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.The purpose is to evaluate the ACCESS-96 and U S WEST proposals for the disposition of 1994 revenue sharing funds available under the terms of the U S WEST Revenue Sharing Plan and to present the Commission Staff's position on the proper disposition of these funds.

Q.Will you outline your testimony?

A.Staff testimony will provide background on the development of the revenue sharing plan and the criteria for alternative disposition of revenue sharing funds, with general comments about the ACCESS-96 proposal.  Then Staff will evaluate the two alternative distribution schemes proposed, one the ACCESS-96 proposal from a coalition of interests and the other a switch replacement proposal by U S WEST.  The evaluation will outline the faults of these alternative proposals on two levels.  First and foremost, Staff will evaluate the alternative plans in light of the five specific criteria outlined by the Commission for use in this case.  Then Staff will make an evaluation and concluding comments about the shortcomings of these proposals.

Finally, Staff will provide its reasons to recommend returning to the distribution method used in the first two years of the plan -- a ratepayer rebate -- and make a recommendation that the method of disposition chosen in this case be applied also to 1995 revenue sharing funds.

BACKGROUND

Q.Are there general considerations important to help in judging the propriety of various alternative forms of disposition of revenue sharing funds?

A.Yes.  They come from looking at the inception of the plan itself.  The revenue sharing plan was originally proposed as a method of meeting the cost allocation requirements of Idaho Code 61-622A upon the election by U S WEST Communications to move certain of its services from traditional regulation under Title 61 of the Idaho Code to the “relaxed” regulation allowed by Title 62 of the Code.  The sharing funds are an alternative form of cost allocation between the Company’s Title 62 operations and its Title 61 operations.  The funds represent revenues in some sense “owed” to Title 61 customers in recognition of the fact that the local exchange services they pay for (Title 61 services) provide some contribution to the Company's ability to earn money from sale of its unregulated Title 62 services.

Q.Are these funds created through a surplus in U S WEST earnings: that is, are they the difference between just and reasonable Title 61 rates and rates that produce overpayments?

A.No.  As I said, they are produced through a cost allocation method intended to compensate Title 61 ratepayers for the Company's use of the network for Title 62 services.  Losing sight of the fact that revenue sharing was created to allow recognition of this contribution without going through a protracted and contentious struggle every year over specific allocation of cost between Title 61 and Title 62, it is easy to see how revenue sharing funds can be seen as generic funds available for any purpose found to be in the public interest.

Q.Has this possibility been previously debated?

A.Yes, this issue was defined in an earlier case in Order No. 23951 (Case No. USW-T-91-3).  In that case Idaho Consumer Affairs reasoned, and this Commission agreed, that "the revenue sharing money available for distribution should not be looked upon as money coming out of the blue" because such revenue represented payments made by customers to the Company in lieu of an immediate rate reduction at the time the plan was adopted.

So, the most important thing to keep in mind in disposing of revenue sharing funds is that those funds are in some sense owed to Title 61 ratepayers and thus should be used in such a way as to provide benefit to those "creditors."

Q.How have revenue sharing funds been disbursed in the past?

A.In a variety of ways.  There were direct refunds in the form of one-time credits to Title 61 customers in each of the first two years of the plan’s operation.  As noted in Order No. 26169, Title 61 customers received credits of $5.49 and $7.96 in 1989 and 1990, respectively.  Since then there has been a combination of refunds in the form of credits applied to rural zone charges and investment in the U S WEST network infrastructure via the Tech II program.  Approximately $14.2 million of Title 61 sharing funds was used to fund local network improvements in U S WEST’s small rural exchanges as part of Tech II, completed in 1994.  The $14 million was part of a three-year project to improve the local network facilities of 30 small rural wire centers and 16 large urban wire centers.  The total cost of the Tech II project was approximately $40 million.  In addition to the modernization program, the Commission also used sharing funds to reduce by half the monthly zone charge of $3.19 for approximately 56,000 U S WEST rural customers.

Though the funds were returned directly to Title 61 customers in the first two years, major infrastructure improvements with obvious benefits to regulated Title 61 customers were approved in later years despite having additional benefits for Title 62 customers as well.  Order No. 24506 (Case No. USW-S-92-1) expresses an earlier Commission finding that the Tech II infrastructure project was not just for "computer nuts and business," as asserted by one intervenor.  So, this Commission has generally been in support of genuine network improvements that "will improve the quality and transmission speed for Title 61 customers without increasing rates" (Order No. 24506, p. 28).

Now the Commission is again faced with several choices on the appropriate disposition of Title 61 sharing funds: (1) direct refunds or credits to Title 61 customers; (2) the ACCESS-96 Coalition's infrastructure proposals, and (3) a U S WEST-proposed network proposal.

Q.Has the Commission provided guidance for choosing between alternative forms of disposition for revenue sharing funds?

A.Over the course of annual revenue sharing cases since 1989, the Commission has set out specific criteria for such alternative uses. These criteria were developed in a variety of earlier orders, as in Order No. 23441 (Case No. MTB-T-90-4).  The criteria listed below have been enunciated in some form in earlier revenue sharing cases.

Q.Has this Commission already offered guidance about infrastructure proposals as alternatives for future disposition of 1994 revenue sharing funds?

A.Yes.  In Order No. 25826 at page 7 (Case No. USW-S-94-3) there was a finding that 1994 revenue sharing funds "should NOT be used to fund further infrastructure improvements." (Emphasis added.)

Q.Why did the Commission come to that position?

A.For three reasons.  First, the Commission found that the network already had an advanced technological quality (p. 6 of the Order).  Second, the Commission agreed with Staff's concern that additions to plant in service during the period of revenue sharing were not judged for prudency in respect to the provision of Title 61 services.  Finally, it also recognized that delivery of telecommunications services was no longer limited to just the local telephone company and that telephone providers can offer video and data services.  For those reasons, the Order observed that "further upgrades must be carefully reviewed to assure that they are necessary and beneficial for Title 61 services."

Q.Was there any softening of that view after listening to comments of intervenors?

A.U S WEST, in its Petition for Reconsideration in Case No. USW-S-94-3, argued forcefully that "opportunities to creatively advance Idaho telecommunications infrastructure" would be jeopardized by restricting uses of revenue sharing funds to items necessary and beneficial to Title 61 services.  In that same petition, U S WEST outlined opportunities in emergency services, telemedicine, and distance learning that it maintained could be pursued without cross subsidy of Title 62 by Title 61 and without practical impact on competition.  U S WEST also specifically suggested that revenue sharing funds be used as a source of “grants” for installation and recurring charges for innovative applications of telecommunications technology.

Q.What was the Commission response to these pleas?

A.The Commission reiterated its contention that 1994 sharing funds not be used for infrastructure projects.  However, the Commission specifically noted in Final Order No. 25923 (Case No. USW-S-94-3) that the Company was not foreclosed from making recommendations.

Q.What are the guidelines for infrastructure proposals as an alternative use of revenue sharing funds?

A.The following criteria were set out in Order No. 26169 (Case No. USW-S-95-1):

1.  The infrastructure improvement should

benefit the general body of U S WEST

Title 61 ratepayers in southern Idaho and

not just a particular group.

2.  The cost of the infrastructure

project should be reasonably related to

the amount of Title 61 funds available

for disposition.

3.  Absent the existence of revenue

sharing funds, the infrastructure

alternative should possess sufficient

merit to warrant a rate increase.  In

other words, the public benefits of the

proposal should be sufficient to justify

a Commission finding that a rate increase

is reasonable.

4.  The project should enhance or promote

universal service and be in the public

interest.

5.  The project should leverage revenue

sharing funds with funds from other

sources.

The Commission added that proposers shall indicate in testimony "how their proposals meet the standards...or why such standards should not be applicable."  The fact that the Commission acceded to requests to consider infrastructure proposals, and then only under specified conditions, would seem to put a heavy burden of proof on any proposer of such an alternative.

GENERAL COMMENTS ABOUT ACCESS-96

Q.Does Staff have general comments about the ACCESS-96 proposal itself?

A.The proposal itself, even as expanded through responses to informal interrogatories submitted by Staff and Intervenors after the prehearing conference of September 25, leaves much to be desired.  First, the proposal does not present a clear picture of what the funds will be used for.  Second, the proposal does not meet the specific criteria for funding provided by the Commission.

Q.What do you mean when you say that the proposal is not clear?

A.There was abundant jargon borrowed from telecommunications and education circles, but the content was not clear.  Staff had many questions about the objective details of various facets of the proposal.  More often than not, Staff felt that responses to questions about exact details of various facets of the proposal revealed that the responses were little more than "placeholders" for what might be developed later.  Almost none of the proposal components were either fully developed or really firm.  Again and again, answers from the project coalition made it obvious that even they considered none of the details "cast in stone."  Such doubts have not been laid to rest by responses to interrogatories.

Q.Were there other concerns about the content of the proposal?

A.Staff will mention here just a few.  The proposal is about a network built around a backbone of communications capability.  But only about 0.2% of the total budget (some $20,000) is for charges to access the backbone, public network.  In other words, the proposal either takes it for granted that the necessary infrastructure for communications already exists, in which case it probably underestimates the ongoing operational expenses to coalition members for using that backbone, or it sadly underrepresents the needed capital expenditures in the budget for creating or enhancing the "last mile" of access to the network.

The proposal seems to be about the provision of equipment for specific applications like Governet rather than for what Staff thinks of as U S WEST network infrastructure development.  The proposal does not advocate the modernization or deployment of common-use infrastructure but suggests revenue sharing funds be used to purchase terminal apparatus.  For example, the proposal calls for 107 computers, obscurely labelled "input communication devices," plus a variety of other end-use equipment.  With respect to the computers, for instance, one certainly wonders whether there is any local government level at which a computer is not currently available.  Even if there is some place without a computer available, one wonders how much of its time would be devoted to the public access uses touted in this proposal rather than to ordinary accounting and word processing.

Q.Did the proposal address the criteria outlined in Order No. 26169?

A.Not very clearly.  The cover page did note that coalition members considered their proposal more beneficial to ratepayers than a monthly refund but it glossed over the distinction between infrastructure and peripheral apparatus and applications.  As a result Staff feels that the revenue sharing funds are treated simply as a pot of grant funds available for the taking - any sort of proposal might just hit the right angle and take the jackpot.  Staff does not question the motives of any of the project coalition members, but feels that they simply did not understand the source of these funds and how they might appropriately be used.  Consequently, the ACCESS-96 proposal amounted to little more than asking for a blank check by the coalition to do whatever projects they might, through their Policy Committee, deem worthy of disbursements from the available funds.

Q.Are there other specific details of the project that helped reinforce Staff's feeling that the proposal was not worthy of funding?

A.One was noteworthy.  The proposal asks for commitment of a substantial amount of funds, but only very rough budget information was provided.  Staff feels that knowing how much will be spent and for what is vital for the Commission to fulfill its responsibility that spending is prudent.  Apparent inaccuracies in several budget items fail to instill confidence in the integrity of the overall budget.  For example, the price used in the education budget for a piece of equipment called a DVBX was referenced to a 1991 letter from U S WEST.  Even absent the rapid pace of technological change in telecommunications devices, one would expect an update of a four-year-old price quote.

Cost estimates for E-911 seem to have been manufactured out of thin air.  The number of counties used for Governet conversion costs and for the cost of input communication devices is 35, though the coalition notes there are only 28 counties in the southern portion of the state served by U S WEST.  (Staff believes the correct number is actually 30.)

Q.Does Staff wish to make further comments about any specific segments of the overall budget?

A.The E-911 proposal deserves scrutiny because of its large size.  The $2.3 million budgeted amounts to 58% of the “health care” portion of the budget to which it is attached and 36% of the total revenue sharing funds available.  Staff has several concerns.  First, most Title 61 customers of U S WEST already pay their own local 911 surcharge to fund this service.  Use of revenue sharing funds to extend 911 service to counties not now served has the effect of making these customers pay twice.  There already exists legislation allowing counties or cities to vote for a surcharge to fund 911.  Several counties too small to provide 911 service on their own have consolidated to share funds, as in the Magic Valley.  At least one county has decided it will not do a surcharge; in other words, it is not willing to pay for the service.  Using revenue sharing funds that are supposed to go to the benefit of all ratepayers for the provision of E-911 in selected counties is not appropriate.

An additional concern with the E-911 portion of the proposal is that Staff feels there is no realistic way to estimate the costs associated with extending 911 service in counties not now served.  The budget assumes $85,000 for each of 27 counties.  It is not possible to feel any confidence in the $85,000 figure.  In fact, the number of counties without E-911 is actually 18 rather than 27.  In response to interrogatories about the $85,000 cost, the Coalition now reports that only 16 counties do not have E-911, but at a cost of $100,000 each.  These new figures represent a sizable 30% reduction in the originally budgeted amount for E-911!  More than anything else, this major change indicates how truly tenuous much of the entire budget is.

In addition, there was no specific breakdown of what the $85,000 (or $100,000) would be used for.  Moreover, there was no cost distinction between counties without E-911 and counties that just needed to upgrade from 911 (ANI) to E-911.  See Exhibit No. 101 showing questions 19 and 20.

Q.Is there another way the worthwhile goal of providing E-911 service could be accomplished?

A.We understand that there is a task force studying the possibility of proposing legislation that would extend the current 911 surcharge to cellular phone users.  Staff estimates several million dollars would be available from that source.  Some of those funds may be used to create a statewide funding pool to help rural areas receive E-911 service.

Q.Does Staff have concern with the local government portion (Governet) of the budget?

A.The public access goal is well-meaning, but Staff believes the reliance on Governet is misguided.  First, Staff believes that use of the Governet organization will have the effect of creating a private market for what now is and should be public information.  It may be easier and cheaper to provide direct access via the Internet to all this local government data, rather than having the data provided only indirectly from local governments to the public via the intermediary of a firm like Governet.  Such information will still be readily available to Governet or any other private contractor that would like to integrate or analyze or summarize such data and create a value-added product available for sale.

Q.Is there another concern with the Governet section of the proposal?

A.Yes, there is concern that the proposal constitutes an inappropriate investment in the wrong technology.  The Governet proposal is based on outmoded computers (the specifications noted in Exhibit A of the Governet Computer Services Agreement, included as response to IPUC Question No. 6 and attached as Exhibit 102, actually list the several years' obsolete IBM AT) and a bulletin-board type of setup, wherein participants provide information to a central location from which it can then be downloaded to various users.  Staff believes technology now allows more direct and more fruitful interaction with individual participants via the Internet.

Q.Is this just "in the realm of the possible" or is it currently doable without major investment?

A.Delivery of public information via the Internet occurs today.  For example, Staff witness Ed Howell, Systems Analyst for the Commission, outlines how the IPUC uses the Internet to disseminate public information at a reasonable cost.

APPLYING THE CRITERIA

ACCESS-96

Q.Will you turn now to the specific criteria for disposition of revenue sharing funds to infrastructure projects set out by this Commission?

A.By taking a more detailed look at how those criteria evolved and applying the appropriate context, Staff will contend that the ACCESS-96 proposal does not meet those criteria.

Q.The first criteria directs that a proposal "should benefit the general body of U S WEST Title 61 ratepayers in southern Idaho and not just a particular group."  Why is it important that the benefit go to Title 61 ratepayers?

A.The emphasis on benefits to Title 61 customers centers around the question of subsidy.  Idaho Code Section 62-613 forbids the use of Title 61 funds to subsidize Title 62 services.  On its face, this is what is currently proposed.  By virtue of its status as an alternative to formal cost allocation, the revenue sharing plan creates a logical claim that these sharing dollars are Title 61 funds.  But virtually none of this proposal directly involves the ordinary regulated local exchange services that constitute Title 61.  Instead it provides customer premises or peripheral equipment that uses and creates demand for Title 62 services.

Order No. 23951 (Case No. USW-T-91-3) made it clear that the Commission felt that "distributing Title 61 revenue sharing funds to both Title 61 and Title 62 customers would dilute the intended consequences of the Revenue Sharing Plan."  Staff takes this as the general rule to apply to disposition of revenue sharing funds.  However, in Order No. 24506 (Case No. USW-S-92-1) the Commission did determine that the incidental benefit to Title 62 customers from upgrading the local loop under Tech II did not constitute such a subsidy.  So there is precedent for relaxing the strict requirement and allowing that there can be some additional benefit that accrues beyond Title 61 services.

However, the ACCESS-96 proposal at hand is much more specifically oriented to particular data and video transmission uses that go far beyond basic exchange or Title 61 services, providing primary benefits to Title 62 services in a fundamental rather than incidental way.

The criteria calls for "general" benefits to U S WEST ratepayers "in southern Idaho."  In several instances, the ACCESS-96 proposal is simply not responsive. The E-911 portion of the proposal highlights only 16 of the 30 counties in the southern portion of the U S WEST service area.  The listings of local government entities to be served by the Governet portion of the proposal contains many jurisdictions from outside southern Idaho.  For instance, the coalition’s response to informal Interrogatory No. 7 (Staff Exhibit 103) contains 12 cities (Cottonwood, Craigmont, Culdesac, Ferdinand, Grangeville, Kamiah, Kooskia, Lapwai, Lewiston, Nezperce, Reubens, Winchester), 3 counties (Idaho, Lewis, Nez Perce), and 6 highway districts (Cottonwood, Fenn, Ferdinand, Grangeville, Greencreek, Prairie) from outside the southern Idaho area of U S WEST.  The proposal directly subsidizes a select and narrow group of beneficiaries comprised of only specific hospitals and school districts.  Past infrastructure improvements under Tech II were noted for the ubiquity of their improvement to the network, to the benefit of all.

Q.Turning to the second criterion, are the costs of this proposal reasonable?

A.Staff research into the development of these criteria over the course of the various revenue sharing cases led to Order No. 24267 (Case No. USW-T-92-1), which invited comments on using revenue sharing to implement improvements to the public telecommunications network but cautioned that "such comments should clearly identify the network improvement(s) and be reasonably related to the amount of funds available for disposal."

Staff has no doubt that the narrowest definition of reasonable is fulfilled.  The available revenue sharing funds are neither so small as to be an insignificant contribution to the proposed project nor so large as to invite overspending.

However, Staff chooses to emphasize that reasonable is a very tough call to make when the project itself is so poorly specified and there are a number of suspect cost estimates in the budget presented.  Staff feels compelled to test more stringently than may be common for many government grants, where available money is often meted out first-come, first-served until the funds are gone.  Staff would need more exact definition of the project elements and their associated costs before feeling comfortable with calling this a reasonable request.

Q.Does ACCESS-96 meet the third condition that, absent the existence of revenue sharing funds, the infrastructure alternative possesses sufficient merit to warrant a rate increase?

A.Paraphrased, this criterion asks if the public benefits of the proposal would be judged sufficient to justify a Commission finding that Title 61 rates should be increased to finance the project with ratepayer dollars.

In Case No. USW-S-92-1 (Order No. 24506), the first time alternatives to simple bill credits were considered, this Commission specifically set itself the task to determine whether Tech II possessed sufficient merit to warrant receiving Title 61 revenue sharing funds.  Witnesses testified that the improvement would generally spur economic development in both rural and urban areas, promote the availability of more advanced educational and medical technologies, enhance the network's capacity for data transmission, and improve the quality of local service.

The current ACCESS-96 proposal makes it appear that promoting availability of infrastructure through Tech II was not enough.  Staff would agree that the claimed public benefits of infrastructure development in Tech II have been achieved.  For that very reason, it should now be possible for users of such a network to proceed on their own, letting the educational institutions, medical care providers, and government agencies among other users pay for services rendered.  There has to be a limit on what is claimed as network improvement, a point beyond which public investment should be replaced with private.  Staff believes that the additional investment in premises equipment that uses network features should be borne by the users who in turn provide their services via the common telecommunications infrastructure.

Q.Is this project in the public interest by way of its enhancement  or promotion of universal service?

A.There is little about this proposal that addresses universal service at all and there is no claim by its proponents that ACCESS-96 is concerned with extension of basic local exchange coverage.  The only discussion of universal service in past revenue sharing cases was about the role of rural zone credits in enhancing rural service.  There is still reason to work toward extending the reach of rural services, and it is suggested in a number of orders that further reductions in zone charges could be evaluated in subsequent years.  For instance, Order No. 24506 (Case No. USW-S-92-1) at pages 37-38 notes that the Commission "anticipates further reduction in rural zone charges."

The services provided through various facets of this proposal may indeed enhance the ability of Idahoans, especially rural people, to gain access to education and local government and medical services.  However, none of these proposals really purports to extend the reach of phones into individual homes.  And that is what universal access usually means.

Q.Does the ACCESS-96 proposal outline cost sharing from other groups that would supplement direct spending of revenue sharing funds?

A.There is mention of cost sharing and a suggestion that a 50-50 match will be usual.  At the prehearing conference, Mr. McDonald, representing the Association of Idaho Cities, made it clear that he thought the 50-50 match was a minimum amount, that actual match would likely be larger than 50%.  In addition, there are assertions that services available through this proposal, particularly the Governet portion, will create revenue enhancement opportunities for local governments.  However, there is no identification of amounts and sources of such funds.  Subtracting the $6.35 million of revenue sharing funds available from the $9.06 million total identified in the overall project budget leads to the implication that at least the difference, some $2.71 million, is expected to materialize somehow.  Staff believes that this lack of specificity is a glaring defect of the proposal.

Since the major reason for the proposal seems to be that the equipment identified has not been procured by parties before now to enable them to enter the information highway, there appears doubt whether enough matching funds would be forthcoming to effectively supplement the revenue sharing funds.

To his credit, Mr. McDonald expressed quite strongly at the prehearing conference his belief that it was necessary to demand a match from participants, based on his belief that groups needed a commitment of their own funds to buy into a project sufficiently to ensure that ongoing expenses were deemed a part of protecting an initial investment.  Staff finds this view admirable, but it presents nothing in the way of a guarantee or even an indicator that groups are indeed willing to put up matching funds in quantities sufficient to bring this proposal to fruition.

Q.Were there any specific leveraging funds mentioned in the proposal?

A.Yes, there was mention of some $8.4 million dollars for distance learning through EDA funds.  However, the proposal did not clarify whether that was past spending, whether there was a commitment of further future spending, and how the ACCESS-96 proposal is integrated with the EDA-funded items.  Responses to questions from Staff produced further details, but still generated little sense that this proposal was really necessary as an adjunct to those funds.  Some of the expenses were actually made over five years ago and thus not likely to be closely linked to this proposal except in an incidental way.

Q.Has U S WEST offered to match the $6.35 million of Title 61 funds with any of the $7.7 million it keeps as Title 62 funds?

A.In response to a Staff inquiry about this at a pre-hearing conference, U S WEST informally indicated a willingness to receive proposals for some kind of fund matching.  The Company’s later, written response is attached as Staff Exhibit No. 104.

USW's Alternate Proposal

Q.What proposal was offered by U S WEST?

A.U S WEST's brief submission expressed support for the ACCESS-96 proposal.  In case that proposal was not acceptable to the Commission, U S WEST offered an additional alternative consisting of three central office switch replacements with a total cost of $5 million.  Half of this amount is to come from Company matching and half to come from Title 61 revenue sharing.

Q.How does Staff evaluate this switch proposal?

A.Since it is only an alternative, Staff has chosen not to go through the entire list of criteria above in detailed fashion.  Moreover, Staff believes the expenses contemplated are ordinary and normal expenses of providing Title 61 services, not worthy of special treatment as "infrastructure improvements."  Two of these switch replacements have been in Company budgets for some years and seem to keep getting postponed.  (See Exhibit No. 105 for U S WEST verification of previous scheduling of switches.)  The fact that they have been included in the normal planning and budgeting process certainly implies that they are expenditures that would satisfy criterion number 3.  In other words, they would likely possess sufficient merit to be included in rate base and undergo normal consideration for a revenue requirement adjustment.  However, their inclusion in normal budgeting as ordinary facilities improvements of the type that happens continuously in the course of equipment replacements seems to offer Staff strong evidence that such expenditures should not even be considered against the other four criteria.

Normal depreciation taken on existing switching facilities represents part of the Company costs customers ordinarily are expected to cover through payment of their monthly bills.  Under the Revenue Sharing Plan, the Company keeps a base of $490 per access line before measuring revenue growth.  Title 61 receives only its portion of revenue growth above $490.  Retention of $490 per line provides U S WEST with the necessary funding to make provision for the ordinary replacement of business plant and equipment.  Calling such ordinary and necessary expenditures an investment in infrastructure in order to qualify for revenue sharing funds seems inappropriate, particularly in this situation where these three switches have been in rate base for 19, 18 and 17 years.  Through their U S WEST rates and the $490 adjustment, customers have, in effect, already paid for the replacement switches.

Finally, the use of Title 61 funds to replace switches that are providing electronic (analog) switching that is perfectly adequate for T61 voice service with switches that will be adding capabilities to provide T62 services could constitute a violation of the cross subsidy prohibition of Idaho Code Section 62-613.

EVALUATION AND CONCLUSIONS ABOUT THE INFRASTRUCTURE PROPOSALS

Q.Besides failing to fit the formal criteria set by this Commission for disposition of revenue sharing funds on infrastructure projects, are there additional reasons the ACCESS-96 proposal is lacking?

A.Staff has serious doubts about whether this is really an infrastructure improvement at all.  True infrastructure improvement would seem to be a necessary condition for allowing the Commission to find that an alternative disposition of revenue sharing funds would benefit the general run of Title 61 customers, with some incidental benefit to Title 62.

Q.How do we decide what is infrastructure or network?

A.Newton's Telecom Dictionary, 6th edition, 1993, page 659, says that "computer networks connect all types of computers.  A network ties things together." U S WEST, in its brief submitted in USW-94-3 at page 18, notes briefly that infrastructure improvements include digital fiber optic and copper common carrier facilities, network enhancements such as digital switches and new residential customer service centers.  Without making too fine a point about the exact definition of the terms "network" or "infrastructure," none of the proposed equipment purchases constitutes what Staff ordinarily understands to be infrastructure.  All the items seems to be end-use customer equipment of the type that implies that the network itself is already in place or that makes use of the existing infrastructure.  In other words, the common threads of a telecommunication network are presumed to be available.  ACCESS-96 is about user- and use-specific equipment for applications to telecommunications services.

Q.Can you outline briefly a second concern?

A.Staff has concerns that the ACCESS-96 proposal does not really provide general benefits to Title 61 customers.  To provide the necessary return to Title 61 customers it should provide common facilities from which they, as well as the actual users of these unregulated Title 62 services, can derive benefits. Though it provides plenty of analogies about the information superhighway, this proposal appears to do little in the way of actually deploying or implementing that highway.  The existing proposal merely provides the end use equipment that allows, nay invites, schools and hospitals and local governments to utilize more of the unregulated services on which U S WEST's level of profit is unconstrained and over which Title 61 ratepayers have little control.

The Staff is particularly concerned that the proposed budgets appear to have made little provision for the ongoing local government and institutional expenses associated with regular operations and maintenance.  It appears that this proposal may saddle Title 61 customers with future and uncontrollable operating expenses actually incurred in the unregulated world of Title 62 services.  Given the uncertainty that potential users and beneficiaries will provide the ongoing fund support needed to assure development of the full potential of the projects, Staff feels this proposal is not fully defined and represents a risky way of using Title 61 revenue sharing funds - one more likely to indemnify basic ratepayers in the future than to offer them relief in the present.

Q.Does this proposal devote too large a portion of its costs to administration?

A.Though nearly $400,000 is allotted to labor and travel expenses, that amounts to less than 5% of total funds requested.  However, the proportion is roughly twice as high for the local government component.  Of more concern to Staff is the fact that this so-called infrastructure proposal actually will consume some 30% of the time of the Executive Director and Information Services staff of the Association of Idaho Cities over the two year period.  In that light, it is no surprise that this ACCESS-96 has been spearheaded by AIC.

Q.Is there another reason, beyond failure to meet the appropriate criteria, for this "infrastructure" proposal to be found lacking?

A.Yes.  It seems that Idaho has not achieved from the earlier alternative uses of revenue sharing funds much of what U S WEST claimed would be benefits.  For instance, an earlier U S WEST proposal, pages 9-10, cited in Order No. 24506 implied that Tech II would provide southern Idaho with "one of the most advanced telecommunications infrastructures in the nation" and that such an enhanced public network "creates incentives for industry to add new technologies and services."  The proposal further implied that enhanced products and services could be offered "on an expedited basis to customers since individual engineering and construction will not be required."

Q.What is Staff's interpretation of those claims in light of the items that make up the proposal called ACCESS-96?

A.That merely providing the network infrastructure was not enough and that now U S WEST is telling us we have to go beyond infrastructure to direct subsidy of actual uses.  To paraphrase a popular modern Hollywood idiom, "We built it, and nobody came."

Now, with U S WEST urging, the proponents of ACCESS-96 are coming to this Commission telling us that infrastructure isn't enough.  They also need someone else to pay for the end-use equipment to utilize the already improved network infrastructure.

Q.Has Idaho gone too fast in the development of telecommunications infrastructure?

A.That's a tough call to make.  But it brings to mind two items of interest, one old and one new.

Q.What is the old one?

A.In 1990 comments to the National Telecommunication Infrastructure Association, in response to the question whether telecom services should be pushed by the development of technology or pulled by perceived demand for such services, IPUC comments indicated some uneasiness with the possibility of being too far ahead of the game:  "We cannot afford to allow costly service expansions relying on hopes that customers will choose to use and pay for services."  Staff thinks those concerns are especially well-placed when one considers that revenue sharing funds are supposed to be spent for the benefit of Title 61 ratepayers.

Q.What is the newer item that causes some concern about spending too much in advance of demand?

A.It appears there is at least conjectural evidence from elsewhere that the storied information highway is evolving much more slowly than certain companies promised.

A story from The Wall Street Journal of Thursday, September 28, 1995, at page A3 mentions

the surprise move by PacTel [scaling back

plans to build interactive video networks

throughout California....providing

further evidence that the vaunted

information highway will be slow to

materialize] was viewed by some observers

as another bad sign for the information

highway, which has been hampered by

technical snags, regulatory hurdles and

the promise of new competition in the

Bells' traditional phone markets.

Bell Atlantic, one of the most aggressive proponents of the highway, has similarly scaled back its near-term plans to focus on wireless cable.  So has Nynex.

Ameritech meanwhile, has been eyeing acquisitions of traditional cable

systems.  And U S WEST has scrapped

aggressive construction plans for now to

review its options.

U S WEST had proposed video dialtone in five cities -- $90 million worth in Boise.  It has also scrapped plans to roll out PCS services.

Maybe we are all going too fast, trying to catch the technology before making clear decisions as to its real benefits as well as its affordability.

Q.Are there other unfulfilled claims from Tech II that give Staff pause?

A.Yes, there are, particularly dealing with service quality.  In the U S WEST Tech II proposal, pages 9-10, there was a claim that "pro-active repair monitoring made possible by the enhanced network will reduce outages and repair calls.  Residential, government and business customers will experience increased reliability of service because of diversity in transmission routes."  Staff feels this is just another unfulfilled claim of the benefits of new technology that has since been overshadowed by other Company changes, with the result that service quality has actually declined.

In the original revenue sharing case, in Order No. 22738 (Case No. MTB-T-88-13), the Commission "notes the concerns expressed by Staff that service quality may suffer if the Company is allowed to implement the sharing plan."  In addition the Commission expressed pride and concern in the area of service quality and noted that it "would view with considerable distress and respond swiftly to any reduction in the quality of service that Idaho customers of U S WEST now enjoy."  Recent service quality concerns give Staff pause in approving any further sharing disposition that does not go directly to the customer.  The Commission’s Consumer Investigation Division reports U S WEST customer complaints on service quality have grown from 31 in 1991 to 133 for the first three quarters of 1995 while held order complaints grew from 41 in 1992 to 128 for the first three quarters of 1995.

One kind of service quality (technical potential) may have been expanded, but apparently at great cost to service quality (network maintenance) in terms of restoration of out-of-service conditions, repair, and installation of new lines.

STAFF'S RECOMMENDATION

Q.Is Staff opposed to these proposed infrastructure alternatives simply because they are new and different?

A.No.  Undertaking infrastructure improvement as an alternative to refunding Title 61 revenue sharing funds is not new.  References to that history have been mentioned in this testimony.  Further, Staff points out that Order No. 24267 (Case No. USW-T-92-1), among others, makes reference to this Commission's "long history of initiating and approving projects that improve the telecommunications network and promote universal service in Idaho."  The OPUS (one party universal service program that made one-party service the norm), TECH PLUS and TECH II projects were approved by this Commission in proceedings similar to this one.

Q.Will you summarize why Staff is opposed to the ACCESS-96 proposal?

A.Two reasons.  First, the proposal is conceptually inadequate since it fails to satisfy the specific criteria for infrastructure projects outlined by the Commission.  The provision of such criteria was a concession by a Commission that had already expressed a preference for more direct means of benefitting Title 61 ratepayers with revenue sharing funds.  In that light, Staff feels the burden is on proponents of infrastructure alternatives to provide overwhelmingly positive evidence that their proposals fully meet all criteria.  Second, even if it were conceptually consistent with the specified criteria, the basic proposal, especially the local government and E-911 components, is practically flawed.  Together these faults make it impossible for Staff to support the ACCESS-96 proposal.

Q.What were some of the advantages cited in earlier cases for simply refunding to customers the Title 61 revenue sharing amount?

A.This subject was discussed at some length in Case No. MTB-T-90-4.  For instance, Staff witness Miller, in the transcript at page 294, notes several primary advantages of simply refunding the money.  One is that a refund "adjusts rates or issues surcredits or surcharges almost automatically," thus eliminating regulatory lag when rates may be too large or too small.  Another advantage is that the refund "provides Title 61 customers with the potential of lower rates as revenue grows."  At page 376 of the same transcript, Company witness Wozniak seems to agree that such treatment provides regular ratepayers benefits and eliminates "lag."

Q.What is Staff's recommended use of the $6.35 million of 1994 revenue sharing funds?

A.Staff believes that the appropriate way to fulfill the criteria outlined by the Commission is to refund the money directly to the southern Idaho customers of U S WEST rather than to choose one of the alternative forms of disposition proposed.  That refund can occur in two ways.  First, the rural zone credit should be increased to the full $3.19 zone charge.  Second, the remainder of funds should be refunded to all U S WEST customers through a monthly surcredit.  If zone charges are eliminated under any new regulatory plan adopted by the Commission, then the balance of 1994 sharing funds should be added in the monthly surcredit.

Q.What would it take to give a full credit on zone charges?

A.It would take approximately $2.5 million (or $3.19 x about 65,000 customers x 12 months).

Q.Are there any other suggestions from Staff?

A.Given the confusion over what are acceptable uses of revenue sharing funds that seems evident from the content of the current alternative disposition proposals and the fact that these disposition cases have taken significant resources each year, Staff proposes that the decision made by the Commission for these 1994 revenue sharing funds should apply also to 1995 funds.  1995 will be the last year funds will be available under the terms of the original revenue sharing plan.  That sharing plan is, as directed by Order No. 25826 (Case No. USW-T-94-3), currently under evaluation and is slated for revision or replacement with some new plan by early 1996.  The amount of funds available from the 1995 year will not be determined until April of 1996, but should be of the same magnitude as the 1994 funds available now.

In this last year of the plan it would be easiest to make this decision about disposition only once.  This position is in clear consonance with the view expressed by this Commission in Order No. 25923 (Case No. USW-S-94-3) that it wanted "to eliminate an extended tug-of-war concerning the appropriate disposition of sharing funds."

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

A.Yes, it does.