

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

**IN THE MATTER OF CARBON/EMERY)
TELCOM, INC.'S AMENDED APPLICATION)
FOR AN INCREASE IN UTAH UNIVERSAL)
SERVICE FUND SUPPORT)**

Docket No. 15-2302-01

Applicant)

AMENDED DIRECT TESTIMONY

OF

DARREN WOOLSEY

ON BEHALF OF CARBON/EMERY TELCOM, INC.

April 2, 2015

1 **AMENDED 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 Carbon/Emery Telcom, Inc. 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 Carbon/Emery Telcom, Inc. since 2006
15 where I am responsible for the management of the accounting, finance, and compliance
16 functions and employees.

17
18 **Q. On whose behalf are you presenting testimony?**

19 A. I am presenting testimony on behalf of Carbon/Emery Telcom, Inc. (“Carbon/Emery” or
20 “Company”) in support of its Amended Application for Increased Support from the
21 UUSF.

22

23 **Q. What is the purpose of your testimony?**

24 A. The purpose of my testimony is to provide detailed explanations for selected financial
25 and statistical information supporting Carbon/Emery's Amended Application for an
26 Increase in UUSF Support. Specifically, I will provide testimony that will support
27 Confidential Exhibits Carbon/Emery DW 1-14 which are attached to this Amended
28 Testimony as Confidential Exhibits.

29
30 **Q. Why did Carbon/Emery file an Amended Application?**

31 A. The original filing made on March 27, 2015 incorrectly included tax preference items
32 (deferred taxes) related to non-rate base assets (acquisition adjustment – intangibles).
33 The improper inclusion resulted in an incorrect rate base reduction. This improper
34 inclusion required adjustment and a subsequent amendment to the original filing which is
35 being filed herewith.

36
37 **Q. Can you briefly summarize the changes found in the Amended Application and
38 your Amended Direct Testimony?**

39 A. The Amended Application includes an increase in the Rate Base, a minor change in the
40 Rate of Return (due to mix of Intrastate vs. Interstate assets), and an increase in required
41 UUSF including associated "gross-up" taxes. The total UUSF increase related to the
42 Amended Application is \$253,647, for a requested increase in UUSF of \$816,909.

43
44 **Q. Please identify the Exhibits to your testimony.**

- 45 A. The individual Carbon/Emery Confidential Exhibits include:
- 46 Exhibit Carbon/Emery DW 1 - UUSF Calculation Worksheet
47 Exhibit Carbon/Emery DW 2 - Rate Base Calculation
48 Exhibit Carbon/Emery DW 3 - Cost of Capital / Rate of Return Calculations
49 Exhibit Carbon/Emery DW 4 - Trial Balances - 2013 and 2014 (6 pages)
50 Exhibit Carbon/Emery DW 5 - Cash Working Capital Calculation
51 Exhibit Carbon/Emery DW 6 - Summary of Apportionment Ratios by Account -
52 2013
53 Exhibit Carbon/Emery DW 7 - Known and Measurable Adjustment Summary
54 Exhibit Carbon/Emery DW 7a- Landline Loss
55 Exhibit Carbon/Emery DW 7b- Local Service Rate Imputation to Base Affordable
56 Rate
57 Exhibit Carbon/Emery DW 7d- Shared Asset Allocation
58 Exhibit Carbon/Emery DW 8- 2013 Carbon/Emery Telcom Cost Study-Part 36 (28
59 pages)
60 Exhibit Carbon/Emery DW 8a- 2013 Cost Study - Combined Regulated Entities (57
61 pages)
62 Exhibit Carbon/Emery DW 9 - Cost Allocation Manual – Accounting and General
63 Exhibit Carbon/Emery DW 9a- Cost Allocation Manual - CABS Allocator
64 Exhibit Carbon/Emery DW 9b- Cost Allocation Manual - Business Solutions
65 Exhibit Carbon/Emery DW 9c- Cost Allocation Manual - Outside Plant and
66 Dispatch
67 Exhibit Carbon/Emery DW 9d- Cost Allocation Manual - Inside Plant
68 Exhibit Carbon/Emery DW 9e- Cost Allocation Manual - Engineering
69 Exhibit Carbon/Emery DW 9f- Cost Allocation Manual - Billing and Collection
70 Exhibit Carbon/Emery DW 9g- Cost Allocation Manual - HR Allocation 2014
71 Exhibit Carbon/Emery DW 9h- Cost Allocation Manual - Regulated Allocator
72 Exhibit Carbon/Emery DW 9i- Cost Allocation Manual - CSR Allocator
73 Exhibit Carbon/Emery DW10- 2013 Audited Financial Statements (34 pages)
74 Exhibit Carbon/Emery DW10a- 2013 Audit Journal Entries
75 Exhibit Carbon/Emery DW10b- Year 2013 Audit Exit Memo (7 pages)
76 Exhibit Carbon/Emery DW 11- Personnel Chart / Line of Authority
77 Exhibit Carbon/Emery DW 12- Corporate Structure
78 Exhibit Carbon/Emery DW 13- Bad Debt Expense and Subsequent Collections
79 Exhibit Carbon/Emery DW 14- Income Tax Gross up Calculation

- 80
- 81 **Q. Were the Exhibits referred to above and the supporting workpapers prepared by**
82 **you or prepared under your supervision?**

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

85

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

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

91

92 **Q. What is the proposed test period specified in the Amended Application and how was
93 it derived?**

94 A. Carbon/Emery proposes to use calendar year 2014 as the test period for the purpose of
95 determining the appropriate amount of UUSF support. Accordingly, the Application and
96 Confidential Exhibits are based upon financial information for the 12 months ending
97 December 31, 2014. This test period selection is consistent with the Commission's
98 historic treatment of rural local exchange carriers in Utah.

99

100 This historical "test period" was then adjusted for "known and measurable" changes in
101 operations, which more accurately reflect Carbon/Emery's ongoing cost of providing
102 telecommunications services. These pro forma adjustments are contained in Confidential
103 Exhibits Carbon/Emery DW 7, 7a, and 7b.

104

105 **Q. Have you calculated Carbon/Emery's Revenue Deficiency?**

106 A. Yes. Confidential Exhibit Carbon/Emery DW 1 reflects a revenue deficiency of
107 \$816,909.

108

109 **Q. How was Carbon/Emery's revenue deficiency determined?**

110 Carbon/Emery is a rate-of-return regulated local exchange carrier in both federal and
111 state jurisdictions. Accordingly, Carbon/Emery maintains its accounting records in
112 accordance with the Federal Communications Commission's (FCC) Part 32 Uniform
113 System of Accounts ("USOA"), as required by Commission Rules.¹ As a result, the
114 Company's Amended Application complies with FCC rules guiding the measurement,
115 gathering, and allocation of the costs necessary to provide regulated telecommunications
116 services, including the FCC rules contained in Part 32 and Part 64 (Subpart I, Allocation
117 of Costs).

118

119 To determine Carbon/Emery's revenue deficiency, first the Company's rate base was
120 multiplied by a reasonable rate-of- return to determine the allowable return, which is
121 reflected in Cell F32 of Confidential Exhibit Carbon/Emery DW 1. Next, because the
122 Company's allowable return is an after- tax amount, it must be "grossed-up" to a level
123 that will sustain the required return after Carbon/Emery recognizes the associated federal
124 and state income taxes. The calculation of the Net to Gross Multiplier is identified in
125 Confidential Exhibit Carbon/Emery DW14. The net operating income is then deducted

¹ PSC R746-340-2

126 from the grossed up allowable return, which results in a revenue deficiency of \$816,909
127 is identified in Cell E2 of Confidential Exhibit Carbon/Emery DW 1.

128

129 **Q. Is Carbon/Emery charging its customers the Commission approved affordable base**
130 **rate?**

131 A. Yes. Carbon/Emery's rates are \$16.50 for basic residential (R1) service and \$26.00 for
132 basic business (B1) service per line per month.

133

134 **Q. Is Carbon/Emery proposing to recover the revenue deficiency of \$479,983 from the**
135 **UUSF?**

136 A. Yes. Carbon/Emery proposes that it recover an additional \$816,909 annually through
137 UUSF disbursements, in addition to the \$1,038,714 that Carbon/Emery is currently
138 receiving from the UUSF. This will enable Carbon/Emery to continue providing service
139 to its customers at an affordable rate, and to initiate capital projects that may have been
140 delayed by the Company's current insufficient earnings.

141

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

143 A. Yes. Confidential Exhibit Carbon/Emery DW 2, attached hereto, provides a calculation
144 of the Company's total rate base. The Confidential Exhibit Carbon/Emery DW 2 begins
145 with historical Plant Balances for the beginning of 2014 and Plant Balances at the end of
146 2014, and calculates the 2014 Plant Balance Average. Known and measurable changes to

147 Rate Base are added to the Average Plant Balance to determine the Carbon/Emery's
148 Adjusted Rate Base.

149

150 **Q. When describing Confidential Exhibit Carbon/Emery DW 2 above, you indicate**
151 **that it contains adjustments for known and measurable changes to regulated rate**
152 **base. Please describe those adjustments.**

153 A. There is one adjustment to Rate Base contained in Exhibit Carbon/Emery DW 2: an
154 addition for Plant in Service. The increase to Plant in Service reflects an allocation of
155 shared vehicles, work equipment and computer to Carbon/Emery from Emery
156 Telecommunications & Video Inc. The shared assets benefit Carbon/Emery through
157 better utilization and cost sharing thus reducing the operating expense and capital needed
158 to sustain the regulated operations.

159

160 **Q. What cost of capital has Carbon/Emery used in this Amended Application?**

161 A. Carbon/Emery is using a composite rate of 10.50%.

162

163 **Q. Please explain how you arrived at Carbon/Emery's Cost of Capital.**

164 A. In accordance with UUSF policy, Carbon/Emery has calculated a blended cost of capital,
165 which represents the weighted average of an interstate rate of return of 11.45% and a
166 state rate of return of 9.86%. Carbon/Emery's intrastate cost of capital was derived using
167 the DPU's suggested imputed capital structure of 65% equity and 35% debt. For the
168 individual components of its capital structure, Carbon/Emery has used a cost of debt of

169 5.636% and a cost of equity of 12.13%, which results in a composite intrastate rate-of-
170 return of 9.86%².

171
172 The consolidated Company does not carry any long term debt; therefore the Company's
173 cost of debt was derived from debt that existed with CoBank during the 2013 base year.
174 The debt with CoBank carried a stated rate of 5.636% and was paid off in January 2014.

175
176 The interstate return of 11.45% is derived from NECA's Form 492 filing with the FCC
177 on September 30, 2014 for calendar year 2013 pool participants.

178

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

180 A. The Commission's Total Company Rule requires a "blending" of the authorized cost of
181 capital costs in the state and interstate jurisdictions. This weighting of the jurisdictional
182 capital costs was based upon the jurisdictional separation of Carbon/Emery's rate base in
183 accordance with the FCC's Part 36 rules. Carbon/Emery's Part 36 Jurisdictional
184 Separations are contained in Confidential Exhibit Carbon/Emery DW 8, attached hereto.
185 The Company's jurisdictional percentages (intrastate and interstate) are contained in
186 Confidential Exhibit Carbon/Emery DW 3, and are applied to the intrastate and interstate
187 costs of capital to determine the Weighted Cost of 10.50% as contained in Confidential
188 Exhibit Carbon/Emery DW 3.

189

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

190 **Q. Can you describe Confidential Exhibit Carbon/Emery DW 4?**

191 A. Yes. Confidential Exhibit Carbon/Emery DW 4 contains the Trial Balances for 2013 and
192 2014, provided to assist the Division with its review of Carbon/Emery's revenue
193 deficiency.

194

195 **Q. Can you describe Confidential Exhibit Carbon/Emery DW 5?**

196 A. Confidential Exhibit Carbon/Emery DW 5 contains the Cash Working Capital
197 Calculation that supports the Cash Working Capital figure that is contained in the Rate
198 Base Calculation in Confidential Exhibit Carbon/Emery DW 2.

199

200 **Q. Please describe Confidential Exhibit Carbon/Emery DW 6?**

201 A. Confidential Exhibit Carbon/Emery DW 6 contains the Summary of Apportionment
202 Ratios by Account for 2013, which supports the jurisdictional separations contained in
203 Confidential Exhibit Carbon/Emery DW 8, and used in the calculation of the Rate of
204 Return and Cost of Capital in Confidential Exhibit Carbon/Emery DW 3. The 2013
205 apportionment ratios are summarized from the most recently available cost study
206 performed by Moss Adams for Carbon/Emery. This most recent cost study is included in
207 Confidential Exhibits Carbon/Emery DW 8 and 8a.

208

209 **Q. Please describe Confidential Exhibit Carbon/Emery DW 7.**

210 A. Confidential Exhibit Carbon/Emery DW 7 summarizes the known and measurable
211 changes that Carbon/Emery has included in its Amended Application which are included
212 in Confidential Exhibits Carbon/Emery DW 7, 7a, and 7b.

213

214 Confidential Exhibit Carbon/Emery DW 7a identifies a known and measurable change
215 for landline loss and projected revenue decrease.

216

217 Confidential Exhibit Carbon/Emery DW 7b details the shared asset allocation identified
218 as a known and measurable change to Rate Base in Confidential Exhibit Carbon/Emery
219 DW 2.

220

221 **Q. Please describe Confidential Exhibit Carbon/Emery DW 8.**

222 A. As previously indicated above, this Exhibit contains Carbon/Emery's Part 36
223 Jurisdictional Separations from the 2013 Cost Study performed by Moss Adams for
224 Carbon/Emery. Confidential Exhibit Carbon/Emery DW 8 represents the Carbon/Emery
225 portion of the separations; Confidential Exhibit Carbon/Emery DW 8a represents the
226 combined cost study area separations (Emery Telephone, Carbon/Emery Telcom, and
227 Hanksville Telecom).

228

229 **Q. Please describe Confidential Exhibit Carbon/Emery DW 8a.**

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

233

234 **Q. Can you describe Confidential Exhibits Carbon/Emery DW 9a through 9i?**

235 A. Yes. Briefly, these Exhibits are separate portions of Carbon/Emery Cost Allocation
236 Manual which identify the various methods by which Carbon/Emery allocates various
237 costs amongst its separate companies:

238 Exhibit Carbon/Emery DW 9	Cost Allocation Manual - Accounting and General
239 Exhibit Carbon/Emery DW 9a	Cost Allocation Manual - CABS Allocator
240 Exhibit Carbon/Emery DW 9b	Cost Allocation Manual - Business Solutions
241 Exhibit Carbon/Emery DW 9c	Cost Allocation Manual - Outside Plant and 242 Dispatch
243 Exhibit Carbon/Emery DW 9d	Cost Allocation Manual - Inside Plant
244 Exhibit Carbon/Emery DW 9e	Cost Allocation Manual - Engineering
245 Exhibit Carbon/Emery DW 9f	Cost Allocation Manual - Billing and Collection
246 Exhibit Carbon/Emery DW 9g	Cost Allocation Manual - HR Allocation 2013
247 Exhibit Carbon/Emery DW 9h	Cost Allocation Manual - Regulated Allocator
248 Exhibit Carbon/Emery DW 9i	Cost Allocation Manual - CSR Allocator
249	

250 **Q. Have you provided Audited Financial Statements for 2014 with your Amended**
251 **Application?**

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

255

256 **Q. Have you provided Audited Financial Statements with your Amended Application?**

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

260

261 **Q. Can you describe Confidential Exhibits Carbon/Emery DW 11 and 12?**

262 A. Exhibit 11 contains a personnel chart and line of authority for Carbon/Emery, and Exhibit
263 12 illustrates Carbon/Emery's corporate structure.

264

265 **Q. Can you describe Confidential Exhibit Carbon/Emery DW13?**

266 A. Yes. Confidential Exhibit Carbon/Emery DW 13 describes Carbon/Emery's bad debt
267 expense net of collections during the 2014 base year. This data is presented in
268 conjunction with end-user sales revenue and as a percentage of this associated revenue.
269 Similar data for related parties is also presented for comparison.

270

271 **Q. Can you describe Confidential Exhibit Carbon/Emery DW 14?**

272 A. Yes. Confidential Exhibit Carbon/Emery DW 14 calculates the Utah "net to gross
273 multiplier" using both state and federal statutory tax rates. The long-established
274 regulatory principle of "grossing up" required return simply calculates the additional
275 income tax expense that Carbon/Emery – or any other rural LEC in the state - will incur
276 as a result of the increased revenue from the UUSF. By grossing up the required return,
277 Carbon/Emery sustains the required return after calculation of actual taxes.

278

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

281 A. Yes.

282

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

284 A. Yes it does.