

In the Matter of Manti Telephone)	
Company's Second Amended)	Docket No. 08-046-01
Application for USF Eligibility)	DPU Exhibit 5.0 REB-REV REQ
)	(REDACTED)
)	
)	

REBUTTAL TESTIMONY

OF

SHAUNA BENVEGNU-SPRINGER

STATE OF UTAH
DEPARTMENT OF COMMERCE
DIVISION OF PUBLIC UTILITIES

OCTOBER 30, 2012

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1 **I. IDENTIFICATION OF WITNESS**

2 **Q. ARE YOU THE SAME SHAUNA BENVEGNO-SPRINGER WHO PREVIOUSLY**
3 **FILED DIRECT TESTIMONY IN THIS PROCEEDING?**

4 **A.** Yes, I am. I provided Direct Testimony on behalf of the Division of Public
5 Utilities (“Division”).

6 **II. SUMMARY**

7 **Q. PLEASE STATE THE PURPOSE OF YOUR REBUTTAL TESTIMONY.**

8 **A.** The purpose of my Rebuttal Testimony is to describe the Division’s regulatory
9 treatment of MTC’s net operating loss (NOL) carryover in computing income
10 taxes.

11 **III. NET OPERATING LOSS CARRYOVER (DPU 5.6)**

12 **Q. PLEASE PROVIDE A SUMMARY OF THE OTHER WITNESSES’ INCOME**
13 **TAX EXPENSE RECOMMENDATION?**

14 **A.** MTC calculates their income tax expense based upon the additional revenue
15 requested multiplied by the applicable tax rate. As indicated on their
16 Revised Exhibit1.1 filed with Mr. Hendershot’s direct testimony, the schedule
17 calculates the state income tax by multiplying the additional revenue

18 requested of [REDACTED] by 5% to equal [REDACTED]. The federal income is
19 calculated by multiplying the additional revenue requested of [REDACTED]
20 minus the state income tax amount of [REDACTED] for a difference of
21 [REDACTED] and multiplying by 35% to equal [REDACTED]. The total
22 amount of income taxes calculated for MTC in 2012 is [REDACTED] (including
23 rounding).

24
25 The Office's expert witness, Mr. Bion Ostrander, calculates federal and state
26 income tax based on the OCS Adjustment to Operations, calculates a tax
27 adjustment to federal income tax and calculates a surplus income tax
28 adjustment. The federal and state income tax is calculated by multiplying
29 the OCS total adjustment amount of [REDACTED] by the effective tax rate of
30 37.15% to equal [REDACTED]. He also identifies Adjustment BCO-7 as an
31 adjustment to reduce "MTC's federal income tax expenses..." The calculation
32 adds the amount of state income tax of [REDACTED] and the amount of federal
33 income tax of [REDACTED] from their audited financials to equal [REDACTED]. On
34 MTC's 2011 pro forma tax return, a net operating loss (NOL) carryover is
35 reported of [REDACTED] due to the difference in bonus depreciation and
36 amortized goodwill (for tax purposes) and the book depreciation and
37 amortization. Mr. Ostrander subtracts the NOL from the total book income
38 taxes to calculate a tax adjustment to decrease net income by [REDACTED]. The

39 OCS test period adjustments (OSC Adjustment to Net Income) [REDACTED]
40 [REDACTED] are added to the operating net income loss amount reported by
41 MTC of a [REDACTED] to equal an adjusted net operating income of [REDACTED].
42 The required return on investment (ROI) amount as suggested by Mr. Ostrander
43 is [REDACTED]. This is [REDACTED] over the suggested ROI, labeled as the Return
44 Surplus amount. Additional state income, federal income and uncollectable
45 adjustment amounts are calculated based on the [REDACTED] by using the
46 rates of 4.99%, 32.16% and 0.26% to equal [REDACTED] and
47 [REDACTED] respectively. The amounts are summed to equal [REDACTED] A
48 calculation is performed using the revenue conversion factor (also known as a
49 gross up factor) of [REDACTED] multiplied by the Return Surplus amount [REDACTED]
50 [REDACTED] to equal required revenue decrease of [REDACTED]

51 **Q. PLEASE DESCRIBE THE DIVISION'S REVIEW OF THE REGULATORY**
52 **TREATMENT OF MTC'S NET OPERATING LOSS AND HOW IT APPLIES**
53 **TO THE 2012 FEDERAL INCOME TAXES?**

54 **A.** The Division reviewed the 2011 pro forma tax returns submitted by MTC.
55 They were prepared due to a request for an extension of filing time for the
56 final tax returns for 2011. On Schedule 1120, U.S. Corporation Income Tax
57 Return, MTC reports taxable income of [REDACTED] and zero federal income
58 tax. On Schedule M-3, Net Income (Loss) Reconciliation for Corporations with
59 Total Assets of \$10 Million or More, MTC reports [REDACTED] net income

60 (which also is reported on their audited financials for December 31, 2011),
61 temporary differences of [REDACTED] and permanent differences of [REDACTED]
62 to equal taxable income of (\$143,836). Form 1120, Net Operating Loss
63 Carryover Worksheet – Regular Tax, [REDACTED]
64 [REDACTED]
65 respectively. The federal NOL carryover that is available for 2012 is
66 [REDACTED] The Division calculated the taxable income for 2012 as
67 [REDACTED] as indicated on Exhibit 1.1R, line 23, column N. Also, please refer to
68 Exhibit 5.6 REB for greater detail of the taxable income calculation and income
69 tax. Because the NOL carryover is available, taxable income will be reduced to
70 zero and no federal tax liability will be paid.

71 **Q. PLEASE DESCRIBE THE DIVISION’S REVIEW OF THE REGULATORY**
72 **TREATMENT OF MTC’S NET OPERATING LOSS AND HOW IT APPLIES**
73 **TO THE 2012 STATE INCOME TAXES?**

74 **A.** The Division reviewed the 2011 pro forma state income tax return, Schedule
75 TC-20, Utah Corporation Franchise or Income Tax Return. MTC reported
76 [REDACTED] unadjusted income loss, [REDACTED] addition of minimum tax to equal
77 the net Utah taxable income loss [REDACTED] The minimum and total state
78 income tax equals [REDACTED]. Form TC-20 Utah Net Operating Loss Carryover
79 Worksheet reports [REDACTED]
80 [REDACTED] respectively. For 2012 the net Utah

81 taxable income, based on the Division's recommendation will be [REDACTED]
82 plus [REDACTED] minus the Utah NOL carryover to equal zero. The minimum and
83 total Utah tax will be [REDACTED]

84

85 **Q. PLEASE DESCRIBE THE INCOME TAX ADJUSTMENT?**

86 **A.** The Division took at different approach to calculating taxable income, federal
87 income tax and state income tax. It did not calculate an amount for
88 uncollectibles, because after the adjustments the amount is [REDACTED] and is
89 immaterial. The Division used a straight forward approach of identifying
90 adjustments to rate base, adjustments to revenues, and adjustments to
91 expenses less interest expense to equal to taxable income. The Division
92 recommends making a proforma adjustment to the Income Tax Expense
93 Account for 2012 in the amount of [REDACTED] to MTC's requested income tax
94 expense of [REDACTED]. The adjustment decreases federal income tax to
95 zero and reduces state income tax to [REDACTED]. The NOL carryover is a
96 known and measurable amount. The federal and state taxable income is
97 computed at [REDACTED]. The NOL carryover of [REDACTED] will reduce taxable
98 income for up to 20 years, if necessary. Assuming taxable income in future years
99 is near the recommended taxable income for 2012; the NOL carryover amount
100 for the federal return will eliminate federal taxable income and result in
101 zero federal tax paid for several future years. The Utah NOL carryover

102 amount of [REDACTED] will eliminate state taxable income and reduce state
103 tax to the minimum amount of [REDACTED] for several future years.

104 **VI. CONCLUSION**

105 **Q. WHAT IS THE DIVISION'S RECOMMENDATION FOR THIS PETITION?**

106 **A.** The Division recommends that the Commission recognize and accept the
107 income tax adjustment of [REDACTED] to the 2012 test year as described.

108 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

109 **A.** Yes, it does.