

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

**IN THE MATTER OF EMERY
TELEPHONE'S APPLICATION FOR
UTAH UNIVERSAL SERVICE FUND
SUPPORT**

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Docket No. 14-042-01

Applicant

DIRECT TESTIMONY

OF

DARREN WOOLSEY

ON BEHALF OF EMERY TELEPHONE

September 29, 2014

DIRECT TESTIMONY OF DARREN WOOLSEY

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Q. What is your name?

A. My name is Darren Woolsey.

Q. By whom are you employed and in what capacity?

A. I am employed by Emery Telephone as its Chief Financial Officer.

Q. Briefly describe your educational background and work experience.

A. I received a Master of Accountancy Degree from Southern Utah University in 1992, and subsequently earned the following certifications: Certified Public Accountant (CPA), Certified Financial Manager (CFM) and Certified Managerial Accountant (CMA). I worked in Public Accounting as an auditor for KPMG for four years beginning in 1992 and in private industry as an Accounting/Finance manager since that time until the present. I have been employed as the CFO of Emery Telephone since 2006 where I am responsible for the management of the accounting, finance, and compliance functions and employees.

Q. On whose behalf are you presenting testimony?

A. I am presenting testimony on behalf of Emery Telephone (“Emery” or “Company”) in support of its application for support from the UUSF.

Q. What is the purpose of your testimony?

23 A. The purpose of my testimony is to provide detailed explanations for selected financial
24 and statistical information supporting Emery's Application for UUSF Support.
25 Specifically, I will provide testimony that will support Confidential Exhibits Emery DW
26 1-13 which are attached to this Testimony as Exhibits.

27

28 **Q. Please identify the Exhibits to your testimony.**

29 A. The individual Confidential Exhibits include:

30 Exhibit Emery DW 1 - USF Calculation Worksheet
31 Exhibit Emery DW 2 - Rate Base Calculation
32 Exhibit Emery DW 3 - Cost of Capital / Rate of Return Calculations
33 Exhibit Emery DW 4 - Trial Balances - 2012 and 2013 (4 pages)
34 Exhibit Emery DW 5 - Cash Working Capital Calculation
35 Exhibit Emery DW 6 - Summary of Apportionment Ratios by Account - 2013
36 Exhibit Emery DW 7 - Known and Measurable Adjustment Summary
37 Exhibit Emery DW 7a- Landline Loss
38 Exhibit Emery DW 7b- Local Service Rate Imputation to Base Affordable Rate
39 Exhibit Emery DW 7c- Projected Rate Case Expenditures
40 Exhibit Emery DW 7d- Shared Asset Allocation
41 Exhibit Emery DW 8 - Emery Telcom Part 36 (28 pages)
42 Exhibit Emery DW 8a- Cost Study - Combined Regulated Entities (59 pages)
43 Exhibit Emery DW 9 - Cost Allocation Manual – Accounting and General
44 Exhibit Emery DW 9a- Cost Allocation Manual - CABS Allocator
45 Exhibit Emery DW 9b- Cost Allocation Manual - Business Solutions
46 Exhibit Emery DW 9c- Cost Allocation Manual - Outside Plant and Dispatch
47 Exhibit Emery DW 9d- Cost Allocation Manual - Inside Plant
48 Exhibit Emery DW 9e- Cost Allocation Manual - Engineering
49 Exhibit Emery DW 9f- Cost Allocation Manual - Billing and Collection
50 Exhibit Emery DW 9g- Cost Allocation Manual - HR Allocation 2013
51 Exhibit Emery DW10 - Audited Financial Statements (34 pages)
52 Exhibit Emery DW10a- 2013 Audit Journal Entries
53 Exhibit Emery DW10b- Year 2013 Audit Exit Memo (7 pages)
54 Exhibit Emery DW 11- Personnel Chart / Line of Authority
55 Exhibit Emery DW 12- Corporate Structure
56 Exhibit Emery DW 13- Bad Debt Expense and Subsequent Collections

57

58 **Q. Were the Exhibits referred to above and the supporting workpapers prepared by**
59 **you or prepared under your supervision?**

60 A. Yes, I prepared, or participated in the preparation of the Confidential Exhibits.

61

62 **Q. Why have you identified the Exhibits as confidential?**

63 A. The Exhibits, as prepared, contain proprietary financial information related to the
64 Company and its operations, which constitute trade secrets or are otherwise of such a
65 highly sensitive or proprietary nature that public disclosure would be inappropriate and
66 detrimental to the Company.

67

68 **Q. What is the proposed test period specified in the Application and how was it**
69 **derived?**

70 A. Emery proposes to use calendar year 2013 as the test period for the purpose of
71 determining the appropriate amount of UUSF support. Accordingly, the Application and
72 Confidential Exhibits are based upon audited financial information for the 12 months
73 ending December 31, 2013. This test period selection is consistent with the
74 Commission's historic treatment of rural LECs in Utah.

75

76 This historical "test period" was then adjusted for "known and measurable" changes in
77 operations, which more accurately reflect Emery's ongoing cost of providing
78 telecommunications services. These pro forma adjustments are contained in Confidential
79 Exhibits Emery DW 7 (a-d).

80 **Q. Have you calculated Emery's Revenue Deficiency?**

81 A. Yes. Confidential Exhibit Emery DW 1 reflects a revenue deficiency of \$623,706.

82

83 **Q. How was Emery's revenue deficiency determined?**

84 Emery is a rate-of-return regulated local exchange carrier (LEC) in both federal and state
85 jurisdictions. Accordingly, Emery maintains its accounting records in accordance with
86 the FCC's Part 32 Uniform System of Accounts ("USOA"), as required by Commission
87 Rules.¹ As a result, the Company's Application complies with FCC rules guiding the
88 measurement, gathering, and allocation of the costs necessary to provide regulated
89 telecommunications services, including the FCC rules contained in Part 32 and Part 64
90 (Subpart I, Allocation of Costs).

91

92 To determine Emery's revenue deficiency, first the Company's rate base was multiplied
93 by a reasonable rate-of- return to determine the allowable return, which is reflected in
94 Cell F32 of Confidential Exhibit DW 1. Next, the allowable return was reduced by the
95 Company's operating income (Cell D20 of Confidential Exhibit Emery DW1) , resulting
96 in the revenue deficiency, which is identified on Exhibit Emery DW 1 as additional USF
97 Required in Cell E2, in the amount of \$623,706. This revenue deficiency, as calculated
98 imputes an increase in basic service rates from Emery's current rates to the Commission
99 approved affordable base rates of \$16.50 and \$26.00.

100

¹ PSC R746-340-2

101 **Q. Please explain what you mean when you say the revenue deficiency imputes an**
102 **increase in revenue.**

103 A. At \$15.00 for basic residential (R1) service and \$24.50 for basic business (B1) service
104 per line per month, Emery's local service rates for R1 and B1 service are currently below
105 the Commission's UUSF affordable base rate benchmarks of \$16.50 and \$26.00 per line
106 per month. However, Emery is not proposing to raise its rates. Rather, Emery has
107 included in this filing a known and measurable revenue adjustment for the shortfall of
108 revenue at existing rates as compared to the State approved base affordable rates of
109 \$16.50 and \$26.00 for R-1 and B-1 respectively (see Exhibit Emery-DW 9 discussed
110 below). Accordingly, the revenue deficiency of \$623,706 has been adjusted to reflect the
111 revenue that Emery would receive if its rates were at the Commission approved base
112 affordable rate.

113

114 **Q. Is Emery proposing to recover the revenue deficiency of \$623,706 from the UUSF?**

115 A. Yes. Emery proposes that it recover \$623,706 annually through UUSF disbursements.
116 This will enable Emery to continue providing service to its customers, and to initiate
117 capital projects that may have been delayed by the Company's current insufficient
118 earnings, while not burdening the UUSF with payment of monies that could be recovered
119 from an increase in rates.

120

121 **Q. Have you calculated Emery's Rate Base for purpose of this proceeding?**

122 A. Yes. Confidential Exhibit Emery DW 2, attached hereto, provides a calculation of the
123 Company's total rate base. The Confidential Exhibit Emery DW 2 begins with historical
124 Plant Balances for the beginning of 2013 and Plant Balances at the end of 2013, and
125 calculates the 2013 Plant Balance Average. Known and measurable changes to Rate
126 Base are added to the Average Plant Balance to determine the Emery's Adjusted Rate
127 Base.

128

129 **Q. When describing Confidential Exhibit Emery DW 2 above, you indicate that it**
130 **contains adjustments for known and measurable changes to regulated rate base.**
131 **Please describe those adjustments.**

132 A. There are two adjustments to Rate Base contained in Exhibit Emery DW 2: an addition
133 for Plant in Service, and a decrease for Materials. The increase to Plant in Service
134 reflects an allocated proration of the net book value of shared assets purchased for the
135 benefit of multiple related party companies and which is maintained on the books of
136 Emery Telecommunications & Video Inc. The shared assets benefit Emery through
137 better utilization and cost sharing thus reducing the operating expense and capital needed
138 to sustain the regulated operations. The decrease for Materials is reflective of the fact
139 that regulated plant inventory attributable to two related regulated subsidiary companies
140 is maintained on the books of Emery. Appropriately, this inventory was reduced through
141 an allocation of 2/3 of the value to the related entity for purposes of determining rate
142 base.

143

144 **Q. What cost of capital has Emery used in this Application?**

145 A. Emery is using a composite rate of 10.85%.

146

147 **Q. Please explain how you arrived at Emery's Cost of Capital.**

148 A. In accordance with UUSF policy, Emery has calculated a blended cost of capital, which
149 represents the weighted average of an interstate rate of return of 12.16% and a state rate
150 of return of 9.86%. Emery's intrastate cost of capital was derived using the DPU's
151 suggested imputed capital structure of 65% equity and 35% debt. For the individual
152 components of its capital structure, Emery has used a cost of debt of 5.64% and a cost of
153 equity of 12.13%, which results in a composite intrastate rate-of-return of 9.86%².

154

155 The consolidated Company does not carry any long term debt; therefore the Company's
156 cost of debt was derived from debt that existed with CoBank during the 2013 base year.

157 The debt with CoBank carried a stated rate of 5.64% and was paid off in January 2014.

158

159 The interstate return of 12.16% is derived from NECA's Form 492 filing with the FCC
160 on September 30, 2013 for calendar year 2012 pool participants.

161

162

163 **Q. Please explain how the Company's blended Cost of Capital was derived.**

² Emery's requested cost of equity mirrors the cost of equity used and approved by the Commission in other recent UUSF proceedings.

164 A. The Commission's Total Company Rule requires a "blending" of the authorized cost of
165 capital costs in the state and interstate jurisdictions. This weighting of the jurisdictional
166 capital costs was based upon the jurisdictional separation of Emery's rate base in
167 accordance with the FCC's Part 36 rules. Emery's Part 36 Jurisdictional Separations are
168 contained in Confidential Exhibit Emery DW 8, attached hereto. The Company's
169 jurisdictional percentages (intrastate and interstate) are contained in Confidential Exhibit
170 Emery DW 3, and are applied to the intrastate and interstate costs of capital to determine
171 the Weighted Cost of 10.85% as contained in Confidential Exhibit Emery DW 3.

172

173 **Q. Can you describe Confidential Exhibit Emery DW 4?**

174 A. Yes. Confidential Exhibit Emery DW 4 contains the Trial Balances for 2012 and 2013,
175 provided to assist the Division with its review of Emery's revenue deficiency.

176

177 **Q. Can you describe Confidential Exhibit Emery DW 5?**

178 A. Confidential Exhibit Emery DW 5 contains the Cash Working Capital Calculation that
179 supports the Cash Working Capital figure that is contained in the Rate Base Calculation
180 in Confidential Exhibit Emery DW 2.

181

182 **Q. Please describe Confidential Exhibit Emery DW 6?**

183 A. Confidential Exhibit Emery DW 6 contains the Summary of Apportionment Ratios by
184 Account for 2013, which supports the jurisdictional separations contained in Confidential

185 Exhibit Emery DW 8, and used in the calculation of the Rate of Return and Cost of
186 Capital in Confidential Exhibit Emery DW 3.

187

188 **Q. Please describe Confidential Exhibit Emery DW 7.**

189 A. Confidential Exhibit Emery DW 7 summarizes the known and measurable changes that
190 Emery has included in its Application which are included in Confidential Exhibits Emery
191 DW 7a, 7b, 7c, and 7d.

192

193 Confidential Exhibit Emery DW 7a identifies a known and measurable change for
194 landline loss and projected revenue decrease.

195

196 Confidential Exhibit Emery DW 7b identifies the local service rate imputation to base
197 affordable rate. Exhibits 7a and 7b, when added together, reflect the known and
198 measurable change identified in Confidential Exhibit Emery DW 1, Cell C1.

199

200 Confidential Exhibit Emery DW 7c identifies the projected legal and consultant expenses
201 associated with the prosecution of this Application. This calculation is identified in
202 Confidential Exhibit Emery DW 1, Cell C15.

203

204 Confidential Exhibit Emery DW 7d details the shared asset allocation identified as a
205 known and measurable change to Rate Base in Confidential Exhibit Emery DW 2.

206

207 **Q. Please describe Confidential Exhibit Emery DW 8.**

208 A. As previously indicated above, this Exhibit contains Emery's Part 36 Jurisdictional
209 Separations.
210

211 **Q. Please describe Confidential Exhibit Emery DW 8a.**

212 A. Confidential Exhibit Emery DW 8a contains a portion of Emery's 2012 Cost Study for
213 Combined Regulated Entities.
214

215 **Q. Can you describe Confidential Exhibits Emery DW 9a through 9g?**

216 A. Yes. Briefly, these Exhibits are separate portions of Emery Cost Allocation Manual
217 which identify the various methods by which Emery allocates various costs amongst its
218 separate companies:

219	Exhibit Emery DW 9	Cost Allocation Manual - Accounting and General
220	Exhibit Emery DW 9a	Cost Allocation Manual - CABS Allocator
221	Exhibit Emery DW 9b	Cost Allocation Manual - Business Solutions
222	Exhibit Emery DW 9c	Cost Allocation Manual - Outside Plant and Dispatch
223	Exhibit Emery DW 9d	Cost Allocation Manual - Inside Plant
224	Exhibit Emery DW 9e	Cost Allocation Manual - Engineering
225	Exhibit Emery DW 9f	Cost Allocation Manual - Billing and Collection
226	Exhibit Emery DW 9g	Cost Allocation Manual - HR Allocation 2013
227		

228 **Q. Can you describe Confidential Exhibits Emery DW 10, 10a, and 10b?**

229 A. Yes, we have attached the Audited Financial Statements, 2013 Journal entries, and 2013
230 Audit Memorandum as Confidential Exhibits Emery DW 10, 10a, and 10b.
231

232 **Q. Can you describe Confidential Exhibits Emery DW 11 and 12?**

233 A. Exhibit 11 contains an organizational chart and line of authority for Emery, and Exhibit
234 12 illustrates Emery's corporate structure.

235

236 **Q. Finally, can you describe Confidential Exhibit Emery DW13?**

237 A. Yes. Confidential Exhibit Emery DW 13 describes Emery's bad debt expense and
238 subsequent collections during the 2013 base year.

239

240 **Q. Do you believe that annual UUSF support in the amount of \$623,706 to Emery is**
241 **just and reasonable and in the public interest?**

242 A. Yes.

243

244 **Q. Does that conclude your direct testimony?**

245 A. Yes it does.