

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

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

DIRECT TESTIMONY

OF

DARREN WOOLSEY

ON BEHALF OF EMERY TELEPHONE

March 27, 2015

1 **DIRECT TESTIMONY OF DARREN WOOLSEY**

2 **Q. What is your name?**

3 A. My name is Darren Woolsey.
4

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

6 A. I am employed by Emery Telephone as its Chief Financial Officer.
7

8 **Q. Briefly describe your educational background and work experience.**

9 A. I received a Master of Accountancy Degree from Southern Utah University in 1992, and
10 subsequently earned the following certifications: Certified Public Accountant (CPA),
11 Certified Financial Manager (CFM) and Certified Managerial Accountant (CMA). I
12 worked in Public Accounting as an auditor for KPMG for four years beginning in 1992
13 and in private industry as an Accounting/Finance manager since that time until the
14 present. I have been employed as the CFO of Emery Telephone since 2006 where I am
15 responsible for the management of the accounting, finance, and compliance functions and
16 employees.
17

18 **Q. On whose behalf are you presenting testimony?**

19 A. I am presenting testimony on behalf of Emery Telephone (“Emery” or “Company”) in
20 support of its application for increased support from the UUSF.
21

22 **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 an Increase in UUSF
25 Support. Specifically, I will provide testimony that will support Confidential Exhibits
26 Emery DW 1-13 which are attached to this Testimony as Confidential Exhibits.

27

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

29 A. The individual Confidential Exhibits include:

30 Exhibit Emery DW 1 - UUSF 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 - 2013 and 2014 (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- Shared Asset Allocation
40 Exhibit Emery DW 8 - Emery Telcom Cost Study-Part 36 (28 pages)
41 Exhibit Emery DW 8a- 2013 Cost Study - Combined Regulated Entities (54 pages)
42 Exhibit Emery DW 9 - Cost Allocation Manual – Accounting and General
43 Exhibit Emery DW 9a- Cost Allocation Manual - CABS Allocator
44 Exhibit Emery DW 9b- Cost Allocation Manual - Business Solutions
45 Exhibit Emery DW 9c- Cost Allocation Manual - Outside Plant and Dispatch
46 Exhibit Emery DW 9d- Cost Allocation Manual - Inside Plant
47 Exhibit Emery DW 9e- Cost Allocation Manual - Engineering
48 Exhibit Emery DW 9f- Cost Allocation Manual - Billing and Collection
49 Exhibit Emery DW 9g- Cost Allocation Manual - HR Allocation 2013
50 Exhibit Emery DW 9h- Cost Allocation Manual - Regulated Allocator
51 Exhibit Emery DW 9i- Cost Allocation Manual - CSR Allocator
52 Exhibit Emery DW10 - 2013 Audited Financial Statements (34 pages)
53 Exhibit Emery DW10a- 2013 Audit Journal Entries
54 Exhibit Emery DW10b- Year 2013 Audit Exit Memo (7 pages)
55 Exhibit Emery DW 11- Personnel Chart / Line of Authority
56 Exhibit Emery DW 12- Corporate Structure
57 Exhibit Emery DW 13- Bad Debt Expense and Subsequent Collections
58

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

61 A. Yes, I prepared, or participated in the preparation of the Confidential Exhibits identified
62 above.

63

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

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

69

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

72 A. Emery proposes to use calendar year 2014 as the test period for the purpose of
73 determining the appropriate amount of UUSF support. Accordingly, the Application and
74 Confidential Exhibits are based upon audited financial information for the 12 months
75 ending December 31, 2014. This test period selection is consistent with the
76 Commission's historic treatment of rural LECs in Utah.

77

78 This historical "test period" was then adjusted for "known and measurable" changes in
79 operations, which more accurately reflect Emery's ongoing cost of providing

80 telecommunications services. These pro forma adjustments are contained in Confidential
81 Exhibits Emery DW 7 (a-c).

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

83 A. Yes. Confidential Exhibit Emery DW 1 reflects a revenue deficiency of \$739,293.

84

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

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

93

94 To determine Emery's revenue deficiency, first the Company's rate base was multiplied
95 by a reasonable rate-of- return to determine the allowable return, which is reflected in
96 Cell F32 of Confidential Exhibit DW 1. Next, the allowable return was reduced by the
97 Company's operating income (Cell D20 of Confidential Exhibit Emery DW1) , resulting
98 in the revenue deficiency, which is identified on Exhibit Emery DW 1 as additional
99 UUSF Required in Cell E2, in the amount of \$739,293. This revenue deficiency, as

¹ PSC R746-340-2

100 calculated imputes an increase in basic service rates from Emery's current rates to the
101 Commission approved affordable base rates of \$16.50 and \$26.00.

102

103 **Q. Please explain what you mean when you say the revenue deficiency imputes an**
104 **increase in basic service rates from Emery's current rates.**

105 A. At \$15.00 for basic residential (R1) service and \$24.50 for basic business (B1) service
106 per line per month, Emery's local service rates for R1 and B1 service are currently below
107 the Commission's UUSF affordable base rate benchmarks of \$16.50 and \$26.00 per line
108 per month. However, Emery is not proposing to raise its rates. Rather, Emery has
109 included in this filing a known and measurable revenue adjustment for the shortfall of
110 revenue at existing rates as compared to the State approved base affordable rates of
111 \$16.50 and \$26.00 for R-1 and B-1 respectively (see Exhibit Emery-DW 7b discussed
112 below). Accordingly, the revenue deficiency of \$739,293 has been adjusted to reflect the
113 revenue that Emery would receive if its rates were at the Commission approved base
114 affordable rate.

115

116 **Q. Is Emery proposing to recover the revenue deficiency of \$739,293 from the UUSF?**

117 A. Yes. Emery proposes that it recover an additional \$739,293 annually through UUSF
118 disbursements, in addition to the \$561,000 that Emery is currently receiving from the
119 UUSF. This will enable Emery to continue providing service to its customers, and to
120 initiate capital projects that may have been delayed by the Company's current insufficient

121 earnings, while not burdening the UUSF with payment of monies that could be recovered
122 from an increase in rates.

123

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

125 A. Yes. Confidential Exhibit Emery DW 2, attached hereto, provides a calculation of the
126 Company's total rate base. The Confidential Exhibit Emery DW 2 begins with historical
127 Plant Balances for the beginning of 2014 and Plant Balances at the end of 2014, and
128 calculates the 2014 Plant Balance Average. Known and measurable changes to Rate
129 Base are added to the Average Plant Balance to determine the Emery's Adjusted Rate
130 Base.

131

132 **Q. When describing Confidential Exhibit Emery DW 2 above, you indicate that it**
133 **contains adjustments for known and measurable changes to regulated rate base.**

134 **Please describe those adjustments.**

135 A. There is one adjustment to Rate Base contained in Exhibit Emery DW 2: an addition for
136 Plant in Service. The increase to Plant in Service reflects an allocated proration of the net
137 book value of shared assets purchased for the benefit of multiple related party companies
138 and which is maintained on the books of Emery Telecommunications & Video Inc. The
139 shared assets benefit Emery through better utilization and cost sharing thus reducing the
140 operating expense and capital needed to sustain the regulated operations.

141

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

143 A. Emery is using a composite rate of 10.50%.

144

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

146 A. In accordance with UUSF policy, Emery has calculated a blended cost of capital, which
147 represents the weighted average of an interstate rate of return of 11.45% and a state rate
148 of return of 9.86%. Emery's intrastate cost of capital was derived using the DPU's
149 suggested imputed capital structure of 65% equity and 35% debt. For the individual
150 components of its capital structure, Emery has used a cost of debt of 5.64% and a cost of
151 equity of 12.13%, which results in a composite intrastate rate-of-return of 9.86%².

152

153 The consolidated Company does not carry any long term debt; therefore the Company's
154 cost of debt was derived from debt that existed with CoBank during the 2013 base year.
155 The debt with CoBank carried a stated rate of 5.64% and was paid off in January 2014.

156

157 The interstate return of 11.45% is derived from NECA's Form 492 filing with the FCC
158 on September 30, 2014 for calendar year 2013 pool participants.

159

160

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

162 A. The Commission's Total Company Rule requires a "blending" of the authorized cost of
163 capital costs in the state and interstate jurisdictions. This weighting of the jurisdictional

164 capital costs was based upon the jurisdictional separation of Emery's rate base in
165 accordance with the FCC's Part 36 rules. Emery's Part 36 Jurisdictional Separations are
166 contained in Confidential Exhibit Emery DW 8, attached hereto. The Company's
167 jurisdictional percentages (intrastate and interstate) are contained in Confidential Exhibit
168 Emery DW 3, and are applied to the intrastate and interstate costs of capital to determine
169 the Weighted Cost of 10.50% as contained in Confidential Exhibit Emery DW 3.

170

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

172 A. Yes. Confidential Exhibit Emery DW 4 contains the Trial Balances for 2013 and 2014,
173 provided to assist the Division with its review of Emery's revenue deficiency.

174

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

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

179

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

181 A. Confidential Exhibit Emery DW 6 contains the Summary of Apportionment Ratios by
182 Account for 2013, which supports the jurisdictional separations contained in Confidential
183 Exhibit Emery DW 8, and used in the calculation of the Rate of Return and Cost of
184 Capital in Confidential Exhibit Emery DW 3. The 2013 apportionment ratios are

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

185 summarized from the most recently available cost study performed by Moss Adams for
186 Emery. This most recent cost study is included in DW 8, and 8a.

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, and 7c.

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

202

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

204 A. As previously indicated above, this Exhibit contains Emery's Part 36 Jurisdictional
205 Separations from the 2013 Cost Study performed by Moss Adams for Emery. DW 8

206 represents the Emery Telephone portion of the separations; DW 8a represents the
207 combined cost study area separations (Emery Telephone, Carbon/Emery Telcom, and
208 Hanksville Telcom)

209

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

211 A. Confidential Exhibit Emery DW 8a contains the Part 36 and Part 69 sections of Emery's
212 2013 Cost Study for Combined Regulated Entities (Emery Telephone Carbon/Emery
213 Telcom, and Hanksville Telcom).

214

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

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	Exhibit Emery DW 9h	Cost Allocation Manual - Regulated Allocator
228	Exhibit Emery DW 9i	Cost Allocation Manual - CSR Allocator
229		

230 **Q. Have you provided Audited Financial Statements for 2014 with your Application?**

231 A. No. The 2014 Audited Financial Statements are not yet complete. I will supplement my
232 testimony with the 2014 Audited Financial Statements, 2014 Journal entries, and 2014
233 Audit Memorandum when we have received them.

234

235 **Q. Have you provide Audited Financial Statements with your Application?**

236 A. Yes. Attached to this Testimony as Confidential Exhibits 10, 10a, and 10b are the 2013
237 Audited Financial Statements, 2013 Audit Journal Entries; and Year 2013 Audit Exit
238 Memo.

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

240 A. Exhibit 11 contains a personnel chart and line of authority for Emery, and Exhibit 12
241 illustrates Emery's corporate structure.

242

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

244 A. Yes. Confidential Exhibit Emery DW 13 describes Emery's bad debt expense net of
245 collections during the 2014 base year. This data is presented in conjunction with end-
246 user sales revenue and as a percentage of this associated revenue. Similar data for
247 Emery's related party subsidiaries is also presented for comparison.

248

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

251 A. Yes.

252

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

254 A. Yes it does.