BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Increase of Rates And Charges and Increases in USF Eligibility For MTC Telephone Company	:	**Docket No. 08-046-01 DPU Exhibit 4.0 DIR-REV EXP (REDACTED)**

DIRECT TESTIMONY

OF

ROBERT A. DAVIS
STATE OF UTAH
DIVISION OF PUBLIC UTILITIES

OCTOBER 18, 2012

I. INTRODUCTION

Q: Please state your name for the record.

A: My name is Robert A. Davis.

Q: By whom are you employed and what is your business address?

A: I am employed by the Utah Department of Commerce, Division of Public Utilities (DPU). My business address is 160 East 300 South, 4th Floor, Salt Lake City, Utah, 84114.

Q: What is your position with the Division?

A: I am employed as a Utility Analyst in the Telecommunications & Water Section.

Q: Please summarize your educational and professional experience.

A: I received a Masters in Business Administration with Masters Certificates in Finance and Economics from Westminster College in May of 2005. I am an Accredited Valuation Analyst-AVA through the National Association of Valuators and Analysts and an Accredited Senior Appraiser-ASA through the American Society of Appraisers. I am a Certified General Appraiser in the State of Utah. Prior to my present position, I was employed for 6.5 years with the Utah State Tax Commission in the Centrally Assessed Property Tax Division Utilities Section where I assessed telecommunication and airline companies for property tax purposes. Prior to the Property Tax Division, I was employed as an Electronic Engineering Technician at Fairchild Semiconductor for 22 years. I have been employed with the DPU since May, 2012.

Q: Have you testified before the Commission on prior occasions?

A: I have not.

Q: Please describe your participation in the Division's review of Manti Telephone Company (MTC).

A: I have been involved with and participated in the review of MTC's operations, revenues and expenses.

II. PURPOSE AND SCOPE OF TESTIMONY

Q: What is the purpose of your testimony in these proceedings?

A: My testimony addresses and summarizes specific issues and conditions pertaining to MTC revenues and expenses. Specifically, I will discuss adjustments to local service revenues, interstate and intrastate access revenues, interstate and intrastate special access revenues and uncollectible revenues. My testimony will also discuss wage and health expense adjustments as they are applied to the Plant Specific, Customer Operations and Corporate Operations Expense accounts. Finally, my testimony will discuss adjustments to annualization of plant non-specific and operating taxes.

III. SUMMARY OF ADJUSTMENTS

The DPU completed an audit of expenses, revenues, rate base, and operations for MTC, pertaining to the application for increased State Universal Service Fund (USF) eligibility by the company.

MTC accounts are normalized by adding back the MTC projected declines in revenue of [redacted] and adjusted downward by [redacted] from the normalized number. The result is a net difference of [redacted] as compared to MTC's application.

The previously mentioned expense accounts are normalized by reducing MTC projected expenses by [redacted]. After consideration and analysis, it is recommended that expenses be adjusted upwards from the normalized number by [redacted]. The result is a net difference of [redacted].

IV. NORMALIZATIONS AND ADJUSTMENTS

1. Adjustment to requested decline in Local Service Revenues. DPU 4.1 column H.

Q: Please explain the DPU's adjustments to the Local Service Revenues.

A: These adjustments annualize revenues for rates that were changed during the test year. There are several adjustments made to the components comprising Local Service Revenues of [redacted]

Q: Please explain the DPU adjustments for Local Rate Changes. DPU 4.1 lines 1-2.

A: New rates were established in the last quarter of 2011 by the Commission increasing the residential rates from $13.50 to $16.50 and the business rates from $23.00 to $26.00, an increase of $3.00 for each class of service. For the beginning nine months of the year, there is a difference of $3.00 for both residential and business customers. Residential and business line counts of [redacted] and [redacted] respectively are taken from MTC's annual report page 33 and used as the basis for the calculations. This increases residential revenue by [redacted] and business revenue by [redacted]

Q: Please explain DPU's adjustments for County-Wide Extended Area Service (EAS).

DPU 4.1 line 3, 6-9.

A: County-Wide EAS was reduced from $3.41 to $.75 a difference of $2.66 for all residential and business customers. This results in a decrease in revenue of [redacted] for the beginning nine months of the year.

MTC proposes to include a further reduction in revenues of [redacted] from Local Rates to Incorporate EAS Changes (which is part of the [redacted] reduction to Local Service Revenue in MTC's application). MTC proposes to include EAS in basic rates and receive compensation from the USF to cover lost revenues. The current EAS rates were approved by the Commission in Docket 11-046-T01. At that time, MTC presented information to set these rates based on cost, in compliance with R746-347-4. The Division does not agree that it is appropriate to include this service in Local Rates when the rules clearly call for cost-based pricing.

Q: Please explain DPU's adjustments for Zone Charges. DPU 4.1 line 4.

A: The Zone Charge rate was reduced from $2.00 per subscriber to $0.00 or a change of $2.00 at the same time as the previously mentioned rate adjustments. Zone Charge is calculated in the same manner as other line charge changes. However, it applies to fewer lines. The line count used for this calculation is [redacted] and is derived from the Local Service Detail as of 6-1-11. This equates to a reduction in revenue of [redacted]

Q: Please explain the result of DPU's adjustments to Local Rate Changes. DPU 4.1 line 5.

A: These adjustments resulted in [redacted] of additional revenue and the first component of the [redacted] adjustment to Local Service Revenues previously mentioned.

Q: Please explain DPU's adjustments for Federal Lifeline/Link-Up Support. DPU 4.1 lines 10-11.

A: Federal Lifeline/Link-Up is based on a line count of [redacted] as reported. However, it should be noted that the referenced resource "Local Service Detail 6-1-11" Schedule 1C does not support this number. During the onsite visit, a letter was provided between Mr. Cox and Mr. Hendershot dated 2-28-12 indicating the [redacted] lifeline number. DPU DR 25.14 response from MTC has an average of [redacted] for the first six months of 2012. The rate changed from $10.00 to $9.25 or a difference of $.75. This adjustment is calculated for the full twelve months of the year resulting in a decrease of [redacted] for lifeline. The adjustment for linkup is the un-verified reported [redacted].

Q: Please explain the result of DPU's adjustments to Federal Lifeline/Link-Up. DPU 4.1 line 12.

A: These two adjustments result in a decrease of [redacted] in revenues and the second component of the [redacted] adjustment to Local Service Revenues previously mentioned.

Q: Should MTC change the Affordable Base Rate (ABR) in order to offer Lifeline at no charge? DPU 4.1 lines 13-17.

A: No. MTC proposes to offer this service at no cost to this class of customers. To do this would require MTC to change the Affordable Base Rate (ABR) and then apply the discount to the new rate. While the Division understands the need to be competitive with other carriers, the DPU does not believe it is appropriate to change the ABR and make up the difference in revenue from the USF in order to provide Lifeline at no charge.

Q: Should MTC's USF support be increased so that MTC may include certain services in the Affordable Base Rate? DPU 4.1 lines 18-22.

A: No. The DPU is not opposed in principle to telephone companies offering services such as Caller ID-Name and Number, Call Waiting, 3 Way Calling and Call Forwarding for no cost. These services are considered to be competitive in nature and offered by other telecommunication carriers at no charge. MTC proposes to include these services in the ABR and have Utah USF compensate it for the lost revenue these services currently generate. The DPU does not believe this is appropriate for a Rate of Return company where prices should be cost based.

Q: Please explain the DPU adjustments relating to Voice Mail Deregulation. DPU 4.1 lines 23-25.

A: Basic Voice Mail, Basic Voice Mail + 10 and Premium Voice Mail have been deregulated. The old rates were $3.95, $4.95 and $6.95 respectively. With the deregulation, an adjustment to revenues is made for each. An adjustment to Basic Voice mail of [redacted] Basic Voice + 10 of [redacted] and Premium Voice of [redacted].

Q: Please explain the result of DPU's adjustments to Voice Mail Deregulation. DPU 4.1 line 26.

A: These adjustments result in a decrease of [redacted] from revenues and the final component of the [redacted] adjustment to Local Service Revenues previously mentioned.

2. Adjustment to requested decline in Interstate & State Access revenue.

Q: Please explain DPU's adjustments to this account.

A: After filing the original application with a downward adjustment of [redacted], MTC revised the numbers resulting in a downward adjustment of [redacted] in their direct testimony. The Division agrees with this number. No further adjustment is necessary.

3. Adjustment to requested decline in Interstate & State Special Access revenue due to competition. DPU 4.2.

Q: Please explain DPU's adjustments to this account.

A: MTC projected that there would be total revenues of [redacted] in 2012 compared to [redacted] reported during 2011 based on anticipation of lost contracts for interstate and intrastate special access lines for a loss in revenues of [redacted]. Analysis of the 2012 January through June general ledger for interstate and intrastate special access results in revenues of [redacted] or a loss of [redacted] due to lost lines.

This results in an upward normalization of [redacted] to the Interstate and Intrastate Special Access revenue account with a corresponding downward adjustment of [redacted]. The net impact on MTC's application Schedule 1 is an upward adjustment of [redacted].

4. Adjustment to recognize Uncollectibles. DPU 4.3.

Q: Please explain DPU's adjustments to the Uncollectible account.

A: MTC proposed an annualized uncollectible number of [redacted]. The period January through June reported in MTC Schedule 2D page 6 indicated a number of [redacted]. This is seemingly summed to the YTD Period 12 number of [redacted] to get a July through December number of $[redacted] which is annualized to the [redacted] reported above. However, the MTC annual report for year ending December 31, 2011, page 9, indicates an uncollectible number of [redacted]. The $2,802 number used as the projected uncollectible number contained in the application is seemingly derived from mathematical chaos.

It is unclear given the supplied documents whether or not there is a gain from collected uncollectible revenues or there is an actual uncollectible amount. The annual report indicates that it is added to arrive at Net Operating Revenues. The [redacted] is non verifiable and is not normalized as it may or may not be correct.

MTC requests a downward adjustment of [redacted] based on a percentage of the new revenues from anticipated additional USF funding. The ratio is derived from an average of years 2007 through 2009, which is outside the test year. This results in a projected loss in revenues from uncollectibles of [redacted]

Q: How should the Uncollectible account be reconciled? DPU 4.3 line 6.

A: An upward normalization of [redacted] is made to uncollectible revenues. It is a common practice to use a percentage of revenues as a means to anticipate uncollectibles. The uncollectible ratio is recalculated using more recent years 2009 through 2011 from MTC's annual reports. The ratio of uncollectibles to local service revenues is calculated for the years 2009 through 2011 and a basic average taken resulting in an uncollectible ratio of [redacted]. This ratio is applied to the year ending December 31, 2011 local revenue of [redacted] to arrive at the downward adjustment of [redacted]. The resulting net reduction to revenues due to uncollectibles is [redacted] Note that the uncollectible should be based on the adjusted local revenues.

5. Wage and Health adjustments to Plant Specific expenses. DPU 4.4 and 4.5.

Q: Please explain DPU's wage and health adjustments to Plant Specific expenses. DPU 4.4 lines 1-11 column D and DPU 4.5 lines 1-9 column D.

A: Two of the adjustments made to this account resulting in normalizations of [redacted] and adjustments of [redacted] added back are to the requested wages and healthcare premiums. The first is an adjustment to the wages. MTC's requested wage increases of [redacted] are normalized. Non-MTC employees are removed from the payroll distribution. Using the median salary including the Utah Economic Data Viewer from the outside consultant's (Carter & Kotter) compensation study performed on the company and its employees, the wages are recalculated. There is no further cost of living adjustment made as it is considered to be part of the [redacted] overall market adjustment. In addition to the base wages, the FICA/Medicare based on the current salaries is normalized and recalculated at the new wages. This is shown as the difference between new and current wages.

The second adjustment is to the healthcare/dental premiums. Healthcare and dental expenses for employees not employed by MTC are removed. The reported 2012 premiums, effective January 1, 2012 are used to calculate the premiums based on each employee's plan level participation including a Health Equity (HSA) administration fee. MTC's requested wage and healthcare/dental increases of [redacted] are normalized. Adjusted wage increases of [redacted] including adjustments for FICA/Medicare at the new wages and healthcare/dental premiums of [redacted] are added back for a total upward adjustment of [redacted]

6. Wage and Health adjustments to Customer Operations expenses. DPU 4.4 and 4.5.

Q: Please explain DPU's wage and health adjustments to Customer Operations expenses. DPU 4.4 lines 12-22 column D and DPU 4.5 lines 10-18 column D.

A: The adjustment to Customer Operations expenses is similar to the adjustments made to Plant Specific expenses. The adjustment sets wages at the median for each position as recommended by the outside consultant's (Carter & Kotter) compensation study, removes non MTC employees, recalculates healthcare/dental and recalculates FICA/Medicare based on the new numbers.

The requested increases of [redacted] are normalized. Adjusted wage increases with the FICA/Medicare and health/dental premiums of [redacted] are added back.

7. Wage and Health adjustments to Corporate Operations expenses. DPU 4.4 and 4.5.

Q: Please explain DPU's wage and health adjustments to Corporate Operations expenses. DPU 4.4 lines 23-34 column D and DPU 4.5 lines 19-27 column D.

A: The adjustment to Corporate Operation expenses is also similar to the adjustments made to Plant Specific expenses. The adjustment sets wages at the median for each position as recommended by the outside consultant's (Carter & Kotter) compensation study, removes non MTC employees, recalculates healthcare/dental and recalculates FICA/Medicare based on the new numbers. The requested increases of [redacted] are normalized. Adjusted wage increases with the FICA/Medicare and healthcare/dental premiums are added back for a total upward adjustment of [redacted].

8. Adjustment to normalize Federal USF expense. DPU 4.6.

Q: Please explain DPU's adjustments to Plant Non-Specific for Federal USF expense.

A: The Plant Non-Specific account has 3 elements: Other Property & Equipment, Network Operations Expense and Access Expense. The adjustments I made to Plant Non-Specific are related to the Access Expense. Access Expense, as calculated by MTC, is projected from the test year, July 1st through December 31st. During this time frame there were payments made to the Federal Universal Service Fund of [redacted] compared to [redacted] for the January through June time frame. Ultimately, this shows that roughly two thirds of the expense was paid in the second half of the year (test year). Using this figure results in a substantial annualization error.

To correct this error, the annualized Access Expense of [redacted] is normalized from the [redacted] leaving [redacted] in Other Property & Equipment and Network Operations Expense. The Access Expense contains billing related expenses of [redacted] annualized at [redacted]. The annual Federal Universal Service Fund expense for the whole year is [redacted]. This equates to an adjusted Access Expense of [redacted] plus the [redacted] in Other Property & Equipment and Network Operations expenses for a total of [redacted]. The net impact of this adjustment is a downward [redacted]

9. Adjustments for Operating Tax expenses. DPU 4.7 and 4.8.

Q: Please explain DPU's adjustments for the Sterling 50% property tax reduction. DPU 4.7 lines 4-5.

A: The property tax on the Sterling Exchange was reduced by [redacted] as the lower portion of the building is utilized by the non-regulated entity Manti Tele Communications Company (MTCC). This results in a downward normalization of [redacted].

Q: Please explain DPU's adjustments for Operating Tax Total. DPU 4.8.

A: MTC's projected increase in property taxes of [redacted] is based on the projected increase in rate base which has not materialized. Additionally, the actual property tax assessment by the Utah State Tax Commission for the January 1, 2011 lien year was [redacted] or an increase of [redacted] above the annualized number used for the test year utilized by MTC. In sum, a normalization of [redacted] is made to reduce the operating tax to match the actual 2011 tax lien and apply a portion of the Sterling Exchange property tax to MTCC. A [redacted] adjustment is made to provide for the Utah State Tax Commission January 1, 2012 lien date assessment of [redacted] (note that the assessment is based on last year's tax rates for Sanpete County).

V. CONCLUSIONS

Q: Please summarize the DPU's recommendations.

A: The recommendations in my testimony result in a net increase in revenues as compared to those requested by MTC of [redacted]. I further recommend that the wage and healthcare expenses as they apply to various expense accounts be reduced from the amount requested by MTC by [redacted]. I further recommend that the Plant Non-Specific expense account be reduced by [redacted] for Federal USF related expenses. I further recommend that the Operating Tax expense account be reduced by [redacted] for property tax related expenses. This results in a net reduction in requested expenses of [redacted].

Q: Does this conclude your direct testimony?

A: Yes it does.