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 a Telecommunications Analyst employed by the Idaho Public Utilities Commission.

Q.Please describe your work experience and educational background.

A.I have been employed with the Commission since April 1997.  I have completed a Regulatory Studies program offered through NARUC at Michigan State University.  I recently attended the National Exchange Carrier Association (NECA) Expo where one of the topics included Federal Universal Service Fund (USF) separations and jurisdictional shifts.

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

Q.Have you previously presented testimony before this Commission?

A.Yes, I have presented technical testimony on several EAS cases.

Q.What is the purpose of your testimony?

A.I am filing testimony in response to petitions received from customers of Albion Telephone requesting Extended Area Service (EAS) into the Burley exchange, including the Declo wire center.  The Westel, Inc. customers have also filed a petition and are asking that EAS be granted for toll-free calling into the eastern Idaho region.

Q.What exchanges are included in Albion’s service area?

A.The exchanges within Albion’s service area are Albion, Almo, Malta, Elba and Holbrook.  The service area encompasses most of Cassia County with Holbrook being in Oneida County.

Q.Are there other telephone companies with exchanges in Cassia County?

A.Yes, there are two other companies within Cassia County.  Project Mutual, a cooperative, has the Oakley exchange and U S WEST has the Burley exchange, which includes the town of Declo (Burley/Declo).

Q.Is the Oakley exchange, or any other Project Mutual exchange, included in this EAS proceeding?

A.No, they are not for many reasons.  First, as I mentioned previously, Project Mutual is a cooperative and, by statute, is exempted from this Commission’s jurisdiction.  Idaho Code § 62-603 (14) defines “Telephone Corporation” as:

every corporation . . . providing tele-

communications services for compensation

within this state, provided that municipal,

cooperative, or mutual nonprofit telephone

companies shall be included in this

definition only for the purposes of

sections 62-610 and 62-617 through 62-620

Idaho Code. (emphasis added)

Second, there has never been a formal petition filed that proposed to include Project Mutual into this case.  Because there has not been a formal request to include Project Mutual into this case, I have not had an opportunity to evaluate the cost or call data associated with the inclusion of Project Mutual into this EAS case.  Finally, it is Staff’s understanding that Project Mutual and Albion Telephone have been negotiating a “bill and keep” arrangement between the companies.  Staff encourages the Company to present that, or any other stipulated arrangement, in a separate proceeding.

Q.Has Staff or the Commission been contacted by anyone from Project Mutual concerning this EAS proceeding?

A.Yes.  On October 6, 1998, the Commission received a letter from Mr. Charlie Creason, President of Project Mutual, requesting that the Commission consider a “Mini-Cassia” calling region.  He suggested that the “Mini-Cassia” calling region include Oakley, Burley/Heyburn, Paul, Rupert, Minidoka and Norland.

Q.What was Staff’s response to Mr. Creason’s request?

A.Staff, through its attorney, responded to Mr. Creason via a letter dated October 14, 1998.  The letter explained to Mr. Creason that “because this case was initiated two years ago and the hearing has been reset more than once, the Commission Staff does not intend to ask the Commission to further delay Case

No. GNR-T-96-9 by expanding it to include Project Mutual exchanges.”  The letter went on to explain that due to time constraints of testimony filings and hearings, and the unique circumstances surrounding Project Mutual, a separate case would be more appropriate for his request.  Staff felt that it could not address the issues surrounding Mr. Creason’s request on such short notice.

Q.What communities are included in Westel’s service area?

A.Westel is a unique company in that its exchanges are in three separate counties, one of which is not contiguous to the other two.  Malad is in Oneida County in southeast Idaho and borders Utah.  Arco, Moore and Howe are in Butte County.  Mackay is in Custer County and is contiguous to Butte County.  Customers in Albion’s Holbrook exchange have requested that they be included with the Malad exchange to call the eastern Idaho calling region.

Q.Why are the Holbrook customers requesting that they be included with the Westel customers in Malad, and not the Albion calling area?

A.As I will explain later, Holbrook has a stronger community of interest with the Malad community than the Albion communities.  Both exchanges are in Oneida County and Holbrook currently has toll-free calling into Malad.

Q.What towns or communities are the Westel customers requesting for their EAS calling region?

A.The Westel customers are requesting inclusion into the U S WEST eastern Idaho local calling area approved by this Commission.  Towns included in this EAS calling area are:  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.

Q.Have there been other communities recently added to the eastern Idaho EAS region?

A.Yes.  Through other EAS petitions and the approval of those petitions by the Commission, the eastern Idaho calling region has expanded to include Arbon, Rockland, Paris, Irwin, Wayan, Driggs, Victor, Tetonia, St. Anthony, Ashton, Island Park and Teton.  These communities are all served by several independent telephone companies.

Q.What towns or communities are the petitioners from Albion requesting for their EAS calling region?

A.The petitioners have requested calling into U S WEST’s Burley exchange and the town of Declo that is also a wire center (Burley/Declo).

Q.Has the Commission previously considered EAS between Albion and Burley/Declo?

A.Yes.  In November 1989, the Commission received petitions from Albion customers requesting EAS into Burley/Declo.  Some U S WEST customers also signed the petition.  In Order No. 22877, issued December 8, 1989, the Commission initiated an investigation into the provision of EAS between the communities.  On November 8, 1991, the Commission made a preliminary finding that the petitioners’ request for EAS should be denied.  The Commission urged the parties to “explore alternative toll discount plans.”

On April 29, 1992, a second hearing was held, at which time public testimony from the companies, the petitioners, and the Commission Staff was submitted. The purpose of this hearing was to discuss the possible implementation of the Short Haul Optional Toll Services (SHOTS) program or other toll relief plans for the customers of Albion Telephone Company.

Q.What was the SHOTS program?

A.Albion Telephone proposed the SHOTS program.  It proposed a monthly minimum of $3.00, $4.00, or $5.00, depending upon the distance of the particular Albion Telephone exchange from the Burley/Declo exchange.

Q.What was the Commission decision regarding the SHOTS plan?

A.In Order No. 24423, the Commission did not adopt the SHOTS plan as proposed by the Company.  The Commission pointed out that the plan was not supported by U S WEST, the Commission Staff, the Petitioners, or the public.  What is more important is that the Commission stated that:

. . . to make this proposal viable, it was

recommended that the state USF (Universal

Service Fund) make up the revenue shortfall

. . . we find it inappropriate to use state

USF monies to subsidize competitive toll

services.  Such a use was not intended when

the Legislature enacted the Telecommunications

Act of 1988 by which the USF was created.

Consequently, we find that SHOTS should not

be implemented . . .

Q.When did the Commission receive a new petition from the Albion customers requesting EAS to Burley/Declo again?

A.In 1995, the Commission received petitions from government officials and citizens in Cassia County requesting toll-free calling among the local telephone exchanges of Burley and surrounding communities in Cassia County.  On August 20, 1996, the Commission issued a Notice of Petition, providing notice that the case had been initiated.

Q.Why are you combining Albion and Westel into one EAS case?

A.Albion Telephone purchased certain exchanges from U S WEST in October 1996.  Those exchanges included the communities of Malad, Arco, Howe, Moore, and Mackay.  Albion Telephone created Westel, Inc. as a subsidiary company of Albion to complete the transaction and to be the separate operating company for the Arco, Malad and Mackay exchanges along with the wire centers located in Howe and Moore.  Combining the EAS petitions of the separate companies into one case seemed appropriate because the traffic studies and financial data could be obtained and reviewed simultaneously, thereby reducing expenditures the Company would incur for gathering data and consulting fees.

Q.What issues will you address in your testimony?

A.I will respond first to the community of interest factors as set forth in Commission Order

No. 26311, which established guidelines to follow when evaluating EAS petitions.  I will then address the issues contained in a Stipulation and Settlement Agreement entered into between the independent telephone companies, U S WEST, and Staff to expedite certain cases that were before the Commission.

Q.What is the Stipulation and Settlement Agreement that you have referred to?

A.In February 1998, representatives for the Independent Telephone Association, Staff and U S WEST met to formulate a “template” that would expedite the finalization of certain EAS cases that were before the Commission and resolve certain issues surrounding pending EAS cases.  In the Stipulation, all parties agreed to a three times (3X) stimulation factor, the elimination of monthly zone charges and a uniform EAS rate design.

Q.Does the Stipulation and Settlement Agreement pertain specifically to these cases?

A.The intent of the agreement was to resolve specific issues (stimulation factors, rate design, monthly zone charges) for all the independent companies that have pending EAS cases; however, there is no specific agreement, per se, for these cases.  The agreement was to be used in addition to the criteria set by the Commission when considering the feasibility of EAS.  Some of the criteria the Commission considers in  EAS cases is in Commission Order No. 26311.

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 find whether a community of interest exists to support EAS, the primary factors, besides 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 bothexchanges 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;

6.the willingness of customers

to pay increased rates.

Order No. 26311, page 9.

CALLING DATA AND DISTRIBUTION

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(s).  Call distribution shows how many lines had 0 calls, 1 call, 2 calls, 3 calls, etc.

Q.What did the calling data show for the Westel customers in the Malad and Holbrook areas?

A.For the Malad customers, there appears to be an interest for calling into the Pocatello area, but calling into Idaho Falls or Rexburg may not be as  important.  The data for calling into Pocatello showed that 45% (724 lines) made no calls and 30% (477 lines) made between 1 and 4 calls.  The calls per line per month distribution are presented in Exhibit No. 105, page 1.  The data for calling into Idaho Falls showed that 78% (1,259 lines) made no calls; 17% (268 lines) made between 1 and 4 calls and only 3% (52 lines) made between 5 and 9 calls.  The calling data for Rexburg did not show any calling interest with 94% (1,520 lines) having no calls.

Q.What did the number of calls per line per month for the Albion and Westel customers show?

A.The Albion customers show a significant number of average calls per line per month.  Exhibit

No. 105, pages 7 and 8 also shows this information.  The Westel average number of calls per line, in most instances, were not as high as those of Albion customers calling into Burley/Declo.

Q.Did the calling data for Holbrook show the same similarities as the Malad calling data?

A.Yes.  Pocatello was the exchange with the highest percentage of calls from Holbrook.  Exhibit

No. 105, pages 2 and 3, shows the summary of this.

Q.What did the calling data and distribution for the Arco area show?

A.Exhibit No. 105, pages 3-6, shows a recap of the calling distribution for Arco, Moore, Howe and Mackay for calling into the Eastern Idaho regions.  The Arco customers showed a reasonable interest for calling into the Idaho Falls area.

Q.What did the calling data reveal for the Albion customers?

A.If there was ever an argument for EAS, it would be representative of the Albion calling data and distribution.  As shown in Exhibit No. 105, pages 7 and 8 on average, over 50% of the lines made between 10 and 45 calls per month.  There was a small percentage that made no calls into Burley/Declo, however this is minimal in comparison to those lines that did.

GEOGRAPHIC PROXIMITY/PRESENCE OF GEOGRAPHIC BARRIERS

Q.Please explain what geographic proximity means and how it pertains to the Albion customers.

A.When two communities are located in close proximity to one another with one community having only minimal, or limited, services while the other community has essential or enhanced service offerings, this can create a community of interest.  The community with the limited services essentially depends on the other community.  The community limited in services often must incur a toll call to obtain information regarding the enhanced services of the other community.  An excellent example would be the relationship between Albion and Burley/Declo.

Albion is located approximately 20 miles from Burley.  The only services in Albion are a post office, small convenience store, one gas station, one bank, Albion Telephone and a small diner.  If the customers in Albion wish to have more options for shopping, banking, medical facilities, etc., they must travel into Burley, which is approximately a 15 minute drive, but a toll phone call.

Malta is southeast of Burley approximately 30 miles.  Elba is also located approximately 30 miles south of Burley.  Almo is 12 miles south of Elba and approximately 42 miles south of Burley.

Q.Did you observe any geographic proximity or barriers that may exist in the Arco area?

A.Yes.  Mackay is 26 miles west of Arco and 52 miles south of Challis.  The road between Challis and Mackay is a two lane road, with many curves and the terrain is mountainous.  Mackay customers are able to obtain essential services (medical, shopping, etc.) in Arco more promptly than driving into Challis.  Although Challis is the county seat for Mackay, the proximity to Arco makes Arco the more logical choice when obtaining services.  Arco and Mackay currently have EAS between each other.  Furthermore, 63 miles east of Arco is Idaho Falls where there are even more services available.

Q.What is an example of the presence of geographic or other physical barriers in the Malad or Holbrook areas?

A.Holbrook is a good example of both geographic proximity and the presence of geographic or physical barriers.  Holbrook is in the Albion Telephone region, but is approximately 70 miles from Albion.  To get to Albion, a Holbrook customer must travel through the desert and over mountains to get to Interstate 84.  From there they would travel north and exit at Declo,  then proceed south from Declo approximately 14 miles to Albion, which has very few services available.

That same customer could travel east approximately 24 miles and be in Malad where they have a number of services available to them.  Some of those services include banking, a post office, medical facilities and schools.

COUNTY SEAT RELATIONSHIP

Q.Please describe the county seat relationship(s) for the Albion customers.

A.Albion is in Cassia county and is located approximately 19 miles south of Burley.  Burley is the county seat of Cassia County.  The exchanges/towns included in this EAS proceeding that are located in Cassia County include Albion, Almo, Elba, Malta, Raft River, Burley and Declo.  Albion Telephone also serves the community of Holbrook, which is located in Oneida county.

Q.Please describe the county seat relationship(s) for the Westel customers.

A.Malad is located in Oneida County and is also the county seat.  Arco, Moore and Howe are located in Butte County with Arco being the county seat.  Mackay is located in Custer County and Challis is the county seat of Custer County.  Westel currently serves approximately 3,999 customers within Butte, Oneida and Custer Counties.  Although Holbrook is within Albion’s service area, Staff will consider it with the Westel petitions.

RELATIONSHIP TO SCHOOL DISTRICTS

Q.What is meant by the relationship to school districts?

A.This is an important element of EAS.  If students live in a different telephone exchange than the school districts they attend, this creates toll charges for the parents and the school districts.  An example would be Albion and Declo.  Albion students attend school in Declo and must make toll calls to classmates.  Albion Telephone has installed two lines into the Declo grade school and high school.  Those lines have an Albion dial tone which eliminates toll charges for the school district and families with children who attend those schools.

Q.Where do students in the Holbrook area attend school?

A.There are no schools in Holbrook.  The middle and high school students attend school in Malad.  The grade school students attend school at Stone Elementary, which is south of Holbrook approximately 13 miles, located on the Utah border.  Stone is part of the Holbrook exchange.  Holbrook has toll free calling into Malad.

Q.What is the schooling arrangement in the Malad exchange area?

A.Malad is very self-sufficient when it comes to schooling.  Malad has a grade school, middle and high school.  Malad also offers an extension office for the University of Idaho and has a Head Start Center.  Between 40 and 50 students from Arbon, Holbrook and Stone attend school in Malad.

Q.Let’s move to the Arco exchange area.  What schooling arrangements are there?

A.Arco has schooling for grades K-12.  Children in the surrounding communities of Howe, Moore, Darlington, Butte City and some of Leslie attend school in Arco.  All calling between these areas is toll free.

Q.What is the schooling arrangements in the Mackay area?

A.Mackay students attend grades K-12 at the Mackay schools.  Some students (approximately 20) from Leslie attend school in Mackay as well.

Q.What is the schooling arrangement for the Albion students?

A.Albion has only an elementary school.  The middle and high school students attend school in Declo located in U S WEST’s exchange.  Burley High Tech Center brings in 85 students from Raft River, Albion, Elba, Almo and Malta.

Q.Does Malta have schools for grades K-12?

A.Yes.  Malta’s High School is called Raft River High School.  Depending on the students’ location within the valley, the student may choose which school (Declo or Raft River) he/she wishes to attend.  A large percentage of the high school students from the valley attend Malta’s Raft River High School.  The rest of the students attend school in Declo.  Grade school and middle school students of the Raft River valley have the same schooling arrangements as the high school students.

Q.Where do students of Elba attend school?

A.The Elba high school students have a choice between Malta (Raft River High School) and Declo High School.  The majority of those students attend Raft River High School.  The middle school children attend school in Malta and the grade school children attend school in Almo.

Q.What schooling arrangements are available for the Almo students?

A.There are approximately 12 students from the Almo, Yost and Elba communities who attend grades K-6 in Almo.  Middle and high school students attend school at Raft River High School in Malta.

PROXIMITY TO MEDICAL FACILITIES

Q.Please explain what is meant by the proximity to medical facilities.

A.Some communities are very remote and have either very limited, or no, medical facilities.  Because the communities are often small and cannot maintain an economic base that would support costly medical facilities, like the larger more populated communities do, medical assistance must be obtained in the larger neighboring communities.  This can create large toll bills for the people within these small and remote communities, especially for the elderly or seriously ill.

Q.What medical facilities, if any, are available to the Albion customers?

A.Albion is a small town with a population of approximately 305.  For 911 calls, Albion has EMTs and a fire station.  If further medical assistance is required, patients must travel to Burley.

Q.What are the medical facilities in Burley?

A.Burley’s Cassia Regional Medical Center is a 40-bed hospital that provides medical, surgical, ICU and 24 hour emergency room services.  It also has a medical doctor on staff at all times.  The Medical Center has three operating rooms and provides out-patient surgery, physical therapy, a lab for lab work and four internal medicine doctors.  St. Alphonsus of Boise runs a 16-bed dialysis center in Burley as well.  There are also four nursing homes in Burley.

Q.Are there any medical facilities in Elba, Malta or Almo?

A.No.  Elba, Malta and Almo are very small towns.  Elba is located approximately 14 miles south of Albion and has no services.  Malta is located approximately 17 miles south of Albion and has a population of 171.  Malta does have a fire station with an ambulance.  Almo has a population of approximately 40 people and is located near the City of Rocks.  It has one building that houses the general store, gas station and post office.  However, there are no medical facilities in Almo.  Anyone within the Elba, Malta or Almo communities who requires medical attention must commute to Burley.

Q.What do the Westel customers in Malad and Holbrook have for medical facilities?

A.Malad is a fairly self-sufficient community.  It has a population of approximately 2,500 and a small county run hospital.  It is combined with a long-term care (nursing home) unit that has 41 long-term care beds and 11 acute care beds.  It has one operating room and an emergency room that is staffed with a 24 hour emergency room doctor.  Most doctors are general practitioners, which requires patients in need of specialized or extensive medical attention to be transported to Pocatello.  The fire department also has a Search and Rescue unit along with an ambulance service.

Holbrook has no medical facilities or services of any kind.  Should more acute care be required by the residents of Malad or Holbrook, Pocatello is approximately 55 miles north of Malad and has facilities to treat serious illnesses.

THE WILLINGNESS OF CUSTOMERS TO PAY INCREASED RATES

Q.Please explain what is meant by the willingness to pay increased rates.

A.EAS is not free.  There are a number of costs associated with it and, therefore, customers rates increase as a result.  The traditional EAS structure requires that all customers pay a reasonable amount for the opportunity to call a larger region.

Q.Have you performed any fact finding investigation to ascertain the customers’ willingness to pay increased rates?

A.Yes.  Staff and the Company created a questionnaire that was distributed to all Albion and Westel customers in their September billing.  A sample of the questionnaire is attached as Exhibit No. 106.  One question asked was:

In other cases, similar requests for extended

area local calling have resulted in monthly

rates of $24.10 for residential customers and

$42.00 for business customers.  At these

rates, would approval of the extended local

calling area be a benefit to you?

Q.What were the responses for the Albion customers?

A.A total of 1,147 questionnaires were sent out to Albion customers.  As of November 3, 1998, 433 (or 37%) responses were received back.  Of the total responses received, there were 390 “yes or no” responses and 43 service quality responses.  Of the service quality responses, there was no indication of their position on EAS.  Of the total “yes or no” responses, 74% were willing to pay increased rates and wanted EAS, 16% were against EAS.  Overall Albion Telephone received a 50% excellent service rating and a 46% good service rating.

Q.What did the questionnaire results show for the Westel customers?

A.There were 3,883 questionnaires sent to the Westel customers.  Of those questionnaires sent, there have been 1,450, or 37%, returned.  Of the total returned, 1,340 (92%) responded either yes or no.

Sixty-one percent (61%) favored EAS, 31% opposed EAS and 8% only responded to the quality of service question.  Westel received a 30% excellent service rating and a 65% good service rating.

Q.Could you please provide a break down of how Westel customers requesting EAS calling into the Eastern Idaho region responded to the questionnaires?

A.Yes, please see the following recap by town.

TOWNYESNO

Malad61%39%

Arco72%28%

Moore81%19%

Howe82%18%

Mackay60%40%

Holbrook73%27%

Q.What were the questionnaire results for calling from the Albion exchanges into the Burley/Declo region?

A.TOWNYESNO

Albion81%19%

Almo72%28%

Elba68%32%

Malta86%14%

Raft River    100% 0%

Q.Has Staff received any other comments from the public that would support or object to certain EAS routes?

A.Yes, many citizens from Mackay have contacted Staff regarding the proposed EAS calling into eastern Idaho, including 21 letters and one phone call strongly opposing EAS.  From Arco, I received one letter and one phone call supporting EAS.  Four letters opposing EAS came from Arco customers as well.  Recently two letters from Darlington customers and one from a Moore customer were received opposing EAS.

Q.What are some of the concerns voiced in the opposing letters?

A.All the letters received were from senior citizens who are on fixed incomes and feel that they will not be able to keep their phone service if the rates are approved.  They also feel that they do not make enough calls into the entire region to warrant such a price increase.

Q.Are there any programs available for low/fixed income customers to help alleviate the increase in rates?

A.Yes, the Idaho Telephone Service Assistance Program (ITSAP) is specifically designed for low income individuals.  This program is administered through the Department of Health and Welfare and the 1997 Legislature changed the eligibility standards.  I believe there should be more education provided to the Mackay residents to increase the awareness of this program.  I believe the number of people opposing EAS would decline if they were aware of the $10.50 ITSAP credit they could receive to reduce their phone bills.

Q.What cost factors are evaluated when determining the feasibility of EAS for an independent telephone company?

A.Albion and Westel, like the other independent Local Exchange Carriers (LECs), are Title 61 and fully regulated companies.  This Commission fully regulates the services offered by the Companies and has an obligation to ensure that the Companies have an opportunity to earn their authorized rate of return.  To the extent that the implementation of EAS creates an increase in costs or a loss of revenues, resulting in either company earning below its authorized rate of return, the Commission has an obligation to allow the Company to increase rates to offset the increased costs or recapture lost revenues.

COSTS OF EAS

Q.What cost and revenue implications do you analyze when evaluating the feasibility of EAS?

A.There are a number of financial implications associated with certain costs and revenues when EAS is granted.  Before a company can implement EAS, certain upgrades to the central office switch and plant must be made.  The Company is entitled to recoup facility costs that are directly associated with EAS.

With EAS, the Companies must also interconnect with each other to facilitate two-way EAS calling.  This results in the loss of access minutes.  Those access minutes are lost as a result of toll calling becoming toll free calling.  This creates a decrease in access revenues for the Company.

When access minutes decline, so do billing and collection (B & C) revenues.  Another revenue loss that will occur as a result of EAS, per the Stipulation and Settlement Agreement, is the loss in monthly zone charges.

The final revenue/cost issues that are analyzed are the consulting fees and, what is called the inter/intra state revenue shift.  The inter/intra state (I/S) revenue shift occurs 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.Will there be a significant revenue shift as a result of EAS?

A.One important point that should be considered with the I/S shift and the Federal USF funds that Albion will receive in 1999 ($713,952) is that the disbursements are calculated using 1997 data.  There is a two year lag with Federal USF funding, therefore, the I/S revenue shift ($171,509) that the Company anticipates it will lose in its funding as a result of EAS, will not be realized until EAS is implemented and the Company completes its 1998 (if implemented in 1998) report to NECA.  Therefore, its Federal USF disbursements may not be affected until the year 2001.  There is a twenty-four month window for a true-up of data, should the forecast the Company submits to NECA be inconsistent with the actual events that have occurred.  During this true-up period adjustment, the Company may either increase/decrease the Federal USF, based on the Company’s forecasts and actual changes in revenues and costs.

Q.What is Albion required to provide NECA in order to be eligible for Federal USF funding?

A.Albion is required to forecast a revenue requirement based on certain events the Company anticipates will occur and those that it can historically attest to.  Some of those events may include new construction projects, change in demand due to growth/decline in the service areas, purchase of new exchanges or a switch, decline in access minutes, etc. The Company then must determine reasons for significant differences between past forecasts and actual results.  The Company then compares its forecast to NECA’s.  It is crucial that the Company not over/under estimate its forecasting.  However, this process when completed takes approximately two years before any changes to Federal disbursements are made from the NECA pool.

Q.When will the disbursements for 1998 be determined?

A.Albion’s Federal USF disbursements in the year 2001 will be based on 1998 data the Company will provide to NECA.  Therefore the Federal USF revenue impact as a result of EAS will not take place until 2001 should the Commission grant the EAS petitions.  At that point, Albion/Westel should recover plant upgrades and the anticipated lost Federal USF revenues due to the I/S shift through the increased incremental revenues from basic rates.

Q.Will there be any facility upgrades required to implement EAS?

A.Yes.  On October 21, 1998, the Companies’ consultant, Mr. Hendershot of GVNW, faxed me a memo that included his calculations of all anticipated costs associated with central office equipment (COE) upgrades, fiber installation and equipment upgrades needed for EAS.

Q.What capital improvements were needed for Westel?

A.According to Mr. Hendershot’s documentation, the Company will require facility upgrades of $1,690,196.  Some of those upgrades include fiber for Arco, Howe, Moore and Mackay.  Malad will require COE upgrade and span equipment.

Q.Have you calculated the annual revenue requirement associated with the Westel EAS capital investment?

A.Yes.  Exhibit No. 103, pages 1 and 2, shows the calculation for annual revenue requirement associated with plant investment for Westel and Albion.  Westel’s annual revenue requirement associated with plant additions for EAS will be $266,051.  This value is then carried over to Exhibit No. 101, page 2, line 19, to calculate the total revenue requirement (including plant associated with EAS) for each company.

Q.Will there be any plant upgrades directly associated with EAS for Albion?

A.Yes, Mr. Hendershot indicated that Albion would require $257,219 in plant upgrades.  Part of the upgrade was new fiber between Albion and Burley.  After talking with the Company and determining that the project is complete, I requested backup for this figure and received receipts for the Albion/Burley fiber project that showed the actual capital expenditure was $120,174, not $171,369 as estimated.  This reduced Albion’s capital costs.  I also removed the City of Rocks project ($18,000) from Albion leaving a total capital investment, directlyassociated with EAS, of $188,024.  Exhibit

No. 103, page 1 shows the capitalization of investment associated with plant for Albion.  The annual revenue requirement associated with plant investment for Albion is $37,459.

Q.Why did you remove the City of Rocks project?

A.Mr. Hendershot explained to me that this Commission “ordered” Albion to extend service to the City of Rocks area.  After researching it, I discovered that on August 10, 1998, the Commission issued Order No. 27670 in Case No. ALB-T-98-1.  In the Order the Commission, “approved Albion’s Petition to expand its service area to include the City of Rocks National Monument area within the Company’s Almo exchange.”

Q.Were you able to locate the petition filed by the Company?

A.Yes.  On page 3, item 7, of the Company’s petition for amendment of certificated service area boundaries, it states:

. . . Granting of this Petition will not

require Albion to construct or expand any

facilities, other than normal extensions

of service within its service area to the

City of Rocks and to new customers as they

may move into the area and request service

from time to time.  Albion will not require

any financing for construction or expansions

if this Petition is approved . . .

(emphasis added)

Therefore, this appears to be an elective project by the Company.  It is also outside of the scope of this EAS case.  The City of Rocks construction project is not an expense directly associated with providing EAS and, as such, should not be included in this case.  The City of Rocks project is simply a construction project to expand facilities and should be properly capitalized and booked as plant-in-service.

Q.What is the amount of lost access revenue for Albion and Westel?

A.I was able to reconcile the traffic data the Company provided with my calculations.  The Company and I used 1997 traffic study data that was averaged for three months and then annualized.  On October 30, 1998,

Mr. Hendershot faxed me a proprietary information spreadsheet wherein he calculated lost access revenues.  He was using 1998 data, for which I could not obtain back-up data in time to analyze and prepare testimony. After discussing this with Mr. Hendershot, he agreed to use my lost access revenue calculations with some of his own adjustments.  We do agree that Westel will lose $276,952 in annual Access Revenues and Albion will lose $87,289.

Q.What adjustments to access revenues is

Mr. Hendershot proposing?

A.Mr. Hendershot has indicated that he is including lost access revenues for the inclusion of Project Mutual, Mud Lake and Citizens exchanges into this EAS case.  With the Project Mutual and Mud Lake additions, it increases Albion’s lost access revenues to $122,299 and Westel’s to $399,251.  According to his November 9, 1998 fax he has not indicated how much he intends to include for the Citizens loss of access revenues.

Q.Are you adding Project Mutual, Mud Lake or Citizens to your calculations for lost access revenues?

A.No.  This case is to consider the petitions from Albion customers wanting to call Burley/Declo, and Westel’s customers wanting to call the eastern Idaho EAS region.  I have not seen a formal petition from these customers wanting to call the Project Mutual, Mud Lake or Citizens exchanges.  Also, I am not certain that the lost revenues for these additional exchanges are accurate, since I have not received data to substantiate

Mr. Hendershot’s projections or calculations.  I would be remiss in my duties as an analyst if I were to accept

Mr. Hendershot’s projected lost access revenues at face value, without any supporting data.

Q.Do you believe that EAS should be granted into the Project Mutual, Mud Lake or Citizens calling region?

A.I believe it could be a possibility; however, as this Commission stated in Order No. 27789:

EAS should stand on its own.  Where

customers are not requesting EAS and

no evidence is presented supporting

the basic criteria for granting EAS,

the Commission will not generally

approve it.

This case must stand on its own merit and not be used to facilitate other incidental issues that are not a part of the original petitions.  If, at some future date, the Albion or Westel customers decide that they must have the ability to call Project Mutual, Mud Lake or the Citizens exchanges, then they should file a petition and Staff will investigate (with the appropriate supporting documentation) the reasonableness of granting those EAS routes.  Until there is such a petition filed, costs for those routes should not be used to increase the lost revenues and costs associated with this particular case.

Q.What is the amount of lost billing and collection (B & C) revenues that each company will have?

A.Westel will have a decrease of $35,835 and Albion’s lost B & C revenues will decline by $13,899 if EAS is implemented.

According to a fax that Staff received on November, 9, 1998, the Company’s projected lost B & C revenues for Westel are equal to mine ($35,835).  The Company has calculated lost B & C revenues of $19,034 for Albion and has included Project Mutual and Mud Lake into this calculation.  The Company intends to add Citizen’s lost B & C to Albion’s calculations, but apparently has not computed those figures as yet.

Q.What will be the annual revenue loss for monthly zone charges?

A.I have used Mr. Hendershot’s fax of

October 30, 1998, to obtain this number.  Westel is the only company that will incur the annual loss of $26,082 of monthly zone charges.  This number is based on 1,367 access lines in the Arco, Moore, Mackay, Malad and Howe areas, which are currently being charged $3.19, less a credit of $1.60 per month, resulting in a $1.59 net charge per line per month.  It was agreed that this charge would abate when the Company, Staff and U S WEST entered into the Stipulation and Settlement Agreement in February 1998.

Q.Has GVNW provided the consulting fees for EAS traffic studies, costs etc., associated with EAS?

A.No.  However, after a conversation with

Mr. Hendershot on November 11, 1998, he informed me that GVNW would provide a billing for its fees and planned to submit several revisions to the financials that were provided to Staff for preparation of this testimony.

Mr. Hendershot indicated that this information would be delivered via fax the afternoon of November 11, 1998.  As of November 12, 1998, Staff had not received any documentation supporting GVNW’s time accounting or revisions it intends to use for its testimony filing on November 13, 1998.

However, Mr. Hendershot did indicate that the consulting fees for EAS and the audit that Staff has been performing will be $60,000.  GVNW would also like to amortize those fees over two years.  I believe that auditing fees and those fees associated with EAS are two separate issues, and should be treated as such.  Staff witness Terri Carlock will address GVNW’s fees in more detail in her testimony.

Q.You have indicated that Staff has been auditing Albion and Westel.  Will that have any influence on the values in your testimony for EAS?

A.The direct costs associated with EAS should not change.  I used the 1997 Annual Report that the Company provides to the Commission for many of my numbers.

RATE DESIGN

Q.What are the rate designs proposed by the companies?

A.The rate designs proposed by the Companies are the same as those proposed in the Stipulation and Settlement Agreement.  The proposed basic monthly rates for business and residential customers are $42.00 and $24.10, respectively.  There is also an optional measured service rate of $16.00 per month with 90 free minutes of local usage for residential customers only.  After the 90 free minutes of local usage, the proposed rate is $.03 per minute.

Q.Are the rate designs acceptable for these cases?

A.The proposed rates were for the eastern Idaho EAS calling region.  For Westel, the proposed rates are reasonable.  I would support those rates for the Westel customers calling into eastern Idaho.

Q.What about the Stipulated rates for the Albion customers?

A.Albion customers are requesting Burley and Declo only.  To charge those customers $24.10 and $42.00 for residential and business service appears to be excessive at first blush.  However, an argument could be made for the value of the service a customer will receive if EAS is granted.  If those customers were receiving a large region, such as eastern Idaho, it would be easier to support those rates.  I have analyzed the current rates that Albion customers are paying and developed two rate designs that could be implemented.

Q.For your first option, what rates would you propose for the Albion customers?

A.Currently, the customers of Albion are paying $14.50 and $25.50 for residential and business service, respectively.  Albion is a state Universal Service Fund (USF) recipient and, by statute, must set its rates at 125% of the statewide average.  The current 125% statewide average rates are $19.14 for residential service and $38.22 for business service.

I believe that it would be reasonable for Albion’s residential rates to increase to $22.50 and $39.50 for business service.  These rates would bring the Company up to the USF threshold plus add an additional $3.36 for residential customers and $1.28 for business customers to have EAS into Burley and Declo.  This would keep the Company eligible for USF disbursements without placing the Company into a large over-earning situation.  It would offset the costs associated with implementing EAS and be more in line with the additional calling area the customers will receive.  Exhibit No. 101, lines 18 through 24, shows a recap of the incremental increase in revenues and the adjustments to those revenues associated with EAS and this rate design.

Q.What is the second rate design you looked at for Albion?

A.The calling data strongly support the community of interest tie between Albion customers and the Burley/Declo calling region.  Currently those customers are calling into Burley/Declo and are spending a large amount in toll charges to do this.  If the rates were increased to $24.10 and $42.00, the customers who made those calls would benefit the most.  I would, however, with this rate design recommend that the USF draws that Albion is currently receiving be reduced.  Albion would certainly be in a larger over-earning position and should not need the USF draws it currently is receiving.

RECOMMENDATIONS

Q.Based on the Community of Interest Criteria set forth in Commission Order No. 26311, do you have a recommendation for EAS?

A.For the Albion customers I would strongly recommend EAS.  However, I question whether the proposed rates of $24.10 and $42.00 for residential and businesses respectively is fair or reasonable for those customers.  When Staff, U S WEST and the Companies met to discuss the Stipulation and Settlement Agreement rate designs, we were discussing the eastern Idaho region.  That region has grown into one of the largest calling regions in the state.  Albion customers are only receiving Burley/Declo.  I believe that the proposed rates for toll-free calling into the Burley exchange and the Declo wire center may be excessive, but I will discuss that in more detail.

It is difficult to make a recommendation for the Westel and Malad customers.  For both Malad, including Holbrook, and Arco area customers, not recommending EAS is difficult based on previously approved EAS routes.

I do have some reservations for the Mackay customers because of the responses to the questionnaires and the letters Staff has received.  Of the 38% questionnaire responses received, 60% favor EAS and 40% oppose it.  I am not certain that the remaining 62% of the citizens would want EAS, or if they would even benefit from it.  I am not certain that the numbers typify the whole community, especially when compared with the calling data and distribution, which showed that 42% of the lines made no calls into Idaho Falls.  The main point in this comparison is whether the benefits outweigh the costs.

Q.In reviewing Westel’s call data and distribution, what is your recommendation for EAS into the eastern Idaho U S WEST region?

A.This question requires two answers.  First, the Malad and Holbrook communities showed a community of interest for calling into the Pocatello region.  There did not appear to be as strong of a community of interest for the Idaho Falls or Rexburg areas as exhibited by the calling data.  One could argue that only the Pocatello exchange would be appropriate based on the data.  I believe that the argument for granting only Pocatello may warrant some consideration except that Rockland, Preston, Montpelier and other contiguous communities have been granted EAS into the entire region.  To limit the Malad and Holbrook calling region to only Pocatello seems unfair.

The Westel customers in the Arco/Mackay area showed a reasonable community of interest for calling into the Idaho Falls region.  Based on the calling data, I would support EAS into the Idaho Falls region.  However, the Arco and Mackay communities did not show as much of an interest for calling the Pocatello area.  The same argument made for the Malad/Holbrook exchanges applies here.  It may not be appropriate to exclude the Arco exchange and area wire centers into the entire region, when EAS into the entire region was recently granted for the Fremont customers.

Q.What is your final recommendation for Albion’s EAS petitions?

A.I support EAS calling into Burley/Declo for the Albion customers.  If the Commission agrees that EAS is warranted based on the community of interest criteria that includes calling data and distribution, then I propose two rate designs for the Commission to consider.

The first rate design option I recommend would be that the rates be adjusted to $22.50 for residential customers and $39.50 for business customers.  These rates appropriately reflect the smaller calling region.  With these rates, I would recommend freezing the USF draw at the current amount the Company has been receiving for 1998.

The second rate design would be an appropriate recommendation as well.  With rates at $24.10 and $42.00 residential and business, respectively, the USF draws could be decreased.  The value the Albion customers will receive with EAS into Burley/Declo is probably greater than that of the Malad customers who will gain the ability to call the entire eastern Idaho region.  The Malad customers may not need Rexburg or Idaho Falls, but the Albion customers certainly do depend on Burley and Declo.

I would not recommend adding Project Mutual, Mud Lake or Citizens exchanges into this case.  Those exchanges, should the Albion customers petition to have them, must be dealt with as a stand alone case with accompanying documentation so that Staff can assess the cost and revenue impact associated with those routes.

I do not recommend allowing the City of Rocks project to become an “add on” to this EAS case, since the Company did not foresee any revenue impact associated with facility upgrades when it petitioned the Commission to add that area to its service area.

I also recommend eliminating the I/S shift of $171,510 as an EAS cost until such time as it can be adequately quantified.  As I have discussed, the revenue impact that will result if EAS is granted will not have an effect on the Federal USF disbursements until 2001.  A quick calculation shows that with the incremental increase in revenues using Staff’s option one rate design, the combined Companies will collect $1,532,322 over two years ($766,161 x 2 from Exhibit No. 101, page 1, line 18 (C)).  This does not take into consideration any growth in line counts that are likely to occur over those two years.  Without the I/S shift being calculated into the costs associated with EAS, Albion appears to be over earning by $171,431 (Exhibit No. 101, page 1,

line 23).

Q.What about a measured service rate for the Albion customers?

A.Albion Telephone does not offer measured service to its customers.

Q.What is your final recommendation for Westel EAS?

A.I believe that many customers of Westel truly want EAS.  Although the calling data showed a segregated calling preference (Arco into Idaho Falls and Malad into Pocatello), I recommend that the eastern Idaho region be granted.  I would be reluctant to not recommend granting EAS into the eastern Idaho region because Malad is surrounded by current EAS calling regions such as Preston, Rockland, Montpelier, etc.  I would recommend that Holbrook be made part of the Malad calling region as well.

I also recommend that the monthly zone charges be eliminated and that the rates be set at $24.10 and $42.00 for residential and businesses, respectively.  The optional measured service should also be offered as I have explained in my testimony and was agreed to, per the Stipulation and Settlement Agreement.

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

A.Yes, it does.