Q.Please state your name and address.

A.My name is Wayne Hart.  My business address is 472 West Washington, Boise, Idaho.

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

A.I am employed by the Idaho Public Utilities Commission (IPUC; Commission) as a Telecommunications Analyst in the Telecommunications Section.

Q.What is your educational background?

A.I received a Master's Degree in Bacteriology from the University of Wisconsin in Madison, Wisconsin, and a Bachelor's Degree in Biological Sciences from Indiana University in Bloomington, Indiana.

Q.Please outline your experience that is relevant to your testimony.

A.I served as a Utilities Compliance Investigator since May of 1994, and have handled nearly 2500 complaints, comments and inquiries, with over 1500 of those involving telecommunications issues, since joining the IPUC Staff.  I served on the Staff team that performed a service quality audit of U S WEST in 1995 and 1996 for Case No. USW-S-95-4.  I joined the Telecommunications Staff in March of 1997.

Q.Have you previously testified before this Commission?

A.Yes.  I presented testimony in Idaho Power’s general rate case (IPC-E-94-5) in 1995, in the recent

U S WEST rate case (USW-S-96-5), and in the Homedale/

Wilder/Parma EAS case (GNR-T-93-13).

Q.What is the purpose of your testimony?

A.The purpose of my testimony is to address the petitions received by the Commission requesting extended area service (EAS) from the customers in the Richfield exchange served by Gem State Utilities dba PTI Communications (PTI) to all of the communities in the Magic Valley EAS of U S WEST.  The Commission assigned Case No. GNR-T-97-4 to consider the reasonableness of establishing EAS routes between the communities of Richfield and the communities of the U S WEST Communications, Inc., (U S WEST) Magic Valley EAS region.  I will respond to the community of interest factors as set forth in Commission Order No. 26311, which established guidelines and factors to be followed when evaluating EAS petitions.  In addition, I will examine the costs and lost revenues associated with the implementation of EAS.

Q.What towns or communities are included in the U S WEST Magic Valley EAS region the petitioners are requesting?

A.The Richfield customers are requesting to be included in the Magic Valley local calling area approved by this Commission.  Towns included in this EAS calling area are: Bliss, Buhl, Castleford, Dietrich, Eden, Gooding, Hagerman, Hazelton, Jerome, Kimberly, Murtaugh, Shoshone, Twin Falls and Wendell.

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 districts (do both exchanges share the same school district);

5.the proximity to medical facilities and services; and

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.

Q.Have you reviewed the testimony of PTI’s witness, Theodore P. Otis?

A.Yes, I have.  I compared the results of the analysis of the calling data that was contained in his testimony to that of my own analysis.

Q.Do you agree with the conclusions he has drawn from those results?

A.Generally, yes.  I believe the calling data supports a conclusion that a community of interest exists between the Richfield exchange and the Magic Valley region.  An average of more than 25 calls per line were placed from Richfield to the exchanges in the Magic Valley region.  As Mr. Otis pointed out, the calling data indicates very strong ties between Richfield and Shoshone, as well as Twin Falls.  More than half of the Richfield lines made more than 2 calls per month to both of these exchanges, and the average number of calls per month to these two exchanges was over seven calls per Richfield line.  Over 30% of the Richfield lines placed an average of 6 or more calls per month to Shoshone, while 37% of the Richfield lines placed 6 or more calls to Twin Falls.

Calling to Jerome and Gooding is also high, with an average of more than 3 calls per month placed from each Richfield line to each of these exchanges.

Q.Addressing the geographic proximity (distance between exchanges) and the presence of geographic or other physical barriers (mountains, rivers, valleys) as set out in Commission Order No. 26311, what were your findings?

A.The Richfield exchange is located on the eastern boundary of the Shoshone exchange, and the northern boundary of the Dietrich exchange, both of which are included in the Magic Valley region.  The City of Richfield lies in about the center of the exchange.  The exchange is bisected by the Little Wood River, which flows into the town of Shoshone in the Shoshone exchange.  The major highway located in the exchange, US 95/US 26, runs parallel to the Little Wood River, providing an additional link to the community of Shoshone and the Magic Valley region.

The area between the two towns is largely agricultural, although there are extensive areas of lava flows and other public lands unsuitable for farming.

Q.Do the petitioners served by PTI share a county seat with people in the Magic Valley region?

A.Yes, they do.  Richfield is located in Lincoln County.  Shoshone is the county seat for Lincoln County.  Shoshone is in the Magic Valley region, as is Dietrich, the only other exchange located primarily within Lincoln County.

Q.Are there other government services available with a local call to Richfield customers?

A.Richfield has 911 service for fire and ambulance, a post office, and a local road department, but all other services are a long distance call away.  There are no state or federal agency offices in the exchange.

Q.Do the Richfield area students attend schools outside of the Richfield exchange?

A.Richfield has a school for grades K-12.  The boundaries of the school districts do not correspond to the boundaries of the exchange, as the Shoshone School District indicated they had 5 students from the Richfield exchange attending school in Shoshone.  The Richfield school official to whom I spoke indicated they did not have any students from outside the Richfield exchange, but that many of the parents worked outside the exchange, and it took a long distance call to reach them if a student became ill or the school needed to contact them for other reasons.  Both schools also indicated some teachers and staff also lived in other exchanges.

Q.Do Richfield residents have access to medical facilities and services with a local call?

A.No.  There are no doctors, dentists or medical facilities listed in the Richfield phone book.  This was a point raised by the petitioners, who indicated that no medical services were available with a local call.  A medical clinic is available in Shoshone, and in Jerome.  The regional hospital in Twin Falls is the most likely facility for any hospital needs.

Q.Are other business facilities available locally?

A.A few.  There is one local bank, a ranching supply store, a grocery store and a convenience store.  Many of the services a household or business uses during their normal everyday activities are not available without a long distance call.  This is a farming community, and most of the parts and services that a farmer may need to keep his equipment in good operating condition are not available without a long distance call.

Q.Do Richfield customers have higher than average toll bills?

A.Yes.  The confidential data provided to the Staff for the statewide EAS analysis in Case No. GNR-T-93-13, indicated the average bill for intralata intrastate toll calls for customers from the Richfield exchange was more than double the statewide average for such calls.

Q.Please recap the community of interest factors you have discussed.

A.Richfield is definitely a part of the Magic Valley, from either an economic or socio-economic point of view.  Residents of the exchange rely on businesses located in the exchanges in the Magic Valley for most economic transactions, and they share churches and other civic organizations with other communities in the Magic Valley.  A typical Richfield resident incurs a higher than average toll bill, primarily because they make long distance calls to people and businesses within the Magic Valley, for services and activities that most Magic Valley residents can make with a toll free call.

EAS COSTS

Q.What costs are associated in providing EAS?

A.There are two types of costs for providing EAS.  One is the actual costs incurred to carry out EAS and the other is the shift of cost responsibility from toll traffic to non-toll traffic.  This not only includes revenues the Company currently receives from customers and other carriers, but also includes decreases in federal payments a company may receive due to a shift in overall traffic usage from the interstate to intrastate jurisdiction.

Q.What actual costs will PTI incur to configure its telephone system to provide EAS?

A.According to the testimony of PTI’s witness, Mr. Otis, the Company expects the cost of the facilities required to implement two-way EAS to the entire Magic Valley EAS region to be about $8,000 per year.

Q.What about lost access or toll revenues?

A.As PTI does not carry the toll, they would not incur lost toll revenue.  However, they would lose the access revenues they receive from the companies that do carry the toll.  PTI witness Otis indicated this would amount to $95,000 per year.  As I did not have PTI’s rates for billing and collections, or the volume of minutes terminated by PTI for this same time frame, I was not able to verify this number exactly.  However, based upon the calculations I was able to perform, the $95,000 estimate is well within the range I would have expected.

Q.Do you agree with the $18,000 per year impact projected by PTI witness Otis for the shift in usage from interstate to intrastate?

A.PTI did not provide documentation as to how this number was derived.  However, in response to a question asked of the Company in the Staff’s First Production Request, the Company indicated the stimulation factors the Company would use in predicting the increased traffic on these routes.  The overall stimulation of intrastate minutes of use that would result from the factors identified by the Company is within the range that Staff has found acceptable in other EAS cases.  Therefore, Staff does not dispute the Company’s estimate of financial impact due to this shift of $18,000 per year.

QWhat is the total of these financial impacts?

A.The total impact would be $121,000 per year, or approximately $24 per customer per month.

Q.Do you think the majority of PTI’s customers would want EAS if it were to cost an additional $24 per month?

A.No.  PTI indicated the average long distance bill for calls over these routes was $20 for businesses and $14 for residences, so this would result in significant rate increases for most customers.  PTI estimated that only 17% of the customers would see a reduction in their total bill with an EAS adder of $24 per month.  In my experience, customers do not want rate increases.

Some of the petitions submitted in this case included a way for customers to indicate how much they would be willing to pay for EAS.  The amount identified by most petitioners was $3 to $5, with only 20% indicating a willingness to pay more than $10.  While there may be a tendency for people to indicate a lower amount, in fear that the Commission would grant the highest level acceptable to those submitting the petition, it is highly unlikely that the majority would be willing to pay this much extra.

Q.What rates do Richfield customers currently pay?

A.PTI’s current monthly rates for basic local exchange service are $9.40 for residential customers, $17.40 for business customers, and $26.10 for key system trunk lines.

Q.PTI witness Mr. Otis claimed that the Company would lose revenue on each of a variety of optional calling plans that it analyzed.  Do you agree with his analysis?

A.Yes.  Under the Company’s current rate structure, the Company receives more revenue from access charges than the customer is charged, on average, for making the call.  As long as this remains the case, a voluntary program that is priced high enough to recover the revenue the Company would lose, will have prices that exceed the amount the customers will save.  It is difficult to get customers to sign up for programs that cost more than they save.

Q.Mr. Otis also claimed a “measured option” would not be appropriate.  Do you agree with his assessment of this type of option?

A.In general, yes.  A measured option typically involves the payment of fixed monthly fee, in exchange for which the customer may place calls at a low measured rate, typically 2 to 3 cents per minute.  In my calculations, when either the monthly fee or the measured per minute rate is set high enough to recover the lost revenue, it results in prices that are not attractive to the customer.

Q.A number of independent telephone companies have recently proposed an EAS local exchange service rate of $24.10 for residences and $42.00 for businesses.  Residential customers would also have an option of measured service at $16.00, with 90 minutes of outgoing calls at no charge, and all subsequent minutes charged at three cents ($0.03) per minute.  Have you looked at the impact of this rate upon PTI?

A.Yes.  At these rate levels, and ignoring any impact from the measured service option, the Company would see a revenue increase of approximately $81,000 from basic local service charges, which would not totally compensate for the $121,000 of revenue loss the Company would experience if EAS were granted on these routes.  The net loss would be just under $40,000 per year.

Q.You just mentioned that even if the Commission adopted residential rates of $24.10 and business rates of $42.00 per month, that there would be a revenue deficiency of almost $40,000 per year.  What is the primary cause for this revenue deficiency?

A.PTI’s access charges are among the highest in the state and the loss of revenues from these high access charges is the primary factor leading to the high cost of granting EAS for the requested routes.  Section 62-623 of the Idaho Code directs the Commission to quantify the revenues that local exchange companies obtain from access charges, as unneccessarily high access charges may be a form of hidden subsidy.  The Commission may find PTI’s access charges need to be reduced.

Granting EAS over any of the requested routes and access charge reform have similar, and interrelated impacts upon revenues, and therefore retail rates.  In PTI’s case, the impact of either of these actions may be to raise rates above the threshold level (125% of the statewide average) required for participation in Idaho’s Universal Service Fund (USF).  A rate near the $24.10 and $42.00 levels may be in PTI’s future regardless of the decision in this case.

However, before the Commission considers PTI’s participation in the USF, I would recommend that the Commission consider a total rate review that addresses access charge reductions, appropriate EAS routes, overall Company earnings, as well as possible PTI participation in Idaho’s universal service fund all at the same time.

Q.Such a review may require more than six months.  Does Staff have a recommendation for the period while such a review is underway?

A.The Commission could offer EAS to both Shoshone and Twin Falls, but not the remainder of the exchanges within the Magic Valley region, and recover the revenue loss from these two routes with the $24.10 and $42.00 rates.  The question of whether to grant EAS to the remainder of the exchanges within the Magic Valley region could be deferred until the decisions on access charge reform, overall earnings, and USF participation are made.  This would provide PTI’s Richfield customers with some toll relief at this time, without leading to a revenue deficiency.

Q.Do you believe the majority of PTI’s customers would want EAS to these routes at this level of a rate increase?

A.Before the Commission makes such a recommendation, I would recommend that the Commission determine whether this is an option that a majority of the customers prefer.  If EAS was the only issue, I doubt if a majority would prefer EAS on these two routes at the recommended rates.  The increase in rates is probably about equal to the average charges that customers incur for calls over these routes.  However, we anticipate that customers would receive increased value as the volume of calls is expected to increase when such calls are no longer subject to toll charges.

In addition, as indicated above, it is likely that PTI’s local exchange service rates will rise as a result of access charge reform.  If some toll relief is granted through EAS, most customers will at least see a benefit, rather than simply a cost shift.

Q.How do you recommend the Commission determine if the customers would prefer the proposed EAS terms?

A.I propose that the Company poll the customers by written ballot, and present the results of that poll to this Commission.  Staff would be willing to work with the Company in developing the language and format of the ballot.

Q.Did Staff review any other testimony in this case?

A.U S WEST also filed testimony in this case.  U S WEST does not object to the granting of EAS for these routes, if it is granted to the entire region, and if

U S WEST is allowed to recover its direct costs of implementing the EAS from the remaining revenue sharing funds.  U S WEST also suggested a process that the Commission could adopt for handling future EAS petitions.  U S WEST also raised the issue of compensation to

U S WEST for lost toll and access revenues.

Q.Does Staff have a recommendation on the issue of U S WEST’s compensation for lost revenues?

A.Staff does not believe that U S WEST will realize a net loss of revenues as a result of granting EAS for these specific routes.  Toll rates over these short distances have not recovered the full cost of PTI’s high access charges.

Q.Could you please summarize your testimony?

A.Staff finds that a community of interest does exist between Richfield and the communities in the Magic Valley EAS region.  Staff concurs with the Company’s estimate of the overall cost of providing EAS to the entire region would be approximately $24 per line per month.  Staff agrees that an “EAS adder” of this magnitude would not be acceptable to the customers.  Staff also concurs with the Company’s findings that optional calling plans, measured service, or EAS to individual routes would cost the Company more than customers would save.

Staff recommends the Commission defer an overall decision on EAS between Richfield and the Magic Valley EAS region and that the Commission simultaneously address the issues of EAS, access charge reform, overall company earnings and PTI participation in Idaho’s USF.

As an interim recommendation, Staff suggests the Commission approve EAS between the exchanges of Richfield and Shoshone and Richfield and Twin Falls, if the majority of customers in Richfield would accept EAS service over these routes at the residential monthly rate of $24.10, with a residential measured rate of $16.00, with a measured rate of three cents per minute and a 90 minutes per month allowance, and a business monthly rate of $42.00.

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

A.Yes, it does.