

**BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH**

**IN THE MATTER OF EMERY** )  
**TELEPHONE'S APPLICATION FOR AN** ) **Docket No. 15-042-01**  
**INCREASE IN UTAH UNIVERSAL** )  
**SERVICE FUND SUPPORT** )  
 )  
**Applicant** )

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**DIRECT TESTIMONY**

**OF**

**BROCK JOHANSEN**

**ON BEHALF OF EMERY TELEPHONE**

**March 27, 2015**

1                                    **DIRECT TESTIMONY OF BROCK JOHANSEN**

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

3    A.    Brock Johansen. I am the Chief Executive Officer of Emery Telephone (“Emery”).  
4            Emery’s business address is 455 East Highway 29, Orangeville, Utah 84537.

5  
6    **Q.    Please state your educational background and professional background.**

7    A.    I have a Bachelor of Science degree in Business and a Juris Doctorate from Brigham  
8            Young University. I practiced law in Provo, Utah prior to joining Emery Telephone in  
9            2005.

10  
11   **Q.    Are you authorized to provide testimony in this case on behalf of Emery Telephone?**

12   A.    Yes.

13  
14   **Q.    Please describe Emery Telephone.**

15   A.    Emery is a Utah/IRC501(c)(12) cooperative qualified to transact business and operate as  
16            a local exchange carrier providing telecommunications services within the State of Utah  
17            under authority issued to Emery by the Utah Public Service Commission  
18            (“Commission”). Emery is an eligible telecommunications carrier pursuant to 47 U.S.C.  
19            Section 214(e) and is in compliance with Commission orders and rules.

20  
21   **Q.    What is the purpose of your testimony in this matter?**

22 A. I have been the CEO of Emery since 2005. In that capacity I am very familiar with the  
23 operations of Emery Telephone. Emery conducted a thorough review of Emery's  
24 operational expenses and revenues for test year 2014, adjusted for known and measurable  
25 changes, and determined that Emery has a revenue deficiency, which, pursuant to Utah  
26 Code Annotated Sections 54-8b-15, and Utah Administrative Code R746-360, Emery is  
27 entitled to receive from additional disbursements from the Utah Universal Service Fund  
28 ("UUSF"). The purpose of my testimony is to address the current revenue requirement of  
29 Emery and to offer support for the information contained in the Company's Application  
30 for an increase in UUSF distribution.

31

32 **Q. Have others been authorized to testify on behalf of Emery in this proceeding?**

33 A. Yes. Darren Woolsey, Emery's Chief Financial Officer, will file direct testimony on  
34 behalf of the Company. Douglas Meredith of John Staurulakis, Inc. ("JSI") may provide  
35 testimony in this proceeding, as needed. Their testimony will provide the support and  
36 rationale for the proposed increase in UUSF distributions.

37

38 **Q. Are you familiar with Emery's Application for UUSF Distributions in this Docket?**

39 A. Yes. As indicated above, Emery's Application is based on a 2014 test year plus known  
40 and measurable changes. These changes are identified in the Testimony of Darren  
41 Woolsey and Confidential Exhibits Emery DW 1-13 filed with the Application.

42

43 **Q. Can you summarize your Application?**

44 A. Yes. As set forth in detail below, Emery is currently experiencing a revenue deficiency of  
45 \$739,293. Emery is proposing that the revenue deficiency be recovered through  
46 additional UUSF support. This will enable Emery to continue providing affordable  
47 service to its customers, and to engage in construction of capital projects, while earning a  
48 reasonable rate of return as permitted by Utah Code.

49

50 **Q. What are Emery's current rates for basic residential (R1) and basic business (B1)**  
51 **service?**

52 A. Emery's current rate for basic residential service (R-1) is \$15.00 per month and for basic  
53 business service (B-1) is \$24.50 per month.

54

55 **Q. Is Emery seeking a rate increase in this proceeding?**

56 A. No. Emery is a telephone cooperative, and is not required, pursuant to Utah law, to have  
57 its rates approved by the Commission. Rather as a Cooperative, Emery's Board of  
58 Directors set the rates for Emery's members. While Emery's local service rates for R1  
59 and B1 service are currently below the Commission's UUSF affordable base rate  
60 benchmarks of \$16.50 and \$26.00 per line per month, Emery's Board is not proposing to  
61 raise its rates. Rather, Emery has included in this filing a known and measurable revenue  
62 adjustment for the shortfall of revenue that Emery is experiencing at the existing rates of  
63 \$15.00 for R1 service and \$24.50 for B1 service when compared to the State approved  
64 base affordable rates of \$16.50 and \$26.00 for R1 and B-1 respectively (see Confidential  
65 Exhibit Emery-DW 7b). Accordingly, the revenue deficiency of \$739,293 has been

66 adjusted to reflect the revenue that Emery would receive if its rates were at the  
67 Commission approved base affordable rate.

68

69 **Q. Do you believe imputing the revenue that Emery would receive if it increased its**  
70 **rates, as a known and measurable change, is appropriate?**

71 A. Yes. Imputing the revenue that Emery would receive from raising its rates ensures that  
72 the UUSF is not being used to subsidize lower rates, while maintaining the authority of  
73 Emery's Board of Directors to set its rates pursuant to State law.

74

75 **Q. What test period is Emery proposing in its Application?**

76 A. As indicated above, Emery is proposing an historical test period of 2014, adjusted for  
77 known and measurable changes. Darren Woolsey discusses the Application and  
78 adjustments in detail in his testimony and confidential exhibits.

79

80 **Q. Have you reviewed the testimony of Darren Woolsey?**

81 A. Yes. I have reviewed the Testimony of Darren Woolsey and the Confidential Exhibits  
82 attached to his testimony.

83

84 **Q. Do the Confidential Exhibits accurately represent the financial and operational**  
85 **situation at Emery Telephone?**

86 A. Yes. The testimony of Darren Woolsey and the Confidential Exhibits presented with his  
87 testimony accurately reflect the financial and operational situation at Emery, and support  
88 the additional UUSF distribution sought by Emery in its Application.

89

90 **Q. Emery just settled a UUSF case proceeding earlier this year. Why is Emery seeking**  
91 **additional UUSF disbursements so soon?**

92 A. Emery began working with the Division of Public Utilities (“Division”) and the Office of  
93 Consumer Services on its 2014 UUSF case in May of 2014, using a 2013 test year period.  
94 However, informal discussions of the UUSF disbursement did not bear fruit, so Emery  
95 filed its formal UUSF Application at the end of September, 2014 based on the 2013 test  
96 period with known and measurable changes as calculated in May of 2014 (the “2014  
97 Application”). During the pendency of the 2014 Application, at the end of 2014, it  
98 became apparent that additional known and measurable changes to the 2013 test period  
99 were warranted based on the 2014 operations. However, upon discussions with the  
100 Division and the Office, such known and measurable changes could not be considered  
101 because they were not included in Emery’s 2014 Application. Rather than amend its  
102 2014 Application, and suffer further delay, Emery decided to move forward with  
103 resolution of its 2014 Application, and file a new application based on a 2014 test period  
104 as needed. Upon review of the 2014 operations, Darren Woolsey and I determined that  
105 Emery continues to experience a revenue shortfall, and additional UUSF disbursements  
106 are necessary to permit Emery to continue to provide cost effective telecommunications  
107 services and earn a reasonable rate of return as provided by Utah Code.

108

109 **Q. Has Emery implemented any significant changes in accounting policies or**  
110 **procedures for the 12 month period prior to the test period?**

111 A. No. Emery has not implemented any significant changes in accounting policies or  
112 procedures that would be referenced or noted in the financial statements or auditors'  
113 notes.

114

115 **Q. Has Emery included audited financial statements for 2014 with its Application?**

116 A. No. Emery's audited financial statements for 2014 are not yet available. We anticipate  
117 having the audited financial statements shortly and will supplement the testimony of  
118 Darren Woolsey with the 2014 Audited Financial Statements and management letters. We  
119 have attached audited financial statements and management letters for 2013, which are  
120 attached to the Testimony of Darren Woolsey at Confidential Exhibits Emery DW 10,  
121 10a, and 10b.

122

123 **Q. Has Emery conducted any internal audits during 2014 or 2015?**

124 A. No.

125

126 **Q. Has Emery had any corporate restructuring or changes in its affiliate relationships**  
127 **since its previous general rate case?**

128 A. No. Emery has not had any corporate restructurings or changes in existing affiliate  
129 relationships since the prior general rate case in 2003. A copy of the Emery Telephone

130 Personnel Chart/Line of Authority is attached to the testimony of Darren Woolsey at  
131 Confidential Exhibit Emery DW 11, and a copy of the Corporate Structure Chart is  
132 attached to the Testimony of Darren Woolsey at Confidential Exhibit Emery DW 12.  
133

134 **Q. Can you describe Emery's collection policies and write off policies for bad debt.**

135 A. Emery Telcom uses the direct write off method to account for uncollectible receivables.  
136 This process is described in Confidential Exhibit Emery BJ 1.  
137

138 **Q. Has Emery had any penalties or fines assessed to the company during the test period  
139 and 2 years prior to the test year?**

140 A. There were two immaterial penalties in the 2014 test period, and two immaterial penalties  
141 assessed to Emery Telcom in the two years prior to the test period. They are identified in  
142 Confidential Exhibit Emery BJ 2.  
143

144 **Q. Did you calculate any test period tax adjustments in Emery's Application?**

145 A. No. Emery Telcom operates as a 501(c)12 non-profit entity. As such there are no tax  
146 adjustments or calculations included in the 2015 UUSF Application. This significantly  
147 reduces the UUSF requirement necessary to achieve the allowed rate of return.  
148

149 **Q. Has Emery received any ruling requests, IRS responses, and any correspondence  
150 with the IRS since the last general rate case?**

151 A. No. Emery Telecom has made no ruling requests or received responses from the IRS since  
152 the last general rate case in 2003. Correspondence with the IRS has been limited to the  
153 periodic filing of payroll and non-profit informational tax forms, with associated  
154 extensions and communications as operationally necessary.

155

156 **Q. Do you believe that an increase in the annual UUSF support in the amount of**  
157 **\$739,293 to Emery is just and reasonable and in the public interest?**

158 A. Yes. The increase in the distribution from the UUSF is essential to permit Emery to  
159 continue to provide telecommunications services at just and reasonable rates and to  
160 recover its reasonable costs of service and a reasonable rate of return on the value of its  
161 property devoted to public use.

162

163 **Q. Does this conclude your testimony?**

164 A. Yes.