

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

IN THE MATTER OF EMERY)
TELEPHONE'S APPLICATION FOR AN) **Docket No. 15-042-01**
INCREASE IN UTAH UNIVERSAL)
SERVICE FUND SUPPORT)
)
Applicant)

DIRECT TESTIMONY

OF

BROCK JOHANSEN

ON BEHALF OF EMERY TELEPHONE

March 27, 2015

22 A. I have been the CEO of Emery since 2005. In that capacity I am very familiar with the
23 operations of Emery Telephone. Emery conducted a thorough review of Emery's
24 operational expenses and revenues for test year 2014, adjusted for known and measurable
25 changes, and determined that Emery has a revenue deficiency, which, pursuant to Utah
26 Code Annotated Sections 54-8b-15, and Utah Administrative Code R746-360, Emery is
27 entitled to receive from additional disbursements from the Utah Universal Service Fund
28 ("UUSF"). The purpose of my testimony is to address the current revenue requirement of
29 Emery and to offer support for the information contained in the Company's Application
30 for an increase in UUSF distribution.

31

32 **Q. Have others been authorized to testify on behalf of Emery in this proceeding?**

33 A. Yes. Darren Woolsey, Emery's Chief Financial Officer, will file direct testimony on
34 behalf of the Company. Douglas Meredith of John Staurulakis, Inc. ("JSI") may provide
35 testimony in this proceeding, as needed. Their testimony will provide the support and
36 rationale for the proposed increase in UUSF distributions.

37

38 **Q. Are you familiar with Emery's Application for UUSF Distributions in this Docket?**

39 A. Yes. As indicated above, Emery's Application is based on a 2014 test year plus known
40 and measurable changes. These changes are identified in the Testimony of Darren
41 Woolsey and Confidential Exhibits Emery DW 1-13 filed with the Application.

42

43 **Q. Can you summarize your Application?**

44 A. Yes. As set forth in detail below, Emery is currently experiencing a revenue deficiency of
45 \$739,293. Emery is proposing that the revenue deficiency be recovered through
46 additional UUSF support. This will enable Emery to continue providing affordable
47 service to its customers, and to engage in construction of capital projects, while earning a
48 reasonable rate of return as permitted by Utah Code.

49

50 **Q. What are Emery's current rates for basic residential (R1) and basic business (B1)**
51 **service?**

52 A. Emery's current rate for basic residential service (R-1) is \$15.00 per month and for basic
53 business service (B-1) is \$24.50 per month.

54

55 **Q. Is Emery seeking a rate increase in this proceeding?**

56 A. No. Emery is a telephone cooperative, and is not required, pursuant to Utah law, to have
57 its rates approved by the Commission. Rather as a Cooperative, Emery's Board of
58 Directors set the rates for Emery's members. While Emery's local service rates for R1
59 and B1 service are currently below the Commission's UUSF affordable base rate
60 benchmarks of \$16.50 and \$26.00 per line per month, Emery's Board is not proposing to
61 raise its rates. Rather, Emery has included in this filing a known and measurable revenue
62 adjustment for the shortfall of revenue that Emery is experiencing at the existing rates of
63 \$15.00 for R1 service and \$24.50 for B1 service when compared to the State approved
64 base affordable rates of \$16.50 and \$26.00 for R1 and B-1 respectively (see Confidential
65 Exhibit Emery-DW 7b). Accordingly, the revenue deficiency of \$739,293 has been

66 adjusted to reflect the revenue that Emery would receive if its rates were at the
67 Commission approved base affordable rate.

68

69 **Q. Do you believe imputing the revenue that Emery would receive if it increased its**
70 **rates, as a known and measurable change, is appropriate?**

71 A. Yes. Imputing the revenue that Emery would receive from raising its rates ensures that
72 the UUSF is not being used to subsidize lower rates, while maintaining the authority of
73 Emery's Board of Directors to set its rates pursuant to State law.

74

75 **Q. What test period is Emery proposing in its Application?**

76 A. As indicated above, Emery is proposing an historical test period of 2014, adjusted for
77 known and measurable changes. Darren Woolsey discusses the Application and
78 adjustments in detail in his testimony and confidential exhibits.

79

80 **Q. Have you reviewed the testimony of Darren Woolsey?**

81 A. Yes. I have reviewed the Testimony of Darren Woolsey and the Confidential Exhibits
82 attached to his testimony.

83

84 **Q. Do the Confidential Exhibits accurately represent the financial and operational**
85 **situation at Emery Telephone?**

86 A. Yes. The testimony of Darren Woolsey and the Confidential Exhibits presented with his
87 testimony accurately reflect the financial and operational situation at Emery, and support
88 the additional UUSF distribution sought by Emery in its Application.

89

90 **Q. Emery just settled a UUSF case proceeding earlier this year. Why is Emery seeking**
91 **additional UUSF disbursements so soon?**

92 A. Emery began working with the Division of Public Utilities (“Division”) and the Office of
93 Consumer Services on its 2014 UUSF case in May of 2014, using a 2013 test year period.
94 However, informal discussions of the UUSF disbursement did not bear fruit, so Emery
95 filed its formal UUSF Application at the end of September, 2014 based on the 2013 test
96 period with known and measurable changes as calculated in May of 2014 (the “2014
97 Application”). During the pendency of the 2014 Application, at the end of 2014, it
98 became apparent that additional known and measurable changes to the 2013 test period
99 were warranted based on the 2014 operations. However, upon discussions with the
100 Division and the Office, such known and measurable changes could not be considered
101 because they were not included in Emery’s 2014 Application. Rather than amend its
102 2014 Application, and suffer further delay, Emery decided to move forward with
103 resolution of its 2014 Application, and file a new application based on a 2014 test period
104 as needed. Upon review of the 2014 operations, Darren Woolsey and I determined that
105 Emery continues to experience a revenue shortfall, and additional UUSF disbursements
106 are necessary to permit Emery to continue to provide cost effective telecommunications
107 services and earn a reasonable rate of return as provided by Utah Code.

108

109 **Q. Has Emery implemented any significant changes in accounting policies or**
110 **procedures for the 12 month period prior to the test period?**

111 A. No. Emery has not implemented any significant changes in accounting policies or
112 procedures that would be referenced or noted in the financial statements or auditors'
113 notes.

114

115 **Q. Has Emery included audited financial statements for 2014 with its Application?**

116 A. No. Emery's audited financial statements for 2014 are not yet available. We anticipate
117 having the audited financial statements shortly and will supplement the testimony of
118 Darren Woolsey with the 2014 Audited Financial Statements and management letters. We
119 have attached audited financial statements and management letters for 2013, which are
120 attached to the Testimony of Darren Woolsey at Confidential Exhibits Emery DW 10,
121 10a, and 10b.

122

123 **Q. Has Emery conducted any internal audits during 2014 or 2015?**

124 A. No.

125

126 **Q. Has Emery had any corporate restructuring or changes in its affiliate relationships**
127 **since its previous general rate case?**

128 A. No. Emery has not had any corporate restructurings or changes in existing affiliate
129 relationships since the prior general rate case in 2003. A copy of the Emery Telephone

130 Personnel Chart/Line of Authority is attached to the testimony of Darren Woolsey at
131 Confidential Exhibit Emery DW 11, and a copy of the Corporate Structure Chart is
132 attached to the Testimony of Darren Woolsey at Confidential Exhibit Emery DW 12.
133

134 **Q. Can you describe Emery's collection policies and write off policies for bad debt.**

135 A. Emery Telcom uses the direct write off method to account for uncollectible receivables.
136 This process is described in Confidential Exhibit Emery BJ 1.
137

138 **Q. Has Emery had any penalties or fines assessed to the company during the test period
139 and 2 years prior to the test year?**

140 A. There were two immaterial penalties in the 2014 test period, and two immaterial penalties
141 assessed to Emery Telcom in the two years prior to the test period. They are identified in
142 Confidential Exhibit Emery BJ 2.
143

144 **Q. Did you calculate any test period tax adjustments in Emery's Application?**

145 A. No. Emery Telcom operates as a 501(c)12 non-profit entity. As such there are no tax
146 adjustments or calculations included in the 2015 UUSF Application. This significantly
147 reduces the UUSF requirement necessary to achieve the allowed rate of return.
148

149 **Q. Has Emery received any ruling requests, IRS responses, and any correspondence
150 with the IRS since the last general rate case?**

151 A. No. Emery Telecom has made no ruling requests or received responses from the IRS since
152 the last general rate case in 2003. Correspondence with the IRS has been limited to the
153 periodic filing of payroll and non-profit informational tax forms, with associated
154 extensions and communications as operationally necessary.

155

156 **Q. Do you believe that an increase in the annual UUSF support in the amount of**
157 **\$739,293 to Emery is just and reasonable and in the public interest?**

158 A. Yes. The increase in the distribution from the UUSF is essential to permit Emery to
159 continue to provide telecommunications services at just and reasonable rates and to
160 recover its reasonable costs of service and a reasonable rate of return on the value of its
161 property devoted to public use.

162

163 **Q. Does this conclude your testimony?**

164 A. Yes.