

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

IN THE MATTER OF CARBON/EMERY)
TELCOM, INC.'S APPLICATION FOR) Docket No. 15-2302-01
AN INCREASE IN UTAH UNIVERSAL)
SERVICE FUND SUPPORT)
)
Applicant)

DIRECT TESTIMONY

OF

DARREN WOOLSEY

ON BEHALF OF CARBON/EMERY TELCOM, INC.

March 27, 2015

1 **DIRECT TESTIMONY OF DARREN WOOLSEY**

2 **Q. What is your name?**

3 A. My name is Darren Woolsey.
4

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

6 A. I am employed by Carbon/Emery Telcom, Inc. as its Chief Financial Officer.
7

8 **Q. Briefly describe your educational background and work experience.**

9 A. I received a Master of Accountancy Degree from Southern Utah University in 1992, and
10 subsequently earned the following certifications: Certified Public Accountant (CPA),
11 Certified Financial Manager (CFM) and Certified Managerial Accountant (CMA). I
12 worked in Public Accounting as an auditor for KPMG for four years beginning in 1992
13 and in private industry as an Accounting/Finance manager since that time until the
14 present. I have been employed as the CFO of Carbon/Emery Telcom, Inc. since 2006
15 where I am responsible for the management of the accounting, finance, and compliance
16 functions and employees.
17

18 **Q. On whose behalf are you presenting testimony?**

19 A. I am presenting testimony on behalf of Carbon/Emery Telcom, Inc. (“Carbon/Emery” or
20 “Company”) in support of its application for increased support from the UUSF.
21

22 **Q. What is the purpose of your testimony?**

23 A. The purpose of my testimony is to provide detailed explanations for selected financial
24 and statistical information supporting Carbon/Emery's Application for an Increase in
25 UUSF Support. Specifically, I will provide testimony that will support Confidential
26 Exhibits Carbon/Emery DW 1-14 which are attached to this Testimony as Confidential
27 Exhibits.

28

29 **Q. Please identify the Exhibits to your testimony.**

30 A. The individual Carbon/Emery Confidential Exhibits include:

31	Exhibit Carbon/Emery DW 1 -	UUSF Calculation Worksheet
32	Exhibit Carbon/Emery DW 2 -	Rate Base Calculation
33	Exhibit Carbon/Emery DW 3 -	Cost of Capital / Rate of Return Calculations
34	Exhibit Carbon/Emery DW 4 -	Trial Balances - 2013 and 2014 (6 pages)
35	Exhibit Carbon/Emery DW 5 -	Cash Working Capital Calculation
36	Exhibit Carbon/Emery DW 6 -	Summary of Apportionment Ratios by Account -
37		2013
38	Exhibit Carbon/Emery DW 7 -	Known and Measurable Adjustment Summary
39	Exhibit Carbon/Emery DW 7a-	Landline Loss
40	Exhibit Carbon/Emery DW 7b-	Local Service Rate Imputation to Base Affordable
41		Rate
42	Exhibit Carbon/Emery DW 7d-	Shared Asset Allocation
43	Exhibit Carbon/Emery DW 8-	2013 Carbon/Emery Telcom Cost Study-Part 36 (28
44		pages)
45	Exhibit Carbon/Emery DW 8a-	2013 Cost Study - Combined Regulated Entities (57
46		pages)
47	Exhibit Carbon/Emery DW 9 -	Cost Allocation Manual – Accounting and General
48	Exhibit Carbon/Emery DW 9a-	Cost Allocation Manual - CABS Allocator
49	Exhibit Carbon/Emery DW 9b-	Cost Allocation Manual - Business Solutions
50	Exhibit Carbon/Emery DW 9c-	Cost Allocation Manual - Outside Plant and
51		Dispatch
52	Exhibit Carbon/Emery DW 9d-	Cost Allocation Manual - Inside Plant
53	Exhibit Carbon/Emery DW 9e-	Cost Allocation Manual - Engineering
54	Exhibit Carbon/Emery DW 9f-	Cost Allocation Manual - Billing and Collection
55	Exhibit Carbon/Emery DW 9g-	Cost Allocation Manual - HR Allocation 2014
56	Exhibit Carbon/Emery DW 9h-	Cost Allocation Manual - Regulated Allocator
57	Exhibit Carbon/Emery DW 9i-	Cost Allocation Manual - CSR Allocator
58	Exhibit Carbon/Emery DW10-	2013 Audited Financial Statements (34 pages)

59 Exhibit Carbon/Emery DW10a- 2013 Audit Journal Entries
60 Exhibit Carbon/Emery DW10b- Year 2013 Audit Exit Memo (7 pages)
61 Exhibit Carbon/Emery DW 11- Personnel Chart / Line of Authority
62 Exhibit Carbon/Emery DW 12- Corporate Structure
63 Exhibit Carbon/Emery DW 13- Bad Debt Expense and Subsequent Collections
64 Exhibit Carbon/Emery DW 14- Income Tax Gross up Calculation
65

66 **Q. Were the Exhibits referred to above and the supporting workpapers prepared by**
67 **you or prepared under your supervision?**

68 A. Yes, I prepared, or participated in the preparation of the Confidential Exhibits identified
69 above.

70
71 **Q. Why have you identified the Exhibits as confidential?**

72 A. The Exhibits, as prepared, contain proprietary financial information related to the
73 Company and its operations, which constitute trade secrets or are otherwise of such a
74 highly sensitive or proprietary nature that public disclosure would be inappropriate and
75 detrimental to the Company.

76
77 **Q. What is the proposed test period specified in the Application and how was it**
78 **derived?**

79 A. Carbon/Emery proposes to use calendar year 2014 as the test period for the purpose of
80 determining the appropriate amount of UUSF support. Accordingly, the Application and
81 Confidential Exhibits are based upon financial information for the 12 months ending
82 December 31, 2014. This test period selection is consistent with the Commission's
83 historic treatment of rural local exchange carriers in Utah.

84

85 This historical “test period” was then adjusted for “known and measurable” changes in
86 operations, which more accurately reflect Carbon/Emery’s ongoing cost of providing
87 telecommunications services. These pro forma adjustments are contained in Confidential
88 Exhibits Carbon/Emery DW 7, 7a, and 7b.

89

90 **Q. Have you calculated Carbon/Emery’s Revenue Deficiency?**

91 A. Yes. Confidential Exhibit Carbon/Emery DW 1 reflects a revenue deficiency of
92 \$563,262.

93

94 **Q. How was Carbon/Emery’s revenue deficiency determined?**

95 Carbon/Emery is a rate-of-return regulated local exchange carrier in both federal and
96 state jurisdictions. Accordingly, Carbon/Emery maintains its accounting records in
97 accordance with the Federal Communications Commission’s (FCC) Part 32 Uniform
98 System of Accounts (“USOA”), as required by Commission Rules.¹ As a result, the
99 Company’s Application complies with FCC rules guiding the measurement, gathering,
100 and allocation of the costs necessary to provide regulated telecommunications services,
101 including the FCC rules contained in Part 32 and Part 64 (Subpart I, Allocation of Costs).

102

103 To determine Carbon/Emery’s revenue deficiency, first the Company’s rate base was
104 multiplied by a reasonable rate-of- return to determine the allowable return, which is

¹ PSC R746-340-2

105 reflected in Cell F32 of Confidential Exhibit Carbon/Emery DW 1. Next, because the
106 Company's allowable return is an after- tax amount, it must be "grossed-up" to a level
107 that will sustain the required return after Carbon/Emery recognizes the associated federal
108 and state income taxes. The calculation of the Net to Gross Multiplier is identified in
109 Confidential Exhibit Carbon/Emery DW14. The net operating income is then deducted
110 from the grossed up allowable return, which results in a revenue deficiency of \$563,262
111 is identified in Cell E2 of Confidential Exhibit Carbon/Emery DW 1.

112

113 **Q. Is Carbon/Emery charging its customers the Commission approved affordable base**
114 **rate?**

115 A. Yes. Carbon/Emery's rates are \$16.50 for basic residential (R1) service and \$26.00 for
116 basic business (B1) service per line per month.

117

118 **Q. Is Carbon/Emery proposing to recover the revenue deficiency of \$479,983 from the**
119 **UUSF?**

120 A. Yes. Carbon/Emery proposes that it recover an additional \$563,262 annually through
121 UUSF disbursements, in addition to the \$1,038,714 that Carbon/Emery is currently
122 receiving from the UUSF. This will enable Carbon/Emery to continue providing service
123 to its customers at an affordable rate, and to initiate capital projects that may have been
124 delayed by the Company's current insufficient earnings.

125

126 **Q. Have you calculated Carbon/Emery's Rate Base for purpose of this proceeding?**

127 A. Yes. Confidential Exhibit Carbon/Emery DW 2, attached hereto, provides a calculation
128 of the Company's total rate base. The Confidential Exhibit Carbon/Emery DW 2 begins
129 with historical Plant Balances for the beginning of 2014 and Plant Balances at the end of
130 2014, and calculates the 2014 Plant Balance Average. Known and measurable changes to
131 Rate Base are added to the Average Plant Balance to determine the Carbon/Emery's
132 Adjusted Rate Base.

133

134 **Q. When describing Confidential Exhibit Carbon/Emery DW 2 above, you indicate**
135 **that it contains adjustments for known and measurable changes to regulated rate**
136 **base. Please describe those adjustments.**

137 A. There is one adjustment to Rate Base contained in Exhibit Carbon/Emery DW 2: an
138 addition for Plant in Service. The increase to Plant in Service reflects an allocation of
139 shared vehicles, work equipment and computer to Carbon/Emery from Emery
140 Telecommunications & Video Inc. The shared assets benefit Carbon/Emery through
141 better utilization and cost sharing thus reducing the operating expense and capital needed
142 to sustain the regulated operations.

143

144 **Q. What cost of capital has Carbon/Emery used in this Application?**

145 A. Carbon/Emery is using a composite rate of 10.42%.

146

147 **Q. Please explain how you arrived at Carbon/Emery's Cost of Capital.**

148 A. In accordance with UUSF policy, Carbon/Emery has calculated a blended cost of capital,
149 which represents the weighted average of an interstate rate of return of 11.45% and a
150 state rate of return of 9.86%. Carbon/Emery's intrastate cost of capital was derived using
151 the DPU's suggested imputed capital structure of 65% equity and 35% debt. For the
152 individual components of its capital structure, Carbon/Emery has used a cost of debt of
153 5.64% and a cost of equity of 12.13%, which results in a composite intrastate rate-of-
154 return of 9.86%².

155
156 The consolidated Company does not carry any long term debt; therefore the Company's
157 cost of debt was derived from debt that existed with CoBank during the 2013 base year.
158 The debt with CoBank carried a stated rate of 5.64% and was paid off in January 2014.

159
160 The interstate return of 11.45% is derived from NECA's Form 492 filing with the FCC
161 on September 30, 2014 for calendar year 2013 pool participants.

162

163 **Q. Please explain how the Company's blended Cost of Capital was derived.**

164 A. The Commission's Total Company Rule requires a "blending" of the authorized cost of
165 capital costs in the state and interstate jurisdictions. This weighting of the jurisdictional
166 capital costs was based upon the jurisdictional separation of Carbon/Emery's rate base in
167 accordance with the FCC's Part 36 rules. Carbon/Emery's Part 36 Jurisdictional
168 Separations are contained in Confidential Exhibit Carbon/Emery DW 8, attached hereto.

² Carbon/Emery's requested cost of equity mirrors the cost of equity used and approved by the Commission in other

169 The Company's jurisdictional percentages (intrastate and interstate) are contained in
170 Confidential Exhibit Carbon/Emery DW 3, and are applied to the intrastate and interstate
171 costs of capital to determine the Weighted Cost of 10.42% as contained in Confidential
172 Exhibit Carbon/Emery DW 3.

173

174 **Q. Can you describe Confidential Exhibit Carbon/Emery DW 4?**

175 A. Yes. Confidential Exhibit Carbon/Emery DW 4 contains the Trial Balances for 2013 and
176 2014, provided to assist the Division with its review of Carbon/Emery's revenue
177 deficiency.

178

179 **Q. Can you describe Confidential Exhibit Carbon/Emery DW 5?**

180 A. Confidential Exhibit Carbon/Emery DW 5 contains the Cash Working Capital
181 Calculation that supports the Cash Working Capital figure that is contained in the Rate
182 Base Calculation in Confidential Exhibit Carbon/Emery DW 2.

183

184 **Q. Please describe Confidential Exhibit Carbon/Emery DW 6?**

185 A. Confidential Exhibit Carbon/Emery DW 6 contains the Summary of Apportionment
186 Ratios by Account for 2013, which supports the jurisdictional separations contained in
187 Confidential Exhibit Carbon/Emery DW 8, and used in the calculation of the Rate of
188 Return and Cost of Capital in Confidential Exhibit Carbon/Emery DW 3. The 2013
189 apportionment ratios are summarized from the most recently available cost study

190 performed by Moss Adams for Carbon/Emery. This most recent cost study is included in
191 Confidential Exhibits Carbon/Emery DW 8 and 8a.

192

193 **Q. Please describe Confidential Exhibit Carbon/Emery DW 7.**

194 A. Confidential Exhibit Carbon/Emery DW 7 summarizes the known and measurable
195 changes that Carbon/Emery has included in its Application which are included in
196 Confidential Exhibits Carbon/Emery DW 7, 7a, and 7b.

197

198 Confidential Exhibit Carbon/Emery DW 7a identifies a known and measurable change
199 for landline loss and projected revenue decrease.

200

201 Confidential Exhibit Carbon/Emery DW 7b details the shared asset allocation identified
202 as a known and measurable change to Rate Base in Confidential Exhibit Carbon/Emery
203 DW 2.

204

205 **Q. Please describe Confidential Exhibit Carbon/Emery DW 8.**

206 A. As previously indicated above, this Exhibit contains Carbon/Emery's Part 36
207 Jurisdictional Separations from the 2013 Cost Study performed by Moss Adams for
208 Carbon/Emery. Confidential Exhibit Carbon/Emery DW 8 represents the Carbon/Emery
209 portion of the separations; Confidential Exhibit Carbon/Emery DW 8a represents the
210 combined cost study area separations (Emery Telephone, Carbon/Emery Telcom, and
211 Hanksville Telecom).

212

213 **Q. Please describe Confidential Exhibit Carbon/Emery DW 8a.**

214 A. Confidential Exhibit Carbon/Emery DW 8a contains the Part 36 and Part 69 section of
215 Carbon/Emery's 2013 Cost Study for Combined Regulated Entities (Emery Telephone,
216 Carbon/Emery Telcom, and Hanksville Telcom).

217

218 **Q. Can you describe Confidential Exhibits Carbon/Emery DW 9a through 9i?**

219 A. Yes. Briefly, these Exhibits are separate portions of Carbon/Emery Cost Allocation
220 Manual which identify the various methods by which Carbon/Emery allocates various
221 costs amongst its separate companies:

222	Exhibit Carbon/Emery DW 9	Cost Allocation Manual - Accounting and General
223	Exhibit Carbon/Emery DW 9a	Cost Allocation Manual - CABS Allocator
224	Exhibit Carbon/Emery DW 9b	Cost Allocation Manual - Business Solutions
225	Exhibit Carbon/Emery DW 9c	Cost Allocation Manual - Outside Plant and
226		Dispatch
227	Exhibit Carbon/Emery DW 9d	Cost Allocation Manual - Inside Plant
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230	Exhibit Carbon/Emery DW 9g	Cost Allocation Manual - HR Allocation 2013
231	Exhibit Carbon/Emery DW 9h	Cost Allocation Manual - Regulated Allocator
232	Exhibit Carbon/Emery DW 9i	Cost Allocation Manual - CSR Allocator
233		

234 **Q. Have you provided Audited Financial Statements for 2014 with your Application?**

235 A. No. The 2014 Audited Financial Statements are not yet complete. I will supplement my
236 testimony with the 2014 Audited Financial Statements, 2014 Journal entries, and 2014
237 Audit Memorandum when we have received them.

238

239 **Q. Have you provided Audited Financial Statements with your Application?**

240 A. Yes. Attached to this Testimony as Confidential Exhibits 10, 10a, and 10b are the 2013
241 Audited Financial Statements, 2013 Audit Journal Entries; and Year 2013 Audit Exit
242 Memo.

243

244 **Q. Can you describe Confidential Exhibits Carbon/Emery DW 11 and 12?**

245 A. Exhibit 11 contains a personnel chart and line of authority for Carbon/Emery, and Exhibit
246 12 illustrates Carbon/Emery's corporate structure.

247

248 **Q. Can you describe Confidential Exhibit Carbon/Emery DW13?**

249 A. Yes. Confidential Exhibit Carbon/Emery DW 13 describes Carbon/Emery's bad debt
250 expense net of collections during the 2014 base year. This data is presented in
251 conjunction with end-user sales revenue and as a percentage of this associated revenue.
252 Similar data for related parties is also presented for comparison.

253

254 **Q. Can you describe Confidential Exhibit Carbon/Emery DW 14?**

255 A. Yes. Confidential Exhibit Carbon/Emery DW 14 calculates the Utah "net to gross
256 multiplier" using both state and federal statutory tax rates. The long-established
257 regulatory principle of "grossing up" required return simply calculates the additional
258 income tax expense that Carbon/Emery – or any other rural LEC in the state - will incur
259 as a result of the increased revenue from the UUSF. By grossing up the required return,
260 Carbon/Emery sustains the required return after calculation of actual taxes.

261

262 **Q. Do you believe that an increase in annual UUSF support in the amount of \$563,262**
263 **to Carbon/Emery is just and reasonable and in the public interest?**

264 A. Yes.

265

266 **Q. Does that conclude your direct testimony?**

267 A. Yes it does.