

**BEFORE THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS**

**In the Matter of Staff's Motion Requesting)
the Commission Order LaHarpe Telephone)
Company, Inc. to Submit to an Audit for)
Purposes of Determining Its Cost-Based)
Kansas Universal Service Fund Support,)
Pursuant to K.S.A. 66-2008.)**

Docket No. 12-LHPT-875-AUD

Received
on

DEC 19 2012

by
State Corporation Commission
of Kansas

**DIRECT TESTIMONY
PREPARED BY
KATIE L. FIGGS
UTILITIES DIVISION
KANSAS CORPORATION COMMISSION
DECEMBER 19, 2012**

1 **Q. Would you please state your name and business address?**

2 A. My name is Katie L. Figgs. My business address is 1500 Southwest Arrowhead Road,
3 Topeka, Kansas, 66604.

4
5 **Q. By whom are you employed and in what capacity?**

6 A. I am employed by the Kansas Corporation Commission (KCC or Commission) as an
7 Auditor.

8
9 **Q. Would you please describe your educational background and business experience?**

10 A. I received a Bachelor's of Business Administration with an emphasis in Accounting from
11 Washburn University in May of 2011. I began employment with the Commission in my
12 current capacity in August 2012.

13

14 **Q. What were your responsibilities in the review of LaHarpe Telephone Company,**
15 **Inc.'s (Applicant or LaHarpe) August 15, 2012 Application?**

16 A. My responsibilities as an Auditor were to analyze, audit, and review LaHarpe's filing
17 before the Commission to determine its cost-based Kansas Universal Service Fund
18 (KUSF) support to reflect its current revenue requirement and circumstances. I reviewed
19 LaHarpe's filing and participated in an on-site review at LaHarpe's headquarters in
20 LaHarpe, Kansas to inspect records, tour facilities, and to talk with LaHarpe's
21 management and consultants. My duties were carried out under the direction of the
22 Managing Auditor, Laura Bowman, and the Chief of Accounting and Financial Analysis,
23 Justin Grady.

SUMMARY

Q. What is the purpose of your testimony in this rate case?

A. The purpose of my testimony is to explain and support three adjustments to the Income Statement (IS). Specifically, I am sponsoring the following Staff adjustments to the income statement:

Adjustment No. 2	Staff's Adjustment to Advertising	(\$1,066)
Adjustment No. 3	Staff's Adjustment to Dues and Donations	(\$779)
Adjustment No. 4	Staff's Adjustment to Property Tax Expense	\$8,142

Q. Are you sponsoring any exhibits?

A. A list of the exhibits I sponsor follows my testimony.

INCOME STATEMENT ADJUSTMENTS

Q. Please begin by discussing Staff Adjustment No. 2 to the Income Statement.

A. Staff Adjustment No. 2 (IS-2) decreases LaHarpe's operating expenses by \$1,066¹ on a total company basis, or \$578 on an intrastate basis. Staff removes expenses related to corporate image advertising, corporate goodwill, and other miscellaneous costs. Staff's sampling of invoices/documents and review of LaHarpe's general ledger indicated several accounts included image advertising costs. Staff's adjustment removes these costs. Exhibit KLF-1a lists these costs, by account that are excluded from KUSF support, and the totals of the account balances are brought forward to Exhibit KLF-1. As required

¹ See Exhibit KLF-1.

1 by prior Commission order,² these expenses are not to be recovered through the KUSF
2 support mechanism.

3
4 **Q. Please continue by discussing Staff Adjustment No. 3 to the Income Statement.**

5 A. Staff Adjustment No. 3 (IS-3) decreases LaHarpe's operating expenses by \$779³ on a
6 total company basis, or \$389 on an intrastate basis. Staff removes 50% of dues, donations
7 and contributions made by LaHarpe to various vendors. K.S.A. 66-1,193(a) states that the
8 Commission may disallow 50% of donations, utility dues, journal subscriptions, and
9 contributions in addition to disallowing specific dues, donations, and contributions which
10 are found unreasonable or inappropriate.

11
12 **Q. Please continue by discussing Staff Adjustment No. 4.**

13 A. Staff Adjustment No. 4 (IS-4) increases LaHarpe's test year other operating taxes by
14 \$8,142 on a total company basis, or \$5,671 on an intrastate basis.⁴ Staff's adjustment to
15 property taxes is comprised of two components. The starting point for Staff's adjustment
16 is the 2012 property tax invoices in the amount of \$144,684.

17 The second component details Staff's calculation to determine the property tax expense
18 allocable to the non-regulated portion of the Company's general support assets and plant
19 assets. Staff's starting point for the determination of the property tax allocable to non-
20 regulated assets is the Total Plant in Service as of December 31, 2011. Staff used its

² See June 25, 2001, Commission Order in Docket No. 01-RRLT-083-AUD, ¶ 32.

³ See Exhibit KLF-2.

⁴ See Exhibit KLF-3, 3a and 3b.

1 calculated percentage, as discussed in the testimony of Staff Witness Ann Diggs, for the
2 general support assets to determine the appropriate percentage of regulated general
3 support assets. In addition, Staff calculated the percentage of regulated assets applicable
4 to digital switching, circuit equipment, and buried cable. Exhibit KLF-3(b) calculates an
5 overall regulated percentage of 99.47% resulting in total regulated property taxes
6 recoverable through the KUSF subsidy of \$143,919.

7 Staff's adjusted 2012 property taxes are then compared to LaHarpe's normalized property
8 taxes of \$135,777, with the difference being Staff's adjustment.

9
10 **Q. Does Staff's adjustment reflect the available telecom credit?**

11 A. No. As discussed in Staff Witness Laura Bowman's Direct Testimony, Staff is proposing
12 to disallow recovery of state income taxes per House Bill 2117. As a result, it would not
13 be appropriate to reduce property taxes for a credit that the Company will not be allowed
14 to claim on its state income tax return. If the Commission chooses to allow LaHarpe to
15 recover state income taxes, then Staff's property tax expense adjustment will need to be
16 offset by the available telecom credit balance of \$29,651.

17
18 **Q. Does this conclude your testimony?**

19 A. Yes, thank you.
20

21 **SUMMARY OF EXHIBITS**

<u>Exhibit No.</u>	<u>Description</u>
KLF-1	Work paper for advertising expense adjustment

Direct Testimony of Katie L. Figgs
Docket 12-LHPT-875-AUD

1	KLF-1a	Detail for advertising expense adjustment
2	KLF-2	Work paper for dues and donations expense adjustment
3	KLF-2a	Detail for dues and donations expense adjustment
4	KLF-3	Work paper for property tax expense adjustment
5	KLF-3a	Detail listing of 2012 taxes
6	KLF-3b	Allocation of regulated property taxes
7		

LeHarpe Telephone Company
Advertising
Income Statement Adjustment No. 2
For the Test Year Ending December 31, 2011

Docket No. 12-LHPT-875-AUD
Exhibit KLF-1

Line No.	Description	Total Company	Intrastate Separations	Intrastate Adjustment
1	Staff Adjustment to Marketing (Acct. 6610)	\$ (272)	0.681165	\$ (185)
2	Staff Adjustment to General & Administration Expense (Acct. 6720)	\$ (794)	0.494880	\$ (393)
3	Staff Adjustment to Advertising	\$ (1,066)		\$ (578)
 <u>Breakdown of Adjustment:</u>				
4	Marketing Expense (Acct. 6610)			
5	Staff Adjustment to Advertising Expense (Acct. 6613)	272		
6	Total Staff Adjustment to Marketing Expense (Acct. 6610)		\$ 272	
7	General and Administrative Expense (Acct. 6720)			
8	Staff Adjustment to External Relations Expense (Acct. 6722)	794		
9	Total Staff Adjustment to General and Administrative Expense (Acct. 6720)		\$ 794	

Source: LaHarpe Telephone Company, Inc.'s response to Staff Data Request No.3- General Ledger

Source: Invoices provided on-site

LeHarpe Telephone Company
Advertising
Income Statement Adjustment No. 2
For the Test Year Ending December 31, 2011

Docket No. 12-LHPT-875-AUD
Exhibit KLF-1a

Line No	Date	Vendor	Description	Reason	Dollar
<u>ADVERTISING EXPENSE - Account 6613</u>					
1	6/21/11	Thrive Allen County	LaHarpe Day's Activities	Image Advertising	100
2	7/13/11	Charity Cartright	Cody Cartright Bull Riding	Sponsorship	50
3	10/16/11	Iola High School	2012 Yearbook Ad	Image Advertising	75
4	6/6/11	Iola Register	Grad Page 3 Cheers!	Advertising Expense	30
5	12/31/11	Iola Register	Year in Review	Advertising Expense	17
6			Staff Adjustment to Advertising Expense (Acct. 6613)		<u>272</u>
<u>EXTERNAL RELATIONS EXPENSE - Account 6722</u>					
7	2/18/11	Allen County Historical Society	"LaHarpe and Moran" Exhibit	Co-Sponsorship	125
8	11/4/11	Dale Erb	Reimbursement for Curb Appeal	Image Adversing	237
9	12/31/11	Credit Card	Christmas Items for Customers	Promotional	432
10			Staff Adjustment to External Relations Expense (Acct. 6722)		<u>794</u>
11			Staff Adjustment to Advertising - Prior to Separations		<u>1,066</u>

Source: Invoices provided on site

LeHarpe Telephone Company
Dues, Donations, Lobbying
Income Statement Adjustment No. 3
For the Test Year Ending December 31, 2011

Docket No. 12-LHPT-875-AUD
Exhibit KLF-2

Line No.	Description	Total Company	Intrastate Separations	Intrastate Adjustment
1	Staff Adjustment to General & Administration Expense (Acct. 6720)	\$ (279)	0.494880	\$ (138)
2	Staff Adjustment to Special Charges (Acct. 7370)	\$ (500)	0.502000	\$ (251)
3	Staff Adjustment to Dues, Donations, & Lobbying	\$ (779)		\$ (389)

Breakdown of Adjustment:

4	General & Administration Expense (Acct. 6720)			
5	Staff Adjustment to Human Resources Expense (Acct 6723)	29		
6	Staff Adjustment to General & Administration (Acct 6728.1)	250		
7	Total Staff Adjustment to General & Administration Expense (Acct. 6720)		279	
8	Special Charges (Acct. 7370)			
9	Staff Adjustment to Special Charges (Acct. 7370)	500		
10	Total Staff Adjustment to Special Charges (Acct. 7370)		500	

Source: Invoices provided on site

LeHarpe Telephone Company
Dues, Donations, Lobbying Detail
Income Statement Adjustment No. 3
For the Test Year Ending December 31, 2011

Docket No. 12-LHPT-875-AUD
Exhibit KLF-2a

Line No	Date	Vendor	Description	Amount	Excluded Amount	Total Adjustment
<u>Human Resources Expense - Account 6723</u>						
1	12/31/11	Sam's Cub Card	Membership Card/Due	29	100%	29
2			Staff Adjustment to Human Resources Expense (Acct 6723)			29
<u>General & Administration - Account 6728.1</u>						
3	03/01/11	SITA	Due	500	50.0%	250
4			Staff Adjustment to General & Administration (Acct 6728.1)			250
<u>Special Charges - Account 7370</u>						
5	08/19/11	Kansas Sampler Foundation	Donation	1,000	50.0%	500
6			Staff Adjustment to Special Charges (Acct. 7370)			500
7			Staff's Adjustment to Dues & Donation - Prior to Separations			779

Source: LaHarpe Telephone Company, Inc.'s response to Staff Data Request No.3- General Ledger
Source: Invoices provided on site

LaHarpe Telephone Company, Inc.
Property Tax Expense
Income Statement Adjustment No. 4
For the Period Ending December 31, 2011

Docket No. 12-LHPT-875-AUD
Exhibit KLF-3

Line No.	Description	Total Company	Intrastate Separations	Intrastate Adjustment
1	Adjustment to Other Operating Taxes (Acct. 7240)	\$ 8,142	0.696493	\$ 5,671

Breakdown of Adjustment:

2	Staff calculated 2011 Property Tax (Exhibit LKB-7a)	\$ 144,684		
3	Less: Available Telecom Credit			
4	Staff Calculated 2011 Property Tax			\$ 144,684
5	Staff Calculated Regulated Percentage (Exhibit LKB-7b)			99.47%
6	Staff Calculated Regulated Property Tax			\$ 143,919
7	LaHarpe's Property Tax Expense - Account 7240			135,777
8	Staff Adjustment for Property Taxes (Acct. 7240)			\$ 8,142

Source: LaHarpe Telephone Company, Inc.'s Application, Section 9

Source: Property Tax Statements and Income Tax Returns were provided during Staff's On-Site Audit

Note: The Available Telecom Credit for 2010 totaled \$29,651. This was not reflected in the adjustment as LaHarpe is no longer required to file a State of Kansas income tax return therefore the credit is no longer applicable. If the Commission chooses to allow recovery of state income taxes, this balance will need to offset the actual property taxes paid.

LaHarpe Telephone Company, Inc.
Detail of 2012 Property Tax Expense
Income Statement Adjustment No. 4
For the Period Ending December 31, 2011

Docket No. 12-LHPT-875-AUD
Exhibit KLF-3(a)

Line No	County	Statement #	Unit	Special Assessments	2012 Assessment	2012 Mill Levy	2012 Tax	2012 County Tax
1	Allen County	25024	6001 LaHarpe Tele		2,424	193.165	468.23	
2		25058	6002 LaHarpe Tele		13	141.063	1.83	
3		25068	6004 LaHarpe Tele		232	145.203	33.69	
4		25064	6003 LaHarpe Tele		68	143.334	9.75	
5		25074	6005 LaHarpe Tele		109	147.474	16.07	
6		25079	13581 LaHarpe Tele		128	131.327	16.81	
7		25155	6006 LaHarpe Tele		275	140.573	38.66	
8		25165	6007 LaHarpe Tele		383	144.713	55.43	
9		25184	6008 LaHarpe Tele		28	159.702	4.47	
10		25188	6009 LaHarpe Tele		298	144.713	43.12	
11		25195	6010 LaHarpe Tele		75	140.573	10.54	
12		25245	6011 LaHarpe Tele		176	141.116	24.84	
13		25251	6012 LaHarpe Tele		157	141.117	22.16	
14		25252	6013 LaHarpe Tele		336	160.245	53.84	
15		25026	4670 LaHarpe Tele		436,113	193.165	84,241.77	
16		25057	5002 LaHarpe Tele		2,409	141.063	339.82	
17		25061	5701 LaHarpe Tele		12,215	143.334	1,750.82	
18		25065	3701 LaHarpe Tele		41,733	145.203	6,059.76	
19		25071	2601 LaHarpe Tele		19,644	147.474	2,896.98	
20		25076	4001 LaHarpe Tele		23,124	131.327	3,036.81	
21		25160	8401 LaHarpe Tele		49,460	140.573	6,952.74	
22		25171	21701 LaHarpe Tele		68,995	144.713	9,984.47	
23		25181	1701 LaHarpe Tele		5,061	159.702	808.25	
24		25191	11800 LaHarpe Tele		53,728	144.713	7,775.14	
25		25193	200 LaHarpe Tele		13,419	140.573	1,886.35	
26		25242	2401 LaHarpe Tele		31,695	141.116	4,472.67	
27		25249	5201 LaHarpe Tele		28,287	141.117	3,991.78	
28		25258	21250 LaHarpe Tele		60,451	160.245	9,686.97	
29			Total Allen County					144,683.77
30			Total Property Taxes					<u>\$ 144,683.77</u>

Source: Actual property tax statements provided during Staff's on-site audit.

LaHarpe Telephone Company, Inc.
Detail of 2012 Property Tax Expense
Income Statement Adjustment No. 4
For the Period Ending December 31, 2011

Docket No. 12-LHPT-875-AUD
Exhibit KLF-3(b)

Staff Development of Non regulated percentage for property taxes for general support assets

Line No.	Account	Description	Balance 12/31/11	Staff Regulated %	Regulated Balance
1	2111	Land	\$ 1,170	93.72%	\$ 1,097
2	2112	Motor Vehicles	29,723	90.47%	26,890
3	2115	Garage Work Equipment	0	100.00%	0
4	2116	Other Work Equipment	28,565	90.47%	25,843
5	2121	Buildings	179,365	92.57%	166,038
6	2122	Furniture	1,030	93.72%	965
7	2123	Office Support Equipment	1,801	93.72%	1,688
8	2124	General Purpose Computers	5,884	93.72%	5,514
9		Total General Support Expense	\$ 247,538		\$ 228,036
10	2210	COE Digital	\$ 323,287	100.00%	\$ 323,287
11	2232	Circuit Equipment	\$ 618,608	100.00%	\$ 618,608
12	2411	Poles	\$ -	100.00%	\$ -
13	2422	Underground Cable	\$ 2,485,492	100.00%	\$ 2,485,492
14	2423	Buried Cable	\$ 16,345	100.00%	\$ 16,345
15	2441	Conduit Systems	\$ -	100.00%	\$ -
16		Total Central Office Equipment	\$ 3,443,732		\$ 3,443,732
17	2690	Intangibles	0		
18		Total Plant in Service	\$ 3,691,270		\$ 3,671,768
19		Regulated Percentage			99.47%
20		Non regulated percentage			0.53%

Sources: Allocations provided in Ann Diggs testimony, Attachment AD-2
LaHarpe Telephone Company, Inc.'s Application, Section 4

CERTIFICATE OF SERVICE

12-LHPT-875-AUD

I, the undersigned, hereby certify that a true and correct copy of the above and foregoing Direct Testimony was served by electronic service on this 19th day of December, 2012, to the following parties who have waived receipt of follow-up hard copies.

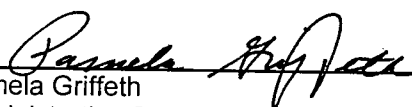
VINCENT H. WIEMER, PRINCIPAL
ALEXICON TELECOMMUNICATIONS CONSULTING
10318 N 138TH EAST AVE
OWASSO, OK 74055
Fax: 918-376-9280
vwiemer@alexicon.net

THOMAS E. GLEASON, JR., ATTORNEY
GLEASON & DOTY CHTD
PO BOX 6
LAWRENCE, KS 66049-0006
Fax: 785-856-6800
gleason@sunflower.com

ROBERT A. FOX, SENIOR LITIGATION COUNSEL
KANSAS CORPORATION COMMISSION
1500 SW ARROWHEAD ROAD
TOPEKA, KS 66604-4027
Fax: 785-271-3167
b.fox@kcc.ks.gov
Hand Delivered

ANDREW FRENCH, ADVISORY COUNSEL
KANSAS CORPORATION COMMISSION
1500 SW ARROWHEAD ROAD
TOPEKA, KS 66604-4027
Fax: 785-271-3314
a.french@kcc.ks.gov
Hand Delivered

HARRY J. LEE, JR., PRESIDENT/GENERAL MANAGER
LAHARPE TELEPHONE COMPANY, INC.
D/B/A LAHARPE LONG DISTANCE
109 W 6TH ST
PO BOX 100
LA HARPE, KS 66751
harry.lee@laharpetel.com



Pamela Griffeth
Administrative Specialist