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Association, Inc. and UBET Telecom, Inc.

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

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In the Matter of the Application of Uintah Basin Telecommunications Association, Inc., and UBET Telecom, Inc., for an Order of the Commission Approving the Combination, Merger and Consolidation of UBET Telecom, Inc., and Uintah Basin Telecommunications Association, Inc.

DOCKET NO. 04-053-03

TESTIMONY OF BRUCE TODD

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PREPARED TESTIMONY OF  
BRUCE TODD

Q:PLEASE STATE YOUR NAME AND ADDRESS.

A: Bruce Todd and I live in Roosevelt, Utah.

Q:BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A:I am currently employed by Uintah Basin Telecommunications Association, Inc. ("UBTA") and UBET Telecom, Inc., a wholly-owned subsidiary of UBTA ("UBET Telecom"), as General Manager/CEO of both companies. I am also the General Manager/CEO of Uintah Basin Electronic Telecommunications ("UBET") and Uintah Basin Long Distance, Inc. ("UBLD"), each a wholly-owned subsidiary of UBTA. UBET and UBLD own and operate the non-regulated business activities of the company.

Q:ARE YOU AUTHORIZED TO TESTIFY ON BEHALF OF UBTA and UBET TELECOM IN THIS PROCEEDING?

A: Yes.

Q:PLEASE DESCRIBE YOUR EXPERIENCE IN THE TELEPHONE BUSINESS.

A:I have been in the telecommunications business for 19 years, with 9 years as General Manager/CEO of UBTA. I have also been the General Manager/CEO of UBET Telecom since its organization 4 years ago.

Q:PLEASE STATE THE NATURE OF YOUR TESTIMONY IN THIS PROCEEDING.

A:My testimony addresses the proposed merger, combination and consolidation of UBTA and UBET Telecom. My testimony covers the operational and managerial considerations, which I believe are important in connection with the proposed merger of the ownership and operations of the two companies.

Q:PLEASE DESCRIBE THE TWO COMPANIES WHOSE OPERATIONS AND OWNERSHIP ARE PROPOSED TO BE MERGED, COMBINED AND CONSOLIDATED.

A:UBTA holds a Certificate of Convenience and Necessity from the Public Service Commission of Utah (the "Commission") to provide telephone services in the exchanges of Lapoint (247), Altamont (454), Fruitland (548), Flattop (646), Neola (353), Randlett (545), and Tabiona (848). The Lapoint exchange is located in Uintah County. The Altamont and Tabiona exchanges are located in Duchesne County. The Neola, Randlett and Flattop exchanges are located in both Duchesne and Uintah Counties and the Fruitland exchange is located in both Duchesne and Wasatch Counties.

UBET Telecom holds a Certificate of Public Convenience and Necessity from the Commission to provide local calling area services in the exchanges of Duchesne (738), Roosevelt (722, 725) and Vernal (781, 789). Those exchanges were acquired by UBET Telecom from Qwest Communications on April 6, 2001. The Duchesne exchange is located in Duchesne County. The Roosevelt exchange is located in both Duchesne and Uintah Counties. The Vernal exchange is located in Uintah County.

Exhibit 1 attached hereto contains a map of the proposed combined service territories of the two companies

depicting the exchanges that will be served by the consolidated company.

Q:PLEASE PROVIDE A BRIEF SUMMARY OF THE CORPORATE STRUCTURE OF UBTA AND UBET TELECOM.

A:UBTA is a not-for-profit corporation organized under the laws of the State of Utah on August 11, 1951. It is operated as a cooperative. The subscribers of UBTA's services are its members. As such, those members own UBTA. The members elect the Board of Directors of UBTA. The Board of Directors is responsible for setting the policies that govern the day-to-day operations of the UBTA. The Board of Directors elects the officers of UBTA who are charged with the responsibility of insuring that the policies of the Board of Directors are implemented. The Board of Directors is responsible for, among other things, establishing the amount, and the timing of payment, of patronage that is distributed to the members of UBTA (a more complete description of patronage and how it operates is included in my testimony below). In order to become a member of UBTA, a subscriber may make an initial \$50.00 payment, either in a lump sum or over 10 installment payments, with the \$150.00 balance of the membership fee to be paid through deductions from the members' first patronage payments. A subscriber may elect to pay the full amount of the membership fee up front.

UBET Telecom is a for-profit corporation organized under the laws of the State of Utah on September 7, 1999. UBET Telecom is a wholly-owned subsidiary of UBTA and, as such, UBTA owns 100% of UBET Telecom's stock. UBET Telecom has its own Board of Directors consisting of the representatives from the UBTA districts and a representative from each of the Vernal, Duchesne and Roosevelt districts. The UBET Telecom Board of Directors elects the officers of UBET Telecom to carry out the policies set by the Board of Directors. Subscribers in the UBET Telecom service territory are not members of the cooperative. Therefore, UBET Telecom subscribers, as with any other investor-owned utility, do not have a vote in the election of the company's Board of Directors nor do they have a vote in any matter relating to corporate governance. They do not share in the operating margins or profits of the company through patronage distributions as do the members of UBTA. As with any other for-profit corporation, the profits generated in UBET Telecom ultimately inure to

the benefit of its parent corporation, UBTA. Those profits then are added to the patronage calculations that are distributed to UBTA's owners.

**Q:PLEASE PROVIDE A BRIEF HISTORY OF THE PROCESS BY WHICH THE COMPANIES NOW PROPOSE THE MERGER, COMBINATION AND CONSOLIDATION OF THE TWO COMPANIES.**

**A:**Throughout the course of discussions, public hearings and meetings with community organizations and the governing bodies of the towns, cities and counties comprising the Uintah Basin held in connection with the acquisition of the Qwest exchanges in April 2001, the implementation of Basin-wide EAS in November 2003, and, now, the proposed combination, merger and consolidation of UBTA and UBET Telecom, it has been the objective of UBTA, as well as the aforementioned community organizations and governing bodies to unify the communities in Uintah, Wasatch and Duchesne counties that are a part of the Uintah Basin.

**Q:WHAT STEPS HAVE BEEN TAKEN BY THE COMPANIES TO ASSIST IN UNIFYING THE BASIN?**

**A:**The first step was the acquisition by UBET Telecom of the Vernal, Roosevelt and Duchesne exchanges. Prior to the acquisition of those exchanges the subscribers of Qwest in those exchanges did not receive and, given the antiquated technologies available to them, could not have received the services provided by the new technologies which the UBTA subscribers enjoyed. Part of the unifying process was to provide the subscribers in the Vernal, Roosevelt and Duchesne exchanges with a comparable level of services enjoyed by their counterparts in the UBTA exchanges. Prior to the acquisition of the Qwest exchanges, Qwest had done little, if anything, to introduce digital technologies, fiber optic facilities and broadband capabilities to the subscribers in those exchanges. By acquiring the Qwest exchanges, UBTA and UBET Telecom were able to introduce to the Vernal, Roosevelt and Duchesne subscribers the new technologies which they were previously denied.

The second step in unifying the Uintah Basin was the implementation of Basin-wide EAS which provides all subscribers with toll-free calling to any other location within the Uintah Basin. The Basin-wide EAS has resulted in unifying the residents of Uintah and Duchesne counties from community, church, school, economic and social perspectives. The merger of UBTA and UBET Telecom is the third step in the unifying process.

Q:AS THE THIRD STEP IN THE PROCESS, HOW DOES THE MERGER FACILITATE THE UNIFICATION OF THE UINTAH BASIN?

A:It has been the objective of UBTA and its members that the subscribers in the UBET Telecom exchanges be treated in the same manner as those in the UBTA exchanges. Currently, the subscribers of UBET Telecom are not members of the cooperative. As such, they do not participate in the patronage distributions as do the member of UBTA nor do they have any vote in the governance of the cooperative. With the merger, the subscribers of UBET Telecom will become members of the cooperative and will enjoy the same benefits, which the UBTA subscribers enjoy.

Q:WHY IS THE UNIFICATION OF THE UINTAH BASIN IMPORTANT TO ITS RESIDENTS?

A:The Uintah Basin presents a somewhat unique situation in the State of Utah -- both geographically and demographically. Uintah and Duchesne Counties are isolated and located approximately 3 hours driving time from the Wasatch Front. As such, the commercial, social, religious and educational activities of the residents are focused within the Uintah Basin. While the majority of the population of Uintah and Duchesne Counties are located within three cities -- Vernal, Roosevelt, and Duchesne -- there are a number of outlying rural communities which make up an important part of the fabric of life in the Uintah Basin. Historically, Vernal, Roosevelt and Duchesne were served by Mountain Bell/US WEST/ Qwest and, more recently, by UBET Telecom. The outlying rural community were, and continue to be, served by UBTA. It is critical to the development of the Uintah Basin that the urban and rural areas of the counties combine their efforts and resources in attracting, developing and maintaining the commercial and industrial base so that its residents have employment opportunities now and in the future. This is the reason that the county and municipal governments as well as the economic development councils in both Duchesne and Uintah Counties have whole-heartedly endorsed the proposed merger of UBTA and UBET Telecom.

Q:WHAT ARE THE ADVANTAGES OF THE MERGER OF THE TWO COMPANIES -- OPERATIONALLY AND FINANCIALLY?

A:UBTA and UBET Telecom are currently operated as separate entities -- the former as a cooperative and the latter as an investor-owned utility. There are certain dis-economies in maintaining two distinct corporate entities from an accounting as well as an operational perspective, particularly where one is a not-for-profit corporation operated as a cooperative and the other as a for-profit corporation. The proposed merger will also enhance the development and deployment of new technologies and increased reliability of services through the integration of the networks of the two merged companies. The consolidation of the companies will also assist in the relationships with financial institutions and third party vendors by providing a single corporate entity with which they can contract. The proposed merger will also enable the company to market and sell, and provide customer service for, its service offerings from one corporate entity. This will assist in avoiding those situations in which there is customer confusion as to the product offerings and the provider entity which arise as a result of separate local service providers for different geographic areas within the Uintah Basin.

Q:WILL THERE BE ANY CHANGES TO THE ORGANIZATION AND ADMINISTRATION OF NON-REGULATED SERVICES OFFERED BY SUBSIDIARIES OF UBTA FOLLOWING THE COMBINATION AND CONSOLIDATION OF UBTA AND UBET TELECOM?

A:No. The non-regulated services are currently owned and operated by Uintah Basin Electronic Telecommunications ("UBET") and Uintah Basin Long Distance, Inc. ("UBLD"). Both UBET and UBLD are wholly-owned subsidiaries of UBTA. Those services provided by UBET and UBLD include internet services, wireless/cellular, long distance, and telecommunications equipment sales. Following the merger of UBTA and UBET Telecom, the non-regulated services will continue to be owned and operated by UBET and UBLD. UBET and UBLD will be wholly-owned subsidiaries of UBTA-UBET Communications.

Q:HAS THE MERGER, COMBINATION AND CONSOLIDATION OF UBTA AND UBET TELECOM BEEN APPROVED BY THE MEMBERS OF UBTA?

A:Yes, the Plan of Merger, which was attached to the Joint Application filed with the Commission in this Docket, was approved by a vote of the members of UBTA on April 29, 2004. UBET Telecom approved the merger,

combination and consolidation of the two companies by vote of the member of UBTA and its Board of Directors. The members of UBTA have not authorized any modification, amendment or change to the Plan of Merger or the terms and conditions of the Joint Application which was filed with the Commission in this Docket.

Q:WOULD YOU DESCRIBE, GENERALLY, THE PLAN OF MERGER?

A:Yes, following is a brief description of the Plan of Merger:

**A. Merger-Surviving Corporation**

Pursuant to the Plan of Merger Agreement, upon approval by the Commission, UBTA and UBET Telecom will merge into one company, with the surviving company UBTA, a Utah not-for-profit corporation, being operated as a cooperative under the name UBTA-UBET Communications, Inc.

**B. Board of Directors**

The Articles of Incorporation and Bylaws of UBTA will be amended to increase the number of directors from seven to ten by adding a director from each of the Vernal, Roosevelt and Duchesne exchanges. The three new director positions will be for three year terms each with the terms to be staggered. The Board of Directors of UBTA will initially appoint the directors for the Vernal, Roosevelt and Duchesne exchanges to serve beginning on the effective date of the Merger. The director from the Duchesne exchange will be appointed to serve until the annual meeting in 2005 and, then, be elected by the members for the next three-year term; the director from the Roosevelt exchange would be appointed annually to serve until the annual meeting in 2006 and, then, be elected by the members for a three-year term; and the director from the Vernal exchange would be appointed annually to serve until the annual meeting in 2007 and, then, be elected by the member for a three-year term. The seven existing directors for UBTA would continue to serve the terms for which they are presently elected. All of the other provisions of the present UBTA Bylaws governing directors and their election would apply to the new directors.

**C. Management**

The Board of Directors will continue with the current management of UBTA and UBET Telecom in the operations of the consolidated company. Current management of UBTA and UBET Telecom has the technical expertise, managerial skills and financial knowledge to operate and maintain the consolidated operations of the merged companies.

#### **D. Membership**

The current UBTA membership fee is \$200.00 subject to future adjustment by the Board of Directors. To assist the UBET Telecom subscribers in paying the membership fee, UBTA will amend its Articles of Incorporation and Bylaws to provide for two classes of members -- Class A and Class B. All Class A members will, following the Merger, have all of the rights they currently have, including the right to vote, receive patronage and become a director, if elected. Class B membership is not available to UBTA subscribers. The Class B membership will be only available to the existing UBET Telecom subscribers at the time of the merger. Following the merger, only Class A memberships will be available.

At the time of the merger, the subscribers in the UBET Telecom exchanges may elect to become Class B members. A Class B member would not have the right to vote or become a director but would accrue patronage. If the UBET Telecom subscribers do not elect to become Class B members, then they will be deemed to have elected to qualify for Class A membership. This procedure has been implemented by the Board of Directors of UBTA in order to insure that members would expressly elect not to vote or hold office. In order to qualify for Class A membership, a member may (1) pay the \$200.00 membership fee, (2) make an initial \$50.00 payment with the balance of the membership fee to be paid through deductions from the members' first patronage payments, or (3) make the initial \$50.00 payment in monthly installments of \$5.00 to be paid with the monthly bill for telephone services with the balance to be paid through deductions from the members' first patronage payments. Upon completion of the Merger, all UBET Telecom subscribers will be considered to have elected to pay the membership fee pursuant to the installment plan described in (3) above unless a subscriber gives written notice that the subscriber elects



one of the other arrangements described above or makes another arrangement with the company to pay the membership fee. Those who elect the payment options described in (2) and (3) above will become Class A members and be eligible to vote at such time as the \$50.00 has been paid. Those who elect to be Class B members will be converted to Class A members at such time as they have accrued patronage payments of \$200.00 which will then be applied to their Class A membership fee requirement. The membership fee is not refundable. The other terms of membership are set forth in the Bylaws.

Membership will entitle those subscribers in the UBET Telecom service territory to participate in the patronage distributions made by the consolidated company. Patronage payments are distributed to members on a periodic basis as determined by the Board of Directors. The amount of the patronage payments distributed to each of the members will be dependent upon the financial results of the operations of the consolidated company and the dollar amount of payments made by each member for services provided by the consolidated company.

**E. Approval by Members**

The members of UBTA at the 2004 Annual meeting held on April 29, 2004 approved the Plan of Merger.

**F. Amendments to the Articles of Incorporation and Bylaws**

The Articles of Incorporation and Bylaws of UBTA will be amended to increase the number of directors from seven to ten and to provide for two classes of membership and such other changes as may be required to comply with the Plan of Merger.

The Articles of Incorporation and Bylaws of UBTA will also be amended to provide that the Articles of Incorporation and Bylaws of UBTA after the Merger may not be repealed, amended or changed except by one of the following procedures:

- a. Upon a ninety percent (90%) vote of all directors following written notice to the members; or
- b. Upon approval of seven of the ten exchanges by a two-thirds (2/3) vote of the members attending an exchange meeting specially called for that purpose.

**G. Assets and Liabilities**

As a result of the Merger, UBTA will acquire all property, real, personal and mixed, and all interests in and all other assets belonging to UBET Telecom. UBTA will become responsible and liable for all liabilities, obligations and claims of UBET Telecom.

Q:SPEAKING OF PATRONAGE, WOULD YOU EXPLAIN WHAT PATRONAGE IS AND DESCRIBE THE BENEFITS OF PATRONAGE THAT THE UBET TELECOM SUBSCRIBERS WILL ENJOY AS MEMBERS OF UBTA-UBET COMMUNICATIONS?

A:Patronage is available only within the structure of a not-for-profit cooperative. The Board of Directors of UBTA, at its sole discretion, annually determines the amount that will be allocated to the patronage pool. That amount is based, to an extent, on the net income from the operations of UBTA and its subsidiaries. The Board then determines the timing of patronage payments to the members based on a formula that is designed to allocate a percentage of each year's patronage payments to retire older patronage claims and a percentage to pay to more recent patronage.

Q:ARE THE REQUIREMENTS REGARDING THE PROPOSED PAYMENT OF THE MEMBERSHIP FEES FOR THE UBET TELECOM SUBSCRIBERS DIFFERENT FROM THOSE REQUIRED OF THE UBTA MEMBERS?

A:No. UBET Telecom subscribers will have the same payment options as will be UBTA members except that Class B membership is not available to UBTA members.

Q:WHAT STEPS HAVE BEEN TAKEN TO INSURE THAT ALL OF THE SUBSCRIBERS OF BOTH THE UBTA AND UBET TELECOM EXCHANGES HAVE BEEN FULLY INFORMED OF THE PROPOSED MERGER, CONSOLIDATION AND COMBINATION OF THE TWO COMPANIES AND THEIR RESPECTIVE OPERATIONS.

A:UBTA and UBET Telecom have received substantial community support for the proposed merger from the Uintah Basin's residential and small-business subscribers, community leaders, governing councils and commissions and

economic and community development agencies. Information concerning the proposed merger has been widely disseminated to both members of UBTA and the subscribers of UBET Telecom through public meetings, newspaper articles and editorials and radio broadcasts.

**A. Public Meetings and Information**

Beginning with the Public Notice of the proposed Qwest acquisition which was provided to all residents of the Uintah Basin in January 2000, UBTA and UBET Telecom have engaged the residential and small-business subscribers in the Uintah Basin in a continuing dialog designed to fully inform, and gauge the support from, the residential and small-business users of telecommunications services.

**B. Community Support**

The proposed merger has received the support and endorsement of various community leaders, governing councils and commissions and economic and community development agencies representing the subscribers of both UBTA and UBET Telecom.

Q: IS THE PROPOSED MERGER, COMBINATION AND CONSOLIDATION IN THE PUBLIC INTEREST?

A: Yes, for the following reasons:

The Merger described in the Plan of Merger will serve the public interest and provide benefits to the subscribers in the UBET Telecom exchanges as well as those in the UBTA service territory. Each of these benefits is discussed below:

**A. Benefits of Membership**

Those subscribers in the UBET Telecom exchanges who become Class A members will be able enjoy all of those rights as Class A members of the cooperative which the members of UBTA currently have including the right to vote, the right to receive patronage and the right to become a director, if elected. Even those electing the Class B payment plans will have the right to accrue patronage pending their qualification for Class A membership.

**B. Operational Benefits**

The Merger of UBTA and UBET Telecom will create one entity through which the telecommunications service needs of all of the subscribers in the Uintah Basin can be met through one provider. As such, all assets current owned and used in connection with telecommunication's services provided by UBTA and UBET Telecom, along with the operations of the two companies, will be consolidated into one operating entity. The networks of the two companies will be integrated into one network which will enable UBTA-UBET to develop and deploy more effectively the enhanced technologies which the subscribers in the Uintah Basin require. As a result, the telecommunication's services will be provided to subscribers in the Uintah Basin on a more cost-effective and efficient basis.

**C. Subscriber Benefits**

The proposed merger will help to unify all of those communities located in the Uintah Basin by treating the subscribers in the UBET Telecom exchanges in the same manner as those in the UBTA exchanges. All customers will have the benefit of dealing with one company throughout the entire Uintah Basin in the ordering and provisioning of their telecommunication services and all customer service assistance that they require. This will assist in avoiding those situations in which there is customer confusion as to the product offerings and the provider entity which arise as a result of separate local service providers in the Uintah Basin.

Q:Q:DOES THAT CONCLUDE YOUR TESTIMONY?

A: Yes.