- BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH -

In the Matter of the Application For Increase in USF Eligibility for Uintah Basin Telecommunications Association, Inc., and UBET Telecom, Inc. | **Docket No. 05-053-01**
Utah Division of Public Utilities
Exhibit No. DPU 2.0

Prefiled Direct Testimony of

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For the Division of Public Utilities

Department of Commerce

State of Utah

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I. INTRODUCTION, QUALIFICATIONS AND SUMMARY

Q. What is your name, and by whom are you employed?

A. George R. Compton. I am a Technical Consultant for the Division of Public Utilities (UDPU, DPU, or Division) of the Utah Department of Commerce.

Q. What is your education and work experience?

A.. I hold a Bachelor's Degree from Brigham Young University, with majors in Mathematics and Psychology, and a minor in Philosophy. A portion of my undergraduate experience also took place at Stanford. Subsequent to earning a Master's Degree at BYU in Statistics, with minors in Psychology and Philosophy, I worked for McDonnell Douglas Astronautics in Southern California, principally as a probabilist.

Apart from some part-time teaching at BYU, my entire career since earning a Ph.D. in economics from UCLA

in 1976 has been spent in utility regulation. For all but two of those years I have been employed by the Division, on whose behalf I have testified countless times before this Commission in cases involving electric, gas, and telephone utilities. In the two odd years, I was an independent consultant. My clients included UAMPS, UP&L, and U S WEST. The main area of my professional interest has been the application of economics principles to utility pricing and costing. For a number of years I was also the Division's primary cost-of-capital witness. My telephone work included developing terms and conditions for the sale of U S WEST territories and exchanges to independent telephone companies.

Q. What is your assignment in this case?

A. I will be presenting the Division's analyses and recommendations regarding the capital structure and other capital-cost issues related to Uintah Basin Telephone Association and UBET Telecom (UBTA-UBET) and its requested increase from the Utah State Universal Service Fund (USF).

Q. Have you prepared a summary table/exhibit for this case?

A. I have. It is the first page of Exhibit DPU 2.1. It starts with the amount of additional annual USF funding that UBTA-UBET seeks, and shows the effects of the various regulatory and accounting adjustments that the Division is recommending.

Q. Would you please summarize your primary recommendations in this case?

A. UBTA-UBET is asking that its revenue requirement needs be calculated as if its capital structure were 50-50 debt and equity, rather than its actual capital structure, which is close to 100% debt. As indicated by Case 1 in my Summary Table, substituting a "real world" consideration – i.e., COBANK's Debt-to-Operating-Cash-Flow Ratio Financial Covenant -- for UBTA-UBET's hypothetical capital structure, would, by itself, cut the first-year USF "need" down to something in the neighborhood of $4 million. (UBTA-UBET is asking for over $7 million.) But even that reduced USF infusion would still allow the shareholders/patrons of UBTA-UBET to earn a return that would exceed 90% on their small level of equity. To avoid that excessive, and unearned (since it would come from the USF subsidy), level of profit, and to advance the time when UBTA-UBET's equity ratio would be at a healthier level, the Division is also recommending that the post-tax USF "earnings" be treated as zero-cost equity rather than as retained earnings that would earn on behalf of the shareholders/patrons of UBTA-UBET. Case 2 of the Summary Table reflects that recommendation.

Q. If your primary recommendations are contained in Cases 1 and 2 of your Summary Table, what do the other two Cases reflect?

A. While Case 3 incorporates my substitution of a 9.5% return on equity for the requested 12.5% figure, by far the greatest cause of the reduced USF value comes from Mr. Wesley Huntsman's acquisition cost adjustment to rate base. Substantial USF reductions also come from various other accounting-type adjustments that have been recommended by various DPU witnesses. To complete the summation of the DPU's recommendations within the framework of a uniform computational model, Case 4 is also contained in the Summary Table. It

reflects the DPU's recommended customer rate increases.

II. ESTABLISHING THE REVENUE REQUIREMENT ON THE BASIS OF A HYPOTHETICAL CAPITAL STRUCTURE

Q. The two primary cost components for any corporation are operating costs and capital costs. What are the two primary components of capital costs?

A. They are debt costs, or interest payments/obligations, and equity, or shareholders', costs or rate-of-return. Because the latter are subject to income taxes, reference is made to both before- and after-tax equity costs or returns on investment. With a co-op, such as we are dealing with in this case, the customers, members, or "patrons" are also the enterprise's owners or shareholders.

Q. Is there a general industry expectation as to the relative shares of a firm's capital that are accounted for by those two elements, debt and equity?

A. There is. In the utility business, it is on the order of 50-50.

Q. Is that 50-50 ratio uniformly adhered to by independent telephone companies in Utah?

A. No, it is not. Historically, there have been companies that were almost entirely equity, and others that are almost entirely composed of debt. UBTA-UBET is included among the latter.

Q. Isn't it good for a utility to be entirely debt free?

A. It is not good for ratepayers in the context of formulating a regulated revenue requirement. That is because the pre-tax unit cost of equity can be two to three times the unit cost of debt. It is regarded as "not just and reasonable" to require ratepayers to bear the additional costs that are based on what might be viewed as a "deviant" capital structure (in the sense of its departing greatly from a 50-50 balance).

Q. What has the Division successfully advocated to protect the ratepayers from a revenue requirement burden associated with an inordinate amount of equity?

A. For some time it has based its revenue requirement recommendations on a hypothetical, 50-50 (debt and equity) capital structure.

Q. Has UBTA-UBET based its case on the presumption of a hypothetical 50-50 capital structure?

A. It has.

Q. Apart from the conceptual and regulatory grounds which you may have for objecting to such a basis, do you accept the mechanics by which UBTA-UBET has calculated it revenue shortfall given the hypothetical capital structure assumption?

A. I do not. They have overstated the income tax obligation given the hypothetical. As expressed in my summary table, correcting that over-statement by itself would reduce the USF support request by over $1 million per year.

Q. Is it clear from EXHIBIT 1 of UBTA-UBET's original application that the income tax portion of its

revenue requirement development is overstated?

A. It is. The final column of that exhibit shows "OP INCOME B4 INT & TAXES" of $6,608,649 and "TOTAL OP TAXES" of $2,755,926. Dividing the latter number by the former indicates a tax rate of 41.7%. Much more damning than this slight overstatement of the tax rate, is the fact that the taxes were calculated *as if there were no interest expenses at all*! NOTE (g) of UBTA-UBET's EXHIBIT 1.1 shows that the amount of interest given the hypothetical capital ratio and interest rate to be $1,456,751. Subtracting that figure from the Operating Income Before Interest and Taxes figure (since interest expense is tax deductible) yields a taxable income amount of $5,151,898. Applying the indicated combined tax rate of 38% yields an income tax quantity of $1,957,721, which is about $800 thousand below the UBTA-UBET calculation. Substituting the new tax amount for UBTA-UBET's amount yields an after-tax return on rate base of 12% rather than the 10.05% that UBTA-UBET has targeted.

Q. Have you prepared an exhibit which shows the revenue requirement and USF infusion that would yield the 10.05% return that UBTA-UBET has applied for?

A. I have. It is page 2, or the tab labeled Case 0, of Exhibit DPU 2.1. It contains the same "TOTAL INTRASTATE ADJUSTED" revenues and expenses as column (K) of UBTA-UBETA-UBET's EXHIBIT1, and shows (respectively, on Lines 33 and 37) the same debt interest rate and after-tax return on equity as in NOTE (g) of UBTA-UBET's EXHIBIT 1.1. As previously suggested, recognizing the tax deduction for the interest expense reduces the needed USF infusion from $7,238,847 to $5,951,562.

Q. I notice that two other figures, or series of figures, are highlighted (in bold type) in your Case 0, of Exhibit DPU 2.1. What is their significance?

A. A single year of USF outlays should not be viewed in isolation. Different policies regarding USF will lead to different outlays over the long run. The bottom figures in Case 0 and in the subsequent cases show, on a discounted basis, what the USF burden would be over a ten-year period. The other highlighted figures (shown on Line 53) are the after-tax returns that the shareholders/patrons would earn on their "original" equity investments.

III. THE DEBT-TO-OPERATING-CASH-FLOW RATIO AS A REVENUE REQUIREMENT BASIS

Q. You stated above that it is appropriate to substitute a hypothetical 50-50 debt and equity capital structure for a utility's actual capital structure in the event that the latter consists of an inordinately high equity ratio. How about when a utility's actual capital structure consists of a very high debt ratio? Since debt costs are so much lower than equity costs, wouldn't it be to the ratepayers' advantage to have a utility that is close to 100% debt, and then use its actual capital structure in establishing the revenue requirement?

A. The problem is that if the revenue requirement were developed strictly on your 100% debt basis, there would be no margin of safety in the event that revenues were below their test-year projections. The consequence would be an inability to make the required principal and interest payments on the debt without resorting to the capital markets. Faced with such a prospect, lenders will refuse to make loans. Absent the capital infusion from the loans in its normal course of business, the utility would be unable to acquire the necessary plant and equipment to meets its growing service obligations.

Q. What standard practice have lenders invoked to protect themselves against a payments default by the utilities to which they lend?

A. They have imposed financial covenants that entail a number of cash flow, leverage, and earnings standards. The most straightforward that has been observed in the industry is what is referred to as a TIER, or time-interest-earned-ratio, requirement. Defining "earnings" in this context as revenues less operating expenses (including depreciation), a TIER of 1.5, for example, would indicate that a borrower is expected to have earnings that are half again as much as its interest costs. While subsumed by earnings, equity costs or returns, including income taxes, are not explicitly recognized in the TIER and similar calculations because interest payments 1) take priority over dividends (i.e., explicit equity payments), and 2) are deducted from earnings prior to the calculation of the income tax obligation.

Q. Is it the Division's policy to recognize financial covenant obligations rather than basing its revenue requirement calculation on actual interest and equity costs in the case of highly leveraged (i.e., high-debt) utilities?

A. It is, in the event that such a recognition would enlarge the revenue requirement. As just stated, utilities that are unable to meet their financial covenant obligations can't be expected to obtain new capital at reasonable rates.

Q. What financial covenants have been imposed on UBTA-UBET?

A. There are three – all in the form of ratios: One is the equity ratio, another is the debt service coverage ratio, and finally, there is the debt-to-operating-cash-flow ratio (DOCFR).

Q. Of those three, is there one that is the most operative in our current investigation?

A. There is, the DOCFR. UBTA-UBET has already been meeting the second; and the first appears outside our control (unless we were able, for income tax purposes, to designate USF funding directly as capital rather than revenues).

Q. Would you please define the DOCFR as you will be applying it.

A. It is the ratio of the total amount of outstanding debt (i.e., that is applicable to the intrastate services rate base) to the sum of gross operating income (i.e., before interest and income taxes) plus the depreciation and amortization expenses. Because depreciation and amortization are non-cash expenses, the cash revenues that support them can be used to make principal payments. (The gross operating income should readily cover the interest expenses.)

Q. Have you prepared an exhibit which substitutes the DOCFR for the 50-50 hypothetical capital structure as the basis for determining the revenue requirement?

A. I have. It is Case1/Page 3 of my Exhibit 2.1.

Q. Would you please summarize the results of that analysis in terms of the USF implication and return on shareholders'/patrons' equity?

A. Compared to the corrected Case 0, the required first-year USF injection is $4,078,423 rather than $5,951,562. The first year return on shareholders'/patrons' equity is 94% rather than 244%.

Q. In the current UBTA-UBET case, authorizing a revenue requirement on the basis of a hypothetical capital structure would also enable the utility to meet its DOCFR requirement. Why then would you not recommend the hypothetical capital structure approach?

A. The answer is simple. The DOCFR obligation, and the revenue requirement that it translates to, reflect a recognized utility capital obligation or need. Revenues beyond that (in the case of a highly leveraged utility) are not so recognized, and accordingly would be regarded as "not just and reasonable."

IV. TREATING RETAINED USF CONTRIBUTIONS AS ZERO-COST CAPITAL RATHER THAN AS SHAREHOLDER/PATRON EARNINGS

Q. What target return on equity has UBTA-UBET used in its application for USF "relief"?

A. It is 12.5%...which I believe is the value that the Division recommended when it first advocated the employment of the 50-50 hypothetical capital structure.

Q. If the target is 12.5%, how would it be able to achieve the indicated 94% (or even 244%)?

A. The "super-sized" returns happen when a major infusion of USF revenues occurs – e.g., in the interest of achieving the DOCFR requirement -- and that infusion is treated as ordinary income.

Q. Wouldn't achieving an equity return of about eight times the indicated target level make a mockery of rate base, *rate-of-return* regulation?

A. Of course it would. Of particular concern is the fact that the excessive profits would come from a subsidy funded by the rest of the state's ratepayers, and not as some form of reward from UBTA-UBET's own ratepayers for having performed extraordinarily well.

Q. Is there anything that can be done to bring the UBTA-UBET return on equity down to a reasonable level while still meeting the DOCFR objective?

A. There is actually a pretty straightforward remedy available.

Q. Would you please describe it?

A. The remedy is to not count as available to be used for shareholder dividends (or "patronage disbursements") or for future profit-generating retained earnings the after-tax profits that come from the USF receipts that go beyond target-level capital costs. Accordingly, the USF-generated retained earnings would be accounted for as

zero-cost equity in the development of future revenue requirements.

Q. Have you prepared an exhibit which illustrates how the UBTA-UBET return on equity can be kept to a reasonable level while still meeting the DOCFR objective?

A. Yes, it is Page 4/Case 2 of Exhibit DPU 2.1.

Q. In reviewing that exhibit, and comparing its results with Case 1, I first observe that the first year's USF amount is identical to the corresponding Case 1 figure, and that there is very little difference between the ten-year discounted amounts. Please explain.

A. The observed phenomenon owes to the fact that meeting the DOCFR objective – not the actual capital costs (which incorporate a growing amount of zero-cost equity) – is the main driver of the revenue requirement during these early years. As the debt declines further (thereby reducing the DOCFR ratio), and is replaced by the zero-cost equity, there will be a larger benefit to the state's ratepayers via the reduction in the USF draw by UBTA-UBET. In the meantime, shareholders/patrons will be limited to earning a return on what they themselves invested or contributed towards profits, and not on the extra revenue that has come to them through the USF.

Q. Last October the Commission held a meeting under the direction of its staff member, John Harvey, in which concern was expressed over how USF funding, in conjunction with a 50-50 hypothetical capital structure, could lead to inordinately high profits. Soon thereafter, attorney Stanley Stoll, on behalf of Uintah Basin Telecommunications and the other cooperatives, Emery Telephone and South Central Telephone Association, sent a letter to the Commission expressing some apprehensions about how regulation might respond to the concerns expressed in that meeting. Are you in possession of that letter?

A. I am. It constitutes Attachment 1 to this testimony.

Q. Would you please recite the "concerns" that Mr. Stoll raised, and provide your responses to each?

A. They are as follows (with their sequence altered so as to facilitate this exposition):

<u>The owners of a cooperative should not be treated differently from the owners of a for-profit corporation.</u> I don't treat them differently. Throughout my testimony I refer to "shareholders/patrons" – implying an equivalence. My primary policy exhibit, Case 2/Page 4 of Exhibit DPU 2.1, refers (see Line 44) to "private shareholders," and my assumed level of "private patronage paid" (Line 46) is equivalent to a dividend payout. Income taxes are also calculated as if the coop enjoys no tax benefits as such. The indicated achieved post-tax return on equity (Line 17) is also put forward in an identical manner as if there were "for-profit" ownership rather member/customer ownership. I do not treat patrons' equity – as far as it exists – any different than I would for-profit, shareholders' equity. The difference in case outcomes derives from the fact that there is a lot less equity in UBTA-UBET than one would expect to see in a for-profit entity.

<u>Patronage distributions do not constitute a reduction of the amount which members pay for telecommunications services.</u> Nowhere in this case do patronage distributions show up as reduced revenues or

rates for services. Again (refer to Lines 44 - 47 of my Case 2), my assumed patronage distributions are treated as dividends, which are subtracted from post-tax returns on equity in order to yield shareholders' retained earnings.

Reducing a cooperative's rate-of-return will result in the violation of existing loan covenants. My Cases 1 and 2 explicitly provide for compliance with the primary loan covenant that is operative vis a vis current regulation – i.e., the Debt-to-Operating-Cash-Flow Ratio. (The Debt Service Coverage Ratio requirement is already being met; the Equity Ratio requirement is under the purview of management, not regulation.)

Reducing a cooperative's rate-of-return will result in a loss of borrowing power. AND Reducing a cooperative's rate-of-return may result in increased costs of borrowing funds. The Division is proposing that the revenue requirement, and the associated USF entitlement, be set so as to cover the legitimate capital costs of UBTA-UBET and meet the indicated loan covenant. Yes, that amount is less than what would issue from a finding that a 50-50 hypothetical capital structure was the appropriate revenue requirement basis rather than recovering actual capital costs and providing for the compliance with existing loan covenants. If UBTA-UBET's borrowing power is being compromised, it is due to their having such a small amount of equity relative to their level of debt. The way a normal and viable, for-profit entity would remedy the equity insufficiency and enhance its borrowing power would be to issue new/additional equity. A counterfeit issue relates to the DPU's proposal to treat as zero-cost equity (rather than as retained earnings upon which the shareholders/patrons can earn a future return) the after-tax portion of USF payments that go beyond compensating shareholders/patrons for their own investments. I call it a "counterfeit issue" in this regard because, either way, the net revenues are being treated as equity enhancements, which in turn enhance the entity's borrowing power.

Reducing a cooperative's rate-of-return will result in a reduction of the retained earnings in which the cooperative may invest in broadband and other emerging technologies. AND

Reducing a cooperative's rate-of-return may adversely impact the quality of services as well as the range of services available. See the immediately preceding. Also: Besides a shareholder responsibility for coming up with capital when it wants to expand its business and provide service enhancements, the Division also argues that – as with a normal, for-profit provided good or service – if consumers are to receive benefits, they can be expected to pay the costs. Ergo, our proposed rate increases. Only then is it appropriate to seek additional subsidies from the USF – i.e., from out-of-area ratepayers.

Having said all that, an important caveat is in order. My responses to Mr. Stoll's concerns relate to the consequences of the primary recommendation that I have sponsored – i.e., to base the USF "entitlement" in this case on the greater of actual capital costs or on what is required to achieve the DOCFR financial covenant, and not on a 50-50 debt-to-equity hypothetical capital structure (which Mr. Stoll labeled on his letter's first page as "the traditional rate-of-return structure"). The greatest single factor behind the Division's recommended

reduction in UBTA-UBET's USF request relates to the conventional acquisition adjustment treatment that Mr. Huntsman has sponsored. A substantial rate base disallowance connected to such an adjustment will naturally cause what Mr. Stoll would regard as a lamentable reduction in retained earnings, etc. But that reduction would be equally applicable to the for-profit utility which Mr. Stoll holds out as the regulatory standard. In sum, if UBTA-UBET has difficulty in meeting its financial covenants, etc., it is because they simply over-extended themselves by paying more for an asset than what they agreed would be recognized in the rate base (i.e., the asset's net book value). They shouldn't expect to be "bailed out" by receiving compensation for equity capital that simply does not exist.

V. THE EFFECT ON THE USF REQUIREMENT OF INTRODUCING VARIOUS DPU-RECOMMENDED ACCOUNTING AND CAPITAL COST ADJUSTMENTS

Q. I notice that the UBTA-UBET application incorporates a return on equity of 12.5%. What is the basis for that figure?

A. Back around the mid-1990s, the Division, as a policy matter, recommended that small independent telephone companies have their regulated revenue requirements established on the basis of the return on equity awarded to U S WEST plus 1%. The 1% premium represented an allowance for the much lower shareholder liquidity enjoyed by small telcos, owing to the fact that there is a very shallow market for shares of such firms. The ORDER for U S West's general rate case that was issued on November 6, 1995 (Docket No. 95-049-05) specified an 11.5% rate of return on common equity.

Q. Why did you not attempt to estimate the cost of equity directly for the small Utah telcos?

A. Unlike with US WEST (now Qwest), the shares of such small companies are not traded on the major stock exchanges, and research firms such as Value Line do not produce the dividend growth projections that are fundamental to making cost of equity estimates.

Q. It has been a number of years since Qwest was rate-of-return regulated. If you were to apply the same approach as you described above, what return on equity (ROE) basis would you employ?

A. I think that the ROE figure recently established here in Utah for a major utility would be a reasonable surrogate for our previous figure. (Historically, major telephone companies and electric utilities had comparable costs of equity.) The ROE figure settled upon for PacifiCorp last year was 10.5%.

Q. Would it be your recommendation to again add 1% to the large utility ROE for ratemaking purposes in this case?

A. It would not, for several reasons. First, we are dealing with a customer-owned co-op here, rather than a standard investor-owned utility. When a modest investment ($200, in the form of a membership fee) is required in order to obtain telephone service, a customer will accept quite a low (perhaps even negative) return on his "investment." Second, because of the opportunities to reap profits from unregulated entities (e.g., TV

and wireless) that are commonly affiliated with telephone companies, there appears to be a strong willingness to accept a lower ROE for the regulated telephone business that makes such affiliated profits possible. Third, serious misgivings about the way the telephone business of UBT is being managed has prompted the Division to recommend a lower ROE for this company than might otherwise be warranted. (Refer to Wesley Huntsman's and Mary Cleveland's testimonies on this matter.) Combining those considerations with the liquidity factor suggests a conservative (in favor of UBTA-UBET) recommended authorized return on equity in the nine-to-ten percent range. Case 3 of my Exhibit 2.1 (on page 5) incorporates an ROE value of 9.5%. Reducing the rate of return on equity as a penalty for behavior which has undermined the financial integrity of the regulated intrastate enterprise is equivalent to COBANK's, on the same grounds, having removed its interest rate cap for UBTA-UBET's debt.

Q. What is the effect of reducing the ROE from 12.5% to 9.5% on the apparent USF needs of UBTA-UBET?

A. By itself it has neither a first-year nor a later effect in the ten–year study of USF requirements that I have conducted in my Exhibit 2.1. That is because the DOCFR is so adverse (assuming costs and revenues that approximate the UBTA-UBET filing's) that for a number of years that ratio will "drive" the revenue requirement. The longer-term difference the ROE reduction would make would follow from the Commission adopting the DPU-proposed limit in what ROE is actually achieved by the shareholders/patrons. With the excess profits being accounted for as retained USF earnings and, in turn, earmarked as zero-cost equity, USF/revenue needs will ultimately decline insofar as explicit capital costs will have also declined.

Q. I caught your parenthetical phrase, "assuming costs and revenues that approximate the UBTA-UBET filing's." Is that a plausible assumption?

A. Under the circumstances, definitely not. The same Case 3 (on page 5 of Exhibit No. DPU 2.1) contains the respective "bottom lines" of the various accounting and other regulatory adjustments that are being sponsored by the other Division witnesses in this case. (The newly bolded items are what have been changed from Case 2.) As one might expect, by the time that the rate base, expenses, and key financial elements of the regulated intra-state telephone company are rendered "just and reasonable," there is a vastly reduced need for either general rates relief or additional funding from the USF.

Q. In reviewing your Case 3 figures I notice that the bottom-line USF figure (on Line 48) is the same as what is required from the USF to achieve "actual costs" (as shown on Line 27). Does that mean that achieving the DOCFR objective would require no additional USF funding beyond what would be needed to achieve the DPU-recommended actual costs?

A. You are correct. Achieving the DOCFR objective entails a lower revenue requirement (($11,570,895, Line 36) than would be entailed in achieving actual costs ($11,881,651, Line 26). In such cases, the Division recommends that the larger, actual-cost-based USF figure be awarded.

Q. I also observe in your Cases 3 (and 4) that none of the added USF moneys are making it into the zero-cost, retained USF earnings category (Line 19). Does that mean that the Division is backing away from its recommendation to account for retained USF earnings differently from earnings attributable to the private/patrons' equity investment?

A. That would not be the correct inference. What is happening with the cases where the USF is based on recovering actual costs is that the portion of USF that actually creates profits constitutes profits to which the private shareholders/patrons would be entitled to based upon the actual equity they have invested. It is the *additional* USF that is required to meet the DOCFR standard while going beyond "actual costs" that is proposed to be earmarked as USF-contributed, zero-cost capital.

VI. THE EFFECT OF ELEVATING LOCAL SERVICE RATES

Q. I notice that the Division's accounting and regulatory policy adjustments that are contained in your Case 3 do not include any rate increases? Is it the Division's recommendation to have no such increases?

A. It is not. But UBTA-UBET has sought USF relief exclusive of any rate increases. If the Commission elects to approach this case under that restriction, Case 3 depicts our recommendation along that same line. *But it is our strong recommendation that a) EAS rates, at least, be elevated; and b) any elevation in UBTA-UBET's USF draw should reflect the offsets that would be commensurate with the rate increases that the DPU is recommending*.

Q. Are you the DPU witness who is sponsoring testimony on revenues, and particularly their elevation by way of local rate increases?

A. I am not. But I have entered those witnesses' recommended revenue increases into my model – specifically, Page 6/Case 4 of Exhibit DPU 2.1 -- so as to reveal the consequences of the associated rate increases relative to the effects of the other DPU adjustments. Note that the recommendation would bring down the test year's revenue requirement deficiency, and the associated USF increase, to a level that is less than a million dollars.

Q. Does that conclude your direct testimony?

A. It does, thank you.