

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Utah
Division of Public Utilities' Docket No. 14-2303-01
Petition for Increased USF
Distributions to Hanksville
Telecom, Inc.

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HEARING PROCEEDINGS  
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TAKEN AT: Public Service Commission
Hearing Room 451
160 East 300 South
Salt Lake City, Utah

DATE: Thursday, August 7, 2014

TIME: 8:59 a.m.

REPORTER: Nancy A. Fullmer, RMR

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APPEARANCES

ADMINISTRATIVE LAW JUDGE: MELANIE A. REIF
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1 PROCEEDINGS

2 THE HEARING OFFICER: Good morning,
3 everyone. My name is Melanie Reif and I'm the
4 Administrative Law Judge for the Utah Public
5 Service Commission. Welcome to all of you for our
6 hearing this morning in Docket 14-2303-01. This
7 is the hearing in the matter of the Utah Division
8 of Public Utilities' Petition for Increased USF
9 Distributions to Hanksville Telecom, Inc.

10 Let's start by taking appearances from
11 counsel. And, typically, we start with the
12 Company and that's just fine. I just wanted to
13 make note that it is a petition by the Division,
14 so if the Division would like to head off, that's
15 also fine.

16 MR. JETTER: We can start. And I think
17 as far as presenting our case, maybe the Division
18 should probably put on our witness first.

19 MR. DUNCAN: That's fine.

20 THE HEARING OFFICER: Okay. Mr. JETTER,
21 would you like to--

22 MR. JETTER: Sure. I'm Justin Jetter. I
23 represent the Utah Division of Public Utilities.
24 And with me is Bill Duncan of the Division of
25 Public Utilities.

1 THE HEARING OFFICER: Thank you.

2 MS. SLAWSON: Kira Slawson from Blackburn
3 & Stoll. And with me is Brock Johansen, the CEO
4 of Hanksville Telecom, Inc.

5 THE HEARING OFFICER: Thank you.

6 MR. COLEMAN: Brent Coleman with the
7 Attorney General's Office on behalf of the Office
8 of Consumer Services. With me is Michele Beck,
9 the Director of the Office.

10 THE HEARING OFFICER: Thank you,
11 Mr. Coleman. And we understand today is a big day
12 for you.

13 MR. COLEMAN: It's a day.

14 THE HEARING OFFICER: We're pleased to
15 have you here.

16 Okay. So at your leisure, Mr. Jetter.

17 MR. JETTER: Thank you. The Division
18 would like to call Bill Duncan.

19 THE HEARING OFFICER: Good morning,
20 Mr. Duncan. Are you prepared to testify this
21 morning?

22 MR. DUNCAN: Yes.

23 THE HEARING OFFICER: Great. Would you
24 kindly raise your right hand, please? And do you
25 swear that the testimony you're about to give is

1 the truth?

2 MR. DUNCAN: Yes.

3 BILL DUNCAN,
4 having been first duly sworn, was
5 examined and testified as follows:

6 THE HEARING OFFICER: Thank you. You may
7 proceed.

8 MR. JETTER: Thank you.

9 EXAMINATION

10 BY-MR.JETTER:

11 Q. Mr. Duncan, would you please state your
12 name and occupation for the record.

13 A. My name is Bill Duncan. I'm the manager
14 of the telecom section of the Utah Division of
15 Public Utilities.

16 Q. And have you prepared a brief
17 statement--well, let me--I guess let's do the
18 comment. Have you prepared a brief statement that
19 you would like to give to the record?

20 A. Yes, I have.

21 Q. Please go ahead.

22 MR. DUNCAN: Okay. I'll start with some
23 of the case history from this docket. On
24 December 11, 2013, representatives of Hanksville
25 Telecom approached the Division to review the

1 current situation of telephone service in
2 Hanksville. Hanksville management represented to
3 the Division that Hanksville had been losing money
4 for several years; however, the losses were small
5 and were not worth the expense required to remedy
6 the situation by filing a rate case.

7 During 2013, Hanksville management
8 determined that the equipment upgrades were
9 necessary in order to maintain adequate and
10 reliable services to the Hanksville City. These
11 upgrades commenced in 2013 and will be finalized
12 in 2014. The cost of these upgrades would
13 increase the losses experienced by the Company.
14 However, management was still reluctant to file a
15 rate case with the Utah Public Service Commission
16 stating the cost of filing would far exceed their
17 expected recovery.

18 As a result of this meeting, the Utah
19 Division of Public Utilities offered to audit the
20 records of Hanksville prior to filing to determine
21 possible recovery through rates and/or Utah USF.
22 During the ensuing months, the Division requested
23 and received various accounting and financial
24 records from Hanksville, including general ledger,
25 trial balance, continuing property records, and

1 audited financial statements. The Company also
2 provided worksheets detailing proposed rate of
3 return rate base and revenue requirement
4 calculations. The Company also provided detail of
5 adjustments to operations to normalize 2013
6 appropriate test year.

7 The Division reviewed these documents and
8 made other appropriate adjustments. The Division
9 and the Company collaborated on several issues to
10 come to a mutually agreeable resolution. On March
11 12th and 13th of 2014, Division auditors conducted
12 a field review of the Company at its home office
13 in Orangeville, Utah. During that visit two
14 representatives from the Division traveled to
15 Hanksville and verified the equipment upgrades had
16 been placed in 2013.

17 Our recommendation. As a result of this
18 audit, the Division has concluded that the
19 Hanksville revenue requirement is deficient by
20 \$85,253. The Division recommends that this
21 deficiency be recovered through future rate
22 increases of \$6,699 and an annual Utah USF
23 distribution of \$78,544.

24 Some of the history on Hanksville.
25 Hanksville Telecom consists of a single central

1 office serving the citizens of Hanksville City
2 located in Wayne County. Hanksville Telecom
3 originated when Emery Telecom purchased the
4 exchange from U.S. West. The Utah PSC approved
5 this transaction on September 6, 2000 in Docket
6 99-049-65.

7 Hanksville currently serves only 94 total
8 access lines, 56 residential and 38 business.
9 Hanksville is a remote, isolated community 138
10 miles south of Orangeville and 57 miles southwest
11 of Green River. The closest city to the west is
12 Torrey, 48 miles away through Capitol Reef
13 National Park.

14 Due to the extreme isolation of the
15 community and the geology prevalence set in
16 southeastern Utah, providing reliable service to
17 this community is challenging. Prior to 2013,
18 Hanksville connected to the telephone network by
19 analog microwave radio routed through South
20 Central Utah Telephone Association's network.
21 Service had become unreliable due to the equipment
22 and power failures.

23 In 2013, the Company spent \$142,773 on
24 equipment upgrades. These upgrades consisted
25 primarily of radio equipment, power equipment,

1 both battery and generator, and building security
2 monitoring upgrades in Hanksville and Teasdale,
3 which is the--Teasdale is actually the site of the
4 microwave link. Division auditors verified these
5 pieces of equipment were in place and working
6 during the field audit of March 2014. These
7 upgrades are detailed in the Division's Exhibit 5
8 that was filed with the petition.

9 The Company will spend approximately
10 \$210,881 in equipment upgrades in 2014. These
11 expenditures will continue to be used towards
12 digital microwave transmission equipment,
13 including towers, poles, and backup power for
14 various sites. The Division has reviewed the bids
15 submitted by vendors for these expenditures.
16 These upgrades are detailed in the Division's
17 Exhibit 6 that was filed with the petition.

18 In total, Hanksville will spend over
19 350,000 over a two-year period to provide reliable
20 telephone service to the citizens of Hanksville.
21 The Division has reviewed these expenditures and
22 believes they are just and reasonable. Cost
23 recovery for these expenditures is the driving
24 force behind this recommendation.

25 And now turning to some of the details of

1 how we calculated the amount of USF, the Division
2 recommends an overall return of 10.67 percent
3 based on use of methodology described in
4 R746-360-8A1. The Company agrees with this
5 figure. The Division and Company also agree on a
6 rate basis for 163,834 yielding a return on
7 investment of 38,829. Rate based details are
8 displayed in Exhibit 2 and rate of return
9 calculations in Exhibit 3 of the Division's
10 petition.

11 The Division and Hanksville also agree on
12 the following. The return on investment of
13 38,829, plus projected taxes of \$9,256, plus
14 operating expenses \$144,000, 144,986 for a total
15 revenue requirement of 193,071. If you subtract
16 out the current operating revenues of \$107,818, it
17 leaves a revenue deficiency of 85,253. And these
18 are displayed in Exhibit 1.

19 Hanksville proposes 2015 as the
20 representative test year while Hanksville and the
21 Division proposed and agreed upon several
22 adjustments to revenue and expense to that test
23 year. Hanksville is currently charging customer
24 rates below the affordable base rate. The
25 Division has imputed revenue as if the Company

1 were charging the affordable base rate. And that
2 can be seen in Exhibit 7 of the Division's
3 petition. This results in \$6,699 of imputed
4 revenue. The Division recommends the remainder of
5 the deficiency be funded through the Utah USF in
6 the amount of \$78,554. And that's an annual
7 amount.

8 Hanksville desires to increase customer
9 rates to a level at or near the affordable base
10 rate. The proposal is to do so on a gradual basis
11 and will file for those increases in a separate
12 docket.

13 The Division has conducted a thorough
14 review and audit of the books and records of
15 Hanksville Telecom. This was completed without a
16 formal filing with the expectation of eliminating
17 some of the expense associated of such a filing.
18 It is important to note that the Division
19 completed the same level of review and audit as it
20 would have if formal applications had been filed
21 with the Commission.

22 The Division recommends the Commission
23 approve the recommendation and believes it is
24 just, reasonable, and in the public interest.

25 MR. JETTER: Thank you, Mr. Duncan.

1 BY MR. JETTER:

2 Q. Just to add a little bit of foundation
3 here for the Exhibits 1 through 8 that were
4 attached to the Division's petition, are you
5 familiar with all of those exhibits?

6 A. Yes.

7 Q. And are those still accurate
8 and--accurate reflection of the audit and the
9 results of the petition?

10 A. Yes.

11 Q. I believe you had mentioned all of those
12 during your statement except for Exhibit 8. And,
13 just to clarify, Exhibit 8 is also accurate?

14 A. Yes. Exhibit 8 is the audited financial
15 statements from their independent auditor.

16 MR. JETTER: Okay. Thank you. With
17 that, I would like to move at this time to enter
18 those exhibits, confidential exhibits, that were
19 attached to PP as Petition to Increase USF into
20 the record at this hearing.

21 THE HEARING OFFICER: Any objection?

22 MS. SLAWSON: No. So long as they're
23 treated as confidential, we have no objection.

24 THE HEARING OFFICER: Is that your
25 intention, Mr. Jetter?

1 MR. JETTER: Yes. They are proprietary
2 subject to the rules of confidentiality.

3 THE HEARING OFFICER: Okay.

4 MR. JETTER: With that, I believe
5 Mr. Duncan is available now for cross-examination.

6 THE HEARING OFFICER: Okay. And for
7 clarification, the submission--the petition along
8 with the exhibits are admitted.

9 MR. JETTER: Thank you.

10 THE HEARING OFFICER: And Mr. Duncan is
11 available for cross-examination.

12 EXAMINATION

13 BY-MS.SLAWSON:

14 Q. I just had one clarification question. I
15 believe that the--I may have misheard you, but I
16 just wanted to clarify that the amount that the
17 Division and Hanksville have agreed to are--I
18 believe it's in the public interest for USF
19 distribution is \$78,554. Is that correct?

20 A. That is correct. I have a typo on my
21 statement that I read. It's 500--it's 78,554
22 rather than 544 that I stated previously.

23 MS. SLAWSON: We have no other questions.

24 THE HEARING OFFICER: Thank you.

25 MR. COLEMAN: The Office has no

1 questions.

2 THE HEARING OFFICER: Okay. Mr. Duncan,
3 just a couple of clarifying questions, please.

4 EXAMINATION

5 BY-THE HEARING OFFICER:

6 Q. You had mentioned that Hanksville has 94
7 access lines and then you quickly gave a breakdown
8 as to how those break down. Could you repeat that
9 again, please?

10 A. Yes. I think these are accounts taken as
11 of April when we were in the middle of the audit.
12 But it was 56 residential lines and 38 business.
13 I believe that's as of April when we were in the
14 middle of this audit.

15 Q. Okay. Thank you. Also, with respect to
16 the anticipated rate case, do you have a sense as
17 to when that will be filed?

18 A. No. We had some conversations with
19 Hanksville and I think they have--they want to--I
20 think this is still their plan--to raise the
21 rates, but do it on a gradual basis rather than
22 one fell swoop. I don't know if their plans have
23 changed or not.

24 Q. Okay. And in order to do that, they
25 would be seeking, I assume, authority from the

1 Commission?

2 A. Yes. They would file those in a normal
3 rate case where they would have to make the filing
4 and customers would be noticed and that type of
5 thing.

6 Q. Right. Okay. Thank you. And with
7 respect to the exhibits--the proprietary exhibits
8 that have been entered in this matter, which are
9 attached to the petition that was filed with the
10 Commission on May 21, 2014, could you please
11 clarify whether those documents were prepared by
12 the Division?

13 A. Yes. They were prepared by the Division.

14 THE HEARING OFFICER: Okay. Thank you.
15 Ms. Slawson?

16 MS. SLAWSON: Thank you. We have, to
17 testify on behalf of the Company, Brock Johansen.

18 THE HEARING OFFICER: Thank you. I'm not
19 sure your microphone is on.

20 MS. SLAWSON: Is that better?

21 THE HEARING OFFICER: That is much
22 better. Thank you.

23 Good morning, Mr. Johansen. Would you
24 kindly raise your right hand, please? And do you
25 swear to tell the truth during your testimony?

1 MR. JOHANSEN: Yes.

2 THE HEARING OFFICER: Thank you.

3 BROCK JOHANSEN,
4 having been first duly sworn, was
5 examined and testified as follows:

6 EXAMINATION

7 BY-MS.SLAWSON:

8 Q. Good morning, Mr. Johansen. Can you
9 state your name and position with Hanksville
10 Telecom for the record.

11 A. My name is Brock Johansen. I'm the CEO
12 of Hanksville Telecom. My business address is 445
13 East SR 29, Orangeville, Utah 84537.

14 Q. And what is the purpose of your testimony
15 today?

16 A. I will offer support for the petition USF
17 distribution filed by the Division of Public
18 Utilities in this matter. I confirm the Company's
19 belief that USF distribution sought in this matter
20 is in the public interest.

21 Q. And can you--Mr. Duncan has provided a
22 detailed--more detailed history of the proceedings
23 in this matter, but could you provide a brief
24 history in this matter?

25 A. Yes.

1 MR. JOHANSEN: For several years
2 Hanksville Telecom has been under earning as a
3 rate of return regulated company, unfortunately,
4 with fewer than a hundred access lines. It would
5 not be cost effective for Hanksville to seek a
6 rate increase and increase Utah USF through a rate
7 case proceeding with the Public Service Commission
8 in Utah. Based on my experience with rate cases,
9 the costs and fees associated with rate cases
10 could easily exceed the amount sought by
11 Hanksville. I had several conversations with the
12 Division about this dilemma.

13 In late 2013 I began working informally
14 with the Division on a review of the Hanksville
15 operations, books, and records. The Division
16 worked with my accounting department and conducted
17 a thorough audit of Hanksville's books and
18 records. I provided documents to the Division,
19 informally answered questions, and met with the
20 Division several times. The Division also
21 conducted an onsite review of the books and
22 records. Based on this thorough review of the
23 Hanksville operations, the Division determined
24 that Hanksville was entitled to a Utah USF draw of
25 78,554 annually.

1 BY MS. SLAWSON:

2 Q. Have you reviewed the petition and the
3 exhibits filed by the Division in this matter?

4 A. Yes.

5 Q. Okay. And do the--do the exhibits that
6 were prepared by the Division accurately reflect
7 the books, records, and operations at Hanksville?

8 A. Yes.

9 Q. Do you agree with the Division's
10 petition?

11 A. Yes. An annual distribution of \$78,554
12 from the Utah Universal Service Fund is essential
13 to permit Hanksville to continue to provide
14 telecommunication services at just and reasonable
15 rates and to recover its reasonable cost and
16 service and a reasonable rate of return on the
17 value of its property devoted to public use. We
18 believe this number is supported by the books and
19 records and we support the Division's petition.

20 Q. And with regard to the rates that
21 Hanksville is currently charging, is Hanksville
22 currently charging a base affordable rate that has
23 been set by the Commission in other proceedings?

24 A. No.

25 Q. Is Hanksville going to raise its rates?

1 A. No, not at this time. We believe that
2 the current economic realities in Hanksville will
3 not support a rate increase so we're not seeking a
4 rate increase at this time. We have agreed to
5 impute the revenue we would have received from a
6 rate increase rather than increasing the rates at
7 this time.

8 Q. And in the event that you determine that
9 the economic realities in Hanksville will support
10 a rate increase, will you come back to the
11 Commission to seek approval for such a rate case?

12 A. Yes.

13 Q. Do you believe that the annual USF
14 distribution in the amount of 78,554 is just and
15 reasonable and in the public interest?

16 A. Yes.

17 Q. And do you have any other comments
18 regarding this matter?

19 A. Just one. I appreciate the cost
20 effective manner in which this matter has
21 proceeded.

22 MS. SLAWSON: Mr. Johansen is available
23 for cross-examination.

24 THE HEARING OFFICER: Mr. Jetter?

25 MR. JETTER: No questions from the

1 Division.

2 MR. COLEMAN: The Office has no
3 questions.

4 THE HEARING OFFICER: Thank you. Just a
5 couple questions for you, please, Mr. Johansen.

6 EXAMINATION

7 BY-THE HEARING OFFICER:

8 Q. With respect to the amount that
9 Hanksville is seeking through the petition filed
10 by the Division, could you tell me, is it the
11 Company's intention that that money will be used
12 for USF purposes only?

13 A. Yes. That's what it will be used for for
14 providing telecommunication services in
15 Hanksville.

16 Q. Okay. So to the extent that you
17 indicated that you're not currently charging base
18 rates and that at some point you do intend to come
19 forward, are these monies intended to offset the
20 fact that you're not charging--not currently
21 charging a base rate?

22 A. No.

23 Q. Okay. And do you have any--any sense
24 when the company may be filing--I know you
25 mentioned that you don't currently have a plan to

1 do that, but is there--do you have a long range
2 plan as to when you may be filing?

3 A. No. As I stated in my testimony, the
4 area economically has experienced a downturn.
5 They had some flooding, some other things a couple
6 years ago, and it's just never recovered. So we
7 don't feel like--I've met with the city council
8 and others down there and Hanksville Telecom does
9 not feel like the economy of Hanksville justifies
10 an increase right now.

11 THE HEARING OFFICER: Thank you,
12 Mr. Johansen.

13 Are there any follow-up questions for
14 Mr. Johansen? Okay. Thank you.

15 Mr. Coleman?

16 MR. COLEMAN: The Office would call
17 Ms. Michele Beck.

18 THE HEARING OFFICER: Good morning,
19 Ms. Beck. Nice to see you this morning and thank
20 you. Do you swear to tell the truth during your
21 testimony?

22 THE WITNESS: Yes, I do.

23 THE HEARING OFFICER: Thank you.

24 MICHELE BECK,
25 having been first duly sworn, was

1 examined and testified as follows:

2 THE HEARING OFFICER: Please proceed.

3 BY MR. COLEMAN: Thank you.

4 EXAMINATION

5 BY MR. COLEMAN:

6 Q. Ms. Beck, will you state your name and
7 professional title for the record, please.

8 A. Michele Beck. I'm the Director of the
9 Utah Office of Consumer Services.

10 Q. As the Director of the Office, did you
11 direct and oversee the drafting and submission of
12 initial comments submitted by the Office dated
13 July 21, 2014?

14 A. Yes, I did.

15 Q. As well as the reply comments submitted
16 by the Office dated August 5, 2014?

17 A. Yes.

18 Q. Do you have any changes or modifications
19 to the comments or the presentation from the
20 Office in those comments?

21 A. No.

22 Q. Do you--

23 MR. COLEMAN: At this time the Office
24 would move those initial and reply comments into
25 the record to be submitted for the record.

1 THE HEARING OFFICER: Any objections?

2 MS. SLAWSON: None.

3 THE HEARING OFFICER: They're admitted.

4 BY MR. COLEMAN:

5 Q. Do you have a brief position statement
6 for the record today from the Office?

7 A. Yes, I do.

8 MS. BECK: The Office supports the
9 increase of 78,554 in the Utah USF funding for
10 Hanksville Telecom. However, as we noted several
11 times in our comments, the Office's support for
12 this abbreviated process is--using this docket--is
13 limited to this Hanksville request. I will note
14 that in our initial comments we provided a
15 position statement regarding process including
16 some recommendations for parameters and criteria
17 for an expedited filing that could be used in the
18 future.

19 Those ideas were presented in an effort
20 to provide transparent policy development and to
21 begin larger discussions on the topic with all
22 stakeholders. The Office specifically requests
23 that the Commission not take any action in this
24 docket or at this time regarding those ideas
25 presented.

1 So, in summary, the Office does support
2 the request as being just and reasonable and in
3 the public interest.

4 MR. COLEMAN: At this time Ms. Beck would
5 be available for any cross-examination.

6 THE HEARING OFFICER: Ms. Slawson?

7 MS. SLAWSON: No questions.

8 THE HEARING OFFICER: Mr. Jetter?

9 MR. JETTER: No questions from the
10 Division.

11 THE HEARING OFFICER: Thank you.

12 Thank you for your testimony, Ms. Beck.

13 Is there anything further to come before
14 the Commission?

15 MS. SLAWSON: Not from the Company.

16 THE HEARING OFFICER: Mr. Jetter?

17 MR. JETTER: Nothing further from the
18 Division.

19 THE HEARING OFFICER: Okay. Mr. Coleman?

20 MR. COLEMAN: Nothing. Thank you.

21 THE HEARING OFFICER: Thank you.

22 For the record, although we have had a
23 number of parties who have gone on the record, I
24 do want to open this part of the hearing to the
25 extent that there may be individuals present who

1 haven't addressed the Commission and may wish to
2 do so.

3 So, just for the record, I wish to ask
4 whether there is anyone here who wishes to speak
5 to the application who has not already done so or
6 who otherwise wishes to make an objection to the
7 application. Hearing none, the Commission will
8 assume that there is no objection and we will take
9 the matter under advisement. We'll be off the
10 record and thank you very much.

11 (Hearing concluded at 9:24 a.m.)

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CERTIFICATE

This is to certify that the foregoing proceedings were taken before me, NANCY A. FULLMER, a Registered Merit Reporter and Notary Public in and for the State of Utah;

That the proceeding was reported by me in stenotype and thereafter caused by me to be transcribed into typewriting, and that a full, true, and correct transcription of said testimony so taken and transcribed is set forth in the foregoing pages;

I further certify that I am not of kin or otherwise associated with any of the parties to said cause of action, and that I am not interested in the event thereof.



Nancy A Fullmer

Nancy Fullmer, RMR