BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

IN THE MATTER OF UBTA-UBET COMMUNICATIONS, INC.'S (DBA STRATA NETWORKS) APPLICATION FOR UTAH UNVERSAL SERVICE FUND SUPPORT	**DOCKET NO.** 15-053-01 STRATA Exhibit 2R REDACTED VERSION

REBUTTAL TESTIMONY OF KARL SEARLE

November 3, 2015

Q. What is your name?

A. My name is Karl Searle

Q. By whom are you employed and in what capacity?

A. I am employed by UBTA-UBET Communications, Inc. dba STRATA Networks (STRATA) as its Chief Financial Officer.

Q. Have you previously provided direct testimony in this matter?

A. Yes. I filed direct testimony with STRATA's application in this case on April 6, 2015.

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my rebuttal testimony is to rebut the testimony filed in this proceeding by Bion Ostrander for the Office of Consumer Services (OCS). The testimony filed by the OCS proposes adjustments to STRATA's application that are irrelevant and appear to be based on witnesses' personal preferences rather than on law, rule, or regulation. I identify errors in the testimony. I also rebut the testimony of Shauna Benvegnu-Springer and Paul Hicken appearing for the Division of Public Utilities and correct their errors and misperceptions.

REBUTTAL OF THE OFFICE OF CONSUMER SERVICES

Q. Have you reviewed the testimony of the OCS?

A. Yes.

Q. Please identify the exhibits to your testimony.

A. Exhibit – Searle Rebuttal Exhibits to Direct Testimony.

Worksheets included:

STRATA Exhibit 2R.1	S-8 - Summary of Operations and Taxes from Part 36
STRATA Exhibit 2R.2	Rebuttal Summary DPU 3 -Summarizes amounts accepted from proposed adjustments.
STRATA Exhibit 2R.3	Rebuttal DPU 3.6 - Summarizes proposed DPU 3.6, correctly calculates accepted adjustment.
STRATA Exhibit 2R.4	Rebuttal DPU 3.7 - Summarizes proposed DPU 3.7, correctly calculates accepted adjustment.
STRATA Exhibit 2R.5	Rebuttal DPU 3.8 - Summarizes proposed DPU 3.8, correctly calculates accepted adjustment.
STRATA Exhibit 2R.6	Rebuttal DPU 3.9 - Summarizes proposed DPU 3.9, correctly calculates accepted adjustment.
STRATA Exhibit 2R.10	2014 cost study part 69 summary

Q. After reviewing the OCS's testimony, are there corrections of which the Commission should be aware?

A. Yes, there are several issues that should be clarified and corrected in the OCS's testimony.

Q. What is your first point of correction?

A. At lines 76 thru 82, Mr. Ostrander states:

> The OCS adjustments currently produce a revenue requirement surplus (also called excess earnings/profits) of [ ]. Strata's excess earnings eliminate the need for additional UUSF of [ ], and will reduce existing UUSF by this same amount to result in total UUSF due to Strata of [ ] (existing UUSF of [ ] of excess earnings = [ ] total UUSF due to Strata).

This testimony is wrong. [ ] - [ ] equals [ ] not [ ]. Mr. Ostrander states that the amount due from the UUSF to STRATA is both [ ] and [ ]. I have no idea where the [ ] comes from.

Q. Do you have concern about facts of your case being confused with facts from the Carbon/Emery proceeding?

A. Yes.

Q. What specific concerns do you have?

A. 1. In Data Request OCS – 2.18(c) the OCS asked STRATA to reconcile certain amounts to the amounts shown on the books of Emery Telcom. The OCS made accusations, presumptions, and conclusions based on a different case.

2. In their direct testimony, the OCS included exhibits from the Carbon/Emery and Emery cases, some of which were confidential.

It appears that the OCS has approached the STRATA case with the assumption that the facts of each proceeding are the same. With that assumption identical questions and requests have been asked. When STRATA did not have the same supporting documents as those provided in the other case, the OCS has accused STRATA of not providing requested information. The OCS makes the accusation with no knowledge of STRATA's operations or processes.

Q. What issues or concerns do you have related to the data requests put forth by the OCS?

A. The OCS data requests asked for information in specific formats and expected STRATA to provide the information requested. STRATA provided the requested information when available from existing documents. Over the course of this proceeding, the OCS has expressed expectations that STRATA create documents in formats desired by the OCS and then reconcile those created documents to other existing or created documents.

Our concern is that the OCS accuses STRATA of withholding or not providing important information as requested. STRATA rejects the OCS comments. STRATA has provided available information as requested.

Q. Do you agree with Mr. Ostrander's description of services provided by STRATA and its affiliates on line 127 of his testimony?

A. No. STRATA's response to DPU Data Request 1.3 clearly explains STRATA's organizational structure. Mr. Ostrander refers to STRATA consisting of three regulated LECs and three non-regulated affiliates. This description comes directly from the Carbon/Emery USF case. This is not a correct description of STRATA.

STRATA is a single incumbent local exchange company (ILEC).

Q. Are there are issues with the way Mr. Ostrander describes and treats the services of STRATA and its affiliates?

A. Yes. At line 128 and 129, the witness states, "three non-regulated affiliates". STRATA has five non-regulated affiliates. The five affiliates listed at lines 137 thru 154 are non-regulated affiliates of STRATA.

In Line 132 – 135, he states that STRATA provides DSL/fiber wholesale services. This is not true. The OCS continues to characterize inaccurately STRATA's Digital Subscriber Line Service provided under Tariff as a "wholesale service". In response to the many compound and unclear questions from the OCS, STRATA explained that the use of the term wholesale is STRATA's internal way of referring to specific revenues. The term is used when referring to the revenues billed under tariff to Internet Service Providers to distinguish them from retail revenues an Internet Service Provider bills its customers. In response to OCS Data Requests 3.4 and 3.8 STRATA makes it clear that it does not provide a wholesale DSL service. The service is Digital Subscriber Line Service pursuant to interstate tariff.

In addition, the characterization that STRATA provides fiber wholesale services is without basis. STRATA does not provide fiber wholesale services.

In lines 138 -141, Mr. Ostrander states that UBTANet provides retail internet and broadband services via fiber and DSL/copper facilities. His description is not accurate. He implies UBTANet owns or has some control over the facilities. That is not true and STRATA has made that amply clear in responses to OCS Data Requests 3.2, 3.3, 3.4, 3.5, 3.9, and 3.10.

UBTANet provides retail Internet and broadband services to customers primarily via Digital Subscriber Line Service. In addition, the ISP utilizes services purchased from, [ ] for connection to the Internet Hub.

Q. Did STRATA withhold information to prevent the OCS from quantifying certain potentially significant adjustments?

A. No and I offer the following observations:

1. At line 178 Mr. Ostrander claims STRATA did not provide adequate supporting documentation. STRATA did provide the documentation it had regarding the Cost

Allocation Manual (CAM). Mr. Ostrander had access to all invoices and entries during the four days he was in STRATA's office. It does not appear that he attempted to make his own calculation to verify any CAM allocations while he was there. STRATA has made it clear in its responses that it complies with the rules governing cost allocation. Because he received a document prepared by Carbon/Emery proceeding does not mean STRATA has the same document. Mr. Ostrander discounts the many hours STRATA spent explaining affiliate transactions. STRATA spent hours on the phone, in our office, and in preparing data. Mr. Ostrander really needed to return to our office to understand the transactions and to drill down through the nearly 100,000 lines of summary data and then down to the many thousands of additional lines of data. The information STRATA provided Mr. Ostrander is the same data STRATA provided to other parties in this proceeding. It may not have been in Mr. Ostrander's preferred format, but it was not inadequate.

2. STRATA provided all documentation necessary to support the application. When Mr. Ostrander refers to "issues that significantly impact revenue requirements" in his testimony he must be referring to the hypothetical questions OCS presented. The application is based on a historical test year, not a future or hypothetical year. See OCS 3-2(a), OCS 3-2(b), OCS 3-3(a), OCS 3-3(b) and OCS 3-4(c).

STRATA had difficulty answering many questions the OCS asked because the question was unclear. For example; OCS 3-1(c) states: "Explain when Strata and its affiliates each began providing DSL and cable and fiber internet service in each exchange (by technology) and explain the current status of these services and related construction/build-out." First of all it is unclear what the question is. STRATA was not able to respond to "explain the current status of these services and related construction/build-out" because it was not clear and the OCS did not attempt to clarify it for us.

When the OCS asks a question, and then within the question presents information to which they provide no source, STRATA cannot respond adequately. See OCS 2-25(a), OCS 2-25(d), OCS 2-26(a). In these questions the OCS accuses STRATA of first having a Corporate Expense Limit, second having the second largest Corporate Expense Limit in the state, and third, assumes we have supporting documentation. After exhausting several resources I was able to determine where the OCS obtained the data. Thereafter I had to educate the OCS what the number really represented and provide the calculation for what OCS characterized as the Corporate Expense Limit. The data presented in OCS 2-25(a) is a High Loop Cost number not an Expense Limit. If the OCS had shared the source and actual information, the issue could have been resolved easily.

OCS 3-5(c) the OCS states: "Address the following to explain why the Company records "retail" DSL/internet assets on the books of its affiliates and not on the books of the regulated telephone company Strata: Explain if the Company believes they have the discretion to record "retail" DSL/internet assets on the books of Strata if they wanted to record these assets in that manner." STRATA had already stated that it complies with the appropriate accounting rules and had trouble determining what the OCS was asking.

3. STRATA's responsibility is to provide documentation if such documentation is available. When the OCS requested documents that did not exist, STRATA responded: "STRATA has no documents responsive to this request." Mr. Ostrander complains of having to "glean" information. This was not my experience. The OCS asked many follow-up and clarifying questions that made it reasonable for STRATA to believe that if there were further questions, the OCS would ask. The OCS asked more than 250 questions in five sets of data requests and 56 follow up questions. STRATA had to glean through the questions for hours to understand what the OCS was asking. Mr. Ostrander's (corrected) exhibits submitted with his testimony are difficult to follow and understand, but STRATA is working to verify the calculations.

4. To our knowledge there is only one document Mr. Ostrander awaits and that document has not been finalized.

5. STRATA has demonstrated compliance with Section 254(k) of the Federal Telecommunications Act of 1996 and Utah Code Title 54 Public Utilities Law, Section 6 Prohibition on Subsidization of Telecommunications Services ("Utah Code 54-8b-6").

At line 171, Mr. Ostrander states: "In my opinion, Strata should not be rewarded for not providing key information…" Mr. Ostrander's testimony should be given little or no weight. It seems like he has a result in mind and then provides testimony to reach that result, including confidential information from Carbon/Emery. He introduces hypothetical examples that have no grounding in fact. Furthermore, his testimony is full of contradictions. For example, his position in BCO-4 to disallow a known and measureable expense for assets put in service during the first three months of 2015 contradicts his position in BCO-7 to include an asset as non-regulated because after STRATA filed its application in this case, it started construction of a building on that property. The building is not yet finished, but it will be before this case ends and only 50% of it will be used for non-regulated activities.

Q. Now, turning to a different topic, do you agree with the OCS's adjustment to remove a portion of "intrastate internet related common costs from the regulated operations?

A. Because the OCS states they will not pursue this issue it should not be included in the testimony. Footnote 10 states, "In the Emery proceeding in Docket No. 15-042-01, all parties agreed to withdraw their testimony…" If it is withdrawn why is the issue addressed in our proceeding? The OCS is pointing out it has a position regarding regulatory oversight that they will pursue, outside the current proceeding. Another perfect example of approaching the regulatory process with an agenda and desired outcomes with no regard to the existing regulatory agencies, federal and state, that have statutory duty for that oversight.

Q. Has the OCS correctly calculated any of its proposed expense adjustments?

A. No. The OCS has failed to recognize that any expense adjustment can only be for the amount included as an intrastate cost in the USF application. Recommending an adjustment for an amount greater than the intrastate portion results in an attempt by the OCS to remove allowed costs from the interstate jurisdiction. Taking federal costs without identifying and removing the associated federal revenues results in the OCS attempting to use federal revenues to cover state costs.

STRATA recommends that any expense adjustment be limited to the Intrastate portion only, and that amount be taken from the 2013 Part 36 Summary of Operating Expense and Tax schedule, line 21. The sum of the Intrastate percentages from line 21 of that schedule is [ ]. That summary is attached as STRATA Exhibit 2R.1 - Searle Rebuttal Exhibits to Benvegnu-Springer 3.0, Worksheet S-8.

Q. Do you agree with the OCS's proposed adjustment BCO-1: Remove Luxury Entertainment Expenses?

A. No. The Division addressed the issue of Jazz tickets in DPU 3.9 of Shauna Benvegnu-Springer's testimony. STRATA has responded to that testimony and adjustment. STRATA recommends that none of the adjustments Mr. Ostrander made related to the Jazz tickets or STRATA's use of credit cards be made. Any adjustment related to the Jazz tickets should dealt with using DPU 3.9.

Mr. Ostrander does not understand STRATA's internal control procedures and his allegations are false. Officers of STRATA are not exempt from the internal control procedures. In footnote 13 of his testimony Mr. Ostrander said: "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." The truth is that Bruce Todd, STRATA's CEO and general manager, is the only person with a company credit card and credit limit sufficient to make these purchases.

Q. Do you agree with Adjustment BCO-2: Remove Thank you payroll.

A. No. This issue was addressed by Shauna Benvegnu-Springer of the Division in DPU 3.3. Having access to the same data, the Division was able to use actual dollar amounts, not an estimate like Mr. Ostrander. STRATA has responded to that recommended adjustment and sees no benefit in spending time responding to this recommendation since Mr. Ostrander admitted he used an estimate.

Q. Do you agree with Adjustment BCO-3: Remove Projected payroll increase?

A. No. Estimates are supposed to be reasonable. The estimate made in the application by STRATA is reasonable. The Division dealt with this matter in DPU 3.2 and STRATA recommends any adjustment for the projected known and measurable payroll be dealt with through DPU 3.2. STRATA made a good faith estimate. Mr. Ostrander suggests many elements necessary to make an estimate. They include: employee turnover, change in ratio of regular hours versus overtime hours, change in hours assigned to regulated versus non-regulated, changes in amounts expensed versus capitalized, and change in allocated labor. STRATA actually addressed these elements in making its estimate. STRATA did not selectively include only one component. STRATA utilized its experience and understanding of compensation with benefits at STRATA. We believe our estimate is correct. STRATA recommends using DPU 3.2, rather than this BCO-3.

Q. Do you agree adjustment BCO-4: Depreciation known and measureable?

A. No. Not only do I disagree, I am stunned by the conclusion Mr. Ostrander reaches. It is completely unreasonable. STRATA understands the intent of including known and measureable adjustments in the application for Utah Universal Service Funds is to reflect conditions STRATA will face at the end of the case. That will eliminate the necessity to apply for additional USF funding shortly after this case ends.

The Depreciation Expense included as known and measureable was calculated on the assets placed in service from January 1st thru March 31st of 2015. While some of these costs may have been in TPUC at 12-31-2014, not all costs were in the TPUC.

At lines 544 thru 547, Mr. Ostrander states: "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."

Mr. Ostrander's recommendation is nonsense. The process of applying for funds from the Utah USF allows for adjustments based on known and measurable changes. This is a known and measureable expense that has been allowed.

Q Do you agree with BCO-5 Depreciation Expense on Fully Depreciated Assets?

A. No. Notwithstanding the explanation below, this adjustment must be rejected because Mr. Ostrander has no basis for the assumptions he makes in this calculation.

Mr. Ostrander desires to make an estimate where he gets to "selectively include a single component of depreciation that would cause depreciation to decrease". He wants to introduce a "single-issue" accounting policy to effect the outcome to his desired position.

In what Mr. Ostrander refers to as Category 1, in OCS Exhibit 1D2-15-053-01 worksheet 1D-2, Sch. 1-8 he identifies assets that might become fully depreciated by 12-31-2015 or one year later, meaning 12-31-2016. This is according to the heading in cell

D7 thru D9. Then it becomes very confusing. At line 578 of his testimony, he states, "these assets will be fully depreciated by December 31, 2015.   We are not able to "glean" from the testimony and the exhibit what is to be adjusted. He fails to identify the source of his information and he fails to provide the calculation formula for cells E11 thru E30 and E31 thru E33.

There is no explanation as to why the OCS can propose a depreciation adjustment of $1,538,702 and only 50% of that amount as an adjustment to accumulated depreciation.

Mr. Ostrander suggests: "It is reasonable to remove the <u>entire amount</u> (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 $1,488,940, 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. "

In footnote 21 he acknowledged that this suggestion is absent the inclusion of any 2015 asset additions. This looks like an attempt by this witness to be exempt from his own position when it does not benefit him. Mr. Ostrander wants to be exempt from applying his reasoning from BCO-3, "… selectively included one component … that would cause the (decrease) … (without considering the adjustments and impacts of other components that might offset this decrease), and this is sometimes referred to in regulatory policy as "single-issue" accounting because it does not comprehensively match or synchronize all other components … in a regulatory adjustment." In addition, this estimate is not synchronized with all factors that should be included, such as expected retirements, salvage, additions, and change in depreciation rates or methods.

For the portion of the adjustment referred to as Category 2, Mr. Ostrander recommends an adjustment for which he has no basis. The only purpose for this recommendation is to be able to sum OCS's total adjustments to limit or eliminate Utah USF payments to STRATA. This result-oriented approach ignores the purpose of the Utah USF fund established in Utah Code 54-8b-15 (6) which is to:

(a) promote equitable cost recovery of basic telephone service through the imposition of just and reasonable rates for telecommunications access and usage;

(b) preserve and promote universal service within the state by ensuring that customers have access to affordable basic telephone service

The Utah USF was established to replace specific Incumbent Local Exchange Carrier revenue sources that were either reduced or eliminated with the creation of the universal fund. The Utah USF was the promise to the ILECs that those revenues would be replaced. Now, Mr. Ostrander is suggesting to reduce or eliminate revenues for which STRATA qualifies under the rules of the Utah USF as they have been applied. This proposed adjustment by Mr. Ostrander and the OCS attempts to change the rules in the proceeding to achieve a pre-determined result. That is neither fair, just, nor reasonable.

STRATA has applied for funds from the Utah USF in accordance with the Utah Code and Commission Rule 746-360. Any attempt to change the rules should be dealt with in an appropriate rulemaking proceeding, not in an isolated filing.

Mr. Ostrander does not provide any precedent for his proposed adjustment.

While Mr. Ostrander states he is concerned that STRATA "could enjoy a windfall", he deliberately fails to consider the "short fall" STRATA will experience and will need to return to this Commission next year seeking the absent funding.

STRATA does not accept any portion of BCO-5.

STRATA's application for Utah USF was made using an historical test year. Mr. Ostrander's suggestion of creating "selective single-issue" hypothetical windfall calculations and then applying adjustments up to four years in the future ignores and violates the principle of historical test years. Concerns about a hypothetical "windfall" should be dealt with on a going forward basis from year to year.

Q. Do you agree with BCO-6 REVISE corporate overhead allocation?

A. No. Mr. Ostrander suggests that a revision to the Corporate Overhead Expense Allocation Factor is necessary to "properly" allocate expenses between regulated and non-regulated operations. Mr. Ostrander fails to identify any part of the current allocation factor that is not in compliance with CFR Part 32.27.

Instead of focusing on the allocation factor, Mr. Ostrander elects to focus on complaints that were dealt with in the responses to Data Requests and in several follow-up discussions and e-mails.

1. Data Request DPU 1.1 stated: Rule 746-700-40 A 5: Please provide a Cost Allocation Manual explaining allocations relevant to Part 36 and Part 64. That rule reads,

> 5. Information giving a fully referenced Part 64 and, where available, a Part 36 allocation. If no Part 36 allocation information is available, the utility

> shall provide an alternative permitting comparable cost of service allocations. Fully referenced means that sources of all total amounts are indicated and that source documents are included in the filed information. The names and sources of allocators to determine jurisdictional or non-regulated portions shall be included in lines with the allocated amounts. The Part 64 allocation shall provide full allocation of all joint costs incurred by the utility for both non-regulated and regulated activities and affiliated companies.

STRATA provided a Part 36 allocation in compliance with this Rule, and in response to DPU 1.1. STRATA submitted a Cost Allocation Manual (CAM). That manual provides for the "full allocation of all joint costs incurred by the utility for both non-regulated and regulated activities and affiliated companies. STRATA provided all documents responsive to OCS data requests. If no documents were available, that is how STRATA responded.

2. OCS 2-40 does not mention consolidated 2013 Audited Financial statements.
3. STRATA does not have any documents that it can provide in response to this request. STRATA is not obligated to develop spreadsheets or special documents for the OCS. The data was available for the OCS to develop the spreadsheet.
4. STRATA provided the detail. The OCS elected not to use what was provided.
5. This complaint repeats items 3 and 4 above. STRATA demonstrated how to determine the allocations.
6. At line 688, Mr. Ostrander states, "As one example, seven of the eight 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. "This is illogical and incorrect. Allocation factors are developed at the beginning of the year based on the prior year's performance, not after the period is over as Mr. Ostrander attempts to do. With a 2014 test year, the factors are based on 2013 inputs to develop

the factors for 2014. 2014 inputs cannot be used at the beginning of 2014 because they are not available. The CAM factors are updated annually.

Mr. Ostrander claims to have found errors or incorrect assumptions. This a misstatement. He simply disagrees personally with some of the inputs used by STRATA. Under Commission and FCC jurisdiction, all guidelines for the allocation of costs and the development of allocation factors are broad. These broad guidelines enable the unique factors of an individual company to be taken into account thus allowing the best allocations to be developed. Mr. Ostrander's suggestions express his preferences. The inputs STRATA utilized have been used for several years and accepted by all except Mr. Ostrander.

Q. Do you agree with BCO-7: remove buildings to non-reg?

A. No. Relying on a representation by Mr. Brevitz, Mr. Ostrander states, "certain land and buildings that appear to be used primarily by non-regulated operations, although there could be some use by regulated operations."

Mr. Ostrander's statement is based on the testimony of Mr. Brevitz starting at line 75 of Mr. Brevitz direct testimony, "My tour of properties and facilities demonstrated to me that many of them had little if anything to do with provision of regulated basic telephone service, and in fact the primary use appeared to be for deregulated operations."

It is not clear to what Mr. Brevitz is referring when he concludes that these buildings and land appear to be used primarily by non-regulated operations.

The Vernal Complex, comprising items 1, 2, and 3 in Mr. Ostrander's Table 1, was purchased to house our LEC operations for the eastern portion of our service area. At that site STRATA has the following activities: LEC Plant operations including I&R technicians & supervisors; inventory to support the plant operations; construction teams on the eastern side are housed there; collections; and customer support personnel. In addition, some non-regulated activities use the facilities, but those activities are minimal compared to the regulated activities.

Furthermore, at the end of 2014, and at the time of this application for Utah USF, the Vernal Complex property did not have an annex being built or additional storage facilities. In BCO-4, Mr. Ostrander recommends to removing known and measurable depreciation expense and rate base additions. Here, Mr. Ostrander wants to include uncompleted projects in the application as known and measureable because it suits his purpose. Mr. Ostrander contradicts himself on this issue.

STRATA has agreed during this proceeding that at the end of 2015 the rent factors or allocation factors related to buildings will need to be recalculated due to many changes taking place with our buildings in 2015. We will make that calculation on a going forward basis.

The next building comprises items 4 and 5 and is a remodel for the customer of our corporate office. All customers use the area. The OCS does not know what the layout was prior to the remodel and did not inquire. The area remodeled is a joint use area and is properly treated as such.

The next building comprises items 6, 7, and 8. It is the Tech Center building that is used as the hub of our telephone technicians for the west side of our service area.

After visiting the three sites referenced in BCO-7, it is unreasonable to conclude the properties are not being used for to provide basic telephone service. STRATA recommends the Commission not consider the OCS's adjustment because there is no basis for it and the witness provides no documentation.

The following exhibits are attached with pictures that show the use of the buildings.

STRATA Exhibit 2R.7 – "Searle Rebuttal to OCS Direct – Vernal Complex"

STRATA Exhibit 2R.8 – "Searle Rebuttal to OCS Direct – Tech Center"

STRATA Exhibit 2R.9 – "Searle Rebuttal to OCS Direct – Roosevelt remodel"

Q. Do you agree with BCO-8 Remove 50% of TPUC?

A. No. First, there is no precedent in the State for this type of adjustment. At lines 812 and 813, Mr. Ostrander complains: "STRATA does not explain why this input is reasonable or necessary or cite to any precedent." Mr. Ostrander seeks precedent from STRATA, but has failed to provide any Utah precedent for any position he has taken in this proceeding.

Second, there is no justification for the relationship of the TPUC to the Annual Plant Additions. Mr. Ostrander uses year-end balances to calculate a percentage, and then he wants to apply the result of that calculation to an average number included in the application.

Using Mr. Ostrander's relationship theory, and applying to the average balances included in the application, the following table shows the correct results.

TABLE 1

	Average TPUC	Average Plant Additions	% Avg. TPUC to Avg. Additions
2014			
2013			
2012			

When the correct information is used and applied from start to finish in the analysis, there is no overstatement and no adjustment is justified.

Q. Do you agree with BCO-9: Remove 50% of M&S?

A. No. If the level of material and supplies changes, the proper way to handle the change is by annual review by the Division. The Division can address any over or under funding of Utah Universal Service Funds.

The OCS has used the "single issue" concept again to propose this adjustment. Mr. Ostrander fails to apply his own required criteria and thus this adjustment is without merit.

Q. Do you agree with BCO-10: adjust rate case expense?

A. STRATA agrees with how the Division addresses this issue and opposed the OCS's adjustment.

Q. Has STRATA completed the 2014 Cost Study?

A. Yes. I have attached as STRATA Exhibit 2R.10, the Part 69 Summary showing the revenue requirement for the Part 69 DSL element. Again I emphasize that this is an element used with the related DSL Tariff rates.

<u>REBUTTAL OF THE DIVISION OF PUBLIC UTILITIES</u>

Q. Does STRATA agree with the adjustments Shauna Benvegnu-Springer made to STRATA's application on behalf of the Division of Public Utilities?

A. STRATA does not agree with many of the adjustments recommended by the Division. The Division has failed to recognize that any expense adjustment can only be for the amount included as an intrastate cost in the USF application. Recommending an adjustment for an amount greater than the intrastate portion results in an attempt by the Division to remove allowed costs from the interstate jurisdiction. Taking federal costs without identifying and removing the associated federal revenues results in the Division attempting to use federal revenues to cover state costs.

STRATA recommends that any expense adjustment be limited to the Intrastate portion only, and that amount be taken from the 2013 Part 36 Summary of Operating Expense and Tax schedule, line 21. The sum of the Intrastate percentages from line 21 of that schedule is [ ]. That summary is attached as STRATA Exhibit 2R-1 S-8.

Q. Do you accept Adjustments 3.1 and 3.2 made by Ms. Benvegnu-Springer?

A. STRATA accepts the proposed adjustment DPU 3.2.

Q. Do you agree with DPU adjustment 3.3 to the Thank You payments?

A. No. The Thank You payments, while not a promised payment to employees, have been used for many years with the exception of years 2009, 2010 and 2011. These payments are a part of the normal course of operations due to the competitive employment market within which STRATA operates. In addition, the payments have been converted to an incentive payment for 2015. STRATA does not accept any adjustment suggested by the Division in DPU 3.3.

Q. Do you agree with adjustment 3.4?

A. No. First Ms Benvegnu-Springer has failed to define in statute or rule the definition of “routine”. Repairs of buildings and equipment is normal, routine, and recurring. Attempting to isolate maintenance costs by individual invoice or asset is not appropriate.

Second, Ms. Benvegnu-Springer fails to identify the basis for removal of the listed operating costs.

There is emphasis throughout Ms. Benvegnu-Springer’s testimony that the costs in the application must be for the provision of basic local telephone service. The bucket truck was used in the provision of basic local telephone services, thus any cost to operate or maintain the truck is includible in the application. The use of that truck caused the wear and tear on the truck and therefore it is appropriate that the repair be included in the cost of providing basic local telephone service and in this USF application.

In addition, she has used the total cost of the repair recorded in account 6114.099. As explained, many times, the amounts in accounts ending in 099 are allocated. The amount identified is no longer in account 6114.099 and cannot be allocated from that account. The amount of [ ] was not included in the application and therefore this adjustment is not appropriate. Again that amount allocated from 6114.099 to regulated operations is properly recorded as an allowable cost in the application.

In order to identify costs that are “not routine” there must be a common definition of what is or is not routine. Simply identifying specific payments based on subjective criteria is not appropriate and does not conform to the rules governing this application. Some repairs are costly. Across the board STRATA experiences similar maintenance costs from year to year. Large dollar repairs are normal given the significant assets STRATA has in service. Whether it is water damage one year, or a new transmission in a truck in another year, these costs are normal.

Ms Benevegnu-Springer disregards Part 32 accounting rules in stating that the cost of removal of the payphones is “a one-time expense”. Part 32.3100(c) states “At the time of retirement of depreciable operating telecommunications plant, this account shall be charged with the original cost of the property retired plus the cost of removal and credited with the salvage value and any insurance proceeds recovered.”

Ms Benevegnu-Springer’s explanation for her recommended adjustment DPU 3.6, refers to Generally Accepted Accounting Principles (GAAP). For this adjustment she disregards GAAP. The correct rule is Title 47 §32f and STRATA has followed that rule. It is imperative that the Division align itself with the rules. Otherwise, following the recommendations of the Division will produce arbitrary, unjust, and unreasonable results.

STRATA correctly accounted for the payphone retirements and the cost of removal. Assets are routinely removed from service, and if there are costs to remove the asset from service, STRATA follows the rules of accounting.

STRATA does not accept any adjustment suggested by the Division in DPU 3.4.

Q. Do you agree with DPU adjustment 3.5?

A. No. This adjustment must be limited to the intrastate portion only. While not necessarily agreeing, STRATA can accept an adjustment for DPU 3.5 to reduce the intrastate expenses by [ ] [(intrastate portion).

Q. Do you agree with DPU adjustment 3.6?

A. No. Ms Benvegnu-Springer refers to Generally Accepted Accounting Principles (GAAP) to define capital expenditures. Her statement: "Generally accepted accounting principles instruct that equipment with a useful life longer than a year or having a large cost (the Company uses $2,000 or greater) must be capitalized" is misleading. She implies that any equipment having a large cost must be capitalized. This is not correct. The capitalization decision is first based on whether or not the item acquired or constructed has a useful life of more than one year. If the useful life is determined to be greater than one year then it is generally capitalized. However, it is recognized that some items with a useful life greater than one year of a small dollar amount should not be capitalized. Ms. Benvegnu-Springer implies that STRATA has chosen to use $2,000 or greater for capitalization decisions, but that amount has been established by rule under Title 47 §32.2000(a)(4):

> The cost of the individual items of equipment, classifiable to Accounts 2112, Motor vehicles; 2113, Aircraft; 2114, Tools and other work equipment; 2122,

> Furniture; 2123, Office equipment; 2124, General purpose computers, costing $2,000 or less or having a life of less than one year shall be charged to the applicable expense accounts, except for personal computers falling within Account 2124. Personal computers classifiable to Account 2124, with a total cost for all components of $500 or less, shall be charged to the applicable Plant Specific Operations Expense accounts. The cost of tools and test equipment located in the central office, classifiable to central office asset accounts 2210-2232 costing $2,000 or less or having a life of less than one year shall be charged to the applicable Plant Specific Operations Expense accounts. If the aggregate investment in the items is relatively large at the time of acquisition, such amounts shall be maintained in an applicable material and supplies account until items are used.

Furthermore, Title 47 §32.2000 requires the use of retirement units. When a unit of plant is replaced, if the asset is equal to a retirement unit, then the proper accounting requires the retirement of the unit and capitalization of the newly placed plant.

An understandable example is a truck. When a truck is placed in service, if the entire truck is the retirement unit, an engine overhaul or a transmission rebuild would be treated as expense because the engine or the transmission is less than the retirement unit. If, when the truck is placed in service the asset is recorded as an engine, a transmission, and the remainder of the vehicle, there will be three retirement units recorded. The replacement or the rebuilding of any of those units would necessitate the retirement of the unit and capitalization of the new unit placed in service unit.

Ms. Benvegnu-Springer also states: “Transactions that add value to an asset or extend the life of the asset are to be capitalized.” I agree that is an important factor in the capital versus expense decision, however, the witness fails to utilize that criteria in making her conclusion. I show several examples below:

The invoice identified as

Division Account Post Date Amount Reference

[ ]

is an expense to chip seal the parking lot. This expenditure does not add value to the asset or extend the life of the asset. This is a normal and recurring expense in the life of an asphalt parking lot.

The invoice identified as

Division Account Post Date Amount Reference

[ ]

is an expense. The appraisal was on a property that STRATA was considering selling and the appraisal was used to determine the value of that property. This expenditure does not add value to the asset or extend the life of the asset. The cost cannot be capitalized.

Division Account Post Date Amount Reference

[ ]

This is an expense. This cost is for a one year warranty on equipment. This expenditure does not add value to the asset or extend the life of the asset. The expenditure for a warranty service after the date of sale and the original warranty period is normal practice in the industry. This expenditure is made to minimize potential higher expenses for maintenance. This expenditure is made to maintain the asset so it will attain its estimated useful life.

Division Account Post Date Amount Reference

[ ]

This is an expense. This cost is for the replacement of gutters on a building. As explained above regarding retirement units, this expenditure was for items less than a retirement unit. In addition, the replacement of gutters does not "add value to the asset or extend the life of the asset" as required per Ms. Benvegnu-Springer at line 229-230.

Division	Account	Post Date	Amount	Reference
[				]

This is an expense. The building was recorded as the retirement unit. The records do not have the furnace listed as a separate asset. If the new furnace is to be capitalized it requires the retirement of the old furnace. Since there is no record of the furnace separate from the building, the correct treatment is to expense it as a maintenance cost for the furnace replacement. This expenditure does not add value to any asset or extend the life of any asset in the continuing property records of STRATA.

Division	Account	Post Date	Amount	Reference
[				]

This is an expense. The fence was placed on private property for the property owner after the placement of a concentrator on the property. Where STRATA is not the owner of the property or the fence, the cost was expensed.

Division	Account	Post Date	Amount	Reference
[				]

STRATA recognizes that upon review this cost should have been capitalized. However, the cost was recorded to account 6112.099, which means the cost was then allocated per the CAM between regulated and non-regulated operations. If the Division is insistent on making this adjustment, then it must also insist on adding the adjustment to the rate base, and calculating the depreciation for five months of the 60 month estimated useful life of the asset.

While not agreeing, STRATA could accept an adjustment for DPU 3.6 to reduce the intrastate expenses by [ ], the intrastate portion of the amount for the Truck Bed. [ ] was the original amount and [ ] was allocated to regulated. STRATA accepts the amount of [ ] adjusted from the expenses in the application, [ ] adjusted for depreciation expense, [ ] in accumulated depreciation, and the addition to rate base of [ ]. See Exhibit, - "Searle Rebuttal Exhibits to Direct Testimony, worksheet "STRATA Exhibit 2R.3".

Q. Do you agree with DPU adjustment 3.7?

A. No. Ms Benvegnu-Springer has unilaterally determined what costs should be allocated without any justification. There are several misunderstandings in her recommendation for DPU 3.7.

1. Legal fees [ ] paid to CoBank have been included twice in the adjustment.
2. Training listed in the adjustment detail of three entries for [ ] each to three different accounts were booked to those accounts after the original invoices were allocated based on the attendees. Thus STRATA's direct assignment of those training costs to regulated is correct, because those are costs related to training of employees whose time was spent on regulated activities.

3. Costs paid to the Utah Fiber network have been included in the adjustment as being used for non-regulated. Those fees are paid to connect our telecommunications network to the Public Switched Telephone Network (PSTN).
4. Costs related to the annual meeting of the Cooperative have been included in the adjustment. This meeting is a meeting for the members of the cooperative to elect members of the Board and other business of the cooperative. These are not costs that should be allocated.

In addition, Ms. Benvegnu-Springer's statement: “It is STRATA’s policy that customers must purchase a landline voice package in order to receive a broadband/internet connection” is irrelevant to the costs listed for adjustment. That statement refers to our registration with NECA TARIFF #4 that STRATA has chosen not to offer “DSL only” service. That is an operating decision made under the options of the tariff.

While not necessarily agreeing, STRATA can accept an adjustment for DPU 3.7 to remove amounts directly assigned to regulated expense that should have had [ ] assigned to non-regulated, totaling [ ]. See Exhibit, “Searle Rebuttal Exhibits to Direct Testimony, worksheet “STRATA Exhibit 2R.4”.

Q. Do you agree with DPU Adjustment 3.8?

A. No. The balance in account 6124.099 is zero, per response to DPU 1.12(a). In adjustment 3.8, Ms Benvegnu-Springer identifies costs totaling [ ] in Account

6124.099 that are not included in that account in the application for USF. STRATA has explained multiple times that the amounts charged to Account 6124.099 are allocated between the various entities at the end of each month. The allocator from the CAM manual is applied and only [ ] of the costs are assigned to regulated operations. Of the [ ] costs identified, only [ ] were assigned to regulated operations, so the adjustment by Ms. Benvegnu-Springer attempts to remove costs from the cost of providing basic telephone service that were not included in the application.

Costs identified in Account 6721.000 were corrected during 2014 by reassigning the costs to Account 6721.099. Ms Benvegnu-Springer has been less than complete by including the costs in her adjustment. A sum of the costs in her proposed adjustment reveals the costs for that account to total zero. Thus the costs should not have been included in the adjustment since there are no costs to adjust.

Ms. Benvegnu-Springer includes [ ] of costs assigned to 6721.099. Apparently, she has concluded that any entry with the words “hosting”, “support”, or “software” is related to Internet and must be non-regulated activity. In fact, the [ ] of costs related to Account 6721.099 are payments to the National Information Services Cooperative (NISC). STRATA uses the accounting software and programs of NISC and access the software and services via the internet. STRATA elected not to expend funds to have the equipment in our office to run the software. Instead, STRATA, in the best interest of controlling costs of providing basic local telephone service, chose to have the software and services hosted by NISC. The costs are correctly accounted for in Account 6721.099 and no adjustment is necessary for the services purchased from NISC.

All costs in 099 accounts must be removed from the adjustment because they no longer exist in the account. It is inappropriate to adjust an amount that has been allocated. Costs identified for an engineer to inspect and verify the ILEC Network at the Tandem have been incorrectly included in the DPU 3.8 adjustment.

A revised exhibit DPU 3.8 has been prepared and attached as "Exhibit – Searle Rebuttal Exhibits to Direct Testimony, "STRATA Exhibit 2R.5". That exhibit clearly identifies the costs and the amounts that are appropriate to this adjustment. While not agreeing, STRATA can accept an adjustment for DPU 3.8 to reduce the intrastate expenses by $30,272.

Q. Do you agree with DPU adjustment 3.9.

A. No. Again, Ms Benvegnu-Springer makes the same mistake and makes an adjustment to an account ending in .099 that is spread at the end of each month and has been allocated based on the CAM. In addition, the adjustment results in a taking of federal revenues to cover state costs.

Q. Do you have other concerns about this adjustment?

A. Yes. Ms. Benvegnu-Springer attempts to identify costs related to providing official company clothing to employees as a special charge. Never, in all the time of Telecommunication Accounting, has the provision of official company clothing been considered a special charge. The clothing is a necessary cost of providing basic local telephone service because it provides security to employees when accessing customer premises. The clothing also provides security to customers by helping the customer identify the employee as a STRATA employee. The provision of official company clothing is part of the overall benefits to employees that are essential in meeting the demands of the competitive employment market. The provision of company official clothing is done so under company policy.

Q. Have you identified additional concerns about this adjustment?

A. Yes. Ms. Benvegnu-Springer wants to adjust for Air Fresheners and Air fragrances used in our buildings. These are normal, routine expenditures used in the course of business. Other than some personal objection, there is no basis for this adjustment.

She also wants to adjust for amounts charged to Account 6512.099, but those costs were allocated out of that account via the CAM process. Non-Regulated portions of these costs have already been allocated to the non-regulated business lines.

A revised DPU 3.9 exhibit has been prepared and attached, "Exhibit – Searle Rebuttal Exhibits to Direct Testimony, "STRATA Exhibit 2R.6". That exhibit clearly identifies the costs that may be included in the adjustment and the calculation of the amount to be adjusted. While not agreeing, STRATA would accept an adjustment for DPU 3.9 to reduce the intrastate expenses by $64,966.

Q. Do you agree with DPU Adjustment 3.10?

A. Yes.

Q. Do you agree with DPU Adjustment 3.11?

A. Yes

Q. Do you agree with DPU Adjustment 3.12?

A. Yes.

Q. Do you have concerns about the testimony Paul Hicken filed in this proceeding for the Division addressing the issue of depreciation?

A. Yes. STRATA is very concerned about Mr. Hicken's testimony. We don't believe the Division is following Commission rules or longstanding Commission policy and practices. Douglas Meredith has filed testimony for STRATA describing our policy concerns.

Q. What are the issues and concerns Mr. Hicken's testimony raises that you are addressing?

A. The issues that I testify about go mainly to the practical and unreasonable impacts of Mr. Hicken's proposals.

Q. Would you enumerate those concerns?

A. Yes.

Q. At line 32, Mr. Hicken refers to depreciation rates that were set over 20 years ago. Do you agree with his characterization of STRATA's depreciation rates?

A. No. In reviewing the Stipulation in Docket 03-053-01 I have not found anything that supports Mr. Hicken's claim that STRATA's depreciation rates were reviewed for only "5 assets." After review only "5 assets" were revised, but all assets and depreciation rates were reviewed. As a result of Docket 03-053-01 the depreciation rates for all assets were set in 2003. Thus STRATA has no depreciation rates that were set over 20 years ago.

When Mr. Hicken refers to “5 assets”, STRATA is assuming he means 5 asset accounts.

Q. At line 40, Mr. Hicken refers to the Commission frequently revising electric and gas utility companies’ depreciation rates. How is the requirement of an electric or gas utility relevant to this proceeding?

A. There is no relevance. Mr. Hicken acknowledges at line 48, “In Utah, telephone companies have not been required to use periodic depreciation studies to align their rates with the actual service lives of the assets.” Mr. Hicken fails to bring any relationship between the “other utilities” and STRATA or telecommunications companies in general. Mr. Hicken states, “The Commission generally revises electric and gas utility companies depreciation rates frequently…” These other utilities do not participate in highly regulated state and interstate settlements and funding programs in the telecommunications industry, including the Utah USF. Mr. Hicken states at line 44, “…full and comprehensive depreciation studies of company plant and equipment are required every few years.” It is not clear, what companies Mr. Hicken is referencing, but after several readings of the testimony I have concluded Mr. Hicken is referencing the electric and gas utility companies. He has failed to relate the electric and gas filings and activities to this application and proceeding.

Q. At line 56, Mr. Hicken speaks of accelerated depreciation as a problem when the service life is shorter than the actual life. Has the Group Depreciation Method created accelerated depreciation for STRATA?

A. No.

Q. Please explain your response.

A. First it is important that we establish the definition of depreciation and I will reference the same definition as put forth in the rebuttal testimony of Mr. Meredith.

Depreciation accounting is a system of accounting which aims to distribute cost or other basic value of tangible capital assets, less salvage (if any), over the estimated useful life of the unit (which may be a group of assets) in a systematic and rational manner. It is a process of allocation, not of valuation. (American Institute of Certified Public Accountants)

The definition states that it "is a system of accounting which aims." Those words are important, because depreciation is an estimate.

The definition above can be summarized as, "Depreciation is an accounting estimate to recognize the loss of service of an asset for a financial reporting period."

Next, it is important to understand the meaning of accelerated depreciation. For financial accounting purposes, accelerated depreciation is a method of depreciation used when the "loss of service" of the asset is greater in the earlier period of a service life.

Finally, it is extremely important and extremely significant to know that the "Group Depreciation Method" is not an accelerated method of depreciation. The American Institute of Certified Public Accountants ("AICPA") Draft Statement of Position, Accounting For Certain Costs and Activities Related to Property, Plant and Equipment, explains that the mass-asset convention of accounting applies to accounting for large numbers of homogeneous assets in situations in which the accounting for individual assets is not practical. Under this convention, homogeneous assets are aggregated and depreciated by applying a rate based on the average expected useful life of the assets.

The "Group Depreciation Method" is a straight-line depreciation of a group of homogeneous assets. For purposes of the "Group Depreciation Method" the asset being depreciated is the group, not the individual homogeneous assets that make up the group. Since this process of depreciation requires the use of estimates, it can be expected that those estimates may need to be adjusted over time. The adjusting of estimates does not change the intent to depreciate the Asset Group on a straight-line basis, not an accelerated basis.

Q. Beginning at line 114 of Mr. Hicken's direct testimony, he testifies that "group asset method is that it can accelerate the depreciation rate for new assets added to the group…." Do you agree?

A. No. With the incorrect estimate, the single-asset method of depreciation can be accused of accelerating the depreciation of new assets. A single asset with an estimated service life of 3 years will be fully depreciated in 3 years. If in the end, the asset continued to be useful for a total of 8 years, then one could conclude that the single-asset depreciation method had accelerated the depreciation. It was not the intent of the method of depreciation that was wrong, it was the estimate.

Q. At line 118, Mr. Hicken introduces the possibility of manipulation using the Group Method of depreciation. Has STRATA utilized this method of depreciation to manipulate the depreciation expense included in its application for Utah USF?

A. No. There has been no manipulation in our application. STRATA's application has been completed as accurately as possible to our knowledge. When small errors have been identified, they have been corrected.

Q. At line 165, Mr. Hicken comments on STRATA's accounting for Poles that were retired and accuses that treatment as being accelerated depreciation. What is your response?

A. If we had not charged the cost of removal to the accumulated depreciation then we would have charged the cost to operating expenses. So I cannot agree with Mr. Hicken that properly charging the cost of removal to the related accumulated depreciation results in accelerated depreciation. In fact, I am pretty sure that had we charged the full cost of removal to operating expenses the costs included in STRATA's application for USF would have been [ ] higher.

The Group Depreciation method is the only depreciation method where it is appropriate to charge the cost of retirement to accumulated depreciation when units of a Group are retired.

Q. At line 64, Mr. Hicken identifies asset groups with some of the units in a group being in service well beyond the Commission- approved life. Is Mr. Hicken's representation of STRATA's depreciable assets correct? Please clarify (if any) the representation.

A. No.

Mr. Hicken compares the time a unit within an asset group has been in service with the "PSC approved life." The correct comparison is the time a unit has been in service to the "PSC approved Depreciation Life". This is an important distinction because if the PSC was approving a "life" of an asset, the ILEC would have to retire and discontinue use of the asset at the end of its approved "life". Such stoppage of use is important for safety reasons in industries such as transportation, however, it generally would be waste in our industry.

While Mr. Hicken focuses on specific units of various asset groups, the issue seems to be more about the service life of the asset group extending beyond the approved depreciation life. Table 2 below provides the correct comparison and demonstrates that the Division's concern is insignificant related to STRATA.

TABLE 2

TABLE 2 - SERVICE LIFE COMPARISON TO DEPRECIATION YEARS
at 12-31-2013

ACCOUNT	DESCRIPTION	Average Service Life	Depreciation years	Service Life over Depreciation Years	Asset Balance
2111	LAND				
2112	MOTOR VEHICLES				
2114	OTHER WORK EQUIPMENT				
2121	BUILDINGS				
2122	OFFICE EQUIPMENT & FURNITURE				
2123	COMPANY COMMUNICATIONS EQUIPMENT				
2124	GENERAL PURPOSE COMPUTERS				
2124.1	COMPUTER SOFTWARE				
2212	CENTRAL OFFICE SWITCHING				
2212.1	CO SOFTSWITCH				
2230	INTEREXCHANGE CIRCUIT-EQUIPMENT(NON MICROW				
2231	MICROWAVE TRANSMISSIONS EQUIPMENT				

2232	SUBSCRIBER CIRCUIT EQUIPMENT
2233	DSL EQUIPMENT
2234	C.O. FIBER EQUIPMENT
2351	PUBLIC TELEPHONE TERMINAL EQUIPMENT
2411	POLES
2421	AERIAL CABLE
2422	FIBER OPTIC BURIED CABLE
2423	BURIED CABLE
2424	Coaxial Cable
2431	AERIAL WIRE
2441	CONDUIT
2682	LEASEHOLD IMPROVEMENTS
	TOTAL PLANT IN SERVICE

The data in Table 2 clearly show the asset groups where there is any issue are Aerial Wire, Aerial Cable, and Poles. All three of these groups deal with facilities that are Aerial. This is the result of STRATA minimizing the use of Aerial facilities and replacing them with non-aerial facilities. Minimizing investment in aerial facilities has a significant impact on the comparison of average years in service versus depreciable life. As fewer dollars are spent on Aerial facilities, and the in-place facilities are maintained as useful until buried facilities can replace them, the result is what is displayed in Table 2 for Aerial Wire, Aerial Cable, and Poles.

Q. At line 81, Mr. Hicken refers to DPU Exhibit 2.2 that compares STRATA's depreciation rates with the average of 15 other Utah telecom companies. Do you agree with this comparison?

A. Absolutely not. There is no statistical relationship between STRATA's authorized depreciation rates and the "average" of 15 other companies. Mr. Hicken fails to explain how the average was calculated, thus making the calculation irrelevant on its face. Mr. Hicken fails to account for the many variables that could have impacted the rates being compared. These variables include: whether the rate was set by a Commission in a docket, the total dollar value of the asset group, the total value of the annual depreciation, the rate of new investment versus the rate of depreciation, and when the depreciation rates were set.

Q. At line 179, Mr. Hicken proposes an adjustment to STRATA's application for Utah USF. Do you agree with his proposed adjustment?

A. No. I disagree with the adjustment because there has been no acceleration of depreciation.

STRATA has calculated depreciation as authorized by the Commission. If there is concern by the Division over average service lives, that is attributable to the Division, not to STRATA. This proceeding is not a ratemaking proceeding and the adjustment proposed is a ratemaking action. It should be dealt with in an appropriate proceeding.

I am very concerned that the Division is attempting to implement retroactive rate making in this proceeding. This proposed adjustment is not correction of an error in the application, and it is not an adjustment due to allocation issues. This is an adjustment proposed because the Division is dissatisfied with the decision of the Division in prior years.

If an adjustment is made, the adjustment must be complete. Adjusting the accumulated depreciation by the same amount as the adjustment to the expense is incorrect. In fact, here Mr. Hicken is proposing to account for the adjustment to expense in the same manner as a retirement under group depreciation. But since the proposed adjustment is a change in accounting method, the restatement of the expense and the related accumulated depreciation balance are also required.

STRATA has calculated that the change in accounting method from the Group Depreciation Method to the Single-Asset Method would require the proposed adjustment to expense as well as an estimated [ ] million adjustment to decrease accumulated depreciation.

Mr. Hicken's proposal adjusts accumulated depreciation by the same amount as the depreciation expense. This proposal has no merit. It ignores the complete impact on the operations of STRATA and it ignores Part 32 accounting and Generally Accepted Accounting Principles.

Q. Did STRATA utilize the Total Company Revenue Requirement method in its Utah USF application?

A. Yes.

Q. Can you briefly describe the Total Company Revenue Requirement method?

A. The Total Company Revenue Requirement method has been established by the Commission as the method to determine a company's over or under earnings in rate cases and Utah USF applications. This method requires the inclusion of intrastate and interstate rate bases and intrastate and interstate operating expenses. An average rate of return is determined by formula, that formula is included in Exhibit 2.2 – Rate Base filed with the application. Since the Rate of Return is determined by an average, adjustments to the Rate Base can be made in total because the calculated rate of return accounts for the interstate portion of the adjustment. Operating expenses are a "dollar for dollar" adjustment. Therefore adjustments to expense items related to a State application must account for the intrastate portion of the expense only. Because the application used the Total Company Revenue Requirement method, the expense adjustments must not adjust the interstate portion of the expense adjustment without also adjusting the related revenues included in the Total Company Revenue Requirement. Rather than attempt to identify the related revenue dollars, it is best to simply apply an interstate percent to proposed expense adjustments and then exclude that portion from any proposed expense adjustment. Without making the adjustment for the interstate portion, any expense adjustment results in the taking of federal revenues to meet intrastate expenses.

Q. Has Mr. Hicken properly accounted for the interstate portion of his proposed adjustment to depreciation expense?

A. No. I recommend the intrastate portion for any expense adjustment be [ ] based on STRATA Exhibit 2R.1.

Q. Does this conclude your rebuttal testimony?

A. Yes.