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BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

IN THE MATTER OF THE APPLICATION OF CARBON/EMERY TELCOM FOR AN INCREASE IN UTAH UNIVERSAL SERVICE FUND SUPPORT	DOCKET NO. 15-2302-01 **DIVISION POST HEARING RESPONSE BRIEF**

Pursuant to Utah Code Ann. § 54-4a-1 and Utah Admin. Code r746-100 the Utah Division of Public Utilities ("Division"), hereby submits this Post Hearing Response Brief.

INTRODUCTION

The parties in this docket have had many rounds of testimony and briefing. Absence of a direct response is not acceptance. This Response will address the following matters: I. The Division calculated assets at the level of detail provided by Carbon/Emery. II. Carbon/Emery's forecast depreciation expense is disputed in Division testimony, III. The Division projects a depreciation cliff if Carbon/Emery continues with its method of depreciation, and IV. The Commission may calculate UUSF support based on single asset straight line depreciation.

ARGUMENT

I. The Division Calculated Assets at the Level of Detail Provided by Carbon/Emery.

On page 6 of Carbon/Emery's Post Hearing Brief it states that "the undisputed testimony reveals that the Division does not calculate the depreciation expense of each individual asset, rather the Division uses a modified group asset approach in which assets are grouped together in smaller groups divided by year purchased." The Division relied upon the data provided by Carbon/Emery in response to DPU Data Request 1.9 which asked in relevant part to "please include in the document every disposed asset and current asset owned by Carbon-Emery Telephone for the past 10 years." The Division then calculated straight line depreciation on every asset listed by Carbon/Emery in the detail that Carbon/Emery provided.

Carbon/Emery claims that the Division used groups in its calculation and therefore group depreciation is tacitly supported by the Division. The Division's single asset "groups" are simply a reflection of the accuracy of the records kept by Carbon/Emery and/or the accuracy of the response to the Data Request. Carbon/Emery provided asset detail in response to a request for detail of every asset currently on the books and now claims that the Division is responsible for the choice to use them. The Division calculated straight line depreciation on every discrete asset provided by Carbon/Emery using the Commission's approved life for that asset.

The Division is not inherently opposed to methods of group depreciation that actually depreciate assets in a reasonable way. When a method results in depreciation acceleration at much faster rates than the commission approved rates it is failing to effectuate the purpose of spreading costs over the life of the assets. The Division's adjustment to Carbon/Emery's depreciation expense is simply a re-calculation to match the costs to the useful life of the assets. The method used to reach that result makes little difference. The Division maintains that whatever method is chosen a 10 year asset should be depreciated over 10 years. Not 3 years. Not 5 years. And the single asset calculation is one simple and reliable method of doing so.

II. Carbon/Emery's Forecast Depreciation Expense is Disputed in Division Testimony

Carbon/Emery asserts that "the undisputed testimony is that the Carbon/Emery depreciation expense for subsequent years (at least through 2019) will be higher than that proposed by the Division for the test period. In fact, although the Division alluded to a depreciation expense "cliff", this is not supported by the data. The only way Carbon/Emery will suffer a depreciation expense cliff is without continued investment."[1] Unpacking this set of claims, the Division does dispute the claim that depreciation expense will be higher for the next 5 years. Additionally the depreciation cliff is simply a matter of near mathematical certainty. No amount of prudent continued investment will support the continued high level of depreciation.

UUSF funds are set based on a test year adjusted for known and measureable changes, not company 5 year plans. The reason for this is obvious. An applicant for increased UUSF may present any future projection it wishes and the regulators would then be involved in the guessing game of what investment might be prudent, what level of investment a company might make, and what changes in technology might come. Using actual data from the test year provides a degree of certainty and efficiency in UUSF calculations.

While it is generally immaterial whether Carbon/Emery testimony is undisputed that it anticipates depreciation expense to rise in the next 5 years, the claim of that projection being without dispute is not accurate. The Division has projected depreciation for the next few years. For example Joseph Hellewell provided a vintage group depreciation calculation in DPU Exhibit 2.0SSR that includes future years. The projection indicates depreciation values similar to the Division's adjusted value to the test year.

1 Carbon/Emery Post Hearing Brief p. 7.

Additionally Division witness Joseph Hellewell addressed this concern in his Surrebuttal stating "Thus, the depreciation expense and UUSF distribution amount is dependent on whether or not Carbon-Emery continues to invest more plant into these accelerated groups."2

III. The Division Projects a Depreciation Cliff if Carbon/Emery Continues with Its Method of Depreciation.

A depreciation cliff will occur if Carbon continues to use its method of group depreciation. Carbon asserts that prudent investment will avoid a steep decline in depreciation expense. This is a simple mathematical projection. If a company depreciates assets at an accelerated rate depreciation will outpace the diminution in value of the assets. The depreciated assets will remain in service beyond the accounting period where the assets value has been entirely expensed through depreciation. New assets to groups as calculated by Carbon/Emery's method are rapidly depreciated and will not serve to buffer the cliff as they might if they were depreciated accurately over their approved life. When the assets in service are fully depreciated, the depreciation expense will fall. Investment to replace assets that are still within their useful life but fully depreciated due to accounting method is imprudent. Therefore accelerated depreciation has a high probability of resulting in a future depreciation cliff.

IV. The Commission May Calculate UUSF Support Based on Single Asset Straight Line Depreciation.

Finally Carbon asserts that the Commission cannot calculate UUSF using a method other than Carbon/Emery's version of group method. To reach this conclusion Carbon/Emery relies on the logical conclusion that prudence of the choice of depreciation method can only be determined based on whether it was prudent at the time Carbon/Emery chose it, and that Carbon/Emery cannot choose at any time to change it its self.

The first error in Carbon/Emery's argument is that prudence review must be done from the day Carbon/Emery chose to use its method of group depreciation. Prudence review includes the question of

2 Surrebuttal Testimony of Hellewell, Lines 227-229.

whether Carbon/Emery should have taken action at any time after that day to alter its depreciable lives, remove assets from groups, or start new vintages to name a few. Prudence review is not a static look back with the assumption as Carbon/Emery relies upon that it is powerless after that day to make any changes.

The second error in this argument is that the Commission must rely on Carbon/Emery's method to calculate the UUSF distribution amount. The UUSF support must "defray the costs, <u>as determined by the Commission</u>," not as determined by Carbon/Emery, of providing basic telephone service.[3] Depreciation cost for purposes of setting UUSF support is subject to the jurisdiction of the Commission. The Commission is not bound to the method used by Carbon/Emery. And the Commission should not rely on that method as the testimony in this docket has shown that it does not actually result in depreciating assets over the Commission approved lives, and plainly mismatches cost with asset service lives.

CONCLUSION

The Division did present evidence and testimony regarding why its depreciation adjustments are both reasonable now and a reasonable projection of future periods. The test year actual data adjusted for known and measureable changes significantly is more reliable evidence than the Company's 5 year business plan for setting UUSF support. The depreciation adjustment made by the Division is well supported by the evidence and is consistent with Utah law. The Commission should reject the request for UUSF support to pay for accelerated depreciation. The Commission should set Carbon/Emery's UUSF support as adjusted by the Division.

Respectfully Submitted this 9th day of March, 2016

______/s/ Justin C. Jetter___________

Justin C. Jetter

3 Utah Code Ann. § 54-8b-15(7).

Attorney for the Division of Public Utilities