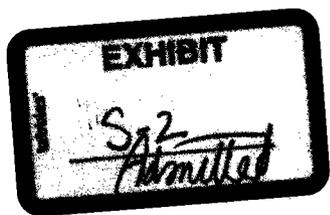




LEGAL



MEMORANDUM

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2004 JAN -9 P 2:51

TO: Docket Control
FROM: Ernest G. Johnson *EGJ*
Director
Utilities Division

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AZ CORP COMMISSION
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JAN 09 2004

LEGAL DIV.
ARIZ CORPORATION COMMISSION

DATE: January 9, 2004

RE: STAFF REPORT FOR THE MIDVALE TELEPHONE EXCHANGE, INC. APPLICATION FOR AUTHORIZATION TO PROVIDE FACILITIES-BASED, BASIC LOCAL EXCHANGE SERVICE AND TOLL ACCESS TELEPHONE SERVICE TO CURRENTLY UNSERVED RESIDENTIAL DEVELOPMENTS KNOWN AS CROSSROADS RANCH, POQUITO VALLEY AND BREEZY PINE (DOCKET NO. T-02532A-03-0017)

Attached is the Staff Report for the Midvale Telephone Exchange, Inc. Application For Authorization To Provide Facilities-Based, Basic Local Exchange Service And Toll Access Telephone Service To Currently Unserved Residential Developments Known As Crossroads Ranch, Poquito Valley And Breezy Pine. This Staff Report is submitted in compliance with Decision No. 66510 in which the Commission required Staff to evaluate information produced by Qwest Corporation, Midvale Telephone Exchange, Inc. and Table Top Telephone Company.

EGJ:RLB:WMS:red

Originator: Richard L. Boyles and Wilfred Shand, Jr.

Arizona Corporation Commission
DOCKETED

Attachment: Original and thirteen copies

JUN 29 2004

DOCKETED BY *CAK*

AZ CORP COMMISSION
DOCUMENT CONTROL

2004 JUN 29 A 11:45

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Service List for: Midvale Telephone Exchange, Inc.
Docket No. T-02532A-03-0017

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Lyn Farmer
Chief, Hearing Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

**STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**

MIDVALE TELEPHONE EXCHANGE, INC.

DOCKET NO. T-02532A-03-0017

**APPLICATION FOR AUTHORIZATION TO PROVIDE FACILITIES-BASED, BASIC
LOCAL EXCHANGE SERVICE AND TOLL ACCESS TELEPHONE SERVICE TO
CURRENTLY UNSERVED RESIDENTIAL DEVELOPMENTS KNOWN AS
CROSSROADS RANCH, POQUITO VALLEY AND BREEZY PINE**

JANUARY 2004

STAFF ACKNOWLEDGMENT

The Staff Report for the Midvale Telephone Exchange, Inc. Application For Authorization To Provide Facilities-Based, Basic Local Exchange Service And Toll Access Telephone Service To Currently Unserved Residential Developments Known As Crossroads Ranch, Poquito Valley And Breezy Pine, Docket No. T-02532A-03-0017 was the responsibility of the Staff members listed below. Richard Boyles was responsible for the engineering and technical analysis. Wilfred Shand, Jr. was responsible for the analysis regarding facility cost recovery.



Richard L. Boyles
Utilities Engineer



Wilfred Shand, Jr.
Public Utility Manager

**EXECUTIVE SUMMARY
MIDVALE TELEPHONE EXCHANGE, INC.
DOCKET NO. T-2532A-03-0017**

In Decision No. 66510, The Commission found that the record was insufficient to approve two-way EAS between Midvale, Table Top and Qwest. The Commission further found that the EAS portion of Midvale's application and Table Top's EAS request should be set for hearing. In compliance with Decision No. 66510, this Staff Report provides Staff's evaluation of the information produced by Qwest, Midvale and Table Top concerning the costs associated with implementing two-way EAS between their exchanges.

Assuming that 273 customers will be provided with EAS, Staff (based on information provided by Midvale) estimated that the investment necessary to provide EAS to Midvale's Millsite customers is \$70,620. Staff estimates that the additional monthly per customer cost to recover the investment in facilities will be \$5.20. To develop this estimate, Staff used Midvale's cost of capital estimate of 8.00%. If the Commission authorized 10.37% rate of return is used, Staff estimates that the additional monthly per customer cost to recover the investment in facilities will be \$6.10.

Assuming that 529 customers will be provided with EAS, Staff estimated that the addition to rate base necessary to provide EAS to Midvale's Millsite customers is \$104,650. Staff estimates that the additional monthly per customer cost to recover the investment in facilities will be \$3.98, assuming Midvale's cost of capital estimate of 8.00%. If the Commission authorized rate of return of 10.37% is used, Staff estimates that that the additional monthly per customer cost to recover the investment in facilities will be \$4.67.

Table Top withdrew its request for two-way EAS on October 30, 2003. Therefore no cost recovery analysis was performed for its customers.

Qwest facility costs are, in Staff's opinion, *de minimus*. Therefore Staff did not estimate a cost recovery amount for its customers.

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FACILITY COST RECOVERY	3

EXHIBIT

EXHIBIT	S-1
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Introduction

In Decision No. 66510, the Commission granted Midvale Telephone Exchange, Inc.'s (Midvale's) application to extend its existing Certificate of Convenience and Necessity to include new areas in its Millsite Exchange. Midvale asserted that public interest considerations support the establishment of EAS between the new service area and Qwest Corporation's (Qwest's) Prescott local calling area and asked that the Commission require the provision of two-way EAS between those areas. Staff recommended approval of EAS between Midvale's service area and Qwest's service area. Staff also recommended that EAS be established between Midvale's service area and Table Top Telephone Company's (Table Top's) Inscription Canyon Ranch Exchange, given its proximity to Midvale's and Qwest's service areas.

Based on the information provided, the Commission found that the record was insufficient to approve two-way EAS between Midvale, Table Top and Qwest. As a result, the Commission required Qwest, Midvale and Table Top to submit the necessary documentation to Staff so that Staff could evaluate the costs associated with implementing two-way EAS between their exchanges. The Commission further found that the EAS portion of Midvale's application and Table Top's EAS request should be set for hearing.

In compliance with Decision No. 66510, this Staff Report provides Staff's evaluation of the information provided by Qwest, Midvale and Table Top concerning the costs associated with implementing two-way EAS between their exchanges. Staff will file another report on March 9, 2004, in compliance with Decision No. 66510, which will address, at a minimum the following issues:

- (a) The community of interest between Midvale, Table Top and Qwest's Prescott Local Calling Area;
- (b) The costs associated with providing two-way EAS between Qwest and Midvale, Qwest and Table Top, and Midvale and Table Top;
- (c) The financial impact on the customers of Midvale, Table Top and Qwest if two-way EAS is ordered;
- (d) Its recommendation as to how the costs of EAS should be collected; and
- (e) Whether a substantial majority of the present and future customers of Midvale, and the customers of Table Top, understand the potential impact of establishing two-way EAS and support it.

Facility Costs

Engineering has reviewed the filings by the Companies regarding estimated facility costs to implement two-way EAS between Midvale's Millsite rate center, Qwest's Prescott rate center (Prescott local calling area) and Table Top's Inscription Canyon Ranch rate center and provides the following comments.

Table Top

Table Top did not file cost information since it had withdrawn its request for two-way EAS in exceptions filed on October 30, 2003. In general, Table Top stated it was unwilling to assume two-way EAS costs requested by Qwest; such as Qwest's costs for additional trunking and recurring transit charges. In its Staff Report on Midvale's CC&N extension application, Staff recommended that two-way EAS be established between Table Top and Midvale and that two-way EAS between Table Top and Qwest be deferred to a subsequent rate case or other appropriate filing. Many of the concerns and issues raised by Table Top may also be applicable to EAS between Table Top and Midvale. Therefore, Staff now recommends deferral of two-way EAS between Table Top and Midvale to a subsequent rate case or other appropriate filing also.

Qwest

Because Table Top had withdrawn its request for two-way EAS, in its December 10, 2003 filing, Qwest provided a cost estimate for Midvale only¹. Qwest's estimate assumes that 1) Midvale would interconnect to Qwest's Prescott end office and 2) a single DS-1 trunk group would be required initially. In its comments, Staff adds a further assumption that Midvale would make use of tandem functionality in the Prescott switch. Staff understands that this would eliminate the need to establish a separate facility to the Qwest's Chino Valley and would also facilitate the routing of calls to other carriers with prefixes in the Prescott local calling area.

Qwest stated that its capital costs have a linear relationship with the number of DS-1s provisioned (i.e. 2 DS-1s are twice the cost of 1 DS-1, etc.). Approximately 23 percent of the identified expense costs are for translation activity that appears to be only required for the initial turn up of the trunk group. The capital and expense costs to Qwest for establishment of a two-way EAS trunk group consisting of one DS-1 are both *de minimus* and within reasonable bounds.

Midvale

Midvale requested that its September 9, 2003 late filed exhibit be utilized as its cost estimate. The facility costs in the estimate are for full build out. Based upon the data provided, Staff estimated the initial capital cost for facilities as follows:

Redcom		
Shelf & common cards ² (C.O.)	1 @ 22,000	\$ 22,000
DS-1 cards	1 @ 2,000	\$ 2,000
Misc. materials	1 @ 350	\$ 350
Labor (install, programming, travel)	20 hrs @ 75.00	\$ 1,500
Total		\$ 25,850

¹ Documentation provided to Staff was marked as Qwest Confidential.

² Each shelf can hold up to 3 DS-1 cards.

Advanced Fiber Communications		
Shelf & common cards (C.O. & meet point)	2 @ 4,300	\$ 8,600
T1X cards	2 @ 700	\$ 1,400
Labor (install, programming, travel)	8 hrs @ 75.00	\$ 600
Total		\$ 10,600
Engineering, planning, coordination	10 hrs @ 75.00	\$ 750
Total		\$ 37,200 ³

The above table represents the estimated minimum initial capital cost for Midvale provided facilities to establish two-way EAS for its Millsite service customers. As plant is deployed in other non-contiguous service areas of the exchange⁴, and customers are added, additional DS-1s would be incrementally provisioned to meet call volume requirements. Staff believes the unit costs provided by Midvale are within reasonable bounds.

Staff notes that the filings by Midvale and Qwest do not indicate whether there would be any recurring expense to Midvale from Qwest for facilities necessary to interconnect with Qwest.

Facility Cost Recovery

The \$37,200 minimum investment could serve 75 to 80 customers. Midvale currently has 30 customers in the Millsite exchange. Staff estimates that the additional monthly per customer cost to recover the investment in facilities (assuming that 75 customers would be served) will be \$9.97, assuming an 8.00% rate of return and a 1.765 Gross Revenue Conversion Factor.⁵ If the Commission authorized rate of return of 10.37% is used, Staff estimates that that the additional monthly per customer cost to recover the investment in facilities will be \$11.70.⁶

In its application, Midvale provided a forecast of the number of customers that it expects to serve in the Millsite exchange. At the end of the first year, Midvale would provide two-way EAS to 273 customers and Midvale would provide two-way EAS to 596 in year six. Assuming that 273 customers will be provided with two-way EAS, Staff (based on information provided by Midvale) estimated that the addition to rate base necessary to provide two-way EAS to Midvale's Millsite customers is \$70,620, Staff estimates that the additional monthly per customer cost to recover the investment in facilities will be \$5.20.⁷ To develop this estimate, Staff used

³ Add \$ 3,400 if 2 DS-1s are provided and \$6,800 if 3 DS-1s are provided.

⁴ As of December 1, 2003, 30 customers were receiving service in the Henderson Valley service area. Midvale anticipates it will begin to provide service in the Millsite service area during 1Q2004. At this time, Midvale anticipates that service would next be provided to the Crossroads Ranch service area in early 2005. The Poquito Valley service area would be subsequent to Crossroads Ranch.

⁵ See Exhibit S-1, Page 1.

⁶ See Exhibit S-1, Page 2.

⁷ See Exhibit S-1, Page 3.

Midvale's cost of capital estimate of 8.00%. Staff also used a Gross Revenue Conversion Factor of 1.765 which was used in Midvale's last rate case (Decision No. 64011). The Commission's authorized rate of return for Midvale set in its latest rate case is 10.37%, however, interest rates have declined since that time. If the Commission authorized rate of return is used, Staff estimates that that the additional monthly per customer cost to recover the investment in facilities will be \$6.10.⁸

In its Late Filed Exhibits submitted on September 9, 2003, Midvale indicated that at full build out, it would serve 529 customers. Assuming that 529 customers will be provided with two-way EAS, Staff (again based on information provided by Midvale) estimated that the addition to rate base necessary to provide two-way EAS to Midvale's Millsite customers is \$104,650. Staff estimates that the additional monthly per customer cost to recover the investment in facilities will be \$3.98, assuming an 8.00% rate of return and a 1.765 Gross Revenue Conversion Factor.⁹ If the Commission authorized rate of return of 10.37% is used, Staff estimates that that the additional monthly per customer cost to recover the investment in facilities will be \$4.67.¹⁰

⁸ See Exhibit S-1, Page 4.

⁹ See Exhibit S-1, Page 5.

¹⁰ See Exhibit S-1, Page 6.

End of Year One using 8.00% and zero for "Other Operating Expense"

Addition to Rate Base		\$40,600.00	
<i>times</i> authorized return on rate base	8.00%	\$3,248.00	from Decision No. 64011 (rate case)
<i>times</i> Gross Revenue Conversion Factor	1.7652	\$5,733.37	from Decision No. 64011 (rate case)
<i>plus</i> depreciation expense	10 years	\$4,060.00	from Decision No. 64011 (rate case)
<i>Equals</i> Investment Related Rev Req		\$9,793.37	
<i>plus</i> Other Operating Expense	0.0000	\$0.00	
<i>Equals</i> Annual Revenue Requirement		\$9,793.37	
<i>divided</i> by number of customers		273	from Amended Application, Exhibit F
<i>Equals</i> Annual per customer Rev Req		\$35.87	
<i>divided</i> by 12			
<i>Equals</i> Monthly per customer Rev Req		\$2.99	

End of Six Years using 8.00% and zero for "Other Operating Expense"

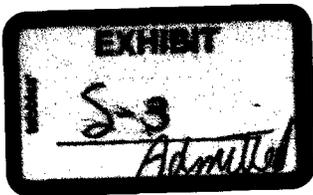
Addition to Rate Base		\$104,650.00	
<i>times</i> authorized return on rate base	8.00%	\$8,372.00	from Decision No. 64011 (rate case)
<i>times</i> Gross Revenue Conversion Factor	1.7652	\$14,778.25	from Decision No. 64011 (rate case)
<i>plus</i> depreciation expense	10 years	\$10,465.00	from Decision No. 64011 (rate case)
<i>Equals</i> Investment Related Rev Req		\$25,243.25	
<i>plus</i> Other Operating Expense	0.0000	\$0.00	
<i>Equals</i> Annual Revenue Requirement		\$25,243.25	
<i>divided</i> by number of customers		529	from Midvale Late Filed Exhibits
<i>Equals</i> Annual per customer Rev Req		\$47.72	
<i>divided</i> by 12			
<i>Equals</i> Monthly per customer Rev Req		\$3.98	

End of Year One using 10.37% and zero for "Other Operating Expense"

Addition to Rate Base		\$40,600.00	
<i>times</i> authorized return on rate base	10.37%	\$4,210.22	from Decision No. 64011 (rate case)
<i>times</i> Gross Revenue Conversion Factor	1.7652	\$7,431.88	from Decision No. 64011 (rate case)
<i>plus</i> depreciation expense	10 years	\$4,060.00	from Decision No. 64011 (rate case)
Equals Investment Related Rev Req		\$11,491.88	
<i>plus</i> Other Operating Expense	0.0000	\$0.00	
Equals Annual Revenue Requirement		\$11,491.88	
<i>divided</i> by number of customers		273	from Amended Application, Exhibit F
Equals Annual per customer Rev Req		\$42.09	
<i>divided</i> by 12			
Equals Monthly per customer Rev Req		\$3.51	

End of Six Years using 10.37% and zero for "Other Operating Expense"

Addition to Rate Base		\$104,650.00	
<i>times</i> authorized return on rate base	10.37%	\$10,852.21	from Decision No. 64011 (rate case)
<i>times</i> Gross Revenue Conversion Factor	1.7652	\$19,156.31	from Decision No. 64011 (rate case)
<i>plus</i> depreciation expense	10 years	\$10,465.00	from Decision No. 64011 (rate case)
Equals Investment Related Rev Req		\$29,621.31	
<i>plus</i> Other Operating Expense	0.0000	\$0.00	
Equals Annual Revenue Requirement		\$29,621.31	
<i>divided</i> by number of customers		529	from Midvale Late Filed Exhibits
Equals Annual per customer Rev Req		\$55.99	
<i>divided</i> by 12			
Equals Monthly per customer Rev Req		\$4.67	



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MEMORANDUM

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TO: Docket Control
FROM: Ernest G. Johnson *EGJ*
Director
Utilities Division
DATE: February 9, 2004

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FEB - 9 2004

LEGAL DIV.
ARIZ. CORPORATION COMMISSION

2004 FEB -9 P 2:13

AZ CORP COMMISSION
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RE: STAFF REPORT FOR THE MIDVALE TELEPHONE EXCHANGE, INC.'S APPLICATION FOR AUTHORIZATION TO PROVIDE FACILITIES-BASED, BASIC LOCAL EXCHANGE SERVICE AND TOLL ACCESS TELEPHONE SERVICE TO CURRENTLY UNSERVED RESIDENTIAL DEVELOPMENTS KNOWN AS CROSSROADS RANCH, POQUITO VALLEY AND BREEZY PINE (DOCKET NO. T-02532A-03-0017)

Attached please find the **replacement schedules** to the Staff Report for the above matter (originally docketed on January 9, 2004). The narrative contained in the original Staff Report does not require any changes; only the substitution of schedules is necessary.

EGJ:RLB:WMS:lhbm

Originator: Richard L. Boyles and Wilfred M. Shand, Jr.

Attachment: Original and Thirteen Copies

Service List for: Midvale Telephone Exchange, Inc.
Docket No. T-02532A-03-0017

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Post Office Box 7
Midvale, Idaho 83645

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Brown & Bain PA
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Mr. Conley E. Ward
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Mr. Joe F. Tarver
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Tucson, Arizona 85712-1292

Mr. John Hayes
General Manager
Table Top Telephone Company
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Ajo, Arizona 85321

Mr. Timothy Berg
Ms. Theresa Dwyer
Ms. Darcy Renfro
Fennemore Craig
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Director, Utilities Division
Arizona Corporation Commission
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Ms. Lyn Farmer
Chief, Hearing Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

75 customers using 8.00% and zero for "Other Operating Expense"

Addition to Rate Base		\$37,200.00	
<i>times</i> authorized return on rate base	8.00%	\$2,976.00	from Decision No. 64011 (rate case)
<i>times</i> Gross Revenue Conversion Factor	1.7652	\$5,253.24	from Decision No. 64011 (rate case)
<i>plus</i> depreciation expense	10 years	\$3,720.00	from Decision No. 64011 (rate case)
Equals Investment Related Rev Req		\$8,973.24	
<i>plus</i> Other Operating Expense	0.0000	\$0.00	
Equals Annual Revenue Requirement		\$8,973.24	
<i>divided</i> by number of customers		75	from Midvale Late Filed Exhibits
Equals Annual per customer Rev Req		\$119.64	
<i>divided</i> by 12			
Equals Monthly per customer Rev Req		\$9.97	

75 customers using 10.37% and zero for "Other Operating Expense"

Addition to Rate Base		\$37,200.00	
<i>times</i> authorized return on rate base	10.37%	\$3,857.64	from Decision No. 64011 (rate case)
<i>times</i> Gross Revenue Conversion Factor	1.7652	\$6,809.51	from Decision No. 64011 (rate case)
<i>plus</i> depreciation expense	10 years	\$3,720.00	from Decision No. 64011 (rate case)
<i>Equals</i> Investment Related Rev Req		\$10,529.51	
<i>plus</i> Other Operating Expense	0.0000	\$0.00	
<i>Equals</i> Annual Revenue Requirement		\$10,529.51	
<i>divided</i> by number of customers		75	from Midvale Late Filed Exhibits
<i>Equals</i> Annual per customer Rev Req		\$140.39	
<i>divided</i> by 12			
<i>Equals</i> Monthly per customer Rev Req		\$11.70	

End of Year One using 8.00% and zero for "Other Operating Expense"

Addition to Rate Base		\$70,620.00	
<i>times</i> authorized return on rate base	8.00%	\$5,649.60	from Decision No. 64011 (rate case)
<i>times</i> Gross Revenue Conversion Factor	1.7652	\$9,972.67	from Decision No. 64011 (rate case)
<i>plus</i> depreciation expense	10 years	\$7,062.00	from Decision No. 64011 (rate case)
<i>Equals</i> Investment Related Rev Req		\$17,034.67	
<i>plus</i> Other Operating Expense	0.0000	\$0.00	
<i>Equals</i> Annual Revenue Requirement		\$17,034.67	
<i>divided</i> by number of customers		273	from Amended Application, Exhibit F
<i>Equals</i> Annual per customer Rev Req		\$62.40	
<i>divided</i> by 12			
<i>Equals</i> Monthly per customer Rev Req		\$5.20	

End of Six Years using 8.00% and zero for "Other Operating Expense"

Addition to Rate Base		\$104,650.00	
<i>times</i> authorized return on rate base	8.00%	\$8,372.00	from Decision No. 64011 (rate case)
<i>times</i> Gross Revenue Conversion Factor	1.7652	\$14,778.25	from Decision No. 64011 (rate case)
<i>plus</i> depreciation expense	10 years	\$10,465.00	from Decision No. 64011 (rate case)
Equals Investment Related Rev Req		\$25,243.25	
<i>plus</i> Other Operating Expense	0.0000	\$0.00	
Equals Annual Revenue Requirement		\$25,243.25	
<i>divided</i> by number of customers		529	from Midvale Late Filed Exhibits
Equals Annual per customer Rev Req		\$47.72	
<i>divided</i> by 12			
Equals Monthly per customer Rev Req		\$3.98	

End of Year One using 10.37% and zero for "Other Operating Expense"

Addition to Rate Base		\$70,620.00	
<i>times</i> authorized return on rate base	10.37%	\$7,323.29	from Decision No. 64011 (rate case)
<i>times</i> Gross Revenue Conversion Factor	1.7652	\$12,927.08	from Decision No. 64011 (rate case)
<i>plus</i> depreciation expense	10 years	\$7,062.00	from Decision No. 64011 (rate case)
<i>Equals</i> Investment Related Rev Req		\$19,989.08	
<i>plus</i> Other Operating Expense	0.0000	\$0.00	
<i>Equals</i> Annual Revenue Requirement		\$19,989.08	
<i>divided</i> by number of customers		273	from Amended Application, Exhibit F
<i>Equals</i> Annual per customer Rev Req		\$73.22	
<i>divided</i> by 12			
<i>Equals</i> Monthly per customer Rev Req		\$6.10	

End of Six Years using 10.37% and zero for "Other Operating Expense"

Addition to Rate Base		\$104,650.00	
<i>times</i> authorized return on rate base	10.37%	\$10,852.21	from Decision No. 64011 (rate case)
<i>times</i> Gross Revenue Conversion Factor	1.7652	\$19,156.31	from Decision No. 64011 (rate case)
<i>plus</i> depreciation expense	10 years	\$10,465.00	from Decision No. 64011 (rate case)
<i>Equals</i> Investment Related Rev Req		\$29,621.31	
<i>plus</i> Other Operating Expense	0.0000	\$0.00	
<i>Equals</i> Annual Revenue Requirement		\$29,621.31	
<i>divided</i> by number of customers		529	from Midvale Late Filed Exhibits
<i>Equals</i> Annual per customer Rev Req		\$55.99	
<i>divided</i> by 12			
<i>Equals</i> Monthly per customer Rev Req		\$4.67	



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MEMORANDUM

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2004 MAR -9 P 12: 59

TO: Docket Control
FROM: Ernest G. Johnson *EGJ*
Director
Utilities Division

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AZ CORP COMMISSION
DOCUMENT CONTROL

MAR 09 2004

DATE: March 9, 2004

LEGAL DIV.
ARIZ. CORPORATION COMMISSION

RE: STAFF REPORT FOR THE MIDVALE TELEPHONE EXCHANGE, INC. APPLICATION FOR AUTHORIZATION TO PROVIDE FACILITIES-BASED, BASIC LOCAL EXCHANGE SERVICE AND TOLL ACCESS TELEPHONE SERVICE TO CURRENTLY UNSERVED RESIDENTIAL DEVELOPMENTS KNOWN AS CROSSROADS RANCH, POQUITO VALLEY AND BREEZY PINE (DOCKET NO. T-02532A-03-0017)

Attached is the Staff Report for the Midvale Telephone Exchange, Inc. Application for Authorization to Provide Facilities-Based, Basic Local Exchange Service and Toll Access Telephone Service to Currently Unserved Residential Developments known as Crossroads Ranch, Poquito Valley and Breezy Pine. This Staff Report is submitted in compliance with Decision No. 66510 in which the Commission required Staff to address (a) the community of interest between Midvale Telephone Exchange, Inc. ("Midvale"), Table Top Telephone Company ("Table Top"), and Qwest Corporation's ("Qwest's") Local Calling Area; (b) the costs associated with providing two-way Extended Area Service ("EAS") between Qwest and Midvale, Qwest and Table Top, and Midvale and Table Top; (c) the financial impact on the customers of Midvale, Table Top, and Qwest if two-way EAS is ordered; (d) its recommendation as to how costs of EAS should be collected; and (e) whether a substantial majority of the present and future customers of Midvale, and the customers of Table Top, understand the potential impact of establishing two-way EAS and support it.

Staff has completed its evaluation of the items listed above and recommends that two-way EAS between Midvale and Qwest be implemented with no additional monthly charge.

EGJ:RLB:WMS:hml

Originator: Richard L. Boyles and Wilfred Shand, Jr.

Service List for: Midvale Telephone Exchange, Inc.
Docket No. T-02532A-03-0017

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Ms. Cynthia A. Melillo
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**STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**

MIDVALE TELEPHONE EXCHANGE, INC.

DOCKET NO. T-02532A-03-0017

**APPLICATION FOR AUTHORIZATION TO PROVIDE FACILITIES-BASED, BASIC
LOCAL EXCHANGE SERVICE AND TOLL ACCESS TELEPHONE SERVICE TO
CURRENTLY UNSERVED RESIDENTIAL DEVELOPMENTS KNOWN AS
CROSSROADS RANCH, POQUITO VALLEY AND BREEZY PINE**

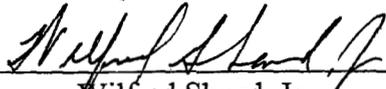
MARCH 2004

STAFF ACKNOWLEDGMENT

The Staff Report for the Midvale Telephone Exchange, Inc. Application for Authorization to provide Facilities-Based, Basic Local Exchange Service and Toll Access Telephone Service to currently Unserved Residential Developments known as Crossroads Ranch, Poquito Valley and Breezy Pine (Docket No. T-02532A-03-0017) was the responsibility of the Staff members listed below. Richard Boyles was responsible for the engineering and technical analysis. Wilfred Shand, Jr. was responsible for the analysis regarding facility cost recovery.



Richard L. Boyles
Utilities Engineer



Wilfred Shand, Jr.
Public Utility Manager

**EXECUTIVE SUMMARY
MIDVALE TELEPHONE EXCHANGE, INC.
DOCKET NO. T-2532A-03-0017**

Staff concludes that the community of interest includes the City of Prescott which is located in Qwest's Prescott Local Calling Area.

Staff estimates that the additional monthly per customer cost to recover the investment in facilities (assuming that 75 customers would be served) will be \$9.97, assuming an 8.00 percent rate of return and a 1.765 Gross Revenue Conversion Factor. If the Commission authorized rate of return of 10.37 percent is used, Staff estimates that the additional monthly per customer cost to recover the investment in facilities will be \$11.70. Assuming that 529 customers will be provided with two-way EAS, Staff (again based on information provided by Midvale) estimates that the addition to rate base necessary to provide two-way EAS to Midvale's Millsite customers is \$104,650. Staff estimates that the additional monthly per customer cost to recover the investment in facilities will be \$3.98, assuming an 8.00 percent rate of return and a 1.765 Gross Revenue Conversion Factor. If the Commission authorized rate of return of 10.37 percent is used, Staff estimates that the additional monthly per customer cost to recover the investment in facilities will be \$4.67.

In its Decision approving EAS for Midvale's Granite Mountain Exchange (Decision No. 66171), the Commission approved an EAS surcharge of \$10.45 per line per month. This charge was based on Midvale's estimates of lost access revenues if EAS were implemented in the area. The Commission, however, approved the rate on an interim basis and subject to true-up and ordered Midvale to provide information on actual EAS calling within eighteen months. Therefore, Staff believes that this rough estimate of lost access revenues for this area could also be used in this docket.

On February 26, 2004, a public comment session in this matter was held in Prescott. At that session, Midvale stated that the results of the survey of its customers indicate that 79 percent of the respondents support EAS, even with the understanding that EAS carries with it the potential for a \$9.00 to \$13.00 per month surcharge. In addition, it appeared to Staff that the majority of customers at the public comment session supported EAS.

Midvale's customers' community of interest includes the Prescott Local Calling Area. Midvale stated that it should be able to implement EAS at no additional cost to its customers and has not proposed to assess an EAS charge at this time. If it is necessary to implement an EAS charge in the future, the poll of Midvale's customers indicates that approximately 80 percent desire EAS even with the possibility of a \$9.00 to \$13.00 per month EAS charge. Therefore, Staff recommends approval of the implementation of two-way EAS between the two calling areas.

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Introduction

In Decision No. 66510, the Commission granted Midvale Telephone Exchange, Inc.'s (Midvale's) application to extend its existing Certificate of Convenience and Necessity ("CC&N") to include new areas in its Millsite Exchange. Midvale asked that the Commission require the provision of two-way Extended Area Service ("EAS" or "toll free calling") between the new service area and Qwest Corporation's ("Qwest's") Prescott local calling area. Staff recommended approval of EAS between Midvale's service area and Qwest's service area. Staff also recommended that EAS be established between Midvale's service area and Table Top Telephone Company's ("Table Top's") Inscription Canyon Ranch Exchange, given its proximity to Midvale's and Qwest's service areas.

In Decision No. 66510, the Commission found that the information provided by the parties was insufficient to support approval of two-way EAS between the Midvale, Table Top and Qwest service areas. As a result, the Commission ordered Qwest, Midvale and Table Top to submit the information that would allow Staff to evaluate the costs associated with implementing two-way EAS among their exchanges. In addition, the Commission ordered that the EAS portion of Midvale's application and Table Top's EAS request be set for hearing.

Staff submitted a Staff Report on January 9, 2004, to comply with Decision No. 66510, that provides Staff's evaluation of the information provided by Qwest, Midvale and Table Top regarding the costs associated with implementing two-way EAS between their exchanges. Using various assumptions related to the number of Midvale customers, the level of investment necessary to serve those customers and the cost of capital, Staff estimated that the monthly costs associated with providing two-way EAS ranged from \$3.98 to \$11.70 for each of Midvale's customers.

In this Staff Report, which is being filed to comply with Decision No. 66510, Staff will address the following issues:

- (a) The community of interest between Midvale, Table Top and Qwest's Prescott Local Calling Area;
- (b) The costs associated with providing two-way EAS between Qwest and Midvale, Qwest and Table Top, and Midvale and Table Top;
- (c) The financial impact on the customers of Midvale, Table Top and Qwest if two-way EAS is ordered;
- (d) Its recommendation as to how the costs of EAS should be collected; and
- (e) Whether a substantial majority of the present and future customers of Midvale, and the customers of Table Top, understand the potential impact of establishing two-way EAS and support it.

The community of interest between Midvale, Table Top and Qwest's Prescott Local Calling Area

The Commission has received a number of letters from residents of the area that Midvale proposes to serve, particularly the Crossroads Ranch and Crossroads Ranch, Phase II developments. The letters indicate that the residents support Midvale's application to serve the area and that EAS should be implemented so that calls to Prescott are treated as local calls. Some of the letters also indicate that most of the cell phone calls are made to Prescott, thus the request for EAS. The President of the Crossroads Ranch II Homeowners Associations indicated that, "Prescott is where most of the property owners complete their business, and go to doctors and stores etc."

In its amended application, Midvale provided a map of the area containing the Millsite Exchange as Exhibit D. The map shows that the larger of the proposed CC&N extension areas, Crossroads Ranch, is approximately 14.5 miles northwest of Prescott at the nearest boundary and approximately 23.5 miles northwest of Prescott at the farthest. This CC&N extension area is about 7 miles from Chino Valley and is contiguous to the Prescott Exchange and the Chino Valley Exchange (which has EAS calling into Prescott). The smaller of the proposed CC&N extension areas, Poquito Valley, is about 13.5 miles to the northeast of Prescott and is contiguous to the Prescott exchange.

During its research on the area, Staff determined that:

1. There were no commercial entities in the area. Residents must go to Chino Valley, Prescott Valley or Prescott all of which are located in Qwest's Prescott Local Calling Area.
2. There were no schools in the area. Children must attend schools in the Prescott, Humboldt or Chino Valley School Districts all of which are located in Qwest's Prescott Local Calling Area.
3. The area is contiguous to areas that are currently being served by Qwest or Table Top Telephone Company.
4. A check of the Qwest Yellow Pages for the area revealed that the hospitals listed as serving the area are located in Prescott.
5. The main Yavapai County Offices are located in Prescott.

Based on the findings listed above, Staff concluded that the community of interest includes the City of Prescott. Staff recommended that the area be granted two-way EAS and included in the Prescott Local Calling Area.

Table Top did not file cost information since it had withdrawn its request for two-way EAS in exceptions filed on October 30, 2003. Therefore no community of interest analysis was performed for its customers. In general, Table Top stated it was unwilling to assume two-way EAS costs requested by Qwest; such as Qwest's costs for additional trunking and recurring transit charges. In its Staff Report on Midvale's CC&N extension application, Staff recommended that two-way EAS be established between Table Top and Midvale and that two-way EAS between Table Top and Qwest be deferred to a subsequent rate case or other appropriate filing.

Examination of Extended Area Service

Commissions generally decide whether EAS should be implemented by conducting analyses designed to determine whether a strong enough community of interest exists between exchanges to warrant EAS. One commonly used definition of communities of interest is: contiguous geographic areas which may be recognized as separate localities but share common interests and services with respect to government, schools, health services, public safety and emergency services, and retail businesses. (P.U.R. Glossary For Utility Management, Public Utility Reports, Inc., Arlington, Virginia, 1992.)

As a result of having visited the Millsite Exchange, Staff was able to gain some perspective relative to the requests for EAS from residents of the area. The visits were particularly helpful in assessing the contiguity of the exchange with the City of Prescott and the common services. Staff found that it was not possible to complete cell phone calls from a number of locations within the proposed addition to the Millsite Exchange area.

The costs associated with providing two-way EAS between Qwest and Midvale, Qwest and Table Top, and Midvale and Table Top

Facility Cost Recovery

The \$37,200 minimum investment could serve 75 to 80 customers. Midvale currently has 30 customers in the Millsite exchange. Staff estimates that the additional monthly per customer cost to recover the investment in facilities (assuming that 75 customers would be served) will be \$9.97, assuming an 8.00 percent rate of return and a 1.765 Gross Revenue Conversion Factor. If the Commission authorized rate of return of 10.37 percent is used, Staff estimates that the additional monthly per customer cost to recover the investment in facilities will be \$11.70.

In its application, Midvale provided a forecast of the number of customers that it expects to serve in the Millsite exchange. At the end of the first year, Midvale would provide two-way

EAS to 273 customers and Midvale would provide two-way EAS to 596 customers in year six. Assuming that 273 customers will be provided with two-way EAS, Staff (based on information provided by Midvale) estimates that the addition to rate base necessary to provide two-way EAS to Midvale's Millsite customers is \$70,620. Staff estimates that the additional monthly per customer cost to recover the investment in facilities will be \$5.20. To develop this estimate, Staff used Midvale's cost of capital estimate of 8.00 percent. Staff also used a Gross Revenue Conversion Factor of 1.765 which was used in Midvale's last rate case (Decision No. 64011). The Commission's authorized rate of return for Midvale set in its latest rate case is 10.37 percent, however, interest rates have declined since that time. If the Commission authorized rate of return is used, Staff estimates that that the additional monthly per customer cost to recover the investment in facilities will be \$6.10.

In its Late Filed Exhibits submitted on September 9, 2003, Midvale indicated that at full build out, it would serve 529 customers. Assuming that 529 customers will be provided with two-way EAS, Staff (again based on information provided by Midvale) estimated that the addition to rate base necessary to provide two-way EAS to Midvale's Millsite customers is \$104,650. Staff estimates that the additional monthly per customer cost to recover the investment in facilities will be \$3.98, assuming an 8.00 percent rate of return and a 1.765 Gross Revenue Conversion Factor. If the Commission authorized rate of return of 10.37 percent is used, Staff estimates that that the additional monthly per customer cost to recover the investment in facilities will be \$4.67.

Reduction in Access Charge Revenues

Because Midvale has provided service in the area for a limited period of time, there is no reliable information that can be used to estimate the reduction in access revenues that might occur as a result of the implementation of EAS. In its Decision approving EAS for Midvale's Granite Mountain Exchange (Decision No. 66171), the Commission approved an EAS surcharge of \$10.45 per line per month. This charge was based on Midvale's estimates of lost access revenues if EAS were implemented in the area. The Commission, however, approved the rate on an interim basis and subject to true-up and ordered Midvale to provide information on actual EAS calling within eighteen months. Therefore, Staff believes that this rough estimate of lost access revenues for this area could also be used in this docket.

The financial impact on the customers of Midvale, Table Top and Qwest if two-way EAS is ordered

In its Amended Application – Exhibit H, Midvale provided projected operating revenues assuming that EAS would not be implemented and assuming that EAS would be implemented with no additional charges to customers. Assuming that EAS is not implemented, Midvale estimated that its operating revenues would be positive in 2006. If EAS is implemented, Midvale's operating revenues would not be positive until 2008. Since Midvale is not proposing to implement a charge for EAS, there is no immediate financial impact on Midvale's customers.

Whether a substantial majority of the present and future customers of Midvale, and the customers of Table Top, understand the potential impact of establishing two-way EAS and support it.

On February 26, 2004, a public comment session in this matter took place at the Prescott City Hall Chambers in Prescott, Arizona. At that session, Midvale indicated that the results of the survey of its customers indicated that 79 percent of the respondents support EAS, even with the understanding that EAS carries with it the potential for a \$9.00 to \$13.00 per month surcharge. In addition, it appeared to Staff that the majority of customers at the public comment session supported EAS.

Staff Recommendation

Midvale's customers' community of interest includes the Prescott Local Calling Area. Midvale stated that it should be able to implement EAS at no additional cost to its customers and has not proposed to assess an EAS charge at this time. If it is necessary to implement an EAS charge in the future, the poll of Midvale's customers indicates that approximately 80 percent desire EAS even with the possibility of a \$9.00 to \$13.00 per month EAS charge. Therefore, Staff recommends approval of the implementation of two-way EAS between the two calling areas.