Q.Please state your name and address for the record.

A.My name is Terri Carlock.  My business address is 472 West Washington Street, Boise, Idaho.

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

A.I am employed by the Idaho Public Utilities Commission as the Accounting Section Supervisor.

Q.Please outline your educational background and experience.

A.I graduated from Boise State University in May 1980, with a B.B.A. Degree in Accounting and in Finance.  I have attended the annual regulatory studies program sponsored by the National Association of Regulatory Utilities Commissioners (NARUC) at Michigan State University.  I chaired the NARUC Staff Subcommittee on Economics and Finance and the Ad Hoc Committee on Diversification.  I have also attended various finance conferences, including the Public Utilities Finance/Advance Regulation Course at the University of Texas at Dallas, the National Society of Rate of Return Analysts' Financial Forums, the Regulatory Economics and Cost of Capital Conference in Utah, and a Standard & Poor's Corporation Telecommunications Ratings Seminar.  Since joining the Commission Staff in May 1980, I have participated in several audits, performed financial analysis on various companies and have previously presented testimony before this Commission.

Q.What is the purpose of your testimony in these proceedings?

A.The purpose of my testimony is to discuss the adjusted 1997 Annual Report numbers as the starting basis to review the impact of Extended Area Service (EAS).  Basic adjustments have been made to the annual report figures for Albion Telephone Company (Albion) and Westel, Inc. (Westel) to arrive at the starting point to determine the additional revenue requirement associated with EAS.

Many of the adjustments have been discussed with Company witness Hendershot.  Some of the numbers also reflect his preliminary position in these cases.

Q.Are you sponsoring any exhibits in these cases?

A.Yes, I am jointly sponsoring Exhibit No. 101 consisting of 4 pages and Exhibit No. 102 consisting of 2 pages with Staff witness Carolee Hall.

Q.Please explain Staff’s adjustment for uncollectables.

A.Staff adjusted uncollectables to reflect a more realistic amount going forward.  Staff believes collection practices for Westel and Albion will be similar; therefore, after the first year of operation for Westel, the percentage of uncollectables should be closer to that experienced for Albion.  Staff used the adjusted uncollectable number provided by Mr. Hendershot for Westel on Exhibit No. 101, page 1, line 14.

Q.Did you make any adjustments to rate base?

A.Yes.  Westel’s 1997 Annual Report shows that Account 2211, Analog Switch was retired and/or removed during 1997.  This account now has a zero value and is no longer used and useful to the Idaho customers.  Therefore, in order to properly reflect the rate base on a going-forward basis, Staff has removed the beginning balance from the average rate base calculation (Exhibit No. 101, page 3).

Staff also replaced the beginning balance in Account 2212, Digital Electronic Switch with the cost of the new digital switch placed in service in 1997.  This adjustment reflects Albion’s records on a going-forward basis.  These two adjustments reduce plant in service by $15,531.

Staff has also removed non-regulated Mobile equipment from Account 2311, Station Apparatus of $5,137, and Account 2351, Public Telephone Termination Equipment of $39,110.

Q.Did this adjustment change any other rate base accounts?

A.Yes, it is also necessary to adjust the accumulated depreciation balance to coincide with the adjustments made to plant.  Therefore, Staff has removed the beginning balance in these two accounts and shown the total amount of accumulated depreciation for the year on the new digital switch.  This adjustment reduces accumulated depreciation, and therefore, increases rate base by $485,648.  Staff also removed $32,996 from the accumulated depreciation for the public telephone equipment by not including this in the beginning or ending balance.

Q.If you adjust accumulated depreciation do you also need to adjust the depreciation expense?

A.Yes.  Because the beginning balance in Accounts 2211 and 2212 were eliminated, the depreciation expense for the amount that was eliminated is not an on-going cost of doing business and must be eliminated to show the correct expenses going forward.  This adjustment reduced depreciation expense by $315,801.  The removal of depreciation expense for public telephones reduced the expenses by $8,995.

Q.Did Staff find any other problems with the booked depreciation?

A.Yes.  An acquisition premium, or goodwill, was booked for the difference between the price paid for the U S WEST exchange assets and the book value of assets purchased.  The amortization of the acquisition premium was included with the regulated depreciation and amortization.  The acquisition adjustment is booked below the line and is not a regulated cost; therefore, its amortization should not be included in regulated utility expense.  The removal of the acquisition premium amortization reduces depreciation expense by $257,706.  Preliminary adjustments by Company witness Mr. Hendershot utilize a larger amount to be removed.

Q.Did you make any other adjustments to accumulated depreciation?

A.Yes.  Instead of using a composite separation rate in accumulated depreciation Staff used the same rates by account that were used to separate plant in service.  This allows Staff to more accurately reflect the changes made to rate base without adjusting Mr. Hendershot’s separation factors.  Using the same separation factors for both plant in service and accumulated depreciation increases intrastate accumulated depreciation by $346,988.

Q.How did you account for the $1,004,760

U S WEST new switch contribution (Order 26363,

Case No. ALB-T-94-1/USW-S-94-4)?

A.In Order No. 26353, page 16, SPECIAL CONTRIBUTION BY U S WEST, it states:

The settlement agreement addresses Staff

issues regarding allocation of the gain

resulting from the sales.  In the agree-

ment, U S WEST agreed to provide a special

contribution of $5 million by returning

$650,000 to U S WEST’s Revenue Sharing Plan

to replace Tech II funds invested in the sale

exchanges and by contributing $4.35 million

to the Idaho USF in the two years following

the final closing of the sales.

Staff notes that both of these funds are to support Idaho intrastate operations.  Order No. 26353, page 16 continues:

In rebuttal testimony addressing the

settlement agreement, the Purchasers

presented an alternative to the con-

tribution of $4.35 million to the

Idaho USF.  Instead of providing a

contribution to the state support fund,

the Purchasers recommended that U S WEST

contribute the same amount to the

purchasing companies for switch replace-

ment costs.

In Staff’s view this concession recognized that the companies would probably need Idaho Universal Service Funds (USF) to support the operations if the companies, i.e. shareholders, had to purchase switches.  The use of funds that were earmarked as intrastate Idaho USF funds for the purchase of switches should be considered an intrastate contribution.  It is to support the intrastate side of the switch.

Staff has shown the U S WEST contribution as a reduction of $1,004,760 to the intrastate switch cost.  This adjustment places Account 2210, Central Office Switch into a negative position on the intrastate side.  Staff has removed the accumulated depreciation and depreciation expense because the switch was considered to be fully depreciated in the year the contribution was received for ratemaking purposes.  Westel shows depreciation of the new switch as $144,150 for 1997.  Staff used the full $144,150 to adjust both the accumulated depreciation and depreciation expense.  Using the intrastate separation factors Westel used for each account results in $33,284 being removed from intrastate accumulated depreciation and $82,866 being removed from intrastate depreciation expense.

Q.Please explain Staff’s working capital calculation on Exhibit No. 101, page 3, line 19.

A.For purposes of the EAS evaluation, Staff used the same 45-day formula as preliminarily used by

Mr. Hendershot except that instead of using a 360-day year as Mr. Hendershot, Staff used a 365-day year.  This causes a small difference.  Staff used the annual reports of Albion and Westel as a starting point and calculated working capital based on the expenses in Exhibit No. 101 creating additional differences.

Q.What overall rate of return has Staff used to calculate the revenue requirement in these EAS cases?

A.The overall rate of return for Albion is shown on Exhibit No. 102, page 1.  The capital structure and embedded debt cost utilized is the same as preliminarily used by Company witness Hendershot.  A return on equity of 11.75% is used.  This return is based on the 11.2% return on equity authorized U S WEST in Case No. USW-S-96-5, current conditions and Albion operations.  Albion is less risky than many other rural telephone companies as recognized in Albion’s last rate case.  The 11.75% is greater that the return on equity of 11% utilized by Staff in the Stipulation in Case No.

ALB-T-92-2 reflecting the higher current risk of rural telephone companies.

The overall rate of return for Westel is shown on Exhibit No. 102, page 2.  Again, the capital structure and embedded debt cost utilized is the same as preliminarily used by Company witness Hendershot.  A return on equity of 12.00% was used to recognize the higher start-up risk of Westel versus Albion.

Q.Please explain the income to revenue multiplier calculated and used by Staff in Exhibit

No. 101, page 2.

A.Staff’s income to revenue multiplier (Exhibit No. 101, page 2, line 13) is based on the equity income after taxes as determined by taking the weighted cost of equity times the rate base.  Staff then determined what the taxes (state and federal) would be on that income level and adjusted the taxes to account for the change in taxes due to the additional revenue levels for the multiplier factor.  This produces an income to revenue multiplier that will allow Albion to receive the revenue required to produce the equity income after tax.  Debt is not reflected as part of the income to revenue multiplier because interest expense is a tax deduction.

Q.Has Staff verified the separations factors used for these cases?

A.No, the separation factors and other numbers were still changing for the testimony and exhibits of Company witness Hendershot up through the day before prefile.  Simultaneous prefiles by Albion and Staff in this case, since it is a non-stipulated case, have created the inability to verify many numbers.

The separations factors will be reviewed further and discussed in the upcoming Staff audit reports on Albion and Westel.

Q.How are these cases affected by Staff’s audits for Albion and Westel?

A.The audit results do not affect the decision to grant EAS in these cases.  The earnings levels reported for Albion and Westel in the audits will indicate how the Idaho USF will need to be adjusted for Albion.  Until Staff’s audit reports have been reviewed by the Company with the resulting recommendations presented to the Commission, the Idaho USF payment level should be frozen.  If significant overearnings are shown, the USF payments can be reduced in a future proceeding.

If the Commission determines EAS should be approved for both Albion and Westel and the appropriate rates for all exchanges should be $24.10 for residential customers and $42.00 for business customers, the Idaho USF payments should be adjusted now and then reviewed again in a future proceeding.  The Idaho USF payments to Albion should be reduced by $170,000 currently if the respective $24.10 and $42.00 rates for residential and business customers are approved.

Q.The cost to prepare and present a case is usually included in the case over a reasonable amortization period.  What adjustment has been made to reflect the amortization of expenses in this case?

A.Company witness Hendershot represented to Staff that the expenses associated with this EAS case and responding to the Staff audit questions are estimated to be $60,000.  Due to the time involved and the requests in this proceeding, Staff has accepted the $60,000 figure as a reasonable total cost.  Staff believes the appropriate amortization period for these expenses is three years or $20,000 per year.  The three-year amortization period is reasonable since Staff audits are usually performed every three years, although some audits are more detailed than others.

The 1997 books reflect additional EAS consulting and legal costs that would not normally be incurred of $19,615.  Since there are additional operating costs incurred by the Company booked in 1997 for these EAS cases that would not occur each year, the total additional costs booked in 1997 are over $20,000.  Therefore, no additional adjustment is required to accurately reflect these costs in rates.

Q.Does this conclude your direct testimony in this proceeding?

A.Yes, it does.