- BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH -

In the Matter of the Application for the Increase of Rates and Charges by Manti Telephone Company	)))))	DOCKET NO. 08-046-01 REPORT AND ORDER

ISSUED: April 21, 2011

SYNOPSIS

By this Report and Order, the Commission approves the Revised Confidential Settlement Stipulation and establishment of Balancing Account.

By The Commission:

This matter is before the Commission on the Division of Public Utilities (Division) and the Manti Telephone Company's (Manti) joint motion for approval of the Revised Confidential Settlement Stipulation (Revised Stipulation). They also jointly seek approval of the establishment of a balancing account.

BACKGROUND

This matter commenced on March 10, 2008 with Manti's Motion for Protective Order, made in preparation for the filing of its Application for the Increase of Rates and Charges. In the summer of 2008, the Division and Manti conducted settlement discussions regarding "certain unresolved accounting and other issues which have been raised in connection with the Application" *See October 29, 2008 Letter from Manti counsel to the Commission.* However, because the parties were not able to resolve those issues with sufficient time to allow for thorough Commission review, Manti waived the 240-day time period in which the Commission must conclude proceedings on the Application. Manti applied for interim relief pending final resolution.

On or about December 11, 2008, Manti filed its request for interim USF support and subsequently its request for approval of depreciation rates. Pursuant to a stipulation between the Division and Manti, and with no objection from the Office of Consumer Services (OCS), the Commission held a hearing on December 29, 2008 to approve the interim increase in USF eligibility, and the depreciation rates. The parties continued to meet in an attempt to resolve various accounting issues which would impact Manti's calculation of revenue requirement. Through the fall of 2010, the Division and Manti continued to follow through on various accounting issues that needed to be corrected. The Division stated, in a letter to Manti, that those issues were:

1. The purchase of the Ephraim exchange including the acquisition adjustment for plant, depreciation and amortization was not recorded correctly.
2. Manti has not followed USOA part 32 for proper classification of income, expenses, and plant asset accounts.
   a. Plant accounts should be reviewed and adjusted for expenses and expense accounts should be reviewed and adjusted for plant. For example, labor was capitalized when it should have been expensed.
   b. No work order tracking procedure in place. We want to see a job code or project code on time sheets and invoices for tracking labor allocations. Timesheets should be modified to show projects, activities, and other categories. Employees should be trained to indicate under which categories there labor hours should be assigned.
3. Depreciation for some plant accounts has been calculated using incorrect rates.
4. A detailed adjusted plant balance is not currently available. We would like to have a corrected plant balance for year ended 12/31/2007 as soon as possible and complete a review of 2008 as soon as practical upon completion on 2008 financial results.

See E-mail Exchange of September 30, 2010 Regarding Accounting Issues.

On August 10, 2010, Manti submitted its Amended Application requesting an increase in USF eligibility. Because there still remained various issues to be resolved, and due to the length of time since the initial filing commencing this matter, the Commission, in its Interim

Scheduling Order, ordered the Division to either move to dismiss the Amended Application, or file an Order to Show Cause if it found Manti had violated any terms of a Stipulation by November 15, 2010. The Division and Manti had been able to make progress over their disputes and the Commission stayed the scheduling order until December 16, 2010. The Commission granted two more extensions of time. In January 2011, Manti filed a Settlement Stipulation and moved for approval of a balancing account and the Stipulation.

After a review of the Stipulation, the Commission had some concerns regarding the designation of some information as confidential, i.e. the USF amount, the revenue requirement, and possible violations of a previous stipulation. The Commission sent notice of questions it wished the parties to address at the hearing and designated some of the information in the Notice as partially confidential. After that Notice was issued, the parties submitted the Revised Stipulation, removing the designation as confidential from some information previously designated confidential, i.e disclosing the USF distribution.

A hearing was held on March 22, 2011. Kira Slawson was counsel for Manti. Ray Hendershot testified on behalf of Manti. Patricia Schmid, assistant attorney general, was counsel for the Division. William Duncan testified on behalf of the Division. The Division's witness, Mr. Duncan testified that the approval of the Revised Stipulation was in the public interest for the following reasons: it provides sufficient funds for Manti to continue to provide service to its customers; provides Manti funds to meet is loan obligations; imputes revenues Manti would receive if it raised rates to the affordable base rate in developing USF eligibility, protecting USF from funding services priced below affordable rate base; provides incentives for Manti to correct issues identified by the DPU by establishing a balancing account; allows Manti to hire accounting expertise to correct accounting errors; reduces the total interim USF support by 35% as compared to the 2008 amounts; provides a mechanism for Manti corrections and Division review; establishes a reasonable rate base; protects ratepayers who contribute to the USF by establishing a balancing account.

Mr. Duncan also specifically addressed the three concerns the Commission had. Those concerns were:

1. The reasons for designating confidential, information regarding revenue requirement and USF distribution; whether this a departure from past Commission practice, and, if so, the reasons for the departure;
2. Whether the Division will impute the price "cap" for R1 and B1 service;
3. Whether the Company violated any terms of any Commission-approved Stipulation, and if so, the nature of any such violation;

See February 10, 2011 Notice of Hearing. In response, Mr. Duncan responded as follows:

1. The Division and Manti submitted the Revised Stipulation removing the confidential designation from the revenue requirement and USF distribution, making this issue moot;
2. The Division would impute revenues to Manti as if it were charging the affordable base rate, in calculating USF support;
3. Manti did breach certain terms of the 2008 Stipulation. Specifically, Manti did not correct certain accounting issues in the time-frame agreed, and also filed only three quarterly reports dealing with changes to their accounting issues, instead of all reports dealing with accounting changes. The Division found the breaches of the 2008 Stipulation to be in timing rather than substantive non-compliance with the terms. The Division felt that although the breach prevented the Division from reviewing changes in as timely a fashion as preferable, the Division also found that the currently proposed Revised Stipulation addressed the concerns the Division had and provides future incentives for expedited compliance.

Transcript, pp.10-12. In sum, the Division recommended the Commission approve the Revised Stipulation.

Based on the evidence before the Commission, the Commission finds the approval of the Revised Stipulation and balancing account is in the public interest, for the reasons stated by the Division. Since many of the terms of the Revised Stipulation remain confidential, the Commission will not repeat those terms here.

ORDER

1. The Revised Stipulation is approved and its terms are incorporated into this Order as if set forth here;

2. The Commission further approves the establishment of a balancing account as described in the Revised Stipulation;

3. Pursuant to Sections 63G-4-301 and 54-7-15 of the Utah Code, an aggrieved party may request agency review or rehearing of this Order by filing a written request with the Commission within 30 days after the issuance of this Order. Responses to a request for agency review or rehearing must be filed within 15 days of the filing of the request for review or rehearing. If the Commission does not grant a request for review or rehearing within 20 days after the filing of the request, it is deemed denied. Judicial review of the Commission's final agency action may be obtained by filing a petition for review with the Utah Supreme Court within 30 days after final agency action. Any petition for review must comply with the requirements of Sections 63G-4-401 and 63G-4-403 of the Utah Code and Utah Rules of Appellate Procedure.

DATED at Salt Lake City, Utah, this 21st day of April, 2011.

/s/ Ruben H. Arredondo
Administrative Law Judge

Approved and confirmed this 21st day of April, 2011, as the Report and Order of the Public Service Commission of Utah.

/s/ Ted Boyer, Chairman

/s/ Ric Campbell, Commissioner

/s/ Ron Allen, Commissioner

Attest:

/s/ Julie Orchard
Commission Secretary
G#72185