

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of Carbon/Emery Telcom's)	Docket No. 15-2302-01
Application for Increase in)	
Utah Universal Service Fund Support)	Surrebuttal Revenue
)	Requirement Testimony
)	of Bion C. Ostrander
)	For the Office of
)	Consumer Services

NONCONFIDENTIAL – REDACTED VERSION

September 18, 2015

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List of OCS Exhibits Sponsored:

Exhibit 1S-1 – Revenue Requirement Calculation and OCS Proposed Adjustments

Exhibit IS-2 – Sorted Department Expenses:

Sch. A – Chief Executive Officer

Sch. B – Board of Directors

Sch. C – Public Relations/Marketing

Sch. D – Customer Service Representatives

Exhibit IS-3 – Interest Synchronization Method Used for Company with Hypothetical Capital Structure: Utah Commission Order – Gunnison Telephone – Dkt. No. 00-043-01

1

INTRODUCTION2 **Q. WHAT IS YOUR NAME AND BUSINESS ADDRESS?**3 A. My name is Bion C. Ostrander. My business address is 1121 S.W. Chetopa
4 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 Carbon/Emery Telcom
10 (“CT”, “Carbon”, or “Company”).

11

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

13 A. Yes. OCS Exhibits 1S-1 through 1S-3 which are 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 Carbon as
17 recommended by the OCS for the test period ending December 31, 2014.¹
18 As part of this process, I will address the rebuttal testimony of Carbon
19 witness Darren Woolsey.

20

¹ 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 CARBON'S POSITION?**

23 A. My direct testimony included OCS adjustments that produced excess
24 earnings of \$1,896,798, and concluded that Carbon should not receive any
25 of its proposed UUSF increase of \$816,909 or any of its current UUSF of
26 \$1,038,714 (total UUSF of \$1,855,623).

27

28 I have changed my revenue requirement to reflect adjustments that I have
29 withdrawn, revised for various reasons, or do not contest.² My surrebuttal
30 testimony and related adjustments result in a revised revenue requirement
31 surplus of \$1,245,716, which means that Carbon should not receive any of
32 its proposed UUSF increase of \$816,909 and it should only receive
33 \$609,907 of its existing UUSF of \$1,038,714 ($\$1,245,716 -$
34 $\$816,909 + \$1,038,714 = \$609,907$). The bottom line is that Carbon should
35 only receive total UUSF of \$609,907.

36

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

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

41

² Some of these adjustments in Carbon's rebuttal testimony agree with my position but may reflect a slightly revised amount for which I either agree with or do not contest because the difference is not significant.

42 **Withdrawn Adjustments:**

- 43 • Adjustment BCO-1: Allocate Fiber/Internet-Related Common Costs
44 from Carbon to Emery Telecom Video, LLC (“ETV”)/Nonregulated
45 Affiliates. I am withdrawing this adjustment which removed 50% of
46 internet-fiber related common costs from Carbon’s regulated
47 operations. An agreement was reached with Carbon on the
48 treatment of this issue for this case.
- 49 • Adjustment BCO-3: Remove Prepayments from Rate Base.
50 Because Mr. Woolsey has accepted Adjustment BCO-4 to deducted
51 long-term liabilities from rate base, I am willing to withdraw
52 Adjustment BCO-3 for this case.

53

54 **Revised Adjustments:**

- 55 • Adjustment BCO-4: Deduct Long-Term Liabilities from Rate Base.
56 My direct testimony deducted long-term liabilities from rate base of
57 ██████████ consistent with Carbon’s treatment in its FCC/NECA filed
58 Part 69/36 cost studies in this proceeding, and Mr. Woolsey has
59 accepted this adjustment but slightly modified the adjustment to
60 ██████████ and I will not contest that amount.³ Carbon has included
61 this adjustment in its rebuttal revenue requirement, and because I
62 start with Carbon’s rebuttal revenue requirement amount it is not

³ Woolsey Rebuttal – p. 4, lines 89-91 and p. 33 lines 652-653.

63 necessary for me to include this adjustment in the OCS revenue
64 requirement calculation.

65 • Adjustment BCO-7: Remove Carbon's Revenue Reduction for
66 Projected 3-Year Access Line Loss. The changes to this adjustment
67 simply reflect the changed request stated in Carbon's reply
68 comments. My reasoning and objections remain the same as
69 described in a later section.

70 • Adjustment BCO-8: Remove Depreciation Expense on Fully
71 Depreciated Assets. This adjustment is revised to reflect the
72 withdrawal of Adjustment BCO-1.

73 • Adjustment BCO-9: Adjust Income Tax Expense and Reflect Interest
74 Synchronization. I corrected relatively immaterial calculation errors
75 and updated for the current adjustments.

76

77 **New Adjustments:**

78 • Adjustment to Impute Revenues for Cable TV Affiliate Customers
79 Migration to Internet Affiliate. I have accepted Mr. Hellewell's
80 proposed Adjustment that increases revenues by [REDACTED] (and I
81 have offset this amount by a related amount of [REDACTED] from Mr.
82 Woolsey's rebuttal testimony) to reflect the migration of customers
83 from Carbon's cable TV affiliate to its internet affiliate.⁴

⁴ Hellewell Direct – p. 10, lines 252-263.

84

85

- Adjustment to Reflect True-Up of Wholesale Revenues: I have also accepted Mr. Hellewell's proposed adjustment to increase revenues by [REDACTED] to reflect a true-up of wholesale DSL revenues from an updated 2014 cost study. However, it was not necessary to show this as an adjustment in the OCS revenue requirement because Carbon also accepted this adjustment and already included it in their rebuttal revenue requirement which is the starting point for the OCS revenue requirement.

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Unchanged Adjustments:

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- Adjustment BCO-2: Allocate Corporate Overhead Expenses from Carbon to ETV/Nonregulated Affiliates.
- Adjustment BCO-5: Remove 50% of Telephone Plant Under Construction (TPUC) from Rate Base.
- Adjustment BCO-6: Remove 50% of Materials & Supplies ("M&S") from Rate Base.

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Q. MR. WOOLSEY CRITICIZES THE REVISED ALLOCATION FACTORS THAT YOU RECOMMEND, ARE YOUR ADJUSTMENTS

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109 **CONSERVATIVE AND INDICATIVE OF OTHER PROBLEMS WITH**
110 **CARBON'S COST ALLOCATION MANUAL?**

111 A. Yes. First, I have only revised two of Carbon's nine company-wide
112 allocation factors⁵ and I have only proposed adjustments to four of Carbon's
113 ten Department cost pools. And although I have concerns with some of
114 Carbon's other allocation factors that would impact the remaining five
115 Department cost pools, I have not proposed an adjustment for these issues
116 in this proceeding. Therefore, my approach and related adjustments to the
117 four Department cost pools are conservative and reasonable.

118

119 Second, my adjustments related to cost allocation factors are indicative of
120 other problems with Carbon's CAM. Carbon's CAM is not a CAM in the
121 traditional sense based on the requirements of the FCC's Part 64 cost
122 allocation procedures or consistent with the best practices that I have
123 observed in my thirty-five years of experience in reviewing CAMs of other
124 telcos. The CAM⁶ that was filed with Carbon's application consists of
125 merely ten PDF-formatted pages.⁷

126

⁵ There is another allocation factor that only allocates costs between the regulated telcos of Carbon, Emery, and Hanksville.

⁶ Proprietary Exhibit A of Mr. Woolsey's Direct Testimony, the CAM is Exhibit 9 (consisting of ten pages, 9 through 9i).

⁷ These PDF-formatted pages are Excel spreadsheets, although a working Excel version complete with formulas and underlying documents was not provided with the Company's original filing.

127 Also, Carbon's CAM is not an instructive "Manual" document; it is merely
128 ten individual spreadsheets. Below are some of the deficiencies with
129 Carbon's CAM and ways in which it is inconsistent with CAMs that are more
130 representative of standard utility practices.

- 131 1) It is not constructed as a Manual that can be easily used. It does not
132 have a cover page, table of contents, a description of nonregulated
133 activities by affiliate, organization chart, description of transactions with
134 affiliates and other sections typically included in a CAM.
135
- 136 2) There is no explanation of the FCC's Part 64 (or FCC's Part 32 Affiliate
137 Transaction Rules at § 32.27) procedures or requirements to which it is
138 intended to comply.
139
- 140 3) There is no detailed written explanation of the allocation factors and
141 related underlying inputs, assumptions, and calculations. It is not
142 possible to test "compliance" with a CAM or to evaluate changes in a
143 CAM if the underlying documentation is not present. Furthermore, if a
144 CAM is not properly documented, then inputs and assumptions can be
145 easily changed from year-to-year in order to manipulate results and
146 achieve biased or desired outcomes.
147
- 148 4) There is no description or list of Department cost pools.
149
- 150 5) There is no explanation of cost apportionment principles or methods for
151 each of the Department cost pools.
152
- 153 6) There is no explanation of time reporting procedures for different types
154 of employees.
155
- 156 7) There are no underlying studies, calculations (Excel spreadsheets, etc.)
157 or supporting documentation that were filed with the original CAM and
158 which should be part of the actual CAM document.
159
160

161 **Q. PLEASE EXPLAIN THE PROCESS OF OCS RECEIVING THE**
162 **SUPPORTING DOCUMENTATION AND CALCULATIONS FOR THE**
163 **CAM.**

164 A. Carbon did not provide all this supporting documentation early in this
165 proceeding as requested in OCS data requests, but instead Carbon has
166 either piecemealed this information to OCS over the course of this
167 proceeding or not provided the requested information. In fact, certain
168 supporting documents for allocation factors were seen for the first time in
169 Mr. Woolsey's rebuttal testimony.

170 For example, OCS 2-36/2-40⁸ asked Carbon to provide all underlying
171 documentation, supporting calculations, and cost pools that are used in
172 determining the allocation factors in the CAM, along with showing the
173 amount and percent of each cost pool allocated to each affiliate. Carbon's
174 response to OCS 2-36/2-40 on June 8, 2015 did not include a written
175 answer that identified or described the amount or percent of cost pool
176 allocated to each affiliate. Instead, Carbon merely cited to three attached
177 Excel documents and placed the burden on OCS to search and sort
178 thousands of fields in these documents to try and identify the proper
179 amounts.

180

181 One of these cited Excel documents is a searchable database document
182 ("OCS 2-40 Cost Allocation Support 2014" - "Cost Pool Detail" tab), and
183 Carbon's response did not identify the specific fields or explain how this

⁸ OCS 2-36 for Carbon and OCS 2-40 for Emery are the same data request with the same response from the respective companies.

184 document could be sorted to find the requested information among tens of
185 thousands of fields and numerous sort options. Carbon did not provide a
186 “pre-sorted” example spreadsheet showing how the Department cost pool
187 amounts could be determined.

188

189 Thus, to the extent Mr. Woolsey claims that I identified the wrong amount
190 of CSR costs, this information was never previously provided to OCS
191 although it was requested in OCS 2-36/2-40. I will address this issue later
192 regarding cost allocation matters.

193

194 **Q. HAVE YOU SEEN OTHER COMPANIES USE “BILLING RECORDS” AS**
195 **THE ONLY INPUT TO A CORPORATE OVERHEAD ALLOCATION**
196 **FACTOR AS PROPOSED BY CARBON?**

197 **A.** No. Mr. Woolsey supports the use of “billing records” as the only input to
198 the corporate overhead allocation factor. I have reviewed CAMs and
199 corporate overhead allocation factors for many large and small telcos in my
200 thirty-five years of experience, and I do not recall having seen “billing
201 records” used as the only input to a corporate overhead allocation factor.
202 Because corporate overheads include a wide variety of different types of
203 costs, a single-factor billing records allocator would not accurately reflect a
204 reasonable allocation of these costs on a “direct” or “cost-causative” basis
205 as required by the Federal Communications Commission (“FCC”) Part 64
206 allocation of costs and CAM. In most cases that I am familiar with a
207 corporate overhead allocator is based on a number of varying inputs such

208 as payroll, net plant, revenues and expenses - - which are all included in
209 my proposed corporate overhead allocation factor for Carbon.

210

211 **Q. DID MR. WOOLSEY CITE TO ANY PRECEDENT FOR CARBON'S USE**
212 **OF THE SINGLE-INPUT "BILLING RECORDS" CORPORATE**
213 **OVERHEAD ALLOCATION FACTOR?**

214 A. No. Mr. Woolsey did not cite to any precedent for his single-input billing
215 records corporate overhead allocation factor and he did not identify any
216 current or previous cases in Utah or other jurisdictions where this approach
217 was used or adopted.

218

219 **Q. IS IT BETTER TO USE THE OCS MULTIPLE INPUTS TO THE**
220 **CORPORATE OVERHEAD ALLOCATOR THAT ARE ALL "CURRENT"**
221 **INSTEAD OF USING CARBON'S "OUTDATED" BILLING RECORDS**
222 **INPUT?**

223 A. Yes. Carbon's corporate overhead allocation factor uses outdated billing
224 record inputs from August and September 2011, and since that time frame
225 the number of regulated local service customers has declined and the
226 number of nonregulated internet service customers has increased. The
227 combination of a decline in regulated customers and increase in internet
228 customers should result in "decreased" regulated billing records and
229 "increased" nonregulated billing records, and this should result in a revised
230 allocation factor that would drive a greater percentage of costs to
231 nonregulated operations. However, Carbon has not updated this factor for

232 these changes, and a proper CAM should routinely update allocation factor
233 inputs to avoid bias and manipulation of the results. In contrast to the
234 outdated billing records data that Carbon uses in its corporate overhead
235 allocation factor, all of the multiple inputs that I use are based on the latest
236 available December 31, 2014 financial data. Also, Carbon has never fully
237 justified why the billing records input gives an extra [REDACTED] weighting (versus
238 a [REDACTED] or some other weighting factor) to CABS bills, which tends to
239 drive more costs to regulated operations.⁹

240

241 **Q. MR. WOOLSEY STATES THAT “BILLING RECORDS” HAVE A DIRECT**
242 **OR COST-CAUSATIVE RELATIONSHIP TO THE CORPORATE**
243 **OVERHEAD EXPENSES,¹⁰ DO YOU AGREE?**

244 A. No. Mr. Woolsey has not provided an actual example to specifically show
245 how the number of billing records directly causes, drives, or impacts the
246 numerous types of expenses included in the corporate overheads category.
247 I do not believe that billing records (or any single input) has a direct or cost-
248 causative relationship to these varied types of expenses. This diverse
249 group of corporate overhead expenses would be more accurately allocated
250 by an allocation factor that includes multiple inputs to remove the bias of a
251 single-input allocation factor.

⁹ Ostrander Direct, p. 43, lines 921-926.

¹⁰ Woolsey Rebuttal, p. 19, lines 390-403.

252

253 Corporate overhead expenses include a wide variety of expenses including
254 payroll and benefits of the CEO, Board of Director fees and health
255 insurance, Marketing and Public Relations employee payroll and benefits,
256 NTCA Coop and URTA membership dues, donations, advertising, and
257 other overheads tied to all of the above (seminars, business lunches,
258 supplies and other costs). I do not believe the number of bills to local
259 service customers or internet customers has a specific and direct impact (or
260 drives) how the CEO, Marketing/Public Relations employees, and Board of
261 Directors personnel spend their time on various issues and services. Also,
262 I don't think the converse is true either, that the time spent by these
263 personnel on various issues and services has a specific and direct impact
264 on the number of customer bills for each service.

265

266 Mr. Woolsey's testimony does not give a specific example to show that Mr.
267 Johansen's (CEO) time on various services and issues is driven by the
268 number of billing records of various services. In fact, [REDACTED]

269 [REDACTED]

270 [REDACTED], so there is no documentation in support of any such claims by Mr.
271 Woolsey.¹¹ In addition, because the Company's billing records input is
272 based on outdated 2011 data, using this method to allocate the time and

¹¹Carbon's response to DPU 3-22 states [REDACTED]
[REDACTED]

273 costs of Mr. Johansen, the Board, and Marketing/Public Relations
274 personnel implies that all of these parties have not changed their
275 percentage of time spent on regulated compared to nonregulated affiliates
276 for the past five years. I do not believe that is possible because the fiber
277 construction program that drives significant nonregulated retail internet
278 revenues of ETV has become a higher priority in recent years, and has likely
279 required more planning and implementation time and resources.

280

281 Mr. Woolsey states that billing records reflect forward looking CEO plans,
282 board decisions, and marketing efforts.¹² I do not agree. It is not possible to
283 bill (or create a billing record) for a future customer of a future service that
284 is not actually being provided yet, as Mr. Woolsey would imply. Therefore,
285 no billing records would exist to support or drive the time spent by Carbon
286 personnel on future services. Thus, billing records that do not even exist
287 cannot be an indicator of future services or customers.

288

289 **Q. MR. WOOLSEY DISAGREES WITH INCLUDING REVENUE AND**
290 **EXPENSE AS AN INPUT TO THE CORPORATE OVERHEAD**
291 **ALLOCATOR,¹³ WHAT IS YOUR OPINION?**

292 A. The use of revenues and expenses as an input is reasonable, especially
293 when they are combined with other inputs like payroll and net plant for use

¹² Woolsey Rebuttal, p. 19, lines 399-401.

¹³ Woolsey Rebuttal, pp. 16 – 18, lines 320 – 388.

294 in a corporate overhead allocations factor. Arguably almost every “single”
295 allocation input has some downside and that is why it is more appropriate
296 to use multiple allocator inputs to mitigate the intentional or unintentional
297 bias of a single-input allocator. In fact, [REDACTED]
298 Allocator¹⁴ used revenues as the only input to this allocation factor until this
299 was changed to [REDACTED] in May 2014.

300

301 Mr. Woolsey states that revenue is only an appropriate input if a company
302 has homogenous products, but it is not appropriate for the consolidated
303 operations of Carbon affiliates which offer multiple services like cable
304 television, broadband internet, long haul transport, and other services.¹⁵ I
305 do not agree. If Mr. Woolsey’s argument is accurate, then it would also be
306 accurate to reject the use of billing records for the same logic. For example,
307 different services have different types and volumes of billing records that
308 are created (with different levels of detail and supporting documents).
309 Under Mr. Woolsey’s argument, if services have to be identical or similar to
310 use a “revenue” input, then services would also have to be identical or very
311 similar to use a “billing” records input.

312

313 Mr. Woolsey also states that revenues as an input is not reasonable due to
314 changes in different types of revenues among Carbon and its affiliates.¹⁶ I

¹⁴ Carbon’s CAM, Exhibit 9b.

¹⁵ Woolsey Rebuttal, pp. 16, lines 320 – 331.

¹⁶ Woolsey Rebuttal, pp. 16, 17, and 18, lines 333-369.

315 disagree. The primary advantage of using revenues as an input is that this
316 may be the only financial input that is not easily manipulated. This is
317 because revenues are booked to specific account numbers for services and
318 affiliates and it is not easy to shift revenues between other services and
319 affiliates. In contrast, some other financial input factors could be more easily
320 manipulated and shifted between services and affiliates.

321

322 **Q. WHY IS EXPENSE A REASONABLE ALLOCATION INPUT,**
323 **ESPECIALLY WHEN USED WITH OTHER INPUTS?**

324 A. Mr. Woolsey states that expenses are not a good input because they have
325 no relationship to the amount of time spent by the CEO, Board members,
326 or Marketing/Public Relations personnel.¹⁷ Again, expenses and any single
327 input has its problems and that is why I recommend multiple inputs to
328 balance all of these concerns as it relates to the varying types of costs
329 included in corporate overhead expenses.

330

331 Mr. Woolsey states that the single largest expense of the nonregulated
332 entities is the Cable TV programming costs of ETV LLC, and this cost is not
333 reasonably driven or allocated by an expense factor, but this type of
334 expense is also not reasonably driven by billing record inputs either.¹⁸

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¹⁷ Woolsey Rebuttal, pp. 18-19, lines 371-388.

¹⁸ Woolsey Rebuttal, p. 18, lines 379-382.

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**Rebuttal to Mr. Woolsey: Adjustment BCO-2 to Revise the
Customer Service Representative (“CSR”) Allocation Factor
(Exhibit 1S-1, Sch. A-3)**

345

346

**Q. MR. WOOLSEY STATES THAT YOUR CSR ALLOCATION
ADJUSTMENT BEGINS WITH THE INCORRECT AMOUNT OF CSR
COSTS, DO YOU AGREE?**

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A. Mr. Woolsey states that the total 2014 CSR costs that I used as the starting point for allocations of [REDACTED] is incorrect and the amount should be [REDACTED].¹⁹ However, I am unable to validate or test Mr. Woolsey’s amount and related calculation because he has not provided adequate supporting documentation or explanation for his CSR costs. Mr. Woolsey indicates his CSR calculation of [REDACTED] is a subset of total allocations given to the Office in data request OCS 2-40²⁰ and that he has included a “pivot table” with his rebuttal testimony (Carbon Emery Rebuttal Testimony of Mr. Woolsey – CSR Allocation - Exhibit 3.xlsx) to support his calculations.²¹

¹⁹ Woolsey Rebuttal, pp. 25-26, lines 534=538.

²⁰ Woolsey Rebuttal, p. 26, lines 538-539

²¹ Woolsey Rebuttal, p. 26, lines 539-541.

359 “2014 Alloc Det OCS DR 2-40”) did not provide a “sorted” version to OCS
360 that shows CSR costs of [REDACTED]. Instead Carbon merely provided the
361 voluminous Excel database with the response to OCS 2-40, and Carbon did
362 not sort this document to specifically show Department cost pool amounts
363 for CSR (or any other cost pools) as OCS 2-40 had requested. In effect,
364 Carbon placed the burden on OCS to sort the Excel document and
365 determine the proper amounts.

366

367 Second, I reviewed Exhibit 3 and the “pivot table” that Mr. Woolsey cites to
368 at the “Summary” tab, but this is a hard-coded and non-working pivot table
369 which does not show formulas, sources, how the amounts were determined,
370 and I cannot sort the pivot table in any manner. In other words, the CSR
371 cost of [REDACTED] that is included at the pivot table is merely that number
372 typed (or plugged) into a field, and there is no other underlying information
373 or formulas to validate the amount or to show how the amount was
374 determined.

375

376 **Q. COULD THIS ISSUE OF CONFLICTING CSR AMOUNTS BETWEEN**
377 **OCS AND CARBON HAVE BEEN EASILY AVOIDED AT A MUCH**
378 **EARLIER DATE?**

379 A. Yes. If Carbon’s response to OCS 2-40 on June 8, 2015 would have
380 specifically identified and provided the amount of Department cost pools as
381 was originally requested by OCS, then there would not be any dispute

382 regarding the proper amount. Instead, Carbon merely attached the Excel
383 schedules to the response to OCS 2-40 and placed the burden on OCS to
384 sort and identify the proper amounts of Department cost pools. Carbon did
385 not pre-sort the Excel files or provide a written response that identified the
386 amount of Department cost pools to be found in the attached Excel
387 schedule.

388

389 **Q. HAVE YOU SORTED ALL OF THE COST POOL AMOUNTS IN A**
390 **CONSISTENT MANNER AT OCS 2-40?**

391 A. Yes. I have sorted all of the Department cost pools of CSR, CEO, BOD,
392 and PR/MK at the sortable Excel document provided at OCS 2-40 to arrive
393 at the amounts included in my allocation adjustment, and Mr. Woolsey
394 concurs that all the Department cost pool amounts that I used are correct
395 except for the CSR amount.²² Because I have sorted all cost pools in a
396 consistent manner it is not clear why the CSR costs would be incorrect and
397 the other cost pools would be correct, and Mr. Woolsey does not adequately
398 address this issue. In fact, using Mr. Woolsey's Exhibit 3, I have sorted the
399 tab "2014 Alloc Det OCS DR 2-40" for CSR costs in Department 10, and it
400 shows the same CSR costs of [REDACTED] in my testimony. If there is separate
401 additional analysis that is necessary to arrive at the amount of Mr.
402 Woolsey's CSR costs, then this information should have been documented

²² Woolsey Rebuttal, p. 26, lines 541-546.

403 in Carbon's CAM and it should have been provided in Carbon's original
404 response to OCS 2-40. This conflict could also have been resolved with
405 proper documentation and support in Carbon's CAM.

406

407 **Q. BECAUSE OF THE PREVIOUS CONCERNS REGARDING THE**
408 **CORRECT AMOUNT OF DEPARTMENT COSTS, ARE YOU PROVIDING**
409 **A "PDF" SORTED VERSION OF THE FOUR DEPARTMENT COST**
410 **POOL EXPENSES THAT YOU HAVE ADJUSTED?**

411 A. Yes. I am providing a sorted "PDF" copy from Carbon's response to OCS
412 2-36/2-40 so that the actual amount of the Department expenses can be
413 viewed.²³ If I provide a working Excel copy, then the document may revert
414 back to its original unsorted version that does not show the appropriate
415 amounts. This information is located at Exhibit 1S-2 as follows:

416 Exhibit 1S-2 – Sch. A - Chief Executive Officer Department expenses.

417 Exhibit 1S-2 – Sch. B - Board of Directors Department expenses.

418 Exhibit 1S-2 – Sch. C - Public Relations/Marketing Department expenses.

419 Exhibit 1S-2 - Sch. D - Customer Service Representative Department
420 expenses.

421

422 **Q. MR. WOOLSEY PROVIDES AN EXPLANATION OF THE NUMBER OF**
423 **CSRS,²⁴ DOES THIS CHANGE THE AMOUNT OF YOUR**
424 **ADJUSTMENT?**

²³ Both OCS and Carbon have previously provided an Excel working version of OCS 2-36/2-40 in the record.

²⁴ Woolsey Rebuttal, pp. 26-28, lines 549-582.

425 A. No. Regardless of the number of full-time, half-time, and average number
426 of CSRs addressed by Mr. Woolsey, my adjustment is primarily driven by
427 the “amount” of CSR costs subject to allocation and the related allocation
428 factors and not any interpretation of the number of CSRs.

429

430 **Q. MR. WOOLSEY STATES THAT DSL CUSTOMERS ARE REGULATED,**
431 **DO YOU AGREE AND DOES THIS IMPACT THE COMPANY’S**
432 **ALLOCATION FACTORS?**

433 A. Mr. Woolsey states that at December 31, 2015,²⁵ the combined phone and
434 internet customers in the Carbon serving area are about one-half phone
435 customers [REDACTED] and about one-half are internet customers [REDACTED], and
436 that [REDACTED] of the internet customers are “regulated” DSL customers and so
437 the number of “regulated” customers being served by regulated plant is
438 [REDACTED] ([REDACTED] phone customers and [REDACTED] DSL customers).”²⁶ It appears
439 that Mr. Woolsey is asserting that DSL is a “state/intrastate” service that is
440 regulated by the Utah Commission, I do not agree and this is inconsistent
441 with Carbon’s position on other issues. First, Carbon’s Part 69 cost study
442 shows DSL and its related costs as an “interstate” service and not an
443 interstate service. Second, “state” regulatory agencies do not regulate
444 prices or service quality of DSL because it is an “interstate” service”, and

²⁵ The cite to “2015” appears to be a typographical error, and presumably this is December 31, 2014.

²⁶ Woolsey Rebuttal, p. 24, lines 506-511. Mr. Woolsey’s rebuttal is addressing my testimony related to the Public Relations/Marketing allocation factor and costs.

445 there is no “state” tariff filed with the Utah Commission for this “interstate”
446 service. However, if Carbon’s corporate allocation factor (and related “billing
447 records” input), CSR allocation factor, and other allocations factors treat
448 DSL as a “state” regulated service, then this would appear to be improperly
449 allocating costs to the regulated operations. It is not reasonable for Carbon
450 to argue that DSL/internet service is a regulated service for “allocation factor
451 purposes”, but is an interstate regulated service for other purposes. This
452 issue is another reason to reject Carbon’s allocation factors.

453

454 **Q. IF MR. WOOLSEY IS CORRECT REGARDING THE AMOUNT OF CSR**
455 **COSTS, HOW WOULD YOUR ADJUSTMENT BE REVISED UNDER**
456 **VARIOUS SCENARIOS?**

457 A. If the correct amount of CSR costs is [REDACTED] as indicated by Mr. Woolsey,
458 then my adjustment for CSR costs would need to be revised per the
459 following possible scenarios:

- 460 1) If the total amount of CSR costs is reduced to Mr. Woolsey’s amount,
461 but if my revised allocation factor of 65% nonregulated and 35%
462 regulated is still retained, then my proposed adjustment for only the
463 CSR department would decline from [REDACTED] to [REDACTED], a
464 reduction of [REDACTED]
465
- 466 2) If the total amount of CSR costs is reduced to Mr. Woolsey’s amount,
467 and my proposed allocation factor is changed to 50% nonregulated
468 and 50% regulated, then my proposed adjustment for only the CSR
469 department would decline from [REDACTED] to [REDACTED], a reduction of
470 [REDACTED].

471

472

473 **Rebuttal to Mr. Woolsey – Adjustment BCO-5 and BCO-6 -**
474 **Remove 50% of Telephone Plant Under Construction and**
475 **Materials and Supplies**

(Exhibit 1S-1, Sch. A-6 and A-7)

476

477

478

479

Q. DOES MR. WOOLSEY APPEAR TO AGREE WITH YOU THAT INCREASED FIBER INVESTMENT AND ACTIVITY IS DRIVING INCREASED LEVELS OF MATERIALS AND SUPPLIES (“M&S”) AND PRESUMABLY TELEPHONE PLANT UNDER CONSTRUCTION (“TPUC”)?

480

481

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483

484

A. Yes. Mr. Woolsey acknowledges that Carbon is experiencing higher than historical levels of M&S due to increased construction activity associated with FTTH curb and business district in Price.²⁷ Presumably this same assumption also applies to TPUC levels for the same reasons. Thus, Mr. Woolsey appears to support my argument that these high levels of M&S (and presumably TPUC) are temporary and not proven to be permanent or long-term. Thus, these temporary inflated costs should not be permanently built into UUSF revenue requirements because this would provide Carbon with excessive UUSF revenues when TPUC and M&S balances decline in the future.

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Q. DO YOU AGREE WITH MR. WOOLSEY’S OTHER ARGUMENTS REGARDING TPUC AND M&S?

496

²⁷ Woolsey Rebuttal, p. 35, lines 705-708.

497 A. No. Mr. Woolsey argues that because the increased levels of TPUC reflect
498 “actual plant expenditures which currently reside in TPUC”, then no
499 adjustment is necessary.²⁸ I do not understand Mr. Woolsey’s logic. I agree
500 with Mr. Woolsey that TPUC almost always reflects eventual actual plant
501 expenditures, but that reason by itself does not justify the inclusion of
502 temporary excessive levels in rate base.

503

504 **Rebuttal to Mr. Woolsey - Adjustment BCO-7: Remove Emery’s**
505 **Adjustment for Projected Decline in Access Lines**
506 **(Exhibit 1S-1, Sch. A-8)**
507

508
509 **Q. DO YOU OPPOSE MR. WOOLSEY’S REVISED ADJUSTMENT TO**
510 **PROJECTED ACCESS LINE LOSS?**

511 A. Yes. Mr. Woolsey reduced the projected reduction in access line revenues
512 from ██████ to ██████, a reduction of ██████.²⁹ Mr. Woolsey
513 acknowledges that his original projection included in his direct testimony
514 was incorrect because it overstated the amount of lost access lines.³⁰ Mr.
515 Woolsey’s statement about his inaccurate projections confirms the
516 concerns that I addressed in my direct testimony, that this adjustment and
517 the related projected access lines are not known and measurable. This

²⁸ Woolsey Rebuttal, p. 34, lines 671-672.

²⁹ Woolsey Rebuttal, p. 4, lines 76-78 and pp. 52, the table between lines 1027 and 1028, and lines 1028-1035. Also, p. 53, lines 1036-1047.

³⁰ Woolsey Rebuttal, p. 53, lines 1042-1043.

518 adjustment should be rejected for the same reasons indicated in my direct
519 testimony.³¹

520 **Rebuttal to Mr. Woolsey - Adjustment BCO-8: Remove**
521 **Depreciation Expense on Fully Depreciated Assets**
522 **(Exhibit 1S-1, Sch. A-9)**
523

524 **Q. DOES OCS AND DPU BOTH OFFER THE COMMISSION TWO**
525 **REASONABLE DEPRECIATION EXPENSE ADJUSTMENT**
526 **ALTERNATIVES DESPITE CARBON'S OPPOSITION?**

527 A. Yes. Carbon criticizes the depreciation adjustment and approach both
528 myself and Mr. Hellewell uses.³² However, both adjustments and related
529 methods are reasonable when considering the concerns and problems that
530 we have both identified with Carbon's depreciation expense calculation and
531 underlying Continuing Property Records ("CPRs"). The OCS and DPU offer
532 the Commission two reasonable depreciation expense adjustment
533 alternatives. I have used an approach that is more consistent with the
534 FCC's USoA Part 32 regulatory mass asset/group depreciation accounting
535 methods and Mr. Hellewell's approach is more consistent with traditional
536 non-regulatory depreciation treatment.

537

538

539

³¹ Ostrander Direct, pp. 61-62, lines 1305-1333.

³² Woolsey Rebuttal pp. 36-40, lines 719-796 rebuts Mr. Ostrander's depreciation expense adjustment and related method. Woolsey Rebuttal pp. 42-49, lines 844-996 and Meredith Rebuttal pp. 22-29, lines 608-836 rebuts Mr. Hellewell's depreciation expense adjustment and related method.

540 **Q. IS THERE AN ERROR IN MR. WOOLSEY'S REBUTTAL TESTIMONY?**

541 A. Yes. Mr. Woolsey's depreciation table³³ shows an incorrect Aerial Cable life
542 of ■ years (which equals a ■ depreciation rate), but the correct life and
543 depreciation rate of 10 years and 10% is shown at Carbon's response to
544 DPU 1-11 and is also cited at Mr. Hellewell's testimony that refers to the
545 original Commission order establishing these depreciation rates.³⁴ Thus,
546 Mr. Woolsey's testimony can give the incorrect impression that these Aerial
547 Cable assets have a longer life and lower depreciation expense than they
548 actually do. To the extent Mr. Woolsey's arguments rely on this incorrect
549 information, his arguments are invalid.

550

551 **Q. IS MR. WOOLSEY'S PRIMARY ARGUMENT NEGATED BY THE FACT**
552 **THAT YOU DO NOT PROPOSE TO PERMANENTLY STOP**
553 **DEPRECIATION EXPENSE ON "FUTURE" PLANT ADDITIONS OF THE**
554 **TWO ACCOUNTS THAT YOU ADJUST?**

555 A. Yes. Mr. Woolsey primarily argues that my adjustment to amortize
556 depreciation expense on these two accounts is not reasonable because
557 Carbon plans to add assets to these accounts in future years.³⁵ However,
558 it appears that Mr. Woolsey does not completely understand my position.

³³ Woolsey Rebuttal, p. 38, the "table" is located between lines 757 and 758.

³⁴ Hellewell Direct, p. 5, lines 122-125.

³⁵ Woolsey Rebuttal, pp. 37, lines 750-754 and the table shown at p. 38 between lines 757 and 758. Also, p. 38, lines 767-769 and p. 40, lines 784-787.

559 Mr. Woolsey appears to believe that I am proposing to permanently stop
560 depreciation forever on both accounts 2232 Subscriber Circuits and 2421
561 Aerial Cable. And he appears to argue that it is not reasonable to
562 permanently stop depreciation on these accounts because plant additions
563 will be made to both of these accounts in the future and it will be necessary
564 to depreciate those new assets.

565

566 I am not proposing that depreciation expense be permanently stopped on
567 these two accounts forever. I am only proposing that Carbon's depreciation
568 expense for these two accounts that are included in its filing, and which is
569 based on "historical" plant balances that are mostly fully depreciated, be
570 amortized over a five-year period. I could have proposed that this related
571 depreciation expense be removed entirely from this filing which is more
572 consistent with Mr. Hellewell's approach, but I am proposing a more
573 conservative approach of amortizing these remaining balances to ensure
574 that Carbon does not recover excess UUSF revenues in the future when
575 these "historical" assets become fully depreciated.

576

577 Clearly, I am not proposing to stop depreciation expense for new plant
578 additions in future years, Carbon can continue to record this depreciation
579 expense on its books when it acquires these assets. I am simply addressing
580 how to adjust depreciation expense on problems related to "historical"
581 assets that are primarily fully depreciated; I am not proposing a method to

582 stop depreciation for any future plant additions. Therefore, Mr. Woolsey's
583 arguments about future plant additions are not relevant, the Company can
584 continue to depreciate these assets in the future.

585

586 **Q. IF CARBON WANTS TO RECOVER THE DEPRECIATION EXPENSE**
587 **RELATED TO NEW PLANT ADDITIONS IN FUTURE YEARS, CAN IT**
588 **FILE ANOTHER UUSF CASE?**

589 A. Yes. When, or if, Carbon adds new plant additions to the Subscriber Circuit
590 and Aerial Cable accounts in future years, it can file another UUSF case to
591 recover this depreciation expense. There is absolutely nothing in my
592 proposal that prevents Carbon from recovering depreciation expense on
593 these two accounts when new plant additions are made in the future.

594

595 **Q. WHAT OTHER REASONS NEGATE MR. WOOLSEY'S ARGUMENT TO**
596 **RELY ON PROJECTED FUTURE PLANT ADDITIONS?**

597 A. It is inconsistent with the use a historical 2014 test period in this case.
598 Carbon had the option of making a "forecasted" filing if it wanted its
599 projected future plant additions to be relied on to some degree. Also, these
600 plant additions are not known and measurable, otherwise they would be
601 included in the test period telephone plant in service account.

602

603

604

605 **Q. IS YOUR DEPRECIATION EXPENSE ADJUSTMENT FOR AERIAL**
606 **CABLE CONSERVATIVE?**

607 A. Yes. Carbon's filing includes 2014 depreciation expense for account 2421
608 Aerial Cable of [REDACTED] my adjustment allows Carbon to recover \$84,296
609 of related depreciation expense, so my adjustment is \$56,479. Mr.
610 Hellewell states that Aerial Cable was fully depreciated at the end of
611 January 2014,³⁶ and I do not necessarily disagree with his conclusion under
612 his assumptions. But if I relied on his conclusion, then I would be justified
613 in removing all Aerial Cable depreciation expense of \$140,775 instead of
614 just the \$56,479 that I actually removed in my adjustment. So my
615 adjustment is conservative in this regard.

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³⁶ Hellewell Direct, p. 7, line 177-178.

627

628

629

630 **Q. WILL YOU CONTINUE TO EXPLAIN WHY YOUR DEPRECIATION**
 631 **EXPENSE ADJUSTMENT FOR AERIAL CABLE IS CONSERVATIVE?**

632 A. Yes, I will explain how I relied on the information in the table below.³⁷

633 **Table 1 – Aerial Cable Analysis:**

	A	B	C	D	E
			Aerial Cable Amount	%	
	Aerial Cable Account	Year			
Ln	Part 1				
1	Total Copper Aerial				fully deprec.
2	Fiber Aerial				mostly fully deprec.
3	Fiber Aerial				
4	Total Fiber Aerial				
5	Total Copper & Fiber Aerial				
6					
7	Part 2				
8	Fiber Aerial				
9	Deprec. rate				
10	Deprec. expense				
11	Total Aerial Cable Deprec. Expense per Co.				
12	Adjust Deprec. Exp.				
13					
14	Part 3				
15	Copper Aerial				
16	Copper Aerial				
17					

634

635

³⁷ Information from this table is from Carbon’s CPR records provided at the response to DPU 1-9, these records can be sorted by type of asset, age/years, and company.

636 Table 1 shows that Carbon's books include both much older vintage
637 "Copper" Aerial cable and more recent "Fiber" Aerial cable. And from
638 [REDACTED] only Copper Aerial of [REDACTED] (Col. C, line 1) was added
639 to the books and then from [REDACTED] only Fiber Aerial of [REDACTED] (Col.
640 C., line 4) has been added to the books [REDACTED]
641 [REDACTED] Carbon continues to record depreciation
642 expense on all of the much older Copper Aerial, along with the new Fiber
643 Aerial. Although mass asset depreciation accounting combines these two
644 types of assets together in one account for purposes of depreciating these
645 assets (using the same depreciation rate of 10%), these assets are clearly
646 two separate technologies. Fiber has the capability to provide all of the
647 deregulated broadband services that copper cannot provide. The legacy
648 Copper Aerial is no longer being added to the books or network of Carbon
649 because it is essentially obsolete. These differences provide the basis for
650 treating these two groups of assets separately for depreciation purposes,
651 especially when the Copper Aerial is essentially fully depreciated. I use this
652 information to test the reasonableness of my depreciation expense
653 adjustment.

654

655 For purposes of this reasonableness test, I am not calculating depreciation
656 expense on [REDACTED] of Copper Aerial [REDACTED] because these
657 assets have far exceeded their depreciation life of 10 years and I am
658 treating them as fully depreciated. I am also treating Fiber Aerial of [REDACTED]

659 [REDACTED] the same because these assets are mostly fully depreciated.
660 This calculation is shown at Part 2 of the Table. If I allow depreciation
661 expense on only the Fiber Aerial of [REDACTED] (added in 2014), then this
662 results in allowed depreciation expense of [REDACTED] and when this amount
663 is deducted from Carbon's total Aerial Cable depreciation expense of
664 [REDACTED], this results in an adjustment of [REDACTED]. Although this method
665 would remove Aerial Cable depreciation expense of [REDACTED], my proposed
666 adjustment only removes depreciation expense of [REDACTED], thus
667 demonstrating that my adjustment is conservative.

668

669 **Q. ARE YOU CONCERNED THAT OLDER VINTAGE COPPER AERIAL**
670 **CABLE IS REDUNDANT TO THE NEW FIBER AERIAL CABLE AND**
671 **ESSENTIALLY DUPLICATES DEPRECIATION EXPENSE?**

672 A. Yes. The Fiber Aerial is intended to overlay and replace the Copper Aerial
673 plant because Carbon is moving towards a fiber embedded network.³⁸
674 Although this fiber will also provide basic local service, it will not provide any
675 substantive "new" basic local service to customers - - so clearly the focus is
676 on expanding and providing new broadband services. However, it is not
677 reasonable for the Company to recover depreciation expense on two
678 networks, the legacy Copper Aerial assets and the new Fiber Aerial assets
679 because this is redundant, duplicative, and excessive. Carbon's Copper

³⁸ However, I do not know how much Copper facilities would be redundant.

680 Aerial assets that are fully depreciated are not improperly increasing rate
681 base, but Carbon is still calculating depreciation expense on these duplicate
682 and related redundant assets.

683

684 Another issue compounding this concern is that it does not appear that
685 Carbon is retiring the Copper Aerial plant as Fiber Aerial replaces it. I have
686 reviewed Carbon's Annual Reports, and it appears that plant retired for all
687 of Account 2410 is ■■■ for 2011 and 2013, and only ■■■ for 2014.³⁹ It does
688 not appear that Carbon has retired essentially any Copper Aerial or even
689 any cable and wire facilities of any kind for the three-year period 2011, 2013,
690 and 2014. It appears especially unusual that Carbon added ■■■■■ of
691 Fiber Aerial plant in 2014 (which has the same value as ■■■ of the existing
692 Copper Aerial plant on the books) and did not retire any copper or other
693 plant related to these additions. This information supports my concern
694 about Carbon's redundant Copper and Fiber network and is yet another
695 reason to adopt the depreciation expense adjustment that I propose.

696

697 **Q. IS ALL OF THE OLDER VINTAGE COPPER AERIAL CABLE ON THE**
698 **BOOKS STILL BEING USED AND CAN IT BE PHYSICALLY LOCATED**
699 **AND IDENTIFIED?**

700 A. I don't know the answer to that, but it is a concern. I understand that the
701 current Carbon management team inherited CPRs that had problems, and

³⁹ I did not have the 2012 Annual Report information.

702 that they have cleaned up the CPRs to some degree by removing certain
703 assets that did not exist or could not be located. However, that same issue
704 could still exist to some degree in regards to Copper Aerial plant. As Table
705 1 shows, the Company asserts that some Copper Aerial plant as far back
706 as [REDACTED] is still in service, still being used, and can be located. Furthermore,
707 as Part 3 of Table 1 shows, [REDACTED] of the Copper Aerial is from [REDACTED] years
708 old, and only [REDACTED] of this plant is [REDACTED] years old or less. Clearly, these actual
709 asset ages exceed the 10 year depreciable life of this related plant

710

711 **Q. MR. WOOLSEY STATES THAT YOU HAVE NOT PROVIDED**
712 **ADEQUATE SUPPORT TO REMOVE DEPRECIATION ON OTHER**
713 **ASSETS. DO YOU AGREE?**

714 A. No. Mr. Woolsey states that I have not provided adequate rationale to
715 remove depreciation expense of [REDACTED] for Other Work Equipment and
716 [REDACTED] for Interexchange Circuit Equipment.⁴⁰ It was not necessary to
717 provide as much support for these two assets because it is easier to make
718 a case for suspending depreciation expense for these assets. Carbon's
719 records clearly show that these assets are fully depreciated with "\$0" net
720 book value at December 31, 2014, there are not any net assets remaining
721 to be depreciated.⁴¹ Mr. Woolsey claims that Carbon will continue to make
722 additions to these plant accounts in future years, but he did not identify the
723 amount of additions or provide any support for this statement. I reviewed

⁴⁰ Woolsey Rebuttal, p. 37, lines 738-740.

⁴¹ This information is from DPU 1-11.

724 Carbon's FCC Form 481 projected budget, and Carbon only projects
725 ██████████ of additions for 2016 to 2017 for Other Work Equipment, and only
726 projects ██████████ for 2016 to 2017 for Interexchange Circuit Equipment.
727 This is not significant and does not change my position. Regardless, as I
728 previously stated, I am only suspending depreciation on historic balances,
729 which does not prevent Carbon from recording depreciation expense on
730 new additions in future years if they occur.

731

732 **Rebuttal to Mr. Woolsey - Adjustment BCO-9: Adjust Income Tax**
733 **Expense and Reflect Interest Synchronization**
734 **(Exhibit 1S-1, Sch. A-10 and A-11)**

735

736

737

**Q. MR. WOOLSEY STATES THAT THE INTEREST SYNCHRONIZATION
738 METHOD USED BY OCS IS NOT APPROPRIATE IN CASES OF
739 "HYPOTHETICAL" CAPITAL STRUCTURES,⁴² DO YOU AGREE?**

740

A. No. Whether a hypothetical capital structure is or is not used in a case is
741 not relevant, but the interest synchronization method is always relevant if
742 the capital structure calculation includes a debt component with a weighted
743 cost of debt. In this case, both Carbon and OCS have used a hypothetical
744 capital structure that includes a debt component and a related weighted cost
745 of debt. The fact that Carbon and OCS disagree on the "weighting" of debt
746 and equity in the hypothetical capital structure is not relevant to the interest
747 synchronization method, and the OCS has actually used Carbon's cost of

⁴² Woolsey Rebuttal, pp. 53-54, lines 1049-1075.

748 debt of ██████████⁴³ in its hypothetical capital structure and proposed rate of
749 return (“ROR”) calculation.

750

751 The only circumstances in which it would not be appropriate to use the
752 interest synchronization method is if there is no debt component included in
753 the actual or hypothetical ROR calculation or if a company’s revenue
754 requirement is determined using a Times Interest Earned Ratio (TIER)⁴⁴
755 method instead of a typical ROR method.

756

757 **Q. WILL YOU EXPLAIN THE UNDERLYING REGULATORY CONCEPTS**
758 **BEHIND THE INTEREST SYNCHRONIZATION METHOD?**

759 A. It is important to understand the basic underlying regulatory concept behind
760 the interest synchronization method, including the following:

- 761 1) Interest expense is deducted from taxable income in the determination
762 of income tax expense, so it is important to include an interest expense
763 component in any calculation of income tax expense for regulatory
764 purposes. Carbon’s income tax calculation does not include a deduction
765 for interest expense.
766
- 767 2) Interest expense is not treated as an expense to reduce operating
768 income in a rate filing because a company is compensated for this debt
769 cost component (interest expense) through the cost of debt that is
770 included in the ROR calculation that is applied to rate base.
771
- 772 3) This is the most important concept to understand. It is very important to
773 synchronize and use the same cost of debt (interest expense cost) in

⁴³ Woolsey Direct Testimony, Confidential Exhibit 3 of Confidential Exhibit A, the debt component in the “Cost of Capital” column.

⁴⁴ The TIER method is sometimes used for companies with a significant amount of long-term debt and the party holding the debt requires that a company’s earnings be a multiple of its interest expense cost in order to avoid foreclosure or violations of the debt covenant.

774 the ROR calculation with the same cost of debt (interest expense)
775 included in the income tax expense calculation to be fair and equitable
776 to all parties' interests.
777

778

779

**Q. WHY IS THIS METHOD OF INTEREST SYNCHRONIZATION
OBJECTIVE AND FAIR TO ALL PARTIES?**

780

781 A. The interest synchronization method is that it is objective, not easily
782 manipulated by any party, and it does not pick winners or losers between
783 the sometimes competing interests of companies and ratepayers. In some
784 years the interest synchronization method will increase a company's
785 revenue requirement and in some years it will decrease a company's
786 revenue requirement. A consistent interest synchronization calculation can
787 produce either an increase⁴⁵ or decrease⁴⁶ in the revenue requirement, but
788 if the same calculation method is used in each case over the long-run then
789 it does not favor either the company or ratepayers.

790

**Q. MR. WOOLSEY STATES HE IS NOT AWARE THAT INTEREST
SYNCHRONIZATION IS USED IN CASES OF HYPOTHETICAL CAPITAL
STRUCTURES OR OTHER CASES IN UTAH.⁴⁷ WHAT ARE YOUR
COMMENTS?**

794

⁴⁵ An increase in a company's revenue requirement results when the interest expense that is calculated using interest synchronization is less than interest expense used in the company's income tax return.

⁴⁶ A decrease in a company's revenue requirement results when the interest expense that is calculated using interest synchronization is greater than interest expense used in the company's income tax return.

⁴⁷ Woolsey Rebuttal, p. 53, lines 1054-1057.

795 A. The Utah Commission approved a stipulation between DPU and Gunnison
796 Telephone Company whereby a 50% equity/50% debt hypothetical capital
797 structure was used and the interest synchronization method was used for
798 calculating interest expense on the hypothetical capital structure. This
799 Order is provided at OCS Exhibit 1S-3 and relevant language from the
800 Order is noted below:⁴⁸

801 4. Rate of return on rate base: Applicant's current capital
802 structure is comprised of 6.5 percent debt to 93.5
803 percent equity. By use of a hypothetical capital
804 structure, Applicant and the Division agreed to a return
805 on equity of 12.5 percent (on 50 percent of rate base)
806 and a return on debt of 7.6 percent (on 50 percent of
807 rate base), which results in an overall 10.05 percent
808 return on rate base.

809 5. Income tax calculation: Applicant and the Division
810 stipulated to an income tax calculation that reflects the
811 impact of a *pro forma* adjustment as well as a tax
812 synchronization adjustment for interest expense
813 resulting from the use of a hypothetical capital
814 structure. (emphasis)

815 **Q. WHAT OTHER COMMENTS DO YOU HAVE REGARDING MR.**
816 **WOOLSEY'S REBUTTAL ON TAX ISSUES?**

817 A. I agree with Mr. Woolsey that I inadvertently used an incorrect state income
818 tax rate in the interest synchronization calculation and that I used a slightly
819 different gross-up factor.⁴⁹ I have made these corrections which are
820 relatively immaterial.

⁴⁸ Before the Public Service Commission of Utah, Docket No. 00-043-01, Order issued July 3, 2000, Order ¶¶ 4 and 5.

⁴⁹ Woolsey Rebuttal, p. 55, lines 1084-1086 and lines 1090-1093.

821

822 **Adoption of DPU Adjustments**

823 **Q. ARE YOU ADOPTING TWO OF DPU'S ADJUSTMENTS TO INCLUDE IN**
824 **YOUR REVENUE REQUIREMENT CALCULATION?**

825 A. Yes. I am adopting Mr. Hellewell's adjustment to increase revenues by
826 ████████ to reflect the revenue imputation for Carbon's cable affiliate
827 customers migrating to the broadband/internet affiliate,⁵⁰ and his
828 adjustment to increase revenues by ████████ to reflect a true-up of
829 wholesale DSL revenues from an updated 2014 cost study.⁵¹ Mr.
830 Hellewell's DSL revenue true-up adjustment was adopted by Carbon and
831 included in Mr. Woolsey's Rebuttal revenue requirement.⁵² Therefore, it is
832 not necessary for me to make this additional adjustment because the
833 amount is already included in Carbon's revised rebuttal revenue
834 requirement that was the beginning point for my proposed revenue
835 requirement adjustments.

836

837 **Q. DOES THIS COMPLETE YOUR PREFILED SURREBUTTAL**
838 **TESTIMONY?**

839 A. Yes.

⁵⁰ Hellewell Rebuttal, p. 10, lines 257-269.

⁵¹ Hellewell Rebuttal, pp. 10-11, lines 271-282.

⁵² Woolsey Rebutal, p. 4, lines 82-88.