

**THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS**

Before Commissioners: Mark Sievers, Chairman
Thomas E. Wright
Shari Feist Albrecht

In the Matter of Staff's Motion Requesting)
The Commission Order LaHarpe Telephone)
Company, Inc. to Submit to an Audit for) Docket No. 12-LHPT-875-AUD
Purposes of Determining its Cost-Based)
Kansas Universal Service Fund Support,)
Pursuant to K.S.A. 66-2008.)

**ORDER SETTING ANNUAL COST-BASED KANSAS UNIVERSAL FUND SUPPORT
FOR LAHARPE TELEPHONE COMPANY, INC.**

The above-captioned matter comes before the State Corporation Commission of the State of Kansas (Commission) for consideration and determination. Having examined its files and records and being fully advised in the premises, the Commission finds and concludes as follows:

I. Background

1. On June 14, 2012, Commission Staff (Staff) filed its Motion of Commission Staff to Order LaHarpe Telephone Company, Inc. (LaHarpe) to Submit to an Audit for Purposes of Determining Its Cost-Based KUSF Support Pursuant to K.S.A. 66-2008. In its Motion, Staff remarked, "Because [LaHarpe] has not been audited, Staff concludes that ordering a KUSF audit of LaHarpe is a reasonable and prudent measure for the Commission to take at this time to ensure that the KUSF support is cost-based."¹

2. On July 3, 2012, the Commission issued its Order Requiring LaHarpe Telephone Company, Inc. to Submit to an Audit for Purposes of Determining Its Cost-Based KUSF Support

¹ Motion of Commission Staff to Order LaHarpe Telephone Company, Inc. to Submit to an Audit for Purposes of Determining Its Cost-Based KUSF Support Pursuant to K.S.A. 66-2008, June 14, 2012, ¶ 7.

Pursuant to K.S.A. 66-2008. To facilitate review of LaHarpe's costs and revenues, the Commission directed LaHarpe to file the information required by K.A.R. 82-1-231 and testimony from at least one company witness by August 15, 2012.²

A. Jurisdiction

3. The Commission is given full power, authority and jurisdiction to supervise and control telecommunications public utilities doing business in Kansas, and is empowered to do all things necessary and convenient for the exercise of such power, authority and jurisdiction.³ Furthermore, the Commission is directly authorized to consider LaHarpe's Kansas Universal Service Fund (KUSF) support pursuant to K.S.A. 66-2008(c), (e), and (f).

4. Pursuant to K.S.A. 66-2008(e), for telecommunications carriers opting to operate under traditional rate of return regulation, all KUSF support shall be based on the carrier's embedded costs, revenue requirements, investments and expenses. In order to consider a carrier's embedded costs, revenue requirements, investments, and expenses, the Commission conducts a rate of return audit in which the carrier's receipt of federal high-cost loop and related universal service fund support is considered in determination of the carrier's overall revenue requirement and ultimate determination and receipt of cost-based KUSF support.

B. Procedural History

5. On August 15, 2012, LaHarpe's consultant, Alexicon, submitted LaHarpe's "filing in compliance with the Commission's July 3, 2012 Order."⁴ The filing included financial information required by K.A.R. 82-1-231 and testimony from LaHarpe's President and General Manager, Harry J. Lee, Jr., and LaHarpe's regulatory consultant, Vincent H. Wiemer. Overall,

² Order Requiring LaHarpe Telephone Company, Inc. to Submit to an Audit for Purposes of Determining Its Cost-Based KUSF Support Pursuant to K.S.A. 66-2008, ¶¶ 5, 7.

³ See K.S.A. 66-1,187 and K.S.A. 66-1,188.

⁴ See LaHarpe Compliance Filing, August 15, 2012, p. 1.

LaHarpe's filing indicated an intrastate revenue deficiency of \$525,162 based on a requested 11.53% rate-of-return (ROR).⁵ This request would increase LaHarpe's annual KUSF distribution from its current level of \$161,317⁶ to \$686,479.

6. On December 19, 2012, Staff filed its direct testimony in this matter. Staff's filing included direct testimony from five Staff witnesses: Laura Bowman, Adam H. Gatewood, Katie L. Figgs, Ann Diggs, and Roxie McCullar. Overall, Staff's audit showed an intrastate revenue *excess* of \$148,446 for LaHarpe, based on a recommended 9.27% ROR. Therefore, Staff recommended LaHarpe's KUSF support be reduced by that amount. Since the proposed reduction was greater than LaHarpe's current KUSF draw, Staff recommended the Commission set LaHarpe's KUSF subsidy at \$0.⁷

7. On January 16, 2013, Vincent Wiemer filed Rebuttal Testimony on behalf of LaHarpe, indicating he had revised his revenue calculation and now contended LaHarpe's financial records indicate a revenue *excess* of \$7,885, an adjustment of \$533,047 from LaHarpe's initial claim of a \$525,162 intrastate revenue deficiency.⁸ By leave of the Commission, Mr. Wiemer also submitted Supplemental Rebuttal Testimony on April 2, 2013. This filing was limited to rate of return testimony. In this testimony Mr. Wiemer did not discuss his previous ROR request of 11.53%. Instead, he indicated a new proposed ROR of 13.65%.⁹

8. After a series of procedural delays, two hearings were held in this matter. On March 14, 2013, the Commission convened an evidentiary hearing to examine all disputed issues aside from ROR. A limited scope evidentiary hearing on the rate-of-return issue was held May

⁵ LaHarpe Compliance Filing, Direct Testimony of Vincent H. Wiemer, pp. 3, 8. (Wiemer Direct, pp. 3, 8.)

⁶ This figure represents LaHarpe's distribution at the time of its Compliance Filing.

⁷ Direct Testimony of Laura Bowman, December 19, 2012, p. 5. (Bowman Direct, p. 5.)

⁸ Rebuttal Testimony of Vincent H. Wiemer, January 16, 2013, p. 2. (Wiemer Rebuttal, p. 2.)

⁹ Supplemental Rebuttal Testimony of Vincent H. Wiemer, April 2, 2013, p. 19. (Wiemer Supp. Rebuttal, p. 19.)

2, 2013. Both LaHarpe and Staff were represented by Counsel at each hearing and both offered live witness testimony on all disputed issues.¹⁰

9. After further procedural delays, the parties submitted legal briefs on all remaining disputed issues. LaHarpe filed its Initial Brief on May 31, 2013. Staff filed its Responsive Brief on June 10, 2013. Finally, LaHarpe filed a Reply Brief on June 17, 2013.

II. Findings and Conclusions

10. Only three disputed issues await Commission determination in this proceeding. The Commission states the disputed issues as follows:

Issue 1: What rate-of-return should be utilized for calculation of LaHarpe's revenue requirement?

Issue 2: Should LaHarpe recover intrastate access revenues lost to federal intercarrier compensation reforms through the KUSF?

Issue 3: What amount of audit expense should LaHarpe be allowed to recover through the KUSF?

11. LaHarpe bears the burden of proof and persuasion to produce the evidence necessary to conduct the investigation and must provide the information needed to establish that its KUSF support amount is appropriate. LaHarpe also has the obligation to show that its requested KUSF subsidy is justified and reasonable.¹¹

A. Rate-of-Return

12. This Commission has set forth principles it considers in determining a fair return for regulated entities. In particular, the Commission stated, "the return on equity we authorize should: 1) fairly compensate the utility for its invested capital; 2) enable the utility to compete

¹⁰ See Evidentiary Hearing Transcripts Vol. 1 & 2, March 14, 2013, & May 2, 2013. (Tr. Vol. 1 & 2.)

¹¹ Docket No. 01-SKNT-544-AUD, Non-Confidential Order Setting Revenue Requirements, Sept. 10, 2001, ¶ 28.

for new capital on equal terms with other businesses in the same geographic area having similar risks; and 3) maintain the utility's financial integrity."¹² In addition, the Commission is also charged with balancing the interests of a utility's investors, its customers, and the public.¹³

13. In its initial Compliance Filing, LaHarpe's consultant, Vincent Wiemer, recommended an 11.53% overall ROR based on the weighted cost of LaHarpe's long term debt and equity with a 12.5% return-on-equity (ROE).¹⁴ In this testimony, Wiemer merely incorporated "the latest ROE *advocated* [emphasis added] by a Kansas rural LEC."¹⁵

14. On December 19, 2012, Staff filed the direct testimony of Adam Gatewood. In his testimony, Mr. Gatewood incorporated his full ROE analysis from another recent KUSF audit¹⁶ and updated that analysis for LaHarpe's specific circumstances. Overall, Mr. Gatewood recommended a 9.27% ROR for LaHarpe with a 10% ROE.¹⁷

15. On April 2, 2013, LaHarpe submitted the Supplemental Rebuttal Testimony of Mr. Wiemer. In this testimony Mr. Wiemer did not discuss, and appeared to abandon, his previous ROR and ROE requests of 11.53% and 12.5%, respectively. Instead, Mr. Wiemer, using Adam Gatewood's analysis, added various risk premia and recommended a new proposed ROR of 13.65% and ROE of 14.84%.¹⁸

16. Upon consideration of the entire body of evidence, the Commission finds LaHarpe shall be entitled to a 10% ROE and a 9.27% overall ROR. The Commission concludes this return meets the factors set forth above and will fairly compensate LaHarpe's investors. This

¹² Docket No. 10-KCPE-415-RTS, Order: 1) Addressing Prudence; 2) Approving Application, in Part; & 3) Ruling on Pending Requests, November 22, 2010, p. 41. (415 Order, p. 41)

¹³ *Id.*

¹⁴ The Commission notes the parties both recommend and accept 2.5% as an appropriate cost of debt figure.

¹⁵ Wiemer Direct, p. 8, referencing Docket No. 12-S&TT-234-KSF. The Commission notes that ROE and ROR were not established in that docket as the matter ended in an approved settlement agreement that only set an overall level of KUSF subsidy.

¹⁶ See Docket No. 12-GRHT-633-KSF, Direct Testimony of Adam H. Gatewood, October 18, 2012.

¹⁷ Direct Testimony of Adam H. Gatewood, December 19, 2012, pp. 1-4. (Gatewood Direct, pp. 1-4.)

¹⁸ Supplemental Rebuttal Testimony of Vincent H. Wiemer, April 2, 2013, p. 19. (Wiemer Supp. Rebuttal, p. 19.)

finding is largely based on the substantial body of testimony submitted by Staff witness Adam Gatewood, which the Commission found most persuasive and compelling.

17. The Commission finds that only one witness performed a current and holistic cost of equity analysis – Staff witness Adam Gatewood. While the Commission does not require LaHarpe to perform this analysis, it is apparent that Mr. Wiemer has simply incorporated Mr. Gatewood's analysis and added premia wherever possible. In contrast, Mr. Gatewood's approach was comprehensive in that his market-based analysis *already* applies both discounts and premia to account for LaHarpe's specific circumstances. Therefore, Mr. Wiemer's addition of extra risk premia is duplicative and potentially misleading.

18. More troubling is LaHarpe's eager emphasis on risk premia without any objective assessment of conditions which offset this risk. One important real-world risk discount that must be applied in this case is LaHarpe's ability to recover any intrastate revenue deficiencies from the KUSF if its approved intrastate regulated costs ever outpace its revenues. This public safety net places LaHarpe in an extremely protected position, which is a luxury afforded to very few other private entities.¹⁹

19. Furthermore, the Commission is troubled by LaHarpe's circular argument that it faces excessive risk because too much of its revenue is supplied through universal service funds. LaHarpe then argues the Commission should increase its KUSF subsidy to compensate its investors for that risk. However, in the Commission's estimation, if LaHarpe's KUSF subsidy is inflated to account for this risk, LaHarpe will – by its own standards – be susceptible to far more risk.²⁰

¹⁹ Tr. Vol. 2, pp. 250, 275.

²⁰ See discussion of this issue at Tr. Vol. 2, p. 277.

20. The Commission also finds Adam Gatewood's inclusion of nominal Gross Domestic Product (nGDP) in his growth rate analysis to be a reasonable and appropriate methodology. Because of volatile short-run earnings growth forecasts, the Commission concludes this consideration of nGDP is helpful to estimate *long-run growth* for use in the Discounted Cash Flow (DCF) model. Furthermore, it is evident to the Commission that a long-term approach is required by the DCF model because this is how investors value securities in this industry.²¹

21. The Commission also disagrees with LaHarpe's characterization of reliance on nGDP as a "restriction" on LaHarpe's ability to compete for capital.²² Mr. Gatewood's testimony chooses to rely on nGDP to create an appropriate long-term growth forecast. If the Commission relies wholly on more volatile short-term estimates in setting an ROE, LaHarpe is *more* likely to severely under-earn or over-earn in the long-term. Also, because investors typically use a long-term approach in stock valuation, reliance on nGDP cannot fairly be characterized as a "restriction" on LaHarpe's ability to compete for capital.

22. As part of the Commission's analysis of the extensive evidentiary record, the Commission also assesses witness credibility. In this proceeding, the Commission finds a substantial credibility gap between the two ROR witnesses. Staff's witness, Mr. Gatewood, incorporated his own comprehensive updated cost of equity analysis and consistently recommended this analysis as a reasonable and appropriate approach.

23. LaHarpe's witness, Mr. Wiemer, incorporated another witness's testimony in his pre-filed direct testimony to recommend a 12.5% ROE. Then, in his supplemental rebuttal testimony, Mr. Wiemer, abandoned his initial recommendation. Instead, he opted to use Mr.

²¹ Docket No. 12-GRHT-633-KSF, Direct Testimony of Adam H. Gatewood, October 18, 2012, pp. 19-20.

²² *Id.* at p. 21.

Gatewood's analysis and add premia in an apparent effort to reach the highest possible ROE figure. There was no mention of his previous recommendation, and the Commission was left to ponder its application.²³ Mr. Wiemer was certainly free to adjust his testimony as the proceeding progressed; however, wholesale abandonment of one position without reasonable explanation does have an effect on witness credibility.

B. Network Access Revenues

24. In accordance with the policy set forth in Docket No. 12-GIMT-170-GIT, the Commission finds and concludes any intrastate access revenues lost to federal intercarrier compensation reform shall not be recoverable through the KUSF.

25. Furthermore, litigation of this issue is inappropriate in this proceeding. LaHarpe has the opportunity to litigate this issue in the ongoing policy-setting docket cited above. The instant proceeding simply sets LaHarpe's annual KUSF distribution. Insofar as the Commission has set forth a policy in forward-looking investigations, this proceeding will follow that policy.

C. Audit Expense

26. In the Direct Testimony of Staff witness Laura Bowman, Ms. Bowman recommends the Commission disallow \$77,871 of LaHarpe's consulting expenses. To reach this figure, Staff performed a reasonableness test, using a per access line analysis of audit expense approach, and determined LaHarpe's expenses were unreasonable. The specific adjustment proposed by Staff simply reduces LaHarpe's expenses to the level incurred by Gorham Telephone Company, Inc. (Gorham). Staff contended this was appropriate since Gorham is "a company of similar size, . . . they also use Alexicon's consulting services[,] and were most recently audited in 2012."²⁴

²³ See Tr. Vol. 2, pp. 205-08.

²⁴ Bowman Direct, p. 22.

27. In his Rebuttal Testimony, LaHarpe witness Vincent Wiemer fully rejected Staff's adjustment. Instead, Mr. Wiemer assessed the circumstances of this audit, deemed LaHarpe's expenses "just and reasonable," and recommended the Commission allow recovery of all "actual costs incurred."²⁵

28. Recovery of audit expense in a KUSF audit is analogous to recovery of rate case expense in a traditional rate case.²⁶ A general rule followed by Kansas courts is that "prudently incurred rate case expenses are among the reasonably necessary expenses that a public utility is entitled to recover in a rate-making proceeding. [Citation omitted.] The Commission must weigh competing policies in determining the recovery of appropriate rate case expenses. 'Rate case expenditures involve some degree of management choice and discretion whether to incur the expenses.' [Citation omitted.]"²⁷

29. The Kansas Court of Appeals has also remarked, "The prudence of any utility expenditure is tested in regards to both its purpose and its amount. [Citation omitted.] '[I]t would be proper for a public utility company to be allowed rate case expenses when 'the public service company has reasonably and fairly employed necessary outside help in connection with ... [the] case.' [Citation omitted.]"²⁸

30. What is clear in the foregoing case law is that audit expense may be recovered, but its recovery is not automatic. The Commission must determine whether it was *prudently* incurred, and this involves a determination that the expenses were reasonably necessary to navigate the proceeding.

²⁵ Wiemer Rebuttal, p. 15.

²⁶ See generally *Home Telephone Co., Inc. v. State Corp. Com'n of State of Kansas*, 31 Kan. App. 2d 1002, 76 P.3d 1071 (2003); *Columbus Telephone Co., Inc. v. Kansas Corp. Com'n*, 31 Kan. App. 2d 828, 75 P.3d 257 (2003).

²⁷ *Kansas Industrial Consumers Group, Inc. v. State Corp. Com'n of State of Kan.*, 36 Kan. App. 2d 83, 111, 138 P.3d 338 (2006).

²⁸ *Citizens' Utility Ratepayer Bd. v. State Corp. Com'n of State*, 47 Kan. App. 2d 1112, 1127, 284 P.3d 348 (2012).

31. In the present proceeding, LaHarpe's consulting costs appear to be unreasonable when measured through numerous methodologies. Drawing upon its experience and the evidence at hand, the Commission believes LaHarpe's expenses to be out of line. A number of factors support this determination.

32. First the Commission evaluated LaHarpe's KUSF draw in comparison to other Rural Local Exchange Carriers (RLECs) receiving KUSF distributions. In this way, the Commission could compare LaHarpe's incentive to litigate its distribution.²⁹ In general, one would expect a company with more subsidy at stake to spend more litigating the size of that subsidy. This is where the "management choice" described above comes into play.

33. In Year 16 of the KUSF, the average draw of the 32 RLECs receiving KUSF distributions was \$793,144 and the median draw was \$506,823.³⁰ LaHarpe's KUSF draw was \$149,090. LaHarpe had the fifth lowest distribution of these 32 companies. On the other hand, when the Commission compares consulting fees, LaHarpe has spent the sixth most on consulting fees at the time of Staff's filing.³¹ The average consulting costs for other RLECs at the time of Staff's filing were \$93,714.³² LaHarpe's estimate at the same time was \$107,103.³³

34. As a general conclusion, LaHarpe has one of the smallest KUSF subsidies but has spent more than other companies who had greater incentive to litigate. Again, these measures do not fully capture prudence, but they do indicate excessive spending on consulting services.

35. Another consideration is a comparison of audit expense controlled for company size by comparing per line costs. This appears to be the aim of Commission Staff in its direct

²⁹ The Commission analogizes this to reasonableness of attorney fees under Rule 1.5(a)(4) of the Kansas Rules of Professional Conduct.

³⁰ See publicly-available distribution figures at the following link: <http://kcc.ks.gov/telecom/kusfsupport.pdf>

³¹ Wiemer Rebuttal, Attachment 1. The figures for Madison and United Telephone are not included in this calculation, as they were calculated after full litigation. See Tr. Vol. 1, p. 149.

³² *Id.*

³³ See Filing of Further Evidence, April 11, 2013, Response to DR 39.

testimony. In this case, LaHarpe has only 300 access lines. Under Staff's analysis, LaHarpe's costs for this proceeding were \$373 per access line.³⁴ In comparison, the average audit expense incurred in the five most recent KUSF audits was \$42 per access line.³⁵ Though per line cost is only a rough measure of reasonableness, it does help the Commission compare the amount of expense incurred by various RLECs. By this measure – and it is only one factor – LaHarpe is clearly out of line.

36. The Commission also questions LaHarpe's business management choice of fully-litigating this matter. Though LaHarpe was within its rights to take this matter to hearing (multiple hearings) and file numerous litigious motions, those were not necessarily a prudently incurred cost. To say this Commission is frustrated by the extent of this proceeding is an understatement. One of the litigated issues, network access revenues, should not be considered here, while another major issue is the expense of *this* proceeding. Considering the various potential outcomes of this proceeding and the size of LaHarpe, all parties likely would have been better off resolving this proceeding in a more condensed and expedited fashion.

37. Finally, the Commission turns to Mr. Wiemer's own description of causation of reasonable consulting fees. In his rebuttal testimony, Mr. Wiemer rejects Staff's per line analysis and states that the "variable portion of the audit expense does not perfectly correlate with company size (such as access lines), but instead will vary depending on number and content of data requests, issues being addressed, internal company resources, state of company recordkeeping, the reasonableness of Staff recommendations and other factors."³⁶

³⁴ Bowman Direct, Exhibit LKB-7(a).

³⁵ *Id.*

³⁶ Wiemer Rebuttal, p. 11.

38. In this proceeding there is no evidence of excessive or onerous data requests. LaHarpe could point to no such circumstances when questioned at hearing.³⁷

39. Mr. Wiemer also identifies the number of disputed issues as a key factor determining consulting expense. The Commission notes LaHarpe is only disputing 2 substantive issues. The only other disputed issue is audit expense. In the last fully-litigated KUSF audit there were 13 disputed issues.³⁸

40. The "reasonableness" of Staff's recommendations is another factor identified by Mr. Wiemer. Though this description is somewhat unclear, Mr. Wiemer cites the devotion of "time and resources necessary to address Staff's [fiber-to-the-home] testimony" as a prime example.³⁹ However, at hearing, Mr. Wiemer admitted he simply copied and pasted "a large portion" of his fiber-to-the-home testimony from a previous docket.⁴⁰

41. Mr. Wiemer does identify internal company resources and the state of company recordkeeping as a final factor. The Commission agrees that these items can have a significant impact on expenses, as they apparently did here. However, the fact that a company chooses to let its financial records fall into disarray is a management choice and one which must bear some consequences. The Commission will allow significant consulting expenses to compensate for lack of company resources in this case; however, the Commission agrees with Staff's statement that "LaHarpe, being a regulated utility, should have its materials and ledgers in working order before being audited."⁴¹

42. As an alternative methodology, Mr. Wiemer simply suggests the Commission should determine all consulting costs were reasonable and prudently incurred. However, once

³⁷ Tr. Vol. 1, p. 70. See also Tr. Vol. 1, p. 139.

³⁸ Docket No. 07-MDTT-095-AUD, Order, June 13, 2007, ¶ 8.

³⁹ Wiemer Rebuttal, pp. 11-12.

⁴⁰ Tr. Vol. 1, pp. 70-71.

⁴¹ Staff Responsive Brief, p. 11.

the Commission was alerted to the inflated nature of LaHarpe's costs, a detailed examination of billing records does not establish this fact. Alexicon's records merely indicate many hours spent performing very generically-described activities. Because LaHarpe bears the burden of proof in this proceeding, these descriptions do not effectively explain the anomalous and excessive nature of LaHarpe's consulting expenses.

43. LaHarpe's consulting costs appear to be excessive by every metric. Therefore, the Commission cannot find all of these costs were prudently incurred and should be paid by Kansas telecommunications customers. Because LaHarpe clearly incurred significant necessary consulting fees, the Commission will allow recovery of \$93,714 of \$107,103 of LaHarpe's consulting fees at the time of Staff's filing, a reduction of \$13,389. This figure represents the average amount RLECs have spent on consulting at the time Staff filed its direct testimony as noted in paragraph 33 above. While most of the factors above indicate LaHarpe should receive less than this average, the Commission wishes to take a conservative approach and ensure recovery of all prudently incurred costs.

44. The Commission further finds LaHarpe shall not recover the \$6,000 charged by Dennis J. Edwards CPA, PA. This adjustment, recommended by Staff in its direct testimony, was never disputed by LaHarpe.

45. LaHarpe submitted its final audit expense figures to the Prehearing Officer on Tuesday, June 25, 2013. These numbers indicate total audit expense of \$184,797.83.⁴² Overall, LaHarpe shall be allowed recovery of \$171,408.83 of its claimed audit expense. This figure is obtained by addition of the following figures:

⁴² Disputed expenses from Dennis J. Edwards were not included in LaHarpe's final request.

Alexicon Consulting	\$151,959.23 (\$165,348.23 reduced by \$13,389)
Gleason & Doty, Chartered	\$18,411.50
Jarred, Gilmore & Phillips, PA	<u>\$1,083.10</u>
	\$171,408.83

46. With regard to LaHarpe's audit expense, the Commission agrees with the parties' recommendation that audit expense should be recovered over a five-year amortization period.⁴³ However, once these expenses have been fully recovered, LaHarpe's KUSF support should be reduced accordingly by removing any portions relating to audit expense, including related taxes.⁴⁴ This provision ensures LaHarpe will recover the full amount of its audit expense but does not over-recover from the KUSF.

III. Overall Annual KUSF Distribution Calculation

47. Based on the foregoing findings and conclusions, LaHarpe's current annual KUSF distribution of \$147,416 shall be reduced by \$126,725⁴⁵ for a total annual distribution of \$20,691. However, pursuant to Docket Number 13-GIMT-004-GIT, LaHarpe will implement new intrastate access rates, effective July 2013. As a result of the new rates, LaHarpe's intrastate access revenues will increase by \$1,398.⁴⁶ Pursuant to K.S.A. 66-2005 and Commission policy, this will reduce the company's KUSF by a corresponding amount. Thus, after accounting for this reduction, the LaHarpe's annual KUSF distribution, effective July 2013, is \$19,293.

IT IS, THEREFORE, BY THE COMMISSION ORDERED THAT:

- A. LaHarpe's annual level of KUSF support shall be set at \$19,293.
- B. Audit expense shall be deducted from LaHarpe's KUSF support following amortization, as described in paragraph 46.

⁴³ Bowman Direct, p. 25; Wiemer Rebuttal, p. 15.

⁴⁴ This provision is supported by both Staff and LaHarpe's testimony at hearing. See Tr. Vol. 1, pp. 80, 150-51.

⁴⁵ See attached Commission Schedules.

⁴⁶ See Staff Report & Recommendation, May 16, 2013, Attachment 1; See also Order Approving RLECs' Intrastate Access Rates and Revenues and a Net, Aggregate Reduction to the Kansas Universal Service Fund, May 22, 2013, ¶ 8.

C. Parties have 15 days from the date of electronic service of this Order in which to petition the Commission for reconsideration.⁴⁶

D. The Commission retains jurisdiction over the subject matter and parties for the purpose of entering such further order, or orders, as it may deem necessary and proper.

BY THE COMMISSION IT IS SO ORDERED.

Sievers, Chairman; Wright, Commissioner; Albrecht, Commissioner

Dated: JUN 26 2013

Jackie Montfoort Paige
ORDER MAILED JUN 26 2013

Jackie Montfoort Paige
Acting Executive Director

AF

⁴⁶ K.S.A. 66-118b; K.S.A. 77-529(a)(1).

In the Matter of Staff's Motion Requesting the)
Commission Order LaHarpe Telephone Company,)
Inc. to Submit an Audit for Purposes of) DOCKET NO. 12-LHPT-875-AUD
Determining its Cost-Based Kansas Universal)
Service Support, Pursuant to K.S.A. 66-2008.)

PASS THROUGH ENTITY TAX STRUCTURE

COMMISSION SCHEDULES

KANSAS CORPORATION COMMISSION

LAHARPE TELEPHONE COMPANY, INC.
 DOCKET NO. 12-LHPT-875-AUD
 COMMISSION ORDERED REVENUE REQUIREMENT
 FOR THE TEST YEAR ENDED DECEMBER 31, 2011

**SCHEDULE REV REQ
 PASS THROUGH ENTITY**

Line No.	Description	A Commission Adjusted Total Company	B Total Commission Adjusted Interstate	B Total Commission Adjusted Intrastate
1	PROFORMA RATE BASE	\$2,161,512	\$615,816	\$1,545,697
2	COMMISSION ORDERED RATE OF RETURN	9.84%	11.25%	9.2739%
3	OPERATING INCOME REQUIRED	212,625	69,279	143,346
4	PROFORMA OPERATING INCOME	471,420	227,186	244,233
5	NET PROFORMA REVENUE INCREASE / (DECREASE)	(258,795)	(157,907)	(100,888)
6	NET TO GROSS MULTIPLIER	1.256102	1.256102	1.256102
7	GROSS PROFORMA REVENUE INCREASE / (DECREASE)	(\$325,072)	(\$198,347)	(\$126,725)

LAHARPE TELEPHONE COMPANY, INC.
 DOCKET NO. 12-LHPT-875-AUD
 COMMISSION ORDERED RATE BASE
 FOR THE TEST YEAR ENDED DECEMBER 31, 2011

SCHEDULE A-1
 PASS THROUGH ENTITY

Line No.	Acct	Description	A	B	C	D	E	F	G	H /---- Allocation ----/		J	K
			Applicant Book Balance	Applicant Cost Study Adjustments	Applicant Cost Study Balance	Applicant Proforma Adjustments	Applicant Proforma Balance	Commission Adjustments	Commission Adjusted Balance	Interstate	Intrastate	Adjusted Interstate Rate Base	Adjusted Intrastate Rate Base
1	2111	Land	\$1,170	(\$198)	\$972	\$0	\$972	\$125	\$1,097	0.303505	0.696495	\$333	\$764
2	2112	Motor Vehicles	29,723	0	29,723	0	29,723	(2,832)	26,891	0.303505	0.696495	8,162	18,729
3	2115	Garage Work Equipment	0	0	0	0	0	0	0	0.303505	0.696495	0	0
4	2116	Other Work Equipment	28,565	0	28,565	0	28,565	(2,721)	25,844	0.303505	0.696495	7,844	18,000
5	2121	Buildings	179,365	(27,691)	151,674	0	151,674	14,363	166,037	0.303505	0.696495	50,393	115,644
6	2122	Furniture	1,030	0	1,030	0	1,030	(65)	965	0.303505	0.696495	293	672
7	2123	Office Equipment	1,801	(281)	1,520	0	1,520	168	1,688	0.303505	0.696495	512	1,176
8	2124	General Purpose Computers	5,884	(917)	4,967	0	4,967	548	5,515	0.303505	0.696495	1,674	3,841
9		Total Land & Support Assets	247,538	(29,087)	218,451	0	218,451	9,586	228,037			69,210	158,827
10	2210	Digital Electric Switching Equipment	323,287	(16,284)	307,003	0	307,003	0	307,003	0.850000	0.150000	260,953	46,050
11	2231	CO Toll Transmission	0	0	0	0	0	0	0	0.000000	0.000000	-	0
12	2232	Circuit Equipment	618,608	16,284	634,892	0	634,892	0	634,892	0.248702	0.751298	157,899	476,993
13		Total Central Office Equipment	941,895	0	941,895	0	941,895	0	941,895			418,851	523,044
14	2311	Station Apparatus	6,154	(6,154)	0	0	0	0	0	0.000000	1.000000	0	0
15	2321	Customer Premises Wiring	0	0	0	0	0	0	0	0.000000	1.000000	0	0
16	2341	Large PBX	0	0	0	0	0	0	0	0.000000	1.000000	0	0
17	2351	Public Telephone Terminal Equipment	0	0	0	0	0	0	0	0.000000	1.000000	0	0
18	2362	Other Terminal Equipment	50,390	(50,390)	0	0	0	0	0	0.000000	1.000000	-	0
19		Total I.O.T.	56,544	(56,544)	0	0	0	0	0			0	0
20	2411	Poles	0	0	0	0	0	0	0	0.250147	0.749853	0	0
21	2421	Underground Cable	0	0	0	0	0	2,485,492	2,485,492	0.250147	0.749853	621,738	1,863,754
22	2423	Buried Cable	2,501,837	0	2,501,837	0	2,501,837	(2,485,492)	16,345	0.250147	0.749853	4,089	12,256
23	2431	Aerial Wire	0	0	0	0	0	0	0	0.250147	0.749853	0	0
24	2441	Conduit Systems	0	0	0	0	0	0	0	0.250147	0.749853	-	0
25		Total Cable and Wire Facilities	2,501,837	0	2,501,837	0	2,501,837	0	2,501,837			625,827	1,876,010
26	2682	Leasehold Improvements	0	0	0	0	0	0	0	0.000000	1.000000	0	0
27	2690	Intangibles	0	0	0	0	0	0	0	0.000000	0.000000	0	0
28		Gross Telephone Plant	3,747,814	(85,631)	3,662,183	0	3,662,183	9,586	3,671,769			1,113,889	2,557,880
29	3100	Accumulated Depreciation	(1,614,524)	44,591	(1,569,933)	0	(1,569,933)	(1,481)	(1,571,414)	0.330580	0.669420	(519,478)	(1,051,936)
30	3600	Misc Accum. Depr and Amort	0	0	0	0	0	0	0	0.000000	1.000000	0	0
31		Net Telephone Plant	2,133,290	(41,040)	2,092,250	0	2,092,250	8,105	2,100,355			594,411	1,505,944
32	1220	Materials and Supplies	26,484	(4,640)	21,844	0	21,844	0	21,844	0.250145	0.749855	5,464	16,380
33	1402	Investments - RTB Stock	0	0	0	0	0	0	0	-	1.000000	0	0
34	2003	TPUC - Short Term	0	0	0	0	0	0	0	-	1.000000	0	0
35	4340	Deferred Income Taxes	0	0	0	0	0	0	0	-	1.000000	-	0
36	4040	Customer Deposits	0	0	0	0	0	0	0	-	1.000000	0	0
37	4340	Other Long Term Liabilities	0	0	0	0	0	0	0	-	1.000000	0	0
38		Net Investment	2,159,774	(45,680)	2,114,094	0	2,114,094	8,105	2,122,199			599,875	1,522,324
39		Cash Working Capital	0	46,538	46,538	(2,893)	43,645	(4,332)	39,313	Direct Assign	Direct Assign	15,941	23,373
40		Total Rate Base	\$2,159,774	\$858	\$2,160,632	(\$2,893)	\$2,157,739	\$3,773	\$2,161,512			\$615,816	\$1,545,697

LAHARPE TELEPHONE COMPANY, INC.
DOCKET NO. 12-LHPT-875-AUD
COMMISSION ORDERED OPERATING INCOME STATEMENT
FOR THE TEST YEAR ENDED DECEMBER 31, 2011

Line No.	Acct. No.	Description	A Applicant Book Balance	B Applicant Cost Study Adjustments	C Applicant Cost Study Balance	D Applicant Proforma Adjustments	E Applicant Proforma Balance	F Commission Adjustments	G Commission Adjusted Balance	H Allocation Interstate Intrastate		I Adjusted Interstate Balance	J Adjusted Intrastate Balance	K Commission Pro Forma Adjustments	L Commission Adjusted Intrastate Balance	M Commission Adjusted Intrastate Balance
<u>Operating Revenues</u>																
1	5001	Local Network Services Revenues	\$58,350	\$0	\$58,350	\$0	\$58,350	\$1,674	\$60,024	0.000000	1.000000	\$0	\$60,024			\$60,024
2	5060	Other Basic Area Revenue	42,506	0	42,506	0	42,506	0	42,506	0.000000	1.000000	\$0	42,506			42,506
3	5069	Federal High Cost Loop Support	723,095	0	723,095	(360,404)	362,691	348,081	710,772	0.000000	1.000000	0	710,772			710,772
4	5100	Kansas Universal Service Support	161,317	0	161,317	0	161,317	(13,901)	147,416	0.000000	1.000000	0	147,416		(126,725)	20,691
5	5080	Network Access Revenue	780,164	0	780,164	(4,585)	775,579	4,585	780,164	Direct Assign		742,916	37,248			37,248
6	5100	Long Distance Network Service Rev	0	0	0	0	0	0	0	1.000000	0.000000	0	0			0
7	5270	Billing and Collection	9,068	0	9,068	0	9,068	0	9,068	Direct Assign		1,856	7,212			7,212
8	5230	Directory Revenue	915	0	915	0	915	0	915	0.000000	1.000000	-	915			915
9	5260	Misc Revenue	39	0	39	0	39	0	39	0.000000	1.000000	0	39			39
10	5280	Non-regulated revenue	(34,728)	0	(34,728)	0	(34,728)	0	(34,728)	0.000000	1.000000	(34,728)	0			0
11	5300	Uncollectible Revenue	0	0	0	0	0	0	0	Direct Assign		0	0			0
12		Total revenues	1,740,726	0	1,740,726	(364,989)	1,375,737	340,439	1,716,176			710,044	1,006,132	(126,725)		879,407
<u>Plant Specific Operations Expenses</u>																
13	6110	Network Support Expense	168	0	168	0	168	0	168	0.303505	0.696495	51	117			117
14	6120	General Support Expense	44,308	(876)	43,432	0	43,432	(13,885)	29,547	0.303509	0.696491	8,968	20,579			20,579
15	6210	Central Office Switching Expense	54,971	0	54,971	0	54,971	(651)	54,320	0.447490	0.552510	24,308	30,012			30,012
16	6230	Central Office Transmission Expense	68,013	0	68,013	0	68,013	(1,254)	66,759	0.447503	0.552497	29,875	36,884			36,884
17	6310	Information Orig/Term Expense	5,944	(5,944)	0	0	0	0	0	0.250000	0.750000	0	0			0
18	6410	Cable and Wire Facilities Exp	35,029	0	35,029	0	35,029	11,015	46,044	0.250164	0.749836	11,519	34,525			34,525
19		Total Plant Specific Operations Exp.	208,433	(6,820)	201,613	0	201,613	(4,775)	196,838			74,720	122,118	0		122,118
<u>Plant Non-Specific Operations Expense</u>																
20	6510	Other Plant Expenses	7,693	0	7,693	0	7,693	2,812	10,505	0.303523	0.696477	3,189	7,316			7,316
21	6530	Network Operations Expense	36,498	0	36,498	0	36,498	9,753	46,251	0.303496	0.696504	14,037	32,214			32,214
22	6540	USF	4,421	(4,421)	0	0	0	0	0	1.000000	0.000000	0	0			0
23	6560	Depreciation & Amortization	302,697	(1,113)	301,584	0	301,584	(8,220)	293,364	0.328792	0.671208	96,456	196,908			196,908
24	6565	Amort. Of Tangible Assets	0	0	0	0	0	0	0	0.000000	1.000000	0	0			0
25		Total Plant Non-Specific Operations Exp.	351,309	(5,534)	345,775	0	345,775	4,345	350,120			113,681	236,439	0		236,439
<u>Customer Operations Expense</u>																
26	6610	Marketing Expense	2,713	0	2,713	0	2,713	2,327	5,040	0.318835	0.681165	1,607	3,433			3,433
27	6621	Operator Services	0	0	0	0	0	0	0	0.000000	1.000000	0	0			0
28	6622	Directory Expense	369	(369)	0	0	0	0	0	0.493225	0.506775	0	0			0
29	6623	Customer Services Expense	30,964	265	31,229	0	31,229	3,928	35,157	0.355546	0.644454	12,500	22,657			22,657
30		Total Customer Operations Expense	34,046	(104)	33,942	0	33,942	6,255	40,197			14,107	26,090	0		26,090
<u>Corporate Operations Expense</u>																
31	6710	Executive and Planning Exp	22,997	0	22,997	0	22,997	643	23,640	0.380571	0.619429	8,997	14,643			14,643
32	6720	General and Administrative Exp	355,521	1,209	356,730	0	356,730	(21,018)	335,712	0.505120	0.494880	169,575	166,137			166,137
33	6720	General and Administrative Exp-Rate Case	0	0	0	50,000	50,000	(15,718)	34,282	0.000000	1.000000	-	34,282			34,282
34		Total Corporate Operations Expense	378,518	1,209	379,727	50,000	429,727	(36,093)	393,634			178,572	215,062	0		215,062
<u>Operating Taxes & Other Operating Expenses</u>																
35	7210	Amortization of ITC	0	0	0	0	0	0	0	1.000000	0.000000	0	0			0
36	7220	Operating Federal Income Taxes	242,102	0	242,102	(95,489)	146,613	(27,222)	119,391	0.315031	0.684969	57,801	61,590		(25,837)	35,753
37	7230	Operating State Income Taxes	51,172	0	51,172	(24,899)	26,273	(26,273)	0	0.315058	0.684942	0	0		0	0
38	7240	Other Operating Taxes	68,515	67,262	135,777	0	135,777	8,299	144,076	0.303507	0.696493	43,728	100,348			100,348
39	7250	Deferred Income Tax	0	0	0	0	0	0	0	Direct Assign		0	0			0
40	7340	Allow. for Funds Used During Const.	0	0	0	0	0	0	0	1.000000	0.000000	0	0			0
41	7370	Contributions and Fees	0	1,000	1,000	0	1,000	(500)	500	0.498000	0.502000	249	251			251
42	5240	Rent Revenue	0	0	0	0	0	0	0	0.000000	1.000000	-	0			0
43	7500	Interest and Related Items	26,783	0	26,783	0	26,783	(26,783)	0	0.285965	0.714035	0	0			0
44		Total Oper. Taxes & Other Oper. Exp.	388,572	68,262	456,834	(120,388)	336,446	(72,479)	263,967			101,778	162,189	(25,837)		136,352
45		Total Operating Expenses	1,360,878	57,013	1,417,891	(70,388)	1,347,503	(102,747)	1,244,756			482,858	761,899	(25,837)		736,061
46		Net Operating Income	\$379,848	(\$57,013)	\$322,835	(\$294,601)	\$28,234	\$443,186	\$471,420			\$227,186	\$244,233	(\$100,888)		\$143,346

LAHARPE TELEPHONE COMPANY, INC.
 DOCKET NO. 12-LHPT-875-AUD
 COMMISSION ORDERED CAPITAL STRUCTURE AND COST OF CAPITAL
 FOR THE TEST YEAR ENDED DECEMBER 31, 2011

**SCHEDULE C-1
 PASS THROUGH ENTITY**

Line No.	Description	A Applicant Pro Forma Balance	B Commission Adjustments	C Commission Adjusted Book Balance	D Commission Adjusted Capital Structure Ratios	E Cost of Capital	F Weighted Cost of Capital

1	Total Long Term Debt	\$350,000	\$0	\$350,000	9.6819%	2.5000%	0.2420%
2	Total Common Equity	3,264,977	0	3,264,977	90.3181%	10.0000%	9.0318%
4	Total Capitalization	<u>\$3,614,977</u>	<u>\$0</u>	<u>\$3,614,977</u>	<u>100.00%</u>		<u>9.2739%</u>
<u>Total Weighted Cost of Debt:</u>							
5	Long Term Debt		0.2420%				
7	Total Cost of Debt		<u>0.2420%</u>				

CERTIFICATE OF SERVICE

JUN 26 2013

12-LHPT-875-AUD

I, the undersigned, hereby certify that a true and correct copy of the above and foregoing Order Setting Annual Cost-Based Kansas Universal Fund Support for LaHarpe Telephone Company, Inc. was served by electronic mail this 26th day of June, 2013, to the following parties who have waived receipt of follow-up hard copies:

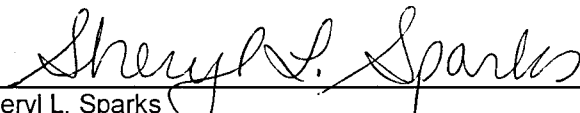
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Sheryl L. Sparks
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ORDER MAILED JUN 26 2013