Witness OCS - 1D Ostrander

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of UBTA-UBET Communications, Inc.'s (DBA Strata Networks) Application for Utah Universal Service Fund Support	**)))))))**	**Docket No. 15-053-01** **Direct Revenue Requirement Testimony of Bion C. Ostrander For the Office of Consumer Services**

NON-CONFIDENTIAL VERSION - REDACTED

September 25, 2015

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List of OCS Exhibits Sponsored:

Exh. 1D-1: Ostrander Curriculum Vitae
Exh. 1D-2: OCS Revenue Requirement Calculation
Exh. 1D-3: OCS Data Requests to Strata
Exh. 1D-4: DPU Data Requests to Strata

INTRODUCTION

Q. WHAT IS YOUR NAME, OCCUPATION AND BUSINESS ADDRESS?

A. My name is Bion C. Ostrander. I am an independent regulatory consultant with a specialization in telecommunications issues.[1] My business address is 1121 S.W. Chetopa Trail, Topeka, Kansas 66615-1408.

Q. PLEASE SUMMARIZE YOUR PROFESSIONAL QUALIFICATIONS AND EXPERIENCE.

A. I am an independent regulatory consultant with a specialization in telecommunications regulatory accounting and policy issues. I have over thirty-five years of regulatory and accounting experience, and have been operating as an independent consultant for twenty-four years. I previously worked for the public accounting firm Deloitte, Haskins and Sells (now "Deloitte"). And before starting my own firm, I previously served as the Chief of Telecommunications and the Chief Auditor for the Kansas Corporation Commission. I have addressed issues in numerous state jurisdictions and an international basis. I have addressed rate cases alternative regulation plans, state universal service funds, affiliate transactions, cost allocation, wholesale and retail cost studies,

[1] Mr. Ostrander is not holding himself out as a CPA in Kansas at this time (or in any other state) because his current permit to practice as a CPA in Kansas is pending renewal subject to him meeting continuing professional education hours requirements in Kansas.

compensation issues, taxes, universal service, specialized regulatory accounting issues, competition policy, and many other matters.

Q. HAVE YOU PREPARED AN EXHIBIT SUMMARIZING YOUR QUALIFICATIONS AND EXPERIENCE?

A. Yes. I have attached OCS Exhibit 1D-1, which is a summary of my regulatory experience and qualifications.

Q. ON WHOSE BEHALF ARE YOU APPEARING?

A. I (along with subcontractor David Brevitz) was retained by the Utah Office of Consumer Services ("OCS") to review Strata Networks ("Strata" or "Company") revenue requirements regarding its application for increased Utah Universal Service Fund ("UUSF") support. Accordingly, I am appearing on behalf of the OCS.

Q. HAVE YOU EVER TESTIFIED BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH ("COMMISSION" or "PSC")?

A. Yes. I filed direct, rebuttal, and surrebuttal testimony on behalf of the OCS in Manti Telephone Company's request for UUSF in 2012,[2] and appeared as a witness before this Commission. I recently filed direct testimony in Emery Telephone's ("Emery") application for an increase in UUSF support, although that case did not go to hearing because it is now subject to a stipulation between DPU and Emery (OCS is not a party to that

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[2] In the Matter of the Application for the Increase of Rates and Charges by Manti Telephone Company, Docket No. 08-046-01.

stipulation).[3] In addition, I also recently filed direct and surrebuttal testimony in Carbon/Emery Telecom's ("Carbon") application for increase in UUSF support.[4]

In addition, I have assisted and advised the OCS in UUSF applications by other rural local exchange companies ("RLECs"), although I did not file testimony or appear as a witness in these other cases which were ultimately resolved through stipulation.[5] A list of other prior UUSF proceedings in which I assisted the OCS is listed below:

- ✓ Manti Telephone Company – Docket No. 08-046-01
- ✓ Manti Telephone Company – Docket No. 13-046-01
- ✓ Hanksville Telephone Company – Docket No. 14-2303-01
- ✓ Beehive Telephone Company – Docket No. 14-051-01
- ✓ Emery Telephone Company – Docket No. 14-042-01

Q. DO YOU HAVE EXHIBITS SUPPORTING YOUR TESTIMONY?

A. Yes. OCS Exhibits 1D-1 through 1D-4.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. I am addressing specific adjustments, and the proposed revenue requirement for Strata as recommended by the OCS for the test period

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[3] Bion C. Ostrander Direct Testimony dated August 14, 2015, Docket No. 15-042-01.
[4] Bion C. Ostrander Direct Testimony dated August 21, 2015, and Surrebuttal Testimony dated September 18, 2015, in Docket No. 15-2302-01.
[5] The OCS was not a signatory to the related stipulation in all of these other UUSF cases.

ending December 31, 2014. The overall revenue requirement also includes rate of return ("ROR") testimony and recommendations of David Brevitz, the other expert witness appearing on behalf of the OCS.

Q. CAN YOU EXPLAIN THE CURRENT AND PROPOSED INCREASE IN UUSF SOUGHT BY STRATA?

A. Strata currently receives annual UUSF revenues of $1,116,396[6] and in this proceeding Strata is seeking additional UUSF revenues of $3,422,053[7] (206% increase), for total UUSF revenues of $4,538,449.

Q. WHAT IS THE OCS RECOMMENDED REVENUE REQUIREMENT AND HOW DOES THIS COMPARE TO STRATA'S POSITION?

A. Strata's filing shows a revenue requirement deficit of $3,422,053 and a proposed increase in UUSF revenues of the same amount. The OCS adjustments currently produce a revenue requirement surplus (also called excess earnings/profits) of $411,483 ($.4 m). Strata's excess earnings eliminate the need for additional UUSF of $3.4 million, and will reduce existing UUSF by this same amount to result in total UUSF due to Strata of $704,913 (existing UUSF of $1,116,396 – $411,483 of excess earnings = $698,561 of total UUSF due to Strata).

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[6] Exhibit Strata 2.1 Confidential, Column E, line 2 of the current filing and the stipulation adopted by the Commission in in Strata's prior application for an increase in UUSF in Docket No. 05-053-01, Order issued November 4, 2005, p. 3 ($1,035,243 UUSF increase plus existing UUSF of $81,153 at that time).

[7] Karl Searle Direct Testimony, p. 3, line 68.

OCS is also aware that the Division of Public Utilities ("DPU") may be proposing some additional adjustments which the OCS may support or adopt,[8] and this could further reduce the total amount of UUSF due to Strata.

Q. WHAT ADJUSTMENTS ARE YOU PROPOSING?

A. Below is a list of those adjustments:

Adjustment BCO-1: Remove luxury entertainment expenses

Adjustment BCO-2: Remove subjective Thank-You bonuses

Adjustment BCO-3: Remove Strata's proposed 2015 pay increase

Adjustment BCO-4: Remove Strata's depreciation on TPUC

Adjustment BCO-5: Remove depreciation on fully depreciated assets

Adjustment BCO-6: Adjust Corporate Overhead allocator

Adjustment BCO-7: Remove depreciation expense on nonregulated assets in rate base

Adjustment BCO-8: Remove 50% of telephone plant under construction

Adjustment BCO-9: Remove 50% of materials and supplies

Q. PLEASE SUMMARIZE THE OCS' FINAL POSITION.

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[8] In order to be more efficient, the OCS may not sponsor testimony which duplicates some of the adjustments of DPU although we may support some of the DPU adjustments.

A. After making the adjustments above and reflecting the proposed rate of return ("ROR") of Mr. Brevitz, the OCS' final position shows a revenue requirement surplus (or excess earnings/profits) for Strata of $411,483, and this means that Strata should not receive its requested additional annual UUSF of $3,422,053, and its existing UUSF of $1,116,396 should be reduced to the total UUSF it receives of $704,913.

The adjustments proposed by OCS are reasonable and supports the Office's recommendation that Strata's request for new UUSF be denied and its existing UUSF should be reduced to $704,913.

Q. WILL YOU DESCRIBE THE SERVICES PROVIDED BY STRATA AND ITS AFFILIATES?

A. Yes. The consolidated operations of UBTA-UBET Communications, Inc. (dba Strata Networks) consist of the following: three regulated LECs (providing what is mostly traditional regulated services) and three nonregulated affiliates (providing nonregulated services) as shown below:[9]

[BEGIN CONFIDENTIAL]

[redacted]

[9] Source information is from UBTA-UBET Communications Consolidated Audited Financials December 31, 2014-2013, Strata's CAM (pages 9 to 12 per DPU 1.1), and Strata's limited response to OCS 4.5.

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[END CONFIDENTIAL]

Q. BECAUSE STRATA HAS NOT PROVIDED CERTAIN REQUESTED INFORMATION, HAVE YOU BEEN UNABLE TO QUANTIFY CERTAIN POTENTIALLY SIGNIFICANT ADJUSTMENTS?

A. Yes. Because Strata has not provided OCS with important requested information, it is not possible for OCS to properly quantify certain significant adjustments that could substantially reduce Strata's requested UUSF, and this especially relates to affiliate transactions and other transactions to remove nonregulated costs from Strata's regulated operations. OCS does not have access to important internal information and records that Strata uniquely controls and without such information OCS cannot calculate the impact of these related adjustments.

In my opinion, Strata should not be rewarded for not providing key information to OCS that could materially impact this proceeding. With that said, OCS does have information related to some issues and will propose appropriate adjustments, although Strata's deficiency in providing supporting information prevents us from proposing a complete and comprehensive revenue requirement. Some of the documentation that is insufficient in this proceeding includes:

1) Strata has not provided adequate supporting documentation and calculations regarding its Cost Allocation Manual ("CAM") to show that

it has properly removed all nonregulated affiliate costs from its regulated operations in compliance with the Federal Communications Commission's ("FCC") USoA Part 64 Allocation of Costs, and regulated operations are substantially at risk of subsidizing Strata's nonregulated affiliates.

2) Strata has not provided adequate supporting documentation and calculations regarding its transactions with affiliates to show that transactions are properly reflected at cost, fair market value, or tariff to be in compliance with the FCC's USoA Part 32, Section 32.27 Affiliate Transactions rules, and regulated operations are at risk of subsidizing Strata's nonregulated affiliates.

3) Strata has not provided adequate supporting documentation and explanations in response to OCS data requests regarding issues that significantly impact revenue requirements and which can cause the UUSF request to be substantially overstated.

4) Strata's responses to certain OCS data requests failed to specifically identify requested information or amounts (or provide adequate explanation), but instead merely cited to an attached Excel document without citing to the proper cell location for the relevant amounts to be responsive to the OCS data request. In other words, Strata improperly

placed the burden on OCS to try and glean the correct information from the attached documents or in some cases the responsive information was not included in the attached documents.

5) Strata has failed to subsequently provide OCS with certain important information (or updates to documents) that it requested and which Strata indicated that it would provide when such updated information became available.

6) The combination of some of the issues above raise questions regarding Strata's compliance with Section 254(k) of the Federal Telecom Act of 1996 and Utah Code Title 54 Public Utilities Law, Section 6 Prohibition on Subsidization of Telecommunications Services ("Utah Code 54-8b-6").

OCS PROPOSED ADJUSTMENTS

Q. ARE YOU PROPOSING AN ADJUSTMENT TO REMOVE A PORTION OF "INTRASTATE" INTERNET-RELATED COMMON COSTS FROM THE REGULATED OPERATIONS OF STRATA'S FILING?

A. No. Although the OCS believes this type of adjustment is necessary and relevant, we will follow the same approach that we used in the Emery[10] and Carbon UUSF cases and not pursue this issue at this time.

Adjustment BCO-1: Remove Luxury Entertainment Expenses From Regulated Operations (Exhibit 1D-2 – Sch. A-4)

Q. WILL YOU EXPLAIN OCS ADJUSTMENT BCO-1?

A. Strata purchased [redacted] of [redacted] via the American Express credit card of Mr. Todd, and this adjustment removes the amount of [redacted] that is allocated to Strata's regulated operations ([redacted] of total Jazz ticket cost was allocated to regulated operations using the Public Relations allocation factor). I have removed this entire amount from regulated operations[11] because this type of entertainment expense should be recorded in a "below-the-line" non-operating account to begin with, it is not an ordinary business expense that is necessary to provide regulated local services, it provides no measurable or objective benefit to customers of local service, it is contrary to preserving universal service, and other citizens of Utah should not have to fund Strata's luxury entertainment costs via the UUSF. These types of entertainment expenses are typically excluded from the regulated operations of rate case/UUSF proceedings

[10] In the Emery proceeding in Docket No. 15-042-01, all parties agreed to withdraw their testimony on this issue and not address this matter in the related proceeding.

[11] This adjustment was not based on "revising" Strata's Public Relations allocations factor because 100% of these costs should be disallowable.

and even the IRS disallows 50% of these types of entertainment costs for determining taxable income.

Q. DID STRATA CITE TO ANY PRECEDENT BY THE UTAH COMMISSION, FCC, OR OTHER REGULATORY AGENCIES THAT ALLOWS THIS TYPE OF EXPENSE TO BE RECOVERED?

A. No. Strata did not cite to any precedent that allows these types of luxury entertainment costs to be recovered in a rate case or UUSF filing.

Q. SHOULD STRATA IMPLEMENT FORMAL INTERNAL CONTROLS AND WRITTEN POLICY REGARDING EMPLOYEE CREDIT CARDS?

A. Yes. These [redacted] of [redacted] were purchased by Mr. Todd via his employee credit card, and [redacted] of these costs were included on his February 2014 credit card statement. Furthermore, Strata has indicated to OCS that it does not have a formal written policy addressing the use of employee credit cards.

It is unusual for a company officer (or other employee) to make purchases of this magnitude on their business credit card. Also, because these types of entertainment expenditures are a luxury, entertainment, and discretionary type of expense, it is even more important that these types of costs flow through the normal internal voucher/acquisition system,[12]

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[12] This means that a voucher or purchase order is submitted in advance of a purchase for

receive the necessary approval of multiple levels, and are subject to normal internal accounting controls. Officers should not be exempt from proper internal control procedures and reasonable credit card purchase limitations. These types of significant entertainment expenses should be recorded using the same accounting process as other major purchases, and should not be run through employee credit cards.

Therefore, I recommend that Strata implement a formal written policy that limits the amount of individual purchases and total monthly purchases (depending upon employee position and authority) to be placed on an employee business credit card. Also, this credit card policy should prohibit (or establish a low threshold amount) for all luxury, entertainment and personal-type expenditures to be placed on employee business credit card.[13]

Q. SHOULD STRATA RECORD ALL LUXURY ENTERTAINMENT EXPENSES BELOW-THE-LINE IN NONOPERATING ACCOUNTS?

A. Yes. All luxury entertainment expenses should be recorded initially below-the-line in the 7300 series of nonoperating expense accounts. Then the Company should make an obvious and fully-disclosed "reclassification" ratemaking adjustment to an operating expense account in a rate case or

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any type of significant cost, so that the normal accounting/authorization process is in place to address these costs.

[13] At the minimum, only a very few number of officers or employees should be authorized to make these types of purchases with their credit cards.

UUSF proceeding if it desires to recover such costs in its revenue requirement. This procedure will properly disclose these types of luxury entertainment costs that are included in the revenue requirement and allow the regulator to properly address the treatment of these costs.

Adjustment BCO-2: Remove Strata's Annual One-Time "Thank-You" Payroll Awards (Exhibit 1D-2, Sch. A-5)

Q. WILL YOU SUMMARIZE OCS ADJUSTMENT BCO-2?

A. This adjustment removes [redacted] of Strata's 2014 one-time "Thank-You/Bonus" payroll amounts paid to employees. OCS 2-32 asked Strata to provide the amount of bonuses for each employee that is direct assigned and allocated to each affiliate, but Strata's response did not provide the Thank-You/Bonus amounts for each affiliate.[14] Therefore, to arrive at an estimated adjustment, I multiplied the total Thank-You/Bonus amount of [redacted] by the Corporate Overhead Factor that allocates [redacted][15] of expenses to regulated operations, to arrive at an adjustment of [redacted][16] If this estimated adjustment inadvertently removes too much of the Thank-You/Bonus cost from

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[14] In addition, subsequent discussions with Mr. Searle did not result in the amount of Thank-You/Bonus amounts being provided for each affiliate.

[15] This is Strata's Corporate Overhead allocation factor from its CAM that drives the allocated Corporate Operations expenses, and was provided in response to DPU 1-1, and the use of this factor appears to approximate the Thank-You/Bonus amount in the General Ledger.

[16] It should be possible to add up all the related entries from the General Ledger for Strata only regulated operations (take into consideration any "allocated" amounts as necessary) to arrive at the amount included in regulated operations, although this approach is time consuming.

Strata's regulated operations, then I am receptive to revising this adjustment if Strata provides the previously requested supporting documentation.

The Thank-You/Bonus should be removed from regulated operations for the reasons summarized below:

1) Strata has not provided adequate supporting documentation, calculations, and explanation for this one-time Thank-You/Bonus, and this is supported in part by the following additional concerns.

2) The Thank-You/Bonus is largely subjective and discretionary and is not proven to be reasonable, objective or compliant because there is no formal written Company policy to which compliance can be tested. There are no specific financial or operational criteria or formulas for determining the total amount to be paid and allocated to employees because the Company does not have a formal written bonus policy, this is an internal weakness and leaves undue discretion to management. Unless the Thank-You/Bonus payments are tied to criteria that is beneficial to customers, they would be inappropriate to include in the revenue requirement upon which UUSF is calculated.

3) Strata has not provided documentation to show how the total amount of the Thank-You/Bonus for Strata and all affiliates is determined, and how the allocation to affiliates is determined (other than using the same general allocation factor it uses for other costs).

4) The absence of formal policy and documentation means the Thank-You/Bonus could manipulated to pay out greater amounts (that are included in the Strata revenue requirement) during the test year in which the Company seeks an increase in its UUSF, so it would be possible to establish an artificially high revenue requirement to maximize recovery from the UUSF. And then in subsequent years Strata could reduce the amount of the Thank-You/Bonus that is paid and collect a windfall from excessive UUSF revenues.

Q. HOW IS THE THANK-YOU LIKE AND UNLIKE A BONUS?

A. Strata's response to OCS 2-37.1 states that Strata does not provide bonuses, but acknowledges Thank-You payments to employees. However, entries in Strata's 2014 General Ledger actually refer to this as both a Thank-You and a Bonus. Beyond that response, Strata has not explained the difference between a Thank-You and a Bonus.

The Thank-You appears to be like a Bonus because it is a separate payment made to employees that is not part of their base level compensation and it is not necessarily recurring every year.

However, the Thank-You is unlike a bonus because it does not appear to have pre-established objective criteria or goals for determining the amount of the award. OCS 2-37 asked for the financial, operational, and other criteria that are used to determine bonuses, and all related calculations and methodology, along with all information that the Board of Director's considers in approving a bonus. Strata's response to OCS 2-37 (and OCS 2-37.1) did not provide any of this information and merely repeated its claim that Strata does not provide bonuses, but pays a Thank-You to employees. The same response states that the Thank-You is based on [redacted] Also, the November 20, 2014 Board of Directors ("BOD") meeting states that a [redacted] In addition, the [redacted] However, none of these [redacted] were provided to OCS in the response to OCS 2-37. Therefore, regardless of whether there are, or are not, specific criteria or goals to support the amount of the Thank-You since Strata has not provided such information to OCS it is reasonable and appropriate to remove these expenses from this filing.

Q. SHOULD THE UUSF AND UTAH CITIZENS IN GENERAL PAY FOR A COMPANY'S HIGHLY DISCRETIONARY AND SUBJECTIVE BONUSES?

A. No, especially if there is no formal written policy or supporting documentation that establishes objective criteria and how the bonuses are determined on a Company-wide basis and employee-basis, and which can prove the merits and benefits of such bonuses. The bonus criteria should be established "before" bonus amounts are determined each year,. the amount of bonuses should not be left to a subjective determination..

<u>Adjustment BCO-3: Remove Strata's Projected Payroll Increase (Exhibit 1D-2, Sch. A-6)</u>

Q. WILL YOU SUMMARIZE OCS ADJUSTMENT BCO-3?

A. Strata has proposed an adjustment of [redacted] to increase December 31, 2014 payroll expense by [redacted] This adjustment should not be allowed.. The concerns and problems with this adjustment are summarized below:

1) Strata has not provided adequate supporting documentation and calculations for this adjustment.

2) Strata's adjustment of merely adding a [redacted] increase to 2014 payroll amounts is flawed and is not known and measurable due to many

other factors that are not properly synchronized such as employee turnover, impact on the allocation of nonregulated amounts, overtime, capitalized versus expensed payroll, PTO, and other amounts.

3) By applying the [redacted] increase to 2014 payroll amounts, Strata may have inappropriately increased the 2015 annualized "Thank-You" award payments by an additional [redacted] which has not been authorized by any Board action or other approval - - and this causes the Thank-You amounts to be overstated. If the Thank-You/Bonus amounts are removed as I propose, then this concern is no longer relevant.

4) Strata's adjustment is overstated because it projects the same amount of nonregulated payroll in both 2014 and 2015, when trends would appear to show that a greater amount of this payroll increase should be shifted to increasing nonregulated payroll amounts.

It would not be reasonable to even consider Strata's payroll adjustment unless it properly synchronized all 2015 components, but most of these other payroll components are not known and measurable so it would be very difficult for Strata to properly support such an adjustment.

Q. IF STRATA'S PROJECTED PAYROLL INCREASE IS ACCEPTED, SHOULD IT ALSO BE OFFSET BY A CONSISTENT ADJUSTMENT REFLECING AN INCREASE IN NONREGULATED PAYROLL?

A. Yes. If Strata's projected payroll increase of [redacted] is accepted, then the Commission should offset this amount with an estimated increase in nonregulated payroll of [redacted] that Strata provided in response to OCS 2-32(c, d, e). Strata's method for calculating its payroll increase adjustment for 2015[17] relied in part on a comparison to the increase in payroll expense from 2013 to 2014. Consistent with this same approach, Strata's response to OCS 2-32(c, d, e) shows that nonregulated payroll expense from 2013 to 2014 increased by [redacted] or [redacted] (from [redacted] If nonregulated payroll increased [redacted] from 2013 to 2014, then it would be reasonable to assume that nonregulated payroll would increase by this estimated amount from 2014 to 2015 (if Strata's approach for its proposed payroll increase is adopted). If nonregulated payroll increased from 2013 to 2014, then payroll that was "regulated" in 2013 has now been shifted to "nonregulated" payroll in 2014. An increase in nonregulated payroll results in a corresponding reduction in regulated payroll.

Q. WILL YOU EXPLAIN HOW STRATA FAILED TO PROVIDE PROPER SUPPORTING DOCUMENTATION FOR ITS ADJUSTMENT?

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[17] Per Strata's Exhibit 2.4(d) with its filing.

A. The direct testimony of Mr. Searle and Mr. Todd did not explain this payroll adjustment, except that Mr. Searle's testimony referred to related Confidential Exhibit 2.4 for the calculation.[18] DPU 1-4 asked Strata to provide details and explanations for its adjustments and Strata's brief response states that the [redacted] increase in labor costs for 2015 is known and has been reflected as an increase to 2014 payroll amounts and Strata refers again to its Exhibit 2.4 for calculations.[19] OCS 2.1 and 2.2 also asked for all supporting documentation, explanations, and working copies of Excel documents for all adjustments and other information that were not previously provided when Strata filed its application and testimony. Strata's brief response only referred to its response to DPU 1-4 and it did not provide any other documentation. There is very little documentation and explanation for Strata's significant payroll adjustment despite the request for this information. Although OCS issued other data requests regarding payroll issues, the related responses did not include adequate supporting documentation or explanations to justify Strata's payroll adjustment.

Q. IS STRATA'S PAYROLL ADJUSTMENT KNOWN AND MEASURABLE?

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[18] Searle Direct, p. 7, lines 142-144 refers to Confidential Exhibit 2.4 for the support for this adjustment, but this information is very high level, insufficient, and raises numerous other questions and concerns.

[19] OCS 2.1 and 2.2 also asked for supporting documentation for

A. No. Mr. Searle claims this adjustment is known and measurable[20] and the response to DPU 1-4 claims the same. However, Strata merely takes the 2014 payroll amount and increases it by the [redacted] adjustment, and Strata improperly assumes that all other components of the 2014 payroll will be exactly the same in 2015 without providing any supporting documentation for these simplistic assumptions. It is not reasonable to assume that all 2015 payroll components will be the same as 2014 and Stata has not provided evidence supporting its assertion.

Strata has selectively included one component of payroll that would cause the payroll to increase (without considering the adjustments and impacts of other components that might offset this increase), and this is sometimes referred to in regulatory policy as “single-issue” accounting because it does not comprehensively match or synchronize all other components of payroll in a regulatory adjustment. When a regulatory adjustment is proposed, it is necessary that all components of the issue be synchronized and properly adjusted and not just those components that may increase the revenue requirement (or just decrease the revenue requirement).

For example, Strata has not addressed or adjusted the other payroll components set forth below that could change substantially from 2014 to 2015, and this includes the following:

[20] Searle Direct, p. 7, line 142.

1) Employee turnover and mix of hours – Strata has assumed that for both 2014 and 2015, the same number and mix of full-time and part-time employees will exist in each month, all working the same number of regular and overtime hours split in the same manner between regulated and nonregulated operations. Employee turnover is not easily predictable or controllable by Strata from year-to-year depending upon changes in the local and national job market, and positions may not be filled or replaced at the same pace. Strata has not addressed this issue or reflected its impact in its payroll adjustment.

2) Expensed versus capitalized payroll – Strata has assumed that for both 2014 and 2015 there will the same amount and percentage of payroll that is expensed and capitalized. The amount and percent of payroll expenses versus capitalized can vary from year-to-year depend on the size of the construction program and the amount and type of plant that is put in place. Strata has not addressed this issue or reflected its impact in its payroll adjustment.

3) Changes in nonregulated activity – Strata has improperly assumed that the amount and percent of employees that are direct assigning their time to regulated and nonregulated operations, along with those employees whose time is allocated via a Corporate Overhead

factor (and other allocation factor) will remain the same in 2014 and 2015. Strata may claim for purposes of this adjustment that the amount of nonregulated payroll will remain the same in 2015, I believe that both the "direct assigned" and "allocated" payroll expensed to nonregulated operations should be increasing in 2015 and this would render Strata's payroll adjustment inaccurate in total or in part.

Q. DO YOU HAVE OTHER CONCERNS ABOUT THE STRATA'S CALCULATION OF ITS PROPOSED PAYROLL ADJUSTMENT?

A. Yes. The [redacted] payroll increase may not be properly applied. Strata's adjustment at its Exhibit 2.4(d) assumes that "every" employee for every account receives a 2015 pay increase of [redacted] and that is not correct. The actual 2015 payroll increase varies from [redacted] depending on employee position and account number according to Strata's response to OCS 2-35(b), so it appears that Strata's adjustment may not be accurately applied and can overstate the impact of the pay increase.

Adjustment BCO-4: Remove Strata's Depreciation Expense on Telephone Plant Under Construction ("TPUC") (Exhibit 1D-2, Sch. A-7)

Q. WILL YOU EXPLAIN OCS ADJUSTMENT BCO-4?

A. Strata has calculated and included depreciation expense of [redacted] on December 31, 2014 TPUC that was subsequently closed to Telephone

Plant in Service ("TPIS") in 2015. In UUSF cases, companies have typically included TPIS and TPUC in rate base at the average amounts of beginning and ending year balances (such as the average of January 1, 2014 and December 31, 2014 amounts for this case). Strata has gone a step further and taken part of its actual December 31, 2014 TPUC balance (not its average balance included in rate base) and treated it as if it was TPIS in this proceeding just because it eventually is included in TPIS in 2015 (just like all 2014 TPUC balances are treated as TPIS in 2015 when the related plant is installed/constructed and in service). However, at December 31, 2014, this telephone plant was not in service and it should not be treated as such, unless Strata can justify some unique treatment for this plant. Strata treats this 2014 TPUC as 2015 TPIS and calculates depreciation expense on this balance for inclusion in this case. It is not reasonable for Strata to treat 2014 TPUC as 2015 TPIS so it can then increase its costs in this proceeding by calculating depreciation expense on these amounts. This adjustment should be rejected.

Adjustment BCO-5: Remove Depreciation Expense on Fully Depreciated Assets (Exhibit 1D-2, Sch. A-8)

Q. WILL YOU SUMMARIZE OCS ADJUSTMENT BCO-5?

A. This adjustment reduces depreciation expense by **[BEGIN CONFIDENTIAL]** [redacted] **[END CONFIDENTIAL]**, with a corresponding increase in accumulated depreciation of **[BEGIN**

CONFIDENTIAL] [redacted] **[END CONFIDENTIAL]** on assets that are either fully depreciated at December 31, 2015 (or within one year from December 31, 2014) or will be fully depreciated two years from December 31, 2015 (or within two to three years from December 31, 2014). This depreciation expense adjustment could be greater depending upon the assumptions that are used, so my proposed adjustment is reasonable and conservative.

Q. WILL YOU EXPLAIN THE DEPRECIATION EXPENSE ADJUSTMENT IN MORE DETAIL?

A. I relied on gross asset values, accumulated depreciation, net book value ("NBV"), and depreciation expense amounts from Strata's "depreciation expense" calculation workpaper provided in response to DPU 1-23(a). For each asset category at Strata's workpaper, I took the NBV (gross asset less accumulated depreciation) and divided this by the 2014 book depreciation expense to arrive at the remaining number of years to be depreciated. I separated assets into two categories for my two-part adjustment.

For the first category (Category 1), I took assets with a remaining depreciable life of zero to one year from December 31, 2014, and this means these assets will be fully depreciated by December 31, 2015 or before this proceeding is completed.[21] It is reasonable to remove the entire amount (no amortization is used for these assets) of depreciation expense on these assets that will be fully depreciated within one year of December 31, 2014 (or essentially before the completion of this proceeding). If Strata is allowed to recover from the UUSF the full amount of depreciation expense on these assets of [redacted], then beginning as early as January 2016 the Company could enjoy a windfall of this same amount by recovering this amount from the UUSF on assets that are fully depreciated.

For the second category (Category 2), I took assets with a remaining depreciable life of one to two years from December 31, 2014, which means these assets will be fully depreciated by December 31, 2016, or in other words within less than a year of this proceeding's completion.[22] The maximum depreciation expense that could be removed using this analysis is [redacted], but I have assumed that Strata will incur two more years of depreciation expense on these assets so I doubled this amount to [redacted] and amortized it over a four-year period of recovery, resulting in a depreciation expense adjustment of [redacted] ([redacted] per books less allowed four-year amortization of [redacted] equals a depreciation expense adjustment of [redacted]) for Category 2. It is reasonable to amortize the

[21] Absent the inclusion of any 2015 asset additions.

[22] Absent the inclusion of any 2015 or 2016 asset additions.

remaining depreciation balances on these assets that will be fully depreciated within two years of December 31, 2014 (in other words within one year of the completion of this proceeding). If Strata is allowed to recover from the UUSF the full amount of depreciation expense on these assets of [redacted] then beginning as early as January 2017 the Company could enjoy a windfall of this same amount by recovering this amount from the UUSF on assets that are fully depreciated.

My total depreciation expense adjustment of [redacted] consists of these two amounts in Category 1 and 2 ([redacted]).

Q. ARE YOU PROPOSING TO STOP DEPRECIATION EXPENSE PERMANENTLY ON THE RELATED ACCOUNTS THAT YOU ADJUSTED IN CATEGORY 1 AND 2?

A. No. I am not proposing that depreciation expense be permanently stopped on these accounts. I am only proposing that Strata's depreciation expense for these accounts that are included in its filing, and which is based on "historical" plant balances that are mostly fully depreciated, be removed from the revenue requirement for this proceeding. Also, I am not proposing to stop depreciation expense for new plant additions to these same accounts in future years, Strata can continue to record this depreciation expense on its books when it acquires these related assets and of course it can file another UUSF case to recover those amounts. I am simply addressing how to adjust depreciation expense related to "historical or vintage" assets that are primarily fully depreciated.

Adjustment BCO-6: Revise Corporate Overhead Expense Allocation Factors to Properly Allocate Expenses Between Regulated and Nonregulated Operations (Exhibit 1D-2, Sch. A-9)

Q. WILL YOU SUMMARIZE OCS ADJUSTMENT BCO-6?

A. I have revised only one of the four CAM allocation factors of Strata, and this revision to the Corporate Overhead allocation factor shifted expenses of [redacted][23] from regulated operations to nonregulated affiliate operations. Strata's Corporate Overhead allocation factor allocates certain cost pool expenses [redacted] to regulated operations and [redacted] to nonregulated operations,[24] and I have revised this factor to reflect a [redacted] allocation to both regulated and nonregulated operations. The change in the Corporate Overhead allocation factor is due only to revisions, corrections, and updating to the inputs of Strata's Corporate Overhead allocation factor, and is not based on any other changes in assumptions or policy.

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[23] In order to prevent any overlap from other adjustments that I have proposed, I have removed the impact of two other adjustments, the adjustment to remove Luxury Entertainment expenses and the adjustment to remove that portion of the Thank-You/Bonus expense that is allocated to the accounts impacted by the Corporate Overhead allocation factor.

[24] Strata's Corporate Overhead allocation factor and other allocation factors were included with Strata's CAM in a PDF document provided in response to DPU 1-1 and the Excel calculations supporting the Corporate Overhead allocation factors were provided in response to OCS 2-40(a).

Q. IS STRATA'S USE OF MULTIPLE INPUTS TO ITS CORPORATE OVERHEAD ALLOCATION FACTOR BETTER THAN AN APPROACH THAT ONLY USES ONE INPUT?

A. Yes. Strata's Corporate Overhead allocation methodology and related inputs is a reasonable starting point because it uses multiple diverse inputs in the calculation of its Corporate Overhead instead of just one input.. This makes Strata's methodology in the big picture[25] more accurate, more consistent, less subject to manipulation, and more consistent with the intent of the Federal Communications Commission ("FCC") Part 64 CAM rather than single input allocation factors we have seen proposed by other companies. Strata uses [redacted] inputs to its Corporate Overhead allocation factor and I generally agree with [redacted] of these inputs, subject to some updating and revision. The inputs to Strata's Corporate Overhead allocation factor are set forth below, along with an indication of those inputs that I tend to agree with:[26]

1) [redacted] – I agree with the use of this input.
2) [redacted] – I generally agree with using this as an input, although I have removed [redacted]
3) [redacted] – I agree with the use of this input.

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[25] It is still necessary to make certain updates, revisions and corrections to some of the inputs to Strata's Corporate Overhead allocation factor.

[26] Again, it is still necessary to make certain updates and corrections to some of these Inputs and I will explain in more detail why I disagree with certain inputs later in my testimony.

4) [redacted] – I agree with this input only if correct current inputs can be determined for all entities, including nonregulated affiliates.

5) [redacted] – I generally agree with this input expense without any other additives or changes, Strata did not explain or show how [redacted]

6) [redacted] – I do not agree with this input.

7) [redacted] – I do not agree with this input.

8) [redacted] – I do not agree with this input.

Q. DO YOU PARTICULARLY AGREE WITH STRATA'S USE OF [redacted] AS INPUTS TO ITS CORPORATE OVERHEAD ALLOCATION FACTOR?

A. Yes, I believe it is important to use these two inputs.

Q. DID STRATA PROVIDE ADEQUATE SUPPORTING DOCUMENTATION REGARDING THE INPUTS AND CALCULATION OF ITS CORPORATE OVERHEAD ALLOCATION FACTOR?

A. No. Because Strata did not provide supporting documentation for certain inputs it was not possible for me to determine the accuracy and validity of these amounts. As one example, [redacted] inputs are based on certain 2013 financial data for Strata and each affiliate and I attempted to update those inputs that I agree with using the latest December 31, 2014 financial data. However, because Strata did not explain, reconcile, or show how it determined these financial inputs I was not always able to duplicate Strata's calculations, so I did the best as I could with the limited data. I used my best efforts in updating Strata's inputs, but I am willing to make necessary changes to these inputs if Strata provides the proper information.

Some examples of Strata's failure to provide adequate supporting documentation and calculations for its Corporate Overhead allocation factor are summarized below:

1) DPU 1-1 asked Strata to provide a copy of its CAM and explain allocations relevant to Part 36 and Part 64, but Strata only provided a high level PDF document that did not specifically explain or show how allocation factors and their related inputs were determined or calculated.

   OCS 2-40 asked Strata to provide all underlying supporting documentation and calculations for each allocation factor in its CAM, but Strata's response only cited to an attached Excel spreadsheet and did not include any written explanation of the inputs or calculations in the spreadsheet.

2) Strata's response to OCS 2-40 did not provide the requested adequate underlying supporting documentation, calculations or reconciliations to its consolidated 2013 Audited Financial statements and other 2013-related documents that appear to be used for the inputs.

3) Strata's response to OCS 2-40 did not provide the requested amount of cost pools or the amount and percent of expenses allocated to each affiliate by account number for each allocation factor. Strata deferred this calculation to OCS despite several attempts to obtain this information in subsequent discussions with Strata.

4) Most importantly, Strata never did provide the amount of expenses allocated to each nonregulated affiliate by account number, so it was not possible to confirm the accuracy of the percent (or amount) of expenses allocated to nonregulated operations for the Corporate Overhead allocation factor.

5) Strata only provided a General Ledger for Strata's regulated operating division and not for its nonregulated affiliates, so it was not possible to identify and confirm the total amount of expenses subject to allocation (to both regulated and nonregulated operations) by account number, and it was not possible to confirm the amount of nonregulated expenses allocated (and the amount direct assigned) to Strata's nonregulated affiliates by its claimed allocation factor.

6) Strata's Corporate Overhead allocation factor is based on 2013 financial data for seven of the eight inputs and Strata has not provided an updated CAM using 2014 inputs. It is a necessary internal control that a CAM be properly and periodically updated to reflect the most recent accurate information and Strata's CAM fails this test.

Q. CAN YOU EXPLAIN IN MORE DETAIL THE SIGNIFICANCE OF THE LACK OF SUPPORTING INFORMATION FOR THE AMOUNTS ALLOCATED TO REGULATED AND NONREGULATED OPERATIONS BY THE CORPORATE OVERHEAD ALLOCATION FACTOR?

A. The lack of supporting documentation is a significant concern because even though Strata may claim that [redacted] of certain expenses are allocated to regulated operations and [redacted] are allocated to nonregulated operations, if the “total” amount of expenses subject to allocation are not provided then I cannot test the validity of these allocation percentages or confirm that the data support a [redacted] split. And although I was able to determine an amount of regulated expenses (supposedly reflecting the [redacted] allocation from Strata’s regulated operations) in its General Ledger, I do not know if this really reflects [redacted] of total expenses because the total expenses and nonregulated expenses were not provided. As an example, if I only know the amount of claimed regulated expenses is $500,000, I don’t really know if this actually reflects [redacted] of total expenses if I don’t have the total expenses subject to allocation or if I don’t have the actual amounts allocated to nonregulated operations. The $500,000 of regulated expenses could actually reflect an allocation factor greater than [redacted]

Q. BECAUSE STRATA DID NOT PROVIDE THE REQUESTED INFORMATION, HOW DID YOU DETERMINE THE TOTAL AMOUNT OF EXPENSES (SUBJECT TO ALLOCATION) AND THE NONREGULATED EXPENSES RELATED TO THE CORPORATE OVERHEAD ALLOCATION FACTOR?

A. First, I determined the amount of regulated expenses for each account number (supposedly allocated by the [redacted] regulated Corporate Overhead allocations factor) from the General Ledger,[27] and although I do not know if these amounts are accurate, I had to at least start with that

[27] Strata only provided the General Ledger for regulated divisions of Strata and did not provide the General Ledger for nonregulated affiliates.

premise. Second, I took the amount of regulated expenses for each account number/cost pool and divided them by the [redacted] regulated allocation factor to arrive at an imputed amount of total expenses subject to allocation. Third, I subtracted the amount of regulated expenses from the imputed amount of total expenses subject to allocation to arrive at the amount of nonregulated expenses. My calculations are based on these assumptions because Strata failed to provide the actual specific requested information. To the extent there are any inadvertent incorrect amounts, I did the best I could with the limited information provided by Strata.

Q. CAN YOU SUMMARIZE THE REVISIONS, CORRECTIONS, AND UPDATES THAT YOU MADE TO STRATA'S CORPORATE OVERHEADS ALLOCATION INPUTS?

A. Yes. Strata used 2013 financial data for seven of its eight inputs, and used January 2014 data for the remaining input. I attempted to update Strata's inputs using December 31, 2014 information, but Strata did not explain or reconcile these inputs to its 2013 Consolidated Audited Financials so it was sometimes difficult for me to duplicate and update Strata's calculations using information from the 2014 Consolidated Audited Financials. Also, I found errors or incorrect assumptions in some of Strata's 2013 inputs and I attempted to correct these. Sometimes I used conservative assumptions that erred in Strata's favor, but these amounts should be subject to true-up if Strata would provide this information. I have summarized some of the primary revisions, corrections, and updates below:

1) [redacted] – I removed this input from the calculation because Strata [redacted] Strata does not explain why this input is reasonable or necessary or cite to any precedent.

2) [redacted] – I removed this input for the same reasons above [redacted] This will result in an excessive "regulated" allocations factor that will improperly drive excessive costs to regulated operations. [redacted]

[redacted]

3) [redacted]

4) [redacted] – I have used this input and updated to 2014 data as best I could. For 2014, I used Strata's [redacted]

5) [redacted]

[redacted]

6) Consolidating entries – Strata's calculations do not explain or show how it treated and allocated "Consolidating Entries" (from the Audited Financials) between Strata and its affiliates. I sometimes conservatively removed these entire amounts from "nonregulated" operations which is to the benefit of Strata and can cause the amount of costs allocated to nonregulated operations to be understated. This issue should be addressed and properly revised in the factors.

7) UUSF case adjustments – I have not reflected the OCS proposed financial adjustments from this proceeding in all of the relevant allocation inputs, so the OCS revised Corporate Allocation factor imay inadvertently drive excessive expenses to regulated operations to the benefit of Strata. I do believe it is reasonable to

include the adjustments from this proceeding in the allocation factor calculations to promote consistency between the allocations factors and the revenue requirement in this proceeding.

8) [redacted]

9) [redacted] I agree with this input and have used amounts from Strata's Exhibit 2.1 for regulated operations and used nonregulated amounts from the 2014 Audited Financials. [redacted]

[redacted]

10) [redacted]

11) [redacted] This input should not be used if accurate amounts are not used.

12) [redacted]

[redacted]

13) [redacted]

14) [redacted]

Q. IS IT THE INTENT OF YOUR CORPORATE OVERHEAD ALLOCATIONS ADJUSTMENT TO REMOVE ANY POSSIBLE OVERLAPPING ADJUSTMENTS?

A. Yes. I have removed the luxury entertainment adjustment and an estimated amount of the Thank-You/Bonus adjustment[28] that could be overlapping adjustments and I am receptive to making corrections for any other inadvertent overlap amounts.

Adjustment BCO-7: Remove Plant Used Primarily by Nonregulated Operations (Exhibit 1D-2, Sch. A-10)

Q. WILL YOU EXPLAIN OCS ADJUSTMENT BCO-7?

A. I have removed the capitalized net book value of [redacted] and related depreciation expense of [redacted] for certain land and buildings that appear to be used primarily by nonregulated operations, although there could be some use by regulated operations.[29] Strata has not provided adequate supporting documentation to show that these assets are used entirely for the benefit of regulated operations, or that Strata has been properly reimbursed by affiliates for their entire use or joint use of these assets via rent payments from affiliates or allocations of costs to affiliates. Mr. Brevitz has performed a physical review of most of these assets and I am relying on his representation as part of this adjustment, and I have summarized the related assets in the table below:[30]

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[28] I have removed the estimated amount related to the accounts in the cost pool impacted by the Corporate Overhead allocation factor.

[29] The source of the amounts is Strata's Continuing Property Records ("CPRs") provided in response to DPU 1-15.

[30] The calculation of the adjustment is provided at the related OCS Exhibit.

Table 1: Nonregulated Land and Buildings Removed

Item No.	Asset	Source: DPU 1-15, Continuing Property Records Description	Date Purchased	Capitalized Amount	Deprec. Rate	Deprec. Exp.
1	Land	[redacted]				
2	Bldg.					
3	Bldg.					
4	Bldg.					
5	Bldg.					
6	Bldg.					
7	Bldg.					
8	Bldg.					

<u>Adjustment BCO-8: Remove 50% of TPUC</u>
<u>(Exhibit 1D-2, Sch. A-11)</u>

Q. WILL YOU EXPLAIN OCS ADJUSTMENT BCO-8?

A. This adjustment removes 50% of the telephone plant under construction ("TPUC") balance of **[BEGIN CONFIDENTIAL]** [redacted] **[END CONFIDENTIAL]**, resulting in an adjustment and reduction of **[BEGIN CONFIDENTIAL]** [redacted] **[END CONFIDENTIAL]** from Strata's proposed rate base. The table below is used to support in part the reasons for this adjustment.

Table 2: TPUC Annual Changes

	Source: Annual Reports			
Line	Year	TPUC	% TPUC to Annual Plant Additions	Annual Plant Additions
1	2014	[redacted]	[redacted]	[redacted]
2	2013	[redacted]	[redacted]	[redacted]
3	2012	[redacted]	[redacted]	[redacted]
4	2011	[redacted]	[redacted]	[redacted]
5	2010	[redacted]	[redacted]	[redacted]
6	Common range	[redacted]	[redacted]	
7		[redacted]		
8	Included in filing	[redacted]		
9	Remove 50%	[redacted]		
10	Adj. to Remove 50%	[redacted]	[redacted]	

Strata's TPUC balance for 2014 is overstated on a normalized basis and is fluctuating significantly from year-to-year presumably due in part to Strata's current fiber construction program. Strata's 2014 TPUC has increased by [redacted] This significant increase in 2014 is unusual and not typical of the past, and Strata has not provided any explanation for this change.

The information in the table above evaluates the annual TPUC balance in relation to the amount of annual gross plant additions. In most years (2010, 2011, and 2013) the TPUC balance is about [redacted] of the plant additions balance, but in 2014 the TPUC balance is [redacted] of the plant additions balance. I have removed 50% of the TPUC balance to bring it more in line with prior year relationships, although my adjustment is still conservative because the adjusted TPUC balance is [redacted] of the 2014 plant additions balance and this still exceeds the more normal range of [redacted]

If Strata's draw from the UUSF is established with an unusually high level of TPUC from this proceeding, then Strata will over-recover these costs in future years from the UUSF when its TPUC balance declines. Strata has not reflected any benefits or synchronized the impact of this TPUC in this proceeding. TPUC should be adjusted to a more normal basis absent any documentation to support this significant increased level of TPUC.

Adjustment BCO-9: Remove 50% of M&S (Exhibit 1D-2, Sch. A-12)

Q. WILL YOU EXPLAIN OCS ADJUSTMENT BCO-9?

A. This adjustment removes 50% of the Material and Supplies ("M&S") balance of **[BEGIN CONFIDENTIAL]** [redacted] **[END CONFIDENTIAL]**, resulting in an adjustment and reduction of **[BEGIN CONFIDENTIAL]** [redacted] **[END CONFIDENTIAL]** from Strata's proposed rate base. The table below is used to support in part the reasons for this adjustment.

Table 3: M&S Annual Changes

	Source: Annual Reports			
Line	Year	M&S	% M&S to Annual Plant Additions	Annual Plant Additions
1	2014	[redacted]	[redacted]	[redacted]
2	2013	[redacted]	[redacted]	[redacted]
3	2012	[redacted]	[redacted]	[redacted]
4	2011	[redacted]	[redacted]	[redacted]
5	2010	[redacted]	[redacted]	[redacted]
6	Common range	[redacted]	[redacted]	
7				
8	Included in filing	[redacted]		
9	Remove 50%	[redacted]		
10	Adj. to Remove 50%	[redacted]	[redacted]	

Strata's M&S balance for 2014 is overstated on a normalized basis and is fluctuating significantly from year-to-year presumably due in part to Strata's current fiber construction program. Strata's 2014 M&S has increased by [redacted] This significant increase in 2014 is unusual and not typical of the past, and Strata has not provided any explanation for this change.

The information in the table above evaluates the annual M&S balance in relation to the amount of annual gross plant additions. In most years (2010, 2011, 2012, and 2013) the M&S balance is about [redacted] of the plant additions balance, but in 2014 the M&S balance is [redacted] of the plant additions balance. I have removed 50% of the M&S balance to bring it more in line with prior year relationships, and my adjustment is reasonable because the adjusted M&S balance is now [redacted] of the 2014 plant additions balance, and this is within the more normal range of [redacted]

If Strata's draw from the UUSF is established with an unusually high level of M&S from this proceeding, then Strata will over-recover these costs in future years from the UUSF when its M&S balance declines. Strata has not reflected any benefits or synchronized the impact of this M&S in this proceeding. M&S should be adjusted to a more normal basis absent any documentation to support this significant increased level of M&S.

<u>Adjustment BCO-10: Adjust Rate Case Expense</u>

Q. WILL YOU EXPLAIN POTENTIAL OCS ADJUSTMENT BCO-10?

A. This serves as a placeholder for an evaluation and true-up of rate case expense when, or if, Strata provides this related proper supporting documentation originally requested for rate case expense at OCS 2-43.[31]

Strata included an estimated amount of [redacted][32] of rate case expense in this filing which does not include any supporting documentation or

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[31] OCS 2-43 requested supporting documentation for rate case expense including rate case expense for each consultant by account number (for 2014 and 2015), contracts/engagement letter, and copies of invoices that show billing rates, hours, and costs for each of the services on the invoice.

calculations per the response to OCS 2-43. I am not opposed to Strata recovering the actual amount of rate case expense it incurs as a one-time distribution from the UUSF if the review of these actual costs shows them to be reasonable.

Adjustment BCO-11: Adjust NECA Wholesale DSL Tariff Revenues

Q. WILL YOU EXPLAIN POTENTIAL OCS ADJUSTMENT BCO-11?

A. This serves as a placeholder for a potential revenue adjustment. This potential adjustment is based on OCS receiving Strata's 2014 Part 69 cost study, which Strata indicated it would provide to OCS but which they did not. The cost study should have been provided to OCS around July 31, 2015, but it was not.[33] The OCS position and potential adjustment should not be prejudiced by Strata's failure to provide a cost study it previously indicated that it would provide to OCS.

An adjustment should be made to impute the amount of NECA wholesale DSL revenues at the greater of: 1) Strata's adjusted NECA DSL revenues of [redacted] included in this filing[34]; or 2) the interstate DSL revenue requirement cost from the 2014 Part 69 cost study. It is not reasonable to

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[32] Strata Confidential Exhibit 2.4, Column D, line 10. This amount was inadvertently shown as an adjustment to "depreciation expense" at Confidential Exhibit 2.1, Column D, line 12.

[33] Strata's response to OCS 2-20 stated that it would provide the 2014 Part 69 cost study after it is filed on or before July 31, 2015.

[34] Strata made an adjustment in this filing to reduce its per book NECA wholesale DSL revenues as shown at Strata's Confidential Exhibit 2.4(b) and as explained at DPU 1-4.

include revenues less than the 2014 DSL cost study amount in the revenue requirement, because this would mean that "intrastate" regulated services would be subsidizing an "interstate" DSL service and it is not reasonable to effectively shift "interstate" costs to the "intrastate" jurisdiction for purposes of recovery from the UUSF.[35]

Q. DOES THIS COMPLETE YOUR PREFILED DIRECT TESTIMONY?

A. Yes.

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[35] Although OCS does not agree with using DSL NECA pool revenues/interstate Part 69 cost study amounts as adequate reimbursement to Strata, we have adopted this approach for this case (and the Carbon Telecom case also) pending a full evaluation of this issue in the future.