

Witness OCS - 3R Brevitz

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of UBTA-UBET)	
Communications Inc.'s)	Docket No. 15-053-01
(DBA Strata Networks) Application)	
For an Increase in)	Rebuttal Testimony
Utah Universal Service Fund Support)	of David Brevitz, C.F.A.
)	For the Office of
)	Consumer Services
)	

November 3, 2015

1 Q. PLEASE STATE YOUR NAME, OCCUPATION AND BUSINESS ADDRESS.

2 A. My name is David Brevitz. My business address is Brevitz Consulting Services,
3 3623 SW Woodvalley Terrace, Topeka, KS, 66614.

4 Q. HAVE YOU PREVIOUSLY FILED DIRECT TESTIMONY IN THIS MATTER
5 ON BEHALF OF THE OFFICE OF CONSUMER SERVICES ("OCS")?

6 A. Yes.

7 Q. WHAT IS THE PURPOSE OF THIS REBUTTAL TESTIMONY?

8 A. The purpose of this rebuttal is to respond to positions taken in the testimony of
9 Casey Coleman on behalf of the Division of Public Utilities ("DPU") and suggest
10 that my direct testimony on those issues should be adopted by the Commission.
11 Specifically I am referring to Mr. Coleman's selection of "comparable
12 companies" for purposes of determining return on equity.

13 COMPARABLE COMPANIES IN RATE OF RETURN ANALYSIS

14 Q. IS THERE A REASON MR. COLEMAN'S TESTIMONY RELIES ON
15 "COMPARABLE COMPANIES" THAT DO NOT INCLUDE ANY
16 TELECOMMUNICATIONS COMPANIES THAT ARE LOCATED IN UTAH?

17 A. Yes. Mr. Coleman like any other rate of return analyst must rely on public
18 information associated with publicly traded companies in order to perform
19 calculations necessary to determine the cost of capital elements of capital
20 structure and return on equity. There is no public market data for Utah

21 telecommunications companies since these companies are not publicly held with
22 stocks and bonds that trade in public financial markets. If there were publicly
23 traded telecommunications companies in Utah, those companies could be
24 considered for reasonableness for inclusion as “comparable companies” for rate
25 of return analysis purposes. Since there are no such companies, other
26 telecommunications companies which are publicly traded must be reviewed for
27 inclusion in the pool of “comparable companies” for this analysis – recognizing
28 that it is not possible to assemble a pool of companies that are direct analogs to
29 Strata. I believe the pool of “comparable companies” as adjusted below is the
30 closest possible pool of “comparable companies” that can be assembled for this
31 analysis – beyond CenturyLink, I am aware of no other companies that can or
32 should be included.

33 **Q. DO YOU HAVE ANY CONCERNS REGARDING USE OF THE**
34 **“COMPARABLE COMPANIES” AS IDENTIFIED BY MR. COLEMAN FOR**
35 **ESTIMATING RETURN ON EQUITY?**

36 A. I am concerned regarding the inclusion and use of “comparable companies” of
37 Atlantic Tele-Network (ATNI); IDT Corporation (IDT); Hickory Tech
38 Corporation (HTCO); Cincinnati Bell (CBB); Alteva Inc. (ALTV); Earthlink
39 Holdings (ELNK); and FairPoint Communications (FRP). These companies
40 clearly should not be considered “comparable” or included as follows:

- 41 1. Hickory Tech Corporation (HTCO) should not be included in any analysis
42 because it no longer exists, and obviously therefore there would not be any
43 public data associated with its operations. Searching for this ticker symbol
44 will yield a screen, but with no financial or operating data, but evidently
45 including an historic “beta” factor which Mr. Coleman included in his
46 analysis. The reason there is no current financial data for “HTCO” is because
47 first Hickory Tech changed its name to Enventis, and then Enventis later
48 merged with Consolidated Communications (CNSL).¹ Both Mr. Coleman
49 and I include Consolidated Communications as a “comparable company”.
50 Since Hickory Tech no longer exists, and its operations are included within
51 Consolidated Communications operations, Hickory Tech’s data should be
52 stricken from Mr. Coleman’s analysis. I have pointed out Hickory Tech’s
53 non-existence in previous rebuttal testimonies and I am surprised to see it still
54 included in Mr. Coleman’s CAPM analysis.
- 55 2. Atlantic Tele-Network (ATNI) should not be included in any analysis due to
56 lack of comparability to the U.S. wireline telephony business. According to
57 Atlantic’s most recent SEC Form 10-K filing², its business segments are
58 wireless services in US markets under the trade names Commnet and Choice;
59 Island Wireless services in the Caribbean under various trade names;

¹ <http://ir.consolidated.com/releasedetail.cfm?ReleaseID=918875> and
<http://www.dividendchannel.com/symbol/htco/>

² <http://biz.yahoo.com/e/150316/atni10-k.html>

60 International telephony in Guyana; Competitive Local Exchange Carrier
61 services under Sovernet, ION, and Essexel trade names; and renewable
62 energy under the trade name Ahana Renewables. These lines of business lack
63 comparability, and Atlantic should not be included as a comparable company
64 in rate of return analysis in this case.

65 3. Cincinnati Bell (CBB) should not be included as a comparable company since
66 it serves a single large and compact metropolitan area and also operates very
67 significant IT services, hardware and data center business, including
68 “managed infrastructure services, IT and telephony equipment sales, and
69 provisional IT staffing services.”³

70 4. IDT Corporation should not be included in any analysis for purposes of
71 determining rate of return in this case due to lack of comparability to the U.S.
72 wireline telephony business. According to its website,

73 through its IDT Telecom division, [IDT] provides retail
74 telecommunications and payment services to help immigrants and the
75 under-banked to conveniently and inexpensively communicate and share
76 resources around the world. IDT Telecom’s wholesale business is a
77 leading global carrier of international long distance voice calls. IDT also
78 holds a majority interest in Zedge (www.zedge.net), a mobile content
79 discovery and acquisition platform that includes one of the most popular
80 Apps for Android and iOS.⁴

81 5. Alteva Inc. (ALTV) has a small ILEC operation in New York and New Jersey
82 (the former Warwick Valley Telephone Company area) that is a primarily

³ Cincinnati Bell 2014 SEC Form 10-K at page 8.

⁴ <http://ir.idt.net/>

83 rural service area with approximately 50,000 population, and a larger Unified
84 Communications/Hosted VoIP business.⁵ The company's operations and
85 management appear to me to be very problematic⁶, and I would not include
86 this company as a "comparable" company.

87 6. EarthLink Holdings (ELNK) should not be included in any analysis for
88 purposes of determining rate of return in this case due to lack of
89 comparability to the U.S. wireline telephony business. According to its
90 website, EarthLink

91 provides managed network, security and cloud solutions for multi-
92 location businesses. We help thousands of specialty retailers, restaurants,
93 financial institutions, healthcare providers, professional service firms and
94 local governments deliver a reliable and engaging customer experience in
95 their stores and branch offices. We do so by building and managing MPLS
96 WAN networks, by providing virtualized infrastructure, security, hosted
97 voice, secure WiFi and compliance solutions, and by offering exceptional
98 customer care. We operate a nationwide network spanning more than
99 28,000 fiber route miles, with 90 metro fiber rings and secure data centers
100 that provide ubiquitous data and voice IP service coverage. Our EarthLink
101 Carrier™ division sells facilities-based wholesale telecommunications to
102 other providers and our award-winning Internet services connect
103 hundreds of thousands of residential customers across the U.S.⁷

104 7. I am very familiar with FairPoint Communications (FRP) from many years of
105 working in other states on various FairPoint cases and dockets, including the
106 acquisition case in which FairPoint acquired Verizon's Northern New

⁵ Alteva Inc. SEC Form 10-K, dated March 17, 2015, at page 3.

⁶ See for example, GMI Ratings Accounting and Governance Risk Overview", attached as OCS 3R-1.

⁷ <http://ir.earthlink.net/>

107 England operations and the subsequent bankruptcy case less than two years
108 later. FairPoint does not pay a dividend and is owned by a variety of entities
109 that acquired ownership as a result of the bankruptcy proceeding, and
110 subsequent “distressed capital” (or “vulture fund”) investors. FairPoint has
111 yet to earn a profit, and it is unclear if and when it may do so. For these
112 reasons I would not include FairPoint as a comparable company.

113 8. I am familiar with Otelco from work in other jurisdictions, and it is not
114 unreasonable to include Otelco as a comparable company. However, it
115 should be noted that Otelco recently went through Chapter 11 bankruptcy
116 reorganization and this presumably impacts its historic stock price
117 movement over time, and hence beta calculation.

118 **Q. WHAT IMPACT WOULD CORRECTION OF THE COMPARABLE**
119 **COMPANIES HAVE ON MR. COLEMAN’S COMPUTED 10.75% ROE?**

120 A. These corrections would bring the computed ROE much closer to my
121 recommended 10% ROE.

122 **Q. DOES THIS COMPLETE YOUR PREFILED REBUTTAL TESTIMONY?**

123 A. Yes.