Q.Please state your name and business address for the record.

A.My name is Bill Eastlake.  My business address is 472 W. Washington, Boise, Idaho.

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 educational background and work experience.

A.I received an H.A.B. (Honors Bachelor of Arts) with emphasis in classics and economics from Xavier University in 1965 and completed graduate course work and general examinations for the Ph.D. program in economics at Ohio State University in 1969.

I taught undergraduate economics at Boise State University from 1969 through 1976, with two years on leave as a Fulbright Exchange Professor at Cuttington College in Liberia.  I have also taught various economics courses part-time at Boise State University, College of Idaho, and Ohio State University.

I was a part-time Taxpayer Service Representative for the Internal Revenue Service during 1977 and 1978.  In 1978, I took a position with the Idaho Office of Energy as an energy economist, with responsibility for energy conservation planning and for economic feasibility analysis of geothermal and other alternative energy proposals.  When the office became a division of the Idaho Department of Water Resources in 1981, I became responsible for the Idaho Water Resource Board's financial programs, loans and grants as well as industrial revenue bonds for water projects.  With the demise of the bond program in 1983, I assumed responsibility for the design and implementation of a statewide energy conservation loan program.  In addition, I provided economic analysis in support of policy decisions concerning water rights, water planning, and agricultural water uses.  I was Staff economist at the Idaho Public Utilities Commission from 1989 through mid-1994, performing support services as an economist for the telecommunications, audit and engineering sections.  I have appeared as a Staff witness specializing in conservation and resource planning in cases involving electric, gas and water utilities.  Between September 1994 and August 1995 I served as an energy policy analyst with the Idaho office of the Northwest Power Planning Council and with the Washington State Energy Office.

Q.What is the purpose of your testimony?

A.My testimony will: 1) discuss issues pertaining to revenue neutrality, 2) examine the balance of revenue responsibility between residential and business customers, 3) analyze differential impacts on business customers by size, 4) comment on semi-public and public access rates and on the default option,          5) provide examples of the impact of the proposed plan on actual customer bills, 6) note a few questionable assumptions and comment on Mr. Anderson's alternative rate design.

1.  REVENUE NEUTRALITY----THE FOREST

Q.Why is Staff looking at revenue neutrality?

A.At page 4 of its Application, there is a statement that "GTE believes the proposed rate structure is equitable and revenue neutral."  This assertion was made without benefit of proof.

Q.What is the meaning of revenue neutrality and why is it important?

A.Revenue neutrality means that the Company will earn the same amount of money after implementation of the proposed Local Calling Plan (LCP) as before.  Revenue neutrality means that the proposed change will simply redistribute revenue between customers rather than expand earnings.  This proposal is not a request by the Company for a rate increase to generate added revenue to cover additional costs.

Q.If this proposal does not generate additional revenues for the Company, why is Staff analyzing it further?

A.Because there may be some reallocation of revenue responsibility between various customer classes or between different exchanges.  These distributional impacts do not enrich the Company, but they may adversely affect some customers and pose a question as to what is in the public interest.  For that reason, Staff has analyzed and commented on two items in particular, the possible shift of revenue impacts from business to residences and the possible shift from large to small business.

Q.Are we dealing with actual revenues here?

A.We are dealing with estimated revenues, even for the 1993 and 1994 comparison periods.  Quantifying a shift in revenue responsibility is conceptually simple.  One merely aggregates all revenues received from residential customers and from various sizes of business customers, then expresses each as a percentage of total revenues and makes a comparison.  However, such a test is not so easily done with actual numbers.  Definitions of customer classes change over time to make accurate aggregation difficult.  New services like Centranet that did not exist or were barely used in earlier periods make it more difficult to be sure one is comparing apples to apples.  The number of customer lines is not constant over time.

Q.What analysis did the Company undertake to examine revenue neutrality?

A.The Company submitted a neutrality worksheet that estimates monthly recurring revenue (MRC) from all 34 exchanges in the proposed LCP.  Then it took actual revenue from the existing LCP in 11 exchanges and made a variety of adjustments to add new revenues and new costs consequent on implementation of the proposed LCP and to subtract local usage and local toll from current revenues.  It then compared the adjusted revenue requirement from the existing situation to the projected revenue from the proposed LCP.  The small (less than $500 per month) difference between them constitutes proof  that the proposed LCP is revenue neutral.  It is important to note that the Company's case is based only on the MRC portion of revenues.

Q. Have you examined the claim of revenue neutrality?

A. I have carefully examined the Company's Application as well as the specific revenue neutrality worksheet and 18 pages of supporting data as submitted in response to Staff's request for additional information.  Line counts appear to be consistent and accurate.  Proposed new rates are applied consistently in calculation of future revenue.

Q.Is there a single item in the revenue neutrality analysis that you found questionable?

A. The Company's assumed “take” rates are the most subjective and uncertain element in the revenue neutrality analysis.  “Take” rates are estimates of the proportion of customers who will choose a particular option, usually expressed as percentages.  They represent the major uncertainty in the Company's projection of future revenues from the proposed plan.  I have performed some sensitivity analysis on "take rates" in order to test the possible range of variance.  Only if that sensitivity is extreme would there be room for serious question whether the proposed plan is revenue neutral.

Sensitivity analysis included in Exhibit Nos. 101 and 102 (with Company data on "take rates" and line counts deleted as confidential information) estimates how revenue varies with different estimates of "take rates".  Sensitivity analysis tests how the Company's claim of overall revenue neutrality holds up with different assumptions about "take rates".

Q.Will you discuss the results of your sensitivity analysis?

A.I created a spreadsheet that replicates the Company's estimate of MRC revenue as aggregated by size of calling area into six different rate groups.  That spreadsheet utilizes "take rates", number of lines, and rates for each of the four optional calling plans for four sectors (residential, single-line business, multi-line business, and Centranet) to arrive at an estimate of monthly MRC revenue.  The base case is the Company's estimate of monthly revenue of $2,003,441.

 I have made a number of adjustments to that basic spreadsheet to analyze the impact of various changes in the Company's assumptions.  A sort of upper bound, probably a high estimate of revenue potential, can be provided for comparison by inserting the actual "take rates" from the earlier LCP in eleven exchanges.  Those numbers are available from Mr. Anderson's 1995 review of the Company's initial LCP.  Where there was more than one exchange in a rate group, I averaged the "take rates".  I utilized the single-line business take rate also for multi-line business and Centranet.  Since there were no exchanges in the earlier LCP that fit the current smallest rate group, I used the Company's "take rates" for that group.  These old "take rates", applied with proposed monthly charges, lead to monthly MRC revenue that is $32,082 (1.6%) higher than the Company's estimate in Exhibit No. 101.  The Company could have simply asserted that "take rates" would mirror existing "take rates" and produced a higher revenue projection.

Q.  How do the Company's changes made since the original filing affect revenues?

A.  In recognition of a few changes in calling areas agreed to between Staff and the Company after the original filing, the Company made a variety of adjustments to data in support of its filing.  The revenue impact of these changes in "take rates" is found in Exhibit No. 102.  The Company's revised "take rates" reduced revenue by $6535, or 0.3%.  The "take rates" that were changed are highlighted in boxes with gray background.

Several other changes were explored using this same method, but have not been presented in separate exhibits.  Centranet is insignificant in the small exchanges.  Dropping it completely from the three small rate groups causes a decline of only $385 in total monthly MRC revenue.  Revenue from Centranet is not highly sensitive to "take rates" even in the largest rate group (Coeur d’Alene and Moscow).  The Company’s upward revision of "take rates" in the January 8 submission, by about 2% in Basic and Community rates, with a decline of about 5% in Community Plus "take rates", produced only a $1,604 decline in MRC revenue.  Since the take rate for the Premium option is so small, I deleted all Premium and moved those lines into the Community Plus option.  Deleting the Premium option (about 1.5% of lines) led to only an $18,190 (.9%) loss of revenue.

Q.Do you agree with the Company's claim that the proposed LCP is revenue neutral?

A.My examination of Company data and the assumptions that underlie Company projections does not find any fatal flaw that would lead me to doubt the Company's claim.  One can never be certain of absolute accuracy in revenue projections.  One must rely on sensible methodology for analysis.  Staff believes the Company has made a defensible effort on this score.  There is no reason to suspect that the Company has taken steps to skew the revenue projection downward to support its claim of revenue neutrality and thus to avoid concern about possible over earning.

Q.Has analysis proved conclusively that the proposed plan is revenue neutral?

A.The analysis is not conclusive for several reasons.  The Company chose to compare only non-usage sensitive revenues, called MRC.  There are estimates of current revenues from these sources, but no projection of additional revenues from local usage and from local toll.  This amounts to an assumption that such revenues will be roughly the same under the new LCP plan as they are currently.  These revenues may be difficult to estimate, so I understand why the Company left them out of the revenue neutrality comparison.

Q.What is the size of these unprojected revenues?

A.Based on data for November of 1993 and December of 1994, such revenues amounted to 8-10% of total revenue.  This is not a major omission, but it is large enough to give concern about whether actual earnings from the proposed plan might go beyond the level of neutrality.

Q.What is your solution to this uncertainty?

A.In a previous LCP case (GTE-T-92-4, Order No. 24877, page 24) there was provision for "a report outlining the results of implementation, customer satisfaction, and revenue effects of implementing the LCP proposal."  A similar provision should be included in the current proposal to assure that actual revenue neutrality is achieved.

2.  BALANCE BETWEEN RESIDENCE AND BUSINESS---GENERAL DIMENSIONS OF SHIFT

Q.The Notice of Application and the Notice of Modified Procedure note that the Commission may consider whether GTE's proposal "to alter the balance between residence and business rates" is appropriate.  Is there such an alteration?

A.GTE's Application certainly does not call specific attention to such a restructure and provides no formal justification, indicating that it evidently does not see this proposal as a formal restructuring of the balance between rate classes.  This is evidently an unspoken assertion that the overall revenue neutrality applies also to the relationship between classes of customers.  However, a Company spokesperson was quoted in local newspapers as saying this proposal represents a rebalancing of rates, residence versus business and local versus long distance.  So the issue needs further investigation.

Q.Has Staff examined this question?

A.We have analyzed this in two ways.  We have looked at the relative contribution of business and residential customers to overall revenue and at relative price changes in the residential and business sectors.

Q.What sort of analysis have you undertaken to examine the revenue estimates in search of information on the split in revenues between residence and business?

A.I have made a comparison of projected results after implementation of this proposed Phase III of the LCP plan with results in December 1994 after implementation of Phase I of the plan and in November 1993 before first implementation of LCP.

 This comparison is an aggregate look that compares all MRC revenues after implementation of the plan to revenues during Phase I of the plan and to revenues before implementation of LCP.  This involves taking only the Company's estimate of new monthly recurring revenue from the proposed plan.  For the pre-LCP and LCP Phase I comparison years, subtractions of local usage revenues and local toll revenues are the major adjustments made, as noted by the Company in its revenue neutrality worksheet.  This comparison is made in Exhibit No. 103.

Q.Was there evidence of a shift of revenue responsibility from residence to business?

A.The overall comparison of pre-LCP to the proposed LCP shows no shift at all.  Residential revenue comprises 55.4% of MRC revenues based on the November 1993 data and it shows the same percentage when based on estimated 1996 revenues.  Business, likewise, has a constant share at 44.6%.

 If one looks solely at the shift from the earlier Phase I LCP to the proposed new LCP, one does find a small shift of revenue responsibility from business to residence.  The data show the residential share rising 1.6 points, from 53.8% to 55.4%, about a 3% increase.  The business share falls from 46.2% to 44.6%, a corresponding decline of 1.6 points, about a 3.5% decrease.

Q.How would you evaluate your results?

A.I maintain that the small shift of revenue responsibility from business to residences between the last two of the comparison points is not large enough to cause concern, given the range of uncertainty in the underlying data themselves.  However, I would note that behind the general neutrality it may still be possible to find substantial revenue shifts, either between exchanges or between various classes of customers.

Q.Have you also taken a look at the rate differentials between business and residences?

A.Yes.  While it may be obvious on quick examination that several rates are higher or lower than before, it is important to keep in mind that this proposal covers 34 exchanges, four optional calling plans, and several different classes.  Looking at any particular one, or even a few, is unlikely to paint an accurate picture of what is happening to the whole.

 In addition, what happens to rates may not be mirrored exactly in what happens to revenues.  Rates may rise by a large amount in a smaller exchange, while actually falling in a larger exchange.  Rates for the Premium option fall, for example, for all exchanges, compared to former Premium rates.  However, the take rate for Premium service is so small that the benefit to Premium customers is not large enough to offset the cost of perhaps smaller rises in Community Plus rates that are subscribed to by a much larger number of customers.  The aggregate impact on total revenues may be different from the impact on individual rates.  It is important to consider both.

Q.What did you find about the change in rate differentials?

A.Since one of the major concerns is elaborating on possible changes in the revenue  contribution of residences and business, Staff looked at changes in the ratio of business to residential rates.  Some went up and some went down.  Staff prepared a spreadsheet to make a formal comparison of the ratio of various business rates to residential rates for all exchanges.  The comparison starts with pre-LCP rate levels, then looks at both the earlier LCP in eleven exchanges and the proposed LCP for all thirty-four exchanges.

Q.  What are some highlights of the comparisonyou made?

A.Each number in Exhibit No. 104 is the ratio of a particular size of business customer's rate to the single-line residential customer rate, e.g. if the single-line business rate is $20.00 and the single-line residence rate is $10.00 the ratio is 2.0.  Ratios have been calculated for pre-LCP rates, for existing LCP rates, and for proposed LCP rates.  These ratios rose with the number of business lines in the pre-LCP rate structure.  With LCP the number of different size categories for business has declined, so that the ratio may be the same within a plan option for all businesses bigger than a single line.

All in all, a look at these rate ratios lends credence to the fact that business customers are experiencing a relative decline in their rates compared to residences.  For smaller businesses, the changes in this ratio are not so notable as for larger businesses.

Q.Does this proposal represent a price increase for residential customers?

A.That is a tough question to answer since there are 34 exchanges and four optional calling plans to choose from.  My benchmark is that customers should have available a free calling area similar in size and cost to what they now enjoy.  In other words, they should have an option to maintain the same level of service under the new plan.

 With that in mind I have made the following general characterization of exchanges.  Ten exchanges can achieve the same calling area by choosing the Community option.  In nine of those exchanges, it will cost $.25 more per month to achieve the same calling area.  In one exchange, it will cost $.25 less than before.

Twenty-four exchanges must choose the Community Plus option to achieve the same calling area as before.  In nine exchanges this identical calling area is achieved at an additional cost of $.25.  In eight of the exchanges, there will be a small additional cost from $.25 to $.95, but there will be some additional exchange(s) in the calling area.  In four exchanges, the additional cost will be much higher (from $1.20 to $4.60) but there will be additional exchanges added there, too.  In three exchanges, there will actually be declines between $.50 and $.70 for the same calling area as before.

 In summary, thirty exchanges will experience a price increase.  Eighteen of these exchanges will not receive any additions to their calling areas.  Only four exchanges will experience a price decrease.

Q.Does this proposal represent a price increase for business?

A.That depends on the size of the business.  For single-line business, using the same frame of reference outlined above, there are ten exchanges that get the same calling area under the Community plan.  Nine exchanges, none formerly having LCP, experience a $1.12 increase for the same service.  Only one of those exchanges gets a small decrease in rate.

Of the twenty-four exchanges needing to go to or stay at Community Plus to keep the same calling area, twelve of them experience no increase in monthly payment.  Eight face increases in monthly payment, two less than $1.00, two between $1.00 and $2.00, two between $2.00 and $6.00, and two over $10.00.  Four exchanges actually experience lower rates, from $.50 to $2.30 lower.

Q.What is the situation with multi-line business?

A.For the exchanges able to get the same calling area with the Community plan, only six have business customers with more than one line.  Five of the six experience $1.09 increases for the 2-5 line customer, while one experiences a $.30 decrease.  For the next business class, 6-15 lines, all exchanges experience lower rates ranging from $.25 to $2.60.

For the exchanges that need Community Plus to achieve the same calling area, eleven experience decreased rates (ranging from $.30 to $3.13) in the 2-5 line category as well as decreases (ranging from $.2.60 to $8.88) for businesses with six or more lines.

Four exchanges would experience increases in rates for both multi-line business categories, ranging from $.90 to $20.09.  Nine exchanges would experience rate increases in the 2-5 line category from $.20 to $1.70, but decreases in rates (ranging from $.60 to $4.88) for businesses beyond six lines.

3.  DIFFERENTIAL IMPACTS ON BUSINESS---SPECIFIC SHIFTS, CENTRANET

Q.Are the Company's estimates of Centranet revenue reasonable?

A.This has been the single biggest source of discussion with the Company as Staff attempted to analyze the LCP plans.  Original spreadsheets submitted as part of revenue projections for LCP assumed a one-to-one ratio of Centranet lines to trunks and showed some confusion in the way Centranet rates were estimated for different exchanges.  The overall result of these difficulties was a major over-estimation of Centranet revenues.  That number was large enough to offset the apparent decline in multi-line business rates and lead to a rise in the share of revenue generally contributed by the business sector as a whole.

 A first glance at the rate changes consequent on the new LCP seems to indicate that rates rise for residential and single-line business customers, while declining for multi-line business customers.  Adding in a large pot of revenue from Centranet made it appear at first that the contribution of business, even multi-line business, was actually rising as a result of the new LCP plan.

The January 8 revision to supporting data differs from the earlier submission mostly in its treatment of Centranet.  The revenue estimate now is based on assuming a ratio of 2.9 lines for each Centranet trunk.  There is a rate for Centranet trunks and then an additional line charge of $7.80 for each line.  The ratio of lines to trunks now mirrors the actual ratio that holds in existing exchanges.  This revision led to a new revenue estimate of about $137,000, a significant reduction from the earlier figure of about $299,000.  Staff believes this new revenue estimate to be a major improvement over the earlier number submitted.

Q.Returning to the business-residence rate ratios of Exhibit No. 104, what do they suggest about differences between small and large business?

A.For all exchanges together, the aggregate ratios indicate a difference between the treatment of small and large business.  Businesses with a single line or 2-5 lines see small declines in the ratio of their rates to residential rates for the Basic and Community plans, but larger increases in the ratio of their rates to residential for Community Plus and Premium plans.  Businesses with 6-15 lines or more than 15 lines show relatively larger decreases in the ratio for the Basic, Community and Community Plus plans and show no (or very small) increase for the Premium plan.

     In the eleven exchanges that previously had LCP, the two largest categories of business customers experience a decrease in the ratio for all four plan options.  Among the new LCP exchanges, Moscow's numbers stand out, with all four categories of business customers under all three plan options experiencing substantial declines.

Q.How have rate options changed for business customers?

A.The several categories of multi-line and Centranet services have been compressed dramatically.  Comparison of those rates alone reveals a significant reduction in published rates and at least suggests a significant decline in the revenue responsibility of multi-line business.  For instance, in Moscow, multi-line business rates were previously $41.50 for 2-5 lines, $45.00 for 6-15 lines, or $50.25 for more than 15 lines.  There is now just one rate for 2+ business lines that is $21.00 for Basic, $35.00 for Community, or $43.00 for Community Plus.  Even the highest of these new options is only marginally more expensive than the lowest of the previous rates.

 If a business instead chooses Centranet, those rates would be $15.00 for Basic, $29.00 for Community, or $37.00 for Community Plus.  The Centranet rate includes a $7.80 charge per line in addition, so a business with three lines would pay $38.40 for Basic, $52.40 for Community, or $60.40 for Community Plus.  That same three-line business would have paid $139.90 under the old Centranet rates.

Q.Have you looked formally at the relative impact of the proposed changes on the various sizes of business customers?

A.Exhibit No. 105 contains the results of that compilation.  The data used here was not adjusted in any way from the revenue and line totals noted on pages 2 and 17 of the Company's data submission.  LCP Phase I did away with the separate multi-line 15+ category and the proposed Phase III has only two multi-line categories,  2-5 lines and Centranet.  For these reasons it is only possible to make a good comparison between business     1-line and business multi-line.  All percentage calculations in Exhibit No. 105 used the total of business lines and revenue including Centranet as the base.

Two things are striking from this comparison.  First, Centranet has become hugely more important as a contributor to overall revenue from the business sector.  Second, the percentage of revenue coming from the single-line business sector actually declines by a small amount, about 1.7 points (or 5.0%), while multi-line business' share rises by the same amount.  Thus the aggregate data do not appear to support the hypothesis that the proposed rate change will operate in favor of large business and at the expense of single-line business.  Most of the relative price comparisons, however, show it likely that multi-line business's overall share would decline since its rates were falling faster than single-line business.  The answer must lie in the relatively faster expansion of the number of multi-line businesses.

Q.Does Centranet represent a real price break for large customers?

A.It appears so.  There has been a reduction in the number of size classes for business from four to two and for Centranet from three to one.  This negates the opportunity for medium-sized businesses to find a rate tailored to them.  Now they are either single-line or multi-line, and the multi-line (now for everything greater than a single line) rate may be above what they were able to pay before with a separate category for 6-15 lines, for example.

4.  THE TREES IN THE FOREST---OTHER AREAS OF CONCERNS

Q.Is it reasonable to do as the Company did and raise the ratio of semi-public to business rates without any rationale for doing so?

A.The Company did not call attention to this change and offered no evidence of reasonableness.  Semi-public rates have been raised in all exchanges.  In absolute terms, the semi-public rate is up in all exchanges, from an average rate of $29.62 to $40.65, a 37.2% increase.  Given the fact that there are only about 60 semi-public lines involved, the yearly revenue increase based on that average is only $7938.  The ratio of the semi-public rate to the single-party business rate was at 1.10 (22 exchanges) or 1.09 (12 exchanges) before.  With the proposed changes, that ratio moves up to 1.25 for all exchanges.

Q.Do you have a recommendation on semi-public rates?

A.Assuming that the existing 1.10 ratio was meant to provide a 10% increment to single-party business rates to reflect Company provision of a phone set, it appears that raising the ratio to 1.25 is unwarranted.  The Company has offered no explanation for this change in the ratio of semi-public rate to single-party business rates.  Given the small revenue impact noted above, I recommend that the semi-public rates not be changed in the proposed plan.

Q.Has there been any change in the relative price of public access lines?

A.In absolute terms, the public access line rate is higher in 9 exchanges, down in 25 exchanges.  The unweighted average rate changes from $22.54 to $18.69 , a decline of 17.1 %.  The public access line rate stays equal to the single-party business rate, as it was before.  Assuming about 60 public access lines, revenue loss from public access line rate reductions is $2773.

Given the combined changes to public access line rates and semi-public rates, it appears there would be a net effect of about a $5165 increase in revenue from the new proposed rates.

Q.What sorts of concerns are raised by the above noted changes?

A.Several apply to these "public" lines.  Given the rise in the semi-public rate relative to the public access rate, it would appear people will choose to replace semi-public lines with private payphones at the public access rate.  Should this occur, Company semi-public phones may become stranded costs to be passed on to the customer in some other rate.

In addition, there is concern about whether private payphone operators will pass on the rate reduction in public access line rates to customers.  Nothing suggests that this is necessary, so customers may never realize the potential benefit from this decrease in public access rates.

Q.Is it appropriate for the Company to make Community Plus the default plan for customers who do not make another choice for themselves?

A.I do not believe so, for several reasons.  Bonners Ferry cannot be defaulted to Community Plus since that option is not available to them.  It appears that making Community Plus the default option virtually assures that customers will pay more than before.  In the majority of cases the monthly fee from Community Plus is higher than the previous monthly fee.  In half of the exchanges the residential rate rises about $5.00 per month and in the majority of these the single-line business rate approximately doubles.  Customers will save money under this default plan only if they make enough long distance calls so that the reduction in toll offsets the increase in fixed charge.

Some, maybe including the Company, would argue that making the default option clearly more expensive provides a real incentive for customers to exercise judgment in weighing options and choosing a plan.  If this is the purpose of using Community Plus as the default, it should be clearly noted that customers need to make a choice to AVOID being defaulted to the more expensive Community Plus option!

In previous plans it appeared that the Company attempted to make Community Calling the option that would most likely mirror the average users patterns.  If that is still the case, one must ask why the Company has chosen to move the default level up to Community Plus.  No rationale was presented for this change.  There appears little reason this same process could not be applied in Phase III.

5.  THE TREES IN THE FOREST---INDIVIDUAL IMPACT EXAMPLES

Q.Does the overall finding of revenue neutrality and only a small shift from residence to business mean that every person and/or exchange is treated fairly?

A.No.  Beyond the aggregate picture there are always unique and differential situations.  Good public policy means remedying specific inequities where they are egregious.  Mr. Anderson has provided an alternative rate design with that in mind.

Q.Can you give a few examples of problem areas?

A.Moscow, the location from which about 1/3 of the comments have come, is a very clear picture of residential customers not well served by the new plan.  They must pay another $1.60 to achieve the free calling to Pullman they currently enjoy.  At an average cost of about $.19 for a five minute call, one must make at least nine calls per month to Pullman to make paying that additional monthly premium cost-effective.  Many customers seem unwilling to believe that the ability to call Wellesley, Deary, Bovill, Potlatch and Cora is worth the extra $1.60.  A simple break-even analysis is found in Exhibit No. 106.

Q.Have you read the letters and comments submitted to the Commission concerning this proposal?

A.Almost all of them!  Comment letters from a few exchanges included actual GTE bills.  I have taken those bills and examined how the customer would fare under the new options available through the proposed LCP.  Examples include a 2-line business from Priest Lake, a residence from Kellogg, and a hypothetical residential customer from Moscow.

Exhibit No. 107 shows the comparison for the Priest Lake business customer, for whom either the Community or Community Plus plan represents a substantial saving (from $9 to $14 per month--11% to 18%) over his current bill, due primarily to the reduction in toll charges for calls to Priest River under all the new plans.  Exhibit No. 108 shows the comparison for a Kellogg residence, for whom both Community and Community Plus will generate small savings (from $2 to $5 per month) due to the reduced monthly service fee, since the LCP plans offer no reduction in the cost of the actual calls he makes.

Q.Are there suggestions based on your reading of comment letters?

A.There is obviously much confusion among customers about what they now have and about what new choices will be available under this plan.  Many comments gave evidence of factually incorrect information.  All this confusion suggests to Staff the absolute need for a good decision tool to help customers.  In its Application at page 7, the Company notes that such a tool ("a break-even analysis to help the customer") will be provided along with nomination forms when the customer chooses a plan.

Staff insists that the Company create and make available to all customers a well-designed worksheet to help them decide which plan is preferable.  Informal discussions with Company personnel give the impression that this commitment is being taken lightly.  I think such a decision tool is vital if this new set of options for consumer choice is actually to result in broad consumer benefit.

6.  QUESTIONS AND COMMENT

Q.Are there possibly some extra funds available from mis-estimation of revenue that could help cover the cost of certain changes necessary to offset specific inequities in the current proposal?

A.Several instances suggested themselves as analysis of the plan proceeded.  With the January 8 revision of data based on agreed alterations to the calling areas there was an assumption that 188 customers in the small-large exchange group would shift from Premium to Community Plus options.  Given the small size of the exchanges and the even smaller percentage of people who would have chosen the Premium option, Staff was unable to come within 50% of that number of customers.  Staff considers that change quite shaky, as well as the projected revenue that goes with it.  Revenue that was assumed lost there could be used elsewhere.  That shift underestimates revenue by $1826.

The cost of capital is estimated at 35.5% for the small engineering investment needed to make this plan operational.  Since this plan is supposed to be revenue neutral, it should have no tax consequences and thus the true-up for taxes that has been added to the basic rate of return should be deleted.  This cuts the cost of capital by about half to about 17% and frees up $2620 per month, another amount available to be utilized elsewhere to offset specific exchange costs.

Q.Does Mr. Anderson's rate alternative change any of your conclusions concerning revenue neutrality or the business-residence balance?

A.No.  Mr. Anderson's alternative was designed to generate the same amount of revenue as the base case.  Because it alters only residential rates and does not impact the base amount of residential revenue, it has no impact on the overall revenue neutrality or on the balance of revenue between residence and business customers.  Choice of Mr. Anderson's alternative responds to equity concerns without altering whatever aggregate relationships existed in the Company's original proposal.

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

A.Yes, it does.