BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

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

RREBUTTAL TESTIMONY

OF

DARREN WOOLSEY

ON BEHALF OF EMERY TELEPHONE

August 28, 2015

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1 **REBUTTAL 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. There are numerous references to various affiliated entities in the testimony,**
9 **can you please identify the affiliated entities and the abbreviations you will**
10 **use in this testimony to refer to each?**

11 A. Yes. The affiliated entities and the abbreviations I will use to refer to each are:

12 • Emery Telecommunications & Video, Inc (ETV) provides internet, circuits,
13 fiber transport, VOIP voice, customer premise equipment, and retail
14 computer sales and service.

15 • Emery Telcom Video, LLC (ETV LLC) provides cable tv, cable internet, and
16 local advertising.

17

18 **Q. Have you previously provided Direct Testimony in this matter?**

19 A. Yes. With the filing of Emery Telephone's Application for Increase in UUSF on
20 March 27, 2015 ("Application"), I filed direct testimony in support of the Application.
21 My testimony included Confidential Exhibits 1-13 (with subparts). I also provided
22 Supplemental Direct Testimony on April 24, 2015 to include the 2014 Audited

23 Financial Statements, 2014 Journal Entries, and 2014 Audit Memorandum when
24 Emery Telephone received them from the auditors.
25
26 **Q. What is the purpose of your reply testimony?**
27 A. The purpose of my rebuttal testimony is to respond to the various testimonies filed
28 in this proceeding by the Division of Public Utilities (the "Division") and the Office
29 of Consumer Services ("Office"). In their testimonies, these parties propose
30 modifications to Emery's Application for Increase in UUSF. In this testimony, I
31 recommend that the Commission modify or reject many of these proposed
32 modifications. Specifically, I will address the testimony of:
33 • William Duncan, Division of Public Utilities;
34 • Joseph Hellewell, Division of Public Utilities;
35 • Bion C. Ostrander, Office of Consumer Services; and
36 • David Brevitz, Office of Consumer Services.
37 **Q. Have you reviewed the testimony of the individuals you have identified**
38 **above?**
39 A. Yes.
40
41 **Q. Please identify the exhibits to your testimony.**
42 A. I am attaching the following Confidential Exhibits:
43 • Emery Rebuttal Testimony of Woolsey - Cable Internet Migration - Exhibit 1
44 • Emery Rebuttal Testimony of Woolsey - A&G Allocator Analysis - Exhibit 2

45 • Emery Rebuttal Testimony of Woolsey - CSR Allocation - Exhibit 3
46 • Emery Rebuttal Testimony of Woolsey - Depreciation - Exhibit 4
47
48 **Q. Could you please summarize your reply testimony?**
49 A. My testimony will focus on the particular adjustments that the Division of Public
50 Utilities and the Office of Consumer Services are recommending in the testimonies
51 filed on their behalf. Specifically, I will address:
52 ▪ Adjustment BCO-2: Allocate Corporate Overhead Expenses from Emery to
53 ETV/Nonregulated Affiliates
54
55 ▪ Adjustment BCO-3: Deduct Customer Deposits from Rate Base
56
57 ▪ Adjustment BCO-4: Remove Prepayments from Rate Base
58
59 ▪ Adjustment BCO-5: Deduct Long-Term Liabilities from Rate Base
60
61 ▪ Adjustment BCO-6: Remove 50% of telephone plant under construction
62 (TPUC) from Rate Base
63
64 ▪ Adjustment BCO-7: Remove 50% of materials & supplies ("M&S") from Rate
65 Base
66 ▪ Adjustment BCO-8: Reverse Emery's Projected Access Line Reduction
67 ▪ Adjustment BCO-9: Remove Depreciation on Fully Depreciated Assets
68 ▪ Division of Public Utilities' adjustment on Depreciation
69
70 **Q. What else will you address in this rebuttal testimony?**

71 A. Emery Telcom is proposing four adjustments to the UUSF request contained in the
72 initial filing which I will discuss in detail below. However, by way of summary, the
73 five adjustments are:

74 • A decrease in the three year land line loss projection to reflect actual land
75 line losses experienced through August 1, 2015. This adjustment reduces
76 Emery's UUSF request by [REDACTED].

77 • An increase in revenue resulting from anticipated additional fiber to the
78 home (FTTH) customers. This adjustment is [REDACTED] increase in revenue.
79 This adjustment reduces Emery's UUSF request by [REDACTED].

80 • An adjustment to the amount of revenue requirement recognized by Emery
81 Telcom (Emery) for interstate special access services referred to as "DSL
82 revenue requirement". This adjustment accounts for DSL revenue
83 requirement reflecting the 2014 Interstate Cost Study filed in July 2015,
84 which was not available at the time of the initial filing. Emery's portion of this
85 adjustment resulted in a decrease of revenue in the amount of [REDACTED]
86 resulting in an increase in the UUSF request.

87 • An adjustment related to customer deposits shown as a liability on the
88 balance sheet. These liabilities were inadvertently added rather than
89 deducted from the UUSF rate base calculation resulting in an overstatement
90 of rate base. The required adjustment to reverse and properly state the
91 customer deposits is a reduction to the rate base of [REDACTED]. Using

92 Emery's calculated rate of return of [redacted] this would result in a UUSF
93 decrease of [redacted].

94 • An adjustment related to long term liabilities in the amount of $[redacted] with
95 a corresponding UUSF impact of $[redacted]% Emery filed rate of return).

96 As indicated, I discuss these adjustments in detail below, the combination of the
97 five proposed adjustments would result in a decrease of [redacted] from Emery's
98 initial Application filing (-[redacted] - [redacted] + [redacted] - [redacted]- [redacted])
99

100 **Q. Do you agree with Mr. Ostrander that UUSF proceedings warrant rigorous**
101 **analysis and oversight?**

102 **A.** Emery Telcom consistently files annual reports with the Division of
103 Telecommunications and receives review and oversight. Furthermore, Emery
104 Telcom has not filed for increased rates but has filed for an increase in distribution
105 out of the UUSF. Also, the Division and Office reviewed Emery Telcom in a similar
106 proceeding in 2014. Mr. Ostrander's testimony discredits the purpose of Universal
107 Service by stating that no direct or measurable benefit accrues to citizens in areas
108 not receiving UUSF funding. The very concept of Universal Service inherently
109 recognizes the value of providing affordable service to higher cost rural areas and
110 connecting urban Americans to their rural counterparts. Citizens in urban areas
111 pay into the UUSF for the ability to call citizens who live in high cost rural areas.
112 Universal service benefits both urban and rural customers and the Office of
113 Consumer Services represents both urban and rural consumers and is mandated

114 to assess the impact of regulatory action on all residential consumers and small
115 businesses (both urban and rural). All telephone customers pay into the UUSF.
116 The desire to minimize the payments into the UUSF should not outweigh the
117 proper use of the funds to further the public interest of providing service (including
118 advanced services) to rural end user phone customers and special access (small
119 commercial) customers. Additionally, it is critical to remember that carriers who
120 receive UUSF funding also have carrier of last resort and E911 obligations.
121 Ubiquitous service in Emery's area would not be possible without federal and state
122 universal service support.
123
124
125 **Q. In his testimony on behalf of the Office of Consumer Services ("Office"), Mr.**
126 **Ostrander proposes two significant adjustments related to what Mr.**
127 **Ostrander perceives as "allocation problems" between Emery and its non-**
128 **regulated affiliates. Mr. Ostrander identifies those adjustments as BCO-1**
129 **(allocate fiber/internet-related common costs from Emery to its non-**
130 **regulated affiliates) and BCO-2 (allocate corporate overhead expenses from**
131 **Emery to non-regulated affiliates). Does your testimony address both of**
132 **these adjustments?**
133 A. No. Douglas Meredith addresses adjustment BCO-1 which purports to allocate
134 fiber/internet related common costs from Emery to its non-regulated affiliates.
135

136 **Q. Are you familiar with the Office's adjustment BCO-2 which purports to**
137 **allocate corporate overhead expenses from Emery to non-regulated**
138 **affiliates?**
139 A. Yes. Mr. Ostrander proposes a modification of Emery's A&G Allocation factor. In
140 Emery's Application, Emery applied an A&G Allocation factor of ███%[1] to
141 regulated operations and ███% to non-regulated operations. Mr. Ostrander
142 proposes a reduction of the A&G Allocation Factor to ███%/███%.
143
144 **Q. Do you agree with this proposed adjustment?**
145 A. No. As I detail below, Emery's allocation factors are accurate and no adjustment
146 is needed. Mr. Ostrander's analysis is cursory and flawed. Mr. Ostrander states
147 that Emery has inappropriately used allocators to overstate regulated allocated
148 expenses and understate non-regulated allocated expenses. However, much of
149 the analysis performed by Mr. Ostrander and included in his testimony in lines 725
150 to 767 was based on unconfirmed and inaccurate assumptions, and the data used
151 to perform many of the calculations was incorrect.
152
153 **Q. Please explain.**

[1] In Table BCO-2 in Mr. Ostrander's testimony he correctly identifies the A&G Allocation Factor as ██%/██% regulated to non-regulated. However, in Table BCO-4, and on line 711 of Mr. Ostrander's testimony, Mr. Ostrander incorrectly identifies the A&G Allocation Factors as ██%/██% regulated/non-regulated.

154 A. It is Mr. Ostrander's opinion that costs have been shifted from non-regulated
155 entities to the regulated entities. To support this opinion, Mr. Ostrander examined
156 the Consolidated Financial Statements and "other information" which is not
157 identified in Mr. Ostrander's testimony. The Office found that "certain financial data,
158 allocations, and changes in amounts from year to year appear unusual or appear
159 to favor the non-regulated affiliates," and concluded without explanation that "this
160 type of information lends support for my adjustment to reallocate some expenses
161 from regulated to non-regulated operations."
162
163 **Q Do you know what financial data, allocations, and changes in amounts from**
164 **year to year appeared unusual to Mr. Ostrander?**
165 A. The Office referred to the net income for the regulated companies, and found that
166 the net income for the regulated companies decreased from ████ to
167 ████████ from 2013 to 2014. However, these numbers are incorrect. Review
168 of the Consolidated Financial Statements shows that the correct numbers
169 regarding the regulated companies' net income are ██████ and ██████ for
170 2013 and 2014 respectively, evidencing a reduction of regulated net income of
171 ██████ not ██████ as stated by Mr. Ostrander.
172
173 **Q. Were you able to determine where Mr. Ostrander's regulated net income**
174 **numbers came from?**

175 A. No, I was not, but I can explain the reduction in regulated net income, and clarify
176 why Emery needs additional UUSF support.
177
178 [CONFIDENTIAL TABLE REDACTED]
179 Source: 2013-14 audited financial statements as provided to the Office and DPU
180
181 As shown in the table above, the net income of Emery declined by ████. The
182 decrease is not the result of shifting costs, as inferred by Mr. Ostrander, but
183 primarily the result of lost revenue of ████ and to a lesser extent the
184 investment in FTTH resulting in increased depreciation of ████. The largest
185 revenue decrease was due to a federally dictated loss of reciprocal compensation
186 revenue associated with CAF-ICC reform ████. Other state access revenues
187 declined by ████, primarily as a result of this same CAF-ICC reform. Local
188 service revenues declined by ████ due to declining local service customers.
189 Billing and collection revenue declined by ████ as described in Emery's
190 response to DPU 4 2.2. Other revenue declines amounted to ████. Emery
191 Telcom did experience some expense increases. Depreciation increased by
192 ████ as a result of increased investment. All other expenses however only
193 increased by only ████. This accounts for the change in net income of
194 ████ on Emery Telcom. The ████ increase in all expenses excluding
195 depreciation does not support the offices premise that costs were shifted from the
196 non-regulated entities to the regulated entities.

197

198 **Q. Did Mr. Ostrander's use of inaccurate numbers for regulated net income**
199 **affect his analysis?**

200 A. While I find it difficult to follow Mr. Ostrander's analysis, if his conclusion is that
201 "changes from year to year appear unusual", the "unusual" appearance could be
202 a result of his use of inaccurate numbers. In my opinion, the inaccurate numbers
203 used by Mr. Ostrander make the analysis meaningless and the conclusions
204 reached unsupportable.

205

206 **Q. Why?**

207 A. The analysis is meaningless because Mr. Ostrander starts with inaccurate
208 numbers on regulated net income and these incorrect numbers flow through the
209 analysis causing Mr. Ostrander to incorrectly calculate the regulated companies'
210 profit margin. He then compares the inaccurate profit margin of the regulated
211 companies to his calculated profit margin on the non-regulated affiliates, which Mr.
212 Ostrander uses (in some unascertainable way) to support his adjustment to
213 reallocate "some expenses" between regulated and non-regulated operations.

214

215 **Q. Are the regulated companies net income and profit margins the only**
216 **numbers Mr. Ostrander has stated incorrectly in his analysis?**

217 A. No. Mr. Ostrander identifies the ETV net income change from 2013 to 2014 as
218 [redacted]. The actual decrease in net income was [redacted]. Additionally, while

219 Mr. Ostrander correctly states the ETV net income in 2014 as ██████, he
220 misstates ETV's percentage of total consolidated profit of ██████%. Mr.
221 Ostrander then discusses expenses where he highlights an increase in RLEC
222 expense of ██████ (The operating expense increase is actually only ██████)
223 and implies that this increase in regulated expenses corresponds to a similar
224 decrease in ETV expenses of the same amount of ██████ (Operating expense
225 decrease was actually ██████). The implication in Mr. Ostrander's testimony is
226 that somehow this is related to a shift of costs from non-regulated to regulated
227 operations. This is misleading due to the errors in the numbers. However, the
228 increase in cost was a result of increased amortization and depreciation, which are
229 the result of company specific plant investments. The remaining actual costs
230 evidence only a slight increase in regulated costs of ██████ and an slight
231 decrease in non-regulated costs of ██████. Accounting for the change in DSL
232 wholesale handling (discussed below), non-regulated operating expense actually
233 went up by $491,938 which does not support Mr. Ostrander's conclusion.
234
235 **Q. What actually caused the decreases in ETV expenses and revenue?**
236 A. The decline in both revenue and expenses in ETV related to a change in
237 accounting for the DSL wholesale revenue charged by the regulated company to
238 the non-regulated company which occurred when our new billing system was
239 implemented in the fall of 2013. The new billing method avoids showing the
240 revenue and matching expense in separate accounts on ETV and just moves the

241 revenue to the regulated companies where it ultimately ends up under the old or
242 new method. This change resulted in a [REDACTED] decrease in ETV revenue <u>and</u>
243 corresponding expense in 2014. The remaining decrease in ETV revenue is
244 related to a decrease of DSL subscribers (ETV) as they moved to higher speed
245 Cable Internet (ETV LLC) between 2013 and 2014. This revenue shift can easily
246 be viewed in the trial balances of the two companies.
247
248 **Q. Did the Office have the trial balances of the two companies?**
249 A. Yes. The Office had the trial balances of the two companies, the General Ledger
250 of all companies and the consolidated financial statements with consolidating
251 information from 2012 to 2014. However, in the testimony of Mr. Ostrander, he
252 states "it is possible that the decrease in ETV's expense of [REDACTED] and the
253 corresponding increase in regulated RLEC expenses of [REDACTED] was the result of
254 a favorable shift of allocated expense from non-regulated operations to regulated
255 operations, but that cannot be confirmed." The reality, however, is that the GL
256 detail and allocation detail for both years were provided to the Office, and the Office
257 could have confirmed that the decreases in non-regulated expenses did NOT
258 result from a favorable shift of allocated expenses to regulated operations. But Mr.
259 Ostrander either did not perform this analysis or did not like the results. Rather,
260 he relied on supposition and unsupported assumptions to justify a reduction in the
261 allocation factor from [REDACTED]% regulated to [REDACTED]% regulated.
262

263 **Q. Was there anything else in Mr. Ostrander's testimony related to his assertion**
264 **that Emery overstates its regulated allocated expenses and understates its**
265 **non-regulated allocated expenses that troubled you?**
266 A. Yes. Mr. Ostrander suggests that because ETV has profit, it can readily absorb his
267 allocation adjustments. This seems to imply that ability to pay is a proper cost
268 allocation factor. This position is not reasonable; it is not supported by analysis;
269 and it should be rejected by the Commission. It is unreasonable to have profitability
270 drive allocations or adjustments.
271
272 **Q. Do you find it unusual that the company does not have any allocation factors**
273 **that allocate 50% or more of expenses to nonregulated operations?**
274 **A.** No. Because the company direct codes many costs, not all of the costs are subject
275 to an allocation factor. Additionally, I am very familiar with the drivers that were
276 used to develop the allocators. With a proper understanding and examination of
277 the cost drivers, and analysis of the company's direct coding to ensure the non-
278 regulated companies are not favored, the allocators are very reasonable. However
279 neither my subjective opinion, nor anyone else's, should be considered support for
280 a cost allocation. Rather, any cost allocation factor or method should be supported
281 by data, which Mr. Ostrander failed to provide. Emery has provided that data in
282 response to various data requests to support its allocation factors.
283

284 **Q. Mr. Ostrander suggests that total revenue and expenses can be used to**
285 **determine the appropriate allocation factors. Do you believe the total**
286 **revenue and expenses are rational drivers of costs?**
287 **A.** No. Revenue could be an appropriate standard to use to allocate costs if a
288 company had homogenous products. For example, if the consolidated entity of
289 Emery Telcom consisted solely of Emery Telcom, Carbon Emery Telcom, and
290 Hanksville Telcom offering similar products at similar prices, then revenue could
291 be used without significant distortion (see possible exception noted below).
292 However when a consolidated entity offers non-homogenous services, such as
293 cable television, broadband internet, long haul transport, and newsprint, as in the
294 case of the consolidated entities of Emery Telcom, revenue is an illogical basis to
295 use when developing cost allocations.
296

297 **Q. Please explain why revenues are not a rational driver of costs.**
298 **A.** As an example, consider this UUSF proceeding. Emery Telephone is requesting
299 an additional $739,293 in UUSF funding. If Emery is successful and receives this
300 additional revenue, a cost allocation based on revenue would result in increased
301 expenses going to Emery Telephone. At first this may seem rational because a
302 large amount of expenses were incurred to go through this process (although those
303 costs are not likely to continue). However, let's now assume that Emery Telephone
304 incurs these same expenses and Emery Telephone's current USF of $561,000 is
305 reduced to 0, as is being proposed by Mr. Ostrander. A cost allocation based on

306 revenue would then result in a reduction of cost to Emery Telephone. It is
307 inappropriate to assume that the dollar result of a UUSF proceeding should
308 determine cost allocations. The fact that a UUSF case is undertaken could be
309 considered a reason for direct coding or maybe even a temporary driver, but the
310 result of the UUSF case should not be.
311
312 A second example is special access transport revenue earned from a route
313 provided significantly across ETV leased fibers from Grand Junction CO to Salt
314 Lake City, Utah. This route generates revenue with only a handful of customers
315 and related billing and compliance issues. The lease also provides for
316 maintenance, thus ETV is not allowed to work or manage work on the fibers under
317 such lease. As a result, this fiber generates revenue with no significant
318 management attention, billing complexity, compliance, or customer service. If
319 overhead costs were allocated on revenue ETV would receive an inappropriately
320 high level of costs unsupported by actual management time based on the revenue
321 from this route.
322
323 Similarly, but to a lesser extent, internet revenue generated by internet customers
324 on ETV and ETV LLC are much easier to manage as a one or two line item billing
325 compared to a phone customer with franchise fees, excise tax, sales tax, E911,
326 subscriber line charges, ARC charges, poison control, EAS, local service, call
327 features, universal service fees, and the associated billing and compliance

328 associated with all of these billing line items. These examples highlight the
329 inappropriateness of revenue as a cost driver. This example also begins to show
330 why the billing records are reflective of associated management time in managing
331 the complexity of regulated operations including compliance, regulatory changes,
332 proceedings, and oversight of CSR and administrative employees.
333
334 **Q. Do you believe expenses are a rational driver of costs?**
335 A. No. Expenses are not a rational driver of costs.
336
337 **Q. Why not?**
338 A. There are significant direct coded expenses that have no relationship to the
339 amount of time spent by the CEO, Board, Marketing/PR, or CSR's. One of the
340 best examples that illustrates the problem with using expense as a substitute for a
341 substantive cost driver can be seen with the expenses of Emery Telcom Video LLC
342 (ETV LLC). The single largest expense category on the non-regulated entities is
343 Cable TV programming costs in ETV LLC. These costs totaled [REDACTED] for 2014
344 (activity 73 in account 7962.61 in previously provided GL detail). This cost alone
345 is similar to [REDACTED], yet programming and negotiation is handled through ETV
346 LLC's association with the National Cable Television Cooperative (NCTC) leaving
347 very little management time related to cable TV programming. If expenses were
348 used as an allocation basis, significant costs would be inappropriately allocated to

349 ETV LLC. It simply is not logical that a random programming cost increase would
350 result in additional CEO cost allocation. There is no reasonable correlation.
351
352 **Q. Do the “billing record” inputs to the company’s A&G allocation factor have**
353 **a “direct” or “cost-causative” relationship to the expenses in the department**
354 **cost pool that they are used to allocate?**
355 A. Yes. Billing records are representative because they are representative of the -
356 types of services, number of customers, complexity of regulatory compliance, and
357 issues that the CEO/Board, and Marketing represent. Forward looking plans are
358 extensions of or improvements to the existing services and have focused primarily
359 of regulated issues since 2011 when CAF ICC reform was implemented and
360 continues today with ACAM model based support proposals being considered by
361 the FCC. Billing records also reflect forward looking CEO plans board decisions,
362 and marketing efforts as these efforts can be measured in resulting customer
363 growth in new and existing areas. Extension of plant to new customers and areas
364 is also reflected in the billing records on a slight lag. This allocator is updated
365 frequently.
366
367 **Q. What is your assessment of the revised A&G allocator calculation performed**
368 **by Mr. Ostrander?**
369 A. Emery Telcom is not opposed to the idea of considering other cost causative
370 drivers in addition to billing records to maintain the accounting and general

371 allocator. As was pointed out by Mr. Ostrander, drivers in addition to billing records
372 have been used by Emery Telcom in the past. However, I do not agree with all of
373 the Offices proposed drivers, or its methodology in considering those drivers.
374
375 **Q Which of the proposed drivers suggested by Mr. Ostrander to you reject?**
376 A. I reject the use of “Revenue” and “Expenses” as cost allocators. For the reasons I
377 discussed above “Revenue” and “Expenses” are not at all appropriate to use to
378 develop allocations.
379
380 **Q. Do you agree that Plant can be used as an input for developing cost**
381 **allocators?**
382 A. Yes. Emery Telcom could consider Plant as a possible cost driver to determine
383 the accounting and general allocator. But if “plant” were to be used, “Gross Plant”
384 would be a better indicator than “Net Plant” because the regulated entities use
385 group asset depreciation per FCC part 32 whereas the non-regulated entities use
386 single asset straight line depreciation. Because group asset depreciation has had
387 an accelerated effect on the regulated entities, use of net plant as an indicator for
388 cost allocation would result in an artificially low allocation to the regulated entities
389 to the extent of the accelerated depreciation.
390
391 Also, when using Plant as a proposed driver, shared assets need to properly
392 accounted for and shown on the books of the correct entity based upon allocation

393 of that asset, not ownership. As indicated in Emery's Application, to reduce
394 duplication of equipment and costs, the Emery entities share certain equipment,
395 vehicles, and computers. This shared equipment is recorded on the books of ETV.
396 This cost of this shared equipment is then allocated to the various related party
397 entities based upon usage or other allocators. The shared equipment is presented
398 and discussed in the initial filing as Exhibit 7c – Shared Assets and this exhibit was
399 used as the basis for a rate base adjustment to include the appropriate portion of
400 shared equipment in the rate base of Emery. Therefore, an allocator based upon
401 plant would need to reflect the portion allocated to each entity to prevent the
402 overstatement of assets on ETV and related understatement on each of the other
403 Emery related entities. Mr. Ostrander's analysis of plant as a driver does not take
404 these issues into consideration.
405
406 **Q. Are there other inputs that Emery agrees are appropriate?**
407 A. Yes. Emery believes that records and payroll can also be valuable inputs in
408 determining the appropriate A&G Allocation factor.
409
410 **Q. Has the Office employed the proper methodology for considering these**
411 **allocation inputs?**
412 A. No. The calculation performed by Mr. Ostrander in "# Confid. 15-042-01Ostrander
413 WP 1.3 - Adj. BCO-2 Support for Adj. (OCS DR 2-40 CAM Allocations).xlsx" uses
414 an equal weighting of the various dollar types and records. This method skews the

415 allocation to the highest dollars (revenue and net plant totaling [redacted]) and
416 essentially gives no weight to billing records ([redacted]). A more reasonable
417 approach is to assume that each of the drivers if representative should be given
418 equal weighting. This can be easily accomplished by taking the average of the
419 resulting allocation percentages of each appropriately identified driver.
420
421 **Q. Have you recalculated the Accounting and General Allocator using**
422 **additional inputs as suggested by Mr. Ostrander?**
423 A. Yes. Emery recalculated the A&G Allocator using Gross Plant (properly adjusted
424 for shared assets), Monthly Records, and Payroll, and then weighted each
425 associated allocation percent equally. This produced essentially the same
426 allocation as was used by Emery in the initial application [redacted]% Emery (ET),
427 [redacted]% Carbon/Emery (CT) and [redacted]% Hanksville (HT) (74.42% total to
428 regulated entities) as opposed to [redacted]% ET, [redacted]% CT, and [redacted]%
429 HT ([redacted]% total to regulated entities). This calculation can be viewed in
430 Confidential Rebuttal Testimony of Woolsey – A&G Allocator Analysis - Exhibit
431 2.xlsx.
432
433 Although the revised allocation would result in slightly greater expenses being
434 allocated to the regulated entities ([redacted]%), because of the insignificance of
435 the increase, Emery Telcom is of the opinion that the base year is representative
436 and no adjustment is necessary.

437

438 **Q. In addition to the A&G Allocation Adjustment, the Office is proposing an**
439 **adjustment to the CSR Allocator. Do you agree with the proposed**
440 **adjustment?**

441 A. No. Mr. Ostrander's proposed CSR adjustment contains a variety of errors.

442

443 **Q. What errors are contained in the CSR adjustment being proposed by the**
444 **Office?**

445 A. Mr. Ostrander states that the CSR allocator should be adjusted from ██████%
446 regulated and ██████% non-regulated to ██████% regulated and ██████%
447 non-regulated. However, Mr. Ostrander has not provided any data or evidence to
448 support this conclusion. There is no evidence that Mr. Ostrander's opinion of how
449 CSR costs should be allocated is more accurate than the time study performed by
450 Emery in 2010. In fact, it would appear that Mr. Ostrander did not verify any of his
451 findings related to CSR's in the Office data requests, and as a result, Mr. Ostrander
452 made several errors in his testimony related to the CSR Allocation factor.

453

454 **Q. Please identify the errors you are referring to.**

455 A. In Mr. Ostrander's calculation of CSR costs he uses ██████ total CSR dollars
456 as a basis for allocating 2014 CSR costs, the correct amount of total CSR costs is
457 ██████ which results in a 35% misstatement upfront and makes any resulting
458 proposed adjustment wrong. This data is a subset of total allocations given to the

459 Office in DR 2-40. Emery has utilized an Excel pivot table to summarize the data
460 and demonstrate the error, see Confidential Emery Rebuttal Testimony of Woolsey
461 – CSR Allocation - Exhibit 3 CSR Allocation.xlsx. The error was limited to this one
462 data point. From the pivot table you can see that total expenses subject to
463 allocation tie to Mr. Ostrander's analysis showing ██████ in total allocated
464 expenses. The highlighted green numbers on Confidential Emery Rebuttal
465 Testimony of Woolsey – CSR Allocation - Exhibit 3.xlsx also tie to amounts shown
466 for Board, CEO, Marketing/PR, and Human Resources. The CSR allocation
467 amount does not tie and should have been ██████.
468
469 Mr. Ostrander states that there are 31 CSR's per DPU 1-4(b), then goes on to state
470 that "It is not clear why ██████%, or a substantial majority of these CSR costs
471 would be allocated to regulated operations". DPU 1-4(b) does not indicate that
472 ██████% of CSR costs were allocated to the regulated entities. It does however
473 clearly demonstrate that there were 31 different CSR's between January 31, 2012
474 and April 1, 2015. Mr. Ostrander failed however to notice that there were also 3
475 additional "CSR/Advanced Trouble Shooting" employees making 34 total CSR's
476 that worked in any given month over the 40 month period presented. His count
477 does not consider turnover, part-time, or temporary employment. Mr. Ostrander
478 also failed to notice that there was a table at the bottom of this data request that
479 clearly demonstrates the number of employed employees in any given month. The

480 summary is presented below with highlights for the base year and a summary at
481 the bottom of the sheet:
482
483 [CONFIDENTIAL TABLE REDACTED]
484 Source: DPU DR 1-4b Emery & Carbon - Employee List.slsx (highlights and summary of
485 CSR counts below data added)
486
487 **Q. Please explain this data.**
488 A. Though there were a total of 34 total different employees employed during the 40
489 month period the number employed in any given month was never more than 24.
490 The average number of CSR's during the base period was 22.9. From this 22.9
491 an adjustment needs to be made for part-time employees to arrive at full time
492 equivalents. There are 7 part-time employees, so a reduction of 3.5 employees
493 brings the FTE employee count average to 19.4.
494
495 **Q. Do all of the 19.4 FTE CSR employees use the CSR allocator for their primary**
496 **coding?**
497 A. No. Out of the 19.4 FTE employees there are three dispatch CSR's that primarily
498 use the dispatch allocator which more closely follows plant labor. There are also
499 3 CSRs included in the advanced trouble shooting CSR group and 1 Moab CSR
500 who direct code to non-regulated entities (ETV and ETV LLC). This essentially
501 lowers the actual number of CSR's using the CSR allocator for their primary coding

502 to 12.4. CSR's associated with Moab and the trouble shooting group code
503 primarily to non-regulated companies.
504
505 **Q. What other changes have you made with respect to CSRs?**
506 A. In conjunction with the establishment of the troubleshooting group, additional
507 plant troubleshooting software tools were given to the CSR group to diagnose
508 initial trouble calls. If a CSR determined that the trouble is not I isolated to the
509 outside plant, the call is passed to the advanced trouble shooting group. This
510 greatly reduces the amount of time the CSR's spend with non-regulated
511 customers. These changes were made as DSL and Cable internet customers
512 increased,and despite the increased number of customers, the additional tools and
513 cooperation between advance troubleshooting has allowed customers to be
514 served without requiring a significant increase in CSRs. The CSRs' actual time
515 can be reviewed with a Pivot table on DPU DR1-4a Emery & Carbon- Labor
516 Reports – testimony analysis.xlsx the pivot reveals the following:
517
518
519 [CONFIDENTIAL TABLE REDACTED]
520 Source: Emery Response to DPU DR 1-4a Emery & Carbon-Labor Reports – testimony
521 analysis.xlsx
522
523 **Q. What does the Pivot table show?**

524 A. The Pivot table reflects the final disposition of all CSR Labor and shows use of
525 CSR, Dispatch, Directory, and Moab CSR distributions as well as direct coding.
526 The results indicate that more CSR time is actually coded to the non-regulated
527 entities than the regulated entities ([REDACTED]% non-reg vs [REDACTED]% regulated).
528 As the current actual coding is highly non-regulated and combines the proper use
529 of direct coding and representative allocators based on real cost drivers, the
530 hypothetical allocator proposed by Mr. Ostrander is not appropriate and is wholly
531 without basis.
532
533 **Q. The Office is proposing several adjustments to your rate base accounts.**
534 **How did you determine the rate base accounts used in Emery's Application?**
535 **A.** Emery Telcom relied on pages 17 and 18 of the Incumbent Local Exchange Carrier
536 Annual Report to the Public Service Commission of Utah (Annual Report) for
537 guidance in determining appropriate rate base accounts. Emery's Annual Report
538 for the period January 1, 2014 to December 31, 2014 was submitted to the PSC
539 and has been provided to the Office and DPU.. Page 17 of the Annual Report lists
540 the net telecommunications plant in service by account. Page 18 is entitled "Other
541 Rate Base Accounts" and includes a listing of accounts typically considered as part
542 of the rate base. A snap shot of Emery's 2014 report is shown below as an
543 example of the included accounts:
544 [CONFIDENTIAL TABLE REDACTED]

545 Generally the asset accounts listed in the Annual Report are added to the rate
546 base and certain liability accounts are deducted from the rate base. Emery
547 included these accounts in the Rate Base in its Application as has been the
548 practice in the previous proceedings before the PSC. Emery has not departed
549 from the accounts prescribed by the Utah PSC in their Annual Report nor changed
550 the common practice with respect to rate case or UUSF filings.
551

552 **Q. Mr. Ostrander has identified 5 adjustments to rate base including Customer**
553 **Deposits (BCO-3), Prepayments (BCO-4), Long-Term Liabilities (BCO-5),**
554 **Telephone Plant Under Construction (BCO-6), and Materials and Supplies**
555 **(BCO-7). Do you agree with these adjustments?**

556 A. As previously discussed generally above, I concede that the customer deposit
557 account is a liability that should have been deducted rather than added to the rate
558 base. Mr. Ostrander's adjustment BCO-3 proposed to account for the reduction
559 by deducting [redacted] from rate base. However, Mr. Ostrander's proposed
560 adjustment does not effectively eliminate the Customer Deposits from the rate
561 base. In order to properly eliminate the Customer Deposits from the rate base,
562 you need to deduct the addition of Customer Deposits from rate base, and then
563 subtract the Customer Deposits from rate base—effectively the Office's proposed
564 adjustment needs to be doubled for a total adjustment of [redacted] in order to
565 appropriately treat the Customer Deposits as a deduction from rate base.
566

567 **Q. Do you concede any of the other adjustments?**

568 A. Yes. I believe that deducting the Long-Term Liabilities from Rate Base (BCO-5) is
569 also appropriate, but I do not agree with Mr. Ostrander's Part 36 value used for
570 this adjustment. The Long-Term liability represents post retirement health care
571 related obligations and is appropriately removed from rate base because the
572 company has already recovered the expense that created the liability in prior years.
573 However, the total liability needs to be reduced by:

574 • the portion created through non-income statement adjustments (other
575 comprehensive income); and
576 • the portion that was allocated to non-regulated entities.

577 Thus, leaving ██████ as the amount that should remain on Emery, Carbon,
578 Hanksville. Only Emery's portion, in the amount of ██████, should be deducted
579 from Emery's rate base. This amount differs slightly from the Part 36 amount
580 identified by Mr. Ostrander due to the adjustment for other comprehensive income
581 mentioned above.
582

583 **Q. Do you agree with BCO-4 related to prepayments?**

584 A. No. I reject the appropriateness BCO-4. The inclusion of prepaid expenses is
585 straight forward and allowed by practice. This policy should not be changed.
586

587 **Q. Do you agree that telephone plant under construction (TPUC) should be**
588 **excluded from rate base (BCO-6)?**

589 A. No. With respect to the adjustment BCO-6, Mr. Ostrander seeks to remove 50%
590 of TPUC in the amount of [redacted] and provides two reasons for its exclusion.
591 The first is his opinion that a normalized basis of TPUC would result in a lower and
592 more appropriate TPUC value. Though normalization conveniently reduces
593 TPUC, it does not recognize that these are actual capital expenditures, that TPUC
594 is directly tied to plant investment, and that a lower TPUC just means the assets
595 have moved to another rate base account (plant in service) or have not occurred
596 yet. Emery is not proposing known and measurable plant additions in TPUC.
597 Rather, Emery is only including actual plant expenditures which currently reside in
598 TPUC. This is not an account that should be normalized to find an "appropriate"
599 operating level. This account by its very nature accurately reflects actual plant
600 expenditures.
601
602 **Q. What is the second reason that Mr. Ostrander gives for removing 50% of**
603 **TPUC?**
604 A. Mr. Ostrander also suggests that we should consider the "matching principle"
605 which is a GAAP principle not a "regulatory" principle. Matching attempts to align
606 the financial impact of actual events to the periods in which they occur. As
607 examples:
608 • a retail sale should match corresponding reductions in inventory and
609 recognition of cost of goods sold in the same period;
610 • expensing of a prepaid should be ratably over the periods of benefit;

611 • in the case of assets, they are not depreciated until they are placed in
612 service;
613 • likewise existing assets that new assets are to replace are not reduced on
614 the books until they incur an impairment or are actually taken out of service.
615 Mr. Ostrander's strange interpretation of mismatching does not provide adequate
616 basis for adjustment; by suggesting that Emery should somehow project an offset
617 to the inclusion of TPUC of events that have not occurred. With respect to capital
618 expenditures I have never heard of projecting future revenues, affiliate
619 transactions, or disposals related to an asset addition that have not yet occurred
620 under the theory of matching. This would in fact be a violation of both the matching
621 principle which requires a transaction to be recorded in a correct period and also
622 a violation of a second GAAP principle which prevents the recognition of contingent
623 gains. Mr. Ostrander's arguments on removing 50% of TPUC should be rejected.
624
625 **Q. Do you agree with the Offices' proposed adjustment for Materials and**
626 **Supplies contained in BCO-7?**
627 A. No. In BCO-7, Mr. Ostrander has proposed a reduction in materials and supplies
628 to a "normalized" lower level arguing that the current level is artificially high. While
629 the current level of materials and supplies on site is higher than historical levels,
630 the higher level is real, on site, and necessary due to several factors:
631 • Emery is experiencing increased construction activity associated
632 with the FTTH project;

633 • Emery's vendors have significantly increased the lead time on fiber
634 and fiber related products. Where historically Emery could order
635 fiber and fiber related products and expect delivery within three (3)
636 weeks, Emery is currently experiencing delivery delays of three to six
637 month.
638 • As a result of the increase lead times with vendors, Emery is required
639 to keep more inventory on hand to prevent shortages, and work
640 stoppages that will result if required fiber and fiber facilities are not
641 on site.
642 The increased level of inventory is anticipated for at least the next three years and
643 is properly reflected in the rate base at full value.
644
645 **Q. The Office is proposing a depreciation adjustment on assets that the Office**
646 **believes are either fully depreciated or will be fully depreciated in about 2**
647 **years (BCO-9). Do you agree with this depreciation adjustment?**
648 A. No. Mr. Ostrander refers to his adjustment of BCO-9 as "remove depreciation
649 expense on fully depreciated assets". Emery has not depreciated any asset in
650 excess of the book value of the asset. We assume that what Mr. Ostrander is
651 attempting to describe is the effect of group asset depreciation. As indicated in the
652 testimony of Douglas Meredith, group asset depreciation is an FCC prescribed
653 method of depreciation which can have an accelerating effect on depreciation in
654 cases where there are older assets included in the group subject to a depreciation

655 calculation. However, group asset depreciation only accelerates depreciation, it
656 does not result in over-depreciation (depreciation in excess of the book value) of
657 any asset.
658
659 **Q. What errors has Mr. Ostrander made in his depreciation adjustment**
660 **contained in BCO-9?**
661 A. Mr. Ostrander's BCO-9 claims to reduce "depreciation expense by ██████ on
662 assets that are either fully depreciated or [sic] will be fully depreciated within about
663 2 years." Mr. Ostrander's calculation assumes that depreciation is currently
664 overstated and that it will largely disappear in four years (two years for the accounts
665 subject to his adjustment). Mr. Ostrander's erroneously assumes no continued
666 investment and no disposals. Additionally, Mr. Ostrander hasn't even determined
667 if the current depreciation level of his chosen account groups is materially
668 accelerated (which in the case of the first two accounts chosen for his adjustment
669 digital switching and subscriber equipment it is not). A summary of data for the
670 three targeted adjustment accounts is as follows:
671
672 [CONFIDENTIAL TABLE REDACTED]
673 Source: From Confid. - 15-042-01 Ostrander OCS Exhibit 1D-2, Sch. A-1 to A-9 - Master
674 Rev. Req.xlsx – tab Exh. 2.9D Ostr. and FCC 481 filing.
675
676 **Q. What does the above table show?**

677 A. The first targeted account, Digital Switching (Accts 2212 and 3212), with a GBV
678 and NBV of █████ and █████ respectively and a depreciation life of 8 years
679 is completely appropriate at its current depreciation level. This asset group
680 consisting primarily of a MetaSwitch (softswitch placed in service in █████)
681 which will last another █████ years and is scheduled for replacement in
682 █████ at a cost of █████ as projected in the annual 481 report previously
683 filed with the FCC and similarly provided to the State of Utah (see excerpt below).
684 Mr. Ostrander's recommended adjustment to extend the depreciation of this asset
685 group past its useful 8 year life and anticipated replacement in █████ has no
686 basis. It also is not appropriate to assume depreciation on this asset disappears
687 after two years as depreciation on the new asset will begin and there should be no
688 acceleration effect on the new asset because the old MetaSwitch will be disposed
689 (█████ as shown in asset detail previously requested and supplied to the
690 Division of Public Utilities and the Office of Consumers Services in <u>DPU DR 1-11</u>
691 <u>Emery & Carbon - Assets and CY 2014 Depreciation.xlsx</u>. Similarly, Subscriber
692 Circuit Equipment consisting largely of legacy DSLAM type equipment is being
693 replaced by FTTH network interface device equipment. Taking the Gross Book
694 Value (GBV) of █████ and dividing it by the asset life of 8 years results in
695 █████ of depreciation expense per year, which evidences no acceleration from
696 the current year actual depreciation at █████. Because the legacy equipment
697 is being disposed and replaced in the next five years (more than half within the
698 next two years), no significant increase or decrease in depreciation is anticipated

699 in this asset group and the adjustment proposed by Mr. Ostrander is entirely
700 inappropriate.
701 //
702 //
703 //
704 //
705 //
706 //
707 //
708
709 [CONFIDENTIAL TABLE REDACTED]
710 Source: FCC 481
711
712 With respect to the buried cable, Emery anticipates fixed asset additions to this
713 category of ██████ over the next five years which will more than outpace the
714 depreciation expense levels currently projected by Mr. Ostrander in the five year
715 period. Though depreciation will not drop as projected by Mr. Ostrander, the
716 acceleration effect is present in the Buried Cable account and can be maintained
717 near current levels if disposals of the older assets at levels similar to additions are
718 made. Emery's current use of group asset depreciation does not result in an
719 inappropriate base level of depreciation, and (based upon anticipated additions
720 and disposals) future depreciation levels will not differ significantly from the current

721 2014 base year levels. A more appropriate and encompassing discussion of
722 depreciation methodology, potential acceleration, and both the expense and rate
723 base implications of changing the methodology is included in the Rebuttal
724 Testimony of D Meredith filed in this Docket.
725

726 **Q. Describe how Emery calculates depreciation expense.**

727 A. Emery calculates depreciation expense using a straight line calculation in
728 conformity with a group plan of accounting as prescribed by Federal
729 Communications Commission (FCC) in the Code of Federal Regulations, Title 47,
730 Chapter I, Subchapter B, Part 32. FCC part 32.2000 which states "(iii) Charges for
731 currently accruing depreciation shall be made monthly to the appropriate
732 depreciation accounts, and corresponding credits shall be made to the appropriate
733 depreciation reserve accounts. Current monthly charges shall normally be
734 computed by the application of one-twelfth of the annual depreciation rate to the
735 monthly average balance of the associated category of plant."
736

737 "Group plan" is defined as follows in FCC Part 32.9000; "Group plan, as applied to
738 depreciation accounting, means the plan under which depreciation charges are
739 accrued upon the basis of the original cost of all property included in each
740 depreciable plant account, using the average service life thereof properly
741 weighted, and upon the retirement of any depreciable property its cost is charged

742 to the depreciation reserve whether or not the particular item has attained the
743 average service life."
744
745 **Q. Does a group asset plan calculation of depreciation expense result in higher**
746 **depreciation?**
747 A. No. Using a group asset method to Calculate depreciation expense will always
748 result in the <u>same total depreciation expense</u> as calculated under any other
749 accepted method. Group asset depreciation is an accelerated depreciation
750 method. This means that group asset depreciation tends to produce a higher
751 depreciation expense in earlier years, and a lower depreciation expense in later
752 years. Conversely the rate base (NBV of associated assets subject to
753 depreciation) will be reduced more quickly resulting in a lower total disbursement
754 of UUSF based upon applying a rate of return on a lower NBV and over a shorter
755 (accelerated) asset life.
756
757 **Q. Is group asset an acceptable method of depreciation?**
758 A. Yes. Group asset depreciation is an acceptable method of depreciation that is
759 used for, and approved by the FCC. Emery Telephone is using an accepted
760 methodology in the calculation of depreciation in accordance with the guidance
761 provided by the FCC, consistent with Emery's historical practice, and consistent
762 with the method of depreciation used by many other rural ILEC's in the State of
763 Utah.

764

765 In the absence of rulemaking at the state level dictating the method of depreciation
766 to be employed by rural telecommunication providers in the State of Utah, group
767 asset depreciation should continue to allowed by the Commission. Emery's base
768 year depreciation calculated using the group asset method is not abnormally high
769 and is consistent with anticipated investment levels and should not be modified.

770

771 **Q. Mr. Hellewell from the Division of Public Utilities proposed an adjustment of**
772 **[redacted] to reduce depreciation expense. Can you speak to the**
773 **appropriateness of this proposed adjustment?**

774 A. The calculation is essentially a "worst of both worlds" approach to applying what
775 otherwise would be an acceptable depreciation methodology if consistently and
776 historically implemented.

777

778 Depreciation effects rate of return calculations in two ways: first by the depreciation
779 expense recorded in any given period; and second by the allowed rate of return
780 applied to the NBV of these associated assets. In addition to these two
781 components there are two sources of potential return – State and Federal. These
782 two jurisdictions as well as the methodology have to be closely examined when
783 any change is considered ensure proper jurisdictional return (no loss of recovery
784 or double recovery).

785

786 **Q. How did the DPU calculate its depreciation adjustment?**

787 A. The DPU's proposed depreciation adjustment was calculated by applying single
788 asset straight line depreciation to individual asset detail provided in DPU DR1-11
789 Emery & Carbon – Assets and CY 2014 Depreciation.xlsx. Emery recalculated the
790 DPU's single asset adjustment to within reasonable rounding differences of
791 ██████, and has supplied our calculation in Confidential Emery Rebuttal
792 Testimony of Woolsey–Depreciation-Exhibit 4.xlsx. This exhibit also contains
793 additional calculations which will be discussed latter.

794

795 **Q. Are there issues with the DPU's proposed adjustment?**

796 A. Yes. The DPU proposed adjustment provides single asset straight line
797 depreciation as if had occurred from the in-service date through 2014, then
798 compared the 2014 recalculated expense to the expense recorded by Emery to
799 arrive at a difference of ██████. The DPU methodology which resulted in lower
800 depreciation expense was applied to all depreciable assets (not just intrastate
801 assets). This ignores the fact that Emery in fact used a higher depreciation
802 expense amount in its interstate filings upon which rate of return will be established
803 on the interstate side. On the associated rate base side of the depreciation
804 transaction, the DPU used the NBV which reflects the accelerated group asset
805 methodology (lower) then added back only the current year depreciation difference
806 of ██████ as a proposed adjustment to NBV. Thus the "worst of both worlds"

807 occurred where the lowest possible NBV was used for rate base and the lowest
808 possible depreciation calculation (single asset straight line) was used for expense.
809

810 **Q. Couldn't you just adjust the NBV to reflect historical application of the single**
811 **asset straight line depreciation proposed by the state to arrive at the correct**
812 **amount of return on rate base associated with their proposed adjustment?**
813 A. No. Because recovery of both depreciation expense and return or rate base has
814 already been received on the interstate portion of these assets in prior years. Any
815 calculation by the state would have to consider this effect.
816

817 **Q. How would you address the DPU's concern regarding depreciation**
818 **methodology?**
819 A. The preferred course of action, which results in an overall lower total UUSF
820 distribution (as discussed in testimony provided by Douglas Meredith), would be
821 to allow companies to continue to use group asset depreciation as an acceptable
822 methodology as prescribed by the FCC. This would not preclude other companies
823 from using a different methodology it would just be one of the acceptable methods
824 of calculation.
825

826 As an alternative, if the State feels strongly about a particular methodology for
827 calculating depreciation and wishes to establish rules regarding this, the best
828 approach would be to avoid the complications and recovery concerns of retroactive

829 application and apply the new methodology going forward on new asset
830 investments. If a company chooses to not follow the State methodology at that
831 point then they would be subject to reconciling and adjusting their books for state
832 rate making purposes as necessary.
833
834 **Q. Is there another solution?**
835 A. The last solution would be an attempt to apply the DPU methodology in a way that
836 considers all aspects of the proposed change including depreciation expense, rate
837 base (NBV), and jurisdiction. Emery has performed this calculation which is
838 included in Confidential Emery Rebuttal Testimony of Woolsey – Depreciation -
839 Exhibit 4.xlsx. In this Exhibit Emery starts by recalculating individual asset
840 depreciation using the single asset straight line method through 12/31/2013. This
841 allows the NBV at the beginning of the rate base period to be presented. 2014
842 depreciation is then calculated in the same manner, and a resulting NBV for
843 12/31/2014 is calculated. These numbers are then totaled to see the current 2014
844 depreciation effect and cumulative NBV effect of the proposed depreciation
845 change. (See summary in rows 910 to 919 of the spreadsheet). The depreciation
846 change is calculated at essentially the same as the DPU calculation of
847 . In this section you can also see the effect of adding back the cumulative
848 NBV difference on rate base, which would result in a UUSF impact of
849 (using 10.50% Emery rate of return). Emery has already described the fault of
850 using this calculation as a NBV/rate base adjustment because it does not consider

851 interstate return previously received on these asset differences. The next step in
852 the calculation is contained in rows 921 to 931 in which the two methodologies are
853 applied to the asset mix with the group methodology applied to interstate assets
854 and the single asset methodology applied to the intrastate assets. This results in
855 a 2014 depreciation reduction adjustment of [REDACTED] and a corresponding rate
856 base/NBV increase adjustment of [REDACTED] with an estimated corresponding
857 UUSF impact of [REDACTED]. The net increase in the UUSF request resulting from
858 this theoretically correct analysis would be [REDACTED].
859
860 **Q. Are there any downsides to the mixed calculation performed above?**
861 A. Yes. The intrastate/interstate mix of assets can and does change over time
862 making this calculation slightly inaccurate at any given point in time. Also, any
863 change from existing methodology (unless the books could be restated) will cause
864 differences in federal and state reporting that would not be easily tracked and
865 would result in less transparency from a reporting standpoint.
866
867 Again the best course of action is the choice of an acceptable methodology that is
868 then applied consistently for both interstate and intrastate rate of return recovery.
869
870 **Q. Mr. Hellewell describes six reasons why group asset depreciation is not**
871 **recommended. What is your response?**
872 A: I will address each of the six reasons:

873 • Depreciation by computer: The ease of calculation was not a determining
874 factor in the original choice of Emery to use group asset depreciation. In
875 fact until our recent system upgrade, Emery's accounting system would not
876 handle the group calculation.
877 • Asset Tracking: This argument is not really an issue for Emery because
878 individual assets are tracked. Only our oldest assets are an issue (think
879 Qwest acquisition). Either method could be deployed with adequate
880 tracking.
881 • Disposal: With appropriate individual tracking the methodology has no
882 impact on disposals.
883 • Group Characteristics: The problem of classification exists in either method
884 of depreciation. Vehicles are not necessarily a problem as they are easily
885 identified and generally disposed at or near their depreciable life thus
886 reducing any possible group depreciation effect.
887 • Standardization: I do not disagree with Mr. Hellewell's general statement
888 here but would argue that we are among a majority of companies that use
889 group asset depreciation.
890 • Volatility: I agree that volatility risk is increased under a group methodology.
891 However this risk is mitigated through proper and timely disposals and
892 balanced continued investment.
893

894 **Q. Previously you indicated that Emery is proposing a revenue adjustment to**
895 **account for the impacts of converting non-regulated cable customers to**
896 **regulated fiber internet customer. Can you tell us what the financial**
897 **statement impacts of this conversion are?**
898 A. This type of migration has two major financial statement impacts. First, there would
899 be a shift in the various components of interstate revenue requirement, and second
900 there would be an increase in rate base from the additional plant required to make
901 the conversion. We contacted Moss Adams, LLP, the CPA firm contracted to
902 produce our annual Cost Study, to do a sensitivity analysis of what would have
903 happened to our 2014 cost study assuming that all of our December 31, 2014 cable
904 internet customers in the Emery ILEC service area had been converted to fiber
905 internet as of year-end. The following chart summarizes the results of the Moss
906 Adams Sensitivity Analysis:
907
908 [CONFIDENTIAL TABLE REDACTED]
909 Source: Emery Rebuttal Testimony of Woolsey - Cable Internet Migration - Exhibit
910 1.xlsx
911
912 This analysis shows that the combined effects of the migration of cable internet
913 customers to fiber internet would have a per customer UUSF impact of ( )
914 per month. In order to make an adjustment to this UUSF proceeding, Emery used
915 a three year anticipated conversion average (similar to land line loss) in which the

916 ██████ remaining cable internet customers in Emery are converted to fiber with
917 a resulting projected base year adjustment impact of ██████. Emery presented
918 this adjustment along with an updated calculation of the USF impact of landline
919 loss covering the same period. The summary above and adjustments below are
920 included in Emery Rebuttal Testimony of Woolsey - Cable Internet Migration -
921 Exhibit 1.xlsx
922
923 [CONFIDENTIAL TABLE REDACTED]
924 Source: Emery Rebuttal Testimony of Woolsey - Cable Internet Migration - Exhibit
925 1.xlsx
926 **Q. You also previously referred to a land line loss adjustment. Please explain.**
927 A. The land line loss projection utilizes the same methodology used in the initial filing
928 which incorporated a three projection of loss for business and residential
929 customers and the application of current service rates for basic service. The initial
930 filing for Emery utilized 2013 and 2014 actual historical loss to
931 project the loss forward to create a three year average. The Office rejected this
932 adjustment and in BCO-8, suggests that the land line loss projection should not be
933 included as a decrease in revenue.
934
935 **Q. Do you agree with the Office's adjustment for land line loss in BCO-8?**
936 A. No. It is not appropriate to completely eliminate the land line loss projection.
937 However, actual land line losses through 8/1/2015 were less than the projection in

938 the initial filing resulting in an increase in revenue in the amount of [redacted], with
939 a corresponding decrease in the UUSF request of [redacted]. Emery's proposed
940 adjustment accurately reflects the positive effects of lower than anticipated land
941 line loss, and is a more appropriate adjustment than the Office's BCO-8
942 adjustment.
943
944 **Q. Did you review the Testimony and curriculum vitae of Bion C. Ostrander?**
945 A. Yes. Mr. Ostrander in his testimony and his curriculum vitae indicates he has
946 maintained an uninterrupted permit to practice as a Certified Public Accountant
947 ("CPA") in the State of Kansas since 1990. However, Mr. Ostrander footnotes
948 this statement indicating that his permit to practice is pending renewal subject to
949 meeting professional education hour requirements in Kansas. I reviewed the
950 Kansas Board of Accountancy's website and database and determined that Mr.
951 Ostrander has not held a permit to practice as a CPA in Kansas since June 30,
952 2014.
953
954 **Q. Does this lapse in Mr. Ostrander's permit to practice concern you?**
955 A. Yes. As a CPA myself, I am familiar with the rules regarding the profession.
956 Kansas is a two-tiered state for CPA's. This means before practicing as a CPA
957 or holding oneself out as a CPA, the individual must have a certificate of public
958 accountancy and a permit to practice. Without meeting both requirements, an

959 individual is not permitted to practice as a CPA in Kansas, or hold oneself out as
960 a CPA.
961
962 **Q. Do you know if Mr. Ostrander is required to be a CPA to provide testimony**
963 **in this case?**
964 A. To my knowledge, Mr. Ostrander is not required to be a CPA to provide
965 testimony in this case, but the fact that he held himself out as a CPA "for
966 credential" purposes when he does not hold this credential is troubling to me as a
967 certified public accountant. I believe this is unprofessional conduct and speaks
968 to Mr. Ostrander's credibility as an expert witness.
969
970 **Q. To summarize, what is Emery's current UUSF request?**
971 A. $731,513. This amount reflects the effect of the five adjustments discussed herein.
972 And accurately represents the amount that Emery is entitled to under Utah law.
973
974 **Q. Does this conclude your testimony?**
975 A. Yes.