

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

**In the Matter of the Application and Request)
Of Cunningham Telephone Company, Inc.) Docket No. 25-CNHT-185-KSF
for an Increase in its Cost-Based Kansas)
Universal Service Fund Support.)**

**REDACTED
DIRECT TESTIMONY
PREPARED BY
JAREN W. DOLSKY
UTILITIES DIVISION
KANSAS CORPORATION COMMISSION
February 13, 2025**

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17 **I. INTRODUCTION**

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

19 A. My name is Jaren Dolsky. My business address is 1500 Southwest Arrowhead Road,
20 Topeka, Kansas, 66604.

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

22 A. I am employed by the Kansas Corporation Commission (Commission) as a Rate Analyst.

23 **Q. What is your educational background and professional experience?**

24 A. I received a Bachelor of Business Administration with an emphasis in Finance and
25 Economics from Oklahoma State University in May 2022. I began employment at the
26 Commission in my current position in June of 2022.

1 **Q. Have you ever testified before this Commission?**

2 A. Yes, I have. I filed testimony in the 23-ATMG-359-RTS docket as well as 23-EKCE-775-
3 RTS. I have also participated in several ratemaking dockets. A list of my previous Staff
4 assignments and the areas covered is available upon request.

5 **Q. What were your responsibilities in the review of Cunningham Telephone Company,
6 Inc. (Company or Cunningham) October 11, 2024, Application?**

7 A. My responsibilities as an auditor in this case were to analyze, audit, and review
8 Cunningham's filing before the Commission to determine its cost-based Kansas Universal
9 Service Fund (KUSF) support to reflect its current revenue requirement and business
10 circumstances. I reviewed the Company's filing, requested and analyzed additional
11 information. My assignments were carried out under the direction of the Managing
12 Auditor, Katie Figgs, and the Chief of Accounting and Financial Analysis, Chad Unrein.

13 **Q. What is the purpose of your testimony in this proceeding?**

14 A. The purpose of my testimony is to provide explanation and support to certain adjustments
15 based on Staff's review of Cunningham's Application. In summary, I recommend that the
16 Commission:

- 17 ▪ Update KUSF support included in Cunningham's filing to reflect the most current
18 amounts;
- 19 ▪ Update estimated audit expenses included in Cunningham's filing to known and
20 measurable audit expenses incurred at the time of Staff's filing;
- 21 ▪ Update Cunningham's test year data to reflect actual 2023 property tax expense; and
- 22 ▪ Exclude expenses which Staff contends are inappropriate to include for the
23 determination of necessary KUSF support, including certain advertising expenses,

1 dues, donations, sponsorships, Board of Director expenses, travel and training
2 expenses, and other miscellaneous expenses.

3 **II. INCOME STATEMENT**

4 **A. KUSF EXPENSE**

5 **Q. Please begin by discussing Staff Adjustment No. 6 to the Income Statement.**

6 A. Staff Adjustment No. 6 (IS-6) increases Cunningham's overall intrastate revenues by
7 \$2,905¹. Staff's adjustment updates Cunningham's KUSF support to recognize known and
8 measurable changes in local revenues and intrastate access revenues. This adjustment is
9 comprised of the following three components:

- 10 ■ An increase to intrastate access revenues totaling \$60. In Docket No. 25-GIMT-164-
11 GIT (25-164 Docket), the Commission authorized new intrastate access rates and
12 revenues for rural local exchange carriers (RLECs) to become effective July 1, 2025.
13 As with the local rate revenue increase, changes in intrastate access revenue are to be
14 netted against KUSF support payments. Staff's adjustment reflects the increase in
15 access revenue not reflected in the test year.
- 16 ■ An increase to local service revenues totaling \$2,055. In the Docket No. 25-GIMT-
17 141-GIT (25-141 Docket), the Commission authorized a new affordable monthly rate
18 for rate-of-return companies to become effective March 1, 2025. Pursuant to K.S.A.
19 66-2005(d), changes in revenue due to the changes in the affordable monthly rate are
20 to be netted against KUSF support payments. In other words, KUSF support
21 payments are to be decreased by the amount of the additional revenue generated with

¹ See Exhibit JWD-1.

1 the increase in local rates. Staff's adjustment recognizes the increase in local revenue
2 not reflected in the test year.

- 3 ■ An increase to KUSF support of \$790. This component updates the KUSF support
4 included in the Application to reflect the Commission-approved annual support for
5 KUSF Year 29 provided in Steve Garrett's direct testimony in the 25-141 Docket.

6 **B. AUDIT EXPENSE**

7 **Q. Please continue by discussing Staff Adjustment No. 7 to the Income Statement.**

8 A. Staff Adjustment No. 7 (IS-7) decreases Cunningham's operating expense by \$21,766.²
9 This adjustment is necessary to include actual audit expense incurred as of December 31st,
10 2024, to reflect expenses incurred in this Docket.

11 **Q. Please explain how Staff calculated its adjustment for audit expense.**

12 A. Staff's adjustment reflects a total of Cunningham's audit expense and Staff's audit expense.
13 According to the updated response to Staff Data Request No. 34, Cunningham has incurred
14 \$37,265 of external consulting services and legal fees related to this Docket through
15 December 2024. TCA's final billing for work completed in January is not yet complete,
16 and therefore, has not been included. Staff acknowledges that its adjustment does not fully
17 recognize the costs that may have been incurred by Cunningham; however, the adjustment
18 does recognize all invoices Staff has received from the Company to date.
19 According to the Commission's fiscal department, the maximum assessment for
20 Cunningham for the fiscal year is \$4,671. This amount was calculated pursuant to K.S.A.
21 66-1502 (a), which provides a maximum annual assessment of 0.6% of intrastate revenues
22 for any public utility or common carrier under the jurisdiction of the Commission. Since

² See Exhibit JWD-2.

1 Cunningham has paid a total of \$764 in assessments to date, the remaining maximum
2 assessment for the fiscal year is \$3,907. Actual Staff expenses incurred for this Docket
3 total \$27,169 through January 4, 2025. Therefore, Staff's actual expenses are greater than
4 the allowable remaining assessment, the audit expense reflected in Staff's audit expense
5 calculation is the remaining maximum assessment amount of \$3,907. The sum of
6 Cunningham's invoices and Staff's remaining maximum assessment amount, amortized
7 over a five-year period, results in an annual audit expense amortization of \$8,234. Staff
8 then compared this amount with the estimated rate case expense included in Cunningham's
9 Application, with the difference being Staff's adjustment.

10 **Q. Should the Commission reduce Cunningham's KUSF support once the audit expense**
11 **has been fully recovered?**

12 A. Yes. Staff recommends that the Commission reduce Cunningham's approved KUSF draw
13 by the audit expense amortization at the end of the amortization period. This
14 recommendation is consistent with the Commission Order in Craw-Kan Telephone
15 Cooperative, Inc.'s (Craw-Kan) KUSF filing in Docket No. 13-CRKT-268-KSF (13-268
16 Docket), which states:

17 With regard to Craw-Kan's audit expense, the Commission agrees that audit expense
18 should be recovered over a five-year amortization period. However, once these
19 expenses have been fully covered, Craw-Kan's KUSF support should be reduced
20 accordingly by removing any portions relating to audit expense. This provision
21 ensures Craw-Kan will recover the full amount of its audit expense but does not over-
22 recover from the KUSF.³

³ Order Granting Joint Motion for Approval of Craw-Kan's Annual Cost-Based KUSF Support and for Approval of Additional Requirements, 13-268 Docket, p. 5, ¶16 (Apr. 17, 2013).

1 **C. PROPERTY TAX EXPENSE**

2 **Q. Please continue by discussing Staff Adjustment No. 8 to the Income Statement.**

3 A. Staff Adjustment No. 8 (IS-8) decreases Cunningham’s operating expenses by \$3,421 on
4 a total company basis, or \$2,385 on an intrastate basis.⁴ Staff’s adjustment to property taxes
5 is comprised of two components. The first component is Staff’s calculation of
6 Cunningham’s 2023 property tax expense, which is derived by taking the sum of
7 Cunningham’s 2023 property tax statements totaling \$41,476. The second component is
8 Staff’s calculation of property tax expense allocable to the non-regulated portion of
9 Cunningham’s general support assets and plant assets. In determining the amount of
10 property tax to be allocated to non-regulated assets, Staff multiplied the Company’s total
11 plant in service balances as of December 31, 2023, by Staff’s allocation factors, as
12 discussed in the testimony of Staff witness Roxie McCullar, to determine the appropriate
13 percentage of regulated general support assets. Additionally, Staff also calculated the
14 percentage of regulated assets applicable to digital switching, circuit equipment, and buried
15 cable. As depicted in Exhibit JWD-3b, this resulted in an overall regulated percentage of
16 97.48%. This regulated percentage was then applied to Staff’s adjusted 2023 property tax
17 expense, resulting in a total of \$40,429 of regulated property taxes recoverable through the
18 KUSF. Staff’s adjusted 2023 regulated property tax expense is then compared to
19 Cunningham’s normalized property tax expense of \$43,850, with the difference being
20 Staff’s adjustment.

⁴ See Exhibit JWD-3.

1 **D. REVERSAL OF CUNNINGHAM COST STUDY ADJUSTMENT EXP NO. 8**

2 **Q. Please continue by discussing Staff Adjustment No. 9 to the Income Statement.**

3 A. Staff Adjustment No. 9 (IS-9) increases Cunningham’s operating expenses by \$43,831 on
4 a total company basis, or \$27,173 on an intrastate basis.⁵ Staff’s adjustment reverses
5 Cunningham’s Cost Study Adjustment EXP No. 8 related to expenses that are unnecessary
6 to provide sufficient and efficient regulated telephone service and should not be recovered
7 through KUSF Support. Staff reversed this adjustment in order to more clearly present
8 Staff Adjustment Nos. 10 and 13 to the Income Statement related to dues, donations,
9 sponsorships, and miscellaneous expense and traveling and training expenses respectively.

10 **E. DUES, DONATIONS, SPONSORSHIPS, AND MISCELLANEOUS EXPENSE**

11 **Q. Please continue by discussing Staff Adjustment No. 10 to the Income Statement.**

12 A. Staff Adjustment No. 10 (IS-10) decreases Cunningham’s operating expenses by \$23,626
13 on a total company basis, or \$17,886 on an intrastate basis.⁶ Staff’s adjustment removes
14 100% of dues, donations, sponsorships, and various miscellaneous expenses made by
15 Cunningham during the test year to local entities. Specifically, Staff’s adjustment
16 eliminates: (1) organizational dues; (2) charitable donations made to various local
17 charitable, civic, and social organizations; (3) sponsorships of community events; and (4)
18 various miscellaneous expenses related to employee appreciation and holiday celebrations,
19 as well as several newspaper subscriptions. As discussed in greater detail below, these
20 expenses are not necessary to provide sufficient and efficient regulated telephone service.

⁵ See Exhibit JWD-4.

⁶ See Exhibit JWD-5.

1 **Q. Please provide an explanation of why Staff is recommending 100% removal of dues.**

2 A. In the past, Staff has made recommendations to remove a portion of dues and donations
3 pursuant to K.S.A. 66-1,193(a), which allows the Commission to adopt a policy of
4 disallowing up to 50% of utility dues, donations and contributions to charitable, civic and
5 social organizations and entities, in addition to completely disallowing specific dues,
6 donations and contributions which are found unreasonable or inappropriate. However,
7 Staff is recommending the Commission disallow these types of expenses from being
8 recovered through KUSF support in light of the 2018 Order approved by the Federal
9 Communications Commission (FCC)⁷. Specifically, paragraph 28 of the FCC Order states:

10 Expenses Unrelated to Operations. – We next codify the existing prohibitions on
11 recovering support for expenses unrelated to operations – including political
12 contributions, charitable donations, scholarships, membership fees and dues in
13 clubs and organizations, sponsorships of conferences or community events, and
14 penalties or fines for statutory or regulatory violations, penalties or fees for late
15 payments on debt, loans, or other payments – from high-cost support... Expenses
16 unrelated to operations, however, are not currently included in these high-cost
17 support calculations. Instead, under our current rules, “nonoperating expenses” –
18 including political contributions, contributions for charitable, social, or community
19 welfare purposes, membership fees and dues in social, service and recreational or
20 athletic clubs and organizations, and penalties and fines on account of violations of
21 statutes – are recorded in Account 7300, presumed excluded from the costs of
22 service in setting rates, and not included in high-cost support calculations. Expenses
23 unrelated to operations have historically not been recoverable from high-cost
24 support because by definition these expenses are not operational in nature and are
25 ancillary to core business objectives. Expenses must fall within the scope of the
26 statutory requirement that support be used “only for the provision, maintenance,
27 and upgrading of facilities and services for which support is intended.”⁸
28

29 Furthermore, the disallowance of these expenses are further discussed and reiterated in
30 paragraphs 31 and 32 of the FCC Order, which states in part:

⁷ Report and Order, Third Order on Reconsideration, and Notice of Proposed Rulemaking, FCC 18-29 (Mar. 23, 2018), (2018 FCC Order) See <https://docs.fcc.gov/public/attachments/FCC-18-29A1.pdf>.

⁸ *Id.*, pp. 13-14.

1 Charitable donations and scholarships are expenses unrelated to operations that
2 may not be recovered from high-cost support. We recognize the benefits charitable
3 donations provide to the community... [h]owever, charitable donations are
4 unrelated to the provision, maintenance, and upgrading of facilities and services for
5 which the high-cost support is intended.⁹
6

7 Membership fees and dues in clubs and organizations, including social, service, and
8 recreational or athletic clubs and organizations, as well as trade associations and
9 organizations that provide professional or trade certifications such as state bar
10 associations, are expenses unrelated to operations excluded from high-cost
11 support... We recognize the educational and training benefits that trade associations
12 provide and that membership in chambers of commerce may help stimulate
13 business. However, as other commenters acknowledge, a function of many of these
14 organizations is advocacy on behalf of their members for the purpose of influencing
15 public policy which is not used for the provision, maintenance, and upgrading of
16 facilities and services for which support is intended. Just as ETCs may not recover
17 lobbying expenses under our rules, similarly, they may not recover membership
18 fees in organizations that engage in lobbying. Further, professional affiliations or
19 certifications such as state bar associations, accounting associations, or other
20 professional groups may facilitate general corporate functions but are not used only
21 for the provision of supported facilities and services.¹⁰
22

23 Therefore, consistent with the FCC's ruling on these types of unrelated operational
24 expenses and to prevent the KUSF from subsidizing expenses not recovered via the federal
25 universal service fund high-cost support mechanisms, Staff finds these expenses
26 inappropriate to recover from the KUSF as they are unnecessary for the provision of
27 sufficient and efficient universal service.

28 **F. ADVERTISING EXPENSE**

29 **Q. Please continue by discussing Staff Adjustment No. 11 to the Income Statement.**

30 A. Staff Adjustment No. 11 (IS-11) decreases Cunningham's operating expenses by \$12,074
31 on a total company basis, or \$7,993 on an intrastate basis.¹¹ Staff's adjustment removes
32 100% of expenses related to corporate image and goodwill advertising that Staff contends

⁹ *Id.*, p. 15.

¹⁰ *Id.*, pp. 15-16.

¹¹ See Exhibit JWD-6.

1 are not necessary to provide sufficient and efficient regulated telephone service. As
2 supported by prior Commission Order,¹² these expenses are inappropriate for recovery
3 through the KUSF support mechanism.

4 **G. BOARD OF DIRECTORS EXPENSE**

5 **Q. Please discuss Staff Adjustment No. 12 to the Income Statement**

6 A. Staff's Adjustment No. 12 (IS-12) decreases Cunningham's operating expenses by \$10,000
7 on a total company basis, or \$6,738 on an intrastate basis.¹³ Staff's adjustment reallocates
8 Board of Directors annual compensation between both the regulated and non-regulated
9 operations.

10 **Q. Please explain Cunningham's Board of Directors expenses during the test year.**

11 A. There is a four-member Board of Directors that serves Cunningham's regulated and non-
12 regulated businesses. Each Board Member is compensated \$5,000 annually for attending
13 meetings throughout the year, with no additional benefits provided.¹⁴ The Board of
14 Directors meetings take place at Cunningham's headquarters, therefore, there are no
15 additional travel costs or reimbursements.

16 **Q. Please explain Staff's recommendation for allocation of Board of Directors expense.**

17 A. Cunningham allocates 100% of the Board of Directors expense directly to the regulated
18 side of the business although some of the topics discussed during meetings relate to the
19 non-regulated side. Recognizing this fact, Staff contends that the cost of Board Member's
20 salaries should be split 50% regulated, 50% non-regulated. Therefore, Staff's adjustment
21 removes 50% of the total Board of Directors expense included in the test year.

¹² *Order Setting Revenue Requirement*, Docket No. 01-RRLT-083-AUD, ¶ 32 (June 25, 2001).

¹³ See Exhibit JWD-7.

¹⁴ See Cunningham's response to Staff Data Request No. 37.

1 **H. TRAVEL AND TRAINING EXPENSE**

2 **Q. Please continue by discussing Staff Adjustment No. 13 to the Income Statement.**

3 A. Staff Adjustment No. 13 (IS-13) decreases Cunningham’s operating expenses by \$28,176
4 on a total company basis, or \$18,672 on an intrastate basis.¹⁵ Staff’s adjustment removes
5 50% of expenses for conferences attended covering topics associated with non-regulated
6 services and 100% of expenses for spousal and family travel, as well as 100% of alcohol
7 purchased during meals while traveling.

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

9 A. Yes.

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¹⁵ See Exhibit JWD-8.


1 **III. SUMMARY OF EXHIBITS**

2	<u>Exhibit No.</u>	<u>Description</u>
3	JWD-1	Work Paper for KUSF adjustment
4	JWD-2	Work Paper for Audit Expense adjustment
5	JWD-3	Work Paper for Property Tax adjustment
6	JWD-3a	Detail Paper for Property Tax adjustment
7	JWD-3b	Detail Paper for Property Tax adjustment
8	JWD-4	Work Paper for Cost Study Adjustment No. 8 Reversal
9	JWD-5	Work Paper for Dues, Donations, Sponsorships, and Miscellaneous
10		Expense adjustment
11	JWD-5a	Detail Paper for Dues, Donations, Sponsorships, and Miscellaneous
12		Expense adjustment CONFIDENTIAL
13	JWD-6	Work Paper for Advertising adjustment
14	JWD- 7	Work Paper for Board of Directors adjustment
15	JWD- 8	Work Paper for Travel and Training adjustment
16	JWD-8a	Detail Paper for Travel and Training adjustment CONFIDENTIAL

STATE OF KANSAS)
) ss.
COUNTY OF SHAWNEE)

VERIFICATION

Jaren Dolsky, being duly sworn upon his oath deposes and states that he is a Rate Analyst for the Utilities Division of the Kansas Corporation Commission of the State of Kansas, that he has read and is familiar with the foregoing *Direct Testimony*, and attests that the statements contained therein are true and correct to the best of his knowledge, information and belief.




Jaren Dolsky
Rate Analyst
State Corporation Commission of the
State of Kansas

Subscribed and sworn to before me this 4 day of February, 2025.



Notary Public

My Appointment Expires: 4/28/25

 NOTARY PUBLIC - State of Kansas
ANN M. MURPHY
My Appt. Expires 7/28/25

CERTIFICATE OF SERVICE

25-CNHT-185-KSF

I, the undersigned, certify that a true and correct copy of the above and foregoing Direct Testimony (Public) was served via electronic service this 13th day of February, 2025, to the following:

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