

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

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

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NONCONFIDENTIAL – REDACTED VERSION

November 17, 2015

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### **List of OCS Exhibits Sponsored:**

Exh. 1S-1: OCS Revenue Requirement Calculation and Proposed Adjustments

1

**INTRODUCTION**2 **Q. WHAT IS YOUR NAME AND BUSINESS ADDRESS?**3 A. My name is Bion C. Ostrander. My business address is 1121 S.W.  
4 Chetopa Trail, Topeka, Kansas 66615-1408.

5

6 **Q. HAVE YOU PREVIOUSLY FILED TESTIMONY IN THIS MATTER ON**  
7 **BEHALF OF THE OFFICE OF CONSUMER SERVICES (“OCS”)?**8 A. Yes. I previously filed direct testimony but I did not file rebuttal testimony  
9 regarding revenue requirement issues related to Strata Networks (“Strata”  
10 or “Company”).

11

12 **Q. DO YOU HAVE EXHIBITS SUPPORTING YOUR TESTIMONY?**

13 A. Yes. OCS Exhibit 1S-1 is attached to this testimony.

14

15 **Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?**16 A. I am presenting the revised overall revenue requirement for Strata as  
17 recommended by the OCS for the test period ending December 31, 2014.<sup>1</sup>  
18 As part of this process, I will address the rebuttal testimony of Strata  
19 witness Karl Searle.

20

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<sup>1</sup> The overall revenue requirement also includes rate of return (“ROR”) surrebuttal testimony and recommendations of David Brevitz, the other expert witness appearing on behalf of the OCS.

21 **Q. WHAT IS THE OCS REVISED REVENUE REQUIREMENT AND HOW**  
22 **DOES THIS COMPARE TO STRATA'S POSITION?**

23 A. My direct testimony included OCS adjustments that produced a revenue  
24 requirement surplus (also called surplus earnings/profits) of \$411,483, and  
25 concluded that Strata should not receive any of its proposed UUSF increase  
26 of \$3,422,053 and it should only receive \$704,913 of its existing UUSF of  
27 \$1,116,396 (existing UUSF of \$1,116,396 - \$411,483 of excess earnings =  
28 \$704,913 of total UUSF due to Strata).

29

30 I have changed my revenue requirement to reflect adjustments that I have  
31 withdrawn, revised for various reasons, or do not contest. My surrebuttal  
32 testimony and related adjustments result in a revised revenue requirement  
33 surplus of \$637,339, which means that Strata should not receive any of its  
34 proposed UUSF increase of \$3,422,053 and it should only receive \$479,057  
35 of its existing UUSF of \$1,116,396 (existing UUSF of \$1,116,396 - \$637,339  
36 of surplus earnings = \$479,057 of total UUSF due to Strata).

37

38 **Q. PLEASE SUMMARIZE THE ADJUSTMENTS YOU ARE CURRENTLY**  
39 **PROPOSING.**

40 A. Below is an updated list of adjustments that are withdrawn, revised, new, or  
41 that I continue to support:

42

43 **Withdrawn Adjustments:**

- 44           • Adjustment BCO-8: Remove 50% of TPUC - I am withdrawing this  
45           adjustment that removed 50% of TPUC from rate base.
- 46           • Adjustment BCO-9: Remove 50% of M&S - I am withdrawing this  
47           adjustment that removed 50% of M&S from rate base.

48           **Revised Adjustments:**

- 49           • Adjustment BCO-2: Remove Subjective Thank-You Bonuses – I  
50           have revised my adjustment from an estimate to an actual amount,  
51           the difference is immaterial.
- 52           • Adjustment BCO-5: Remove Accumulated Depreciation on Fully  
53           Depreciated Assets – I am revising this adjustment to increase  
54           Accumulated Depreciation to the total amount that matches the  
55           depreciation expense adjustment (instead of my original adjustment  
56           that reduced Accumulated Depreciation by 50%).
- 57           • Adjustment BCO-7: Remove Nonregulated Assets from Rate Base  
58           along with Related Depreciation Expense – Based on issues raised  
59           in Mr. Searle’s rebuttal testimony, I have increased this adjustment  
60           to reflect the sale and removal of another building from rate base  
61           (along with the related depreciation expense adjustment and gain on  
62           sale) that is known and measurable.
- 63           • Adjustment BCO-10 – Remove Estimated Rate Case Expense (Until  
64           Actual Amounts are Provided and Subject to Review) – I included a

65 “reclassification” adjustment<sup>2</sup> in my direct testimony that  
66 inadvertently offset the proposed reduction in rate case expense,  
67 whereas this adjustment was intended to remove all estimated rate  
68 case expense.<sup>3</sup>

69 **New Adjustments:**

- 70 • Adjustment BCO-11 – Increase NECA DSL Revenues per 2014 Part  
71 69 Cost Study – Based on the 2014 Part 69 Cost Study provided  
72 with Mr. Searle’s rebuttal testimony, I have increased NECA DSL  
73 revenues to the amount shown in the 2014 Part 69 Cost Study.

74 **Unchanged Adjustments:**

- 75 • Adjustment BCO-1: Remove Luxury Entertainment Expenses
- 76
- 77 • Adjustment BCO-3: Remove Strata’s Proposed 2015 Pay Increase
- 78
- 79 • Adjustment BCO-6: Revise Corporate Overhead Allocator
- 80

81 **Q. PLEASE SUMMARIZE THE OCS’ FINAL POSITION.**

82 **A.** After making the adjustments above and reflecting the proposed rate of  
83 return (“ROR”) of Mr. Brevitz, the OCS’ final position shows a revenue  
84 requirement surplus for Strata of \$637,339, and this means that Strata  
85 should not receive its requested additional annual UUSF of \$3,422,053, and

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<sup>2</sup> The reclassification adjustment was intended to remove Strata’s rate case expense adjustment which it inadvertently booked to its depreciation expense account.

<sup>3</sup> If Strata provides previously requested supporting documentation for “actual” rate case expense incurred (and no problems are identified), I am not opposed to Strata recovering these costs as a one-time distribution from the UUSF.

86 its existing UUSF of \$1,116,396 should be reduced to a total UUSF of  
87 \$479,057.

88

89 **Rebuttal to Mr. Searle – Strata Claims That Adjustments Can**  
90 **Only be Made to Intrastate Amounts**

91

92

93 **Q. MR. SEARLE STATES THAT OCS ADJUSTMENTS FOR COMBINED**  
94 **INTRASTATE AND INTERSTATE OPERATIONS ARE NOT**  
95 **CALCULATED CORRECTLY BECAUSE THEY SHOULD BE LIMITED**  
96 **TO “INTRASTATE” COSTS ONLY.<sup>4</sup> DO YOU AGREE?**

97 **A.** No. Mr. Searle does not cite to any prior precedent in Utah where telecom  
98 companies have raised this same concern or where the Commission has  
99 agreed with his opinion regarding adjustments in telecom rate cases or  
100 UUSF filings. Mr. Searle’s proposal was not reflected in Strata’s prior UUSF  
101 filing and related Stipulation in Docket No. 05-053-01.<sup>5</sup> Also, Mr. Searle  
102 does not cite to any precedent to support his position in any other  
103 jurisdiction that is similar to Utah, where both the interstate and intrastate  
104 costs are allowed to be included in the revenue requirement calculations.

105

106 This same concern was not raised by the telecom companies in other Utah  
107 cases that I participated in.

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<sup>4</sup> Searle Rebuttal, pp. 9-10, lines 203-214 addresses Mr. Ostrander’s Direct Testimony. Mr. Searle also addresses this same for DPU proposed adjustments at p. 21, lines 448-461.

<sup>5</sup> Order issued November 4, 2005.

108 Also, the DPU has not proposed adjustments limited to the intrastate  
109 jurisdiction in prior cases for which I am aware. Mr. Searle's proposal  
110 appears to be unique and without any supporting precedent.

111

112 **Q. DID STRATA HAVE THE OPTION OF FILING AN APPLICATION BASED**  
113 **ONLY ON INTRASTATE AMOUNTS, IF MR. SEARLE PREFERRED**  
114 **THAT APPROACH?**

115 A. Yes. But it is inappropriate to try and combine both an "interstate/intrastate"  
116 and "intrastate" revenue requirement approach as Mr. Searle appears to  
117 propose in this proceeding.

118

119 **Q. MR. SEARLE STATES THAT ANY ADJUSTMENT GREATER THAN THE**  
120 **INTRASTATE AMOUNT IS AN ATTEMPT TO REMOVE ALLOWED**  
121 **INTERSTATE COSTS WITHOUT REMOVING THE RELATED FEDERAL**  
122 **REVENUES, AND IS AN ATTEMPT TO USE FEDERAL REVENUES TO**  
123 **COVER STATE COSTS.<sup>6</sup> DO YOU AGREE?**

124 A. No, Mr. Searle's rationale is unreasonable because he has already  
125 proposed adjustments that are contrary to his proposed rationale. For  
126 example, Mr. Searle has proposed adjustments to increase both the  
127 interstate and intrastate costs of payroll ██████████, telephone plant in  
128 service ██████████, depreciation expense ██████████, and rate case

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<sup>6</sup> Searle Rebuttal, pp. 9-10, lines 205-209.



129 expense ██████ without reflecting a corresponding adjustment to  
130 “increase” related federal revenues. Thus, using Mr. Searle’s same logic,  
131 he has attempted to use state revenues to cover interstate costs because  
132 he has not reflected an increase in related federal revenues to cover these  
133 increased “interstate” costs. This example shows the fallacy of Mr. Searle’s  
134 position. It appears that Mr. Searle wants to promote his position when it  
135 works to Strata’s benefit and increases revenue requirements but he does  
136 not adhere to a consistent position when it causes revenue requirements to  
137 decrease. The inconsistency and one-sided nature of Mr. Searle’s proposal  
138 should be rejected.

139  
140 **Rebuttal to Mr. Searle - Adjustment BCO-1: Remove Luxury**  
141 **Entertainment Expenses**  
142 **(Exhibit IS-1, Sch. A-4)**  
143

144  
145 **Q. HAS MR. SEARLE PROVIDED ANY MEANINGFUL ARGUMENTS OR**  
146 **SUPPORTING DOCUMENTATION TO REBUT YOUR ADJUSTMENT**  
147 **REMOVING THE COSTS OF UTAH JAZZ TICKETS?**

148 A. No, Mr. Searle appears to generally oppose my adjustment to remove Jazz  
149 tickets but he has not provided any specific arguments or supporting  
150 documentation to rebut my position and he does not specifically contest the  
151 amount of my adjustment (except he opposes removal of the interstate  
152 amounts as he does for every adjustment).<sup>7</sup>

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<sup>7</sup> Searle Rebuttal, p. 10, lines 215-228.

153

154 Mr. Searle states that he will address this adjustment via DPU Adjustment  
155 3.9 proposed by Ms. Benvegna-Springer.<sup>8</sup> However, I reviewed his rebuttal  
156 to Ms. Benvegna-Springer regarding DPU Adjustment 3.9, and he does not  
157 specifically mention the Jazz tickets issue or provide any policy reasons to  
158 oppose this adjustment.<sup>9</sup> Bottom line, Mr. Searle has not provided any  
159 meaningful rebuttal to oppose removal of the Jazz ticket costs.

160

161 **Rebuttal to Mr. Searle - Adjustment BCO-2: Remove Thank-You**  
162 **Bonuses**  
163 **(Exhibit IS-1, Sch. A-5)**  
164

165

166 **Q. HAS MR. SEARLE PROVIDED ANY REBUTTAL TO YOUR**  
167 **ADJUSTMENT REMOVING THANK-YOU BONUSES?**

168 A. No, it appears Mr. Searle generally opposes my proposed adjustment but  
169 he does not offer any specific rebuttal or supporting documentation.  
170 Instead, Mr. Searle states that he will not rebut my Thank-You Bonus  
171 because it is based on an estimate, although he indicates he will rebut this  
172 same adjustment proposed by Ms. Benvegna-Springer's adjustment at  
173 DPU 3.3 because it is based on actual amounts.<sup>10</sup>

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<sup>8</sup> Searle Rebuttal, p. 10, lines 220-221.

<sup>9</sup> Searle Rebuttal, p. 32, lines 719-727. Mr. Searle's rebuttal to Ms. Benvegna-Springer's adjustment DPU 3.9 does not specifically mention the Jazz tickets and his Exhibit 2R.6 does not specifically identify Jazz ticket amounts, although he states that this exhibit "accepts" an adjustment for DPU 3.9 while "not agreeing."

<sup>10</sup> Searle Rebuttal, pp. 10-11, lines 229-234.

174

175 I would note that my “estimated” adjustment of ██████ is only ██████ (or  
176 ██████%) greater than Ms. Benvegna-Springer’s actual adjustment of  
177 ██████,<sup>11</sup> and this difference is immaterial. Also, my direct testimony  
178 stated that I would be willing to true-up my adjustment to actual amounts if  
179 provided,<sup>12</sup> and so I will reduce my adjustment to the actual amount of  
180 \$█████. Further, data request OCS 2-32 asked Strata to provide the  
181 amount of bonuses for each affiliate, but Strata’s response did not provide  
182 the Thank-You Bonus amounts for each affiliate, and so my adjustment was  
183 based on an estimate.<sup>13</sup>

184

185 Mr. Searle appears to focus his concern on the estimated nature of my  
186 adjustment, but his failure to rebut any of the many reasons supporting my  
187 Thank-You Bonus<sup>14</sup> reflects the reasonableness of my arguments and  
188 related adjustment.

189

190 **Rebuttal to Mr. Searle - Adjustment BCO-3: Remove**  
191 **2015 Projected Payroll Increase**  
192 **(Exhibit IS-1, Sch. A-6)**

193

194

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<sup>11</sup> Benvegna-Springer Direct, p. 8, line 169.

<sup>12</sup> Ostrander Direct, pp. 14-15, lines 305-309.

<sup>13</sup> Ostrander Direct, p. 14, lines 298-305.

<sup>14</sup> Ostrander Direct, pp. 14-18, lines 292-385.

195 **Q. DOES MR. SEARLE AGREE TO REMOVE PART OF STRATA'S**  
196 **ORIGINAL PAYROLL INCREASE ADJUSTMENT, AND DO YOU**  
197 **AGREE?**

198 A. Mr. Searle accepts Ms. Benvegna-Springer's adjustment DPU 3.2<sup>15</sup> to  
199 remove Strata's payroll adjustment of \$321,625 and replace it with DPU's  
200 calculated payroll increase of \$164,528.<sup>16</sup> I do not believe that any 2015  
201 estimated payroll increase is justified, unless it is offset by Strata's  
202 estimated increase in 2015 nonregulated payroll. In addition, Mr. Searle  
203 continues to claim that Strata's estimated payroll increase is reasonable  
204 when rebutting my testimony.

205  
206 **Q. MR. SEARLE CLAIMS HIS ESTIMATED PAYROLL ADJUSTMENT IS**  
207 **REASONABLE AND THAT HE ADDRESSES YOUR CONCERNS.<sup>17</sup> DO**  
208 **YOU AGREE?**

209 A. No. My direct testimony states that Mr. Searle's estimated payroll  
210 adjustment is overstated, inaccurate, not known and measurable, and is  
211 overly simplistic because it only adjusts for one input which is the [REDACTED] payroll  
212 increase.<sup>18</sup> Mr. Searle provides no meaningful rebuttal to these points.

213

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<sup>15</sup> Searle Rebuttal, p. 21, line 463.

<sup>16</sup> Benvegna-Springer Direct, p. 8, lines 154-156. DPU's proposed payroll adjustment, while calculated differently than Strata, is about 51% of Strata's original payroll adjustment.

<sup>17</sup> Searle Rebuttal, p. 11, lines 235-246.

<sup>18</sup> Ostrander Direct, pp. 18-24, lines 387-523.

214 First, Mr. Searle states that his estimated payroll adjustment is reasonable  
215 because it includes more than the one input consisting of the ■■■ payroll  
216 increase.<sup>19</sup> However, Ms. Benvegna-Springer supports my conclusion that  
217 Mr. Searle only used the single input of the ■■■ payroll increase in his  
218 estimated adjustment, because she indicates that Strata's payroll  
219 adjustment merely starts with the 2014 payroll expense per books and  
220 increases it by the ■■■ pay increase.<sup>20</sup>

221  
222 Second, Mr. Searle claims that his estimated payroll adjustment is known  
223 and measurable because it addressed all of the various necessary inputs  
224 indicated in my direct testimony<sup>21</sup> (including employee turnover, impact on  
225 allocation of nonregulated amounts, overtime, expensed versus capitalized  
226 amounts and other amounts).<sup>22</sup> I disagree. Mr. Searle's rebuttal testimony  
227 did not provide any supporting documentation or calculations to show that  
228 he addressed or analyzed each of these 2014 inputs, because he did not  
229 provide or show these estimated or projected inputs for 2015 or any other  
230 future years. Mr. Searle merely assumed that all of the 2014 payroll inputs  
231 would remain the same in 2015 for his projected payroll adjustment and that  
232 is not an accurate assumption to base a proper payroll adjustment upon.

233

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<sup>19</sup> Searle Rebuttal, p. 11, line 244.

<sup>20</sup> Benvegna-Springer Direct, p. 7, lines 139-140.

<sup>21</sup> Searle Rebuttal, p. 11, lines 237-244.

<sup>22</sup> Ostrander Direct, pp. 18-19, lines 397-402

234 **Q. IF STRATA OR DPU'S 2015 ESTIMATED PAYROLL INCREASE IS**  
235 **ACCEPTED, SHOULD THIS BE OFFSET WITH STRATA'S 2015**  
236 **ESTIMATED INCREASE IN NONREGULATED PAYROLL AMOUNTS?**

237 A. Yes. If Strata's estimated payroll increase is accepted [REDACTED] or if DPU's  
238 estimated payroll increase is accepted [REDACTED], then the Commission  
239 should offset the accepted related adjustment with Strata's 2015 estimated  
240 increase in nonregulated payroll of [REDACTED] as proposed in my direct  
241 testimony (per Strata's response to OCS 2-32(c, d, e).<sup>23</sup> Mr. Searle does  
242 not rebut or indicate that an offset for this nonregulated payroll amount is  
243 unreasonable.

244

245 **Rebuttal to Mr. Searle - Adjustment BCO-4: Remove Strata's**  
246 **Adjustment that Shifts Telephone Plant Under**  
247 **Construction ("TPUC") Costs to Telephone Plant in Service**  
248 **("TPIS")**  
249 **(Exhibit IS-1, Sch. A-7)**

250

251

252 **Q. MR. SEARLE STATES THAT HE IS "STUNNED" BY YOUR**  
253 **UNREASONABLE CONCLUSION TO DISALLOW THIS STRATA**  
254 **ADJUSTMENT.<sup>24</sup> HOW DO YOU RESPOND?**

255 A. Mr. Searle states that some of the same plant costs that may have been  
256 included in TPUC have also been included in TPIS by this Strata  
257 adjustment,<sup>25</sup> and this means that some plant costs have been duplicated

---

<sup>23</sup> Ostrander Direct, p. 20, lines 424-439.

<sup>24</sup> Searle Rebuttal, pp. 11-12, lines 248-255.

<sup>25</sup> Searle Rebuttal, p. 12, lines 254-255.

258 and recovered twice in rate base. Mr. Searle should not be stunned that I  
259 am opposed to Strata's adjustment that duplicates the recovery of the same  
260 costs in rate base, regulatory agencies should be concerned when a  
261 Company seeks to recover duplicate costs in rate base. However, it is most  
262 puzzling that Mr. Searle does not even attempt to identify and remove these  
263 duplicate costs from rate base.

264

265 **Q. MR. SEARLE STATES THAT YOUR RECOMMENDATION TO**  
266 **DISALLOW THIS ADJUSTMENT IS "NONSENSE" BECAUSE IT IS**  
267 **KNOWN AND MEASURABLE.<sup>26</sup> DO YOU AGREE?**

268 A. No. I do not believe that disallowing an adjustment that duplicates recovery  
269 of plant costs is nonsense or is unreasonable from a regulatory perspective.  
270 Also, an adjustment that duplicates costs in rate base is not consistent with  
271 the known and measurable standard. I do not agree that it is more  
272 reasonable to allow Strata's adjustment that duplicates some costs in rate  
273 base, versus removing this entire adjustment as I have proposed.

274

275 **Q. MR. SEARLE STATES THAT THIS TYPE OF ADJUSTMENT HAS BEEN**  
276 **ALLOWED.<sup>27</sup> DO YOU AGREE?**

---

<sup>26</sup> Searle Rebuttal, p. 12, line 259.

<sup>27</sup> Searle Rebuttal, p. 12, line 260-261.

277 A. No, I do not believe adjustments that include duplication of some costs in  
278 rate base have been allowed by regulators, and Mr. Searle does not cite to  
279 any specific cases.

280

281 **Q. IS THE BURDEN ON OCS TO CORRECT STRATA'S ADJUSTMENT**  
282 **THAT INCLUDES DUPLICATE RATE BASE COSTS?**

283 A. No. The burden is not on OCS to correct and revise Strata's proposed  
284 adjustments, especially when the Company is aware but still does not take  
285 any action to correct its flawed adjustments (and Strata does not provide  
286 supporting documentation to specifically identify these duplicate costs).  
287 However, if Strata identifies and agrees to remove these duplicate costs,  
288 then my substantive concerns are satisfied and I can agree to a reasonable  
289 revised adjustment.

290

291 **Rebuttal to Mr. Searle - Adjustment BCO-5: Remove**  
292 **Depreciation Expense on Fully Depreciated Assets**  
293 **(Exhibit IS-1, Sch. A-8)**

294

295

296 **Q. HAVE YOU REVISED PART OF YOUR ADJUSTMENT RELATED TO**  
297 **THE ACCUMULATED DEPRECIATION PORTION OF THIS**  
298 **ADJUSTMENT?**

299 A. Yes. In response to Mr. Searle's comments,<sup>28</sup> I am not opposed to revising  
300 the accumulated depreciation portion of my adjustment from the 50%

---

<sup>28</sup> Searle Rebuttal, p. 13, lines 277-278.



301 amount of [REDACTED] to the entire amount of [REDACTED] - - although I am not  
302 revising the depreciation expense portion of my adjustment of [REDACTED].

303

304 **Q. MR. SEARLE STATES YOUR ADJUSTMENT REFLECTS SINGLE-**  
305 **ISSUE ACCOUNTING AND IS AN ATTEMPT TO BE EXEMPT FROM**  
306 **YOUR OWN POSITION WHEN IT DOES NOT BENEFIT YOU.<sup>29</sup> DO YOU**  
307 **AGREE?**

308 A. No. I removed depreciation expense on Category 1 plant assets with a  
309 remaining life of zero to one year from December 31, 2014 (and this means  
310 these assets will be fully depreciated by December 31, 2015 or before this  
311 proceeding is completed), and I footnoted this statement and indicated my  
312 remaining plant life calculations for each applicable account were correct  
313 absent any "2015 asset additions".<sup>30</sup>

314

315 Mr. Searle takes liberty with my footnote comment and interprets it as  
316 meaning that I am attempting to be exempt from my own position when it  
317 does not benefit me, that I have selectively included one component, that I  
318 am using "single-issue" accounting, and that I have not properly  
319 synchronized all factors such as expected retirements, salvage, additions,  
320 and change in depreciation rates.<sup>31</sup>

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<sup>29</sup> Searle Rebuttal, pp. 13-14, lines 286-294.

<sup>30</sup> Ostrander Direct, p. 26, lines 576-579.

<sup>31</sup> Searle Rebuttal, pp. 13-14, lines 286-295.

321

322 Mr. Searle's interpretation is incorrect and he reads too much into my  
323 footnote comment. My footnote comment that refers to "2015 additions" only  
324 means that I am unable to consider the impact that 2015 plant additions (or  
325 any other future plant additions) would have on my remaining plant life  
326 calculations because I do not have (and Strata has not provided) all actual  
327 2015 plant additions. However, if I would have included projected 2015 plant  
328 additions in my remaining plant life calculations, then it could be conversely  
329 argued that my adjustment is not reasonable because it uses estimated  
330 amounts that are not known and measurable. My rationale is more  
331 reasonable by reflecting known and measurable amounts and not trying to  
332 project 2015 and other unknown future plant additions.

333

334 I used a conservative parameter of a "remaining life of one year or less"<sup>32</sup>  
335 to determine those assets for which I would remove depreciation expense.  
336 If I was being arbitrary or attempting to benefit myself then I would have  
337 used a much larger remaining asset life in order to capture more assets in  
338 my adjustment and to calculate a larger adjustment. Clearly, a remaining  
339 life of one year or less is extremely reasonable and I couldn't have even  
340 established a parameter that is much less than one year.

341

---

<sup>32</sup> This parameter is used under Category 1 of my adjustment and is used to determine 97% of my depreciation expense adjustment.

342 Also, contrary to Mr. Searle's statements, I have not used "single-issue"  
343 accounting because my adjustment properly synchronizes the impact of this  
344 adjustment on all affected accounts, including depreciation expense and  
345 accumulated depreciation (there are no other directly impacted accounts).  
346 Mr. Searle states that I should have synchronized and included all inputs  
347 such as "expected" retirements, salvage, additions, and changes in  
348 depreciation rates or methods.<sup>33</sup> However, it is not even possible for me to  
349 reasonably estimate the future "synchronized" inputs identified by Mr.  
350 Searle. For example, I cannot reasonably determine when the Company or  
351 the Commission may change the depreciation rates or methods or  
352 determine the amount of future retirements or salvage amounts. Again, if I  
353 used broad estimated inputs then my adjustment would not be consistent  
354 with the known and measurable standard. Mr. Searle appears to improperly  
355 apply the single-issue accounting standard by asserting that all inputs  
356 should be synchronized in an adjustment, even if the inputs are arbitrary  
357 projections and are not known and measurable.

358

359 **Q. MR. SEARLE STATES THAT YOUR ADJUSTMENT TO AMORTIZE**  
360 **REMAINING DEPRECIATION EXPENSE (ON FULLY DEPRECIATED**  
361 **ASSETS) OVER FOUR YEARS ON CATEGORY 2 ASSETS VIOLATES**  
362 **THE PRINCIPLE OF HISTORICAL TEST YEARS.<sup>34</sup> DO YOU AGREE?**

---

<sup>33</sup> Searle Rebuttal, pp. 13-14, lines 293-295.

<sup>34</sup> Searle Rebuttal, p. 15, lines 321-324.

363 A. I disagree. First, my adjustment to amortize remaining undepreciated  
364 balances over four years is not a violation of any standard regulatory policy.  
365 It is consistent with (and no different from) state regulatory agencies that  
366 commonly make decisions to amortize various costs like rate case expense  
367 and other nonrecurring costs over a certain time period. Second, my  
368 depreciation amortization adjustment is consistent with decisions by the  
369 Utah Commission and other state regulatory agencies that amortize either  
370 depreciation reserve deficiencies or surpluses over a number of remaining  
371 years. Third, my depreciation amortization adjustment is generally  
372 consistent with the traditional concept of depreciation/amortization.

373

374 **Q. IS YOUR DEPRECIATION AMORTIZATION ADJUSTMENT**  
375 **CONSISTENT WITH DECISIONS BY THE UTAH COMMISSION**  
376 **REGARDING AMORTIZATION OF DEPRECIATION RESERVE**  
377 **SURPLUSES?**

378 A. Yes. Mr. Searle states that my adjustment to amortize surplus depreciation  
379 expense over a 4 year period violates the historical test year concept, but  
380 my adjustment is actually consistent with decisions by the Commission to  
381 amortize depreciation surpluses (excessive depreciation rates and reserves  
382 such as in this Strata proceeding) over future year periods. For example,  
383 the Commission's Order issued November 7, 2013 regarding Rocky  
384 Mountain Power (Docket No. 13-0135-02) confirmed a bench ruling  
385 approving a stipulation between Rocky Mountain Power, OCS, DPU and

386 other parties regarding the amortization treatment of both depreciation  
387 reserve surpluses (excessive depreciation reserves) and deficiencies  
388 (insufficient depreciation reserves). At paragraph 21 of the stipulation, the  
389 parties agree to amortize the depreciation reserve surplus of the Hunter  
390 Plant over 5 years and the reserve surplus of the Gadsby Plant over 9 years,  
391 and both of these amortizations have the impact of reducing depreciation  
392 expense and increasing the depreciation reserve which is consistent with  
393 the adjustment that I propose in this Strata proceeding. Therefore, my  
394 amortization approach is similar to this Rocky Mountain Power proceeding  
395 and is not a violation of the historical test-year concept.

396

397 **Q. MR. SEARLE IDENTIFIES SEVERAL ISSUES OR AMOUNTS THAT HE**  
398 **DOES NOT UNDERSTAND, CAN YOU CLARIFY?**

399 A. Yes. Mr. Searle states he cannot reconcile the heading at OCS Exhibit 1D-  
400 2 Ostrander, Schedule A-8, Column D, lines 7 to 9, which states “Fully  
401 Depreciated at Dec. 31, 2015 or 0-1 Years from Dec. 2015” with my  
402 testimony at line 578 which refers to “assets that will be fully depreciated by  
403 December 31, 2015.” Mr. Searle states in this case the term “one year later”  
404 would mean December 31, 2016.<sup>35</sup> The heading has a typographical error  
405 and should read, “Fully Depreciated at Dec. 31, 2015 or 0-1 Years from  
406 Dec. 2014” (the Dec. 2015 reference should be changed to Dec. 2014), and

---

<sup>35</sup> Searle Rebuttal, pp. 12-13, lines 269-273.

407 this makes this heading consistent with my testimony at line 578. Thus, Mr.  
408 Searle's comment that states "one year later or December 31, 2016" is  
409 incorrect, because one year later is intended to mean December 31, 2015.  
410 Essentially, the purpose of this column D is to show the depreciation  
411 expense for assets which will be fully depreciated at December 31, 2015 or  
412 0-1 Years from Dec. 2014 (Dec. 2014 is the test period end) - - 0-1 Years  
413 from Dec. 2014 is intended to be the same as December 31, 2015 (they  
414 mean the same thing).

415 Also, Mr. Searle states that he does not understand how the "Remaining  
416 Life Years at Dec. 2015" in Columns E and G, lines E11 through E33 were  
417 determined at OCS Exhibit 1D-2 Ostrander, Schedule A-8.<sup>36</sup> I have  
418 provided a workpaper titled "Revised Confid. WP5 – 1S-1, Sch. A-8 Ostr.  
419 15-053-01 DPU 1.23 Dep. Exp.Calc.", and this Excel spreadsheet shows  
420 the related calculations and formulas. My direct testimony explains how the  
421 remaining life years were determined,<sup>37</sup> I used Strata's depreciation  
422 expense calculation workpaper provided in response to DPU 1-23 and took  
423 the net book value at December 31, 2014 and divided by the depreciation  
424 expense at December 31, 2014 - - and then I subtracted one year from this  
425 life to account for the decrease in years from 2014 to 2015. After I tested  
426 these calculations again, the remaining life for Computers changed from  
427 ".08" to "(.82)",<sup>38</sup> but this does not affect my remaining calculations.

---

<sup>36</sup> Searle Rebuttal, p. 13, lines 273-276.

<sup>37</sup> Ostrander Direct, p. 26, lines 569-574.

<sup>38</sup> OCS Exhibit 1D-2 Ostrander, Schedule A-8, Column E, line 17.

428

429 **Rebuttal to Mr. Searle - Adjustment BCO-6: Revise Corporate**  
430 **Overhead Expense Allocation Factors to Properly Allocate**  
431 **Expenses Between Regulated and Nonregulate Operations**  
432 **(Exhibit IS-1, Sch. A-9)**  
433

434

435

436 **Q. DOES MR. SEARLE SPECIFICALLY DISPUTE YOUR REVISED**  
437 **CORPORATE OVERHEAD ALLOCATION FACTOR AND RELATED**  
438 **INPUTS?**

439

440 A. No. Mr. Searle does not indicate that he disagrees with the methodology,  
441 inputs and calculations that I used to determine a revised corporate  
442 overhead allocation factor that allocates █████ of costs to regulated operations  
443 (and allocates █████ to nonregulated operations) compared to Strata's factor  
444 that allocates █████ of costs to regulated operations (and allocates █████  
445 to nonregulated operations). He does not propose any revised calculations  
446 or cite to any errors in the methodology that I used. Also, he does not claim  
447 that my revised corporate overhead allocation factor is inconsistent with the  
448 FCC's Part 64 Allocation of Costs ("CFR Part 64"), although he does appear  
449 to conclude that the Commission and FCC guidelines for allocation of costs  
450 is broad.<sup>39</sup> Although Mr. Searle does not agree with my revised corporate  
451 overhead allocation factor, he also has not built a case for the Commission  
rejecting my revised allocation factor.

451

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<sup>39</sup> Searle Rebuttal, p. 17, lines 369-372.

452 **Q. DOES IT APPEAR MR. SEARLE INCORRECTLY REFERS TO**  
453 **COMPLIANCE WITH CFR PART 32.27 INSTEAD OF CFR PART 64**  
454 **REGARDING THE REVISED CORPORATE OVERHEAD ALLOCATION**  
455 **FACTOR?**

456 A. Yes. Mr. Searle states that I did not identify any part of Strata's allocation  
457 factor that is not in compliance with CFR Part 32.27.<sup>40</sup> Mr. Searle's  
458 statement appears to confuse CFR Part 32.27 with CFR Part 64. This  
459 adjustment relates to the revision of the corporate overhead allocation factor  
460 and the related allocation of costs between regulated and nonregulated  
461 operations that is governed by CFR Part 64 (FCC Part 64 Allocation of  
462 Costs and Cost Allocation Manual per § 64.901 - .905) and not CFR Part  
463 32.27 (which is related to the rules addressing transactions between  
464 regulated carriers and nonregulated affiliates).

465

466 **Q. MR. SEARLE STATES THAT YOU DISAGREED WITH SOME OF**  
467 **STRATA'S INPUTS TO THE CORPORATE OVERHEAD ALLOCATION**  
468 **FACTOR<sup>41</sup> BUT YOU DID NOT IDENTIFY ANY PART OF STRATA'S**  
469 **CORPORATE OVERHEAD FACTOR THAT IS NOT IN COMPLIANCE**  
470 **WITH CFR PART 32.27<sup>42</sup> BECAUSE THE RELATED GUIDELINES ARE**  
471 **BROAD.<sup>43</sup> DO YOU AGREE?**

---

<sup>40</sup> Searle Rebuttal, p. 15, lines 329-330.

<sup>41</sup> Searle Rebuttal, p. 17, lines 368-369.

<sup>42</sup> Searle Rebuttal, p. 15, lines 329-330.

<sup>43</sup> Searle Rebuttal, p. 17, lines 369-370.



472 A. As I previously explained, it appears that Mr. Searle intended to cite to CFR  
473 Part 64 (and not CFR Part 32.27), so I will answer this question by  
474 substituting “CFR Part 64 - § 64.901 - .905” for Mr. Searle’s reference to  
475 CFR Part 32.27.

476

477 I do not completely agree with Mr. Searle’s statements. I do agree with Mr.  
478 Searle that I disputed some of Strata’s inputs to its corporate overhead  
479 allocation factor. I do not agree with Mr. Searle that guidelines for the  
480 allocation of costs and development of allocation factors are broad,<sup>44</sup>  
481 although I would agree that there is some discretion within a certain  
482 reasonable framework.<sup>45</sup> In addition, I do not agree that all parts of Strata’s  
483 corporate overhead allocation factor and related CAM are in compliance  
484 with Part 64. § 901 - .905.

485

486 **Q. WHAT PARTS OF STRATA’S CORPORATE OVERHEAD ALLOCATION**  
487 **FACTOR AND RELATED CAM ARE NOT IN COMPLIANCE WITH PART**  
488 **64. § 901 - .905?**

489 A. The following parts are some examples of Strata’s non-compliance with Part  
490 64:

491 1) § 64.903 requires that each carrier shall ensure that the information  
492 contained in its CAM is accurate and updated at least annually. My  
493 direct testimony explains that Strata’s CAM (and related corporate  
494 overhead allocation factor) has not been updated and most of the

---

<sup>44</sup> The term “broad” might be interpreted to mean that there are almost no guidelines and unlimited flexibility and discretion, and I do not agree with that interpretation.

<sup>45</sup> Searle Rebuttal, p. 17, lines 369-370.

495 inputs are based on 2013 data instead of current 2014 data.<sup>46</sup> In  
496 addition, this was all part of my concern regarding the lack of  
497 supporting documentation for Strata's corporate overhead allocation  
498 factor.<sup>47</sup>

499  
500 2) § 64.903 requires that the CAM include a cost apportionment table  
501 showing the cost pools by account number, the procedures used to  
502 place costs into each cost pool, and the method used to apportion  
503 costs within each cost pool. Strata's CAM does not include any of  
504 this required information and because this information had to be  
505 requested via discovery and I had to put this information in a  
506 workable spreadsheet format, this was a complicated and time  
507 consuming function that should have already been readily available  
508 via the CAM. Strata was not compliant with this requirement as I  
509 explain in my direct testimony.<sup>48</sup>

510  
511 3) Inherent in Part 64 CAM requirements is overall adequate supporting  
512 documentation and calculations. Strata was substantially  
513 noncompliant in this regard as I explained in my direct testimony.<sup>49</sup>  
514

515 **Q. MR. SEARLE BELIEVES THAT ALLOCATION FACTOR GUIDELINES**  
516 **CAN BE BROAD, BUT DOES HE EXPLAIN HOW STRATA**  
517 **DETERMINED ITS SPECIFIC INPUTS?**

518 A. No. My testimony explains the problems with Strata's inputs to its  
519 corporate overhead allocation factor, and the reasons for the related  
520 changes that I made to these inputs.<sup>50</sup> However, Mr. Searle never  
521 specifically rebuts any of my reasons for rejecting or revising Strata's  
522 inputs.

---

<sup>46</sup> Mr. Searle's Rebuttal (pp. 16-17, lines 359-366) states that inputs are updated annually but there was not adequate time to update to 2014 information. I disagree, the Company's testimony in this proceeding was not filed until April 2015, so there was adequate time to update these inputs.

<sup>47</sup> Ostrander Direct, pp. 31-32 lines 683-696.

<sup>48</sup> Ostrander Direct, pp. 32-34, lines 698-739, and particularly p. 33, lines 719-724.

<sup>49</sup> Ostrander Direct, pp. 31-36, lines 683-786.

<sup>50</sup> Ostrander Direct, pp. 36-42, lines 788-934.

523

524 **Q. MR. SEARLE STATES THAT YOU UNDULY FOCUSED ON PROBLEMS**  
525 **WITH DATA REQUEST RESPONSES INSTEAD OF FOCUSING ON THE**  
526 **ALLOCATION FACTOR.<sup>51</sup> DO YOU AGREE?**

527 A. No. The difficulty in obtaining information was a significant and time  
528 consuming effort and is inter-related with the absence of adequate  
529 supporting documentation and calculations for Strata's CAM and related  
530 allocation factors. However, a significant portion of my testimony (and  
531 underlying revised spreadsheet calculations) is dedicated to addressing the  
532 problems with the corporate overhead allocation factor.<sup>52</sup>

533

534 **Q. DO YOU AGREE WITH MR. SEARLE'S ASSESSMENT OF STRATA'S**  
535 **DATA REQUEST RESPONSES?<sup>53</sup>**

536 A. No. Although my direct testimony adequately addresses Strata's failure to  
537 provide requested supporting documentation, I will address a few of Mr.  
538 Searle's arguments. Data request OCS 2-40 asked for all underlying  
539 documentation, supporting calculations, and cost pools (before and after  
540 allocations) that are used in determining each of the allocation factors in the  
541 CAM. Mr. Searle states that Strata does not have any documents that it  
542 can provide in response to this request, it is not obligated to develop

---

<sup>51</sup> Searle Rebuttal, p. 15, lines 331-333.

<sup>52</sup> Ostrander Direct, pages 29 to 42 (or 14 total pages) addresses the corporate overhead allocation issue, but only about 4 pages addresses the inadequate supporting documentation (one-half of page 31, pp. 32-34, and one-half of page 35).

<sup>53</sup> Searle Rebuttal, pp. 15-16, lines 334-358.

543 spreadsheets or special documents for the OCS, and Strata provided what  
544 it had but the OCS elected not to use it. First, the actual CAM document  
545 provided in response to DPU 1.1 was the general written description of the  
546 CAM and it did not include any spreadsheets or underlying calculations for  
547 the specific allocations factors. Second, the only document that Strata  
548 eventually provided in response to OCS 2-40 regarding the corporate  
549 overhead factor was a spreadsheet with amounts shown for certain inputs  
550 for each affiliate that were primarily cited to the 2013 Audited Financials.  
551 However, Strata did not explain or reconcile these input amounts to each  
552 affiliate at the 2013 Audited Financials and it did not update these amounts  
553 for 2014 Audited Financial data that was available. If the Company elects  
554 to not provide supporting documentation for its adjustments (because it  
555 doesn't believe it is obligated), then it should also understand that it has not  
556 met a reasonable burden of proof and its related adjustment can be rejected  
557 or revised on those grounds.

558

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**Rebuttal to Mr. Searle - Adjustment BCO-7: Remove  
Nonregulated Assets and Depreciation Expense  
(Exhibit IS-1, Sch. A-10)**

**Q. DO MR. SEARLE'S GENERAL STATEMENTS<sup>54</sup> OPPOSING THIS  
ADJUSTMENT SUPPORT YOUR CONTINUING CONCERNS**

---

<sup>54</sup> Searle Rebuttal, pp. 17-19, lines 375-416.

567           **REGARDING STRATA'S FAILURE TO PROVIDE REQUESTED**  
568           **SUPPORTING DOCUMENTATION?**

569    A.    Yes. Mr. Searle only makes general statements about the regulated versus  
570           nonregulated use of these assets without providing adequate supporting  
571           documentation, and this approach emphasizes the concerns from my direct  
572           testimony that Strata has failed to provide OCS-requested specific  
573           supporting documentation to address these assets. The only  
574           documentation that Mr. Searle provides are pictures of parts of the disputed  
575           land and buildings, but these pictures by themselves do not prove that the  
576           assets are used primarily or entirely for regulated purposes as he asserts.<sup>55</sup>  
577           In fact, even Mr. Searle admits that some of these assets are used in part  
578           for deregulated operations, but he never explains or provides calculations  
579           to show how much of the assets and related costs should be allocated to  
580           deregulated operations (or how much rent revenue should be received by  
581           Strata from deregulated operations at the higher of cost or market).<sup>56</sup> Strata  
582           has failed to meet a reasonable burden of proof regarding this issue and the  
583           Commission should remove all of these assets and related costs from  
584           regulated operations.

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<sup>55</sup> The pictures by themselves cannot prove “the regulated or nonregulated use” of the assets, or how the assets should be allocated (or how the rent should be determined) between regulated and nonregulated operations.

<sup>56</sup> In addition, Mr. Searle never explains or provides calculations to show if some of the assets and costs are already allocated to nonregulated operations.

585 **Q. CAN YOU PROVIDE EXAMPLES OF ONGOING CONCERNS AND**  
 586 **AFFILIATE RENTS INFORMATION THAT MR. SEARLE'S TESTIMONY**  
 587 **FAILS TO PROVIDE REGARDING LAND AND BUILDINGS?**

588 **A.** Yes. The information is summarized below and has not been provided in  
 589 response to OCS or DPU data requests to date or in Mr. Searle's rebuttal  
 590 testimony:<sup>57</sup>

- 591 1) Vernal Corporate (Sundance) Land - Strata does not appear to have  
 592 provided any supporting documentation or information regarding the  
 593 Vernal Corp. (Sundance) land that appears to be used for some  
 594 nonregulated purposes. Strata has not provided the rent amount  
 595 paid to Strata by affiliates (or vice versa), and has not provided a  
 596 schematic or any documentation showing allocation of square  
 597 footage of land, specific use of land, and if or how any rent is reflected  
 598 at the higher of cost or market if any rents are paid by nonregulated  
 599 affiliates to Strata (or how rent amounts are reflected at the lower of  
 600 cost or market for any rents paid by Strata to nonregulated affiliates).  
 601
- 602 2) Remaining Building Assets related to Vernal Corporate (Sundance),  
 603 Vernal Remodel, Roosevelt Complex Remodel, Roosevelt Corporate  
 604 Remodel, Original Purchase of Tech Center, and Remodel of Tech  
 605 Center:
- 606
- 607 a) Strata has not provided a schematic or drawing of any of the  
 608 related buildings to show the amount and percentage of total  
 609 square footage dedicated to each regulated and nonregulated  
 610 operation or service.<sup>58</sup>  
 611
- 612 b) Strata has not provided a description or calculation of the rent  
 613 amount per square foot for any of the related buildings.<sup>59</sup>  
 614

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<sup>57</sup> The Vernal Main location was not subject to the OCS original adjustment BCO-7 and will be separately addressed as an additional adjustment.

<sup>58</sup> Strata's response titled "Supplement Building rents and allocations" (supplement to OCS 4-1) does not even provide the total building square footage or allocation between regulated and nonregulated operations for the related buildings, Strata only provides this limited information for some other buildings which OCS is not specifically contesting.

<sup>59</sup> Strata's response titled "Supplement Building rents and allocations" (supplement to OCS 4-1) provides some limited (but inadequate) information for some buildings (including the Vernal Valley location which does not have the same description as the buildings in this adjustment), but not the buildings subject to this adjustment.

- 615 c) For the related buildings, Strata has not provided  
616 documentation to show that rent paid to Strata (regulated  
617 operations) for usage by nonregulated affiliates is at the  
618 higher of cost (and related cost components such as  
619 depreciation, rate of return, property tax, utilities, janitorial,  
620 and other overheads) or fair market value as required by  
621 USoA Affiliate Transactions § 32.27. Also, Strata has not  
622 provided documentation to show that rent paid by Strata  
623 (regulated operations) to nonregulated affiliates is at the lower  
624 of cost or fair market value as required by USoA Affiliate  
625 Transactions § 32.27.<sup>60</sup>  
626
- 627 d) Strata's response to DPU 2.9 states that the chart on page 19  
628 of the CAM lists the allocation factors used for the current  
629 year, including "Office Space Allocation" showing utilization of  
630 common buildings. However, the CAM provided in response  
631 to DPU 1.1 did not provide a spreadsheet or any document  
632 showing office space allocations (the CAM merely listed this  
633 as an allocation factor, but no actual allocation or utilization  
634 factors were provided for any building).  
635
- 636 e) DPU 1.17 requested a list of shared assets between regulated  
637 and nonregulated affiliates, but Strata did not provide this  
638 information (Strata merely cited to the CAM, which does not  
639 include this information).  
640
- 641 f) Strata did not explain or provide supporting documentation to  
642 show how rent and allocated costs were impacted by  
643 buildings and land that were sold during the test year and  
644 which resulted in shifting various affiliate employees between  
645 remaining facilities (or when such transactions were known  
646 during the test year and reflect known and measurable  
647 adjustments).  
648
- 649 g) Strata has not explained why additional land and buildings are  
650 needed for parking vehicles and storing other assets, and  
651 what happened with the facilities where these assets were  
652 previously kept - - and how this shift impacts rents and cost  
653 allocations for current and prior facilities.  
654

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<sup>60</sup> Strata's response titled "Supplement Building rents and allocations" (supplement to OCS 4-1) does not provide this information for any building or land asset.

655 h) Strata did not provide OCS with Continuing Property Records  
656 (“CPRs”) or financials records of nonregulated affiliates so  
657 that rents and allocated costs of shared facilities can be  
658 evaluated for reasonableness.

659  
660 i) Strata has not provided documentation to show that land and  
661 building facilities that have been purchased in recent years  
662 are necessary for “regulated” operations, especially when  
663 trends show slow growth for regulated revenues and  
664 operations compared to faster growth for nonregulated  
665 revenues and operations related to internet and wireless  
666 operations.  
667

668 **Q. MR. SEARLE STATES THAT THE VERNAL COMPLEX WAS**  
669 **PURCHASED TO HOUSE THE EASTERN OPERATION OF ITS LEC**  
670 **OPERATIONS.<sup>61</sup> DO YOU AGREE THAT THE VERNAL COMPLEX IS**  
671 **USED ENTIRELY FOR REGULATED OPERATIONS?**

672 **A.** There is no evidence that the Vernal Complex is used entirely for regulated  
673 operations (especially since Mr. Searle concedes that there is some minimal  
674 nonregulated activity) for the related assets listed in Table BCO-1 below:

675

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<sup>61</sup> Searle Rebuttal, pp. 17-18, lines 386-392.



676

**Table BCO-1:**

No	Asset	Description	Date Purchase	Capitalized Amount	Depr. Rate	Adjust Deprec. Exp.	Estimated Accum. Deprec.	Adjust Net Book Value
1	Land							
2	Bldg.							
3	Bldg.							
				<b>Total</b>				

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The Board of Director minutes (“Board minutes”) addresses nonregulated use of the Vernal Complex. The Vernal Complex land was purchased [REDACTED] and does not appear to be originally intended for regulated LEC operations, although it was recorded on Strata’s regulated books in [REDACTED].<sup>62</sup> The [REDACTED] Board minutes<sup>63</sup> indicated that a [REDACTED] at the Vernal Complex and that [REDACTED]. Also, the [REDACTED] Board minutes reported that the [REDACTED] would be built at the Vernal Complex.

Strata has not provided requested supporting documentation to show the square footage of land and buildings at the Vernal Complex that is related to the nonregulated operations [REDACTED]

---

<sup>62</sup> The asset addition is shown at the 2013 Strata Networks Annual Report.

<sup>63</sup> Also, the [REDACTED] BODM indicated that a [REDACTED] would be placed at the Vernal Complex.

692 [REDACTED], and has not explained or provided calculations to  
693 show if the nonregulated operations pay rent to Strata regulated operations  
694 (and at proper rent amounts) for the use of this property that is recorded on  
695 the regulated books of Strata.

696

697 **Q. STRATA RAISES CONCERNS REGARDING “KNOWN AND**  
698 **MEASURABLE”<sup>64</sup> AND “SYNCHRONIZATION”<sup>65</sup> IN ITS TESTIMONY,**  
699 **DID IT FAIL TO PROPERLY REFLECT THE FULL IMPACT OF INTER-**  
700 **RELATED ACTIVITIES RELATED TO THE VERNAL ASSETS IN THIS**  
701 **PROCEEDING?**

702 **A.** Yes. Mr. Searle states that Vernal Complex assets should be included in  
703 regulated rate base operations, but he does not address or properly adjust  
704 for the known and measurable synchronization of the related sale of the  
705 [REDACTED] (not the same as the  
706 Vernal Complex property).<sup>66</sup> This property should have been removed from  
707 rate base because the sales transaction was known and measurable at  
708 December 31, 2014 and prior to the Company’s filing date. It is not  
709 reasonable for Strata to selectively include certain [REDACTED] assets in

---

<sup>64</sup> Searle Rebuttal, p. 18, lines 395-398. Mr. Searle raises the issue of “known and measurable” in regards to Mr. Ostrander’s Adj. BCO-7 related to adjustments to remove nonregulated assets.

<sup>65</sup> Searle Rebuttal, p. 13, lines 291-293. Mr. Searle raises the issue of “synchronization” in regards to Mr. Ostrander’s Adj. BCO-5 related to adjustments to remove depreciation on fully depreciated assets.

<sup>66</sup> This includes the impact on assets, accumulated depreciation, depreciation expense And all other related expenses which should have been removed from this filing, including utilities, property taxes, janitorial and other overhead costs.

710 rate base, without reflecting the reduction in rate base due to the related  
711 sale of the [REDACTED] assets.

712

713 As early as [REDACTED], the Board minutes indicate the Board  
714 approved the future sale of the [REDACTED] with an appraised value  
715 of [REDACTED].<sup>67</sup> The [REDACTED]

716 Board minutes authorized the sale of the Vernal Main property at  
717 [REDACTED], although I am not sure of the final actual sales price. The

718 [REDACTED] Board minutes reported the sale of the [REDACTED]  
719 property (subject to lien releases). The [REDACTED] Board

720 minutes reported that [REDACTED]  
721 [REDACTED] to the Vernal Complex building.<sup>68</sup> Thus, it appears

722 that the sale of the [REDACTED]

723 to the Vernal Complex was a related transaction that was known and  
724 measurable at December 31, 2014, although the entire impacts of the

725 transaction were not provided to OCS.

726

727 **Q. HAVE YOU REVISED YOUR ADJUSTMENT TO REFLECT THE**  
728 **KNOWN AND MEASURABLE SALE OF THE [REDACTED]**  
729 **BUILDING?**

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<sup>67</sup> This transaction was approved as part of the purchase of the Vernal Complex.

<sup>68</sup> Although the [REDACTED]  
[REDACTED] was not provided or disclosed.

730 **A.** Yes. Initially I did not include this sale in order to propose a more  
731 conservative adjustment. However, in response to Strata's concern about  
732 synchronization, I have revised my adjustment to include this sale.  
733 Although the precise impact of this transaction has not been provided to  
734 OCS, I am providing the best estimate of this transaction subject to available  
735 information. I have removed the [REDACTED] cost of the [REDACTED]  
736 building from both Strata's plant and rate base,<sup>69</sup> along with related  
737 depreciation expense of [REDACTED]. Also, I have reflected a conservative  
738 adjustment related to the gain on sale of the [REDACTED] building. The  
739 precise sales price was not disclosed, but the Strata asking price was [REDACTED]  
740 [REDACTED] per the [REDACTED] Board minutes, so I am proposing to  
741 amortize this estimated revenue gain of [REDACTED]  
742 [REDACTED] over 3 years, for a final revenue adjustment of  
743 [REDACTED].<sup>70</sup>

744

745 **Q. MR. SEARLE STATES YOUR ADJUSTMENT BCO-7 TO REMOVE**  
746 **CERTAIN VERNAL ASSETS IS INCONSISTENT WITH YOUR**  
747 **ADJUSTMENT BCO-4 REGARDING CWIP. DO YOU AGREE OR**  
748 **UNDERSTAND MR. SEARLE'S POINT?**

---

<sup>69</sup> Under USoA Part 32, the sale of an asset results in the removal of the same "asset" account balance from both the asset and accumulated depreciation balances, so this adjustment has a zero impact on net rate base. However, the removal of these amounts from rate base will ensure that depreciation expense is properly removed.

<sup>70</sup> These calculations and related source amounts are provided at OCS Exhibit 1S-1 Ostrander, Schedule A-10, Adjustment BCO-7.

749 **A.** I do not understand his point. Mr. Searle states that I am being inconsistent,  
750 he claims that Adjustment BCO-4 removes “known and measurable” assets  
751 from rate base,<sup>71</sup> and then he claims that Adjustment BCO-7 includes  
752 uncompleted projects (not known and measurable) in this filing.<sup>72</sup> It appears  
753 the “uncompleted projects” that he may be referring to are the Vernal  
754 Complex “annex” or “additional storage facilities” which he claims did not  
755 exist at December 31, 2014.<sup>73</sup>

756

757 I do not know which “uncompleted” annex or additional storage facilities that  
758 Mr. Searle believes I am improperly adjusting, because the two Vernal  
759 buildings that I am adjusting (as shown at Table BCO-1 above) were both  
760 included in Strata’s CPRs and plant in service accounts (Account 2121) at  
761 December 31, 2014.<sup>74</sup> According to Strata’s CPR’s, the “Vernal Corp  
762 (Sundance)” building was purchased [REDACTED] and the “Vernal  
763 Complex Remodel” was [REDACTED], and I have relied  
764 on Strata’s CPR records, and my direct testimony did not remove or adjust  
765 any unknown or uncompleted Vernal building amounts.

766

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<sup>71</sup> These are assets that were included in CWIP on Strata’s books at December 31, 2014, but Strata made a rate filing adjustment to shift these amounts to Telephone Plant in Service because it claims these amounts were “known and measurable.”

<sup>72</sup> Searle Rebuttal, p. 18, lines 393-398.

<sup>73</sup> Searle Rebuttal, p. 18, lines 394-395.

<sup>74</sup> The CPRs are provided in the response to DPU 1.15(b).

767 **Q. MR. SEARLE STATES THAT THE OCS ADJUSTMENT TO REMOVE**  
 768 **CORPORATE HEADQUARTER REMODELING COSTS IS NOT**  
 769 **PROPER, DO YOU AGREE?**

770 **A.** No. I have made this adjustment based on the Corporate Headquarter  
 771 remodeling amounts shown in Table BCO-2 below.

772

773 **Table BCO-2:**

No.	Asset	Description	Date Purchase	Capitalized Amount	Depr. Rate	Adjust Deprec. Exp.	Estimated Accum. Deprec.	Adjust Net Book Value
4	Bldg.							
5	Bldg.							
				<b>Total</b>				

774

775

776 Mr. Searle states that the adjustment to remove corporate headquarter  
 777 remodeling costs is not proper because OCS does not know what the layout  
 778 was prior to the remodel and did not inquire.<sup>75</sup> It does not matter what the  
 779 layout was prior to the remodeling, because OCS is only removing the  
 780 incremental remodeling costs (which showcase nonregulated wireless  
 781 phones and operations). If the OCS was proposing to remove the historical  
 782 costs of the prior layout, then Mr. Searle's comment about knowledge of the  
 783 prior layout would be relevant.

784

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<sup>75</sup> Searle Rebuttal, p. 18, lines 403-406.

785 Also, Mr. Searle states that the area remodeled is a joint use area and is  
 786 properly treated as such.<sup>76</sup> Again, Mr. Searle makes a general statement  
 787 about the type of usage (joint usage), but he consistently fails to provide  
 788 adequate supporting documentation to show the square footage of space  
 789 allocated between regulated and nonregulated operations, how rent per  
 790 square foot is determined, and how (or if) rent is recovered from  
 791 nonregulated affiliates at the higher of cost or fair market value.

792

793 **Q. MR. SEARLE STATES THAT THE OCS ADJUSTMENT TO REMOVE**  
 794 **TECH CENTER COSTS IS NOT PROPER, DO YOU AGREE?**

795 **A.** No. I have made this adjustment based on the Tech Center costs shown in  
 796 Table BCO-3 below.

797

798 **Table BCO-3:**

Item No.	Asset	Description	Date Purchase	Capitalized Amount	Depr. Rate	Adjust Deprec. Exp.	Estimated Accum. Deprec.	Adjust Net Book Value
6	Bldg.							
7	Bldg.							
8	Bldg.							
				<b>Total</b>				

799

800

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<sup>76</sup> Searle, p. 18, lines 405-406.

801 Mr. Searle states that the adjustment to remove Tech Center costs (and  
802 related remodeling costs) is not proper because it is used as the hub of the  
803 telephone technicians for the west side of the service area.<sup>77</sup>

804

805 Again, Mr. Searle makes a general statement about the type of usage (joint  
806 usage), but he consistently fails to provide adequate supporting  
807 documentation to show the square footage of space allocated between  
808 regulated and nonregulated operations, how rent per square foot is  
809 determined, and how (or if) rent is recovered from nonregulated affiliates at  
810 the higher of cost or fair market value. Mr. Searle's vague statements  
811 provide no assurance regarding compliance with USoA Part 32 Affiliate  
812 Transactions.

813

814 **Rebuttal to Mr. Searle - Adjustment BCO-8 and 9: Remove 50%**  
815 **of TPUC and M&S**  
816 **(Exhibit IS-1, Sch. A-10 and A-11)**

817

818

819 **Q. HAVE YOU WITHDRAWN YOUR ADJUSTMENTS RELATED TO THE**  
820 **REMOVAL OF 50% OF TPUC AND M&S?**

821 A. Yes. I do not agree with all of Mr. Searle's arguments, but I am  
822 withdrawing these adjustments.

823

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<sup>77</sup> Searle Rebuttal, p. 18, lines 407-408.



824 **Rebuttal to Mr. Searle - Adjustment BCO-11: Adjust DSL NECA**  
 825 **Revenues**  
 826 **(Exhibit IS-1, Sch. A-14)**  
 827

828  
 829 **Q. HAVE YOU MADE AN ADJUSTMENT TO REFLECT STRATA’S DSL**  
 830 **NECA REVENUES BASED ON THE RECENTLY PROVIDED 2014 Part**  
 831 **69 COST STUDY?**

832 A. Yes. Mr. Searle has provided the 2014 Part 69 cost study which shows the  
 833 current updated 2014 revenue requirement for the DSL element<sup>78</sup> is  
 834 [REDACTED] and the estimated adjusted 2014 DSL NECA revenues included  
 835 in the filing was [REDACTED],<sup>79</sup> so I have made an adjustment to increase  
 836 DSL revenues for the difference of [REDACTED]. I relied on Strata’s response  
 837 to OCS 2-21(a) which states, [REDACTED]  
 838 [REDACTED]  
 839 [REDACTED] I understand that the Part 69 DSL revenue requirement may be  
 840 viewed as just one input to the NECA settlement process, but I am relying  
 841 on Strata’s response to OCS2-21(a) which clearly states that the [REDACTED]  
 842 [REDACTED]  
 843 [REDACTED]. This adjustment is known and measurable from the  
 844 standpoint it is based on a Part 69 cost that matches the 2014 test period  
 845 in this proceeding.

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<sup>78</sup> Searle Rebuttal, p. 20, lines 444-447 and Exhibit 2R.10 which is the 2014 Part 69 cost study showing the DSL revenue requirement.  
<sup>79</sup> Confidential Exhibit 2.4(b), Column I, line 3, show’s Strata’s estimated adjusted 2014 NECA DSL revenues.

846

847 **Q. DOES THIS COMPLETE YOUR PREFILED SURREBUTTAL**  
848 **TESTIMONY?**

849 **A. Yes.**