

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of Manti
Telephone Company's
Application for Increased USF
Eligibility.

Docket No. 13-046-01

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HEARING

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TAKEN AT: Heber M. Wells Building
160 East 300 South, Room 451
Salt Lake City, Utah 84111

DATE: Monday, February 10, 2014

TIME: 2:00 p.m.

REPORTED BY: Michelle Mallonee, RPR

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APPEARANCES

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THAD LEVAR, COMMISSIONER

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Hearing

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February 10, 2014

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PROCEEDINGS

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HEARING OFFICER CLARK: Good afternoon,

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Ladies and Gentlemen. My name's David Clark. I'm one of the

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three public service commissioners. To my left is Commission

7

Chair, Ron Allen. To his left is Commissioner Thad LeVar. And

8

our purpose this afternoon is to hear the evidence in support and

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in opposition, if there be any, to a settlement stipulation in

10

Docket No. 08-046-01, which is the application for the increase

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of rates and charges by Manti Telephone Company. I propose

12

that we begin.

13

Go ahead, Mr. Jetter.

14

MR. JETTER: Thank you. I just wanted to correct--

15

I think you're using the older docket. This is filed under a

16

different number. And it's--

17

HEARING OFFICER CLARK: I'm looking at last

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year's case--or two years ago, or something. I apologize.

19

Docket No. 13-046-01 is the docket number. And it

20

pays to listen to Mr. Jetter when he has something on his mind.

21

I've learned that. So thank you for that help.

22

What we propose to do is to have parties enter their

23

appearances. If anyone is here in opposition, we would like to

24

know that at the outset. And when we've determined that, we'll--

25

I'll present a proposal for how we'll conduct the hearing today.

1 Also, if you're aware of any public participants,
2 public witnesses, who intend to be present today, we'd
3 appreciate knowing that so we make sure that we are here and
4 on the record to receive their statements.

5 That public witness hearing is scheduled for 3:00, I
6 believe, but there's a little confusion about the duration of the
7 hearing and so we want to make sure we don't miss anyone.

8 So we'll begin with the applicant.

9 MS. SLAWSON: Good afternoon. My name is Kira
10 Slawson. I'm with Blackburn & Stoll. I represent Manti
11 Telephone Company. With me to my right is Dallas Cox, the
12 general manager of Manti Telephone Company.

13 HEARING OFFICER CLARK: Thank you.

14 MR. JETTER: I'm Justin Jetter. I'm with the Utah
15 Attorney General's office representing the Utah Division of Public
16 Utilities. And with me are two analysts from the Division of
17 Public Utilities, Bill Duncan and Bob Davis.

18 MR. COLEMAN: Brent Coleman from the Attorney
19 General's office representing the Office of Consumer Services.
20 With me is Cheryl Murray, who will provide the Office's statement
21 and testimony.

22 HEARING OFFICER CLARK: Thank you. Is there
23 anyone else who intends to participate today?

24 All right. Then what we would propose is to have
25 each of the witnesses present their testimony or summary in

1 support of the settlement document. And then we'll examine the
2 witnesses as a panel. And I think there will just be questions
3 from the Commission. But if any of you have questions for the
4 other witnesses, let me know as we go along.

5 So, Ms. Slawson.

6 MS. SLAWSON: Thank you. We were going to
7 proceed with having Mr. Dallas Cox summarize his position. And
8 I have a little -- it's a little bit of a question-answer format. Will
9 that be acceptable?

10 HEARING OFFICER CLARK: Absolutely. And for
11 this process, we'll allow the witnesses to remain seated next to
12 their counsel unless they prefer to be at the witness stand.

13 So will you please raise your right hand. Do you
14 solemnly swear that the testimony you are about to give shall be
15 the truth, the whole truth, and nothing but the truth?

16 THE WITNESS: I do.

17 HEARING OFFICER CLARK: Thank you.

18 MS. SLAWSON: Initially, as maybe a housekeeping
19 measure, we would--if the Commission is so inclined, we would
20 move for the admission of the testimony that was prefiled on
21 behalf of Manti Telephone Company. Mr. Cox will be referring to
22 his testimony generally in the summary that he presents.

23 HEARING OFFICER CLARK: And are you offering
24 not only his testimony, but all of the testimony that was prefiled?

25 MS. SLAWSON: Yes, although we do not have any

1 witnesses for the other testimony. The testimony that we
2 prefiled will be the testimony of Dallas Cox, the testimony of
3 Kevin Kelly, the testimony of Tami Hansen, and the testimony of
4 Dr. Curt Huttzell.

5 HEARING OFFICER CLARK: Any objection to
6 receiving that into evidence?

7 It's received.

8 (All the prefiled testimony of Manti Telephone Company was
9 received into evidence.)

10 MS. SLAWSON: Thank you.

11 DALLAS COX, having been first duly sworn, was
12 examined and testified as follows:

13 DIRECT EXAMINATION

14 BY-MS. SLAWSON:

15 Q. Good afternoon, Mr. Cox. Can you please state
16 your name and your position with Manti Telephone Company for
17 the record?

18 A. My name's Dallas Cox. I'm the general manager of
19 Manti Telephone Company.

20 Q. And what is the purpose of your testimony here
21 today?

22 A. I will briefly review the history of events in this
23 matter and will offer support for the settlement stipulation that
24 has been entered into by Manti Telephone Company, the Division
25 of Public Utilities, and the Office of Consumer Services. I will

1 confirm Manti Telephone Company's support of the stipulation
2 and the Company's belief that the stipulation is in the public
3 interest.

4 Q. Can you provide the Commission with a brief history
5 on this matter?

6 A. Yes. In 2008, Manti Telephone Company filed an
7 application for rate increase and increase in USF distribution,
8 Utah USF distribution. And that case went to hearing in
9 November of 2012 and resulted in the order from the Public
10 Service Commission being issued on December 28, 2012.

11 As a result of that order, Manti Telephone
12 Company's USF--Utah USF distribution was reduced to \$41,561
13 per year. And Manti was ordered to pay back interim amounts of
14 USF it had received during the time the rate case was pending.
15 The UUSF Manti received went to offset the pay pack obligation.
16 Manti Telephone Company was in a precarious financial position
17 prior to the Commission's December 28, 2012 order. But after
18 losing all of its UUSF funding, Manti Telephone Company on the
19 verge of financial disaster.

20 In my testimony, I discussed the financial position of
21 Manti Telephone Company in detail. In a very brief summary of
22 my testimony, when the December 28, 2012 order was issued,
23 we immediately began looking at our operations for drastic ways
24 we could cut costs so that we could continue providing
25 telecommunication services to our customers. I was also

1 concerned with our ability to continue making loan payments to
2 our lender.

3 Q. What types of cost-cutting measures did you employ
4 at that time?

5 A. We terminated seven employees and we postponed
6 any non-vital plant additions and upgrades.

7 Q. And what other steps did you take to address the
8 Commission's order?

9 A. For the past few years--or year, we have been
10 working closely with our lender to defer loan payments. We have
11 also petitioned the Commission for re-hearing. The Commission
12 granted limited review to address the UUSF repayment schedule.
13 Manti retained a new consultant and filed the testimony on the
14 financial conditions of the company and the payback issue.

15 Ultimately, Manti Telephone Company, the Division
16 of Public Utilities, and the Office of Consumer Services entered
17 into a stipulation that was approved by order of the Commission
18 on July 17, 2013. The stipulation and the Commission's order
19 provided, among other things, that Manti's payback obligation
20 would be stayed pending the outcome of the new application,
21 which Manti would file on or before December 31, 2013. And the
22 Commission ordered Manti to address the payback obligation in
23 its new filing.

24 Manti Telephone Company and its new consultants
25 from TCA worked cooperatively with the Division, the Public

1 Utilities, and the Office of Consumer Services to get Manti's
2 financial house in order. And Manti ultimately filed this new rate
3 case on September 11, 2013.

4 Q. Can you describe the steps you took to get your
5 financial house in order?

6 A. First, Manti Telephone Company hired a new
7 consulting firm. We had the consultants review our business
8 records and conduct an operational and accounting assessment.
9 Our consultants recommended that Manti Telephone Company
10 make several procedural and operational changes.

11 Manti Telephone Company shared the results of the
12 consultants' operational assessment with the Office of Consumer
13 Services and the Division of Public Utilities. Manti worked
14 collaboratively with the Office and the Division to address their
15 accounting and operational concerns. Manti provided access to
16 all financial documents requested and immediately began
17 implementing accounting and operational changes to address the
18 concerns and recommendations of the Office and the Division
19 and Manti's consultants.

20 Q. Can you give a brief description of the operational
21 and accounting changes that you made?

22 HEARING OFFICER CLARK: Mr. Cox--

23 THE WITNESS: Yes.

24 HEARING OFFICER CLARK: Mr. Cox, just a little
25 bit slower still, if you don't mind.

1 THE WITNESS: Absolutely. If I go too fast, put the
2 kibosh on me.

3 So some of the operational changes that we made--
4 the details regarding the operational and accounting changes the
5 Company made and the impact those changes had on the
6 Company are contained in the testimony that we filed, as well as
7 the testimony of Tami Hansen and Kevin Kelly and Dr. Huttshell
8 on behalf of Manti Telephone.

9 Briefly, we adopted a new increased rate for
10 wholesale DSL services to compensate Manti Telephone
11 Company for the use of its regulated network, over which retail
12 broadband services are provisioned. The new rates that we
13 implemented mirror the National Exchange Carrier Association's
14 cost-based DSL broadband tariff rate. We also implemented
15 procedures to ensure that expenses charged by our nonregulated
16 affiliate company, Manti Telecommunications Company, to Manti
17 are based on the lower of either cost or market rate. And
18 expenses charged by Manti to the non-regulated affiliate are
19 based on the higher of cost or market rate.

20 We have identified the cost and market rates for
21 expenses between the regulated and non-regulated companies
22 and have developed a lease carrying charge that has been
23 applied to intercompany expenses.

24 We implemented procedural changes to ensure that
25 the regulated company is properly compensated by the non-

1 regulated company for any use of Manti's regulated employees,
2 and that it properly compensates the non-regulated company if
3 Manti Telephone uses the non-regulated employees.

4 We also allocated certain corporate and
5 administrative expenses between the regulated and non-
6 regulated companies, which includes an allocation of
7 management costs. TCA has assisted us with developing an
8 allocation factor to determine the appropriate amount of
9 corporate and administrative overhead to include in the low-bid
10 labor rate charge to the non-regulated affiliate.

11 In short, Manti has implemented all of the
12 recommendations of TCA so that its operations reflect the proper
13 and acceptable allocation between the regulated and the non-
14 regulated companies as required by state and federal regulatory
15 accounting and cost allocation rules consistent with industry
16 practices.

17 Q. What other procedures or changes have you made?

18 A. Manti continues to improve our work order system to
19 track telephone plant under construction based on actual costs
20 incurred. We have also modified our CPR's, or Continual
21 Property Records, to better track our plant additions and rate
22 case.

23 Q. Have the Division of Public Utilities and the Office
24 of Consumer Services reviewed your operational and accounting
25 changes?

1 A. Yes. We discussed the changes with the Office and
2 the Division prior to filing our application. Since filing the
3 application, we have responded to data requests, provided
4 additional information to the Office and the Division, and
5 participated in an on-site visit with the Office and the Division.

6 We filed testimony in support of our application,
7 which details our operational and accounting changes. After
8 filing our testimony, the parties engaged in settlement
9 discussions and were able to agree to the terms and conditions
10 set forth in the stipulation.

11 Q. And can you briefly describe the terms of the
12 stipulation?

13 A. It will be hopefully brief.

14 I'm going to just address each paragraph of the
15 stipulation, kind of hitting the major things. I'm assuming that
16 you've already read it--hopefully so. If not, we can go into more
17 detail.

18 HEARING OFFICER CLARK: Let me assure you
19 we've read it.

20 THE WITNESS: Okay. Great.

21 HEARING OFFICER CLARK: As well as all the
22 other documents and testimony that all the parties have filed in
23 this case.

24 THE WITNESS: Thank you.

25 So paragraphs 1 through 3 of the stipulation set

1 forth the procedural history of this matter. The specific terms
2 and conditions of the stipulation are contained in paragraphs 4
3 through 13 of the stipulation.

4 The parties agree that Manti charges the
5 Commission-approved base affordable rate for basic
6 telecommunication service, and that Manti's cost to provide basic
7 telephone service to its customers are in excess of the rates
8 currently considered affordable in Manti's service territory,
9 resulting in a revenue shortfall.

10 In paragraph 5, the parties agree to an increase in
11 Manti's intra-state revenue requirement of \$908,439.

12 In paragraph 6, the parties agree that the increase
13 in annual intrastate revenue requirements for Manti will be
14 funded by the intrastate UUSF in the annual amount of \$908,439
15 or \$75,703.25 per month. This amount is in addition to the
16 \$41,561 in intrastate UUSF that Manti is currently entitled to
17 receive. The parties agree that Manti's total UUSF disbursement
18 will be \$79,166.67 per month on or about the first of each month,
19 beginning in March of 2014.

20 In paragraph 7, the parties agree that due to the
21 unique circumstances of this case combined with Manti's
22 previous rate case, Manti's UUSF distribution shall be awarded
23 retroactively, starting on the date of the application on this
24 docket. Manti's first payment will include the six months from
25 September 2013 through February 2014, or another ending date

1 if the Commission approval occurs later than March 1 of 2014.
2 The parties agree that the initial payment will be \$475,000 if the
3 stipulation is approved on the schedule proposed by the parties.

4 Paragraph 8 addresses Manti's outstanding
5 repayment obligation resulting from Manti's previous rate case.
6 The parties agree that the terms of the stipulation, when
7 considered as a whole, wholly resolve the outstanding repayment
8 amount and that no further repayment for Manti is required.

9 Paragraph 9 of the stipulation provides that Manti
10 will promote its Life Line offering at least annually on its bill or
11 through a billing service and on its website.

12 Paragraph 10 of the stipulation provides that Manti
13 will provide contact information for Manti Telecommunications
14 Company, Inc. on all joint bills.

15 Paragraph 11 of the stipulation provides that Manti
16 will provide the Division and the Office the auditor's annual
17 compilation financial statements for MTCC, which is our known
18 reg affiliate, for 2013, 2014, and 2015. Manti will provide
19 audited financial statements for MTCC if they are available.
20 Manti will also provide copies of all monthly bills and relevant
21 spreadsheets showing allocations of charges between Manti
22 Telephone and MTCC, and will be provided for the same three-
23 year period. Manti will provide explanations for the amount as
24 applicable. Manti will also provide audited financial statements
25 for Manti telephone for those same three years, 2013, 2014, and

1 2015.

2 Paragraph 12 of the stipulation provides that if
3 Manti sells, leases, or otherwise disposes of its 700 megahertz
4 Spectrum, it will apply any and all revenues from the sale, lease,
5 or other disposition to its remaining RTFC loan obligation.

6 Finally, paragraph 13 of the stipulation provides that
7 the increase and the revenue requirement and UUSF eligibility
8 described in the stipulation are in the public interest, and are just
9 and reasonable in result and should be approved by the
10 Commission.

11 Paragraphs 14 through 21 contain general terms of
12 the stipulation, which I will not summarize, but which are material
13 terms to the stipulation.

14 Q. Do you believe that this stipulation, as drafted, is
15 just and reasonable?

16 A. I do.

17 Q. And do you believe that the stipulation, as drafted
18 and executed by the parties, is in the public interest?

19 A. I do.

20 MS. SLAWSON: I have no further questions.

21 HEARING OFFICER CLARK: Thank you. And let
22 me note for the record that the report and order of the
23 Commission to which Mr. Cox referred at the outset of his
24 summary was issued in Docket No. 08-046-01, the one that I
25 erroneously mentioned at the outset of this hearing. And that

1 docket is the docket from which this current matter springs. The
2 caption in this case, just to be clear, is, "In the Matter of Manti
3 Telephone Company's Application for Increased USF Eligibility."
4 And again, this is--this Docket number is 13-046-01.

5 So Mr. Jetter, please.

6 MR. JETTER: I have no--we're going through all the
7 witnesses at this point?

8 HEARING OFFICER CLARK: Right.

9 MR. JETTER: I would like to call our first witness,
10 who is Bob Davis.

11 Mr. Davis.

12 HEARING OFFICER CLARK: Would you please
13 raise your right hand so you that you may be sworn.

14 You do swear that the testimony you are about to
15 give shall be the truth, the whole truth, and nothing but the truth?

16 THE WITNESS: I do.

17 HEARING OFFICER CLARK: Thank you.

18 ROBERT A. DAVIS, having been first duly sworn,
19 was examined and testified as follows:

20 DIRECT EXAMINATION

21 BY-MR.JETTER:

22 Q. Mr. Davis, would you please state you name and
23 occupation for the record.

24 A. I'm Robert A. Davis. I'm the utility analyst for the
25 Division of Public Utilities.

1 Q. Thank you. And have you prepared a brief
2 statement for the record today?

3 A. Yes, I have.

4 Q. Please go ahead and read that.

5 A. As a result of the outcome of the 08-046-01 docket,
6 Manti Telephone failed to meet certain financial ratios at end of
7 2012, violating compliance with its debt covenants to its lender,
8 Rural Telephone Finance Cooperative, RTFC. The DPU's
9 financial ratio analysis in this matter supports RTFC's
10 conclusions and the "Going concern" opinions expressed by the
11 audit findings of Hawkins, Cloward, and Simister. The auditor's
12 Note 14, "Going Concern," as of December 31, 2012, states,
13 "Those factors referring to greater current liabilities than current
14 assets, as well as the uncertain conditions that the Company
15 faces regarding its loan agreements and repayment of USF,
16 created uncertainty about the Company's ability to continue as a
17 going concern."

18 They further go on to state, "The ability of the
19 Company to continue as a going concern is dependent on
20 acceptance of the plan by the Company's creditors and the
21 success of the new USF application."

22 In the report to the board of directors dated April 17,
23 2013, under, "Emphasis of Matter Regarding Going Concern," the
24 auditor states, "These conditions raise substantial doubt about
25 the Company's ability to continue as a going concern."

1 In May of 2013, Manti entered into a three-month
2 forbearance agreement with RTFC for a fixed amount of money
3 to pay down principal and interest in lieu of their May obligation.
4 In August, the Company was unable to make payments and
5 asked for an amendment to the original forbearance in which an
6 additional six months was granted, but required monthly
7 payments of interest and principal.

8 As a result of deferred operating expenditure,
9 OPEX, obligations in November--property tax--Manti was again
10 unable to make the monthly payments asking for a third
11 amendment to the original forbearance.

12 As a result of the forbearance agreement, Manti had
13 to forfeit their common ownership stock, along with present and
14 future patronage stock for RTFC. In reality, RTFC owns the
15 company as a major shareholder.

16 The current state of the Company's cash flow
17 without additional Utah Universal Service Funding, UUSF,
18 despite its cost-cutting measures and revenue increases, does
19 not and will not meet the needed cash working capital required to
20 meet the principal and interest obligations to RTFC, let alone
21 accrue the necessary OPEX for deferred liabilities occurring
22 through the year.

23 Even with the changes implemented by Manti
24 Telephone under the direction of its consultant, the DPU believes
25 the financial health of the company to be timely and in peril. The

1 DPU believes it is in the public interest to support the financial
2 health of the Company by the reasonable settlements, as
3 provided in the stipulation for this matter as outlined.

4 Q. Thank you.

5 MR. JETTER: The Division would next like to call
6 Mr. Bill Duncan.

7 HEARING OFFICER CLARK: Do you solemnly
8 swear that the testimony you are about to give shall be the truth,
9 the whole truth, and nothing but the truth?

10 THE WITNESS: I do.

11 HEARING OFFICER CLARK: Thank you, Mr.
12 Duncan.

13 WILLIAM DUNCAN, having been first duly sworn,
14 was examined and testified as follows:

15 DIRECT EXAMINATION

16 BY-MR.JETTER:

17 Q. Mr. Duncan, would you please state your name and
18 occupation for the record.

19 A. William Duncan. I'm the manager of the telecom
20 section for the Division of Public Utilities.

21 Q. Thank you. And I believe you've also prepared a
22 brief statement today.

23 A. I have.

24 Q. Thank you. Please go ahead.

25 A. The Division of Public Utilities supports the joint

1 settlement stipulation filed in this docket on January 28, 2014,
2 and request the Public Service Commission approve the
3 stipulation as filed.

4 The Division testifies that the stipulation is just,
5 reasonable in result and in the public interest. In support of this
6 statement, the Division offers the following testimony.

7 Upon receipt of this application, the Division took
8 immediate action to review and audit all of the supporting
9 documentation the Company supplied. The Division also issued
10 two data requests. It conducted an on-site audit of Manti
11 Telephone Company's operations on November 18 through the
12 20, 2013. At the completion of that audit, the Division analysts
13 and management reviewed the findings, developed adjustments
14 that the Division believed were appropriate, and began
15 settlement negotiations with Manti Telephone and the Office of
16 Consumer Services. During those negotiations, several issues
17 were discussed in which different points of view were held,
18 compromises were made, and a settlement was reached as
19 presented in this stipulation.

20 While not every aspect of the stipulation was agreed
21 upon by every party, the stipulation as a whole has produced a
22 result all parties agree is both fair and equitable.

23 As to the specific terms of the stipulation, I'm only
24 going to hit a few of them. The Division offers the following
25 testimony.

1 First, the annual amount of \$950,000 described in
2 paragraphs 5 and 6 is within the reasonable range based upon
3 the application of R746-360-8. Since the conclusion of Docket
4 08-046-01, Manti has made changes to their operations to bring
5 it into compliance in alignment with other similar companies in
6 Utah. Specifically, Manti no longer utilizes the local tariff to
7 receive reimbursement from others that sell Manti internet
8 services. Manti has now developed a master service agreement
9 with rates that mirror the National Exchange Carrier Association
10 tariff 5 for internet reimbursement. All other companies in Utah
11 use the NECA tariff to sell internet services to affiliates.

12 Manti has also implemented cost allocation
13 procedures that are more closely aligned with the method used
14 by other companies receiving Utah USF. These changes have
15 taken place since the conclusion of Docket 08-046-01.

16 Therefore, the Division is now comfortable with
17 evaluating this USF request using the same standards that have
18 been applied to other similar companies.

19 Second, as to the lump sum payment described in
20 paragraph 7, the Division believes this is reasonable due to the
21 current financial condition of Manti as has been described by
22 Division witness Bob Davis. At the conclusion of the 08-046-01
23 docket, Manti's USF distribution was decreased dramatically from
24 what had been received previously. This has left Manti in a
25 precarious financial situation.

1 At the present time, it is in arrears in principal
2 payments to its lender, the Rural Telephone Finance
3 Cooperative, by more than \$400,000. While there are alternative
4 providers in the Manti area, Manti Telephone Company is the
5 only provider that has Carrier of Last Resort obligations for the
6 entire service area. In its current financial state, Manti could be
7 in jeopardy of not being able to fulfill those obligations.

8 One of the objectives of the Division is found in
9 Utah Code 54-4a-6(4)(a), says that we are to, "maintain the
10 financial integrity of public utilities by assuring a sufficient and
11 fair rate of return." Without an initial influx of capital and
12 sufficient monthly distributions to satisfy all obligations, Manti
13 may be unable to remain as a going concern providing telephone
14 service to the public in the communities of Ephraim, Manti and
15 Sterling.

16 Third, concerning the obligation for payback of
17 interim USF described in paragraph 8, the parties have agreed
18 that as part of a comprehensive settlement that those obligations
19 should be considered satisfied. This obligation was not ignored
20 or taken lightly. Rather, it was fully considered as part of the
21 negotiated agreement. The result of these negotiations is
22 reflected in this stipulation.

23 Fourth, concerning paragraph 11, Manti has agreed
24 to provide certain documents to the Division and the Office
25 considering the financial results of its affiliate, Manti

1 Telecommunications Company, or MTCC, and transactions
2 between the two companies for a three-year period. This will
3 give the Division and the Office the ability to monitor the
4 operational changes between the two companies and determine if
5 these changes implemented by Manti during the past year are
6 being continued.

7 In conclusion, the Division believes that the
8 stipulation is just, reasonable in result, and in the public interest
9 and requests the Commission approve the stipulation as
10 presented.

11 Q. Thank you.

12 MR. JETTER: I have no further questions.

13 HEARING OFFICER CLARK: And just to be clear
14 for the record, Mr. Jetter, is there any documentary evidence that
15 the Division intends to introduce?

16 MR. JETTER: No.

17 HEARING OFFICER CLARK: There was no pre-filed
18 testimony?

19 MR. JETTER: There was no pre-filed testimony
20 from the Division. We do have, just right now, versions of these
21 two opening statements, if you would like them. But other than
22 that, we don't have any evidence that we'd like to submit.

23 HEARING OFFICER CLARK: Fine. Might be of
24 assistance to the reporter if you could provide her copies--

25 MR. JETTER: Okay.

1 HEARING OFFICER CLARK: --at the conclusion of
2 the hearing. Thank you, Mr. Jetter.

3 Mr. Coleman.

4 MR. COLEMAN: The Office would call Ms. Cheryl
5 Murray.

6 HEARING OFFICER CLARK: Do you solemnly
7 swear that the testimony you are about to give shall be the truth,
8 the whole truth, and nothing but the truth?

9 THE WITNESS: Yes, I do.

10 HEARING OFFICER CLARK: Thank you, Ms.
11 Murray. Would you slide that microphone a little closer, please.

12 MR. COLEMAN: We'll do our best to share.

13 HEARING OFFICER CLARK: Thank you.

14 CHERYL MURRAY, having been first duly sworn,
15 was examined and testified as follows:

16 DIRECT EXAMINATION

17 BY-MR.COLEMAN:

18 Q. Can you state your name and occupational title for
19 the record, please?

20 A. Cheryl Murray. I'm a utility analyst for the Office of
21 Consumer Services.

22 Q. Have you prepared a summary statement of the
23 Office's position for settlement today?

24 A. Yes, I have.

25 Q. Please proceed.

1 A. The Office of Consumer Services represents
2 residential and small commercial customers of public utilities.
3 As such, we must review requests for USF disbursements from
4 the perspective of the customers of the utility that will receive
5 USF as well as from the perspective of the customers that are
6 paying into the USF.

7 For this case, the Office contracted with the same
8 expert consultants we used in the previous Manti case, Docket
9 08-046-01 to review Manti's filing and updated financial and
10 other supporting data. The Office and our consultants reviewed
11 the filing, the Company's testimony, submitted some data
12 requests, and reviewed the responses to all data requests
13 received to date. This initial review was sufficient for the Office
14 to determine the categories of adjustments it would propose and
15 a range of values for each category. However, the Office notes
16 that due to the timing for testimony that was scheduled in this
17 case, we engaged in settlement discussions prior to filing
18 testimony of our own or submitting specific positions on the
19 record.

20 The Office used the range of values for its intended
21 adjustments to evaluate whether it could support settlement
22 outcomes as being in the public interest. The Office notes that
23 this settlement is being presented as an aggregate request for
24 USF because each of the parties arrived at the outcome using a
25 different set of adjustments and issues. We are here to speak in

1 support of the settlement as being in the public interest.

2 In the Office's view, there were some general
3 improvements in this filing over the prior filing. The Office and
4 its consultants found the Company much more cooperative and
5 forthcoming with information in this case, which facilitated a
6 more accurate evaluation of their request. The Office commends
7 the Company for the addition of a full-time, qualified accountant
8 which has improved the accuracy and credibility regarding
9 account and regulatory record keeping.

10 Some of the primary reasons for the Office's support
11 of a higher USF disbursement at this time are Manti provided
12 access to additional financial and operational data, which
13 allowed a more precise and complete evaluation and calculation
14 of the revenue requirement and shortfall. Increases in payroll
15 costs consistent with the Commission's order in the prior case
16 are reflected. It allows some recovery for income taxes as
17 compared to the earlier case, in which the Office did not propose
18 and the Commission did not allow recovery of income taxes.

19 In conclusion, the Office concurs that this
20 settlement is just and reasonable in result and recommends
21 Commission approval. That concludes my statement.

22 MR. COLEMAN: The Office has no further
23 questions.

24 HEARING OFFICER CLARK: Thank you. And I
25 presume you have no documentary evidence to present as well?

1 MR. COLEMAN: Correct. Similarly to the Division,
2 and as stated by Ms. Murray, the settlement was engaged in and
3 arrived at prior to the deadline for pre-filed testimony. And our
4 request to suspend that schedule was granted. So we don't have
5 anything further.

6 HEARING OFFICER CLARK: Thank you very much.

7 Does any party have questions for any of the
8 witnesses who have testified in support of the settlement?

9 MS. SLAWSON: Manti does not have any
10 questions.

11 MR. JETTER: No questions from the Division.

12 HEARING OFFICER CLARK: And none from the
13 Office, I can see from Mr. Coleman's expression.

14 So Commissioners, questions?

15 Chairman Allen.

16 QUESTIONS BY THE COMMISSION

17 CHAIRMAN ALLEN: Thank you, Commissioner
18 Clark.

19 This is an interesting docket in that it goes back and
20 spans two actual dockets, as we've already mentioned before.
21 And in the first case, which we issued our order on at the end of
22 2012, the 08 case, there was a list of accounting and procedural
23 problems that have been summarized in that order. And then
24 again, when you filed the Manti file in the '13 docket, 2013
25 docket, I believe there were about a dozen schedules that

1 seemed to address some of those questions.

2 Now, I have a question for both the Office and the
3 Division at this point. You indicated that you generally agree
4 that some of the problems have been solved. But speaking more
5 specifically, have the basic and fundamental management and
6 accounting problems, specifically dealing with the affiliate and
7 non-affiliate interactions and accounting procedures at this
8 specific level, have you circled back and are you confident that
9 those have been solved systemically.

10 MR. DUNCAN: Yes. The Division is confident that
11 the accounting problems have been resolved. Most of those
12 were in the process of being resolved prior to the last case.

13 In the hearing for the last docket, the main problem
14 that remained was the allocation of costs of unregulated affiliates
15 and reimbursement for selling services to other providers, in
16 their case MTCC, that was being done on a local tariff rather
17 than the NECA tariff. And Manti was the only company that was
18 outside the norm in using the NECA tariff. They've now moved
19 into where they're using the NECA tariff to get reimbursement
20 back to the regulated side from the unregulated side. So with
21 those two issues complete, the allocating of costs and the
22 adoption of the NECA tariff, the Division feels that those issues
23 have been taken care of.

24 CHAIRMAN ALLEN: From the Office?

25 MS. MURRAY: From the Office's perspective, we

1 can't say that they have been solved 100 percent. We think that
2 Manti has made significant progress. We expect that they will
3 continue to make progress. And one of the reasons for getting
4 the documentation that we will be receiving in this stipulation is
5 so we can continue to monitor that and make sure that they
6 maintain where they have come to and hopefully continue to
7 make progress.

8 CHAIRMAN ALLEN: Okay. One area that I'm
9 concerned about is area of depreciation, which in the world of
10 accounting always has room for interpretation.

11 Have you had a chance to look at how they're
12 managing their depreciation since last fall, when they issued--
13 when they listed their statements, their 12 spreadsheets? Have
14 we been back to see that the depreciation has been corrected?

15 MR. DUNCAN: Yes, we have. And one of my
16 analysts did review their depreciation. Now, I hate to testify to
17 exactly what he did, because I'm not a depreciation expert, but
18 he's here. He could speak to that, if you wish.

19 CHAIRMAN ALLEN: I'm happy to know he's been
20 back, but I would like to know if he's happy with what he saw--or
21 she.

22 MR. DUNCAN: Do you want him to--

23 HEARING OFFICER CLARK: Sure.

24 MR. JETTER: We can call him as a witness.

25 HEARING OFFICER CLARK: Let's do that. You can

1 stand right where you are, I think, so that we can all hear you.
2 Please just identify yourself for the record, and then I'll
3 administer an oath.

4 MR. HICKEN: My name is Paul Hicken. I'm an
5 analyst for the Division.

6 HEARING OFFICER CLARK: Thank you, Mr.
7 Hicken.

8 Do you solemnly swear that the testimony you are
9 about to give shall be the truth, the whole truth, and nothing but
10 the truth?

11 THE WITNESS: Yes.

12 HEARING OFFICER CLARK: Thank you.

13 PAUL HICKEN, having been first duly sworn, was
14 examined and testified as follows:

15 DIRECT EXAMINATION

16 BY-CHAIRMAN ALLEN:

17 Q. Mr. Hicken, did you hear my question? I'm curious
18 to know that not only have you been back to visit and looked
19 carefully at depreciation, but you're satisfied that they're now
20 following generally accepted accounting rules and principles in
21 this area?

22 A. Yes. We reviewed the depreciation as part of our
23 review in November. And the only point of disagreement was in
24 the application, they had used a mass asset method of
25 depreciation; but, in fact, the Company was still applying single-

1 asset depreciation. And we've worked through that. And the
2 Company agrees with our position that they are using the single-
3 asset method. And at some point, they may want to switch over
4 to a mass-asset depreciation, but currently they're currently still
5 using single asset method.

6 Q. Great. And as far as you know, have they been able
7 to, or have they successfully kept their tax methods of
8 depreciation out of their regular operating books? For instance,
9 not using Section 179, which allows for acceleration depreciation
10 only for tax purposes. Have they also kept those separate?

11 A. As far as I know. I didn't really delve into the tax
12 issues. But as far as I know, they're not applying an accelerated
13 method.

14 Q. Great. Maybe the Company will have a chance to
15 address that in just a minute, too.

16 The question, again, for both the DPU and the
17 Office, a lot of this work took place last fall. So has anything
18 changed dramatically that we should know about so there are no
19 surprises? Any new information in just the last few weeks
20 pertaining to their operations?

21 A. None that I'm aware of.

22 MS. MURRAY: None that the Office is aware of.

23 CHAIRMAN ALLEN: Okay. Great.

24 HEARING OFFICER CLARK: Let the record reflect
25 Mr. Duncan is shaking his head in the negative. Thank you.

1 CHAIRMAN ALLEN: I have a question for the
2 Company.

3 CROSS-EXAMINATION OF DALLAS COX

4 BY-CHAIRMAN ALLEN:

5 Q. Mr. Cox, have your employees been briefed or
6 trained since last fall on the importance of separating their
7 operations between the regulated and unregulated account? Are
8 the employees aware of how important this is?

9 A. Yes, they are. We've got the
10 employees--we've gone through training with them. We've
11 explained to them what is non-regulated and what is regulated.
12 Manti Telephone Company does have some non-regulated work
13 that it does. And we've had to make sure that they understand
14 the difference between non-regulated work for Manti Telephone
15 Company versus non-regulated work for an affiliate and make
16 sure that they're documenting their time correctly and we can
17 compensate back and forth as it needs to be. So if our
18 employees do any non-regulated work for an affiliate, there
19 needs to be a billing provided to the non-regulated company to
20 compensate for that time.

21 Q. Great. Earlier, I asked the other parties if they were
22 familiar with whether or not your books have been--your
23 operating books and your revenue requirement books have been
24 kept clear of any special tax provisions that wouldn't apply.

25 Do you know the answer to that question from the

1 Company's standpoint?

2 A. I don't. But we do have Tami Hansen with us here,
3 who is our accountant. If you'd like, we can have her talk to that
4 point.

5 Q. I think I'd like to know the answer to that. It can be
6 a lot of money in some cases.

7 HEARING OFFICER CLARK: Ms. Hansen, would
8 you state your full name for the record and your position with the
9 Company. And then I'll administer the oath.

10 MS. HANSEN: Tami Hansen. I'm the accountant for
11 Manti Telephone.

12 HEARING OFFICER CLARK: Thank you. Would
13 you raise your right hand, please.

14 Do you solemnly swear that the testimony you are
15 about to give shall be truth, the whole truth, and nothing but the
16 truth?

17 THE WITNESS: I do.

18 HEARING OFFICER CLARK: Thank you.

19 TAMI HANSEN, having been first duly sworn, was
20 examined and testified as follows:

21 DIRECT EXAMINATION

22 BY-CHAIRMAN ALLEN:

23 Q. Thank you, Ms. Hansen. You probably heard my
24 question. It looks like you were in the room. It just centers
25 around--as you know, in your line of work, the Internal Revenue

1 Service Treasury allows companies to take certain tax advantage
2 breaks, those kinds of things, and accelerated depreciation. We
3 always like to see that those are not included in the regular
4 revenue requirement books. Is that the case, to your
5 knowledge?

6 A. Yeah. They are completely separated.

7 CHAIRMAN ALLEN: Okay, great. Thank you very
8 much.

9 HEARING OFFICER CLARK: Commissioner LeVar.

10 COMMISSIONER LEVAR: Thank you, Mr.
11 Chairman.

12 This question is for all three parties. I just want to
13 clarify the recommendation of the parties on this stipulation. Is it
14 the recommendation of all three parties that the Commission
15 should approve this stipulation without adopting cost of capital or
16 rate base? Whoever would like to go first.

17 MR. JETTER: I can probably speak for the Division,
18 if you'd like.

19 CHAIRMAN JOHNSON: I was going to take the
20 applicant first and just go down the line, since there seems to be
21 uncertainty.

22 Mr. Cox, can you address that, please?

23 MR. COX: I would have to say yes.

24 MR. JETTER: And on behalf of the Division, I would
25 also say yes. We may not agree between the parties to exactly

1 what those numbers would be. That's why I think they're not
2 spelled out specifically in the stipulation. Thank you.

3 MS. MURRAY: That is also the position of the
4 Office, that it's an aggregate number. And each of us, I think,
5 got to that number using different adjustments. So we don't have
6 individual rate base or ROE.

7 COMMISSIONER LEVAR: Just one follow-up
8 question, then. The Division has ongoing audit obligations with
9 respect to this. Without a Commission-adopted ROE or rate
10 base, are you comfortable with your starting point for ongoing
11 auditing?

12 MR. DUNCAN: Yes, I'm comfortable with that.
13 Certainly the number produces--the \$950,000 produce a number
14 of ROE that I think is within the reasonable range of what we
15 would get to if the case were to go to a hearing.

16 COMMISSIONER LEVAR: Thank you.

17 HEARING OFFICER CLARK: Maybe just a follow-up
18 there for Mr. Duncan from me.

19 So that derived number, would that be where you
20 would start in reviewing the Company's operations from the
21 perspective of whether it's exceeding an appropriate rate of
22 return? How would the Division approach evaluating that
23 question?

24 MR. DUNCAN: The Division does that every year
25 when we receive the annual reports from the companies. And

1 we've looked to see if the rate of return that they earned is
2 reasonable. If there is a Commission order to fall back on, even
3 if it's from years ago, then we see how that compares to the ROE
4 that was ordered in a particular docket. In some cases, the
5 companies haven't had a case in a long time. But in this case,
6 we would look at what the derived number was and see if they
7 were in the reasonable range around that number.

8 HEARING OFFICER CLARK: Thank you. And
9 regarding the RTFC and its ownership interest in the company,
10 as Mr. Davis alluded to it, how does that arrangement change
11 going forward, if at all?

12 CROSS-EXAMINATION OF MR. COX

13 BY-HEARING OFFICER CLARK:

14 Q. Perhaps, Mr. Cox, you could address this, what you
15 see to be the future with respect to ownership of the telephone
16 company.

17 A. When we entered into our forbearance agreement
18 with RTFC, at that point, they took all of the outstanding stock
19 certificates for our regulated and our non-regulated affiliate. And
20 at this point in time, they plan to hold onto that until either the
21 loan is completed or until they feel at such time that they can get
22 that back.

23 They have--they are in the process of restructuring
24 the loan. They--as part of our agreement, we had to give up also
25 our ownership or our patronage in RTFC and in order to continue

1 to be a lender to us, we need to get some ownership back into
2 the co-op. So they're going to restructure the loan, get us back
3 some ownership in the company.

4 But at this point, they choose to maintain the stock
5 and things that we signed over to them. So until I hear
6 otherwise, they will maintain at least that ownership until the
7 loan is done or whatnot.

8 Q. So there isn't any set of terms that currently exist
9 that would be the--that would resolve this question, except for
10 fulfillment of the loan obligations in their entirety?

11 A. Correct. At this point in time, they'd like us to get
12 current on our past payments. They would like to restructure the
13 loan to get us back some equity in the company. And then they
14 did say that's something they would discuss, but they haven't
15 made any allusions to what they're going to do. But they did--
16 when we first signed it over to them, they said they would more
17 than likely hold onto that.

18 Q. What's the length of the obligation?

19 A. I believe 2018 is the final payment.

20 Q. Thank you.

21 HEARING OFFICER CLARK: Any final statements
22 or other information that any of the parties desires to present
23 before we go off the record for a few minutes?

24 What we propose to do is take a recess and then
25 reconvene at 3:00 for the public witness hearing.

1 Are there statements or other information that any
2 party desires to present now?

3 MR. COX: Can I make just a correction? I think our
4 final payment is actually 2020, not 2018. It's 2020.

5 HEARING OFFICER CLARK: Thank you, Mr. Cox.

6 MR. COLEMAN: Nothing further from the Office.

7 HEARING OFFICER CLARK: Thank you. We'll be
8 adjourned until 3:00--or in recess, rather, until 3:00. Thank you.

9

10 (A recess was taken from 2:48 p.m. to 3:02 p.m.)

11 PUBLIC WITNESS HEARING

12 HEARING OFFICER CLARK: On the record.

13 This is the time and place that has been duly
14 noticed for a public witness hearing in Docket No. 13-046-01, the
15 matter of Manti Telephone Company's application for increased
16 USF eligibility.

17 Is there anyone present who desires to address the
18 Commission at this time?

19 For the record, no one is so indicating. Let me ask
20 again: Is anyone aware of any customer who might have
21 expressed interest to be present today or to say something today
22 to the Commission?

23 MR. COX: In times past, we've had customers make
24 requests. And on this particular one, we haven't had any
25 inquiries at the office. So that doesn't mean that no one's going

1 to show up. But on past hearings, we have had people come in
2 the office and make requests. On this particular one, we haven't
3 had any requests from anyone.

4 HEARING OFFICER CLARK: In accordance with the
5 terms of the notice, we will ask you all to be available between
6 now and 3:30 in the event that we need to reconvene to hear
7 public witness statements. Our notice said that persons need to
8 be present by--at least by 3:30 to address the Commission. So if
9 no one has appeared by 3:30, then we'll adjourn the hearing.

10 Is there any objection to that process or anything
11 else before we, again, take a 25-minute recess now? We'll have
12 someone here from the Commission staff to notify us if someone
13 appears to address the Commission. Otherwise, we'll be in
14 recess. Thank you. Off the record.

15 MR. JETTER: Commissioner Clark, could we just
16 clarify real quickly? Are you reconvening at 3:30?

17 HEARING OFFICER CLARK: Yes.

18 MR. JETTER: So we'll all return at 3:30?

19 HEARING OFFICER CLARK: Everybody back at
20 3:30. Thank you.

21 MR. JETTER: Okay. Thank you.

22 (A recess was taken from 3:05 p.m. to 3:30 p.m.)

23 HEARING OFFICER CLARK: On the record.

24 It's 3:30. I don't believe anyone has appeared to
25 offer testimony or public statements for the Commission in this

1 matter.

2 ORDER

3 HEARING OFFICER CLARK: And we have
4 deliberated and recognize that there's significant exigency in this
5 matter. We have determined that facts have been presented that
6 are sufficient for us to find that the settlement is in the public
7 interest. And we believe that there also has been information
8 presented to the Commission upon which we can base
9 conclusions of law that the settlement is consistent with
10 pertinent laws and regulations.

11 And on that basis, we intend to issue our order in
12 this matter now, that the settlement is approved. We'll
13 memorialize that--those findings and conclusions and the order in
14 a written order that will be issued in due course. And it's our
15 intent that that occur before March 1.

16 And is that ruling--do you have any questions about
17 that, or does anyone have anything further to present to the
18 Commission?

19 MS. SLAWSON: No.

20 MR. JETTER: No.

21 HEARING OFFICER CLARK: Then this hearing is
22 adjourned.

23 Oh, on the record. Thank you.

24 We wanted to note, for the record, we appreciate
25 the level of effort, the rigor, the obvious attention to the matters

1 that were raised in our order of December of 2012. We
2 appreciate all of the parties' participation in this process to
3 formulate a settlement that's been presented to us today. We
4 recognize that it was the facts that we reviewed in that order
5 presented very challenging circumstances for the Company and
6 also for the Division and the Office. And we're--we commend
7 you all for your efforts to bring this matter to the conclusion
8 that's been presented to us today. So thank you very much.

9 And now we're adjourned and off the record.

10 (The matter was adjourned at 3:33 p.m.)

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CERTIFICATE

State of Utah)

ss.

County of Salt Lake)

I, Michelle Mallonee, a Registered Professional Reporter in and for the State of Utah, do hereby certify:

That the proceedings of said matter was reported by me in stenotype and thereafter transcribed into typewritten form;

That the same constitutes a true and correct transcription of said proceedings so taken and transcribed;

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

Michelle Mallonee, RPR, CSR