Q.Please state your name and business address.

A.My name is Carolee Hall and my business address is 472 West Washington Street, Boise, Idaho, 83702.

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

A.I am employed by the Idaho Public Utilities Commission as a Telecommunications Analyst.

Q.Please describe your work experience and educational background.

A.I have been with the Commission since April 1997.  I recently completed a Regulatory Studies program offered through NARUC.

Before coming to work for the Commission, I worked as a Financial Manager for a competitive long distance provider.  I graduated from Boise State University in 1993 with a B.B.A. in Finance.

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

A.The purpose of my testimony is to address the petitions received by the Commission requesting extended area service (EAS) from the customers served by Silver Star Telephone Company, Inc. (Silver Star).  The communities within Silver Star’s serving area include Swan Valley, Irwin, Freedom, Grays Lake and Wayan.  Generally, petitioners have requested to be included in

U S WEST Communications, Inc.’s (U S WEST) eastern Idaho EAS calling regions.

I will briefly address another petition received from the Irwin and Swan Valley communities requesting EAS calling into Columbine Telephone Company d/b/a Teton Telecom Communications’ (Teton) region as well.  Teton Telecom is an affiliated company of Silver Star and is located in Teton County; Staff Exhibit

No. 101 shows the proximity of the two exchanges.  The Teton Telecom communities being requested are Driggs, Victor and Tetonia.  I will respond to the community of interest factors as set forth in Commission Order No. 26311, which are used to evaluate EAS petitions.  In addition, I will examine the costs and lost revenues associated with the implementation of EAS.  I will also recap calling data obtained from Silver Star through Staff’s production requests.

Q.What towns and communities are included in the U S WEST eastern Idaho EAS region the petitioners are requesting?

A.The Silver Star customers are requesting to be included in the eastern Idaho regional calling area approved by this Commission for U S WEST.  This calling area includes: American Falls, Bancroft, Blackfoot, Dayton, Downey, Firth, Franklin, Grace, Idaho Falls, Inkom, Lava Hot Springs, Lewisville-Menan, McCammon, Montpelier, Pocatello, Preston, Rexburg, Rigby, Ririe, Riverside, Roberts, Shelley, Soda Springs and Thatcher.

COMMUNITY OF INTEREST STANDARDS

Q.What are the criteria that the Commission established for EAS as set forth in Order No. 26311?

A.According to the Order, calling volume and calling distribution are among many primary and secondary factors to be used when evaluating EAS calling areas.  To determine whether a community of interest exists to support EAS, the primary factors, in addition to the calling data are as follows:

1.geographic proximity (distance between exchanges);

2.the presence of geographic or other physical barriers (mountains, rivers, valleys) between exchanges;

3.county seat relationship (are both exchanges in the same county);

4.the relationship to school district (do both exchanges share the same school district);

5.the proximity to medical facilities and services;

6.the willingness of customers to pay increased rates.

Order No. 26311, page 9.

Q.Please explain calling volume and calling distribution.

A.Call volume is simply the average number of calls per line made each month from the home exchange to the requested exchange.  Call distribution shows how many lines had 1 call, 2 calls, 3 calls, etc.

SILVER STAR PETITIONS INTO THE U S WEST REGION

Q.What did the calling data reveal in your analysis?

A.The calling data that Silver Star provided in its response to my first production request was for twelve months from November 1995 to October 1996 combined.

Staff Exhibit No. 102, shows annual distributions of toll calling by Wayan and Irwin customers into U S WEST exchanges.  This exhibit also shows average monthly call volumes into each U S WEST exchange and the total of all exchanges.  Both Silver Star exchanges had a monthly average of about 12 calls per line to the U S WEST region, with over 80% of those calls going into just three nearby, larger exchanges.

There are 102 lines in the Wayan exchange.  The primary exchanges that Wayan customers called were Soda Springs (52% of annual calls) and Pocatello (20.9% of their annual calls), followed by Idaho Falls (8.5%).

The distribution of the calls from Irwin’s 415 lines showed a strong interest in calling Idaho Falls with 74.3% of their annual calls going into that exchange followed by significant calling to Rigby (7.3%) and Ririe (6.5%).  See Staff Exhibit No. 102.

Q.What is the geographic proximity (distance between exchanges) and the presence of geographic or other physical barriers (mountains, rivers, valleys) between exchanges?

A.As part of my investigation, I visited this area in October 1997, I found that Irwin and Swan Valley are three miles apart on Highway 26 and are approximately 30 miles east of Ririe.  Ririe is roughly 15 miles northeast of Idaho Falls.  Wayan is south of Irwin and Swan Valley.  However, to get to Wayan from Swan Valley requires traveling 26 miles around Palisades Reservoir to Alpine, Wyoming.  From Alpine I traveled south through Wyoming approximately 17 miles on Highway 89 to Freedom, Wyoming and then west, back into Idaho on Highway 34 for 20 miles.  In the middle of this loop is the Caribou mountain range, Palisades Reservoir and Grays Lake.  See Staff Exhibit No. 103.

Q.How many exchanges does Silver Star have within the petitioners’ calling area?

A.There are two exchanges within Silver Star’s service area.  One exchange is located in Irwin and the second exchange is in Wayan; Staff Exhibit No. 101 shows the location of these towns in the exchanges.

Q.Do the petitioners served by Silver Star all share the same county seat?

A.No, they do not.  The customers who live in Wayan and Freedom are located in the Wayan exchange, which is in Caribou and Bonneville Counties.  The county seat for Caribou County is Soda Springs, which is in the southern portion of the U S WEST eastern EAS region, while the county seat for Bonneville County is Idaho Falls, which is in the northern portion of the region.  The Silver Star customers who live in Irwin and Swan Valley are in the Irwin exchange, in Bonneville County.

Q.Do the students of Irwin and Wayan attend schools in different school districts?

A.Yes, the school districts are not only in different counties, but two other counties entered the equation.  Wayan and Swan Valley each have grade schools.  However, secondary education students in Wayan are bused to Soda Springs in Caribou County.  The secondary education students of Irwin and Swan Valley attend school in Ririe, which is in Jefferson County.  There are two students from Irwin that attend school in Driggs, Idaho in Teton County.  Both Jefferson and Caribou counties are in the U S WEST calling region.  Teton County is the Driggs exchange owned by Teton Telecom.  In the statewide study, I found 16 students from Swan Valley/Irwin at Idaho Falls High School.  (Ririe High School did not respond to my survey.)  With the secondary schools being in different local exchanges (Teton and U S WEST), calling between these areas are toll calls.  This may be a hindrance to education.  It could certainly be an expense for parents with teenagers attending any social functions.

Q.What did your analysis show with respect to the proximity to medical facilities and services for the residents of Irwin and Wayan?

A.Based on the differing counties and the geographic location of the towns within the exchanges, there are two observations.  The people in Wayan have limited choices for hospital and medical facilities.  Those facilities are in Soda Springs where, according to the 1992 County Profiles of Idaho, there is one hospital with 27 beds.  Soda Springs is 34 miles south of Wayan.  See Staff Exhibit No. 103.  Another option for Wayan residents would be to travel to Afton, Wyoming where there is a hospital as well.  Calls to either of these choices results in a toll call.

Irwin and Swan Valley residents have two options as well.  They could travel 50 miles to Idaho Falls in Bonneville County or go to Driggs, Idaho.  Driggs is, as mentioned, in Teton County approximately 15 miles northeast of Swan Valley.  To get to Driggs the Swan Valley/Irwin residents must travel over Pine Creek Pass, which is located between the two communities.  See Staff Exhibit No. 103.  Bonneville County has one hospital with 286 beds.  Teton County has one hospital with 13 beds.

As for doctors and medical centers, the situation would be the same.  There are no medical facilities or doctors in Wayan, Swan Valley or Irwin.

Q.What is the sixth factor for analyzing EAS requests?

A.The sixth factor is the willingness of customers to pay increased rates for expanded local calling.  Throughout the petitioners’ letters was a commonality of low or fixed income levels within the area.  EAS for any region is not without its cost.  I was concerned that the residents in these small communities may not be able to afford EAS.  However, when weighed against their long distance phone bills and the public testimony and supporting letters, this may not be a problem.

Q.Please recap the previous community of interest factors discussed?

A.The community of interest standards support the granting of EAS to some of the requested exchanges.  The calling data suggests that many customers do make a significant number of toll calls, even without considering the number of calls that may be carried by companies other than U S WEST.  Based on the location of the communities in relationship to schools, county seats, medical facilities, grocery stores, banks etc., there is supporting data that would warrant EAS.  The petitioners have a choice to drive, at a minimum, 35 miles or make long distance phone calls to carry on daily activities.

EAS COSTS

Q.What costs are associated in providing EAS?

A.There are essentially two types of costs involved with providing any EAS.  They are the actual costs incurred to implement EAS and the revenue lost to the telephone companies providing the service.  Comments received in Case No. GNR-T-93-13, which investigated the provision of EAS in Idaho, identified some of the costs that might be incurred: “lost” revenue, including foregone revenue associated with toll, FX, and toll access, and expenses directly applicable to EAS expansion.

Q.Are there particular cost issues for small rural carriers?

A.Yes.  When a small LEC toll route is converted to EAS, there are two significant impacts.  First, toll access charges previously paid to the LEC are discontinued.  Second, when toll calls become local EAS calls, local calling usage usually increases.  This causes a shift in overall traffic usage from the interstate jurisdiction to the intrastate jurisdiction.  This shift affects the small companies more dramatically because federal high-cost recovery mechanisms are disproportionately weighted to the interstate jurisdiction.  Consequently, the reduction in revenue from these two sources must be recovered from an increase in local rates, or from the federal and state Universal Service Funds (USFs), or both.

Q.Do you know how much this interstate compensation loss will be?

A.According to Silver Star’s consultant, Kevin Kelly, with Telecommunications Consultants, TCA, Inc. (TCA) there will be an annual revenue loss of $43,948.  This amount is calculated using a 200% stimulation factor.  Initially TCA estimated this revenue loss to be more than twice this amount.  TCA has done some recalculating and I would now agree with this 200% calculation, however it seems high.

Q.What type of revenue would Silver Star “lose” because of EAS?

A.Silver Star will lose its originating access revenues and billing and collection revenues.  Silver Star will also incur an additional revenue requirement associated with the capitalization of the new plant required to implement expanded local calling.

Q.How did you calculate lost access revenues?

A.I used Silver Star’s Exhibit Nos. 1 and 2 submitted in response to Staff’s Production Request Nos. 1 and 2, which showed direct-dialed calling data for the 10-month period from November 1, 1995 through October 31, 1996.  The call data was for calling from the Irwin and Wayan exchanges into the U S WEST and Teton exchanges.  It showed call frequency for peak and off-peak access minutes.  After determining the access minutes, I used Silver Star’s tariffed access rates weighted to reflect the 40% off-peak calling discount.  I multiplied the minutes by the appropriate rate to arrive at the “Annual Projected Lost Access Revenue”.  The last two columns of Staff Exhibit No. 102, page 2, reflect this calculation.

Q.Were there any access revenue losses presented by Mr. Kelly for Silver Star?

A.Yes, however there have been numerous changes to this data.  After I received one of the “final numbers” from Mr. Kelly, there was still a discrepancy between the total number of minutes.  The data provided to me by Silver Star showed 209,401 peak originating and 78,437 off-peak originating access minutes.  When compared with the data used by Mr. Kelly in his calculation, there was a disparity of 2,909 minutes combined.  When applying the tariffed peak/off-peak access rate to these numbers, the net difference was $124.00 per year in originating access revenue.  After discussing this discrepancy with Mr. Kelly, he felt that it was insignificant and appropriate to use Staff’s calculations.  Staff Exhibit No. 105, line 1, shows the agreed upon annual lost access revenue of $12,193.

Q.Will Silver Star lose terminating access revenues?

A.Silver Star will lose some terminating revenue as a result of toll calls being converted to local calls.  To accurately determine this amount, Mr. Kelly and I agreed that a Terminating/Originating (T/O) ratio would be appropriate to use.  By using a 1:1 ratio, there is an assumption that originating and terminating minutes will be equal.  After analyzing the call data provided to Staff by Silver Star this ratio was very close to accurate.  With this ratio in place, the lost terminating access revenue for peak and off-peak will total $12,193 annually.  See Staff Exhibit No. 105,

line 2.

Q.You mentioned that Silver Star will also lose billing and collection (B&C) revenues.  Were you able to compute this revenue loss?

A.Yes, however there is still a discrepancy between Staff’s calculations and Mr. Kelly’s.  One of the discrepancies is that Mr. Kelly was not given the same data provided to Staff.  After numerous discussions with Silver Star and Mr. Kelly, the gap has narrowed.  I have calculated an annual revenue loss of $15,663 and Mr. Clark, of TCA, has recalculated the total messages (received November 13, 1997) and now shows a loss of $15,820.  The difference is $157 as shown in Staff Exhibit No. 104, line 2.  I believe that the $15,663 is more accurate, since it was calculated using actual calling data.  Therefore, I have used it in my calculation of Silver Star’s lost B&C revenue.

Q.Will Silver Star need to upgrade any equipment or facilities to implement EAS?

A.Yes, but the Company provided two sets of costs.  The first set was presented to me by Silver Star in its September 30, 1997 response to Staff’s First Production Request.  Silver Star indicated that it would need to add 24 trunk cards to the Irwin exchange and 20 to Wayan.  These numbers are based on a 200% stimulation factor (the estimated increase of local phone calls once the former toll charges are removed).  Silver Star also indicated that it would take 100 hours of labor at $40 per hour to install these cards for each exchange.  The total labor cost was $8,000, and the total equipment cost was $13,832, for a total investment of $21,832.  This is the amount I used for calculating the annual revenue requirement associated with Plant Investment.  See Staff Exhibit No. 105, lines 11-17.

On October 22, 1997, I received Silver Star’s response to my second production request.  In this later response Silver Star increased its stimulation factor to 400%.  This change resulted in an increase of 48 trunk cards for Irwin at an investment of $14,000 and 40 trunk cards for Wayan, which resulted in an increased investment of $13,664.  The labor to install twice as many cards remained constant at $8,000 for both exchanges.  The total investment for the second set of submitted numbers was $27,664.  This is the amount that Mr. Kelly used in his calculation for plant investment.

Q.You mentioned that initially the Company used a 200% stimulation factor that Staff had found to be reasonable, and then increased it to 400%.  Did Mr. Kelly explain why a 400% stimulation factor is more reasonable than the original factor submitted to Staff?

A.No, he did not.

Q.Could you please explain these percentages and what impact it would have with EAS?

A.A stimulation factor is the anticipated increase in calling volume as a result of toll calling becoming local calls and, thus toll free.  A 200% stimulation factor means that the number of calls, over a given route, are estimated to double in volume.  This factor is important when calculating lost revenue and cost of plant needed to carry the increased number of calls.  The ultimate result of this factor is the cost to the customer and the Company.  I believe that a 200% stimulation factor is reasonable and is used throughout my calculations.

The Company has presented no evidence to support its assumption that calling will increase by 400%.  Likewise, I have no concrete evidence that calling will double.  It is my understanding that call stimulation varies between communities and can’t be known with certainty before the fact.  I recommend therefore, that whether the Commission accepts the Company’s assumption of 400% or the Staff assumption of 200%, the Company be required to report actual stimulation experienced during the first year of EAS to the Commission and that rates be adjusted accordingly to compensate for the EAS costs.

Q.Other than the stimulation factor, what other differences are there between your revenue requirement associated with plant and the Company’s?

A.I calculated the annual revenue requirement associated with plant will be $5,180, Staff Exhibit

No. 105, lines 11-17, reflect this calculation.  Mr. Kelly’s annual revenue requirement total was $7,953 (which reflects the 400% stimulation factor).  Mr. Kelly used a depreciation rate of 12.5% for an annual depreciation amount of $3,458.  His 9.75% overall rate of return equaled $2,697.  He used a combined income tax rate of 40%, which calculated to $1,798.  See Staff Exhibit No. 104, line 3.

According to Commission Order No. 22237, Silver Star’s rates were set in 1989.  These rates were set using 13% for the cost of equity, a gross-up factor of 1.558105 for taxes, cost of debt of 5.51% and a depreciation rate of 5.5%.  These rates equate to an overall rate of return of 9.222%.  The investment required for implementing this EAS is not that significant and Staff has agreed with Mr. Kelly’s 12.5% depreciation rate.  The 12.5% depreciation rate was approved for booking purposes in GNR-T-97-1, Order No. 26788.  Therefore, Staff has accepted this rate for the EAS calculation.  The remaining depreciation rates, cost of capital and gross-up factor will be evaluated and adjusted if necessary in Silver Star’s rate case.  The total revenue requirement associated with the additional plant investment is $5,180 using the ordered rates previously discussed and adjusting the depreciation rate to 12.5%.  See Staff Exhibit No. 105, lines 11-17.

Q.Are there any other costs associated with this EAS filing?

A.Yes.  While I was never provided any work papers associated with any of the calculations received from TCA, according to Mr. Kelly’s memo received on November 5, 1997, there is a charge of $20,000 for the consultant’s expense associated with this EAS filing.  These expenses were part of a larger number that I requested Mr. Kelly itemize so that actual costs could be determined.  I have amortized these expenses over three years for an annual expense of $6,667 per year but Staff will review the reasonableness of these expenses in the rate case.  See Staff Exhibit No. 105, line 7.

Q.We have covered a large amount of information, could you please review your calculations for the cost of EAS?

A.Yes.  I have calculated the lost access revenues, lost billing and collection revenues, the shift in federal service revenues as a result of toll calling becoming toll free calling, and the revenue requirement associated with plant investment.  I have totaled these numbers to compile an annual cost for EAS calling into the eastern Idaho U S WEST region.  The annual cost to Silver Star for implementing EAS will be $95,844.  When divided by the total lines within the exchange, the monthly cost of EAS will be $16.00.  Staff Exhibit No. 104, lines 6-8, reflect this calculation.

Q.How does your calculations compare to the Company’s proposed revenue requirement?

A.As indicated in my Exhibit No. 104, line 6, my revenue calculations are $3,178 less than the Company’s based upon my 200% stimulation factor.

RATE DESIGN TO RECOVER EAST COSTS

Q.Having concluded that EAS is warranted and the costs of EAS, how should these costs be recovered?

A.I propose two alternatives for the Commission’s consideration and also address the Company’s proposed rate design for EAS recovery.  My first alternative is to increase basic exchange rates up to 125% of the statewide average (USF threshold).  Currently, Irwin residential customers are paying $15.00 per month and business customers are paying $22.50 per month.  The Wayan residential customers are paying $14.00 per month and business customers are paying the same as the Irwin business customers ($22.50).  Adjusting the basic rates up to the USF threshold of $17.51 for residential customers results in an increase of $2.51 for Irwin residential service and $3.51 for Wayan residents.  When adjusting business rates to $36.57 for business customers, this increase results in a monthly increase of $14.01.  These increases will produce additional revenue of $32,188, thereby reducing the additional annual revenue requirement associated with EAS to $63,656.  See Staff Exhibit No. 105, line 8.  Silver Star is currently collecting Idaho USF funds, and to comply with Idaho Code § 62-610 it would need to make this adjustment to maintain eligibility for USF disbursements.

Q.What is your second alternative?

A.My second alternative is based upon what Silver Star customers are receiving as an EAS “benefit.”  Silver Star customers will be receiving EAS into the entire eastern Idaho U S WEST region as well as Teton Telecom.  It would be reasonable for the Commission to consider charging more for EAS than the recommended $2.51 for Irwin residential customers and $3.51 for the Wayan residential customers.  This increase will raise residential rates just to the USF threshold.  By increasing the monthly residential rate an additional $3.49, the net increase for residential service would be $6.00 for Irwin and $7.00 for Wayan.  Increasing rates by this additional amount would decrease the annual USF draw by $16,584 resulting in annual USF support of $47,071.

With the additional $3.49 increase, the total residential rate would be $21.00.  Once the effect of the new U S WEST rate is factored into the USF calculation, this $21.00 rate will be near the anticipated USF statewide threshold level.  With this increase, residential rates will be stable for some time.  Residents will be able to call into a much larger region and experience a significant reduction in their toll bills as a result.  It is reasonable to expect them to pay more for EAS before the remainder is drawn from the Universal Service Fund.  This is also in conformance with the public testimony to date that customers are willing to pay $5 to $10 more for EAS.  Under my second alternative, I do not propose that business rates increase because these customers will already be experiencing a significant increase of $14.01 per month.  Such an increase will increase their monthly rates to the current USF threshold of $36.57 per month and decrease the business-residential rate differential (“gap”).

Q.Did you analyze the calling data based on the separate county seats and look at splitting the eastern region into two regions?

A.Yes, I looked at the calling data that clearly reflected a division in calling patterns based on the separate counties involved.  The calling frequency for the customers of Wayan was predominately into the Soda Springs and Pocatello areas.  Of the 99 lines in the Wayan exchange, 52% of their annual toll calls were to Soda Springs and 21% to Pocatello.  These percentages equate to 6.335 calls per line, per month into Soda Springs and 2.5 into Pocatello.  Montpelier and Grace were the other two towns for which at least one call per line, per month were made.  Calls to the other communities within the U S WEST eastern Idaho region show less than one call per month, per Wayan line.  See Staff Exhibit No. 102.

Idaho Falls was the predominate called exchange for the customers in the Irwin exchange.  Irwin has 400 lines.  Irwin customers had 74% of their annual toll calls going into Idaho Falls, which equates to nine calls per line, per month.  The remaining calling data showed less than one call per line, per month was made.  See Staff Exhibit No. 102.

For a cross comparison, I looked at customers in the Wayan area calling Idaho Falls and the Irwin customers calling Soda Springs.  From the Wayan exchange, 8.5% of their annual calls went to Idaho Falls and the percentage of annual calls for the customers from Irwin calling Soda Springs was only 1.5% annually.  This clearly showed a division in the community of interest for EAS.

One consideration was to recommend that the customers of Irwin and Swan Valley have EAS into Idaho Falls or the “northern” tier of the U S WEST eastern Idaho region and Wayan customers have the “southern” tier into Soda Springs, Pocatello and the surrounding area.

Q.What was the cost distribution for two EAS routes for the two exchanges?

A.By dividing the plant investment between exchanges and the minutes for lost access revenues and the lost billing and collection, it was definitely not an equitable division.  After the Wayan customers basic rates increased to the USF threshold, there was still a monthly deficit of $21.96 per customer.  Irwin had a deficit of $4.64 per customer per month after increasing basic rates to the USF threshold.  When comparing the significant disparity of these deficits, combining the exchanges for a monthly net deficit of $11 seemed more reasonable as shown in Staff Exhibit No. 105, line 10.

Based on the disparity between the exchanges, I discounted the division of the EAS region all together.  In order for optional calling plans to be a consideration, Silver Star would need to do a break-even analysis to price various plans such that it would be an equitable proposal for all customers that would want them.

Q.In Mr. Kelly’s Exhibit No. 4A, he proposed to set business and residential rates at the residential USF threshold rate of $17.51, what is your feeling about this proposal?

A.I do not see how making business and residential rates equal could possibly be a fair and reasonable option.  This proposal has never been proposed or accepted previously.  I question whether Silver Star would still be eligible to receive state Universal Service funds.  To be eligible for state USF funding, a company must set its business rates at a level that equals 125% of the weighted statewide monthly rate.  That monthly business statewide average rate is $36.57.  Thus, Silver Star would not meet the business rate eligibility threshold.

In addition, prior to the recent U S WEST rate case there was approximately a 2.5 ratio between business and residential rates.  Since the rate case that ratio has been established to be 1.88.  While the Commission has narrowed the gap, there is apparently not sufficient justification to eliminate it completely.  Based on the “gap” established by this Commission, I would reject this Company option.

Q.In Exhibit No. 4B of Mr. Kelly’s testimony, he proposes that residential and business rates be set at the current respective USF thresholds of $17.51 and $36.57.  Could you please comment?

A.By increasing the monthly business and residential rates to the USF threshold, it will reduce the amount that Silver Star will need to draw from the Idaho USF fund as a result of implementing this EAS.  It will also keep Silver Star in compliance with Idaho Code

§ 62-610, which stipulates that local rates be set at a threshold level in order for a local exchange company to qualify for USF disbursements.  In the recent U S WEST rate case, the residential rate was set at $16.99 and business rates were set at $32.00.  When these rates are factored into the USF calculations, the statewide USF threshold rates will increase.  Increasing basic rates to the USF threshold helps decrease the draw on the USF fund.

QIn Mr. Kelly’s Exhibit No. 4C, he proposes to increase residential and business rates by a “uniform percentage” to avoid “exacerbation of the business residential rate gap.”  Could you please address this option?

A.In this option, Mr. Kelly proposes increasing residential rates to $17.51 and business rates to $28.27.  I do not believe this approach would meet the USF eligibility criteria.  Idaho Code § 62-610 requires that,

. . . the telephone corporation’s average residence and business local exchange service rates....are in excess of 125% of the weighted statewide average rates for residence and business local exchange service rates for one-party single line service respectively....

The result of this option would increase both business and residential rates; however, it would not comply with IdahoCode § 62-610.

The “gap” would be somewhat eliminated, but as previously mentioned, this gap has been set at 1.88.  If residential rates were increased to $17.51, then business rates would need to be increased to $32.92 when the 1.88% gap was applied.  This is well above the business USF threshold.  The Commission has decreased the gap between business and residential rates, but they have not eliminated it as yet.  Though the methodology of this option is interesting, I would reject it based on the USF threshold levels for business and residential service.

Q.Were any adjustments made to the access rates?

A.Not for calculating the lost access revenues.  The rates were held at the current tariffed rate and adjusted for the 40% off-peak calling discount.  However, Silver Star will need to adjust its access rates to the new USF level of $.060851 to maintain its eligibility for USF draws.

GREATER SWAN VALLEY PETITIONS FOR EAS INTO TETON TELECOM

Q.In your introduction you mentioned another EAS area that the Swan Valley and Irwin customers were requesting, would you please address that issue?

A.In August 1996 a notice of petition was issued by this Commission.  In this petition the residents of Swan Valley, Irwin and Palisades requested EAS not only into the Idaho Falls area, but into the towns of Victor and Driggs.  Driggs is in Teton County and is served by Columbine Telephone Company, Inc. d/b/a Teton Telecom (Teton).  Teton Telecom is an affiliated company of Silver Star.

Q.Have you looked at the calling data or done any analysis on this?

A.Yes, I studied it along with this entire EAS analysis.  The calculated EAS cost to the customer included calling into the Driggs exchange along with the entire U S WEST region.

Q.Why would you consider this a viable EAS request?

A.As noted in my testimony prior, Driggs is another source for medical facilities for the residents in the greater Swan Valley area.  There are 499 lines in the Irwin and Wayan exchanges.  There were 293.5 calls per month from Irwin to Driggs.  Driggs also offers stores, an implement dealer, banking facilities and other amenities that are located closer to the residents of the greater Swan Valley than driving 50 miles into Idaho Falls.

Q.Would you please summarize your recommendation?

A.I believe that the location of the Irwin and Wayan exchanges in relationship to county seats, schools, medical facilities, etc., clearly reflects a need for EAS.  While there is not a significant amount of calling data that would conclusively support a large demand for EAS, there is still a need for toll relief.  There are three recommendations I would present for consideration by the Commission with respect to calling routes.  First, I would recommend toll-free calling between Wayan and Irwin.  Second, I would recommend two-way EAS for Irwin and Wayan into U S WEST’s eastern Idaho region.  Third, I believe a two-way EAS route between Silver Star and Teton Telecom would warrant consideration as well.

Next, I presented two options for the Commission to consider with respect to rates.  My first option would be that Silver Star increase its basic rates to the USF threshold of $17.51 for residential rates and $36.57 for business rates.  Silver Star will need to increase its access rates to $.060851 per minute to maintain its eligibility for USF draws.  With this option implemented, the revenue required for EAS would be reduced, thereby reducing the draw on the Universal Service Fund.  I have discussed a rate case with Mr. Clark of TCA, and he is aware that Silver Star will be filing soon for this.  At that time, the cost of capital and any additional revenue requirement can be evaluated.  Staff believes the EAS case and rate case should be separated at this time.  The second rate option would be to increase local residential rates by $6.00 for Irwin and $7.00 for Wayan.  All business rates would increase by $14.01.

Q.Which option would you recommend?

A.Precedents has always set basic and access rates at the USF threshold.  With all of the EAS cases currently being reviewed by the Commission, I feel that we should evaluate the total rates and how much USF disbursements offset these EAS costs.  The second option would set residential rates such that another increase would not occur for some time and it would help defray the amount of USF funding that would be required to compensate Silver Star for implementing this EAS region.  I recommend option 2.

Q.Was there any other testimony filed for this case?

A.Yes, U S WEST filed testimony in support of granting EAS to the entire eastern Idaho calling region.

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

A.Yes, it does.