commission, will be required to offer broadband service in their supported area that meets certain basic performance requirements. Additionally, providing customers with internet and cable provides stickiness for the telephone customers. Manti believes, and the industry has confirmed, that providing additional services to your telephone customers increases the likelihood that they will continue with their regulated telephone service. We believe that if Manti's family of companies did not offer internet or cable, our landline counts would decrease substantially.

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

A. [redacted]

[redacted]

[redacted]

[redacted]

Q. Did you receive a loan from RTFC to construct the fiber facilities?

A. We did. We borrowed approximately [redacted] for the construction project.

Q. Did you use the money received from RTFC to fund the construction project?

A. Yes. Beginning in 2009 and continuing through 2012, the Company installed new fiber facilities throughout its service territory. This substantial investment in plant was necessary to replace obsolete and deteriorating copper plant, and was a reasonable and necessary expense for which the Company, as a rate of return regulated company, is entitled to earn a reasonable rate of return.

Q. Has the Company been able to earn a reasonable rate of return on its investment?

A. No. Unfortunately, during the Company's 2008 rate case, our previous consultant failed to file any meaningful testimony to support the Company's position which was based upon his recommendations. Additionally, during the rate case, our in-house accountant quit and Manti was left without meaningful assistance to support its positions. [redacted] As indicated, we have a new in-house accountant; have engaged a new consulting firm; and have made substantial changes to our operations and financial procedures. As demonstrated in our Application for Increase in USF including the supporting Schedules, the Company is entitled to UUSF support in the amount of $1,559,173.

Q. Do you believe that Manti has been entitled to that level of UUSF support since it filed its original rate case in 2008?

A. Yes. I believe Manti has been entitled to at least that level of UUSF support since 2008.

Q. What evidence do you have to support that assertion?

A. Generally speaking, since 2008, Manti has lost approximately [redacted] in rate base per year through depreciation. Additionally, the Company has lost approximately [redacted] per year in depreciation expense. The Company has slashed its operational costs by reducing the workforce, resulting in cost savings of approximately [redacted] per year. Additionally, since 2008, Manti has lost approximately [redacted] landline customers without a concomitant reduction in costs. Therefore, I believe I can state with confidence that over the past 5 years, the Company's entitlement to UUSF support has been at least as much as is requested in this Application.

Q. Did the Company receive interim UUSF support pending the outcome of the 2008 Rate Case Application?

A. Yes. Upon application for interim UUSF support, the Company and the Division of Public Utilities determined that the Company should receive $908,763 in interim support from October 1, 2008 through April 30, 2011. The interim UUSF distributions were reduced to $490,631.04 from May 1, 2011 through December 31, 2012.

Q. What were the terms of receiving that interim support?

A. When the Interim UUSF support was awarded, Manti agreed to pay back any amounts it received that were in excess of the amount finally awarded by the Commission at the conclusion of the rate case.

Q. Why did the Company agree to the pay back arrangement?

A. The Company believed that the amount of the interim support was set at a level that was low enough that under no circumstances would the final award be for less than the interim award.

Q. Do you believe Manti received interim support which was not justified?

A. I don't. The calculation of the Company's current revenue requirement is $1,559,173. This calculation is based on investment that was made beginning in 2009 and continuing through 2012, and is based on the reasonable and necessary operational expenses of the Company after the implementation of substantial cost cutting measures, and operational 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.

Q. Do you believe that based on the current Application it would be in the public 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. [redacted]

Q. [redacted]

[redacted]

Q. Does this conclude your testimony?

A. Yes.