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BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Increase of Rates And Charges and Increase in USF Eligibility for Manti Telephone Company	(Redacted) Amended Application Docket No. 08-046-01
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Manti Telephone Company (“Manti” or “Company”) pursuant to Stipulation between the Division of Public Utilities (“Division”) dated March 10, 2011 (the “Stipulation”) and the Company and Order of the Public Service Commission dated April 21, 2011 (the “Order”), Utah Code Annotated §54-8b-11, §54-8b-15, and Rules R746-360 and R746-700 of the Commission’s Rules of Practice and Procedure, hereby files this Amended Application with the Public Service Commission of Utah (“Commission”) for an increase in the State Universal Service Fund (“USF”) eligibility for the purpose of defraying the cost for Manti to provide basic telephone service within its geographic service area. Manti represents and states as follows:

1. Manti is a Utah corporation qualified to transact business and operate as a local exchange carrier providing telecommunications within the State of Utah under authority issued to Manti. The Commission has jurisdiction over Manti’s application and request for USF eligibility under Utah Code Title 54, § 54-1-1; §54-8b-15 and R746-360 and R746-700 of the Commission’s Rules of Practice and Procedure.

2. The purpose of this Application is to present financial and statistical information supporting Manti's request for increased USF eligibility in compliance with Utah Administrative Code § R746-360; R746-700, and §54-8b-15 of the Utah Code.

3. Pursuant to the Stipulation and Order, this Application is based upon financial information of the Company for July 1, 2011 through December 31, 2011, annualized; the National Exchange Carrier Association's ("NECA") average schedule formulas; and known and measurable changes to the operations for six (6) months ending December 31, 2011 ("test period"). In order to provide the financial and statistical information presented in this Application, Manti's operations for the test period were analyzed to identify and remove non-regulated costs. Manti's historical operations for the test period were then adjusted to reflect known and measurable changes in operations. Manti's pro forma cost of providing Utah telecommunications services and including the necessary information to support the request for increased Utah USF support eligibility are reflected on the *Confidential Schedules*, attached.

4. Manti's Application is supported by the following Schedules which are considered confidential subject to Utah Public Service Rule 746-100-16. The schedules have been organized to support the amount of Manti's revenue deficiency provided in Schedule 1. The historical and Pro Forma results of operations are reflected in Schedule 1.

5. **Schedule 1-Manti Rate Case Schedule 1 as of 12-31-2011-annualized 4-23-12.pdf.**

a. **Computation of Earnings Shortfall.** Schedule 1 compares the Company's authorized return to the normalized revenue requirement. The Company's resultant revenue deficiency is then subject to an income tax "gross up," which results in a total company

revenue shortfall of \$2,960,615. Note that the Company's actual rate-of-return on regulated pro forma operations is *Begin Confidential *** End Confidential* %.

b. **Rate Base Summary.** Schedule 1 calculates the Company's average total current rate base of *Begin Confidential *** End Confidential*. The schedule begins with historical book amounts and contains adjustments to produce a pro forma regulated rate base of *Begin Confidential *** End Confidential* as of December 31, 2012. The notes to Schedule 1 identify the adjustments to the rate base.

c. **Income Statement Summary.** Schedule 1 also calculates the Company's total normalized earnings of *Begin Confidential *** End Confidential*. The schedule begins with historical book amounts and identifies and adjusts for fixed, known and measurable items necessary to produce a pro forma, regulated income statement. The notes to this schedule identify the individual adjustments contained in Schedule 1, Columns E, F, G and I which include the normalizing adjustments, as discussed below to reach the normalized 2012 Pro Forma balances in Column J.

d. **Cost of Capital.** Manti utilizes a total company rate-of-return ("ROR") of *Begin Confidential *** End Confidential* % as set forth in Note (d) Rate of Return on Schedule 1. For the individual components of its capital structure, Manti has used a cost of debt of *Begin Confidential *** End Confidential* % and a cost of equity of *Begin Confidential *** End Confidential* %, which results in a composite rate-of-return of *Begin Confidential *** End Confidential* %. The cost of capital is consistent with past authorized returns proposed by Staff in the past rate cases in this case.

e. **Tax Factor.** To correctly apply income taxes to the normalized income for the test period, **Note (e)** to Schedule 1 applies a tax factor that incorporates both state and federal tax rates to taxable income. Related to this adjustment, a net gross multiplier is included in the deficiency calculation in schedule 1. This multiplier is applied to the revenue deficiency to calculate the revenue necessary to earn the projected rate of return and to cover the additional federal and state income tax liability as a result of the additional revenue.

6. **Schedule 1 A – Manti 2012 RC Exp Adj w-Supporting Documents 4-18-12.pdf.** This Schedule identifies the individual Expense Adjustments identified in Schedule 1, Columns E, F and G.

a. **Wage Increase.** Manti is proposing a wage increase for all employees. A consultant, at the request of the Division of Public Utilities, reviewed the company's wage schedules and recommended revisions to more closely reflect the industry / labor market. The adjusted 2011 wages were normalized to recognize these wage increases. The company has also included a cost of living adjustment effective in 2012. A Pro Forma Income Statement Adjustment shown in the notes to Schedule 1 provides for the increase in wages for 2012.

b. **Health Care and Dental Coverage Increases.** Manti provides healthcare and dental coverage for its employees. Manti has experienced increased health insurance cost and dental insurance coverage in 2012. A Pro Forma Income Statement Adjustment shown in the notes to Schedule 1 provides for the known increase in healthcare and dental costs for 2012.

c. **Addition of Accounting Personnel.** A Pro Forma Income Statement Adjustment shown in the Notes to Schedule 1 includes the cost of hiring one additional employee during 2012 as contemplated in the stipulation between the Division of Public Utilities

and Manti to assist with in-house accounting functions. The total cost is based on anticipated job functions, experience and includes benefit costs based on historical benefit loading factors. This adjustment increases regulated expenses by the total cost on one new employee.

d. **Rate Case Expenses.** A Pro Forma Income Statement Adjustment shown in the notes to Schedule 1 represents the anticipated amount of expenses related to Manti's costs incurred in prosecution of its rate case application since 2008 and through the resolution of this rate case, amortized over a period of two years. The rate case expense to date has been *Begin Confidential *** End Confidential* and it is estimated that the rate case expense to finalize this rate case will be an additional *Begin Confidential *** End Confidential*. Therefore, *Begin Confidential *** End Confidential* for the adjusted test period has been added to the State expenses.

7. **Schedule 1B-Manti-2012 Summary of Plt Additions and Removal of Voice Mail 4-14-12.pdf.** This Schedule identifies known and measurable individual adjustments to Rate Base contained in Column H, Schedule 1, and more particularly described in Note (b) on Schedule 1, together with supporting documentation, and includes removal of the investment in Voice Mail Equipment since the FCC deregulated voice mail several years ago.

8. **Schedule 1C-Manti-2012 RC Rev Adj w-Supporting Documents 4-14-12.pdf.** This Schedule identifies the revenue adjustments identified in Column I, Schedule 1, as more particularly described in Note (c), together with supporting documentation.

a. **Annualized Local Rate Changes.** The local rates were increased prior to the test period so this adjustment annualizes the local rate changes.

b. **Revenue Reduction in Federal Lifeline/Linkup Support.** The FCC reduced the amount of Federal Lifeline support and eliminated the Linkup programs. This adjustment reflects those changes.

c. **Revenue Change for Offering Lifeline at No-Cost.** In order to avoid line loss to wireless competitors, Manti is proposing to offer a Lifeline service at no cost to qualified customers.

d. **Revenue Loss in Special Access due to Competition.** Manti continues to lose special access due to competition.

e. **Bundle Services.** Manti proposes to offer the vertical calling features such as caller ID name and number, along with the custom calling features (call forwarding, call waiting and 3-way calling) which have become the norm in the telecommunications industry and are generally offered as part of any basic telecommunications plan offered by competitive services providers such as VoIP and cellular/mobile carriers. While such vertical calling features have traditionally not been included with the Commission's treatment of Basic Telecommunications Services for purposes of State USF, the Commission has authority to do so pursuant to Utah Code Anno. Section 54-8b-15(1)(a) and R746-360-2(C) of the Commission's Rules of Practice and Procedure. Such treatment would be consistent with customer expectations that vertical calling features should be included within their basic telephone rate plan in today's competitive telecommunications market. The current revenue shortfall which is attributable to the vertical calling features will be *Begin Confidential *** End Confidential* as set forth in the notes to Schedule 1.

f. **Voice Mail.** The FCC deregulated voice mail several years ago. The company proposes in the Note (c) on Schedule 1 to remove voicemail revenues since the service has been deregulated.

g. **Revenue Reduction Due to FCC Reform (NECA Settlements).** As a result of the FCC Transformation Order, Manti is expecting a reduction in NECA Settlements.

h. **Uncollectible Ratio.** Since the company recorded positive uncollectible revenue, an adjustment is shown in the notes that uses an average of uncollectible ratios for the period 2007 to 2009 to project an uncollectible amount for the pro forma income statement. Manti has not changed its collection policies or write-off policies.

i. **Extended Area Service.** The current extended area service (EAS) rate charged to Manti's customers is \$0.75 per month. Manti proposes that the current EAS rate be eliminated as a separate line item charge to customers and be rolled into the current R1 rate of \$16.50 and the current B1 rate of \$26.00. The revenue shortfall due to the elimination of EAS charges will be *Begin Confidential *** End Confidential* as set forth in the Column J, of Schedule 1 as more particularly described in Note (c).

9. **Schedule 1C-1-Manti-2012 Special Access at 2-13-12.xls.** This Schedule identifies the revenue adjustment to special access revenues due to losses to competition, identified on Line 6, Column I, Schedule 1, as more particularly described in Note (c).

10. **Schedule 2A-Manti-2011 Audited Financials 3-9-12.pdf.** This Schedule contains a copy of the 2011 Audited Financials Statements of Manti Telephone Company.

11. **Schedule 2B-Manti-2011 Auditor Adjusting Entries.pdf.** This Schedule contains the adjusting audit journal entries.
12. **Schedule 2C-Manti-2011 Auditor Ltr to B of D 3-9-12.pdf.** This Schedule contains the Auditor's Letter to the Board of Directors of Manti Telephone for Fiscal Year 2011.
13. **Schedule 2D-Manti-2011 Trial Balance Annualized 12-31-11.pdf.** This Schedule includes a Trial Balance as of December 31, 2011, which reflects that Manti recorded all of the recommended 2011 audit adjustments.
14. **Schedule 4 - Manti Personnel Organizational Charts 4-7-12.pdf.** This Schedule contains Manti's personnel organization chart outlining names and line of authority.
15. **Changes in Accounting Procedures.** Manti has had no changes in its accounting policies or procedures for the 12-month period prior to the historical period or through the date of the general rate case application. The company has incorporated all of the past recommendations of the Division of Public Utilities in its accounting procedures.
16. Manti has paid no penalties or fines in the historical period or in the test period. Manti has conducted no internal audits nor have there been any corporate restructuring.
17. Manti's proposed Tariff Revision are attached in **Schedule 3-Manti-Proposed Tariff Changes 4-19-12.pdf.**
18. Manti's current local rates are \$16.50 for residential customers (R1) and \$26.00 for business (B1), which meet the current Utah Affordable Base Rate for basic telecommunications service.

19. Manti's cost to provide basic telephone service to its customers is in excess of the Affordable Base Rate. Therefore, Manti requests that its entire revenue deficiency be recovered through Utah Universal Service Fund support.

WHEREFORE, Manti respectfully submits this Second Amended Application for USF eligibility.

DATED this 24th day of April, 2012.

BLACKBURN & STOLL, LC

Stanley K. Stoll
Kira M. Slawson
Attorneys for Manti Telephone Company

STATE OF UTAH)
) ss.
COUNTY OF SANPETE)

CERTIFICATION

The undersigned, Paul Cox, President and General Manager of Manti Telephone Company, being duly sworn upon his oath hereby certifies, pursuant to Commission Rule R746-700-40-C that the following documents have been prepared and are available:

1. Financial audit work papers for the most recent completed financial audit;
2. Any revenue ruling requests, IRS responses, and correspondence between the utility and the IRS since the last general rate case; and
3. Copies of the most recent State and Federal income tax returns in which the utility participated.

Copies of this information are being contemporaneously delivered as Confidential Documents to the Division of Public Utilities.

Paul M. Cox
President and General Manager
Manti Telephone Company

Subscribed and sworn to before me on this _____ day of _____, 2012.

Notary Public

My Commission Expires:

CERTIFICATE OF SERVICE

I hereby certify that a copy of the **(Redacted) Manti Telephone Second Amended Application** was transmitted electronically (email) on this the 24th day of April, 2012 to the following:

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