

Docket No. 08-046-01
Limited Review
DPU Exhibit 1.0 Payback
Robert A. Davis
May 24, 2013

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application for the	:	Docket No. 08-046-01
Increase of Rates and Charges by Manti	:	ORDER GRANTING LIMITED REVIEW
Telephone Company	:	DPU Exhibit 1.0 Payback
	:	(REDACTED)

DIRECT TESTIMONY

OF

**ROBERT A. DAVIS
STATE OF UTAH
DIVISION OF PUBLIC UTILITIES**

MAY 24, 2013

1 **Q: Please state your name for the record.**

2 **A:** My name is Robert A. Davis.

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

4 **A:** I am employed by the Utah Department of Commerce, Division of Public Utilities
5 (DPU). My business address is 160 East 300 South, 4th Floor, Salt Lake City, Utah,
6 84114.

7 **Q: What is your position with the Division?**

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

9 **Q: Please summarize your educational and professional experience.**

10 **A:** I received a Masters in Business Administration with Masters Certificates in Finance and
11 Economics from Westminster College in May of 2005. I am a Certified Valuation
12 Analyst (CVA) by the National Association of Valuators and Analysts. I am an
13 Accredited Senior Appraiser (ASA), Machinery and Technical Specialties discipline, by
14 the American Society of Appraisers. I am a Certified General Appraiser in the State of
15 Utah. Prior to my present position, I was employed for 6.5 years with the Utah State Tax
16 Commission in the Centrally Assessed Utilities Section of the Property Tax Division
17 where I valued telecommunication and airline companies for property tax purposes. Prior
18 to the Property Tax Division, I was employed as an Electronic Engineering Technician at
19 Fairchild Semiconductor for 22 years. I have been employed by the DPU since May,
20 2012.

21 **Q: Have you testified before this Commission on prior occasions?**

22 **A:** Yes. I have for this docket.

23 **Q: Please describe your participation in the DPU’s review of Manti Telephone**
24 **Company’s (MTC) granting of limited review.**

25 **A:** I have participated in the review of MTC’s operations, revenues and expenses to
26 determine the company’s ability to repay the Utah Universal Service Fund (UUSF) and
27 compliance as set forth in the Commission’s order dated December 28, 2012 and ensuing
28 order granting limited review dated February 15th, 2013.

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

30 **A:** My testimony addresses and summarizes specific issues and conditions pertaining to
31 MTC’s ability to repay monies owed the UUSF within the stipulated twelve month
32 period.

33 **Q: Do you believe MTC has the ability to repay the money owed the UUSF within the**
34 **stipulated twelve month period?**

35 **A:** Based on past performance and operating practices, I do not. MTC’s most recent
36 December 31, 2012 (MTC AM1) and historical audited financials show declining
37 revenues and increasing expenses, excluding UUSF support (DPU 1.1). [REDACTED]

38 [REDACTED]

39 [REDACTED] Based on these factors, without
40 changes to operating procedures, I do not believe MTC can repay the UUSF in twelve
41 months as stipulated.

42 Additionally, in the Commission’s Order granting limited review, the second paragraph
43 of section four “Manti’s Request to Stay or Suspend the Commission’s Order” states:

44 “As we evaluate Manti’s ability to repay the UUSF amount to be
45 refunded, we will restrict our analysis to the costs and revenues associated
46 with the provision of basic telephone service.”

47 The DPU believes this to further restrict MTC’s ability to repay the UUSF. The UUSF
48 was originally used to develop the network and other assets also utilized by Manti Tele
49 Communications Company (MTCC) to haul internet, video, long distance traffic and
50 some functions of the wireless operation.

51 **Q: Do you believe MTC has the ability to repay the money owed the UUSF in the**
52 **future?**

53 **A:** Yes I do. DPU Exhibits 1.2 and 1.3 [1] demonstrate two different methods of analyzing
54 repayment possibilities based on known and measurable and other normalizing
55 adjustments as concluded in the Commission order dated December 28, 2012.

56 DPU Exhibit 1.2, a top down method, uses information from the December 31, 2012
57 audited financials, MTC testimony from Dallas Cox and Tami Hansen along with
58 normalizing adjustments holding all else equal over the course of the year. This method
59 of analysis demonstrates a possible [REDACTED] annual repayment while providing an [REDACTED]
60 percent return on [REDACTED] [2] rate base. This method assumes that MTC will allocate
61 costs to unregulated services, along with those noted, consistent with the Commission
62 order dated December 28, 2012.

63 DPU Exhibit 1.3, a bottom up method, utilizes a discounted cash flow method based on

1 Note that DPU Exhibits 1.2(b) & (c) are provided to show the complete financials as demonstrated

2 See Commission Report and Order, Docket No. 08-046-01 “Net Adjusted Rate Base” pg 32

64 historical performance. The common size analysis is a weighted average of past
65 performance with more weight placed on the current years derived from historical MTC
66 audited financials as a percentage of non-UUSF supported revenues. The [REDACTED] percent
67 discount rate used for analysis is the current allowed rate-of-return. The terminal value
68 assumes the company will continue as a going concern with limited life as a result of
69 declining revenues. Capital expenditures used in the terminal value are set to depreciation
70 assuming no growth and replacement of assets only. The negative growth assumption is
71 based on historical unsupported revenues and expenses mentioned earlier in (DPU 1.1).
72 The average annual repayment based on a percentage of revenues under the assumptions
73 as noted is approximately [REDACTED] over the time horizon. The amount MTC repays each
74 year as a percentage of revenues would decline consistent with the declining revenue
75 assumption. This analysis provides a positive net present value (NPV) over the time
76 horizon with an average [REDACTED] percent return on the allowed rate base. It should be noted
77 that this analysis does not consider any normalizing adjustments to revenues or expenses
78 other than the wholesale Data Subscriber Line (DSL) line charge to MTCC as explained
79 in the testimony of Dallas Cox and Tami Hansen previously mentioned. This analysis
80 demonstrates that there is the possibility of limited UUSF repayment by MTC, resulting
81 in an extended repayment period of [REDACTED] years if the allowed rate-of-return remains at
82 the Commission approved level.

83 The DPU does not concede that the allowed rate-of-return must remain at the current
84 approved level. When interim support has been received based on a company's

85 representations, the company may carry additional risk as a result of the possibility that a
86 portion of, or all of, the support may be disallowed. This element of risk should be part of
87 the analysis in developing a rate-of-return as a company specific risk.

88 **Q: Do you believe the UUSF will be adversely impacted without immediate repayment?**

89 **A:** No. The UUSF is well funded and will not be adversely impacted by deferring the
90 repayment to a later date.

91 **Q: Does the DPU believe the Commission should order repayment to begin**
92 **immediately?**

93 **A:** Given MTC's stated financial difficulties and the relative current strength of the UUSF,
94 the DPU believes it would be in the public interest to defer repayment above the offset
95 for ongoing monthly support until January 1, 2016 or until the conclusion of another
96 MTC application for support from the UUSF, whichever comes first. This would allow
97 time for MTC to implement the revised compliance plan developed with Telcom
98 Consulting Associates (TCA). It would give MTC time to research possible ways to
99 increase revenues and trim regulated expenses through standard operating procedures and
100 allocations to unregulated entities. Once implemented, the compliance plan and changes
101 could result in MTC having 1-2 years of solid financials for more accurate repayment
102 planning and assessment of ongoing support needs.

103 This deferral would also allow time for the DPU to monitor the company's revised Cost
104 Allocation Manual (CAM) compliance and changes to operating procedures. As a result,
105 the DPU would have a more transparent understanding of MTC's operations and ability

106 to determine a reasonable repayment plan beginning January 1, 2016. Deferring
107 repayment may help mitigate potential service issues that could arise from the financial
108 strain on MTC if immediate repayment was required.

109 **Q: Please summarize the DPU's recommendations.**

110 **A:** The DPU recommends deferral of the bulk of MTC's repayment of received interim
111 UUSF funds until MTC can fully implement its compliance plan and other operating
112 procedure changes until January 1, 2016 or the conclusion of MTC's next application for
113 UUSF support, whichever occurs first. MTC's ongoing monthly support payment of
114 ██████ should continue to be held to offset the repayment obligation and cover interest.

115 This deferral will give the Division and MTC better visibility in the development of a
116 reasonable UUSF repayment plan to begin at the relevant later date.

117 The DPU suggests that MTC's full revenue stream potential and regulated operating
118 expenses be considered in the determination of the UUSF repayment plan.

119 **Q: Does this conclude your direct testimony?**

120 **A:** Yes it does.