

-BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH-

In the Matter of the Increase of Rates And) DOCKET NO. 08-046-01
Charges and Increase in USF Eligibility for)
Manti Telephone Company) Sur-Rebuttal Testimony

REDACTED
SUR-REBUTTAL TESTIMONY

OF

RAYMOND A. HENDERSHOT

ON BEHALF OF

MANTI TELEPHONE COMPANY

1 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

2 A. My name is Raymond A. Hendershot. My business address is 2270 LaMontana Way, P.O.
3 Box 25969, Colorado Springs, Colorado 80936.

4 Q. ARE YOU FILING SURREBUTTAL TESTIMONY ON BEHALF OF MANTI
5 TELEPHONE COMPANY?

6 A. Yes, I previously filed direct and rebuttal testimony in this case and I am now filing Sur-
7 rebuttal testimony on behalf of Manti Telephone Company (“Manti” or “MTC”), the
8 Applicant in this case.

9 Q. WHAT IS THE PURPOSE OF YOUR SUR-REBUTTAL TESTIMONY?

10 A. My Sur-rebuttal testimony will briefly address several items addressed by the Utah
11 Division of Public Utilities (“DPU”) and the Utah Office of Consumer Services (“OCS”).
12 I will discuss some of the methodology used by the OCS and DPU, the costs of this case
13 and the financial condition of the company.

14 Q. HAVE YOU HAD A CHANCE TO LOOK AT THE DPU TESTIMONY OF SHAUNA
15 BENVEGNU-SPRINGER?

16 A. Yes, in the brief time I have I would like to comment on her comments in her testimony
17 lines 300 to 312. In her testimony she assumes that the taxes the company paid in 2011
18 carry forward to the proforma adjustments in column J of my Revised Exhibit 1. The
19 taxes are recalculated in column J reflected all of the proforma adjustments. Since the
20 proforma operating income of MTC in column J reflects a loss, there is no income tax
21 calculated. When I revised the model to reflect the change in the calculation of the rate of
22 return, I deleted the interest expense number by mistake. The model had the formula

23 changed without the interest expense taken into consideration in the tax calculation on
24 column K which reflects the additional revenue the Company needs to meet is Rate of
25 Return and loan covenants.. When I correct the model, the taxes calculated correctly and
26 the difference was a reduction in the requested UUSF amount of \$234,829. I am sorry
27 that I did not catch it sooner.

28 Q. HAVE YOU HAD A CHANGE TO LOOK AT MR. PAUL HICKEN'S EXHIBIT 3-3
29 REGARDING SALVAGE VALUE?

30 A. Yes. In this exhibit Mr. Paul Hicken has taken the view that telephone plant has salvage
31 value. Over 20 years ago telephone plant never changed but then a technology revolution
32 started in the industry. An example is the old step switch which lasted for 20 years in
33 switching telephone calls. Then changes in the technology occurred and the central office
34 switches changed and are now more like large computers. The telephone companies
35 receive regular updates to the software for updating the switch. Several rural telephone
36 companies filed for changes in depreciation rates in 1994 recognizing the changes taking
37 place in the industry and technology. The cases were reviewed by the DPU and the DPU
38 did not take into consideration salvage value in establishing the depreciation rates but set
39 rates with no salvage value recognizing the change in the industry. The statement of the
40 DPU was stated in the write-up as follows "The Division and the company have agreed to
41 decrease the depreciation lives for several accounts. The life of the building account was
42 reduced from 30 years to 20 years. All but one existing building are more than 30 years
43 old and they need to be replaced with the next five years, however, the account is only 45
44 percent amortized. Decreasing the building account life will permit faster amortization,

45 and be more in line with replacement work. The digital switching account life was
46 decreased from 20 years to 12 years to be consistent with the required amortization of the
47 bi-annual software upgrades that have been caused by past industry changes, and to be
48 consistent with the depreciation rates of all other small LECs in Utah. The depreciation
49 lives of aerial wire, aerial cable and buried cable – metallic were reduced due to the fact
50 that most of this plant will be replaced in the next 5 to 8 years due to maintenance,
51 obsolescence or statewide modernization plan reasons. These cable accounts have only
52 been amortized 22 to 30 percent.” The DPU recognized the changing industry and the
53 importance of the company upgrading its facilities. That is exactly what MTC is doing
54 but it is limited by financial resources.

55 Mr. Hicken made some assumptions that some plant accounts have salvage value
56 such as computers, vehicles, office support equipment, central office equipment, etc. The
57 state of Utah now requires that electronics be properly disposed which the company has
58 to pay to get the asset to the greater Salt Lake area for proper disposal. The cost to
59 dispose of the asset is greater than any salvage value. Another example of an asset that
60 Mr. Hicken has claimed has salvage value is aerial wire. Before the company can remove
61 the aerial wire all customers have to be transferred over to a new facility or fiber that has
62 been placed in service. The cost to remove the plant is greater than any salvage value and
63 once removed it is subjective on the value of the plant. I have included a corrected
64 Confidential Exhibit MTC RH SR 1 showing no salvage value. There is no adjustment to
65 the plant in service accounts from what is recorded on the books in this case.

66 Q. DO YOU HAVE CONCERNS WITH ANY OTHER EXHIBITS OF MR. HICKEN?

67 A. Yes. He had prepared an Exhibit 3.4 showing that the Company had over capitalized its
68 labor and for the year 2010. In reviewing the information on the exhibit, Mr. Hicken used
69 the prior year 2010 as an historical basis to reduce the amount of capitalized labor. The
70 company was slowly trying to make the necessary changes requested by the DPU. I don't
71 understand why the ratio of capitalized labor for 2011 was not used as the DPU had
72 reviewed the books and records of the company, the Company had implemented work
73 orders and in August 2011 the DPU said everything was correct and that the test period of
74 July 1 through December 31, 2011 could be used for the rate case which we are in today.
75 I have revised the DPU exhibit and it is attached as Confidential Exhibit MTC RH SR 2
76 using the historical data from 2011. I believe what happened in 2010 is that was the first
77 time that the company capitalized the appropriate overheads associated with the employee
78 and they may have not gotten it all correct at that time. By using the labor percentage for
79 the calendar year 2011 and applying that factor to the calendar year 2010 labor data the
80 adjustment is reduced from the DPU amount by \$25,029.

81 Q. DO YOU HAVE ANY OTHER COMMENTS REGARDING MR. HICKEN'S
82 EXHIBITS?

83 A. Yes. I would like to discuss Mr. Hicken's Exhibit 3.6. He does not understand the
84 process of construction in the industry. Some people think that when you install a new
85 cable or outside plant that you immediately hook up the customers and disconnect the old
86 facility. The normal process is to install the new outside plant facility and then go back
87 and begin the process and connecting the customers. Normally you lay the cable or
88 facility in the ground or conduit and then go back later and connect the customers in

89 accordance with the demands for service.MTC has taken that approach and installed the
90 facilities as resources have permitted and then will go back and connect customers as
91 time and demands allow. The primary objective is to get the main trunk lines established
92 in good weather and the detail connections can be done later. Mr Hicken has made the
93 assumption that once the main trunk line has been installed that the connection of
94 customers occurs immediately. Mr. Hicken prepared Exhibit 3.6 on this assumption that
95 the old outside plant or copper facilities are immediately out of service when the new
96 plant is placed on the pole. It takes time to transfer the customers over to the new facility.
97 Also, another error is the number of customers that have fiber connection is totally
98 incorrect. In the DPU Exhibit 3.6, the DPU has listed all copper plant as being a
99 duplicate of the local fiber distribution plant. Some of the plant that is identified in the
100 exhibit is considered non-distribution plant that is used to provide that connection to the
101 connection to the circuit to the tandem, or direct connect to a remote switch. Distribution
102 plant is defined as telephone plant that connects the customer to the local switch. I have
103 revised the DPU exhibit by correcting the customer count and identifying the percentage
104 of plant that is considered distribution plant. See Confidential Exhibit MTC RH SR 3

105 Q. BOTH THE DPU AND THE OCS HAVE COMMENTED ABOUT THE LEASE OF
106 THE BASEMENT SPACE TO MTCC. ARE THE RENTAL PAYMENTS TO MTC
107 REASONABLE FOR THE AREA?

108 A. Yes, and the reason I say that is that I spoke to the owner of a business that rents space in
109 Manti to another business for \$50 per month. I indicated in my rebuttal testimony that the
110 \$50 was for 150 square feet. The owner clarified for me that the \$50 is for approximately

111 230 square feet or roughly \$.21 per square foot per month. I have prepared Confidential
112 Exhibit MTC RH SR 4 that shows the cost of the rental space in the Sterling Build as
113 being comparable to the current market rates in the area. MTCC pays on an average of
114 \$.25 per month per square foot for the space used in the basement of the building.

115 Q. HAVE YOU DONE ANY REVIEW OF THE WAREHOUSE SPACE THAT MTC
116 RENTS LOCALLY?

117 A. Yes, the DPU did some comparisons to warehouse rental space in Utah County. A
118 comparison to Utah County is not realistic to Manti, Utah. I contacted a couple of local
119 realtors in the Manti area and obtained some information on potential building that could
120 be used. There is no ready available warehouse space that MTC could rent immediately
121 other than what the Company is currently doing. I prepared an Confidential Exhibit MTC
122 RH SR 5 that shows a comparison to what MTC is paying currently for warehouse space
123 versus purchasing a building in the area and remodeling it to accommodate the equipment
124 and supplies of the Company. I was provided a list of 10-15 options from the realtors
125 which I reviewed with the Company and the potential was narrowed down to the best
126 possible option which was located in Mount Pleasant, Utah which is closer than Utah
127 County. On the Exhibit, I have showed all of the cost if the Company purchased the
128 building and remodeled the building to meet its needs. This approach and the distance
129 from Manti created significant cost issues which would be a poor decision compared to
130 the current approach. I believe that MTC has been fair and reasonable in the decision it
131 has made to rent warehouse space locally.

132 Q. DO YOU HAVE SOME MORE EXHIBITS THAT YOU WOULD LIKE TO DISCUSS?

133 A. I do not. Due to the demands of responding to multiple data requests and the time frame
134 to prepare testimony, I have run out of time.

135 Q. DO YOU HAVE ANY OTHER COMMENTS?

136 A. Yes. The consultant that the OCS hired to review the plant of MTC and some other
137 companies in the state gave a compliment to Dallas Cox. Earl Poucher told Dallas that
138 Manti was doing the right thing in upgrading its plant and that it was exactly what he
139 would have done. I mentioned this to a staff member in the OCS and was told that it was
140 hearsay. I took the opportunity to contact Earl directly myself and speak with him and
141 asked him if he made that statement to Dallas Cox at MTC. He told me yes. In the
142 beginning of this case, DPU personnel reviewed the plant upgrades that the company was
143 making and no comment was made by anyone that it was a bad decision or that you are
144 duplicating facilities. The Company thought it was doing what it thought was right for
145 the customer and the future in a changing industry as we move to a broadband world.

146 Q. DOES THAT CONCLUDE YOUR TESTIMONY?

147 A. Yes, it does.