

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

The Application of All West
Communications, Inc, for USF Eligibility.

)
) **Docket No. 11-2180-01**
)
) **Rebuttal Testimony of**
) **Eric Orton**
) **On behalf of the**
) **Office of Consumer Services**
)

October 24, 2011

1 **Q. WHAT IS YOUR NAME, OCCUPATION AND BUSINESS ADDRESS?**

2 A. My name is Eric Orton. I'm a utility analyst in the Office of Consumer
3 Services (Office) at the Heber Wells Building, 160 East 300 South, Salt
4 Lake City,

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6 **Q. WHAT IS THE OFFICE'S INTEREST IN THIS DOCKET?**

7 A: Utah residential and small commercial telecommunications customers pay
8 rates that include a contribution to the Utah Universal Service Fund
9 (UUSF). The Office is involved in this case to represent the interests of
10 residential and small commercial customers of All West Communications,
11 Inc. (Company) and other UUSF contributors and recipients.

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13 **Q: WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY IN THIS**
14 **CASE?**

15 A: My testimony responds to the Division of Public Utilities (Division)'s
16 recommendation that the Company needs to prepare and file a new
17 depreciation study.

18

19 **Q: PLEASE PROVIDE THE OFFICE'S RECOMMENDATION.**

20 A: The Office supports the Division's position that the Company should be
21 required to periodically prepare and file depreciation studies. The Office
22 believes that a new depreciation study is needed now to ensure that the
23 Company's request for an increase in funding from the UUSF is justified.

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25 **Q: WHAT IS THE OFFICE'S POSITION ON OTHER ASPECTS OF THE**
26 **CASE?**

27 A: The Office has not taken a position on other aspects of the Company's
28 application, including the total amount of the revenue requirement
29 requested in this general rate case filing. These issues were addressed in
30 the Stipulation submitted for approval to the Utah Public Service
31 Commission (Commission) by the Division and the Company on October
32 11, 2011. Our testimony focuses on the need for a new depreciation
33 study.

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35 **Q: PLEASE SUMMARIZE THE DIVISION'S POSITION AS IT RELATES TO**
36 **A NEW DEPRECIATION STUDY?**

37 A: At lines 95-125 of his direct testimony, Division witness Oman explains
38 why there is a certain degree of urgency and necessity for the Company to
39 prepare a new depreciation study and file it with the Commission. The key
40 factor for the Division is that a periodic review of depreciation rates is
41 required to establish the reasonableness of the remaining asset lives and
42 future salvage values used in the formula for calculating account-specific
43 depreciation rates.¹ The Division also indicates that there are six plant

¹The Division notes that its perspective is consistent with that of the FCC and refers to orders in several FCC dockets. (Oman Direct, pg. 7, lines 105-106.)

44 accounts that are fully depreciated as of year-end 2009 and other plant
45 accounts that are at least 80% depreciated.

46

47 **Q: WHY DOES THE OFFICE SUPPORT THE DIVISION'S**
48 **RECOMMENDATION RELATING TO A NEW DEPRECIATION STUDY?**

49 A: The Division has provided sufficient evidence to demonstrate that the
50 Company should swiftly prepare and file a new depreciation study with the
51 Commission. In particular, there appears to be a significant number of
52 plant accounts that are close to being fully depreciated. This raises a
53 concern as to whether current depreciation rates accurately reflect actual
54 account balances. By ordering the Company to prepare a new
55 depreciation study, the Commission would take a necessary step towards
56 ensuring that estimated plant lives and salvage values used in developing
57 depreciation rates are consistent with actual values recorded in individual
58 accounts.

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60 **Q: GIVEN THE COMPANY'S REQUEST FOR AN INCREASE IN FUNDING**
61 **FROM UUSF, IS THERE A GREATER PUBLIC INTEREST**
62 **CONSIDERATON AT ISSUE IN THIS PROCEEDING?**

63 A: Yes. One purpose of the UUSF is to help small telecommunication
64 companies cover legitimate costs and provide just, reasonable and
65 affordable rates to customers. Since all telecommunication customers
66 contribute to the UUSF, these funds need to be carefully monitored and

67 used in ways that promote the public interest. The difference between the
68 Company's position and the Division's position on the remaining,
69 contested issues in this case has a potentially significant impact on the
70 UUSF. Therefore, the question the Commission must address is not
71 simply limited to whether the Company's depreciation practices and
72 revenue requirement request are reasonable. Rather, the Commission
73 must determine whether the Company's depreciation practices (and
74 associated impacts on revenue requirement and, by extension, the UUSF)
75 meet a higher public interest standard and result in an appropriate use of a
76 public fund.

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78 **Q: WHAT IS THE OFFICE'S CONCLUSION AND RECOMMENDATIONS IN**
79 **THIS CASE?**

80 A: In order to ensure that UUSF money is appropriately used, any revenue
81 requirement change authorized by the Commission should be on an
82 interim basis and the Commission should order the Company to perform a
83 full depreciation study to support its depreciation rates. The Division has
84 raised issues concerning 1) the accelerated depreciation of a major
85 account (Account 2212 and others), 2) proper normalization of test year
86 depreciation amounts and 3) a need for a new depreciation study to
87 establish more accurate depreciation rates. Thus, it is not clear that
88 authorizing the Company to receive additional UUSF funds to cover
89 depreciation expense has been justified or would be in the public interest.

90 A new depreciation study would provide additional evidence to the
91 Commission that it could rely on to determine whether or not the Company
92 has adequately met a higher standard in demonstrating that its requested
93 increase in funds from the UUSF is in the public interest. The study
94 should include current estimates of life and salvage values of individual
95 assets within each plant account. The Commission should also require
96 the Company to update the study at least every five years to provide
97 better estimates of plant lives and salvage values used to calculate
98 depreciation rates.

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100 **Q: DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

101 **A: Yes it does.**