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

A.My name is Lynn Anderson and my business address is 472 West Washington Street, Boise, Idaho.

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

A.I am employed by the Idaho Public Utilities Commission as a Staff economist.

Q.What are your duties with the Commission?

A.My duties include evaluating telephone, electricity, natural gas and water utilities' rates, services, plans and customer petitions, as well as conducting generic economic and regulatory investigations.  These evaluations and investigations are generally used in making Staff recommendations to the Commission for the approval, denial or modification of specific or general utility rates, services and plans.

Q.Would you please outline your academic and professional background?

A.I have a Bachelor of Science degree in government and a Bachelor of Arts degree in sociology, both from Idaho State University.  I have also studied economics, engineering and architecture at Northwestern University, Brigham Young University and Idaho State University and public administration and quantitative analysis at Boise State University.  The past 16 years I have attended many training seminars and conferences regarding utility operations, forecasting, marketing and regulation.

I have been employed by the Commission since 1980.  I began as a utility rate analyst, was the telecommunications supervisor for nine years and was appointed to an economist position in 1992.  I have presented testimony in approximately 50 formal cases before the Commission.

From 1975 to 1980 I was employed by the Idaho Transportation Department where I performed benefit/cost analyses of highway safety improvements and other statistical analyses.

Q.What is the purpose of Staff testimony in this proceeding?

A.The general purpose of Commission Staff testimony is to present independent analyses of GTE's proposal to expand and otherwise modify its Local Calling Plan (LCP).  These analyses were conducted primarily by three Staff members, namely Bill Eastlake of the Telecommunications Section, Marjorie Maxwell of the Consumer Assistance Section, and myself.  Mr. Eastlake has filed testimony regarding LCP's overall revenue neutrality; the extent and appropriateness of revenue shifts among different customer classes; certain aspects of GTE's proposed method of implementing LCP; and specific examples of LCP effects on customers bills.

My testimony begins by offering general explanations of telephone terminology including “exchanges,” “toll” and “toll distances.”  I provide a summary of GTE's trial LCP in Kootenai and Bonner Counties, a general evaluation of the costs and benefits of LCP, and Ms. Maxwell's summary of customer responses to GTE's current proposal.  As a result of these studies and customer concerns, I present an alternative to the specific routes included in the Community Plus and Premium options for some exchanges as well as an alternative to the overall rate design proposed by GTE in its November 30, 1995 application to expand LCP.  Finally, I discuss the need for local calling on routes not covered under GTE's self-imposed 23-mile route limit, but I recommend that LCP implementation for GTE's proposed routes not be delayed as we begin to look at additional routes.

Explanation of Telephone Exchanges,

Toll, and Route Distances

Q.Have customers expressed confusion regarding telephone exchange boundaries and how telephone companies calculate toll distances?

A.Yes.  Many customer comments received at the Commission have reminded me that customers have not been  informed regarding such “telephonese.”  I hope to help reduce the level of confusion by offering the following explanations.

Telephone exchanges are geographic areas defined by maps approved by the Commission.  Staff Exhibit No. 109 is three maps of GTE's (and other companies’) exchanges and most of the identifiable communities within them.  Each exchange usually, but not always, contains one or more local telephone company central offices in which a computer “switches” or connects callers to the numbers they dial.  Exchanges are usually, but not always, referred to by the name of the town where the central office is located.  For example, the Bonners Ferry exchange ranges from the Canadian border to the Bonner/Boundary County line and encompasses most of the eastern half of Bonner county.  In addition to the city of Bonners Ferry, the communities of Eastport, Porthill, Moyie Springs and Naples are all within the Bonners Ferry exchange and calls between these communities are known as intra-exchange calls and are normally designated as “local” calls.  (The exception is for calls on foreign exchange lines.)  Unless the customer has chosen local measured service (LMS), there are no usage charges associated with these calls, either now or under GTE's LCP proposal.  With LMS, or Basic service as GTE calls it, each call made by the customer has an associated usage charge.

Calls between bordering or other nearby exchanges may or may not be local calls, depending on whether the Commission has designated the route as “extended area service” or EAS.  (In GTE's service area, the EAS nomenclature is being replaced by LCP, but they are essentially the same thing.)

Toll calls are often thought of as calls that are not local.  However, there is some confusion in this definition because local measured calls are, in-fact, toll calls.  For the purposes of this testimony I use the term “long-distance” to designate calls between exchanges that are not connected by an EAS or LCP arrangement.  I use the term “local toll” to designate usage charges for measured local calls.

Most of GTE's long-distance toll and local toll calls have rates that vary by mileage bands.  The distances of such calls are mathematically calculated between nationally recognized toll coordinates which usually, but not necessarily, coincide with the location of the primary central office in each exchange.  Local toll calls within an exchange (e.g. between Eastport and Naples, 40 highway miles) are rated as “less than one mile,” “zone 0” or “intra-office,” while long-distance toll calls between Naples and Elmira (6 highway miles) are rated as 32-miles because that is the distance between Bonners Ferry and Sandpoint, where the local central offices are located that switch the calls between Naples and Elmira, respectively.  (Such calls happen also to be routed through the Coeur d'Alene toll switch, but these additional miles do not affect rates paid by GTE's customers.)

Q.Has the misunderstanding of exchanges and toll distances caused customer concerns?

A.Yes.  For example, customers in Eastport misinterpreted GTE's notice to them in that they thought GTE was proposing to charge them long-distance rates for calls to Bonners Ferry, when, in fact, GTE was proposing no change in the local calling area for that exchange.  These customers already have the option of local measured service and LCP does not affect that option.

Other LCP customers were apparently confused by GTE's use of exchange names that did not coincide with customer mailing addresses and it appears that GTE may have sent some customers information for wrong exchanges based on its own misinterpretation of mailing addresses.

Summary of GTE's LCP Trial

in Kootenai and Bonner Counties

Q.GTE implemented LCP on a trial basis for 11 exchanges in Kootenai and Bonner Counties on or after December, 1993.  Could you briefly summarize the results of that trial?

A.Yes.  In the July 18, 1995 Staff Review of GTE's trial (Case Nos. GTE-T-90-1, et al), I concluded that LCP helps satisfy the local calling needs of customers in exchanges previously lacking adequate local calling areas.  The primary cause of this increased satisfaction was the expansion of local calling areas.  The LCP's expansion of rate options from two to four created a mixed reaction.  In a GTE survey of LCP customers, 22% of respondents said they liked having choices, but 23% said the options were too confusing.

The Staff Review found that GTE's innovative integration of long-distance and local traffic on the same facilities resulted in a commendably small capital investment requirement for installation of facilities to accommodate increased traffic.

The Staff Review also concluded that the rates for the Community option in Rathdrum should be reduced; that the Community Plus rates in Spirit Lake and Bayview should be reduced; that Premium rates in all exchanges should be reduced; that the restriction of foreign exchange customers to the Premium option should be eliminated; that LCP's uniform limitation to routes no longer than 23 miles was unnecessarily and unreasonably restrictive; that charges for local toll billing detail should be eliminated; and that flat rates for the Basic option should be moderately increased to temper the migration to local measured service.

Q.Has GTE accommodated some of the Staff recommendations in that Review?

A.Yes.  GTE has adopted many of those recommendations.  For example, GTE has agreed to four exceptions to its general 23-mile LCP route limit (Priest River-Priest Lake, Priest River-Sandpoint, Bovill-Moscow and Bovill-Potlatch).  Other examples are GTE's proposals to reduce rates for all Premium options by several dollars and to reduce Community Plus rates in Spirit Lake and Community rates in Rathdrum, Post Falls and Hayden Lake to better reflect their relative values.  GTE has also eliminated the restriction of foreign exchange lines to only the Premium option and now allows those customers all options.

GTE has often been willing to consider changes to its services and rates for customer benefit if it can do so without harming its overall rate of return.

Q.Which recommendations have not been accommodated by the Company?

A.GTE has not proposed reductions for Bayview's Community Plus rates.  As shown by Staff Exhibit No. 110, customers in both the Bayview and Spirit Lake exchanges are, on average, paying much higher rates than are customers in the other nine LCP exchanges, but are originating fewer calls than most other customers.  A primary cause of this is the fact that Coeur d'Alene is available for flat rate calling from these two exchanges only under the Premium option, which is price-prohibitive for most customers in spite of their high interest in communicating with Coeur d'Alene customers.  GTE also is reluctant to allow LCP on the Bayview-Post Falls route in spite of customer requests to eliminate this anomaly caused by Bayview's toll coordinates being located near the far eastern border of that exchange.  I will discuss this route again in the last section of my testimony.

GTE is also reluctant to recognize the need for providing billing detail for local measured calls without charging for that detail.  It should provide this detail free of charge for at least those customers who request it.  The tariff charge for providing local toll detail is $1.50 per month plus $.10 per page.  Measured or “metered” service by telephone companies, without a requirement to show the meter, requires unwarranted faith in telephone companies' billing systems.  Electricity, natural gas and metered water utilities all have meters the customers can monitor.  While there may be a small cost to provide call detail to all customers, such detail is necessary for customers to assess the accuracy of their bills and is probably vital to help them determine whether they have chosen the correct LCP option.  In addition, the cost of providing detail will be at least partially offset by the reduction in customer time and GTE resources now used to resolve billing disputes.

Finally, GTE does not share my concern that LCP has resulted in a migration of customers to local measured service (LMS).  This migration concerns me primarily for two reasons:  (1) There is little economic justification for LMS.  Except for a few peak calling hours of the year, the incremental resource cost of completing local calls is near zero.  The authors of a study published by the Rand Corporation concluded that “...contrary to conventional wisdom, measured service pricing of telephone calls is likely to be somewhat less efficient than traditional flat rate pricing.”(footnote: 1)  The largest resource costs of local measured calls are usually the costs of measuring, billing, collecting and resolving customer disputes for those calls.  It seems illogical and an inefficient use of resources to bill for a cost that is almost entirely the result of billing.  (2) In the long run, as more customers are enticed to measured service by the prospect of saving a few dollars each month, rates for flat-rated service must increase to make up the resulting revenue losses to GTE, causing even more customers to choose measured service, which then again causes higher rates for flat rated service.  This cycle is unfortunate because it will result in less communication than would otherwise occur, while saving very few resources.  It is important to remember that telephone usage bears little resemblance to consumption of resources such as electricity, natural gas, water, pizza, etc.  Staff Exhibit No. 111 is a letter from GTE customers who also believe that the usage charges will inhibit communication, especially by the elderly.

Q.Can you quantify the extent of GTE's customers choosing local measured service?

A.Yes.  Just prior to LCP implementation in Kootenai and Bonner Counties, only 1.5% of GTE customers in the 11 affected exchanges chose local measured service.  By December 1994, GTE's local measured service penetration had increased more than five-fold, to 7.9%, not even counting the measured service associated with the Community option.  (In small exchanges the Community option is more like measured service than not, because most local calls are measured rather than flat-rated.)  For comparison to GTE's 7.9% LMS penetration, U S WEST's was only 3.5% even though it has offered that option for many more years than has GTE.  Clearly, LCP is resulting in migration to measured service.

Q.Are you suggesting that local measured service is contrary to the public interest?

A.Not necessarily.  I believe LMS probably does help some customers acquire or maintain telephone service, if they happen to have both little income and little need to make many local calls.

However, LMS can be harmful to the public interest if too many customers choose this option.  The Commission apparently also believed this at the conclusion of Case No. U-1000-73 in 1985.  In that case, in which the propriety of LMS was generically investigated for all telephone companies, the Commission said it would not allow telephone companies to encourage rapid migration to LMS by pricing it too attractively. (Order No. 19717, p. 10)

Local measured service is often marketed to regulators as a way to encourage telephone subscribership to low-income households.  As I previously stated, to some extent LMS probably does help the “universal service” goal, but I am not aware of any studies that show there is a high correlation between households having low incomes and having low local calling needs.  Obviously, many low-income households are in situations where there is, in fact, high need to make local calls.  And it may be that many, if not most, LMS customers are not low-income householders, but rather “double-income-no-kids” householders who have access to office telephones for most of their personal calls.  It is likely that many of the low-income householders who do subscribe to measured service are forgoing much local communication in order to save a few dollars and doing so needlessly when viewed from an economic efficiency perspective.  Furthermore, as more customers migrate to measured service and cause flat rates to increase, some low-income households may be forced to give up their telephones.

In spite of claims sometimes made, LMS may not be an efficient or effective universal service tool, certainly not if LMS rates are so low as to attract many customers who do not really need a low-price option.

Summary of Customer Comments

in Response to GTE's LCP Proposal

Q.Have you read the customer comments sent to the Commission in response to GTE's and the Commission's notices and can you summarize them?

A.Yes, I have read most of the letters and e-mailed comments and some of the write-ups of telephoned comments.  Staff Exhibit No. 112 is a Summary of Customer Comments received by January 19, 1996, that was completed by Marjorie Maxwell of the Commission's Consumer Assistance Section.  Included in the comments are letters from officials elected to represent the public.  In addition to the 285 individual comments, there was a petition signed by 61 customers in the Bovill exchange.

The most frequent specific comment (and the subject of the Bovill petition) was that customers want an LCP option that does not increase rates for the local service they now enjoy.  Also very evident is that many customers find the options confusing and many are suspicious of the supposed revenue neutrality of the proposal.  However, many comments were in favor of LCP and cited personal and public benefits of expanded local calling areas.  Staff Exhibit No. 113 is such a letter from the Latah County Commission.

GTE’s Rate Design, Necessary Exceptions

and New Proposed Moscow Alternatives

Q.Are the rates proposed by GTE reasonable?

A.In the abstract, most of GTE's rate design is fairly reasonable but there are practical problems.  One of the problems is that the overall rate design produces unacceptable rates in more than a dozen exchanges.  These exchanges should be given special treatment.  GTE recognized this problem for five exchanges and in its November 30, 1995 application initiating this case, it proposed special rate treatment for the exchanges of Bonners Ferry, Kellogg, Tensed, Evergreen, and Rock Creek.

Q.Did these five special rate treatments sufficiently mitigate problems inherent in GTE's rate design?

A.No.  Based on the public response in several exchanges, most noticeably those of many Moscow customers, the Company recognizes that additional rate adjustments may be necessary.  In fact, it has presented two new Moscow rate alternatives to the Staff.  These new alternative rates are labeled “New Proposal AA” and “New Proposal BB” on Staff Exhibit No. 114.  These alternatives for Moscow rates mitigate, but do not eliminate, the problem of forcing residence customers to choose between paying $1.60 more for retention of Pullman in their local calling area or paying $.60 less but losing Pullman.  The new alternatives narrow those rate changes considerably and I think either alternative is much more practical than the Company's original proposal.  Of these two GTE alternatives, I prefer “AA” because it includes Genesee, Potlatch, Deary, Bovill, Cora and Wellesley in Moscow's Community Plus flat rate calling area for only $.20 to $.30 more than the rates of the “BB” alternative.

However, the rate problem that occurs in Moscow also occurs in the exchanges of St. Maries, Harrison, Deary and Bovill.  Some of the increases in these exchanges are much greater than those originally proposed for Moscow.  For example, Harrison residence customers would have to pay $4.10 more to keep St. Maries in their flat rate area and Bovill and Deary customers would both have to pay $4.60 more to retain each other in theirs.  In other exchanges, residence rates decrease as much as $.65 in spite of increases in flat rate calling areas.  Theoretically, these proposed rate changes may not be unreasonable because they are at least partially the result of increases in flat rate local calling areas and a better alignment of the relationship between rates and calling areas.  However, as a practical matter it has become apparent that it is unreasonable to impose the choice between large rate increases or a loss of local calling areas in conjunction with a plan that hails expanded local calling, new and improved customer options and revenue neutrality as its selling points.

Q.Are there any other problems with GTE's proposed rate design?

A.Yes.  GTE's proposed rates for the Premium option are still too high to be a viable option for most customers in the exchanges where it is most needed, e.g. in Spirit Lake and Bayview to enable those customers to include Coeur d'Alene, one of their county seats, in their flat rate local areas.

Staff Alternatives: Rate Design

and Community Plus and Premium Routes

Q.Do you have an alternative to GTE's proposed rate design?

A.Yes.  I have produced a Staff alternative rate design that results in much smaller “forced” rate changes than proposed by GTE.  The alternative residence rates are compared to current rates and GTE's proposed rates in Staff Exhibit No. 115, p. 1.  Page two of this exhibit compares the specific routes in Community Plus and Premium as proposed by GTE and as proposed by Staff.  I believe the Staff's alternative rates, while maintaining GTE's revenue, will be much more acceptable to the public.  For example, the residence rate increase is $.40 in Moscow (from current $14.60 to $15.00)for customers choosing Community Plus, which allows retention of Pullman in its flat rate area while reducing by over 50% the measured rates for calls to Genesee, Potlatch, Deary, Bovill, etc.  For another $1.50 ($16.50 total) customers could add Genesee, Potlatch, Bovill, etc. to their flat rate area under the Premium option.

As another example, Bovill and Deary residence customers could choose Community Plus to retain their existing flat rate calling with each other, while reducing by over 50% their measured rates for calls to Moscow and Potlatch, for a $.35 increase (from current $10.65 to $11.00).  For another $4.50 ($15.50 total) they could add Moscow and Potlatch to their flat rate areas under the Premium option.

Q.Besides greater customer acceptance, are there other reasons you prefer the Staff's alternative rates?

A.Yes, there are three other reasons.  First, the Staff alternative reduces Premium rates in all exchanges where it is offered to levels which will make it a realistic alternative for many more customers.  The current and GTE-proposed rates for the Premium option are so high that it is prohibitive for most customers, ultimately resulting in less communication between exchanges and probably less revenue for GTE.

Second, the lower Premium rates allow this option, for exchanges with existing EAS (e.g. Moscow, Deary, Harrison), to become the option which increases flat rate areas.  This enables Community Plus to become the option that maintains existing flat rate areas without requiring large rate increases.

Third, the Staff rate design is based on a smoother relationship between rates and the number of lines in each flat rate calling area than is GTE's.  While both designs recognize the appropriateness of monthly rates increasing as the number of lines in the flat rate calling area increase, the Staff's alternative rates achieve less “lumpiness” by incorporating a more consistent underlying relationship between rates and lines in flat rate areas.  In other words, with Staff's rates, there is less likelihood that some exchanges with larger calling areas will have lower rates than some with smaller calling areas or that small differences in calling areas will result in large rate differences.

Q.What do you mean by “underlying relationship?”

A.The Staff's underlying rate design is known as a “declining block” because the incremental rate charged for larger flat rate areas decreases as the total number of lines in the flat rate areas increases.  In its purest form, a declining block produces rates that are always higher for larger flat rate areas than for smaller, but the incremental rate effect is much greater when moving from a flat rate area with 1,000 lines to 2,000 lines (e.g. $.50) than from 10,000 lines to 11,000 lines (e.g. $.10).  Unlike the Company's rate design, I intended to eliminate the sometimes large “penalties” for simply choosing a higher option.  For example, under the Company's rate design, Hope and Clark Fork's Premium residence rate is $9.15 (60%) more than for Community Plus.  But the Premium option only expands their flat rate calling areas to include Bayview's 1,719 lines, thus increasing their flat areas only 13%, from 13,678 lines to 15,397 lines.  This slightly larger calling area does not seem worth the $9.15 rate increase.  Under the Staff alternative, this increase shrinks to only $1.20 for the Premium option.  While a $1.20 increase is obviously more commensurate with the added value, it is still on the high side.  This is due to the necessity for the Staff alternative to include what I call “Adders for Rate Continuity” in the amount of $1.50 for residence Community, another $1.00 for Community Plus, and another $1.00 for Premium.  (Staff's underlying rate design elements are detailed in Exhibit No. 115, p. 3.)  Finally, the Staff alternative rates were fine-tuned in recognition of existing rates and rounded in recognition of the desirability of not having almost meaningless rate differences between exchanges.  These “adders” and adjustments were necessary to enable a rate design that melds two entirely different rate structures into one under the constraints that it is revenue neutral and that it does not cause large rate changes unless specifically targeted.  Such continuity is a legitimate and important rate design consideration, especially given the presumption of overall revenue neutrality.  The many articulate comments that the Commission has received from GTE's customers should serve as a good reminder to GTE and the Commission Staff of this important principle.

Q.Your proposal lists only residence rates for  customers.  How should business rates be treated?

A.Mr. Eastlake has studied the relationships between current and proposed residence and business rates.  He concluded that GTE's proposed business to residence rate ratios, while being compressed into fewer categories and otherwise changing, are reasonable.  I accept this conclusion, and even though the Staff's alternative rate design is not structured the same as GTE's proposal, it is not inappropriate for business rate ratios to be the same as those proposed by GTE.  Mr. Eastlake's Exhibit No. 104 compares current and proposed ratios of business to residence rates.  Business rates under the Staff’s proposal are calculated by multiplying GTE’s proposed ratio and Staff’s proposed residence rates, but some minor adjustments and rounding may be necessary.

Need for Additional Local Routes

Not Included in Current LCP

Q.You mentioned earlier that GTE had agreed to four exceptions to its self-imposed 23-mile LCP limit.  Are there additional long-distance routes longer than 23 miles that should be considered for inclusion in LCP options?

A.Yes.  The 23-mile limit sometimes precludes bordering exchanges from LCP, thus maintaining long-distance charges between neighbors often under a mile apart.  This arbitrary mileage limit also precludes some communities from having local calling access to their county seats, which often are their socioeconomic centers as well.  The 33-mile Kellogg-Coeur d'Alene route is an example of both problems.  The Rose Lake and Cataldo areas of the Kellogg exchange (which borders the Coeur d'Alene exchange) are in Kootenai County of which Coeur d'Alene is the county seat.  Following are most of the routes that should be given consideration for LCP inclusion as soon as possible after the final decisions are made for the current proposed routes:

IntraLATA Routes:

Bonners Ferry--Sandpoint, bordering exchgs.

Spirit Lake--Sandpoint, bordering, county seat

Kellogg--Coeur d'Alene, bordering, county seat

Kellogg--Harrison, bordering

St. Maries--Potlatch, bordering

St. Maries--Bovill, bordering

InterLATA Routes:

Setters--Coeur d'Alene, bordering, county seat

Setters--Plummer/Worley, bordering

Rock Creek--Plummer/Worley, bordering

Rock Creek--St. Maries, county seat

Tensed--Plummer/Worley, bordering

Tensed--St. Maries, bordering, county seat

Tensed--Potlatch, bordering

Evergreen--Cora, bordering

Evergreen--Potlatch, bordering

Evergreen--Moscow, county seat

Q.What are LATAs and why did you separate the preceding list into “intraLATA” and “interLATA” routes?

A.LATAs (local access and transport areas) are geographic areas resulting from the U. S. Department of Justice's antitrust lawsuits against AT&T and GTE, which were settled in the early 1980s.  As a result, GTE is currently precluded from carrying telephone calls on interLATA routes unless specifically allowed by a federal court.  Most of GTE's Idaho exchanges (and a few in Washington) are in GTE's Coeur d'Alene LATA, but four small areas on the Idaho side of exchanges mostly in Washington are in U S WEST's Spokane LATA.  These four areas are known as the Tensed (Bluebell), Evergreen, Rock Creek and Setters exchanges.  They are the Idaho side of the Tekoa, Farmington, Fairfield and Rockford exchanges, respectively.

Perhaps of more importance than a federal prohibition against GTE carrying calls on interLATA routes (for which waivers are obtainable) is the fact that GTE does not own facilities that interconnect these exchanges.  These facilities are owned by interexchange carriers such as MCI and AT&T.  If GTE were to get the necessary waivers (or if the prohibition is removed by  federal legislation), then GTE would need to either construct new interconnecting facilities or lease or purchase such facilities from another company.  In short, it is more difficult and usually more expensive, to include interLATA routes in GTE's LCP.  Nevertheless, these routes do have demonstrated need for local calling.  To illustrate this need I have included a letter from a customer in the Tensed exchange as Staff Exhibit No. 116.

Q.When should consideration of these additional potential LCP routes begin?

A.A procedure to consider them should begin immediately after the Commission makes a final decision regarding the current proposed expansion.  It would not be prudent to delay implementation of the proposed routes while we consider additional routes.  But there is no need to wait until the original proposed routes are fully implemented before initiating the process of considering additional routes.  Unnecessary delays are not in the public interest.

Summary of Testimony and Recommendations

Q.Please summarize your testimony and recommendations.

A.The thrust of my testimony is that GTE's application to expand LCP on the proposed routes should be approved.  However, I recommend adoption of the Staff's alternative LCP residence rates and restructuring of Community Plus and Premium routes in the Moscow, Deary, Bovill, Harrison, St. Maries, Kellogg and Mullan exchanges.  The Staff has no objection to GTE's proposed realignment of business rate ratios and they can be applied to the Staff's alternative rate design.  If GTE's rate design is preferred, it should be modified to address many legitimate customer concerns.

Whatever final rates are approved, I strongly recommend that the Premium rates not be so high as to preclude this choice for most customers in the exchanges where it could be useful for most customers, e.g. Bayview and Spirit Lake.

I also strongly recommend that the Commission be cognizant of LCP resulting in a migration to local measured service.  If this trend continues I suggest that Basic rates be increased relative to the other options.

Finally, I recommend that consideration of additional routes, initially precluded by the 23-mile limit and LATA boundaries, begin as soon as practicable.

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

A.Yes, it does.

**FOOTNOTES**

1:

Optimal Peak-Load Pricing for Local Telephone Calls, Rolla Edward Park & Bridger M. Mitchell, The Rand Corporation, Rand Publication Series, Santa Monica, California, 1987, p. 35.