

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

IN THE MATTER OF THE )  
PETITION OF DIRECT ) Docket No.: 09-2419-01  
COMMUNICATIONS CEDAR )  
VALLEY, LLC, FOR REVIEW OF ) **TRANSCRIPT OF HEARING**  
RATES AND SUPPORT FROM THE )  
STATE UNIVERSAL SERVICE )  
SUPPORT FUND. )

\* \* \*

April 22, 2010  
2:58 p.m. to 3:11 p.m.

Location of:  
Public Service Commission  
160 East 300 South, Room 451  
Salt Lake City, Utah

\* \* \*

Rossann J. Morgan  
- Certified Shorthand Reporter -  
- Registered Professional Reporter -

A P P E A R A N C E S

FOR DIRECT  
COMMUNICATIONS CEDAR  
VALLEY:

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1 April 22, 2010

2:58 p.m.

2 P R O C E E D I N G S

3 JUDGE ARREDONDO: Good afternoon. We're here  
4 in Docket No. 09-2419-01, in the matter of the Petition  
5 of Direct Communications Cedar Valley, for a Review of  
6 Rates and Support from the State USF. Let's take  
7 appearances and begin with the Company, please.

8 MR. IRVINE: Your Honor, David Irvine for  
9 Direct Communications Cedar Valley.

10 JUDGE ARREDONDO: Thank you.

11 MR. GINSBERG: And I'm Michael Ginsberg  
12 representing the Division of Public Utilities.

13 JUDGE ARREDONDO: All right. Thank you. And  
14 I did -- the Commission did receive a copy of the  
15 stipulation. And my understanding is we'll just present  
16 witnesses to support the stipulation; is that correct?

17 MR. GINSBERG: Yes.

18 JUDGE ARREDONDO: Okay. And we'll begin with  
19 the Division, and can you just state your witness for us?

20 MR. GINSBERG: Our witness is Shauna  
21 Springer.

22 JUDGE ARREDONDO: All right. And then,  
23 Ms. Benvegna-Springer, if you could raise your right hand  
24 for me.

25 (Whereupon, the witness was duly sworn.)

1 JUDGE ARREDONDO: Thank you. Go ahead.

2 MR. GINSBERG: Do we need the stipulation  
3 made as an exhibit or just on the record?

4 JUDGE ARREDONDO: No, it's on the record as  
5 filed. So we'll just take administrative notice of it.

6 EXAMINATION

7 BY MR. GINSBERG:

8 Q. Can you state your name for the --

9 JUDGE ARREDONDO: You did file a copy of it;  
10 right?

11 MR. GINSBERG: Yes.

12 JUDGE ARREDONDO: All right.

13 Q. (BY MR. GINSBERG) Can you state your name  
14 for the record and your position with the Division?

15 A. Shauna Benvegnu-Springer. I'm a Utility  
16 Analyst with the Utah Division of Public Utilities.

17 Q. And can you describe your role with respect  
18 to this proceeding?

19 A. Yes. I was assigned to perform the audit and  
20 review analysis of the request for increase in support of  
21 USF for this docket.

22 Q. And can you give a little description about  
23 what type of analysis the Division conducted?

24 A. Yes. Based on their request, we did a site  
25 review of documents, supporting information. We also

1 conducted some technical studies on the infrastructure  
2 and determined the reliability of the financial  
3 information, both the revenues and the expenses. Also  
4 determined the documentation that supported loans and  
5 items on their balance sheet, assets and so forth.

6           And with that information, we did an analysis  
7 to determine what -- if the requests that they were  
8 making was reasonable and if, in fact, they did need an  
9 increase or decrease as relative to their request.

10           Q.    You participated in developing what's been  
11 filed with the Commission and developed, between us and  
12 Direct Communications, the stipulation that has been  
13 entered into the record?

14           A.    Yes.

15           Q.    Can you go ahead and give your comments and  
16 support of the stipulation?

17           A.    Sure.  I'd just like to summarize a few  
18 facts, a little bit of the history that has gone on with  
19 this particular docket.  This particular company received  
20 their CPCN order in August -- August 9th of 2004.  They  
21 began their operations in Eagle Mountain February 1st of  
22 2006 and, at that time, they did file for federal USF  
23 upon receiving their certificate.

24                   They operated for approximately 18 months  
25 without any state USF support.  In December of 2007, they

1 filed their initial rate case and, based on that, they  
2 requested rebalancing of their current -- of their rates  
3 at that time and charges and requested support of the  
4 state USF.

5           As a result, that particular rate case, there  
6 was an issue -- an order that was issued by the  
7 Commission that agreed to a stipulation that was filed  
8 where the state did provide state USF support in the  
9 amount of \$732,972 for 2008. It also provided a  
10 reduction for the calendar year 2009 to the amount of  
11 \$588,300 annually. And then it provided a one-year USF  
12 true-up for the state support based upon the 2008 and  
13 part of the 2009 operations, using two variables; the  
14 NECA settlement payment amounts and the federal USF.

15           Initially, the Division received information  
16 regarding those two variables on or about July 20th of  
17 2009. In September of 2009, the Company filed its formal  
18 request to increase their support and -- based on a 2008  
19 test year. And, at that time, they only used intrastate  
20 revenues and so the amount was close to \$2,092,638.  
21 Since that date, then they revised their request to  
22 include total company revenues, which brought the request  
23 down to only increasing their amount by \$130,151.

24           As I mentioned earlier, the Division did  
25 conduct an onsite review on October 19th. And since that

1 time, the Division, the Company, the Office of Consumer  
2 Services have been in lengthy discussions about the  
3 information that we received. We reviewed different  
4 adjustments; we asked clarifying information; we  
5 discussed various disputed areas. And then through those  
6 negotiations, we came to this reached stipulation that  
7 was filed in the last few days.

8 Q. Can you go ahead and go through some of the  
9 main provisions that make up the stipulation?

10 A. Yes. There are eight points of the  
11 stipulation. The first point talks about the current  
12 rates and charges that remain the same. There would be  
13 no charge to their current tariff. The Division supports  
14 this stand in the fact that the revenues that are  
15 currently in place with regard to customers would provide  
16 the required revenue stream from that component for their  
17 operation.

18 In point two, it requires that they would  
19 continue to receive a current level of USF -- state USF  
20 support of \$49,025 monthly, for a total annual amount of  
21 \$588,300 annually. The Division does feel that this  
22 current support coupled with the federal USF and the  
23 customer revenues will meet their required revenue to  
24 keep the company stable and to meet their financial  
25 obligations that they have.

1           On point three, the Division and the Company  
2 agreed to no additional payments from the true-up  
3 stipulation in the previous docket, 07-2419-01. The  
4 Division reviewed the two components along with the other  
5 financial information and the Division determined that  
6 because of just these two components at this time, it did  
7 not present a complete picture. And so we reviewed all  
8 of the revenue and expenses relating to 2008 and  
9 adjustments relating to 2009.

10           Based on that further information, the  
11 Division and the Company made additional adjustments. We  
12 had acknowledgements of different areas. And when we put  
13 that whole picture together, then it presented a  
14 different picture than what was being presented in the  
15 previous rate case.

16           Item four, for purposes of this particular  
17 stipulation, the Division and the Company recognized the  
18 company's costs for their debt is 5.05 percent, for  
19 authorized -- authorized rate of return on equity would  
20 be 12.24 percent, and the Division used a hypothetical  
21 capital structure of 35 percent equity, 65 percent debt.

22           The Division uses this particular  
23 hypothetical capital structure for determining their rate  
24 of return on their investment, and we find that it is  
25 reasonable to the degree that it allows us to determine



1 that.

2           On point five, the Division and the Company  
3 recognizes there are no restrictions for the company to  
4 file any future increases for both support of state USF  
5 or for any rate changes at any time in the future.

6           Point six, the Division acknowledges that the  
7 company's revenue requirements and the state USF, based  
8 upon capital structure, should allow the company to  
9 continue to increase its equity annually. Therefore, the  
10 Company will increase its equity annually compared to the  
11 changes that have been demonstrated in 2008 and 2009 from  
12 1.98 percent to 4.67 percent. The Division recognizes --  
13 the Division will recognize increases of 2.3 percent  
14 annually. Otherwise, the actual capital structure may be  
15 utilized in future support cases.

16           The Division recognizes that debt might be --  
17 may be required to expand their service to additional  
18 customers as requested. The Division and the Company  
19 both agree that the equity of the Company should continue  
20 to increase as it has in 2009 and in 2007 and that they  
21 should work towards not relying on debt to fund their  
22 current operations.

23           Point seven, the Company and the Division  
24 both agree through the stipulation that we feel this is a  
25 just and reasonable agreement. The Division and Company,

1 on point eight, recognize and agree that all the  
2 negotiations that were related to this stipulation are  
3 considered privileged and confidential. And as a result  
4 of that, the Division does recommend that the Commission  
5 approve the stipulation as filed.

6 Q. Does that complete the comments you wanted to  
7 make?

8 A. That does complete my statement.

9 JUDGE ARREDONDO: Okay. Thank you.

10 Mr. Irvine, do you have a witness?

11 MR. IRVINE: Your Honor, we do have a witness  
12 if you desire to hear something from us. However, we're  
13 satisfied with the presentation which the Division has  
14 made and we support the recommendations that have been  
15 made by the Division of Public Utilities.

16 JUDGE ARREDONDO: Okay. Then with that, I  
17 think that's enough for the Commission. We'll take this  
18 matter under advisement and if it's approved -- it's  
19 probably going to be approved. What we'll do is our  
20 order will essentially incorporate the terms of the  
21 stipulation into order and be set forth in the order.

22 Any questions? Anything else you'd like to add?

23 Company? Division?

24 MR. IRVINE: Would you like us to present you  
25 with a draft order, Your Honor, or --

1 JUDGE ARREDONDO: Yeah, that'd be fine.

2 MR. IRVINE: All right.

3 JUDGE ARREDONDO: Yeah, maybe by next week.

4 MR. GINSBERG: Could I get it circulated --  
5 approval for me to take a look at it also that -- before  
6 you file it?

7 MR. IRVINE: Of course.

8 MR. GINSBERG: Thank you.

9 JUDGE ARREDONDO: All right. Then I'll just  
10 note that, Mr. Irvine, you'll prepare that then --

11 MR. IRVINE: Yes.

12 JUDGE ARREDONDO: -- the proposed order? And  
13 he'll get a copy to you, Mr. Ginsberg, and that will be  
14 submitted as a proposed order. Thank you very much.

15 (The matter concluded at 3:11 p.m.)  
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