

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

IN THE MATTER OF CARBON/EMERY)
TELCOM'S AMENDED APPLICATION FOR)
INCREASE IN UTAH UNIVERSAL)
SERVICE FUND SUPPORT)
)
)
)
Applicant)

Docket No. 15-2302-01

AMENDED DIRECT TESTIMONY

OF

BROCK JOHANSEN

ON BEHALF OF CARBON/EMERY TELCOM, INC.

April 2, 2015

1 **AMENDED DIRECT TESTIMONY OF BROCK JOHANSEN**

2 **Q. Please state your name, occupation and business address.**

3 A. Brock Johansen. I am the Chief Executive Officer of Carbon/Emery Telcom, Inc.
4 ("Carbon/Emery"). Carbon/Emery's business address is 455 East Highway 29,
5 Orangeville, Utah 84537.

6
7 **Q. Please state your educational background and professional background.**

8 A. I have a Bachelor of Science degree in Business and a Juris Doctorate from Brigham
9 Young University. I practiced law in Provo, Utah prior to joining Carbon/Emery
10 Telephone in 2005.

11
12 **Q. Are you authorized to provide testimony in this case on behalf of Carbon/Emery?**

13 A. Yes.

14
15 **Q. Please describe Carbon/Emery.**

16 A. Carbon/Emery is a telephone corporation qualified to transact business and operate as a
17 local exchange carrier providing telecommunications services within the State of Utah
18 under authority issued to Carbon/Emery by the Utah Public Service Commission
19 ("Commission"). Carbon/Emery is an eligible telecommunications carrier pursuant to 47
20 U.S.C. Section 214(e) and is in compliance with Commission orders and rules.

21
22 **Q. What is the purpose of your testimony in this matter?**

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

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

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

39
40 **Q. Are you familiar with Carbon/Emery’s Amended Application for UUSF**
41 **Distributions in this Docket?**

42 A. Yes. As indicated above, Carbon/Emery’s Amended Application is based on a 2014 test
43 year plus known and measurable changes. These changes are identified in the Amended

44 Testimony of Darren Woolsey and Confidential Exhibits Carbon/Emery DW 1-14 filed
45 with the Amended Application.

46

47 **Q. Can you summarize Carbon/Emery's Amended Application?**

48 A. Yes. On March 27, 2015, Carbon/Emery filed an Application for Increase in UUSF, and
49 Darren Woolsey and I filed Direct Testimony in support thereof. Since the March 27,
50 2015 filing, Darren Woolsey determined that the original Application incorrectly included
51 tax preference items (deferred taxes) related to non-rate base assets (acquisition
52 adjustment – intangibles). The improper inclusion resulted in an incorrect rate base
53 reduction. This improper inclusion required adjustment and a subsequent amendment to
54 the original filing which is being filed herewith as the Amended Application.

55 **Q. Can you briefly summarize the changes found in the Amended Application?**

56 A. The Amended Application includes in an increase in the Rate Base, change in the Rate of
57 Return (due to mix of Intra vs Interstate assets), and an increase in required UUSF
58 including associated taxes. As set forth in detail below, based on the Amended
59 Application, Carbon/Emery is currently experiencing a revenue deficiency of \$816,909.
60 Carbon/Emery is proposing that the revenue deficiency be recovered through additional
61 UUSF support. This will enable Carbon/Emery to continue providing affordable service
62 to its customers, and to engage in construction of capital projects, while earning a
63 reasonable rate of return as permitted by Utah Code.

64

65 **Q. What are Carbon/Emery's current rates for basic residential (R1) and basic**
66 **business (B1) service?**

67 A. Carbon/Emery's current rate for basic residential service (R-1) is \$16.50 per month and
68 for basic business service (B-1) is \$26.00 per month, which is the current affordable base
69 rate as determined by the Commission.

70

71 **Q. Is Carbon/Emery seeking a rate increase in this proceeding?**

72 A. No. Carbon/Emery's rates are at the affordable base rate set by the Commission.

73

74 **Q. What test period is Carbon/Emery proposing in its Amended Application?**

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

78

79 **Q. Have you reviewed the Amended Direct Testimony of Darren Woolsey?**

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

82

83 **Q. Do the Confidential Exhibits accurately represent the financial and operational**
84 **situation at Carbon/Emery?**

85 A. Yes. The Amended Direct Testimony of Darren Woolsey and the Confidential Exhibits
86 presented with his testimony accurately reflect the financial and operational situation at

87 Carbon/Emery, and support the additional UUSF distribution sought by Carbon/Emery in
88 its Amended Application.

89

90 **Q. Has Carbon/Emery implemented any significant changes in accounting policies or**
91 **procedures for the 12 month period prior to the test period?**

92 A. No. Carbon/Emery has not implemented any significant changes in accounting policies
93 or procedures that would be referenced or noted in the financial statements or auditors'
94 notes.

95

96 **Q. Has Carbon/Emery included audited financial statements for 2014 with its Amended**
97 **Application?**

98 A. No. Emery's audited financial statements for 2014 are not yet available. We anticipate
99 having the audited financial statements shortly and will supplement the testimony of
100 Darren Woolsey with the 2014 Audited Financial Statements and management letters. We
101 have attached audited financial statements and management letters for 2013, which are
102 attached to the Testimony of Darren Woolsey at Confidential Exhibits Carbon/Emery DW
103 10, 10a, and 10b.

104

105 **Q. Has Carbon/Emery conducted any internal audits during 2014 or 2015?**

106 A. No.

107

108 **Q. Has Carbon/Emery had any corporate restructuring or changes in its affiliate**
109 **relationships since its previous general rate case?**

110 A. No. Carbon/Emery has not had any corporate restructurings or changes in existing
111 affiliate relationships since the prior general rate case in 2009. A copy of the
112 Carbon/Emery Telephone Personnel Chart/Line of Authority is attached to the Testimony
113 of Darren Woolsey at Confidential Exhibit Carbon/Emery DW 11, and a copy of the
114 Corporate Structure Chart is attached to the Testimony of Darren Woolsey at Confidential
115 Exhibit Carbon/Emery DW 12.

116

117 **Q. Can you describe Carbon/Emery's collection policies and write off policies for bad**
118 **debt.**

119 A. Carbon/Emery uses the direct write off method to account for uncollectible receivables.
120 This process is described in Confidential Exhibit Carbon/Emery BJ 1.

121

122 **Q. Has Carbon/Emery had any penalties or fines assessed to the company during the**
123 **test period and 2 years prior to the test year?**

124 A. There were two immaterial penalties in the 2014 test period, and two immaterial penalties
125 assessed in the two years prior to the test period. They are identified in Confidential
126 Exhibit Emery BJ 2.

127

128 **Q. Did you calculate any test period tax adjustments in Carbon/Emery's Amended**
129 **Application?**

130 A. Yes. The test period tax adjustments are discussed in detail in the Amended Direct
131 Testimony of Darren Woolsey and Confidential Exhibit Carbon/Emery DW 14.

132

133 **Q. Has Carbon/Emery received any ruling requests, IRS responses, and any**
134 **correspondence with the IRS since the last general rate case?**

135 A. No. Carbon/Emery has made no ruling requests or received responses from the IRS since
136 the last general rate case in 2009. Correspondence with the IRS has been limited to the
137 periodic filing of payroll and non-profit informational tax forms, with associated
138 extensions and communications as operationally necessary.

139

140 **Q. Do you believe that an increase in the annual UUSF support in the amount of**
141 **\$816,909 to Carbon/Emery is just and reasonable and in the public interest?**

142 A. Yes. The increase in the distribution from the UUSF is essential to permit Carbon/Emery
143 to continue to provide telecommunications services at just and reasonable rates and to
144 recover its reasonable costs of service and a reasonable rate of return on the value of its
145 property devoted to public use.

146

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

148 A. Yes.