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BEFORE THE PUBLIC SERVICE COMMISSION

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)  
) Docket No.  
) 06-2419-02  
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## A P P E A R A N C E S

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26Members of the  
Commission Present:TED BOYER, Chair  
RIC CAMPBELL, Commissioner  
RON ALLEN, CommissionerRepresenting the  
Division of Public  
Utilities:MICHAEL L. GINSBERG  
OFFICE OF THE ATTORNEY  
GENERAL  
160 East 300 South  
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Salt Lake City, Utah 84114  
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Direct Communications  
Cedar Valley:DAVID R. IRVINE  
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Salt Lake City, Utah 84111  
Telephone: 801.363.4011  
Fax: 801.746.0174

Also present:

Raymond A. Hendershot  
CVNW Consulting  
2270 La Montana Way  
Colorado Springs, ColoradoClair Oman  
Utility Analyst  
Department of Public  
Utilities

1

## I N D E X

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Stipulation 1

Stipulation Between Direct

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1 JULY 5, 2007 - 1:30 P.M. - SALT LAKE CITY, UTAH

2

3 CHAIRMAN BOYER: Let's go on the record.  
4 This is the time and place set for the hearing in the  
5 Matter of the Petition of Direct Communications,  
6 Cedar Valley, LLC, to Establish a Rate Base, docket  
7 number 06-2419-02. Could we ask counsel to make  
8 appearances for the record, please.

9 MR. IRVINE: David Irvine for Direct  
10 Communications.

11 MR. GINSBERG: Michael Ginsberg for the  
12 Division of Public Utilities.

13 CHAIRMAN BOYER: Very well. I believe you  
14 are the moving party, Mr. Irvine. Would you like to  
15 proceed? We've read the petition and we've read the  
16 stipulation.

17 MR. IRVINE: Mr. Chairman, Direct  
18 Communications has one witness that we would propose  
19 and call. That would be Mr. Ray Hendershot.

20 CHAIRMAN BOYER: Would you like to be  
21 sworn at this time, Mr. Hendershot?

22 MR. HENDERSHOT: Yes.

23 CHAIRMAN BOYER: Please raise your right  
24 hand.

25 (The witness was sworn.)

26

1 Thank you.

2 Mr. Ginsberg, do you have a witness that  
3 you want to have sworn?

4 MR. GINSBERG: We have one witness, too.

5 CHAIRMAN BOYER: Let's swear him in at the  
6 same time. I should have done that earlier. Would  
7 you raise your right hand, please.

8 (The witness was sworn)

9 Thank you. You may be seated.

10 Mr. Irvine?

11 MR. IRVINE: Thank you, Mr. Chairman. I  
12 have passed out to the Commission and to counsel a  
13 copy of the document that is headed Direct  
14 Communications Cedar Valley Summary of Events to  
15 Establish Rate Base. We are not asking that this  
16 document be admitted as an exhibit. It's simply  
17 being proposed in aid of my examination of  
18 Mr. Hendershot and as a basis for advising the  
19 Commission of the timeline that has taken place since  
20 this matter first came before the Commission in  
21 September, September 2002 when the City of Eagle  
22 Mountain made a decision to sell its  
23 telecommunications system to Direct Communications  
24 and subsequently to Direct Communications Cedar  
25 Valley.

26

1                   The matter which is presently before the  
2 Commission is the Company's request to establish a  
3 rate base, and as the Commission was advised, the  
4 Company has been serving Eagle Mountain for  
5 approximately a year and a half. And beginning in  
6 December of 2006, the Division and the Company began  
7 a series of discussions about establishing a rate  
8 base for future rate making purposes. So after  
9 considerable back and forth and examination of  
10 records and debate and discussion, the parties have  
11 reached a stipulation which is going to be presented  
12 to the Commission today for its consideration and,  
13 hopefully, approval.

14                   I would like to invite Mr. Ray Hendershot,  
15 who is the representative for Direct Communications,  
16 to be our witness and to speak to the stipulation and  
17 the exhibits that underlie it.

18                   CHAIRMAN BOYER: That would be fine,  
19 Mr. Irvine.

20                   You can stay there if you like,  
21 Mr. Hendershot, or you can move up in front and face  
22 the Commission.

23                   MR. HENDERSHOT: I'm okay.

24                   CHAIRMAN BOYER: Why don't you just stay  
25 there, then.

26

1 MR. HENDERSHOT: Thank you.

2 DIRECT EXAMINATION

3 BY MR. IRVINE:

4 Q. Would you please provide your name and  
5 state the name of your business for the Commission.

6 A. My name is Ray Hendershot. I work for  
7 GVNW Consulting, Inc. We're located at 2270 La  
8 Montana Way, Colorado Springs, Colorado.

9 MR. IRVINE: Mr. Chairman, Mr. Hendershot  
10 has testified before this Commission in many previous  
11 matters and has been qualified as an expert witness.  
12 It would be my request that the parties stipulate to  
13 those credentials so that we need not go back through  
14 a rather voluminous personal history.

15 CHAIRMAN BOYER: Are you agreeable to  
16 that, Mr. Ginsberg?

17 MR. GINSBERG: Yes.

18 MR. IRVINE: Thank you.

19 Q. (By Mr. Irvine) Mr. Hendershot, do you  
20 have a copy before you of DCCV Exhibit 1, which is an  
21 exhibit marked "Proprietary and Confidential," and  
22 has been prepared, I believe, by the Division in this  
23 matter?

24 A. Yes, I do.

25 Q. Are you familiar with the substance and  
26

1 the content of that exhibit?

2 A. I am.

3 Q. Were you involved in arranging for and  
4 participating in a review of the plant and assets of  
5 Direct Communications that was undertaken in 2003 by  
6 Mid-State Consultants?

7 A. I am very familiar with the study that  
8 Mid-State Consultants did and the resulting report  
9 that they did.

10 Q. And what conclusions did that report reach  
11 with respect to a proposed rate base for this  
12 Company?

13 A. They came up with an evaluation of the  
14 plant, the assets, the life of the assets, the  
15 accumulated depreciation as of this point in time,  
16 and in turn provided those reports to not only the  
17 Company, but to myself and to the Division. And that  
18 was one of the bases which was used to develop a rate  
19 base for Direct Communications.

20 Q. And were the terms and conditions of that  
21 report utilized in the preparation, to your  
22 knowledge, of Exhibit 1?

23 A. Yes. Well, they were for the groundwork  
24 for Exhibit 1. Exhibit 1 takes into consideration  
25 the rate base as of May 2003, plus additions and

26



1 retirements and accumulated appreciation, to bring it  
2 up to date as of February 1st, 2006.

3 Q. And what is significant about  
4 February 1st, 2006?

5 A. That's the date on which Direct  
6 Communications began operations. The purchase for  
7 Cedar Valley/Eagle Mountain was completed, and that's  
8 the first day of operation for Direct Communications  
9 Cedar Valley.

10 Q. Under the terms of the order of the Public  
11 Service Commission, which approved the sale of the  
12 Eagle Mountain system to Direct Communications Cedar  
13 Valley, how was the Company's rate base to be  
14 established?

15 A. There wasn't anything directly in the  
16 order itself stating that, but there was a proposal  
17 made by the Division at that point in time that we  
18 agreed they had spent a lot of work and effort in  
19 their auditing of both the City records, the CPA, and  
20 taking into consideration Mid-State's report that  
21 they had done on the audit of the records. And  
22 in turn that was left blank, but it was felt that  
23 once the Company began operation, that we needed to  
24 establish a rate base and come before the Commission  
25 here.

26

1           Q.     Is it fair to say that you were the  
2     Company's representative in negotiating the rate base  
3     which eventually worked its way into the stipulation  
4     now before the Commission?

5           A.     Yes.

6           Q.     And could you explain briefly to the  
7     Commission the salient points of Exhibit 1, as they  
8     relate to the agreement between the Division and the  
9     Company, about what Direct's rate base ought to be.

10          A.     If you look at Exhibit 1, we established a  
11     breaking of the plant between the general support  
12     plant and the central office and cable and wire  
13     facilities, and in turn, we established the gross  
14     plant balance using the numbers that were previously  
15     agreed to with the Division back in 2003, and added  
16     to it the gross plant additions, accumulated  
17     depreciation, and also took into consideration  
18     retirement. So we have the gross pit in column C,  
19     the accumulated depreciation in column D, and the net  
20     book is the difference between taking the gross plant  
21     in C and subtracting D, the accumulated depreciation,  
22     to come up with a net book number. And that, in  
23     turn, establishes a total rate base. The net rate  
24     base is \$4.9 million.

25          Q.     Does the Company concur --

26

1           A.     Let me clarify that.   That \$4.9 million  
2 reflects also the acquisition adjustment in there.

3           Q.     Thank you.   Does the Company concur with  
4 the stipulation as it has been executed by both  
5 parties?

6           A.     Yes.

7           Q.     Can you tell us whether any other person  
8 or entity has relied upon this stipulation for  
9 purposes of regulating Direct Communications Cedar  
10 Valley?

11          A.     Yes.   Once we reached the stipulation with  
12 the Division, the auditor wanted to have a comfort  
13 level that that rate base would be accepted, and in  
14 turn, both the Division and myself felt very  
15 confident so that we, in turn, issued an audit  
16 report, and that has been provided to the Federal  
17 Government for the Rural Utility Service, who has  
18 provided the lines for Direct Communications.  They  
19 have relied upon this rate base likewise.

20          Q.     So in your opinion, Mr. Hendershot, is the  
21 stipulation as it has been executed consistent with  
22 and protective of the public interests?

23          A.     Yes.   I believe this rate base is fair to  
24 both the customers in Eagle Mountain and that it  
25 reflects the net investment that has been placed in  
26

1 service out there, excluding the contractor-  
2 contributed, and in turn reflects all the additions  
3 there, and it's a fair rate base for both the Company  
4 and the customer.

5 Q. Do you have an opinion about whether the  
6 Commission should approve this stipulation as it has  
7 been proposed?

8 A. I believe it's fair, and I believe it's  
9 fair for the Commission, and that they should accept  
10 this rate base as established here and proposed.

11 MR. IRVINE: Mr. Chairman, I don't have  
12 any other questions of Mr. Hendershot. He's  
13 available for questions from the Division or from the  
14 Commission.

15 CHAIRMAN BOYER: Thank you, Mr. Irvine.  
16 The exhibit to which you've referred, Mr. Hendershot,  
17 is it this yellow sheet that was just handed out?

18 MR. HENDERSHOT: It's Exhibit 1.

19 MR. IRVINE: It's Exhibit 1 filed with the  
20 stipulation.

21 CHAIRMAN BOYER: Excellent. Do you wish  
22 to offer that into evidence or shall we just assume  
23 that it's part of the record?

24 MR. IRVINE: Well, I was assuming Mike was  
25 going to make that offer.

26

1 MR. GINSBERG: I could do that.

2 CHAIRMAN BOYER: Fine. Mr. Ginsberg, your  
3 turn.

4 MR. GINSBERG: I just have one or two  
5 clarifying questions.

6 CHAIRMAN BOYER: Please.

7 CROSS-EXAMINATION

8 BY MR. GINSBERG:

9 Q. Mr. Hendershot, the Exhibit 2 is total  
10 company, is it not, rather than broken apart to show  
11 the net book value and those things?

12 A. You mean Exhibit 1? It's the total  
13 company, yes, and it's total interstate and state  
14 combined.

15 Q. You used the term "rate base." You  
16 weren't attempting to imply anything different than  
17 what was being established as the net book value as  
18 of February 1, '06; is that right?

19 A. That's correct.

20 Q. "Rate base" tends to be -- isn't that more  
21 of a technical term, or rate-making?

22 A. Yes. This is the net -- the plant  
23 balances that we're starting the Company with.

24 Q. And you would agree that a rate case,  
25 although there may be the starting point, may

26

1 actually occur as a company -- that "rate base" and  
2 "rate case" could be different?

3 A. I would assume that in a rate case, since  
4 this would be the starting point, any future plant  
5 additions the Company put in, any adjustments, things  
6 like that, would be in accordance with the normal  
7 rate case procedures.

8 MR. GINSBERG: Okay. Thank you.

9 CHAIRMAN BOYER: Any further questions?  
10 Any redirect, Mr. Irvine?

11 MR. IRVINE: No, I have nothing.

12 CHAIRMAN BOYER: Mr. Ginsberg, do you want  
13 to proceed with your witness?

14 MR. GINSBERG: I will. Could we go ahead  
15 and get these exhibits marked?

16 CHAIRMAN BOYER: Yes, let's do.

17 MR. GINSBERG: I thought that maybe we  
18 could mark them. And the stipulation had attached to  
19 it what he was referring to as Exhibits 1, 2 and 3.  
20 And should I call those Joint Exhibits? They're  
21 attached to the stipulation.

22 CHAIRMAN BOYER: We can either call them  
23 Joint Exhibits or Stipulation Exhibits.

24 MR. GINSBERG: Stipulation Exhibits, okay.  
25 And then if we could also have marked what I handed  
26

1 out, which is a proprietary exhibit that we have  
2 marked as DPU Exhibit 1. We'll use that in aid of  
3 our examination.

4 CHAIRMAN BOYER: Okay, thank you. So the  
5 exhibits to the stipulation are Stipulation Exhibits  
6 1, 2 and 3, and the yellow sheet that was handed out  
7 will be Exhibit DPU Number 1.

8 MR. GINSBERG: And Exhibits 1 and 2, I  
9 think, are confidential also, Stipulation Exhibits 1  
10 and 2.

11 CHAIRMAN BOYER: Okay.

12 DIRECT EXAMINATION

13 BY MR. GINSBERG:

14 Q. Would you state your name for the record.

15 A. Clair Oman.

16 Q. And your position with the Division?

17 A. I'm a Utility Analyst employed by the  
18 Division of Public Utilities.

19 Q. And I don't believe you've actually  
20 testified before the full Commission. Could you give  
21 us a little bit of your background and experience?

22 A. Yes. I've worked in telecommunications  
23 for independent telephone companies. I've also  
24 worked for a CPA firm, audited various telephone  
25 utilities within the state, and also electric

26

1 utilities within the state.

2 Q. How long have you been working for the  
3 Division?

4 A. A year and a half, approximately.

5 Q. Can you briefly describe your role with  
6 respect to the development of Stipulation Exhibits 1  
7 and 2 and the stipulation itself.

8 A. Well, I was involved in the review of the  
9 financial records, also the records that were created  
10 by Mid-State Consultants in their review of the  
11 assets that Direct Communications eventually  
12 purchased from Eagle Mountain City and those plant  
13 additions and cumulated depreciation additions that  
14 are reflected in DPU Exhibit Number 1, and worked with  
15 the Division and also GVNW, Direct Communications, in  
16 negotiations in coming to the agreement upon this  
17 plant balance that has been presented by  
18 Mr. Hendershot.

19 Q. Can you give a brief description of what  
20 DPU Exhibit 1 shows?

21 A. It shows the beginning plant balances that  
22 were arrived at by the Division in May of '03. That  
23 was preliminary, I guess, as the timeline has it,  
24 because there was such a long time between that, the  
25 determination of that plant balance and the eventual

26



1 purchase of the plant by Direct Communications. And  
2 it also indicates the net plant additions and  
3 retirement and the accumulated depreciation that was  
4 added to that plant to come to what the stipulation  
5 numbers are at this point, for February 1, '06, that  
6 Mr. Hendershot also referred to.

7 Q. Can you go ahead and present your  
8 testimony in support of the stipulation.

9 A. Yes. The Division has reviewed the cost  
10 of the plant, added to those numbers that the  
11 Division reviewed previously when it was thought that  
12 the consummation of the purchase was more imminent  
13 that in proved to be. And after a review of those  
14 records and discussion with GVNW, Eagle Mountain City  
15 and Direct Communications, we have agreed to support  
16 the numbers that are indicated upon that exhibit, and  
17 also have reviewed the depreciation rates in  
18 conjunction with -- I'm speaking as if I did it all,  
19 but this is a Division effort, you understand -- so  
20 we have reviewed these depreciation lives, and they  
21 are also essentially the same as have been used in  
22 other ILEC proceedings for this Commission that are  
23 essentially the same. So I would feel that they're  
24 acceptable also for acceptance by this Commission.

25 Q. Do you have any -- do you believe that the  
26

1 stipulation is reasonable and should be approved by  
2 the Commission?

3 A. Yes, I do.

4 MR. GINSBERG: That's all the testimony we  
5 had. We would ask that DPU Exhibit 1 be admitted,  
6 and Stipulation Exhibits 1, 2 and 3 be admitted.

7 MR. IRVINE: No objection.

8 CHAIRMAN BOYER: Fine, they're admitted.  
9 Thank you.

10 Mr. Irvine, have you any questions?

11 MR. IRVINE: I have no questions of the  
12 witness.

13 CHAIRMAN BOYER: Let's see if the  
14 Commissioners have any questions. Commissioner  
15 Campbell, do you have any questions of either  
16 witness?

17 COMMISSIONER CAMPBELL: Mr. Oman, if you  
18 would turn to DPU Exhibit 1, could you please  
19 describe for us what the "plant acquisition  
20 adjustment" is?

21 THE WITNESS: The plant acquisition  
22 adjustment is the amount that was paid by Direct  
23 Communications in addition to what the agreed-to  
24 plant balances would be that is going to be used for  
25 rate-making purposes.

26

1                   COMMISSIONER CAMPBELL: And is that in  
2 rate base or not in rate base?

3                   THE WITNESS: It would not be in rate  
4 base.

5                   COMMISSIONER CAMPBELL: So that's the  
6 amount that's excluded from rate base. So even  
7 looking at Exhibit 1 to the settlement agreement, and  
8 we have a total which shows that it's included as  
9 4.9, and it's your testimony that that is not  
10 included in rate base.

11                  A. Right. I think in his testimony,  
12 Mr. Hendershot indicated that number did include the  
13 plant acquisition adjustment, which implies that it  
14 is not going to be included in the rate base, that's  
15 correct.

16                  Q. So as of February 1st, '06, the net rate  
17 base is \$4.9 million?

18                  A. That's correct.

19                  Q. And as I reviewed the Certificate of  
20 Convenience and Necessity for Direct Communications,  
21 we stated in our order that: "In no event shall any  
22 substandard plant be included in rate base." What  
23 sort of review or analysis has the Division done to  
24 assure themselves that this part of our order is  
25 being followed?

26

1           A.     Well, the personnel of the Division  
2 reviewed, rereviewed, I guess I should say, the plant  
3 that was found to be unacceptable, and they found  
4 that it was brought up to current standards and was  
5 no longer a detrimental plant or inferior plant,  
6 whatever the term may be.

7           CHAIRMAN BOYER: Thank you, Mr. Campbell.

8           Mr. Allen, do you have any questions?

9           COMMISSIONER ALLEN: Just a quick one, Mr.  
10 Chairman, thank you.

11           Mr. Oman, one of the things I'm interested  
12 in, when we're looking at depreciation, is making  
13 sure that we have confidence in the initial booking  
14 of plant and equipment. And, of course, I know you  
15 don't carry out a full-blown audit, but in your  
16 research and documentation, do you feel that the  
17 documentation that the Company has been using and the  
18 sophistication of their accounting system gives you  
19 enough confidence in initial bookings of plant and  
20 the numbers so that those are accurate enough for  
21 your confidence for this purpose?

22           THE WITNESS: Yes, I can, and the Company  
23 submitted financial statements as of September of '06  
24 after they've been in operation for approximately six  
25 months. And I did review the records at that point,  
26

1 and reviewed the booking of plant and procedures, and  
2 found them to be appropriate, and I did not find any  
3 exceptions that were material at all.

4 COMMISSIONER ALLEN: Thank you.

5 CHAIRMAN BOYER: Commissioner Campbell  
6 asked my questions, but I do have a followup on the  
7 question that he asked. My recollection, which isn't  
8 as good as it once was, is that when we issued the  
9 Certificate of Convenience and Necessity a couple of  
10 years ago, that there was some discussion about Eagle  
11 Mountain being undercapitalized and having antiquated  
12 switching gear, as I recall. Have those switches  
13 been upgraded, or have they been included in the  
14 calculations that you've just testified about?

15 THE WITNESS: You're asking me?

16 CHAIRMAN BOYER: I'm asking you, since you  
17 folks audited, or you and your staff did.

18 THE WITNESS: Yes, they were removed. The  
19 switch I think you're referring to is the PBX --

20 CHAIRMAN BOYER: Yes.

21 THE WITNESS: -- that Eagle Mountain City  
22 was using as a central office switch. And that was  
23 retired. I don't recall the date, but it was  
24 replaced with a Nortel DMS-10 switch, which is the  
25 standard switch, and it's no longer inferior.

26

1                   CHAIRMAN BOYER: Thank you. I had one  
2 other question. It's not really germane to the case  
3 before us, but I recall, as I reviewed the  
4 certificate -- well, let's see -- the order issuing  
5 the Certificate of Public Convenience had some  
6 discussions of whether or not Eagle Mountain would be  
7 classified as a rural telephone company or not. And  
8 one of the requirements under the Federal Code was  
9 that it did not include any incorporated place of  
10 10,000 inhabitants or more. I'm wondering if the  
11 population of Eagle Mountain is now 6,000 and change,  
12 I believe, a couple of months ago, or a couple years  
13 ago. It's growing in leaps and bounds.

14                   MR. HENDERSHOT: The only information is  
15 the 2000 census, and it was classified as rural.

16                   CHAIRMAN BOYER: We'll let you worry about  
17 that later, at another time. Does anybody else have  
18 any other questions? Mr. Campbell or Mr. Allen?  
19 We'll take a short recess, if you wouldn't mind  
20 waiting, and we'll be back.

21   (Recess)

22                   CHAIRMAN BOYER: Back on the record. The  
23 Commission will approve the stipulation as presented.  
24 We'd like to ask Mr. Irvine to prepare an order  
25 approving the stipulation, if you would, please.

26

1                   MR. IRVINE: Thank you. I'd be happy to.

2 Thank you very much.

3                   (Whereupon, the proceedings were

4 concluded at 1:57 p.m.)

5                                   \* \* \*

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STATE OF UTAH            )  
                                  )  ss.  
COUNTY OF SALT LAKE)

        This is to certify that the foregoing Public Service Commission hearing held before Chairman Boyer was held in the State of Utah;

        That the above-named proceedings were taken by me in stenotype, and thereafter caused by me to be transcribed into typewriting, and that a full, true, and correct transcription of said testimony so taken and transcribed is set forth in the foregoing pages.

        I further certify that I am not of kin or otherwise associated with any of the parties to said cause of action, and that I am not interested in the event thereof.

        Witness my hand and official seal at Salt Lake City, Utah, this 9th day of July, 2007.

        My commission expires:  
        May 24, 2011

---

Kathy H. Morgan, CSR, RPR