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Transcript Exhibit(s)

Docket #(s): T-02532A-00-0512

Exhibit # : A-1 thru A-6, C-1, C-2, Q-1, Q-2, S-1 thru S-8

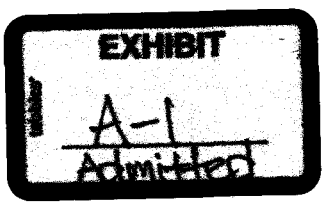
BEFORE THE
ARIZONA CORPORATION COMMISSION

IN THE MATTER OF MIDVALE TELEPHONE EXCHANGE, INC.'S APPLICATION FOR AUTHORITY TO INCREASE RATES AND FOR DISBURSEMENTS FROM THE ARIZONA USF	))))))	CASE NO

DIRECT TESTIMONY

OF

LANE WILLIAMS



1 Q. PLEASE STATE YOUR NAME AND ADDRESS FOR THE RECORD.

2 A. My name is Lane R. Williams and my business address is 2205
3 Keithley Creek Road, P. O. Box 7, Midvale, Idaho 83645.

4 Q. PLEASE STATE BY WHOM ARE YOU EMPLOYED AND IN WHAT
5 POSITION.

6 A. I am the General Manager of Midvale Telephone Exchange, Inc.
7 ("Midvale") headquartered in Midvale, Idaho.

8 Q. PLEASE SUMMARIZE YOUR BACKGROUND AND
9 QUALIFICATIONS IN THE TELECOMMUNICATIONS
10 INDUSTRY.

11 A. I have spent most of my working life in the telephone industry. During
12 that time I have worked on both central office and outside plant. My
13 current responsibilities include corporate planning and oversight of the
14 Company's operations. I also take the leading role in the Company's
15 relationship with regulatory bodies and other members of the
16 telecommunications industry.

17 Q. PLEASE BRIEFLY DESCRIBE MIDVALE TELEPHONE COMPANY.

18 A. Midvale is a family owned local exchange company providing telephone
19 service to approximately 2000 subscribers in ten rural exchanges in
20 Idaho, Oregon, and Arizona. All of these exchanges are in sparsely
21 populated, high cost rural areas. All company facilities are digital, and
22 one party service is universally available to all subscribers.

23 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS
24 PROCEEDING?

A. I will provide a general explanation of the reasons for the proposed rate increase. My testimony also explains the reasons for our proposal to provide extended area service ("EAS") between our Cascabel exchange and Benson and San Miguel. Finally, I will explain Midvale's proposal to amend its certificate to provide service to two new exchanges--Millsite and Silver Bell.

Q. WHY IS THIS PROPOSED REVENUE INCREASE NECESSARY?

A. There are a number of factors that contribute to Midvale's request. The most obvious is that it has been several years since Midvale's last revenue requirement determination. When the Commission issued its last Midvale revenue requirement order, the telephone business was dramatically different than it is today. During the intervening years, Midvale has made very substantial investments to convert to digital switching. Like most other telephone companies, Midvale has also added backbone fiber optic cable and greatly increased the capacity of its outside plant. These investments enabled the company to increase service quality and accommodate the growth in traffic caused in substantial part by the mushrooming demand for internet access.

At the same time, access charges and associated revenues have been flat or driven downward, and federal universal service fund disbursements have only partly offset this loss. These factors, coupled with general inflation in ordinary expenses, have all contributed to the current need for a rate increase.

None of these factors are unique to Midvale's operations. Over roughly the same time frame, many other local exchange companies have also increased local rates significantly.

Q. WHAT IS THE AMOUNT OF THE INCREASE YOU ARE REQUESTING?

A. The total revenue increase is not terribly large in either absolute or percentage terms. In the "Base Case," the proposed annual increase is $108,955, which increases to $181,991 if the Commission accepts our EAS and unserved territory proposals.

Q. ARE YOU PROPOSING ANY CHANGES IN SERVICE LEVELS?

A. Yes. We are requesting extended area service between the Cascabel exchange and the towns of Benson and San Manual. As matters now stand, Cascabel customers must now pay a toll charge to call essential service providers such as schools, businesses, medical facilities, law enforcement, etc. This is not a desirable situation for either the customers or Midvale.

Q, HOW DO YOU PROPOSE TO FUND THESE CHANGES?

A. As Dr. Reading's testimony explains, we are proposing to unify all Arizona local rates at $24 per month for residential service, and $32 per month for business customers. We are also proposing a standard statewide access charge of $.06 per minute. This "rate rebalancing" is necessary in order to respond to a number of changes in the industry and to bring rates closer to actual cost.

Q. WILL THESE NEW RATES PRODUCE SUFFICIENT REVENUE TO MEET MIDVALE'S INTRASTATE REVENUE REQUIREMENT?

1 A. No. If the Commission accepts our rate rebalancing proposal, Midvale
2 will also require funding from the Arizona Universal Service Fund
3 ("AUSF"). The amount will vary depending on whether the
4 Commission approves our proposed EAS routes and the proposed
5 expansion into two unserved areas. Dr. Reading discusses the
6 financial impact of these proposals in greater detail, but I would like to
7 draw the Commission's attention to the fact that the proposed
8 expansion of our service territory produces by far the lowest per capita
9 AUSF support cost.
10 Q. COULD MIDVALE PROVIDE SERVICE IN THE TWO UNSERVED
11 AREAS WITHOUT AUSF SUPPORT?
12 A. We haven't examined that scenario in detail, but my preliminary
13 conclusion is that it would be a risky proposition.
14 Q. WHY SO?
15 A. In the absence of AUSF support, Midvale would have to raise both
16 access charges and local rates to levels that may be in excess of the
17 customers' ability or willingness to pay. In the case of local rates, this
18 would jeopardize universal service goals. With respect to access
19 charges, extremely high rates lead to all sorts of problems, including
20 the potential loss of toll service or, at the very least, a reduction in the
21 number of carriers that are willing to provide interexchange service.
22 Q. ARE THERE PUBLIC INTEREST REASONS FOR EXPANDING
23 YOUR CERTIFICATE TO INCLUDE THE TWO CURRENTLY
24 UNSERVED AREAS?

1 A. Yes. There are approximately 400 potential customers in the proposed
2 Millsite and Silver Bell exchanges that need telephone service.
3 Serving such areas has been, and will continue to be, a business
4 objective for Midvale whenever such extensions are financially viable.
5 Exactly half of Midvale's ten existing exchanges have been built "from
6 scratch" during the past decade, and this experience has given us
7 considerable confidence in our ability to plan and carry out exchange
8 construction in unserved areas. In the present case, the proposed
9 expansion provides a double public interest benefit in that unserved
10 customers will receive telephone service and the added customers will
11 enable Midvale to decrease its AUSF draw on both an absolute and per
12 capita basis.
13 Q. DOES THIS COMPLETE YOUR TESTIMONY?
14 A. Yes.

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BEFORE THE
ARIZONA CORPORATION COMMISSION

IN THE MATTER OF MIDVALE TELEPHONE EXCHANGE, INC.'S APPLICATION FOR AUTHORITY TO INCREASE RATES AND FOR DISBURSEMENTS FROM THE ARIZONA USF	)	DOCKET NO. T-02532A-00-0512

REBUTTAL TESTIMONY

OF

LANE WILLIAMS

EXHIBIT
A-2
Admitted

1 Q. PLEASE STATE YOUR NAME AND ADDRESS FOR THE RECORD.

2 A. My name is Lane R. Williams and my business address is 2205
3 Keithley Creek Road, P. O. Box 7, Midvale, Idaho 83645.

4 Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT POSITION.

5 A. I am the General Manager of Midvale Telephone Exchange, Inc.
6 ("Midvale") headquartered in Midvale, Idaho.

7 Q. HAVE YOU PREVIOUSLY FILED DIRECT TESTIMONY IN
8 THIS PROCEEDING?

9 A. Yes.

10 Q. WHAT IS THE PURPOSE OF THIS TESTIMONY?

11 A. My testimony responds to three issues raised by the ACC Staff in its
12 prefiled testimony. I will first discuss the Staff's position with regard
13 to Midvale's proposal to provide service in currently unserved areas. I
14 will then respond to the Staff's opposition to extended area service.
15 Finally, I will discuss Staff's proposed adjustment to Midvale's rate
16 case expenses.

17 Q. WHAT IS YOUR ASSESSMENT OF THE STAFF'S POSITION
18 REGARDING SERVICE TO THE UNSERVED AREAS OF MILLSITE
19 AND SILVER BELL?

20 A. My understanding of the Staff's position is that it supports the
21 extension of telephone service to Millsite and Silver Bell. But it rejects
22 inclusion of the cost of providing service to these areas in Midvale's
23 revenue requirement on the grounds that such costs are not "known

1 and measurable." It also objects to the use of the Arizona Universal
2 Service Fund to defray part of the costs of this venture.
3 This simply doesn't make sense to me. For several years now,
4 the Arizona Corporation Commission has been urging telephone
5 companies to provide service to unserved areas. These areas are
6 currently without telephone service primarily because they are not
7 economic to serve at existing rates. If the Commission is serious about
8 providing service to unserved areas, it must allow companies to include
9 the cost of service extensions in their revenue requirement and, in
10 most cases, provide at least interim support from the AUSF.
11 Otherwise, the Commission is asking telephone providers to take on a
12 relatively risky expansion of service at an economic loss that cannot be
13 recouped and could exist indefinitely. In Midvale's case, the loss
14 during the first two years of service to Millsite and Silver Bell would be
15 approximately $328,874 (using Mr. Buckalew's calculations) if the
16 Staff's position is accepted.
17 Midvale cannot provide service to the two new exchanges under
18 these circumstances, and neither can anyone else. The simple fact is
19 that bringing telephone service to high cost unserved areas requires
20 economic support, either in the form of an increased revenue
21 requirement or AUSF support. I cannot understand why the Staff
22 opposes the use of the AUSF in a case such as this where the universal
23 service goal could not be more clearly at issue. But if the Commission
24 accepts the Staff's view and decides it is not willing to allow companies

to recover their costs to build out new exchanges, then it should stop trying to entice companies into unserved areas. Continuing to pursue new service under the conditions the Staff recommends only wastes the telephone companies' time and resources and misleads the unserved communities with false hope.

Q. WHAT IS YOUR RESPONSE TO STAFF'S OPPOSITION TO MIDVALE'S EAS PROPOSAL?

A. I have previously stated the Company's position in support of EAS, and have little to add except to point out that the concern about EAS bridging could be resolved by providing EAS to Benson only.

Q. WHAT IS YOUR RESPONSE TO THE STAFF'S PROPOSED ADJUSTMENT TO MIDVALE'S RATE CASE EXPENSES?

A. To be perfectly blunt, I find it irritating. I could grudgingly accept the Staff's recommendation for capitalization of the engineering costs associated with the Millsite and Silver Bell exchanges, were it not for the fact that the Commission has actively solicited proposals to serve unserved areas. Engineering studies are a necessary predicate for such proposals. If the Commission does not allow us to serve these two new exchanges on a reasonable basis with AUSF support, then service will be impossible and Midvale will never recover capitalized costs incurred in an attempt to respond to the Commission' request.

The Staff's additional arbitrary reduction of rate case expenses is even more unreasonable. When Midvale filed its case, we budgeted $40,000 for rate case expenses, knowing this was perhaps a

conservative figure. But nothing in the collective experience of Midvale's management and consulting professionals prepared us for anything like the costs we have incurred in this case. I have spent more years than I care to admit to in this business, and been involved in dozens of case in four jurisdictions, and I can truthfully say I have never seen a case that even remotely rivals this one for excessive costs.

By the time we finished our responses to the Staff's discovery requests, Midvale's out of pocket costs for the rate case were already more than $100,000, not counting the engineering costs challenged by the Staff. Since that time we have responded to dozens of additional requests during the onsite audit, to Qwest's and Citizens Utilities's formal discovery requests, and to additional informal requests by the Staff. We have also met with Staff, reviewed the Staff's filing, prepared this rebuttal testimony and, of course, we still face the cost of hearings. When all is said and done, I am sure Midvale's cost for this case will be in excess of $150,000, and this does not count the enormous cost incurred in the form of management and employee time devoted to this proceeding. All this for a rate case in which the Company's base case filing requested an increased revenue requirement of only $108,955 and Staff now recommends a $17,391 increase.

The biggest single factor in this expenditure has been the cost of responding to the Staff's discovery requests. All told, the Staff served a total of six rounds of written discovery on the Company, totaling more

than 115 questions and information requests, most with multiple subparts. Many of these demands required expensive studies by our engineering and cost consultants. A number of others insisted on the production of detailed records and compilations all the way back to the beginning of Midvale's service in Arizona in 1993. In addition, the Staff conducted an onsite audit of the Company's books and records, and made a number of additional inquiries that used Company time and resources.

Q. DID MIDVALE INFORM STAFF OF THE UNREASONABLE COSTS IT WAS INCURRING IN THIS CASE?

A. Yes, but the response was that this level of detail was necessary for the Staff to perform its job. I have some problems with this justification for a variety of reasons, but even if true it is irresponsible for the Staff to create costs of this magnitude and then arbitrarily recommend that they be removed from the Company's expenses.

Q. WHAT DO YOU RECOMMEND AS A COUNTER TO THE STAFF'S PROPOSAL?

A Staff has proposed a three year amortization of rate case expenses. I can accept that proposal, but not the amount the Staff suggests. I believe the Company is entitled to a three year amortization of at least $40,000 per year. This equals the annual cost for a single year that we included in our original filing.

Q. DOES THIS COMPLETE YOUR TESTIMONY?

A. Yes.

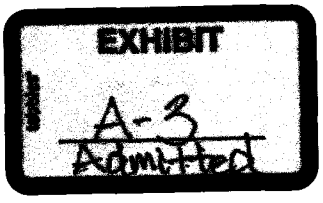
BEFORE THE
ARIZONA CORPORATION COMMISSION

IN THE MATTER OF MIDVALE TELEPHONE EXCHANGE, INC.'S APPLICATION FOR AUTHORITY TO INCREASE RATES AND FOR DISBURSEMENTS FROM THE ARIZONA USF	))))))	CASE NO

DIRECT TESTIMONY AND EXHIBITS

OF

DON C. READING, PH.D.



Direct Testimony of Don C. Reading, Ph.D.

Introduction

Q. Would you please state your name and address?

A. Don Reading, 1~~327 El Pe~~6070 Hill Rd lar, Boise, Idaho 83702.

Q. What is your present occupation?

A. I am a consulting economist and vice-president of Ben Johnson Associates, Inc.®, an economic research firm specializing in public utility regulation.

Q. Have you prepared an Exhibit describing your qualifications in regulatory and utility economics?

A. Yes. Exhibit 1, attached to my testimony, was prepared for this purpose.

Q. Have you prepared Exhibits with accompanying schedules in support of your testimony and this filing?

A. Yes. Exhibits 2 though 5 are in support of the testimony. Exhibit 2 contains a set of Schedules A-1 through H-5 that follow the Arizona Corporation Commission's Regulation R14-2-103 Rate Application Filing Requirements. Exhibits 3 through 5 contain a set of schedules indicating the impact of three scenarios I refer to as the base case, the extended area service ("EAS") case, and the case involving serving unserved areas. Exhibit 6 presents EAS traffic data and Exhibit 7 contains a new set of tariffs. These Exhibits were prepared by me or under my direction and are complete and correct to the best of my knowledge.

1 **Q. What is your purpose is making your appearance before the**
2 **Commission at this time?**
3 A.. Ben Johnson Associates, Inc. was commissioned by Midvale Telephone
4 Exchange, Inc. (hereinafter referred to as Midvale or the Company) to
5 prepare a request for rate relief to be filed with the Arizona Corporation
6 Commission. Midvale has filed for residential and business rate increases
7 and intrastate rate decreases that are described in greater detail later in this
8 testimony. In support of these rate changes I am submitting a Summary of
9 Rate Base, a Comparative Income Statement, a Capital Structure Analysis, a
10 Calculation of Revenue Deficiency and a Sources of Revenue Statement.
11 **Q. How is your testimony organized?**
12 A. Following this introduction, my testimony has four parts. In the first part I
13 explain the basis for this rate case and summarize the Company's revenue
14 requirement. In the second part I discuss the Company's proposed rate
15 design. The eight schedules in Exhibit 3 support this basic rate case. In the
16 third part I outline Midvale's proposals for EAS and show their impact on
17 proposed rates and revenues. Accordingly, the first eight schedules in Exhibit
18 4, quantifying the EAS impacts, parallel the Exhibit 3 schedules. Finally, in
19 the fourth part, I present the Company's proposals for extending services into
20 previously unserved areas and quantify their impacts. Again, the first eight
21 schedules in Exhibit 5, quantifying the new service impacts, parallel
22 schedules 1-8 of Exhibits 3 and 4.
23 **Q. What is the impetus for this rate case?**

1 A. The impetus for this case is the expiration of the waiting period requiring
2 separation of newly acquired assets from current assets for regulatory
3 purposes. At the time of Midvale's purchase of the Young exchange from U S
4 WEST in 1994, the Commission approved a stipulation wherein Midvale
5 agreed not to file a general rate case for a period of three years. [Decision No.
6 58736, September 1, 1994.] Now, after the passage of more than five years
7 since the sale, Midvale wishes to incorporate the Young exchange fully in the
8 Company and bring that exchange's revenues closer to costs.
9 **Q. Has the Company abided by all the conditions in the Commission's**
10 **1994 Order?**
11 A. Yes. In addition to freezing rates at their pre-acquisition levels since the
12 sale, the Company has fulfilled the other conditions set forth in the
13 Commission's Order authorizing service in the Young exchange. It has
14 maintained a positive cash flow, it has provided service to customers in the
15 Haigler Creek area, and it has excluded the above book costs of acquisition
16 from this rate request.
17 **Q What recent major investments has the Company made to improve**
18 **service?**
19 A. There were two major improvements recently undertaken by the Company.
20 First,a new digital switch was placed in the Young Exchange to provide
21 customers with the latest technology and serve new growth. The Company
22 also installed fiber that provides service to customers in previously unserved
23 areas of both the Young and Cascabel exchanges.

1 **Q. Would you please describe the basis of your proposed rate changes?**

2 A. Yes. The test year presented in this filing of Midvale Telephone Exchange -
3 Arizona is for calendar year 1999. Pro forma adjustments, described in
4 greater detail later in this testimony, are made for known or expected
5 changes in capital expenditures, expenses, and revenues.

6 **Q Is Midvale proposing in this filing to establish any EAS routes and/or**
7 **to extend service to any currently unserved areas?**

8 A. Yes on both counts. Midvale proposes to create several EAS routes in its
9 present service territory, as well as to offer service in certain unserved areas
10 outside its existing territory. However, we consider it important to clearly
11 distinguish the impacts of these proposals on the rate case from proposals
12 directly related to the Young/Cascabel consolidation. Therefore, we first
13 present a whole case based on the current route configuration, supported by
14 the schedules in Exhibit 3. Once the basic case has been completed, we
15 factor the impacts of the EAS proposals into costs and revenues and present a
16 second set of schedules in Exhibit 4. Finally, we address the proposed
17 service territory extensions into unserved areas and factor in their impacts,
18 presented in a third set of schedules in Exhibit 5.

19 *1. Basic Revenue Requirement*

20 **Q Please proceed with the first part of your testimony, which presents**
21 **the Company's case without considering the impact of its EAS and**
22 **service extension proposals. Would you please describe Exhibit 3,**
23 **schedule 1, entitled Net Telephone Plant?**

1 A. Yes. Exhibit 3, schedule 1 shows net telephone plant for Midvale Telephone.
2 It includes not only total Arizona, total Oregon, and total Idaho in separate
3 columns, but also a consolidation of the Company's entire operations in the
4 three states.
5 **Q. What is contained in schedule 2 of Exhibit 3?**
6 A Schedule 2 of Exhibit 3, entitled Summary of Rate Base, contains the
7 beginning and ending year rate base balances by A/C code and plant
8 description. Average rate base is also calculated and shown. Known and
9 measurable changes are included and the pro forma average is calculated. In
10 order to arrive at the intrastate portion of the rate base, which is the primary
11 focus of this testimony, the interstate portion is calculated using 1998 cost
12 study allocation factors. The intrastate portion is then residually
13 determined. There are no pro forma adjustments to rate base for the 1999
14 test year.
15 **Q. How did you arrive at the depreciation rates used in this Exhibit?**
16 A. The depreciation rates used to create the Summary of Rate Base for the
17 combined Company are the same as those used by Midvale in its application
18 for the Cascabel exchange in 1992. The Commission approved these rates in
19 Decision 58048, issued October 29, 1992, granting the Company a Certificate
20 of Convenience and Necessity. Midvale has used these same rates for
21 accounting purposes in the Young exchange since the purchase of that
22 exchange from U S WEST.

1 **Q. Exhibit 3, schedule 3 is entitled Comparative Income Statement.**
2 **Would you please explain this schedule?**
3 A. Yes. This schedule displays the operating revenues and expenditures for the
4 test period – calendar year 1999. Pro forma adjustments are then made for
5 known and measurable changes in revenues and expenditures. Note that the
6 schedule contains three pages. The first page displays values for the total
7 Company; the second and third pages display values for the Young and
8 Cascabel exchanges separately and individually. All similar schedules in
9 Exhibits 3-5 will follow this pattern. This ensures that the impact of the
10 separate exchanges on the now merged Company can be readily observed.
11 **Q. Among the pro forma adjustments is a $221,882 federal universal**
12 **service fund (USF) income increase for the Young Exchange. Why**
13 **have you included this?**
14 A. Until the beginning of the year 2000 the amount of federal USF payments
15 received by Midvale Telephone had been capped. This meant that the
16 Company was receiving funds from the federal USF high cost fund only for
17 the Cascabel exchange. That cap has now been lifted, and, according to
18 NECA, Midvale will begin receiving an additional $221,882 annually from
19 the federal high cost fund. I have thus included this amount as a pro forma
20 adjustment to the Young exchange.
21 **Q. Has Midvale Telephone participated in the Arizona Universal**
22 **Service Fund (AUSF)?**

1 A. Midvale has not been a recipient of funds from the AUSF. However, in order
2 to maintain rates for Arizona ratepayers that are reasonable, to meet
3 competitive pressures, and to earn a reasonable return, the Company now
4 finds it necessary to ask to become a member of the AUSF and proposes to
5 begin drawing from the fund.

6 **Q. Why is it up to the AUSF to make Midvale whole?**

7 A. Basically, there are only three major sources of revenue for regulated local
8 exchange companies that are within the control of those companies as
9 approved by the Commission. These are local exchange rates, state access
10 charges, and the AUSF. The other significant revenue sources-- IXC access
11 and the federal USF--are beyond our (or the state's) control, and their
12 contribution levels cannot be adjusted in this proceeding. I will discuss the
13 Company's proposed revenue allocation in detail in the rate design section of
14 my testimony.

15 **Q What is the cost of capital you used in the calculation of Midvale's**
16 **revenue requirement for Arizona?**

17 A. Exhibit 3, schedule 4 summarizes the weighted cost of capital used to find the
18 Company's revenue requirement. With a return on equity of 13.0%, a
19 weighted cost of debt of roughly 5.5%, and a ratio of approximately 24% debt
20 to 76% equity, the weighted overall cost of capital is 11.2%.

21 **Q. Would you briefly discuss the importance of capital costs in this**
22 **proceeding?**

1 A. Yes. The cost of capital, the rate at which the firm is able to raise funds for
2 capital investment, is a key element in estimating the economic cost of
3 providing local exchange services. Together with the depreciation rate, it is
4 used to convert the total investment amounts to annual or monthly costs.
5 The cost of capital consists of two components---the cost of debt and the cost
6 of equity; these components are weighted or blended together based upon the
7 debt/equity ratio.

8 **Q. Is Midvale's last authorized rate of return the appropriate cost to use**
9 **in this proceeding?**

10 A. No. Since the Commission last established an allowable return for Midvale
11 more than ten years ago, it is appropriate to use a more current estimate of
12 capital costs in this proceeding.

13 **Q. A capital structure of only 24% debt is quite low for a capital**
14 **intensive utility firm. What makes this low debt level appropriate**
15 **for this proceeding?**

16 A. The relatively low percentage of debt is fully justified by the Company's high
17 level of risk, which I will describe in detail a little later in this testimony.

18 **Q. How did you arrive at your 5.5% cost of debt?**

19 A. As shown in schedule 4 of Exhibit 3, the Company's long term debt consists of
20 an RTFC construction loan of $200,631 at 6.1% (line 1) and an RUS loan of
21 $268,586 at 5% (line2), both applied to the Cascabel exchange. Short term
22 debt totals $37,695 with a 6% cost. The Company's total debt is thus
23 $506,912 (line 4), with a blended cost of a bit over 5.5%.

1 **Q. How did you arrive at your estimate of a 13.0% cost of equity?**

2 A. Given the Company's equity of $1,606,651 (Exhibit 3, schedule 4, lines 5 and
3 7), I used both a market approach and a comparable earnings approach, then
4 found the midpoint of their overlapping ranges. Under the comparable
5 earnings approach, Midvale's cost of equity ranges between 12.0% and 14.0%.
6 The range under the market approach is between 10.9% and 14.5%. My
7 recommended equity cost of 13.0% represents a reasonable melding of the two
8 sets of findings. These two approaches are described in detail in Exhibit 2,
9 Schedule D-4 attached to my testimony.

10 **Q. Earlier you mentioned that Midvale's level of risk is somewhat**
11 **higher than that of the average telephone company, justifying a**
12 **somewhat higher than average rate of return. Would you explain**
13 **what causes Midvale to have an above-average level of risk?**

14 A. Yes. For small telephone companies like Midvale, both financial risks and
15 operating risks appear to be increasing.

16 **Q. Why has operating risk been increasing?**

17 A. Formerly, the portion of revenues required from local exchange services was
18 held down by the higher contribution levels obtained from the interstate
19 jurisdiction. Now, with interstate access charges moving steeply down, a
20 higher percentage of network costs must be recovered locally, where swings
21 in economic conditions can strongly impact telecom revenues. Furthermore,
22 whereas companies like Midvale once enjoyed local monopolies, they are now
23 subject to competition from other carriers, both wireline and wireless. Prior

1 to the development of significant competition, telephone carriers and most
2 other public utilities faced relatively minimal risks from unpredictable
3 changes in the business cycle and other forces that cause industry demand to
4 fluctuate. Now telephone carriers are facing increasing levels of competition,
5 especially for their higher margin business customers, and their "recession
6 proof" earnings can be eroded even during periods of the greatest prosperity.
7 Moreover, interexchange carriers are merging with cable giants and
8 beginning to offer a full range of electronic services. As a consequence, like
9 firms in historically competitive industries, local exchange carriers now face
10 uncertainty about not only the actions of competitors, but also the prospects
11 of the entire industry.
12 **Q. Hasn't the 1996 Act also increased competition significantly and**
13 **raised the risk for telephone companies, including Midvale?**
14 A. Yes. There is now considerable uncertainty concerning how quickly new
15 technologies will replace the installed ones. Fiber optic cable and the
16 associated electronics continue to decline in cost, and fiber holds the potential
17 for handling video dial tone, broadband data services, and other offerings
18 that require an enormous expansion of bandwidth. To be sure,
19 manufacturers are working aggressively on new technologies that hold the
20 potential for offering higher bandwidth services over ordinary copper wires.,
21 but the future usefulness of the existing copper cable has become rather
22 cloudy. In short, while local telecoms once enjoyed a level of operating risk
23 somewhat below that of the typical industrial firm, the competitive threats to

1 the telecoms' formerly assured customer base have seriously reduced this
2 advantage.
3 Q. **Based on your recommended cost of capital of 11.2%, what is the**
4 **increase in the revenue requirement you find for Midvale Arizona?**
5 A. As shown in Exhibit 3, schedule 5, the revenue increase required would be
6 $108,955. This would mean an increase of 16.3% after gross-up for
7 uncollectables and taxes on a Company-wide basis. For customers in the
8 Cascabel exchange it would mean an increase of 23.2%; for customers in the
9 Young exchange, it would mean an increase of 11.3%. This increase in the
10 Young exchange would have been greater if not for the removal of the cap on
11 the federal high cost fund described above.
12 *2. Rate Design*
13 Q. **Please turn to the second part of your testimony. What is the**
14 **rationale behind Midvale's proposed rate design?**
15 A. The rates proposed to meet the revenue requirement were developed in
16 recognition of certain realities. First, if the revenue requirement for these
17 high cost rural companies is to be met, it is necessary to raise local rates,
18 and/or increase the draw from the AUSF, and/or keep intrastate access rates
19 high. Second, to be responsive to the new regime created by the 1996
20 Telecommunications Act, residence and business rates should be moved
21 towards equilibrium, since their costs of service are approximately the same.
22 Otherwise competition will "cherry-pick" the higher margin (business)
23 customers. Since passage of the 1996 Telecommunications Act, it has been

1 clear that rural local exchange companies would eventually need to
2 restructure their rates along cost-based lines. Midvale's proposed local rates
3 go about as far in that direction as is feasible at present, but the revenues
4 from the revised rates will still be insufficient to cover all costs of service.

5 **Q. Should local rates then be raised enough to cover these costs?**

6 A. No. To raise the basic rates further, even if the Commission were to approve
7 such an action, would endanger universal service and the Company's
8 subscriber base. Extremely high local rates would push some subscribers off
9 the network and drive others to wireless alternatives. The result could be a
10 "death spiral" for the Company, with a shrinking customer base requiring
11 ever higher rates, causing further customer defections, leading to still higher
12 rates, and so on.

13 **Q. Could Midvale lessen the impact on basic local rates by maximizing**
14 **the contribution from discretionary services such as custom calling?**

15 A. Traditionally, local telephone companies have used this approach, and where
16 demand for these services is strong, they can make a significant contribution
17 to overall revenues. But the demand for discretionary services appears to be
18 highly price elastic, and even at the current rates, Midvale customers are
19 making very little use of them (see Exhibit 3, Schedule 7). Instead, since the
20 marginal cost of custom calling features is extremely low, Midvale proposes
21 to bundle them into the basic rates.

22 **Q. Could access rate increases supply the revenue shortfall?**

1 A. No. Interstate access rates, which are beyond state control, are already
2 substantially lower than the intrastate rates in Arizona. Therefore,
3 intrastate access rates will eventually have to come down, not go up, in the
4 interest of fairness and to prevent excessive bypass. Furthermore, the line
5 between local and long distance service is growing increasingly blurred as
6 Internet usage rises and new software allows voice transmissions between
7 widely separated Internet users. The prospects for increased revenues from
8 intrastate access charges are thus slim to none. Therefore, assuming that
9 competition will tend to move the prices of higher margin services down
10 toward cost, the only reasonable source of additional revenue is the state
11 universal service fund. Support for high cost areas is precisely the kind of
12 mission the Arizona USF was designed for.
13 **Q. Doesn't this impose a portion of Midvale's costs on subscribers**
14 **around the state?**
15 A. That is the net result, although the impact on individual subscribers depends
16 on a number of variables–and especially on the range of contributors to the
17 fund. But the hard fact is that regulated telecoms in high cost areas, even
18 when they charge as much as the law allows for basic services and maximize
19 contribution from discretionary services, cannot charge enough to cover their
20 costs. Yet the law requires that these companies, including Midvale, be given
21 a reasonable opportunity to recover their legitimate costs of service and
22 achieve a rate of return in line with that of unregulated firms of comparable
23 risk. Even after full deregulation it may well be necessary for the federal and

1 state USFs to continue to subsidize services in some higher cost areas, if no
2 unsubsidized carrier would be willing to initiate or maintain operations
3 there.

4 **Q. Would you please review the revenue changes you have proposed in**
5 **this filing?**

6 A. Yes. Exhibit 3, schedule 6, entitled Sources of Revenue, shows the revenue
7 amounts used in this filing. As I have said, the major sources of revenue
8 include local service, the interstate USF, the AUSF, and intrastate access,
9 along with miscellaneous revenue and uncollectables. Included in this
10 Exhibit under the column labeled *Before Proposed Rates* are the actual 1999
11 revenue levels for each major source category at current rates. Also included
12 in this schedule under the column labeled *After Proposed Rates* are the
13 estimated revenue levels after the proposed rates take effect.

14 **Q. Would you explain how you calculated local service revenues of**
15 **$207,393 after your proposed rate increase?**

16 A. Exhibit 3, schedule 7 shows the quantity of units associated with the various
17 services offered by Midvale. These quantities are multiplied by current and
18 proposed monthly rates to yield monthly revenues, then multiplied by 12 to
19 yield annual figures. The results of this multiplication using current rates
20 yields revenue that is less than 2% different from booked revenue for the test
21 year, verifying that the local service demand values are reasonable to use for
22 calculation of the proposed rates.

1 **Q. Would you please describe Midvale's current and proposed rate**
2 **structures?**
3 A. Yes. At present, Cascabel's basic single-line residence and business rates are
4 identically $21.00, while the corresponding base rates in Young are $12.40 for
5 residence and $32.00 for business, plus surcharges of $1.10 in rural zone 1
6 and $3.30 in rural zone 2. The Company-wide proposed rates are $24 for
7 basic residence service and $32 for basic business service. Under these new
8 rates, residence customers in the Young exchange would experience the
9 greatest rate increase–$11.60 per month. Business customers in the
10 Cascabel exchange would experience an $11.00 increase. Residence
11 customers in the Cascabel exchange would see a $3.00 increase, and business
12 customers in the Young exchange would see no increase at all. The effect
13 would be to standardize rates by class, with the residence rate set at 75% of
14 the business rate and all rates brought closer to cost. In the Young exchange,
15 zone charges would be eliminated, effectively reducing the amount of the
16 increases.
17 **Q. Are you also proposing to consolidate some business line rate classes**
18 **and eliminate others?**
19 A. Yes. As shown on page 1 of Exhibit 3, Schedule 7, we propose to consolidate
20 the following Young exchange business line rate categories into Business B1:
21 Key System, PBX - Zone 1, PBX - Zone 2, and PAL (public access line). We
22 also propose to consolidate the following Cascabel exchange business line rate
23 categories under Business- B1: Key System, PBX, and PAL. Most of these

1 categories currently have no customers; only Young's Business - pay category
2 has as many as three customers. The net result of these proposed
3 consolidations, while insignificant from a revenue perspective, achieves the
4 goal of pricing all business local access lines at a single price, regardless of
5 the use to which customers put those lines – a major move toward cost-based
6 pricing.

7 **Q. What rate categories do you propose to eliminate?**

8 A. We propose to eliminate the rate schedules for custom calling entirely, and to
9 offer the various custom calling services without additional charge to all
10 residence and business customers in the Young exchange. These offerings
11 include such items as call waiting, call forwarding, 3-way calling, speed
12 calling, and fixed calling.

13 **Q. Why do you propose eliminating all custom calling charges?**

14 A. The various custom calling features are built into the switch and have
15 practically no marginal cost to the Company. While it would still seem to
16 make sense to charge for them in order to provide a contribution to joint and
17 common costs, Midvale found in the Cascabel exchange that subscription
18 rates were too low to justify the cost of billing. For this reason custom calling
19 features are offered gratis to customers in the Cascabel exchange. To offer
20 the same free features in the Young exchange will result in a revenue loss of
21 less than $1,000 per year, partially offset by a savings in billing costs, and it
22 may somewhat mollify customers reacting to the increases in basic rates.

1 The present rate structures are shown on Exhibit 3, Schedule 7, pages
2 1 and 2. As can be seen, the rate structure of Young is by far the more
3 complex. Whereas Young has 65 rate categories, Cascabel has just 22.
4 Furthermore, a great many of the Young rates are charged to only one or two
5 customers, or no customers at all. Of the 65 rates, 44 (more than 2/3 the
6 total) are charged to fewer than 5 customers, and 18 are charged to no one at
7 all. This proliferation of categories is a relic of Young's prior identity as a US
8 WEST exchange, and the rates reflect that company's cost allocation
9 methodology. Since a single set of Company rate categories is highly
10 desirable from administrative, marketing, and regulatory perspectives, the
11 proposed rate design consolidates numerous Young rates under the
12 corresponding Cascabel categories.

13 **Q. What further rate categories does Midvale propose to eliminate?**

14 A. The Residence 2-party and Business 4-party categories are eliminated, since
15 the new switch in the Young exchange provides single-party service to all
16 subscribers. This change affects only five subscribers. Other changes include
17 elimination of zone charges for both residence and business service,
18 elimination of zone charges for line connection, elimination of the charges for
19 channel mileage percentages, and elimination of charges for custom calling
20 features.

21 **Q. Other than for simplicity, why do you propose eliminating zone**
22 **charges in the Young exchange?**

1 A. As I stated earlier, local residence rates, even set at the proposed $24, will
2 not cover the actual costs of provision. Midvale doesn't wish to charge any
3 customer more than this, Yet, charging some customers less than the
4 maximum rate, on the basis of an arbitrary line between longer and shorter
5 loop lengths, would simply add unnecessarily to the AUSF burden. A similar
6 argument applies to business lines.

7 **Q. Would you next explain Midvale's other proposed rate category**
8 **consolidations?**

9 A. Yes. Several rate categories currently have different rates in the two
10 exchanges and often different rates for business and residence service.
11 Midvale proposes to unify the following category rates as indicated:

12 (1) Vacation Line Rates: Current rates of $6.75 for Young Zone 1,
13 $7.85 for Young Zone 2 and $10.50 for Cascabel are
14 standardized at $12 (50% of R-1 regular rate).

15 (2) Nonrecurring Charges: Service Order Charge remains $10.
16 Line Connection Charge is standardized at $25, with Young
17 zone charges eliminated. Premises Visit Charge is standardized
18 at the current Cascabel rate of $30.

19 (3) Toll Restriction: Charge is standardized at $2.00 (the current
20 rate for Young Business, Young Residence, Cascabel Residence)
21 with category distinctions eliminated.

1 (4) Additional Listing: Charge is standardized at $1.00 (the current
2 residence rate for both Young and Cascabel), with category
3 distinctions eliminated.
4 (5) Foreign Listing: Charge is standardized at $2.00 (the current
5 Cascabel rate for both residence and business), with category
6 distinctions eliminated.
7 (6) Unlisted: Charge is standardized at current Cascabel rate of
8 $2.00.
9 (7) Unpublished: Charge is standardized at the current Cascabel
10 rate of $2.00.
11 (8) Line Lease/Access Charge: Charge is standardized at the
12 current Cascabel rate of $21.
13 (9) Leased Line Installation: Charge is standardized at the current
14 Cascabel rate of $25.
15 **Q. What is the revenue effect of these rate consolidations, based on the**
16 **test year?**
17 A. Some of the individual rate changes augment overall revenue, while others
18 diminish it; however, I estimate that the impact of all the rate consolidations
19 is to increase annual revenue by $1,271.
20 **Q. Dr. Reading, would you please indicate how you calculated**
21 **intrastate revenue for Midvale Telephone?**
22 A. Yes. The calculation of intrastate access rates appears in Exhibit 3, schedule
23 8. Rates for the Young exchange were set by the Commission in Decision No.

1 58763, Sept. 1, 1994, in which the Commission approved the purchase of the
2 Young exchange by Midvale from U S WEST:

3 IT IS FURTHER ORDERED that Buyers shall adopt a uniform
4 interLATA and intraLATA access rate of $0.08 per minute, and
5 a uniform billing and collection charge of $0.085 per message.
6 [page 20.]

7 The access rates for the Cascabel exchange were established by the
8 Commission in Opinion And Order 58048, November 2, 1992, approving
9 Midvale's application and request for a Certificate of Public Convenience and
10 Necessity. Currently, the access rate for the Cascabel exchange is
11 approximately 11 cents per minute.

12 We are proposing a uniform rate of $0.06 per minute, thus bringing the
13 rates down as well as equalizing them for Cascabel and Young. This will also
14 be equitable for the carriers that pay access to Midvale. It makes little sense
15 for a call that originates in, for example, U S WEST's service territory and
16 terminates in Cascabel to be charged a different rate from a call terminating
17 in Young. Uniform rates will simplify the billing process for Midvale
18 Telephone, simplify the understanding of carriers who may use part of
19 Midvale's service area for calls, and bring access charges closer to cost. The
20 overall impact of charging a uniform rate will be a reduction in Midvale's
21 intrastate access revenue of $108,076 – from $195,502 for the test year down
22 to $87,426.

23 **Q. How did you calculate Midvale Telephone's proposed draw from**
24 **Arizona's USF?**

1 A. Exhibit 3 schedule 6 presents the residual calculation for intrastate USF
2 funding levels. For Arizona, local service rates are increased by $61,210,
3 while intrastate access revenues are decreased by $99,349. In order to meet
4 the required revenue increase of $108,844 the Company is proposing to draw
5 $147,567 from the AUSF annually.

6 *3. EAS Recommendations*

7 **Q. Let's turn to the third part of your direct testimony. Would you**
8 **please discuss the Company's recommendations for EAS routes?**

9 A. Yes. The Company is proposing to establish EAS routes in the Cascabel
10 exchange from Cascabel to Benson and to San Manual. These neighboring
11 towns have a strong community of interest with Cascabel (Benson is the
12 commercial center for Cascabel.), and calling patterns indicate sufficient
13 traffic to support extending the local calling area. Specifically, Cascabel
14 customers make 8.5 calls per line per month to Benson and 2.5 calls per
15 month to San Manual (see Exhibit 6, schedule 1, page 1 of 2).

16 **Q. Will the Company lose revenues from implementing EAS to the**
17 **recommended communities?**

18 A. Yes, the Cascabel exchange will lose some revenue by establishing EAS
19 routes to the two recommended communities. Losses will occur in two ways.
20 The obvious way is through reduced access revenues from toll carriers, when
21 intrastate toll calls to Benson and San Manual become local calls. But
22 revenue will also be lost because EAS stimulates local calling and thus alters
23 the ratio of local calls to interstate calls. The resulting shift in cost

1 allocations from the interstate to the state jurisdiction reduces interstate
2 settlement revenue and consequently raises the intrastate revenue
3 requirement.

4 **Q. Have you quantified these anticipated revenue losses?**

5 A. Yes. The implementation of EAS to the Cascabel exchange is expected to
6 reduce access revenue by $17,190 (Exhibit 4, schedule 3, page 1 of 3), and
7 interstate settlement revenue by $15,687. These amounts are shown as pro
8 forma adjustments to schedule 3 of Exhibit 4, and ripple through subsequent
9 schedules.

10 **Q. How did you arrive at your estimate for loss of revenue to Midvale**
11 **from the shift in the ratio of state to interstate calls?**

12 A. As shown on Exhibit 6, we have assumed a 2.1x stimulation factor, based on
13 our examination of the impact of implementing EAS in Midvale's Oregon
14 exchanges. It may well be that the strong community of interest among the
15 communities will cause the true stimulation factor to exceed this amount. If
16 so, the revenue loss will be somewhat greater.

17 **Q. What is the impact on MTE's revenue requirement and your**
18 **recommendations for Midvale Telephone's proposed draw from**
19 **Arizona's USF when the EAS areas are added to the base case**
20 **presented above?**

21 A. Exhibit 4, schedule 6 presents the residual calculation for intrastate USF
22 funding levels. For Arizona, local service rates are increased by $61,210,
23 while intrastate access revenues are decreased by $141,618. In order to meet

1 the required revenue increase of $144,620, the Company is proposing to draw
2 $225,567 from the AUSF annually. This is an increase of $78,000 above the
3 base case.

4 *4. Service to Currently Unserved Areas*

5 **Q. Lets turn to the fourth and final portion of your direct testimony.**
6 **Would you please discuss the Company's recommendations for**
7 **establishing service in some unserved areas in Arizona?**

8 A. Yes. Midvale Telephone is proposing to establish service in two separate
9 areas that currently lack any wireline service. The Millsite exchange will
10 include four contiguous subdivisions located about 15 miles south of Prescott,
11 plus the Henderson Valley Ranch subdivision located north of the Millsite
12 area about 15 miles east of Prescott. The Silver Bell exchange, serving areas
13 about 50 miles southwest of Phoenix, will include both the Silver Bell
14 subdivision and the adjoining Sawtooth subdivision in addition to the Rio
15 Verde subdivision. Rio Verde will be served over T1 lines leased from U S
16 WEST. Midvale expects that over the next three years the Millsite exchange
17 will hook up more than 200 customers and the Silver Bell exchange about 185
18 customers.

19 **Q. What costs are projected for extending service into these two**
20 **unserved areas?**

21 A. The total investment for both areas is expected to be $1.45 million, split
22 roughly 55%/45% between Millsite and Silver Bell. The Company will
23 supply $260,000 in equity and borrow the remainder from RTFC at 8%.

Q. How have you included the associated costs and revenues from these two new exchanges in the current rate case calculations?

A. Attached to Exhibit 2, schedule C-2, is a stand-alone financial analysis of the Millsite and Silver Bell exchanges that includes expected capital costs, associated expenses and revenues, borrowing cost, depreciation rates, etc.

In order to incorporate accurately the costs and revenues of the two new exchanges, pro forma changes were made in Exhibit 5 to schedule 2 (rate base), schedule 3 (income and expenses), and schedule 4 (cost of capital). For example, $20,000 is listed under buildings on schedule 2 (page 1 of 1), reflecting the increase in rate base from a $10,000 building to be erected in each exchange. These changes are then flowed through to form calculations for the total Arizona operations of the Company, including the existing exchanges of Cascabel and Young as well as the proposed exchanges of Millsite and Silver Bell.

Q. How does the addition of the Millsite and Silver Bell exchanges affect Midvale Telephone's proposed draw from the Arizona USF?

A. Schedule 6 of Exhibit 5 presents the revenue sources for the unserved areas scenario. Comparing this schedule to the corresponding schedule in Exhibit 4 convincingly demonstrates that the additional economies of scale generated by the inclusion of Millsite and Silver Bell produce a net benefit for all parties. The bottom line is that nearly 400 unserved customers receive telephone service, but the Company's Arizona USF draw actually <u>decreases</u> by $4,216.

1 **Q. Does this conclude your direct testimony?**

2 A. Yes, it does.

1
2 QUALIFICATIONS
3
4 *Present Occupation*
5
6 **Q. What is your present occupation?**
7 A. I am Vice President and Consulting Economist with Ben Johnson
8 Associates, Inc., a firm of economic and analytic consultants
9 specializing in the area of public utility regulation.
10
11 *Educational Background*
12
13 **Q. What is your educational background?**
14 A. I graduated from Utah State University in 1962 with a Bachelor of
15 Science degree in economics. I earned the Master of Science
16 degree in economics at the University of Oregon in 1964. Finally, I
17 received a Ph.D. in economics from Utah State University in 1972.
18 The title of my doctoral dissertation was *New Deal Expenditures*
19 *in the 48 States, 1933-1939.*
20
21 **Q. Have you received any academic honors or awards?**
22 A. Yes. I am a member of Omicron Delta Epsilon, the national
23 economics honorary, and was awarded a National Science
24 Foundation Fellowship in 1967.
25

1 *Clients*

2

3 **Q. What types of clients employ your firm?**

4 A. Our clients have included a wide variety of public agencies and
5 private corporations. Governmental clients include the following:
6 Commissions in Alabama, Alaska, Arizona, Arkansas, Connecticut,
7 District of Columbia, Idaho, Kansas, Maine, Michigan, Missouri,
8 Nevada, New Mexico, North Carolina, Oklahoma, Ontario, Texas,
9 Virginia, Washington, West Virginia, Wisconsin, and Wyoming;
10 Consumer Counsels in Arizona, Colorado, Connecticut, Delaware,
11 the District of Columbia, Florida, Georgia, Hawaii, Illinois,
12 Indiana, Iowa, Maryland, Minnesota, Nevada, New Hampshire,
13 New Jersey, Ohio, Pennsylvania, and Utah; Attorneys General in
14 Arkansas, Florida, Idaho, Kentucky, Michigan, Minnesota,
15 Nevada, South Carolina, Virginia, and Washington; the Cities of
16 Dallas, El Paso, Houston, Phoenix, Richmond, and Tucson; the
17 United Nations; the United States Bureau of Mines; the United
18 States Department of Health, Education, and Welfare; the United
19 States Department of Justice--Antitrust Division; the United States
20 Environmental Protection Agency; the Canada Department of
21 Communications; the National Association of State Utility
22 Consumer Advocates; the Florida Department of General
23 Services; and the Provincial Government of Ontario. Our
24 corporate and institutional clients have included: AMERICALL,
25 Arkansas Telephone Company, Inc., BC Rail, Blountsville
26 Telephone Company, Casco Bank and Trust, the CommuniGroup
27 Companies, Inc., Depositors Bank and Trust, East Maine Medical
28 Center, the Harris Corporation, Interstate Securities Corporation,
29 J.R. Simplot Company, LDDS, Liberty Telephone and
30 Communications, Louisiana/Mississippi Association of Resellers,

Merrill Trust Company, Micron, Inc., Network I, Inc., Nevada Power Company, North American Telephone Company, Pan-Alberta Gas, Ltd., PenBay Memorial Hospital, PW Ventures, the South Carolina Long Distance Association, Stanton Telephone Company, Tel America, Teleconnect Company, Teltec Savings Communications, Inc., and Transcall America.

Prior Experience

Q. Before becoming a consultant, where were you professionally employed, and in what capacities?

A. From 1981 to 1986 I was Economist and Director of Policy and Administration for the Idaho Public Utilities Commission. My duties at the IPUC included, in addition to my testimony, the preparation of special reports in the areas of forecasting, demand studies, and economic analysis. As Staff Director I was charged with overseeing the personnel and budget functions, and with representing the Commission before the state legislature, at the governor's office, before the utility commissions of other states and before such federal and regional entities as the Bonneville Power Administration, the Northwest Power Planning Council, and the Public Power Council.

Before that time I taught economics at Middle Tennessee State University (Assistant Professor, 1968-70), Idaho State University (Assistant and Associate Professor, 1970-80), and the University of Hawaii at Hilo (Associate Professor, 1980-81). Subjects taught included economic theory and history, quantitative analysis, econometrics, statistics, labor economics, financial institutions, and international economics.

1 In addition, between 1970 and 1986 I prepared reports and
2 expert testimony on loss of earnings in a number of legal actions
3 respecting wrongful injury and wrongful death. Although many of
4 these cases were settled without trial, I gave expert testimony in
5 court on numerous occasions.
6
7 **Q. Have you testified previously as an expert witness in the area**
8 **of public utility regulation?**
9 A. Yes. I have prepared expert testimony on more than 30 occasions
10 in proceedings before regulatory commissions in Alaska, -
11 California, Colorado, the District of Columbia, Idaho, Nevada,
12 North Dakota, Texas, Utah, and Washington, and before the
13 Interstate Commerce Commission. In addition, I have served as a
14 hearing examiner in Idaho.
15 My testimony in these proceedings has dealt with avoided costs,
16 capital structure, cost of capital, cost of service, demand elasticity
17 models, planning and forecasting, power supply models, rate
18 design, and regional economic conditions affecting public utilities.
19
20 **Q. Please describe your most recent activities in the area of public**
21 **utility regulation.**
22 A. I have been the lead consultant to the Idaho Legislative Interim
23 Joint Committee on Electric Utility Restructuring since its
24 establishment two years ago. My specific duties have included
25 helping frame issues for consideration by the co-chairs (John
26 Hanson, Senate; Ron Crane, House) and other members of the
27 Committee, and coordinating with other state agencies such as the
28 Idaho Public Utilities Commission, Office of Attorney General,
29 Department of Water Resources, Department of Revenue and
30 Taxation, and the Legislative Council. My duties also include

monitoring and reporting to the Interim Committee the proposals of the Bonneville Power Administration and the Northwest Power Planning Council. My specific responsibilities also include technical support concerning tax law changes entailed by the deregulation of generation assets, the impact on state water law of the deregulation of hydro facilities, electric restructuring activities in other states, and the impact on Idaho ratepayers and businesses of moving to a deregulated electric market. I am presently drafting a report to be submitted to the Idaho Legislature describing the findings and activities of the Interim Committee.

Q. Do you have any professional publications?

A. Yes. I have authored or co-authored more than 15 books and articles, including the following:

"Steelhead May Make Species List: Endangered Declaration Would Affect Anglers" *The Idaho Statesman*, May 23, 1996.

"Cost Savings from Nuclear Resources Reform: An Econometric Model" (with E. Ray Canterbery and Ben Johnson) *Southern Economic Journal*, Spring 1996.

"Post-PURPA views," *Proceedings of the NARUC Biennial Regulatory Conference*, September 1982.

An Input-Output Analysis of the Impact from Proposed Mining in the Challis Area (with R. Davies). Public Policy Research Center, Idaho State University, February 1980.

"The Paradox of Voting," *Reason* 10 (April 1979): 39-41.

"Index of Prices Received by Idaho Farmers," *Idaho Economic Indicators*, July 1978 (also continuing series published monthly).

Future-Gram, "C" Series: Current Trends and Forecasts, "C"Series (with R. Foster, et al.). Government Research Institute of Idaho State University and the Southeast Idaho Council of Governments: Pocatello, ID, June 1977.

An Empirical Analysis of Predictors of Income Distribution Effects of Water Quality Controls (with J. Keith, et al.). Utah Water Research Laboratory, Utah State University: Logan, Utah, September 1976.

Regional Growth and Fiscal Impact in Southeast Idaho (with V. Hjelm et al.). Government Research Institute of Idaho State University and the Southeast Idaho Council of Governments: Pocatello, ID, January 1976.

Phosphate and Southeast: A Socio Economic Analysis (with J. Eyre, et al). Government Research Institute of Idaho State University and the Southeast Idaho Council of Governments, August 1975.

Estimating General Fund Revenues of the State of Idaho (with S. Ghazanfar and D. Holley). Center for Business and Economic Research, Boise State University, June 1975.

"Pocatello/Bannock County Economic Impact through 1978"(with R. R. Johnson), funded by the City of Pocatello (A Regional Input-Output Model), December 1975.

"A Note on the Distribution of Federal Expenditures: An Interstate Comparison, 1933-1939 and 1961-1965." *The American Economist*, Vol. XVIII, No. 2 (Fall 1974), pp. 125-128.

"New Deal Activity and the States, 1933-1939." *Journal of Economic History*, Vol. XXXIII, December 1973, pp. 792-810.

"Utah's Steel Industry" (with Reid R. Durtschi and Bartell Jensen), Utah State University Research Paper, 1965.

MIDVALE TELEPHONE EXCHANGE

Exhibit 2
Schedule: A-1
Title: Computation of Increase in Gross Revenue Requirements.
Explanation:
Schedule showing computation of increase in gross revenue requirements and spread of revenue increase by customer classification.

Supporting Schedules:
(a) B-1 (c) C-3
(b) C-1 (d) H-1

LINE	DESCRIPTION	
1	RATE BASE	1,807,096
2	RATE OF RETURN ON RATE BASE	10.346%
3	REQUIRED RETURN (LN 1 x LN 2)	186,955
4	UTILITY OPERATING INCOME	90,689
5	RETURN DEFICIENCY (LN 3 - LN 4)	96,266
6	NET INCO RATIO	
6A	TOTAL GROSS REVENUE	1.00000
6B	LESS: UNCOLLECTIBLE (INTRASTATE)	0.00237
6C	NET REVENUES (LN 6A - LN 6B)	0.99763
6D	STATE INCOME TAX RATE (INPUT)	0.08000
6E	STATE INCOME TAXES (LN 6C x LN 6D)	0.07981
6F	FEDERAL INCOME TAX BASE (LN 6C - 6E)	0.91782
6G	FEDERAL INCOME TAX RATE (INPUT)	0.35000
6H	FEDERAL INCOME TAXES (LN 6F x LN 6G)	0.32124
6I	NET OPERATING REVENUE (LN 6F - LN 6H)	0.59658
6J	NET INC TO GROSS REVENUE MULT (1/ LN 6I)	1.67621
6K	GROSS UP REVENUE (EQ. INT. X RB X LN6J)	85,724
7	REVENUE INCREASE REQUIRED (LN 5 + LN 6K)	181,991
	PERCENT INCREASE	21.6%

	CURRENT RATE	PROPOSED RATE	PERCENT CHANGE
CASCABEL			
RESIDENCE- R1	$21.00	$24.00	14.3%
BUSINESS - B1	$21.00	$32.00	52.4%
YOUNG			
RESIDENCE- R1	$12.40	$24.00	77.8% *
RESIDENCE- Zone 1 Charge	$1.10		
RESIDENCE- Zone 2 Charge	$3.30		
RESIDENCE- Flat 2 Party	$10.76		
BUSINESS - B1	$32.00	$32.00	-3.3% *
BUSINESS - Zone 1 Charge	$1.10		
BUSINESS - Zone 2 Charge	$3.30		
BUSINESS - pay	$21.00	$21.00	0.0%
BUSINESS - Flat 4 Party	$24.20	$32.00	32.2%

* Elimination of zone charges - this percent is for zone 1
See Attachment H-2

MIDVALE TELEPHONE EXCHANGE

Exhibit 2
Schedule: A-2
Title: Summary Results of Operations
Explanation:

Supporting Schedules: *Optional for projected year
(a) E-2
(b) C-1
(c) F-1

Schedule showing comparative operating results for the test year and the 2 fiscal years ended prior to the end of the test year, compared with the projected year.

	Year Ending 12/31/97	Year Ending 12/31/98	12/31/99 RECORDED
TOTAL REVENUE	845,627	910,072	865,801
TOTAL EXPENSES*	898,833	857,452	859,434
UTILITY OPERATING INCOME	(53,206)	52,620	6,367
INTEREST EXPENSE	(23,685)	(22,211)	(25,107)
NET INCOME	(76,891)	30,409	(18,740)

*Net of Interest

MIDVALE TELEPHONE EXCHANGE

Exhibit 2
Schedule: A-3
Title: Summary of Capital Structure

Supporting Schedules:
(a) E-1
(b) D-1

Explanation:
Schedule showing comparative capital structures for the last 3 historical years, including the test year, and the projected year.

	1999	1998	1997
LONG TERM DEBT	470,233	540,580	578,237
DEFERREDTAXES	156,381	161,124	119,500
EQUITY	1,574,741	1,535,394	1,199,159

AFTER THE ADDITION OF UNSERVED AREAS

DESCRIPTION	CAPITAL AMOUNT
LONG TERM DEBT	
RTFC CONST. LOAN CASCABEL	200,631
RUS 5% CASCABEL	268,586
OTHER & UNSERVED	1,080,798
TOTAL DEBT	1,550,015
EQUITY (CASCABEL & YOUNG, NEW)	1,816,869
OTHER	
TOTAL EQUITY	1,816,869
TOTAL	3,366,884

MIDVALE TELEPHONE EXCHANGE

Exhibit 2
Schedule: A-4
Title: Construction Expenditures and Gross Utility Plant in Service

Supporting Schedules:
(a) F-3
(b) E-5

Explanation:
Schedule showing construction expenditures, plant placed in service and gross utility plant in service for the test year and the 2 fiscal years ended prior to the end of the test year, compared with the projected year.

				PROJECTED PLANT ADDITIONS		
	1997	1998	TEST YEAR	Year 1	Year 2	Year 3
Land				20,000	0	0
Building				50,000	-	-
Switch				350,188	11,676	19,676
Carrier Local				106,055	5,600	5,600
Carrier Toll				45,970		
OSP Local				345,732	13,722	13,722
OSP Toll				87,238		
Microwave				82,420	-	-
Lease T1				41,861	41,261	41,261
Engineering				160,141	4,649	5,849
PLANT ADDITIONS				1,289,605	76,908	86,108
TOTAL PLANT	2,573,354	3,034,757	3,060,664	4,350,269	4,427,177	4,513,285

MIDVALE TELEPHONE EXCHANGE

Exhibit 2
Schedule: A-5
Title: Summary Changes In Financial Position

Supporting Schedules:
(a) E-3
(b) F-2

Explanation:
Schedule showing sources and application of funds in summary format.

See Attached

MIDVALE TELEPHONE EXCHANGE, INC.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the Years Ended December 31, 1999 and 1998

	1998	1998
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ (230,601)	$ 158,845
Adjustment to reconcile net income to net cash provided by operating activities:		
Gain on sale of equipment	(16,600)	00
Depreciation and amortization – Telecommunication Plant	1,261,955	1,216,489
Depreciation non-regulated equipment	29,144	32,521
Provision for deferred income taxes	(37,905)	161,570
Changes in Operating Assets and Liabilities:		
Accounts receivable	(158,747)	31,848
Inventory	(52,920)	11,476
Prepaid expenses	169,758	(146,730)
Accounts payable	(39,760)	(54,527)
Accrued payroll and other taxes	28,408	(4,974)
Accrued interest payable	3,085	(724)
Income taxes payable	20	(70,000)
Net Cash Provided by Operating Activities	955,837	1,335,794
CASH FLOWS FROM INVESTING ACTIVITIES		
Telecommunications Plant additions	(678,721)	(1,156,912)
Non-regulated Cable TV Plant and other equipment	15,322	(26,140)
Telephone plant adjustment	00	(130,218)
Proceeds from sale of equipment	16,600	00
Non-regulated investments	(38,693)	(40,244)
Other non-current assets	(6,266)	(2,922)
Deferred charges	(112,099)	00
Net Cash Used in Investing Activities	(803,857)	(1,356,436)

See notes to financial statements.

MIDVALE TELEPHONE EXCHANGE, INC.

CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

For the Years Ended December 31, 1999 and 1998

	1999	1998
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase (decrease) in line of credit payable	$ 301,000	$ (285,000)
Proceeds from long-term borrowings	86,250	775,482
Principal payments on debt	(500,455)	(456,047)
Net Cash Provided by (Used in) Financing Activities	(113,205)	34,435
Increase in Cash and Cash Equivalents	38,775	13,793
CASH AND CASH EQUIVALENTS, Beginning of Year	232,675	218,882
CASH AND CASH EQUIVALENTS, End of Year	$ 271,450	$ 232,675
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year for:		
Income taxes	$ 21	$ 70,860
Interest	$ 431,848	$ 446,563

See notes to financial statements.

MIDVALE TELEPHONE EXCHANGE, INC.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the Years Ended December 31, 1997 and 1996

	1997	1996
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 112,714	$ 948,222
Adjustment to reconcile net income to net cash provided by operating activities:		
Gain on sale of securities	(345,913)	(1,372,295)
Depreciation and amortization – Telecommunication Plant	1,194,428	848,059
Depreciation non-regulated equipment	42,783	58,732
Provision for deferred income taxes	(174,973)	(164,628)
Changes in Operating Assets and Liabilities:		
Accounts receivable	(30,873)	(30,006)
Inventory	(18,580)	(8,622)
Prepaid expenses	(23,505)	273,279
Accounts payable	(159,937)	133,247
Notes payable	(121,204)	187,157
Accrued payroll and other taxes	39,188	16,671
Accrued interest payable	14,265	14,712
Income taxes payable	(296,670)	361,625
Net Cash Provided by Operating Activities	231,723	1,266,153
CASH FLOWS FROM INVESTING ACTIVITIES		
Telecommunications Plant additions	(519,820)	(4,817,165)
Non-regulated Cable TV Plant and other equipment	(10,465)	(20,117)
Sale of internet equipment	27,189	00
Non-regulated investments	(24,758)	(124,069)
Other non-current assets	(15,124)	(15,228)
Proceeds from sale of securities	342,791	1,372,871
Net Cash Used in Investing Activities	(200,187)	(3,603,708)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term borrowings	351,213	3,405,371
Principal payments on debt	(327,316)	(1,042,893)
Net Cash Provided by Financing Activities	23,897	2,362,478

The accompanying notes are an integral part of these financial statements.

MIDVALE TELEPHONE EXCHANGE, INC.

CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

For the Years Ended December 31, 1997 and 1996

	1997	1996
Increase in Cash and Cash Equivalents	$ 55,433	$ 24,923
CASH AND CASH EQUIVALENTS, Beginning of Year	163,449	138,526
CASH AND CASH EQUIVALENTS, End of Year	$ 218,882	$ 163,449
SUPPLEMENTAL CASH FLOW INFORMATION		
Income taxes paid	$ 444,461	$ 5,880
Interest paid	$ 428,949	$ 300,683
NON CASH FINANCING ACTIVITIES		
Note from sale of internet services	$ 100,000	$ 00
Recorded unrealized gains on securities	$ (227,838)	$ (814,072)
Deferred income taxes on recorded unrealized gains on securities	$ (114,800)	$ (410,400)

The accompanying notes are an integral part of these financial statements.

MIDVALE TELEPHONE EXCHANGE

Exhibit 2
Schedule: B-1
Title: Summary of Original Cost and RCND

Supporting Schedules:
(a) B-2, (d) B-5
(b) B-3, (c) E-1

Recap Schedules:
(e) A-1

Base Elements Explanation:
Schedule showing elements of adjusted original cost and RCND rate bases.

	BALANCE 12/31/98	BALANCE 12/31/99	AVERAGE
TOTAL PLANT IN SERVICE	3,034,756	3,060,664	3,047,710
ACCUMULATED DEPRECIATION	1,122,615	1,211,770	1,167,193
RATE BASE	1,912,141	1,848,894	1,880,518

Note: See B-2, B-2 Attachment
MTE does not keep RCND books

MIDVALE TELEPHONE EXCHANGE

Exhibit 2
Schedule: B-2
Title: Original Cost Rate Base Pro forma
Adjustments

Supporting Schedules: Recap Schedules:
(a) E-1 (b) B-1

Explanation:
Schedule showing pro forma adjustments to gross plant in service and accumulated depreciation for the original cost rate base.

	BALANCE 12/31/98	BALANCE 12/31/99	AVERAGE	PROFORMA ADJUSTMENTS CPE/ADJ	EAS	UNSERVED	AVERAGE AFTER PROFORMA	INTERSTATE AFTER PROFORMA	INTRASTATE AFTER PROFORMA
TOTAL PLANT IN SERVICE	3,034,756	3,060,664	3,047,710	-	-	1,087,603	4,135,313	1,584,832	2,550,481
ACCUMULATED DEPRECIATION	1,122,615	1,211,770	1,167,193	-	-	-	1,167,193	423,808	743,385
RATE BASE	1,912,141	1,848,894	1,880,518	-	-	1,087,603	2,968,121	1,161,025	1,807,096

Note: See Attached

MIDVALE TELEPHONE EXCHANGE

SUMMARY OF RATE BASE -TOTAL ARIZONA

	A/C CODE	PLANT DESCRIPTION	BALANCE 12/31/98	BALANCE 12/31/99	AVERAGE	PROFORMA ADJUSTMENTS CPE/ADJ	EAS	UNSERVED	AVERAGE AFTER PROFORMA	INTERSTATE AFTER PROFORMA	INTRASTATE AFTER PROFORMA	INTERSTATE % alloc.
									-			
Y	2111.54	LAND	20,207	20,207	20,207				20,207	7,250	12,957	35.8800%
		LAND						20,000	20,000	7,176	12,824	35.8800%
Y	2111.55	BUILDINGS	14,347	14,347	14,347				14,347	5,148	9,199	35.8800%
		BUILDINGS						50,000	50,000	17,940	32,060	35.8800%
C	2112.33	VEHICLES	29,645	29,645	29,645				29,645	10,637	19,008	35.8800%
Y	2112.55	VEHICLES	24,900	24,900	24,900				24,900	8,934	15,966	35.8800%
C	2116.33	OTHER WORK EQUIP	21,980	21,980	21,980				21,980	7,886	14,094	35.8800%
Y	2116.55	OTHER WORK EQUIP	-	-	-				-	-	-	35.8800%
Y	2122.55	OFFICE FURNITURE	500	500	500	-			500	179	321	35.8800%
Y	2123.55	OFFICIAL STATION EQUIP	-	-	-				-	-	-	35.8800%
C	2124.33	GEN PURCHASE COMPUTERS	6,971	6,971	6,971				6,971	2,501	4,470	35.8800%
Y	2124.55	GEN PUR COMPUTERS	1,972	1,972	1,972				1,972	708	1,265	35.8800%
C	2212.33	DIG. ELECT SWITCH	157,744	187,974	172,859				172,859	128,313	44,546	74.2300%
Y	2212.55	DIG ELECT SWITCH	320,795	309,186	314,991				314,991	233,817	81,173	74.2300%
		DIG ELECT SWITCH						350,188	350,188	259,945	90,243	74.2300%
C	2230.33	CENTRAL OFFICE TRAN	303,076	304,974	304,025				304,025	91,633	212,392	30.1400%
Y	2230.55	CENTRAL OFFICE TRANS	560,420	565,809	563,115				563,115	169,723	393,392	30.1400%
		CENTRAL OFFICE TRANS						667,415	667,415	201,159	466,256	30.1400%
Y	2351.55	PUBLIC TELE EQUIP	5,619	5,619	5,619				5,619	1,544	4,076	27.4700%
C	2423.33	BURIED CABLE	766,075	766,075	766,075				766,075	210,441	555,634	27.4700%
Y	2423.55	BURIED CABLE	800,504	800,504	800,504				800,504	219,898	580,606	27.4700%
Y									-	-	-	74.2300%
									-			
									-			
		TOTAL PLANT IN SERVICE	3,034,756	3,060,664	3,047,710	-	-	1,087,603	4,135,313	1,584,832	2,550,481	
		YOUNG	1,749,265	1,743,045	1,746,155				1,746,155	647,202	1,098,954	
		CASCABEL	1,285,491	1,317,619	1,301,555				1,301,555	451,411	850,144	
C	2003.33	PLNT CONST.	-	-	-				-	-	-	27.4300%
Y	2003.55	PLNT CONST.							-	-	-	27.4300%
Y	2007.55	PLNT ACQ ADJ				-			-	-	-	34.3500%
Y	2007.56	RES AMT. PLT ACQ							-	-	-	34.3540%
C	3112.33	ACCUM DEP-VEHICLES	(13,545)	(13,545)	(13,545)				(13,545)	(4,918)	(8,627)	36.3100%
Y	3112.55	ACCUM DEP-VEHICLES	(17,500)	(22,480)	(19,990)				(19,990)	(7,258)	(12,732)	36.3100%
C	3116.33	ACCUM DEP- OTHER EQUIP	(21,659)	(21,980)	(21,820)				(21,820)	(7,923)	(13,897)	36.3100%
Y	3121.55	ACCUM DEP -BLDG	(996)	(1,474)	(1,235)				(1,235)	(448)	(787)	36.3100%
Y	3122.55	ACCUM DEP- F & FY	(243)	(314)	(279)				(279)	(101)	(177)	36.3100%
C	3124.33	ACCUM DEP- COMPUTERS	(2,360)	(3,755)	(3,058)				(3,058)	(1,110)	(1,947)	36.3100%
Y	3124.55	ACCUM DEP- COMPUTERS	(624)	(12,018)	(6,321)				(6,321)	(2,295)	(4,026)	36.3100%
C	3212.33	ACCUM DEP -DIGITAL SWITCH	(79,223)	(106,672)	(92,948)				(92,948)	(33,749)	(59,198)	36.3100%
Y	3212.55	ACCUM DEP -DIGITAL SWITCH	(85,708)	(18,622)	(52,165)				(52,165)	(18,941)	(33,224)	36.3100%
C	3230.33	ACCUM DEP -CO TRANS	(88,879)	(97,115)	(92,997)				(92,997)	(33,767)	(59,230)	36.3100%
Y	3230.55	ACCUM DEP -CO TRANS	(367,044)	(403,687)	(385,366)				(385,366)	(139,926)	(245,439)	36.3100%
Y	3351.55	ACCUM DEP -PUBLIC	(5,619)	(5,619)	(5,619)				(5,619)	(2,040)	(3,579)	36.3100%
C	3423.33	ACCUM DEP- BURIED CABLE	(133,447)	(165,366)	(149,407)				(149,407)	(54,250)	(95,157)	36.3100%
Y	3423.55	ACCUM DEP- BURIED CABLE	(305,768)	(339,123)	(322,446)				(322,446)	(117,080)	(205,366)	36.3100%
		RATE BASE	1,912,141	1,848,894	1,880,518	-	-	1,087,603	2,968,121	1,161,025	1,807,096	
		YOUNG	965,763	939,708	952,736				952,736	359,111	593,625	
		CASCABEL	946,378	909,186	927,782				927,782	315,694	612,088	
		NOTES:										

Y= YOUNG
C= CASCABEL

MIDVALE TELEPHONE EXCHANGE

Exhibit 2
Schedule: B-3
Title: RCND Rate Base Pro forma
Adjustments

Supporting Schedules Recap Schedules:
(a) B-4 (b) B-1

Explanation:
Schedule showing pro forma adjustments to gross plant in service and accumulated depreciation for the RCN rate base.

MTE does not keep RCND books

MIDVALE TELEPHONE EXCHANGE

Exhibit 2 | Supporting Schedules: | Recap Schedules:
Schedule: B-4 | RCND Study | a) B-3
Title: RCND by Major Plant Accounts

Explanation:

Schedule showing the determination of Reproduction Cost New Less Depreciation at end of Test Period.

MTE does not keep RCND books

MIDVALE TELEPHONE EXCHANGE

Exhibit 2 | Supporting Schedules: | Recap Schedules:
Schedule: B-5 | (a) E-1 | b) B-1
Title: Computation of Working Capital
Explanation:
Schedule showing computation of working capital allowance.

These items are not booked separately.

MIDVALE TELEPHONE EXCHANGE

Exhibit 2
Schedule: C-1
Title: Adjusted Test Year Income Statement

Supporting Schedules:
(a) E-2
(b) C-2

Recap Schedules:
(c) A-1

Explanation:
Schedule showing statement of income for the test year, including pro forma adjustments.

OPERATING REVENUES	12/31/99 RECORDED	PROFORMA ADJUSTMENTS FED USF YOUNG	EAS	RATE CASE EX	UNSERVED AREA	RESULTS AFTER PROFORMA	INTERSTATE AFTER PROFORMA	INTRASTATE AFTER PROFORMA	INTERSTATE % alloc.
LOCAL SERVICES	146,183	0	0	0	71,477	217,660		217,660	
ENDUSER REVENUE (SLC)	26,186	0	0	0	10,122	36,308		36,308	
INTERSTATE ACCESS	377,001	0		0	63,636	440,637	417,490	23,147	
INTRASTATE ACCESS	186,820	0	-17,190	0	57,272	226,902		226,902	
INTERSTATE USF	107,050	221,824	-15,687	0		313,187		313,187	
STATE USF									
DIRECTORY REVENUE	1,759	0	0	0		1,759		1,759	
MISC.	22,081	0	0	0	2,073	24,154		24,154	
UNCOLLECTIBLE	-1,279	0	0	0	-715	-1,994		-1,994	
TOTAL REVENUE	865,801	221,824	-32,877	0	203,865	1,258,613	417,490	841,123	
OPERATING EXPENSES									
PLANT SPECIFIC OPERATIONS	127,720	0	0	0	27,462	155,182	55,509	99,673	0.3577
PLANT NON-SPECIFIC OPERATIONS	62,925	0	0	0	21,595	84,520	39,589	44,931	0.4684
DEP. AND AMORT	186,282	0	0	0	101,161	287,443	115,926	171,517	0.4033
CUSTOMER OPERATIONS	96,131	0	0	0	20,968	117,099	28,748	88,351	0.2455
CORPORATE OPERATIONS	254,880	0	0	40,000	56,051	350,931	113,281	237,650	0.3228
PROVISION FOR DEFERRED INCOME	0	0	0	0		0	0	0	0.3648
OTHER OPERATING TAXES	81,282	0	0	0	9,103	90,385	32,972	57,413	0.3648
INTEREST EXPENSE	25,107	0	0	0	55,023	80,130	29,231	50,899	0.3648
TOTAL EXPENSES	834,327	0	0	40,000	291,363	1,165,690	415,256	750,434	
UTILITY OPERATING INCOME	31,474	221,824	-32,877	-40,000		92,923	2,234	90,689	

MIDVALE TELEPHONE EXCHANGE

Exhibit 2
Schedule: C-2
Title: Income Statement Pro forma

Recap Schedules:
(a) C-1

Adjustments
Explanation:
Schedule itemizing pro forma adjustments to the test year income statement.

	PROFORMA ADJUSTMENTS			
	(1)	(2)	(3)	(4)
OPERATING REVENUES	FED USF YOUNG	EAS	RATE CASE EXP	UNSERVED AREA
LOCAL SERVICES	0	0	0	71,477
ENDUSER REVENUE (SLC)	0	0	0	10,122
INTERSTATE ACCESS	0		0	63,636
INTRASTATE ACCESS	0	-17,190	0	57,272
INTERSTATE USF	221,824	-15,687	0	
STATE USF				
DIRECTORY REVENUE	0	0	0	
MISC.	0	0	0	2,073
UNCOLLECTIBLE	0	0	0	-715
TOTAL REVENUE	221,824	-32,877	0	203,865
OPERATING EXPENSES				
PLANT SPECIFIC OPERATIONS	0	0	0	27,462
PLANT NON-SPECIFIC OPERATIONS	0	0	0	21,595
DEP. AND AMORT	0	0	0	101,161
CUSTOMER OPERATIONS	0	0	0	20,968
CORPORATE OPERATIONS	0	0	40,000	56,051
PROVISION FOR DEFERRED INCOME	0	0	0	
OTHER OPERATING TAXES	0	0	0	9,103
INTEREST EXPENSE	0	0	0	55,023
TOTAL EXPENSES	0	0	40,000	291,363
UTILITY OPERATING INCOME	221,824	-32,877	-40,000	

Note:
(1): Removal of Federal USF cap
(2): Cost of implementation of EAS
(3): Rate Case Expenses
(4): Revenue and Cost of Serving Unserved Areas (see Attached)

UNSERVED AREA DATA FOR

MILLSITE EXCHANGE

Millsite Service Area

Henderson Valley

SILVER BELL EXCHANGE

Silver Bell

Rio Verde

MTE
Cost Assumptions

EXPENSES		Year 1	Year 2	Year 3	TOTAL
Plant Specific	rate/line				
General Support	41.30	$ 9,959	$ 11,486	$ 13,012	$ 34,457
C. O. Switch	27.45	$ 6,620	$ 7,634	$ 8,648	$ 22,902
C. O. Transmission	11.28	$ 2,720	$ 3,137	$ 3,554	$ 9,411
Buried Cable Repair	33.85	$ 8,163	$ 9,414	$ 10,664	$ 28,241
Depreciation		$ 101,161	$ 107,194	$ 113,948	$ 322,303
Other					
General Plant Administration	89.55	$ 21,595	$ 24,904	$ 28,213	$ 74,712
Customer Operations	86.95	$ 20,968	$ 24,181	$ 27,394	$ 72,542
Corporate Operations		$ 56,051	$ 62,246	$ 67,804	$ 186,101
Property Taxes	37.75	$ 9,103	$ 10,497	$ 11,892	$ 31,492
Ratio Expense Total		$ 236,340	$ 260,692	$ 285,129	$ 782,160
Office Establishment Adjustment	lines				
Office 1	180	$ 236,340	$ 260,692	$ 285,129	$ 782,160
Office 2	360	$ -	$ -	$ -	$ -
Office 3	540	$ -	$ -	$ -	$ -
Office 4	720	$ -	$ -	$ -	$ -
Office 5	900	$ -	$ -	$ -	$ -
Office 6	1080	$ -	$ -	$ -	$ -
Office 7	1260	$ -	$ -	$ -	$ -
Office Esclation Rate	12%				
Total Expenses		$ 236,340	$ 260,692	$ 285,129	$ 782,160

PLANT INVESTMENT	Year 1	Year 2	Year 3	TOTAL
Land	$ 20,000	$ -	$ -	$ 20,000
Building	$ 50,000			
Switch	$ 350,188	$ 11,676	$ 19,676	381,540
Carrier Local	$ 106,055	$ 5,600	$ 5,600	117,255
Carrier Toll	$ 345,732	$ 13,722	$ 13,722	373,176
OSP Local	$ 87,238	$ -	$ -	87,238
OSP Toll	$ 87,238	$ -	$ -	87,238
Microwave	$ 82,420	$ -	$ -	82,420
Engineering	$ 160,141	$ 4,649	$ 5,849	170,639
Lease	$ -	$ -	$ -	
Total Plant Additions	$ 1,289,605	$ 76,908	$ 86,108	1,452,621

PLANT IN SERVICE	Year 1	Year 2	Year 3	TOTAL
Plant in Service		$ 1,289,605	$ 1,366,513	$ 1,452,621
Plant Under Construction	$ 1,289,605	$ 76,908	$ 86,108	$ 1,452,621
Proposed Retirements	$ -	$ -	$ -	$ -
Total Plant in Service	$ 1,289,605	$ 1,366,513	$ 1,452,621	$ 1,452,621
Less Accumulated Depreciation	$ 101,161	$ 208,355	$ 322,303	631,819
Net Plant in Service	$ 1,188,444	$ 1,158,158	$ 1,130,318	$ 820,802

MTE
Estimated Access Minutes

	Per Line Per Mo	Year 1	Year 2	Year 3
Interstate				
Originating	250	723,450	834,300	945,150
Terminating	250	723,450	834,300	945,150
State				
Originating	150	434,070	500,580	567,090
Terminating	150	434,070	500,580	567,090
Message				
Interstate	0.065789474	3,665	4,227	4,789
State	0.012083549	19,957	23,015	26,073
Ratio				
Interstate		62.50%	62.50%	62.50%
State		37.50%	37.50%	37.50%

MTE

Projected Income Statement

Customers - 1st Year		241						
REVENUES				Year 1		Year 2		Year 3
Local	$	24.70	$	71,477	$	82,429	$	93,381
Interstate Access	$	20.00	$	57,876	$	66,744	$	75,612
State Access	$	18.00	$	52,088	$	60,070	$	68,051
Billing & Collection	$	0.72	$	2,073	$	2,391	$	2,708
Interstate USF	$	23.02	$	-	$	-	$	66,616
State USF			$	149,654	$	164,929	$	90,938
Uncollectible			$	(715)	$	(824)	$	(934)
Net Operating Revenues	$	86.44	$	332,453	$	375,737	$	396,373
EXPENSES								
Plant Specific			$	27,462	$	31,670	$	35,878
Network Operations			$	21,595	$	24,904	$	28,213
Depreciation			$	101,161	$	107,194	$	113,948
Customer Operations			$	20,968	$	24,181	$	27,394
General Admin/Other			$	56,051	$	62,246	$	67,804
Property & Operating Taxes			$	9,103	$	10,497	$	11,892
Office Adjustment			$	-	$	-	$	-
Total Operating Expenditures			$	236,340	$	260,692	$	285,129
Operating Margin			$	96,113	$	115,046	$	111,244
Other Operating Income & Expense								
Interest Expense			$	-	$	82,535	$	84,417
Net Income Before Taxes			$	96,113	$	32,511	$	26,827
Income Taxes		0.38	$	36,523	$	12,354	$	10,194
Net Income			$	59,590	$	20,157	$	16,633

MTE
Projected Balance Sheet

ASSETS		Year 1		Year 2		Year 3
Current Assets						
Cash	$	160,751	$	250,105	$	337,384
Receivables	$	200,000	$	200,000	$	200,000
Material & Supplies	$	53,000	$	53,000	$	53,000
Property, Plant & Equipment						
Plant in Service	$	-	$	1,289,605	$	1,366,513
Plant Under Construction	$	1,289,605	$	76,908	$	86,108
Less Accumulated Depreciation	$	101,161	$	208,355	$	322,303
Net Plant	$	1,188,444	$	1,158,158	$	1,130,318
TOTAL ASSETS	$	1,602,195	$	1,661,264	$	1,720,702
LIABILITIES						
Current Liabilities	$	200,000	$	200,000	$	200,000
Miscellaneous Liabilities	$	53,000	$	53,000	$	53,000
Debt	$	1,031,684	$	1,055,214	$	1,080,798
TOTAL LIABILITIES	$	1,284,684	$	1,308,214	$	1,333,798
EQUITY	$	257,921	$	273,303	$	290,524
Retained Earnings	$	59,590	$	79,747	$	96,380
TOTAL EQUITY	$	317,511	$	353,050	$	386,904
Average Annual Growth		100%		11%		10%
TOTAL LIABILITY & EQUITY	$	1,602,195	$	1,661,264	$	1,720,702

MTE
Proforma Statement of Cash Flows

	Year 1	Year 2	Year 3
OPERATING ACTIVITIES			
Net Income (loss)	59,590	20,157	16,633
Adjustments			
Depreciation Expense	101,161	107,194	113,948
Acq. Amort Expense			
Change in Receivable			
Change in Material & Supplies			
Change in Non-Current Assets			
Change in Current Liabilities			
Change in Miscellaneous Liabilities			
Net Cash Provided (Used)	160,751	127,351	130,581
INVESTING ACTIVITIES			
Plant & Equipment Purchases	(1,289,605)	(76,908)	(86,108)
Other			
Net Cash Provided (Used)	(1,289,605)	(76,908)	(86,108)
FINANCING ACTIVITIES			
Change in Long Term Debt	1,031,684	23,530	25,584
Other New Capital	257,921	15,382	17,222
Net Cash Provided (Used)	1,289,605	38,912	42,806
Total Net Cash Provided (Used)	160,751	89,354	87,279
CUMULATIVE CASH FLOWS	160,751	250,105	337,384

MTE
State USF

			Year 1		Year 2		Year 3
State Revenue Requirement		$	274,577	$	306,603	$	318,052
Access Lines			241		278		315
Local Revenue							
Monthly Basic Rate	$ 24.00	$	24.00	$	24.00	$	24.00
Custom Calling	$ 2.00	$	2.00	$	2.00	$	2.00
Percent Uncollectible	1.0%		1.0%		1.0%		1.0%
Billing & Collection		$	2,073	$	2,391	$	2,708
Annual Local Revenues		$	72,835	$	81,605	$	92,447
Federal USF		$	-	$	-	$	66,616
State Access							
Average Access Rate	$ 0.060	$	0.060	$	0.060	$	0.060
State Access Minutes			868,140		1,001,160		1,134,180
State Access Revenue		$	52,088	$	60,070	$	68,051
State Support		$	149,654	$	164,929	$	90,938
Support per Line per Month		$	51.72	$	49.42	$	24.05

MTE
Financing Assumptions

Loan	rate	term	Year 1	Year 2	Year 3
1	8.00%	15	$ 1,031,684	$ 993,688	$ 952,651
2	8.00%	15		$ 61,526	$ 59,260
3	8.00%	15			$ 68,886
4	8.00%	15			
5	8.00%	15			
6	8.00%	15			
7	8.00%	15			
8	8.00%	15			
9	8.00%	15			
Total			$ 1,031,684	$ 1,055,214	$ 1,080,798
Annual Interest					
1				$ 82,535	$ 79,495
2					$ 4,922
3					
4					
5					
6					
7					
8					
9					
Total			$ -	$ 82,535	$ 84,417
Annual Principal					
1				$ 37,996	$ 41,036
2					$ 2,266
3					
4					
5					
6					
7					
8					
9					
Total			$ -	$ 37,996	$ 43,302
Total Annual Payment					
1			$ 120,531	$ 120,531	$ 120,531
2				$ 7,188	$ 7,188
3					$ 8,048
4					
5					
6					
7					
8					
9					
Total			$ 120,531	$ 127,719	$ 135,767
EQUITY	20%		$ 257,921	$ 15,382	$ 17,222
Cumulative Equity			$ 257,921	$ 273,303	$ 290,524

MTE
Estimated Local Revenues

		Year 1	Year 2	Year 3
Access Lines				
Residential (R1)		241	278	315
Business (B1)				
Total		241	278	315
Monthly Basic Rates				
Residential (R1)	$ 24.00	$ 24.00	$ 24.00	$ 24.00
Business (B1)	$ 32.00	$ 32.00	$ 32.00	$ 32.00
Custom Calling	$ 2.00	$ 2.00	$ 2.00	$ 2.00
Estimated Annual Local Revenues				
Local		$ 69,451	$ 80,093	$ 90,734
Custom Calling	35.0%	$ 2,026	$ 2,336	$ 2,646
Other				
Total		$ 71,477	$ 82,429	$ 93,381
Uncollectibles	1.0%	$ 715	$ 824	$ 934

MTE

Estimated Interstate Revenues

			Year 1		Year 2		Year 3
Rate of Return			11.25%		11.25%		11.25%
Subscriber PLT Factor (SPF)			0.250		0.250		0.250
Dial Equipment Minutes (DEM)			0.2158		0.2158		0.2158
Weighted DEM	3.00		0.6474		0.6474		0.6474
CCL Revenue Requirement Factor							
Exp. Allocation (W/O B&C)			0.3547		0.3547		0.3547
PLT Allocation (W/O B&C)			0.3828		0.3828		0.3828
Interstate Settlements (Rev. Req)							
Interstate Access Rev (Calc)							
Interstate SP Access Rev. Req.							
Interstate-Billing & Collection	0.13	$	477	$	550	$	623
Interstate-USF		$	-	$	-	$	66,616

MTE

Estimated Intrastate Revenues

			Year 1		Year 2		Year 3
Rate of Return			11.000%		11.000%		11.000%
Subscriber PLT Factor (SPF)			25.00%		25.00%		25.00%
Subscriber Line Usage (SLU)			0.2195		0.2195		0.2195
Dial Equipment Minutes (DEM)			0.2195		0.2195		0.2195
Weighted DEM	3.00		0.2028		0.2028		0.2028
Exp. Allocation (W/O B&C/SP)			0.4146		0.3065		0.3065
PLT Allocation (W/O B&C/SP)			0.4536		0.3457		0.3457
State Settlements (Rev. Req)							
State Billing & Collection	0.08	$	1,597	$	1,841	$	2,086
State USF							
Access Revenue		$	-	$	-	$	-

MTE
Financial Ratios

		Year 1	Year 2	Year 3
EQUITY TO ASSETS	1	20%	21%	22%
DEBT TO OPERATING CASH FLOW	2	5.23	4.47	4.23
FIXED CHARGE COVERAGE	3	N/A	2.69	2.67
TIMES INTEREST EARNED RATIO (TIER)	4	N/A	2.69	2.67
DEBT SERVICE COVERAGE (DSC)	5	N/A	1.74	1.66
DEBT RATIO	6	76%	75%	74%

1. Equity/Total Assets
2. Debt/(EBIT + Depreciation)
3. (EBIT + Depreciation)/Fixed Charges
4. (EBIT + Depreciation)/Interest
5. (EBIT + Depreciation)/Total Loan Payments
6. Debt/(Debt + Equity)

MTE
Profit Ratios

		Year 1	Year 2	Year 3
PROFIT MARGIN	1	18%	5%	4%
RETURN ON RATE BASE	2	8%	10%	10%
RETURN ON EQUITY	3	19%	6%	4%

1. Net Income/Operating Revenue
2. EBIT/Net Plant in Service
3. Net Income/Equity

MTE

Interstate Revenue Requirement

		Year 1	Year 2	Year 3
Return on Investment				
Net Plant in Service		$ 1,188,444	$ 1,158,158	$ 1,130,318
I/S Plant Factor		0.3600	0.3600	0.3600
I/S Rate of Return		11.25%	11.25%	11.25%
Return on I/S Rate Base		$ 48,132	$ 46,905	$ 45,778
Expenses				
Total Operating Expenses		$ 236,340	$ 260,692	$ 285,129
I/S Expense Factor		0.3600	0.3600	0.3600
I/S Operating Expenses		$ 85,082	$ 93,849	$ 102,646
Interest				
Total Interest Expense		$ -	$ 82,535	$ 84,417
I/S Plant Factor		0.3600	0.3600	0.3600
I/S Interest Expense		$ -	$ 29,712	$ 30,390
Return on Plant less Interest		$ 48,132	$ 17,193	$ 15,388
Cumulative Tax Rate		38%	38%	38%
Taxes		$ 18,290	$ 6,533	$ 5,847
Gross Up Factor		1.7857	1.7857	1.7857
Income Taxes		$ 32,661	$ 11,667	$ 10,442
Interstate Revenue Req. (w/o B&C)		$ 165,875	$ 152,421	$ 158,866
Less CCL Rev. Requirement		$ -	$ -	$ -
Less Special Access		$ -	$ -	$ -
Net I/S Revenue Requirement		$ 165,875	$ 152,421	$ 158,866
Interstate Access Revenue		$ 57,876	$ 66,744	$ 75,612
Interstate Access Minutes		$ 1,446,900	$ 1,668,600	$ 1,890,300
I/S Access Rate	$ 0.040	$ 0.040	$ 0.040	$ 0.040

MTE

Intrastate Revenue Requirement

			Year 1		Year 2		Year 3
Return on Investment							
Net Plant in Service		$	1,188,444	$	1,158,158	$	1,130,318
State Plant Factor			0.6400		0.6400		0.6400
State Rate of Return			11.00%		11.00%		11.00%
Return on State Rate Base		$	83,666	$	81,534	$	79,574
Expenses							
Total Operating Expenses		$	236,340	$	260,692	$	285,129
State Expense Factor			0.6400		0.6400		0.6400
State Operating Expenses		$	151,258	$	166,843	$	182,482
Interest							
Total Interest Expense		$	-	$	82,535	$	84,417
State Plant Factor			0.6400		0.6400		0.6400
State Interest Expense		$	-	$	52,822	$	54,027
Return on Plant less Interest		$	83,666	$	28,712	$	25,547
Cumulative Tax Rate			35%		35%		35%
Taxes		$	29,283	$	10,049	$	8,942
Gross Up Factor			1.7000		1.7000		1.7000
Income Taxes		$	49,782	$	17,084	$	15,201
State Revenue Requirement (W/O B&C)		$	284,706	$	318,283	$	331,284
Less CALC	$3.50	$	10,128	$	11,680	$	13,232
Less Special Access		$	-	$	-	$	-
Net State Revenue Requirement		$	274,577	$	306,603	$	318,052
State Access Revenue		$	52,088	$	60,070	$	68,051
State Access Minutes			868,140		1,001,160		1,134,180
Implied State Access Rate	$ 0.06	$	0.060	$	0.060	$	0.060

MTE

Vacition % Millsite	25.0%	25.0%	25.0%	
Vacition % Silver Bell	5.0%	5.0%	5.0%	
	Year 1	Year 2	Year 3	TOTAL
MILLSITE EXCHANGE				
Millsite Service Area	148	10	10	168
Henderson Valley	34	4	4	42
SILVER BELL EXCHANGE				
Silver Bell	57	11	11	79
Rio Verde	42	15	15	72
Vacation Adj. Millsite	-37	-3	-3	-42
Vacation Adj. Silver Bell	-3	-1	-1	-4
TOTAL	241	37	37	315
CUMULATIVE	241	278	315	315

MTE

Accounting Data on the Midvale Exchange from Larry Jefferies 01/12/97
1996 Arizona Cost Information

	Amount	Per Line	Adjusted	Percent
Corporate Operations	230,574	464.87	232.43	50%
OTHER OPERATING TAXES				
Property Taxes	37,445	75.49	37.75	50%
Number of Lines	496			

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Corporate Operations Taper	232.43	223.82	215.22	206.61	198.00	189.39	180.78	172.17	163.56	154.96

MTE
PROJECTED PLANT ADDITIONS

	Year 1	Year 2	Year 3	TOTAL
Land	20,000	0	0	20,000
Building	50,000	-	-	50,000
Switch	350,188	11,676	19,676	381,540
Carrier Local	106,055	5,600	5,600	117,255
Carrier Toll	45,970			45,970
OSP Local	345,732	13,722	13,722	373,176
OSP Toll	87,238			87,238
Microwave	82,420	-	-	82,420
Lease T1	41,861	41,261	41,261	124,383
Engineering	160,141	4,649	5,849	170,639
Construction Contribution	-			
TOTAL PLANT ADDITIONS	1,289,605	76,908	86,108	1,452,621

MTE
INTERSTATE USF

	Year 1	Year 2	Year 3	TOTAL
Expenditures	236,340	260,692	285,129	782,160
Allocation Factor	64.00%	0.64	0.64	0.64
Allocated	151,258	166,843	182,482	500,583
Working Loops	241.15	278.1	315.05	315.05
National Loop Cost Average	248.43	248.43	248.43	248.43
Cost @ 115%	285.69	285.69	285.69	285.69
Cost @ 150%	372.65	372.65	372.65	372.65
Cost per Loop	627.23	599.94	579.22	1,588.90
Amount between 1.15 and 1.50	86.95	86.95	86.95	86.95
Amount over 1.50	254.59	227.29	206.57	1,216.25
@				
0.65	56.52	56.52	56.52	56.52
0.75	190.94	170.47	154.93	912.19
Sum	247.46	226.99	211.45	968.71
Annual amount			66,616	-
monthly	-	-	5,551	-
support per line per month	0.00	0.00	17.62	0.00

MIDVALE TELEPHONE EXCHANGE

Exhibit 2
Schedule: C-3
Title: Computation of Gross Revenue

Recap Schedules:
A-1

Conversion Factor
Explanation:
Schedule showing incremental taxes on gross revenues and the development of a gross revenue conversion factor.

Description	Percentage of Incremental Gross Revenues
Federal Income Taxes	34%
State Income Taxes	8%
Other Taxes and Expenses: (Specify):	
Total Tax Percentage	42%

Operating Income % = 100% - Tax Percentage

$$\frac{1}{\text{Operating Income \%}} = \text{Gross Revenue Conversion Factor}$$

Note: All tax percentages shall include the effect of other taxes upon the incremental rate. The applicant may use other formulas in developing the conversion factor.

MIDVALE TELEPHONE EXCHANGE

REGULATION R14-2-103
Exhibit 2
Schedule: D-1
Title: Summary Cost of Capital
Explanation:
Schedule showing elements of capital structure and the related cost.

Supporting Schedules:
(a) D-2
(b) D-3
(c) D-4
(d) E

Recap Schedules:
(e) A-3

DESCRIPTION	CAPITAL AMOUNT	CAPITAL RATIO	COST	WGT COST (C x D)
LONG TERM DEBT				
RTFC CONST. LOAN CASCABEL	200,631	0.1104	0.0610	0.0067
RUS 5% CASCABEL	268,586	0.1478	0.0500	0.0074
OTHER & UNSERVED	1,080,798	0.5949	0.0800	0.0476
TOTAL DEBT	1,550,015	0.8531		0.0617
EQUITY (CASCABEL & YOUNG, NEW)	1,816,869	1.0000	0.1300	0.1300
OTHER			-	
TOTAL EQUITY	1,816,869	1.0000		0.1300
TOTAL	3,366,884	1.8531		0.1917

MIDVALE TELEPHONE EXCHANGE

REGULATION R14-2-103
Exhibit 2
Schedule: D-2
Title: Cost of Long-Term and Short-Term Debt

Supporting Schedules: (b) E-1

Recap Schedules: (a) D-1

Explanation:
Schedule showing computation of cost of long and short term debt.

See Attachment E-3
See Attachment

MTE
Financing Assumptions

Loan	rate	term	Year 1	Year 2	Year 3
1	8.00%	15	$ 1,031,684	$ 993,688	$ 952,651
2	8.00%	15		$ 61,526	$ 59,260
3	8.00%	15			$ 68,886
4	8.00%	15			
5	8.00%	15			
6	8.00%	15			
7	8.00%	15			
8	8.00%	15			
9	8.00%	15			
Total			$ 1,031,684	$ 1,055,214	$ 1,080,798
Annual Interest					
1				$ 82,535	$ 79,495
2					$ 4,922
3					
4					
5					
6					
7					
8					
9					
Total			$ -	$ 82,535	$ 84,417
Annual Principal					
1				$ 37,996	$ 41,036
2					$ 2,266
3					
4					
5					
6					
7					
8					
9					
Total			$ -	$ 37,996	$ 43,302
Total Annual Payment					
1			$ 120,531	$ 120,531	$ 120,531
2				$ 7,188	$ 7,188
3					$ 8,048
4					
5					
6					
7					
8					
9					
Total			$ 120,531	$ 127,719	$ 135,767
EQUITY	20%		$ 257,921	$ 15,382	$ 17,222
Cumulative Equity			$ 257,921	$ 273,303	$ 290,524

MIDVALE TELEPHONE EXCHANGE

REGULATION R14-2-103
Exhibit 2
Schedule: D-3
Title: Cost of Preferred Stock

Supporting Schedules: (b) E-1

Recap Schedules: (a) D-1

Explanation:
Schedule showing computation of cost of preferred stock.

MTE has no preferred stock.

ARIZONA CORPORATION COMMISSION
REGULATION R14-2-103

Exhibit 2	Supporting Schedules:	Recap Schedules:
Schedule: D-4	Special Studies	(D-1)

Title: Cost of Common Equity

Explanation:

Schedule summarizing conclusions on the required rate of return on common equity as of the end of the test year and the projected year of exhibits in support thereof.

See Attached: Cost of Equity

ATTACHMENT TO D-4:

COST OF EQUITY

Q. Dr. Reading, would you please describe the procedure you used in determining Midvale's cost of equity?

A. Yes. Several major approaches have historically been used in regulatory proceedings to estimate the cost of equity capital. The two I have used are the comparable earnings approach and the market approach. In the former approach the analyst attempts to derive the utility's cost of capital from published data on the returns that firms earn on the equity funds at their disposal. In the latter approach, the analyst uses data from securities markets to calculate the rate of return that utility investors require on the equity funds they place at the utility's disposal

Although emphasizing a different aspect of economic theory, each method attempts to measure a single concept--the cost of equity capital. In practical applications, however, these two approaches can produce somewhat different results, and they rely upon different data sources.

Q. Would you distinguish the comparable earnings approach from the market approach?

A. Yes. As I use these terms, the comparable earnings approach is grounded in the economic theory of competition in the market for goods and services, rather than the market for securities. Competition theory suggests that the return earned by the average firm in a competitive industry will tend to be equal to the opportunity cost of equity capital---the return which could be earned by investing and operating in another industry while facing comparable risk. To the extent this is temporarily not true, equity capital will tend to flow away from the industries earning insufficient returns and into the ones earning excessive returns.

As a result of this adjustment process, the balance will gradually shift.

Competition will diminish in industries which lose firms and increase in industries which gain firms. As firms leave the industries with insufficient returns, the remaining firms will tend to earn higher returns. Conversely, increased competition in industries with excessive returns will drive down returns, until they no longer exceed the opportunity cost of equity capital. The same pattern of competitive forces also occurs as firms earning high returns expand their capacity, and firms earning inadequate returns retrench. Over time, returns tend to equilibrate towards a normal level (although some individual firms may repeatedly earn more than their cost of capital, due to the presence of market power or other unique attributes).

Consequently, the theory of competition provides a basis for determining the opportunity cost of equity capital. By using the comparable earnings approach, one can estimate the long-run cost of equity as being equivalent to the level of returns being earned, on average, by firms throughout the economy. To the extent one is using this method to estimate equity costs for a firm that faces above or below average risk, it is necessary to adjust the economy-wide level of equity cost for the relevant differences in risk.

One of the major advantages of the comparable earnings approach is its simplicity. Basically, it is only necessary to determine the returns on book equity earned by firms throughout the economy over one or more business cycles and use the resulting observed average return as an estimate of the cost of equity. To the extent applicable, it may also be necessary to adjust this average cost of equity for any differences in risk that may apply to a particular context.

Q. The comparable earnings approach, properly used, appears fairly simple. Are there any pitfalls?

A. Yes, there are a few potential pitfalls. First, it is important to include a cross-section of companies in the study. This broader base prevents the possible selection of an unusual group of firms which earn returns significantly above or below the norm. Second, care must be taken to avoid the use of data from a group of firms which have a large amount of

monopoly power. Otherwise, the returns included in the study may be biased upward to a significant degree by the presence of monopoly profits. Third, it is important to resolve any differences in risk. For instance, if the firms included in the study face a higher degree of risk than the firm in question, this difference must be recognized by adjusting downward the observed returns to reflect the cost of equity to a firm facing lower risk.

Q. Would you next discuss the market approach?

A. Yes. In contrast to the comparable earnings approach, the market approach tends to be fairly complex, and it rests upon a somewhat different theoretical foundation. Generally speaking, the market approach, when properly applied, is tied to the theory of competition in the market for investment securities, rather than the market for goods and services. In a competitive securities market, the return earned on one security will tend to equal the returns earned on other securities of comparable risk. If the return earned on a particular security exceeds the level they require, investors will bid up the price of that security. By the same token, investors will bid down the market price of a security if its return is below the required level. In both cases, the price will be adjusted until the expected total return reaches the required level, which is the cost of equity capital.

The market and comparable earnings approaches are interrelated, because the theory of competition suggests that in equilibrium the cost of equity derived from the comparable earnings approach should exceed the cost of equity derived from the market approach by only a small fraction, in order to cover the transaction costs associated with common stock issuance. Only this small marginal deviation can logically persist, assuming there is sufficient competition in both the securities and goods and services markets.

To illustrate this principle, it is helpful to consider the following situation: What would happen if existing firms consistently earned returns considerably higher than the level demanded by investors in the securities market? In all probability, entrepreneurs would create new firms in an effort to share in the high returns enjoyed by existing firms. Existing firms would expand as well, in an effort to maintain their market share and take advantage of the opportunity for supra-normal profits. To fuel this growth, additional

equity shares would be issued and/or profits retained.

In the absence of barriers to entry or other factors that preclude competitive forces from being completely effective, the industry would expand, and an increased supply of equity securities would persist until the actual returns earned by firms was brought into line with the returns required by equity investors. As I have said, considering the interaction between the securities market and the markets for goods and services and assuming competition in both sets of markets, earnings on book equity should in the long run exceed the return on equity demanded by investors by only the small fraction needed to cover the transaction costs associated with securities issuances.

Q. What specific methods have you employed in your market analysis of the cost of equity?

A. I used several closely related analytic processes involving data from the financial markets and developed two sets of distinct, yet closely related, calculations: a discounted cash flow (DCF) analysis using market data for the Regional Bell Holding Companies and for the group of 10 other telecommunications companies mentioned earlier; and a risk premium analysis.. Throughout these analyses I have given careful consideration to market psychology by considering additional data, such as market-to-book ratios and earnings/price ratios.

I believe that in performing a market analysis, especially in estimating the growth component in a DCF analysis, the status of investor expectations or psychology should be assessed very carefully. In my opinion, a strictly mechanical process should not be used, because this considers neither the available evidence regarding investors' moods and expectations nor subtle nuances such as the sustainability of particular growth rates (whether achieved or projected).

In the broadest sense, the market approach is simply a technique for determining the rate of return that investors require from a particular security. Since the supply of a particular security tends to be fixed at any point, *securities markets allow supply* and demand to match by adjusting the price to an appropriate, market-clearing rate of return.

Unfortunately, the market clearing return cannot be directly observed. Avoidance of incorrect or misleading conclusions about investor requirements entails a close examination of the securities markets and of the various psychological and economic factors that influence them.

Q. How should factors of market psychology be taken into consideration?

A. It is sometimes necessary to decide whether investors are optimistic or pessimistic about the future of the firm or firms in question. When attitudes are very negative, earnings/price ratios will be above the cost of equity, and market-to-book ratios will tend to be low, since the stock price is depressed by factors not fully reflected in the current earnings figure.

Conversely, during a period of bullish speculation, or when investor attitudes are particularly buoyant about the company in question, the calculated earnings/price ratio will tend to be less than the actual cost of equity. In effect, investors are anticipating extra earnings from their investment in the stock, beyond those reflected in the earnings per share.

Q. Let's discuss your first set of calculations under the market approach--your DCF analysis. Would you please begin with a brief overview of recent dividend yields for the RBOCs and other phone companies?

A. Yes. As shown on schedule 1, the average dividend/price ratio (yield) for the RBOCs moved from 5.0% in 1990 to 3.7% in 1997. As a group, the RBOCs averaged 4.4% for the 5-year period 1993-1997. For the 5-year period 1992-1996, the average was 4.7% The average for the group of 10 other phone companies moved from 2.8% in 1990 to 2.2% in 1997. As a group, these firms averaged just 2.5% for the 5-year period 1993-1997, and 2.7% for the 5-year period 1992-1996.

Q. What conclusions have you drawn from your DCF analysis regarding the appropriate cost of equity capital for this proceeding?

A. I estimate the cost of equity capital for the major telecommunications carriers is 11.00% to 12.25%. This reflects my conclusion that investors require on average a return of 10.5% to 11.75% on their equity investment in the average carrier. The higher figure is calculated by factoring up the investor requirement by 4.0% to cover the cost of issuing stock - an allowance I have made rather generous by applying it to the entire equity amount, even though issuance costs are not incurred for total equity (e.g., not for reinvested earnings).

Q. Would you please briefly summarize the DCF analysis you performed in arriving at this conclusion?

A. Yes. In my discounted cash flow analysis I looked at both the Regional Bell Operating Companies and a group of other large telecommunications carriers. I used an average dividend yield of 5.00% for the RBOCs and an average dividend yield of 3.00% for the other carriers. I used a growth rate of 5.5% to 6.0% for the RBOCs and a growth rate of 8.25% to 8.75% for the other carriers. Adding the dividend yields to the corresponding growth estimates, I estimate that, on average, investors require a return of 10.5% to 11.75% in these firms.

Q. Could you please elaborate on your conclusions concerning the appropriate growth rate to use in a DCF analysis for these firms?

A. Yes. Since growth is a multidimensional phenomenon, no single variable proves adequate in describing a firm's growth, or investor expectations concerning that growth. Therefore, I have examined the historical pattern of growth in dividends, earnings, and book value for the RBOCs and the other carriers. In addition, I have reviewed the underlying growth in the industry as a whole, using billed minutes and access lines as indicators.

The historical growth statistics vary widely, depending upon the type of growth measured and the period chosen. For example, as shown on schedule 2, for the five-year

period 1993-1997, dividends for the RBOCs grew by an annual average of 3.4%. For the five-year period 1992-1996, dividends grew by an average of 3.2%. For the other phone companies, dividends grew by annual averages of 2.8% and 3.2% for these two periods, respectively. While these figures fall within a fairly narrow range, it is apparent that investors are not simply looking at the historical rate of dividend growth in valuing these stocks. To the contrary, investors recognize that the industry is growing and changing and that earnings retained in the firm will ultimately benefit investors through increased earnings and higher stock prices in future years. The earnings data generally show higher growth rates in recent years. As shown on schedule 3, for the five-year period 1993-1997, earnings for the RBOCs grew by an annual average of 8.1%. For the slightly different five-year period 1992-1996, earnings grew by an average of 10.9%. For the other phone companies, recent earnings growth rates were somewhat higher. For the two five-year periods 1993-1997 and 1992-1996, earnings growth for this group averaged 8.8% and 14.3%, respectively.

This rapid growth in earnings has been fueled, in part, by increasing profit margins and higher returns on equity---a pattern which cannot continue into the indefinite future. In fact, investors recognize that with increased competition, profit margins will be subjected to greater pressures, and while earnings are likely to continue to grow, the pace will moderate as carriers are unable to sustain a pattern of increasing profit margins.

Q. What have you learned from your examination of growth in book value for the RBOCs and other phone companies?

A. Book value is an indicator of the fundamental earnings power and value of a firm. As shown on schedule 4, for most RBOCs, book value per share has generally been in decline in the 1990s. However, the rate of decline has been moderating. Whereas for the five-year period 1992-1996, this decline averaged 3.3% per year, for the five-year period 1993-1997, the average annual decline was 2.2%. In fact, for two RBOCs–Ameritech and BellSouth–the most recent five-year period is one of positive growth. Although some of the 10 other phone companies also saw a decline in book value per share from 1990 to

1997, others did not. As a group, for the five-year period 1992-1996, there was an increase in book value per share averaging 1.3% per year. For the five-year period 1993 to 1997, the average increase rose to 2.7%.

This pattern of fluctuating book value is partly a result of substantial write-offs of asset values, changes in depreciation reserves, and other unusual factors. Hence, in the current bull market, investors have not been greatly disturbed by it. Nevertheless, the lack of substantial overall growth in book value, or net tangible assets, is a disquieting factor which runs counter to the picture of rapid earnings growth experienced by some of the firms during portions of the recent past.

Q. You mentioned you also examined two measures of underlying growth for the industry. Would you discuss these?

A. Yes. I examined growth in access lines and billed minutes from 1988 to 1997 for the RBOCs and a group of five other local providers. These data were taken from the FCC's Statistics of Common Communication Carriers, and are shown on schedule 5 . As shown on page 1, access lines for the RBOCs have grown between 4.8% and 16.7% per year, for the three-year and five-year periods ending in 1993, 1994, 1995, 1996, and 1997. Growth in access lines for the five other local phone providers grew between 3% and 6% over these same three-year and five-year periods (page 2). Switched access minutes have experienced more rapid growth, averaging between 5% and 16% over the same recent five-year periods for the RBOCs (page 3). For the other carriers, the growth in access minutes has been even more rapid, averaging between 7% and 24%, depending upon the time period (page 4).

Q. Will you please discuss your observations concerning the capital market's expectations?

A. Yes. In my opinion, investor expectations are based partly on the growth rates experienced in the past and partly on attitudes about the future. The growth rates I have used in my DCF analysis for the RBOCs and other carriers are consistent with, but

generally higher than, the pattern of actual growth rates from 1990 to 1997. My estimate is substantially higher than the recent growth in dividends and book value, which is appropriate given the optimistic nature of current investor attitudes. In the end, investor *expectations*, not actual results, are relevant to the DCF approach to the equity return requirement. If investors expect a 7% growth rate, this is the relevant fact, not the actual past rate of growth in dividends (which has been low), or the past rate of growth in stock prices (which has been high).

I have used a 5.5% to 6.0% growth rate for the RBOCs and an 8.25% to 8.75% growth rate for the other carriers. Both these growth rates exceed the recent historical growth rates in dividends and book value, but they are not as high as the recent earnings rates.

Q. What is your conclusion concerning the appropriate cost of equity capital for this proceeding, based upon your DCF?

A. I estimate the cost of equity capital for the major telecommunications carriers at 10.90% to 12.25%. This is computed by adding the growth estimates to the dividend yield, then factoring up by 4.0% to cover the cost of issuing stock.

Q. Would you please explain your Risk Premium analysis?

A. Yes. A risk premium analysis, like a CAPM approach, is intended to measure the additional return, or risk premium, required by investors for bearing additional risk. Typically, this premium is measured by calculating the difference between some measure of market returns and some measure of debt returns. For my risk premium analysis, I have used market returns reported by Ibbotson Associates in *Stocks, Bonds, Bills and Inflation, 1997 Yearbook*, and yields on three-month Treasury Bills reported by the Federal Reserve. Schedule 8 shows these data for 1934 to 1997.

Q. Why did you stop at 1934, when your Ibbotson market return data went back to 1926?

A. In performing a risk premium analysis, it is important to use the same debt measure that was used to calculate the historical risk premiums. It is also important to use the same debt measure throughout the series of historical risk premium calculations. The most reliable, constant, and lengthy data series I could find was for three-month T-bills in the secondary market, as reported by the Federal Reserve. This data series extends back to 1934.

Q. Could you elaborate upon schedule 6?

A. Yes. The column labeled Returns shows annual market returns for large company stocks, as reported by Ibbotson Associates. The column labeled T-Bills shows the yield on average 30-day Treasury Bills, as reported by the Federal Reserve. The column labeled Risk Premium shows the difference between the Large Company Stock Returns, and the T-Bill yields. The columns labeled 30 Year Average show moving averages for the data series immediately to the left of each column of averages.

As shown on this schedule, equity investors have generally achieved returns in excess of the return on 30-day T-Bills. The spread between the returns on these two types of securities can be expected to be positive in most years, since stocks are more volatile and risky. However, the observed spread, or risk premium fluctuates widely from year to year. These fluctuations are caused by many different factors. In some cases, the same forces may be influencing the returns on both debt and equity securities, but not in the same manner or with the same timing. For instance, returns to equity investors tend to fluctuate in response to changes in Federal Reserve Board policies affecting interest rates, but interest rates may not fall as quickly or in the same time period.

Furthermore, the relative riskiness of debt and equity can vary, depending upon factors like government policies and changing economic conditions. Thus, it would be unrealistic to assume a perfect correlation between T-Bill or bond yields and equity returns. These fluctuations in the debt-equity spread can result in wide variations in the

risk premium measured by a particular study, depending upon the time period studied and the methodology used.

Q. What do the averages shown on schedule 6 show you about historical risk premiums?

A. The moving averages suggest that the gap between debt and equity costs has not been highly stable. It has been influenced by both fluctuations and trends in these two markets, which have not moved in unison. Since 1980, the five-year moving averages of 30-year averages have ranged from 4.9% to 8.6% but reached their low point in the 1990-94 demidecade and have since been moving back up. For purposes of my risk premium analysis, I have used a range of 5.50% to 6.50% for the equity risk premium to be added to the current risk free rate.

Q. What measure of the risk free rate have you used?

A. Consistent with my estimate of the risk premium, I have used the recent average yield on three-month T-bills in the secondary market. As reported by the Federal Reserve Board, this rate has recently fluctuated in the vicinity of 5.1% to 5.3%. Therefore, my Risk Premium analysis suggests that equity investors currently require a return in the range of 10.6% to 11.8%. Factoring this up by 4% to provide a reasonable allowance for the cost of issuing stock results in an estimate of the cost of equity capital of approximately 11.0% to 12.25%, based upon the Risk Premium approach.

Q. Would you now discuss the approach taken in your comparable earnings analysis?

A. Certainly. To provide a sufficiently broad data base for my study of achieved returns, and to avoid circular reasoning in my conclusions, I have analyzed the returns of a wide range of firms in both the industrial and the telecommunications sectors---among them the selected industries regularly reported by *Business Week*, reflecting data for some 900 companies. This wide-spectrum approach minimizes any bias inherent in the data, especially since I emphasize the earnings of groups of unregulated firms, which do not

exert large amounts of monopoly power. I have not assumed the achieved returns of a specific firm or group of firms to be adequate or reasonable when there is evidence to the contrary. Thus, any potential circular reasoning is prevented.

My analytical procedure can be summarized in five steps. First, I studied the rates of return on average common equity earned by unregulated firms. Second, on the basis of the historical earnings of these firms and an analysis of current economic conditions, I estimated the current cost of equity capital to the average unregulated firm. Third, I studied the historical returns earned by telecommunications carriers and examined the implications of trends for current investor-required return levels. Fourth, I examined the relative risk of telecommunications carriers versus the average unregulated firm. Fifth, I used the current cost of equity capital to the average unregulated firm as a benchmark, which I adjusted for differences in relative risk, in deriving an estimate of the appropriate cost of equity for use in this proceeding based upon the comparable earnings approach.

Q. What conclusions have you drawn concerning the historical rate of earnings on common book equity for industrial firms?

A. Schedule 7 shows the earnings on average common equity of Standard & Poor's index of 400 industrials. It covers a period from the early 1970s to1997, a period long enough to include several business cycles and reflect economic trends.

For the five-year period from the year ending in the third quarter of 1993 to the year ending in the third quarter of 1997, this group of highly successful firms earned an average of 15.5%. During the five-year period 1992-1996, the returns averaged 17.9%. During the recent five-year period, from the year ending in the third quarter of 1991 to the year ending in the third quarter of 1995, earned returns on common equity for this group averaged 16.0%. The average return for the 10-year period 1988-1997 was 15.3%.

I also examined the returns earned by two broader, more comprehensive groups: the Federal Trade Commission's "All Manufacturers" group and the industries monitored by *Business Week*.

The average returns on equity for the "All Manufacturers" group are shown on

pages 2 and 3 of schedule 7. For the five-year period 1993-1997, this very broad-based group earned an average return of 14.6%. During the five-year period 1992-1996, the returns averaged 11.7%. For the 10-year period 1988-1997, returns on equity averaged 12.2%. As page 2 of schedule 7 indicates, for the "All Manufacturers" group, the return in the year ending second quarter 1997 was 17.2%, matching the year ending second quarter 1995 as a study-period high. In contrast, in the year ending first quarter 1992, the average return of this group was only 0.3%, a study period low, due to the lingering effects of the most recent recession. Looking at recent five-year periods, the returns earned by the "All Manufacturers" group were significantly reduced by the recession, the impact of increased international competition, and the long-term trend in the U.S. economy away from the manufacturing sector towards increased emphasis on services. However, as the effects of the recent recession dissipated, five-year average returns increased to a more normal level.

Pages 4 and 5 of schedule 7 depict the returns on equity for the range of industries monitored quarterly by *Business Week.* Earnings for this comprehensive group of approximately 900 companies averaged 15.5% during the years 1993-1997, 14.2% during the years 1992-1996, and 13.6% for the 10-year period 1988 through 1997. As page 4 of schedule 7 indicates, the returns of the *Business Week* group of 900 companies peaked at 17.4% in the year ending first quarter 1997, a level they had not previously attained in the 22-year study period. This group of companies reached a study-period low in the year ending fourth quarter 1991 and first quarter 1992, at 8.8%, reflecting the impact of the most recent recession. For the year ending in the fourth quarter of 1997, the most recent period for which data are available, average returns were 16.5%.

Q. Would you explain how you used this information?

A. Certainly. I looked at the equity returns that have been achieved by unregulated firms over lengthy periods of time, as well as during the recent past. I considered these observed returns, as well as current economic conditions, to estimate the current and near-future cost of equity. While unregulated returns have fluctuated quite dramatically with changes in the business cycle, the average level of these returns has been rather stable

over the longer term. For instance, the 10-year average returns for the *Business Week* group have shown some movement up and down (depending upon the severity of the recessions included in a particular 10-year period and other factors), but the overall pattern is fairly stable, ranging approximately between 12.0% and 13.6%.

Q. What have you concluded concerning the cost of equity to industrials and other unregulated firms?

A. Considering the full spectrum of information concerning returns earned in the unregulated sectors over the course of the business cycle, I have concluded that the average current and near-future opportunity cost of equity capital to a typical unregulated firm is in the neighborhood of 12.5% to 14.5%.

Q. How does your conclusion compare with the observed results?

A. My estimated range includes the 10-year average of 13.6% earned by the *Business Week* group during 1988-97, bracketed by the 12.5% and 14.5% returns earned during the recent five-year periods of 1991-1995 and 1992-1996, respectively. My estimated range is somewhat lower than the most recent five-year average of 15.5% for the period 1993-1997. This is appropriate, since these most recent returns are above the long-term average and do not reflect the full impact of the low parts of the business cycle.

My estimated range is also lower than the five-year average of 14.6% earned by the "All Manufacturing" group during 1993-97.. However, it is higher than the 9.6% and 11.7% average returns earned during the five-year periods1991-1995 and 1992-1996, respectively. It is also slightly higher than the 12.2% average returns earned by this group in the 10-year period 1988-1197. This is appropriate, since until recently the returns earned by the manufacturers were well below the normal levels, due to the lingering effects of the recession, increased foreign competition, and other factors.

While my estimate is comparable to the achieved returns of the *Business Week* group and slightly higher than the achieved returns for the "All Manufacturers" group during the past 10 years, it is substantially less than the earnings of the narrower S&P 400

industrials.

My approach to the comparable earnings method relies on the principle that over time and across a wide spectrum of firms, competitive forces will move achieved returns toward the average cost of equity. A range of 12.5% to 14.5% is consistent with the normal return earned by the average unregulated firm over the full course of the business cycle. Of course, it is lower than the returns earned by the most successful firms in the country, as well as those earned by some firms that dominate their field and thereby enjoy the benefits of a substantial degree of market power. It is higher than the returns earned by those companies that have not earned their cost of equity for extended periods, including the manufacturing firms which have been adversely affected by increased competition and changes in the economy.

Q. How does a telephone carrier's risk compare to the risk of a typical unregulated firm?

A. Historically, the equity risk of the average telephone carrier has been somewhat lower than that of the average unregulated firm. Prior to the development of significant competition, telephone carriers and most other public utilities face relatively minimal risks from unpredictable changes in the business cycle and other forces that cause industry demand to fluctuate. Now telephone carriers are facing increasing levels of competition, especially for their higher margin business customers, and their "recession proof" earnings can be eroded even during periods of the greatest prosperity.

Furthermore, since passage of the 1996 Telecommunications Act, there is now considerable uncertainty concerning how quickly new technologies will replace the installed ones, possibly rendering much current plant obsolete. In short, while local telecoms once enjoyed a level of operating risk somewhat below that of the typical industrial firm, the competitive threats to the telecoms' formerly assured customer base have seriously reduced this advantage.

Q. Are small telecoms like Midvale exposed to greater risks than the average telecom?

A. Yes. Telecommunications is a capital-intensive industry and requires continual infusions of new capital to permit network growth and modernizations and to provide new, state-of-the-art services. Small, closely held firms like Midvale must obtain the equity portion of new investment solely from profits, and the debt portion from loans that may carry above-average interest rates. For reasons discussed in my testimony, these firms are increasingly threatened by competition from larger and better financed firms. As competition grows, small LECs face a profits squeeze that threatens their ability to maintain a suitable level of new investment at a reasonable cost. This clearly makes such firms riskier than the avergae telecom.

Q. You have previously described your analysis of the historical returns on equity of industrial firms. Would you now please explain your parallel study of historical returns achieved by telephone carriers?

A. Yes. Schedule 8 of my exhibit displays the returns on equity earned by the RBOCs and the group of other phone companies mentioned above, for the period 1990 to 1997. As shown, the RBOCs averaged 24.1% for the five-year period 1993-1997, and 22.4% from 1992 to 1996. The group of 10 other telephone companies averaged 16.0% for the five-year period 1993-1997, and 14.3% from 1992 to 1996.

Q. What is your conclusion concerning the cost of equity based upon the comparable earnings method?

A. On balance, I believe the long-run cost of equity to a small LEC with Midvale's level of risk is in the range of 12.0% to 14.0%. This conclusion is derived from my estimate of the cost of equity to unregulated firms, which is approximately 12.5% to 14.5%, adjusting downward for differences in risk that are now relatively minor.

Q. You have derived different estimates of the Company's cost of equity by using a variety of different approaches. Is this inconsistent?

A. No. It is not inconsistent, because I have derived these estimates by methods that are theoretically and practically distinct. It would be unrealistic to expect identical results from all these different approaches, considering the differences between them. Nevertheless, the independent application of the three methods has resulted in reasonably similar conclusions: 10.9% to 12.25% from the DCF method, 12.5% to 14.5% from the risk premium approach, and 12.0% to 14.0% from the comparable earnings approach.

Q. What is your best estimate of the appropriate cost of equity to be used in this proceeding?

A. I would not recommend to the Commission that it establish a cost of equity that is at either extreme of my estimated cost ranges. Instead, I recommend that the Commission concentrate on the central area of my estimates, while giving at least some weight to each of the various methods. My "best estimate" of Midvale's cost of equity is 13.0%.

Long Term Debt

Regional Bell Operating Companies

	Ameritech	Bell Atlantic	BellSouth	SBC	US West	Average
1990	39.6	47.8	38.1	39.0	NA	41.1
1991	38.0	50.4	37.1	39.0	NA	41.1
1992	39.6	48.5	34.8	38.1	NA	40.3
1993	34.3	46.7	35.4	41.8	61.2	43.9
1994	42.3	52.5	34.1	41.2	58.7	45.8
1995	39.2	48.4	40.1	47.6	59.1	46.9
1996	36.8	44.1	37.9	44.7	57.0	44.1
1997	35.9	50.5	31.8	52.4	53.3	44.8
1998	33.9	57.8	29.8	49.4	92.0	52.6
1990-92	39.1	48.9	36.7	38.7	NA	40.8
1991-93	37.3	48.5	35.8	39.6	61.2	44.5
1992-94	38.7	49.2	34.8	40.4	60.0	44.6
1993-95	38.6	49.2	36.5	43.5	59.7	45.5
1994-96	39.4	48.3	37.4	44.5	58.3	45.6
1995-97	37.3	47.7	36.6	48.2	56.5	45.3
1996-98	35.5	50.8	33.2	48.8	67.4	47.2
1990-94	38.8	49.2	35.9	39.8	60.0	44.7
1991-95	38.7	49.3	36.3	41.5	59.7	45.1
1992-96	38.4	48.0	36.5	42.7	59.0	44.9
1993-97	37.7	48.4	35.9	45.5	57.9	45.1
1994-98	37.6	50.7	34.7	47.1	64.0	46.8

Long Term Debt

Other Telecommunication Providers

	AT&T	ALLTEL	CTE	Cincinnati Bell	GTE	Frontier	Aliant	Sprint	TDS	MCI/World Com	Average
1990	33.9	46.8	45.1	40.6	53.4	43.5	33.2	50.5	34.5	67.0	44.9
1991	29.1	47.6	44.3	41.0	37.8	50.2	30.3	46.7	32.2	57.2	41.6
1992	26.1	43.7	50.4	35.8	39.1	45.8	27.5	48.2	27.8	47.4	39.2
1993	31.3	50.5	47.3	50.4	39.7	42.2	18.9	47.1	25.6	24.5	37.8
1994	32.9	53.1	44.4	48.9	32.1	40.6	18.0	44.2	23.1	30.1	36.7
1995	33.2	47.6	41.2	44.7	35.0	41.1	30.8	37.1	29.3	51.0	39.1
1996	23.9	45.4	37.8	30.6	64.3	39.0	26.7	24.1	32.3	27.0	35.1
1997	21.2	45.8	61.7	31.7	64.3	48.7	23.1	27.1	33.0	34.3	39.1
1998	15.2	51.6	62.6	72.1	62.4	48.7	25.2	32.2	45.0	34.3	44.9
1990-92	29.7	46.0	46.6	39.1	43.4	46.5	30.3	48.5	31.5	57.2	41.9
1991-93	28.8	47.3	47.3	42.4	38.9	46.1	25.6	47.3	28.5	43.0	39.5
1992-94	30.1	49.1	47.4	45.0	37.0	42.9	21.5	46.5	25.5	34.0	37.9
1993-95	32.5	50.4	44.3	48.0	35.6	41.3	22.6	42.8	26.0	35.2	37.9
1994-96	30.0	48.7	41.1	41.4	43.8	40.2	25.2	35.1	28.2	36.0	37.0
1995-97	26.1	46.3	46.9	35.7	54.5	42.9	26.9	29.4	31.5	37.4	37.8
1996-98	20.1	47.6	54.0	44.8	63.7	45.5	25.0	27.8	36.8	31.9	39.7
1990-94	30.7	48.3	46.3	43.3	40.4	44.5	25.6	47.3	28.6	45.2	40.0
1991-95	30.5	48.5	45.5	44.2	36.7	44.0	25.1	44.7	27.6	42.0	38.9
1992-96	29.5	48.1	44.2	42.1	42.0	41.7	24.4	40.1	27.6	36.0	37.6
1993-97	28.5	48.5	46.5	41.3	47.1	42.3	23.5	35.9	28.7	33.4	37.6
1994-98	25.3	48.7	49.5	45.6	51.6	43.6	24.8	32.9	32.5	35.3	39.0

Moody's Corporate Bond Yields

	Aaa	Baa
1976	8.43	9.75
1977	8.02	8.97
1978	8.73	9.49
1979	9.63	10.69
1980	11.94	13.67
1981	14.17	16.04
1982	13.79	16.11
1983	12.04	13.55
1984	12.71	14.19
1985	11.37	12.72
1986	9.02	10.39
1987	9.38	10.58
1988	9.71	10.83
1989	9.26	10.18
1990	9.32	10.36
1991	8.77	9.80
1992	8.14	8.98
1993	7.22	7.93
1994	7.97	8.63
1995	7.59	8.20
1996	7.37	8.05
1997	7.27	7.87
1998	6.53	7.22
Jan-96	6.80	7.47
Feb-96	6.99	7.63
Mar-96	7.35	8.03
Apr-96	7.50	8.19
May-96	7.62	8.30
Jun-96	7.71	8.40
Jul-96	7.65	8.35
Aug-96	7.46	8.18
Sep-96	7.66	8.35
Oct-96	7.39	8.07
Nov-96	7.10	7.79
Dec-96	7.20	7.89
Jan-97	7.42	8.09
Feb-97	7.31	7.94
Mar-97	7.55	8.18
Apr-97	7.73	8.34
May-97	7.58	8.20
Jun-97	7.41	8.02
Jul-97	17.14	7.75
Aug-97	7.22	7.82
Sep-97	7.15	7.7
Oct-97	7	7.57
Nov-97	6.87	7.42

Moody's Corporate Bond Yields

	Aaa	Baa
Dec-97	6.76	7.32
Jan-98	6.61	7.19
Feb-98	6.67	7.25
Mar-98	6.72	7.32
Apr-98	6.69	7.33
May-98	6.69	7.3
Jun-98	6.53	7.13
Jul-98	6.55	7.15
Aug-98	6.52	7.14
Sep-98	6.4	7.09
Oct-98	6.37	7.18
Nov-98	6.41	7.34
Dec-98	6.22	7.23

Dividend Yield

Regional Bell Operating Companies

	Ameritech	Bell Atlantic	BellSouth	SBC	US West	Average
1990	5.3%	4.9%	4.9%	4.8%	NA	5.0%
1991	5.5%	5.1%	5.5%	4.9%	NA	5.2%
1992	5.5%	5.5%	5.6%	4.4%	NA	5.2%
1993	4.6%	4.5%	4.8%	3.3%	NA	4.3%
1994	4.9%	5.1%	4.8%	3.8%	NA	4.7%
1995	4.1%	4.8%	4.0%	3.3%	5.6%	4.3%
1996	3.7%	4.0%	3.5%	3.2%	6.6%	4.2%
1997	3.3%	4.0%	3.0%	2.8%	5.5%	3.7%
1998	2.3%	3.0%	1.9%	2.1%	3.9%	2.6%
1990-92	5.4%	5.2%	5.3%	4.7%	NA	5.1%
1991-93	5.2%	5.0%	5.3%	4.2%	NA	4.9%
1992-94	5.0%	5.0%	5.1%	3.9%	NA	4.7%
1993-95	4.5%	4.8%	4.5%	3.5%	5.6%	4.6%
1994-96	4.2%	4.6%	4.1%	3.4%	6.1%	4.5%
1995-97	3.7%	4.3%	3.5%	3.1%	5.9%	4.1%
1996-98	3.1%	3.7%	2.8%	2.7%	5.3%	3.5%
1990-94	5.1%	5.0%	5.1%	4.3%	NA	4.9%
1991-95	4.9%	5.0%	4.9%	3.9%	5.6%	4.9%
1992-96	4.5%	4.8%	4.5%	3.6%	6.1%	4.7%
1993-97	4.1%	4.5%	4.0%	3.3%	5.9%	4.4%
1994-98	3.6%	4.2%	3.5%	3.1%	5.4%	3.9%

Dividend Yield

Other Telecommunication Providers

	AT&T	ALLTEL	CTE	Cincinnati Bell	GTE	Frontier	Aliant	Sprint	TDS	MCI/World Com	Average
1990	3.5%	4.1%	1.4%	3.3%	4.4%	5.1%	2.8%	3.0%	0.7%	0.0%	2.8%
1991	3.8%	3.8%	1.6%	3.7%	5.0%	5.2%	3.2%	3.8%	0.9%	0.0%	3.1%
1992	2.9%	3.6%	1.2%	4.4%	4.7%	5.4%	3.5%	4.2%	0.9%	0.0%	3.1%
1993	2.3%	3.0%	1.1%	3.9%	3.7%	4.9%	3.0%	3.0%	0.8%	0.0%	2.6%
1994	2.5%	3.3%	1.2%	4.5%	3.6%	5.8%	3.1%	3.0%	0.8%	0.0%	2.8%
1995	2.3%	3.6%	1.1%	3.1%	3.4%	5.0%	3.2%	3.0%	0.9%	0.0%	2.6%
1996	2.6%	3.4%	1.1%	1.7%	3.2%	4.3%	3.2%	2.5%	1.0%	0.0%	2.3%
1997	2.8%	3.1%	0.9%	1.4%	4.3%	4.1%	2.7%	2.0%	1.0%	0.0%	2.2%
1998	2.1%	2.3%	0.5%	1.5%	2.9%	3.2%	2.1%	1.4%	1.1%	0.0%	1.7%
1990-92	3.4%	3.8%	1.4%	3.8%	4.7%	5.3%	3.1%	3.7%	0.8%	0.0%	3.0%
1991-93	3.0%	3.5%	1.3%	4.0%	4.5%	5.2%	3.2%	3.7%	0.8%	0.0%	2.9%
1992-94	2.6%	3.3%	1.2%	4.3%	4.0%	5.4%	3.2%	3.4%	0.8%	0.0%	2.8%
1993-95	2.4%	3.3%	1.1%	3.8%	3.5%	5.3%	3.1%	3.0%	0.8%	0.0%	2.6%
1994-96	2.5%	3.4%	1.1%	3.1%	3.4%	5.0%	3.2%	2.8%	0.9%	0.0%	2.5%
1995-97	2.6%	3.4%	1.1%	2.1%	3.6%	4.5%	3.0%	2.5%	1.0%	0.0%	2.4%
1996-98	2.5%	2.9%	0.9%	1.6%	3.5%	3.9%	2.7%	2.0%	1.0%	0.0%	2.1%
1990-94	3.0%	3.5%	1.3%	3.9%	4.3%	5.3%	3.1%	3.4%	0.8%	0.0%	2.9%
1991-95	2.8%	3.4%	1.2%	3.9%	4.1%	5.3%	3.2%	3.4%	0.9%	0.0%	2.8%
1992-96	2.5%	3.4%	1.2%	3.5%	3.7%	5.1%	3.2%	3.2%	0.9%	0.0%	2.7%
1993-97	2.5%	3.3%	1.1%	2.9%	3.6%	4.8%	3.1%	2.7%	0.9%	0.0%	2.5%
1994-98	2.4%	3.1%	1.0%	2.4%	3.5%	4.5%	2.9%	2.4%	1.0%	0.0%	2.3%

Dividend Growth

Regional Bell Operating Companies

	Ameritech	Bell Atlantic	BellSouth	SBC	US West	Average
1990	$0.81	$1.18	$0.67	$0.68	NA	$0.84
1991	$0.86	$1.24	$0.69	$0.70	NA	$0.87
1992	$0.89	$1.29	$0.69	$0.72	NA	$0.90
1993	$0.93	$1.34	$0.69	$0.75	NA	$0.93
1994	$0.97	$1.37	$0.69	$0.78	NA	$0.95
1995	$1.01	$1.40	$0.70	$0.81	$2.14	$1.21
1996	$1.08	$1.43	$0.72	$0.85	$2.14	$1.24
1997	$1.15	$1.49	$0.72	$0.89	$2.14	$1.28
1998	$1.20	$1.52	$0.72	$0.94	$2.14	$1.30
1990-92	4.8%	4.6%	1.5%	2.9%	NA	3.4%
1991-93	4.0%	4.0%	0.0%	3.5%	NA	2.9%
1992-94	4.4%	3.1%	0.0%	4.1%	NA	2.9%
1993-95	4.2%	2.2%	0.7%	3.9%	NA	2.8%
1994-96	5.5%	2.2%	2.2%	4.4%	NA	3.6%
1995-97	6.7%	3.2%	1.4%	4.8%	0.0%	3.2%
1996-98	5.4%	3.1%	0.0%	5.2%	0.0%	2.7%
1990-94	4.6%	3.8%	0.7%	3.5%	NA	3.2%
1991-95	4.1%	3.1%	0.4%	3.7%	NA	2.8%
1992-96	5.0%	2.6%	1.1%	4.2%	NA	3.2%
1993-97	5.5%	2.7%	1.1%	4.4%	NA	3.4%
1994-98	5.5%	2.6%	1.1%	4.8%	NA	3.5%

Dividend Growth

Other Telecommunication Providers

	AT&T	ALLTEL	CTE	Cincinnati Bell	GTE	Frontier	Aliant	Sprint	TDS	MCI/World Com	Average
1990	$0.88	$0.65	$0.12	$0.38	$1.52	$0.73	$0.37	$1.00	$0.28	$0.00	$0.59
1991	$0.88	$0.71	$0.13	$0.40	$1.64	$0.75	$0.40	$1.00	$0.30	$0.00	$0.62
1992	$0.88	$0.76	$0.13	$0.40	$1.76	$0.77	$0.43	$1.00	$0.32	$0.00	$0.65
1993	$0.88	$0.82	$0.14	$0.40	$1.83	$0.79	$0.49	$1.00	$0.34	$0.00	$0.67
1994	$0.88	$0.90	$0.14	$0.40	$1.88	$0.81	$0.53	$1.00	$0.36	$0.00	$0.69
1995	$0.88	$0.98	$0.15	$0.40	$1.88	$0.83	$0.57	$1.00	$0.38	$0.00	$0.71
1996	$0.88	$1.05	$0.16	$0.40	$1.88	$0.85	$0.60	$1.00	$0.40	$0.00	$0.72
1997	$0.88	$1.11	$0.16	$0.40	$1.88	$0.87	$0.66	$1.00	$0.42	$0.00	$0.74
1998	$0.88	$1.16	$0.17	$0.40	$1.88	$0.89	$0.71	$1.00	$0.44	$0.00	$0.75
1990-92	0.0%	8.1%	4.1%	2.6%	7.6%	2.7%	7.8%	0.0%	6.9%	0.0%	4.3%
1991-93	0.0%	7.5%	3.8%	0.0%	5.6%	2.6%	10.7%	0.0%	6.5%	0.0%	3.7%
1992-94	0.0%	8.8%	3.8%	0.0%	3.4%	2.6%	11.0%	0.0%	6.1%	0.0%	3.6%
1993-95	0.0%	9.3%	3.5%	0.0%	1.4%	2.5%	7.9%	0.0%	5.7%	0.0%	3.0%
1994-96	0.0%	8.0%	6.9%	0.0%	0.0%	2.4%	6.4%	0.0%	5.4%	0.0%	2.9%
1995-97	0.0%	6.4%	3.3%	0.0%	0.0%	2.4%	7.6%	0.0%	5.1%	0.0%	2.5%
1996-98	0.0%	5.1%	3.1%	0.0%	0.0%	2.3%	8.8%	0.0%	4.9%	0.0%	2.4%
1990-94	0.0%	8.5%	3.9%	1.3%	5.5%	2.6%	9.4%	0.0%	6.5%	0.0%	3.8%
1991-95	0.0%	8.4%	3.6%	0.0%	3.5%	2.6%	9.3%	0.0%	6.1%	0.0%	3.3%
1992-96	0.0%	8.4%	5.3%	0.0%	1.7%	2.5%	8.7%	0.0%	5.7%	0.0%	3.2%
1993-97	0.0%	7.9%	3.4%	0.0%	0.7%	2.4%	7.7%	0.0%	5.4%	0.0%	2.8%
1994-98	0.0%	6.6%	5.0%	0.0%	0.0%	2.4%	7.6%	0.0%	5.1%	0.0%	2.7%

Earnings Growth

Regional Bell Operating Companies

	Ameritech	Bell Atlantic	BellSouth	SBC	US West	Average
1990	$1.18	$1.69	$0.84	$0.92	NA	$1.16
1991	$1.10	$1.71	$0.78	$0.96	NA	$1.14
1992	$1.25	$1.61	$0.84	$1.08	NA	$1.20
1993	$1.39	$1.70	$0.52	$1.20	NA	$1.20
1994	$1.06	$1.60	$1.09	$1.37	$2.53	$1.53
1995	$1.81	$2.13	$0.79	$1.55	$2.52	$1.76
1996	$1.94	$1.98	$1.44	$1.73	$2.55	$1.93
1997	$2.08	$1.56	$1.65	$0.80	$2.42	$1.70
1998	$3.25	$1.88	$1.78	$2.05	$2.84	$2.36
1990-92	2.9%	-2.4%	0.0%	8.3%	NA	2.2%
1991-93	12.4%	-0.3%	-18.4%	11.8%	NA	1.4%
1992-94	-7.9%	-0.3%	13.9%	12.6%	NA	4.6%
1993-95	14.1%	11.9%	23.3%	13.7%	NA	15.7%
1994-96	35.3%	11.2%	14.9%	12.4%	0.4%	14.8%
1995-97	7.2%	-14.4%	44.5%	-28.2%	-2.0%	1.4%
1996-98	29.4%	-2.6%	11.2%	8.9%	5.5%	10.5%
1990-94	-2.6%	-1.4%	6.7%	10.5%	NA	3.3%
1991-95	13.3%	5.6%	0.3%	12.7%	NA	8.0%
1992-96	11.6%	5.3%	14.4%	12.5%	NA	11.0%
1993-97	10.6%	-2.1%	33.5%	-9.6%	NA	8.1%
1994-98	32.3%	4.1%	13.0%	10.6%	NA	15.0%

Earnings Growth

Other Telecommunication Providers

	AT&T	ALLTEL	CTE	Cincinnati Bell	GTE	Frontier	Aliant	Sprint	TDS	MCI/World Com	Average
1990	$1.67	$1.17	$0.30	$0.72	$2.26	$0.86	$0.74	$1.43	$0.86	$0.13	$1.01
1991	$0.27	$1.17	$0.36	$0.32	$1.69	$1.18	$0.83	$1.68	$0.59	$0.21	$0.83
1992	$1.91	$1.22	$0.56	$0.28	$1.95	$1.04	$0.90	$1.93	$0.91	-$0.01	$1.07
1993	$1.96	$1.39	$0.60	-$0.46	$1.03	$1.21	$1.01	$1.39	$0.67	$0.43	$0.92
1994	$2.01	$1.43	$0.84	$0.57	$2.55	$1.50	$1.03	$2.53	$1.07	-$0.47	$1.31
1995	$0.06	$1.86	$0.88	-$0.19	$2.62	$0.89	$0.84	$2.73	$1.74	$0.65	$1.21
1996	$2.31	$1.53	$0.96	$1.35	$2.89	$1.32	$1.22	$2.79	$2.08	-$5.50	$1.10
1997	$1.83	$2.70	$1.87	$1.41	$2.90	$0.33	$1.46	$2.18	-$0.19	$0.40	$1.49
1998	$1.94	$1.89	$1.63	$0.59	$2.57	$1.02	$1.67	$3.55	$1.03	-$2.02	$1.39
1990-92	6.9%	2.1%	36.6%	NM	-7.1%	10.0%	10.3%	16.2%	2.9%	NM	9.7%
1991-93	169.4%	9.0%	29.1%	NM	-21.9%	1.3%	10.3%	-9.0%	6.6%	43.1%	26.4%
1992-94	2.6%	8.3%	22.5%	42.7%	14.4%	20.1%	7.0%	14.5%	8.4%	-585.6%	-44.5%
1993-95	-82.5%	15.7%	21.1%	35.7%	59.5%	-14.2%	-8.8%	40.1%	61.2%	22.9%	15.1%
1994-96	7.2%	3.4%	6.9%	53.9%	6.5%	-6.2%	8.8%	5.0%	39.4%	-242.1%	-11.7%
1995-97	452.3%	20.5%	45.8%	NM	5.2%	-39.1%	31.8%	-10.6%	NM	21.6%	65.9%
1996-98	-8.4%	11.1%	30.3%	NM	-5.7%	-12.1%	17.0%	12.8%	NM	39.4%	10.6%
1990-94	4.7%	5.1%	29.4%	-5.7%	3.1%	14.9%	8.6%	15.3%	5.6%	NM	9.0%
1991-95	-31.3%	12.3%	25.0%	NM	11.6%	-6.8%	0.3%	12.9%	31.0%	32.6%	9.7%
1992-96	4.9%	5.8%	14.4%	48.2%	10.3%	6.1%	7.9%	9.7%	23.0%	NM	14.5%
1993-97	-1.7%	18.1%	32.9%	NM	29.5%	-27.7%	9.6%	11.9%	NM	-1.8%	8.8%
1994-98	-0.9%	7.2%	18.0%	NM	0.2%	-9.2%	12.8%	8.8%	NM	44.0%	10.1%

Book Value Growth

Regional Bell Operating Companies

	Ameritech	Bell Atlantic	BellSouth	SBC	US West	Average
1990	$7.25	$11.20	$6.04	$5.92	NA	$7.60
1991	$7.53	$9.74	$5.87	$6.07	NA	$7.30
1992	$6.41	$8.87	$6.05	$6.51	NA	$6.96
1993	$7.13	$9.30	$6.09	$5.35	NA	$6.97
1994	$5.49	$6.93	$6.48	$4.68	NA	$5.90
1995	$6.33	$7.63	$5.18	$2.89	NA	$5.51
1996	$6.99	$8.47	$5.97	$3.59	$6.81	$6.37
1997	$7.57	$8.23	$6.67	$3.60	$8.67	$6.95
1998	$8.03	$8.39	$6.79	$4.95	$1.50	$5.93
1990-92	-6.0%	-11.0%	0.1%	4.9%	NA	-3.0%
1991-93	-2.7%	-2.3%	1.9%	-6.1%	NA	-2.3%
1992-94	-7.5%	-11.6%	3.5%	-15.2%	NA	-7.7%
1993-95	-5.8%	-9.4%	-7.8%	-26.5%	NA	-12.4%
1994-96	12.8%	10.6%	-4.0%	-12.4%	NA	1.7%
1995-97	9.4%	3.9%	13.5%	11.6%	NA	9.6%
1996-98	7.2%	-0.5%	6.6%	17.4%	-53.1%	-4.5%
1990-94	-6.7%	-11.3%	1.8%	-5.7%	NA	-5.5%
1991-95	-4.2%	-5.9%	-3.1%	-16.9%	NA	-7.5%
1992-96	2.2%	-1.1%	-0.3%	-13.8%	NA	-3.3%
1993-97	1.5%	-3.0%	2.3%	-9.4%	NA	-2.2%
1994-98	10.0%	4.9%	1.2%	1.4%	NA	4.4%

Book Value Growth

Other Telecommunication Providers

	AT&T	ALLTEL	CTE	Cincinnati Bell	GTE	Frontier	Aliant	Sprint	TDS	MCI/World Com	Average
1990	$8.28	$4.60	$1.64	$2.73	$11.52	$6.73	$5.01	$10.30	$14.17	-$0.99	$6.40
1991	$7.93	$4.58	$1.94	$2.74	$9.75	$6.53	$5.42	$11.54	$18.42	-$1.39	$6.75
1992	$9.03	$4.86	$1.52	$2.78	$8.30	$6.90	$5.80	$12.75	$21.27	-$0.56	$7.27
1993	$6.39	$5.53	$1.88	$2.48	$7.75	$7.10	$5.58	$9.26	$24.15	-$0.51	$6.96
1994	$5.38	$5.96	$1.73	$2.69	$8.63	$9.03	$6.07	$10.96	$26.87	-$0.77	$7.66
1995	$3.13	$7.64	$2.95	$2.29	$4.21	$2.13	$3.70	$13.30	$29.03	NM	$7.60
1996	$4.48	$8.88	$3.60	$3.17	$5.01	$3.06	$4.31	$19.81	$30.27	NM	$9.18
1997	$5.35	$8.87	NM	$2.83	$5.02	$5.79	$5.10	$21.04	$29.50	NM	$10.44
1998	$5.84	$5.95	NM	$0.28	$5.81	$3.00	$3.97	NA	$33.61	NM	$8.35
1990-92	4.4%	2.8%	-3.7%	0.9%	-15.1%	1.3%	7.6%	11.3%	22.5%	24.8%	5.7%
1991-93	-10.2%	9.9%	-1.6%	-4.9%	-10.8%	4.3%	1.5%	-10.4%	14.5%	39.4%	3.2%
1992-94	-22.8%	10.7%	6.7%	-1.6%	2.0%	14.4%	2.3%	-7.3%	12.4%	-17.3%	-0.1%
1993-95	-30.0%	17.5%	25.3%	-3.9%	-26.3%	-45.2%	-18.6%	19.8%	9.6%	NM	-5.7%
1994-96	-8.7%	22.1%	44.3%	8.6%	-23.8%	-41.8%	-15.7%	34.4%	6.1%	NM	2.8%
1995-97	30.7%	7.7%	NM	11.2%	9.2%	64.9%	17.4%	25.8%	0.8%	NM	21.0%
1996-98	14.2%	-18.1%	NM	-70.3%	7.7%	-1.0%	-4.0%	NM	5.4%	NM	-9.5%
1990-94	-10.2%	6.7%	1.3%	-0.4%	-7.0%	7.6%	4.9%	1.6%	17.3%	6.1%	2.8%
1991-95	-20.7%	13.6%	11.0%	-4.4%	-18.9%	-24.4%	-9.1%	3.6%	12.0%	NM	-4.1%
1992-96	-16.1%	16.3%	24.1%	3.3%	-11.9%	-18.4%	-7.2%	11.6%	9.2%	NM	1.2%
1993-97	-4.3%	12.5%	NM	3.4%	-10.3%	-5.0%	-2.2%	22.8%	5.1%	NM	2.7%
1994-98	2.1%	0.0%	NM	-43.2%	-9.4%	-24.1%	-10.1%	NM	5.8%	NM	-11.3%

Access Lines

Regional Bell Operating Companies

	Ameritech	Bell Atlantic	BellSouth	SBC	US West	Average
1988	15,506,716	16,987,902	16,472,345	11,002,755	12,081,921	14,410,328
1989	16,050,334	17,427,773	17,005,219	11,444,061	12,306,536	14,846,785
1990	16,530,254	17,519,897	17,721,561	11,817,930	13,775,772	15,473,083
1991	17,145,539	18,450,696	18,873,508	12,129,433	14,561,420	16,232,119
1992	17,548,344	18,523,434	19,209,116	12,603,033	14,880,130	16,552,811
1993	19,395,216	19,081,236	20,151,725	13,846,767	16,472,699	17,789,529
1994	20,927,303	19,687,840	21,251,809	15,518,352	16,949,326	18,866,926
1995	21,889,862	20,705,444	22,595,391	16,343,358	17,671,800	19,841,171
1996	22,998,065	22,017,467	24,493,047	17,601,589	19,385,649	21,299,163
1997	23,817,209	44,034,427	25,732,881	18,701,085	25,294,165	27,515,953
1998	25,449,161	48,978,374	28,405,719	20,342,905	23,355,703	29,306,372
1991-93	6.36%	1.69%	3.33%	6.84%	6.36%	4.92%
1992-94	9.20%	3.10%	5.18%	10.96%	6.73%	7.03%
1993-95	6.24%	4.17%	5.89%	8.64%	3.58%	5.70%
1994-96	4.83%	5.75%	7.36%	6.50%	6.95%	6.28%
1995-97	4.31%	45.83%	6.72%	6.97%	19.64%	16.69%
1996-98	5.19%	49.15%	7.69%	7.51%	9.76%	15.86%
1989-93	4.85%	2.29%	4.34%	4.88%	7.56%	4.78%
1990-94	6.07%	2.96%	4.65%	7.05%	5.32%	5.21%
1991-95	6.30%	2.92%	4.60%	7.74%	4.96%	5.30%
1992-96	7.00%	4.41%	6.26%	8.71%	6.84%	6.64%
1993-97	5.27%	23.25%	6.30%	7.80%	11.32%	10.79%
1994-98	3.69%	192.34%	2.26%	7.45%	18.56%	44.86%

Access Lines

Selected Other Telecommunications Carriers

	Cincinnati Bell	GTE	Aliant	Frontier	Sprint	Average
1988	793,400	13,102,737	216,414	417,438	4,001,433	3,706,284
1989	818,469	13,747,905	224,978	449,971	4,247,507	3,897,766
1990	845,938	13,968,461	233,952	478,414	4,754,974	4,056,348
1991	851,939	14,485,786	238,995	471,037	5,111,628	4,231,877
1992	835,800	15,105,141	248,479	485,261	5,464,326	4,427,801
1993	860,611	15,859,221	260,898	495,493	5,756,063	4,646,457
1994	899,233	16,488,011	279,633	504,546	6,194,806	4,873,246
1995	950,093	17,354,019	294,670	527,398	6,522,069	5,129,650
1996	995,491	18,406,333	316,415	534,908	6,966,670	5,443,963
1997	1,069,576	19,805,237	344,128	570,072	7,650,871	5,887,977
1998	1,119,285	21,251,644	367,335	910,753	8,491,438	6,428,091
1991-93	0.51%	4.63%	4.48%	2.56%	6.12%	3.66%
1992-94	3.73%	4.48%	6.08%	1.97%	6.47%	4.55%
1993-95	5.07%	4.61%	6.28%	3.17%	6.45%	5.11%
1994-96	5.22%	5.66%	6.37%	2.96%	6.05%	5.25%
1995-97	6.10%	6.83%	8.07%	3.97%	8.31%	6.65%
1996-98	6.04%	7.45%	7.75%	30.49%	10.40%	12.42%
1989-93	1.26%	3.64%	3.77%	2.44%	7.89%	3.80%
1990-94	1.54%	4.23%	4.56%	1.34%	6.84%	3.70%
1991-95	2.76%	4.62%	5.37%	2.87%	6.28%	4.38%
1992-96	4.47%	5.07%	6.23%	2.47%	6.26%	4.90%
1993-97	5.58%	5.71%	7.17%	3.57%	7.37%	5.88%
1994-98	5.63%	6.55%	7.06%	15.91%	8.20%	8.67%

Access Minutes

Regional Bell Operating Companies

	Ameritech	Bell Atlantic	BellSouth	SBC	US West	Average
1988	43,683,196	24,860,471	47,824,048	31,412,395	33,494,724	36,254,967
1989	43,165,726	28,223,300	52,752,316	34,295,205	36,206,426	38,928,595
1990	47,518,605	57,124,787	57,022,770	36,211,005	38,839,855	47,343,404
1991	50,180,951	58,674,652	60,490,645	38,926,806	41,695,256	49,993,662
1992	50,369,643	60,330,109	65,494,399	40,278,920	44,353,500	52,165,314
1993	53,528,374	65,256,014	68,605,714	42,574,592	47,651,286	55,523,196
1994	55,153,438	69,726,960	74,666,114	46,320,538	51,895,200	59,552,450
1995	60,662,630	75,971,445	80,581,493	50,888,650	57,513,469	65,123,537
1996	67,102,673	83,233,558	88,860,606	55,112,455	62,427,252	71,347,309
1997	75,664,124	154,120,794	97,106,591	59,392,090	67,572,284	90,771,177
1998	82,526,878	164,714,569	103,074,709	62,852,532	71,406,744	96,915,086
1991-93	3.28%	5.46%	6.50%	4.58%	6.90%	5.34%
1992-94	4.64%	7.51%	6.77%	7.24%	8.17%	6.87%
1993-95	6.46%	7.90%	8.38%	9.33%	9.86%	8.38%
1994-96	10.30%	9.26%	9.09%	9.08%	9.68%	9.48%
1995-97	11.68%	42.43%	9.78%	8.03%	8.39%	16.06%
1996-98	10.90%	40.67%	7.70%	6.79%	6.95%	14.60%
1989-93	5.53%	23.31%	6.79%	5.56%	7.11%	9.66%
1990-94	3.80%	5.11%	6.97%	6.35%	7.51%	5.95%
1991-95	4.86%	6.67%	7.43%	6.93%	8.37%	6.85%
1992-96	7.43%	8.38%	7.93%	8.15%	8.92%	8.16%
1993-97	9.04%	23.97%	9.07%	8.68%	9.12%	11.98%
1994-98	10.60%	23.97%	8.39%	7.93%	8.31%	11.84%

Access Minutes

Selected Other Telecommunications Carriers

	Cincinnati Bell	GTE	Aliant	Frontier	Sprint	Average
1988	2,077,117	13,823,618	274,170	1,192,543	7,834,541	5,040,398
1989	1,134,756	15,847,756	303,140	1,300,377	7,703,500	5,257,906
1990	1,227,165	39,711,050	337,166	1,393,095	11,554,370	10,844,569
1991	1,287,563	44,419,578	691,160	1,460,194	12,648,406	12,101,380
1992	2,630,168	47,788,105	726,605	1,527,553	15,099,211	13,554,328
1993	2,799,776	53,373,945	798,667	1,591,319	18,403,954	15,393,532
1994	3,034,158	56,874,798	851,429	1,690,099	22,746,529	17,039,403
1995	3,263,783	61,813,089	894,182	1,780,571	24,719,929	18,494,311
1996	3,536,867	67,336,882	958,697	1,889,198	27,721,990	20,288,727
1997	3,810,356	72,665,235	1,010,758	1,965,831	29,420,809	21,774,598
1998	4,062,895	83,019,604	1,073,584	2,014,057	31,594,337	24,352,895
1991-93	47.46%	9.62%	7.50%	4.39%	20.63%	17.92%
1992-94	7.41%	9.09%	8.25%	5.19%	22.74%	10.53%
1993-95	7.97%	7.62%	5.81%	5.78%	15.90%	8.61%
1994-96	7.97%	8.81%	6.11%	5.73%	10.40%	7.80%
1995-97	8.05%	8.42%	6.32%	5.07%	9.09%	7.39%
1996-98	7.18%	11.04%	5.82%	3.25%	6.76%	6.81%
1989-93	25.33%	35.47%	27.40%	5.18%	24.32%	23.54%
1990-94	25.40%	9.40%	26.06%	4.95%	18.45%	16.85%
1991-95	26.18%	8.61%	6.65%	5.08%	18.24%	12.95%
1992-96	7.69%	8.95%	7.18%	5.46%	16.40%	9.13%
1993-97	8.01%	8.02%	6.06%	5.43%	12.44%	7.99%
1994-98	7.57%	9.92%	5.97%	4.48%	8.56%	7.30%

Risk Premia

Large Company Stock

	Returns	30 Year Average	T-Bills	30 Year Average	Risk Premium	30 Year Average
1934	-1.4%		0.28%		-1.7%	
1935	47.7%		0.17%		47.5%	
1936	33.9%		0.17%		33.8%	
1937	-35.0%		0.28%		-35.3%	
1938	31.1%		0.07%		31.1%	
1939	-0.4%		0.05%		-0.5%	
1940	-9.8%		0.04%		-9.8%	
1941	-11.6%		0.13%		-11.7%	
1942	20.3%		0.34%		20.0%	
1943	25.9%		0.38%		25.5%	
1944	19.8%		0.38%		19.4%	
1945	36.4%		0.38%		36.1%	
1946	-8.1%		0.38%		-8.5%	
1947	5.7%		0.60%		5.1%	
1948	5.5%		1.05%		4.5%	
1949	18.8%		1.12%		17.7%	
1950	31.7%		1.20%		30.5%	
1951	24.0%		1.52%		22.5%	
1952	18.4%		1.72%		16.7%	
1953	-1.0%		1.89%		-2.9%	
1954	52.6%		0.94%		51.7%	
1955	31.6%		1.72%		29.8%	
1956	6.6%		2.62%		3.9%	
1957	-10.8%		3.22%		-14.0%	
1958	43.4%		1.77%		41.6%	
1959	12.0%		3.39%		8.6%	
1960	0.5%		2.87%		-2.4%	
1961	26.9%		2.35%		24.5%	
1962	-8.7%		2.77%		-11.5%	
1963	22.8%	14.3%	3.16%	1.2%	19.6%	13.1%
1964	16.5%	14.9%	3.55%	1.3%	12.9%	13.5%
1965	12.5%	13.7%	3.95%	1.5%	8.5%	12.2%
1966	-10.1%	12.2%	4.86%	1.6%	-14.9%	10.6%
1967	24.0%	14.2%	4.29%	1.8%	19.7%	12.5%
1968	11.1%	13.5%	5.34%	1.9%	5.7%	11.6%
1969	-8.5%	13.3%	6.67%	2.2%	-15.2%	11.1%

Risk Premia

Large Company Stock

	Returns	30 Year Average	T-Bills	30 Year Average	Risk Premium	30 Year Average
1970	4.0%	13.7%	6.39%	2.4%	-2.4%	11.4%
1971	14.3%	14.6%	4.33%	2.5%	10.0%	12.1%
1972	19.0%	14.6%	4.06%	2.6%	14.9%	11.9%
1973	-14.7%	13.2%	7.04%	2.9%	-21.7%	10.3%
1974	-26.5%	11.7%	7.85%	3.1%	-34.3%	8.6%
1975	37.2%	11.7%	5.79%	3.3%	31.4%	8.4%
1976	23.8%	12.7%	4.98%	3.4%	18.9%	9.3%
1977	-7.2%	12.3%	5.26%	3.6%	-12.4%	8.7%
1978	6.6%	12.4%	7.18%	3.8%	-0.6%	8.6%
1979	18.4%	12.3%	10.05%	4.1%	8.4%	8.3%
1980	32.4%	12.4%	11.39%	4.4%	21.0%	7.9%
1981	-4.9%	11.4%	14.04%	4.8%	-19.0%	6.6%
1982	21.4%	11.5%	10.60%	5.1%	10.8%	6.4%
1983	22.5%	12.3%	8.62%	5.4%	13.9%	6.9%
1984	6.3%	10.7%	9.54%	5.7%	-3.3%	5.1%
1985	32.2%	10.8%	7.47%	5.8%	24.7%	4.9%
1986	18.5%	11.2%	5.97%	6.0%	12.5%	5.2%
1987	5.2%	11.7%	5.78%	6.0%	-0.6%	5.6%
1988	16.8%	10.8%	6.67%	6.2%	10.1%	4.6%
1989	31.5%	11.5%	8.11%	6.4%	23.4%	5.1%
1990	-3.2%	11.3%	7.50%	6.5%	-10.7%	4.8%
1991	30.6%	11.5%	5.38%	6.6%	25.2%	4.8%
1992	7.7%	12.0%	3.43%	6.6%	4.2%	5.4%
1993	10.0%	11.6%	3.00%	6.6%	7.0%	4.9%
1994	1.3%	11.1%	4.25%	6.7%	-2.9%	4.4%
1995	37.4%	11.9%	5.49%	6.7%	31.9%	5.2%
1996	23.1%	13.0%	5.01%	6.7%	18.1%	6.3%
1997	33.4%	13.3%	5.06%	6.7%	28.3%	6.6%

Risk Premia

Large Company Stock

		Returns	30 Year Average	T-Bills	30 Year Average	Risk Premium	30 Year Average
5 Year Average	1976-80	14.8%	12.4%	7.8%	3.9%	7.0%	8.6%
	1977-81	9.1%	12.2%	9.6%	4.2%	-0.5%	8.0%
	1978-82	14.8%	12.0%	10.7%	4.5%	4.1%	7.5%
	1979-83	18.0%	12.0%	10.9%	4.8%	7.0%	7.2%
	1980-84	15.5%	11.7%	10.8%	5.1%	4.7%	6.6%
	1981-85	15.5%	11.3%	10.1%	5.4%	5.4%	6.0%
	1982-86	20.2%	11.3%	8.4%	5.6%	11.7%	5.7%
	1983-87	16.9%	11.3%	7.5%	5.8%	9.5%	5.6%
	1984-88	15.8%	11.0%	7.1%	5.9%	8.7%	5.1%
	1985-89	20.8%	11.2%	6.8%	6.1%	14.0%	5.1%
	1986-90	13.8%	11.3%	6.8%	6.2%	7.0%	5.1%
	1987-91	16.2%	11.4%	6.7%	6.4%	9.5%	5.0%
	1988-92	16.7%	11.4%	6.2%	6.5%	10.5%	4.9%
	1989-93	15.3%	11.6%	5.5%	6.6%	9.8%	5.0%
	1990-94	9.3%	11.5%	4.7%	6.6%	4.6%	4.9%
	1991-95	17.4%	11.6%	4.3%	6.7%	13.1%	5.0%
	1992-96	15.9%	11.9%	4.2%	6.7%	11.7%	5.2%
	1993-97	21.0%	12.2%	4.6%	6.7%	16.5%	5.5%

Returns on Average Equity

Standard & Poor's Industrials [1]

Year Ended	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
1972	11.2%	11.4%	11.6%	12.0%
1973	12.6%	13.2%	13.8%	14.6%
1974	14.7%	15.0%	15.3%	14.8%
1975	13.8%	12.7%	12.0%	12.3%
1976	13.3%	13.9%	14.0%	14.5%
1977	14.4%	14.5%	14.5%	14.6%
1978	14.3%	14.4%	14.6%	15.3%
1979	16.2%	16.8%	17.3%	17.2%
1980	17.4%	16.5%	15.8%	15.6%
1981	14.8%	15.0%	14.9%	14.9%
1982	14.0%	13.0%	12.2%	11.3%
1983	10.9%	10.8%	11.3%	12.2%
1984	13.2%	14.0%	14.0%	14.6%
1985	14.0%	12.8%	12.0%	12.2%
1986	11.8%	12.0%	11.9%	11.5%
1987	11.9%	12.4%	13.6%	15.6%
1988	16.6%	17.4%	17.7%	19.0%
1989	19.3%	18.7%	18.0%	18.4%
1990	17.0%	16.4%	15.8%	16.3%
1991	15.6%	14.0%	12.4%	10.9%
1992	10.8%	11.2%	11.7%	11.7%
1993	13.3%	12.1%	12.6%	13.9%
1994	15.9%	18.1%	19.5%	21.4%
1995	24.0%	24.6%	24.0%	21.8%
1996	21.7%	21.1%	21.4%	22.6%
1997	24.9%	24.2%	23.2%	22.0%
1982-91	14.4%	14.1%	13.9%	14.2%
1983-92	14.1%	14.0%	13.9%	14.3%
1984-93	14.3%	14.1%	14.0%	14.4%
1985-94	14.6%	14.5%	14.5%	15.1%
1986-95	15.6%	15.7%	15.7%	16.1%
1987-96	16.6%	16.6%	16.7%	17.2%
1988-97	17.9%	17.8%	17.6%	17.8%
1993-89	15.2%	14.5%	14.1%	14.3%
1990-94	14.5%	14.4%	14.4%	14.9%
1991-95	15.9%	16.0%	16.0%	16.0%
1992-96	17.1%	17.4%	17.9%	18.3%
1993-97	20.0%	20.0%	20.1%	20.4%

1 Estimated on basis of indictated increase in retained earnings

Return on Common Equity

FTC All Manufacturing Corporations

Year Ended	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
1975	13.6%	12.4%	11.6%	11.6%
1976	12.7%	13.6%	14.0%	14.0%
1977	13.9%	14.0%	13.9%	14.2%
1978	14.0%	14.2%	14.6%	15.0%
1979	15.8%	16.2%	16.6%	16.5%
1980	16.4%	15.3%	14.3%	13.9%
1981	13.4%	13.9%	14.2%	13.7%
1982	12.8%	11.5%	10.5%	9.3%
1983	8.7%	8.8%	9.3%	10.5%
1984	11.7%	12.6%	12.7%	12.5%
1985	12.0%	11.1%	10.6%	10.2%
1986	9.8%	10.1%	9.7%	9.5%
1987	10.1%	10.6%	12.1%	12.9%
1988	14.0%	14.8%	15.1%	16.1%
1989	15.9%	15.2%	14.6%	13.5%
1990	12.4%	12.1%	11.6%	10.6%
1991	9.6%	8.4%	7.3%	6.3%
1992	0.2%	0.9%	1.9%	2.0%
1993	7.5%	7.0%	6.8%	8.0%
1994	10.2%	12.0%	13.8%	15.7%
1995	16.8%	17.2%	17.0%	16.0%
1996	15.6%	15.4%	16.0%	16.7%
1997	17.0%	17.2%	16.8%	16.6%

Return on Common Equity

FTC All Manufacturing Corporations

	Year Ended	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
20 Year Average	1975-94	11.7%	11.7%	11.7%	11.8%
	1976-95	11.9%	12.0%	12.0%	12.0%
	1977-96	12.0%	12.1%	12.1%	12.1%
	1978-97	12.2%	12.2%	12.3%	12.3%
10 Year Average	1984-93	10.3%	10.3%	10.2%	10.1%
	1985-94	10.2%	10.2%	10.3%	10.5%
	1986-95	10.6%	10.8%	11.0%	11.1%
	1987-96	11.2%	11.4%	11.6%	11.8%
	1988-97	11.9%	12.0%	12.1%	12.2%
5 Year Average	1989-93	9.1%	8.7%	8.4%	8.1%
	1990-94	8.0%	8.1%	8.3%	8.5%
	1991-95	8.8%	9.1%	9.3%	9.6%
	1992-96	10.0%	10.5%	11.1%	11.7%
	1993-97	13.4%	13.8%	14.1%	14.6%

Return on Common Equity

Business Week All Industry Composite

Year Ended	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
1975	13.4%	12.6%	12.0%	11.8%
1976	13.0%	13.2%	13.7%	14.0%
1977	13.6%	14.1%	14.1%	14.1%
1978	14.1%	14.3%	14.7%	15.1%
1979	16.0%	16.3%	16.5%	16.6%
1980	17.0%	15.9%	15.4%	15.3%
1981	14.8%	15.2%	15.2%	14.0%
1982	13.5%	12.5%	11.9%	11.0%
1983	10.7%	10.6%	10.8%	11.5%
1984	12.4%	13.3%	13.5%	13.2%
1985	13.1%	12.2%	11.8%	11.2%
1986	11.0%	10.6%	10.9%	10.4%
1987	11.0%	10.4%	10.9%	11.6%
1988	12.2%	14.1%	14.6%	14.8%
1989	15.5%	15.8%	14.5%	13.2%
1990	12.9%	12.5%	11.3%	11.7%
1991	11.5%	10.3%	9.8%	8.8%
1992	8.8%	9.7%	9.8%	10.0%
1993	11.4%	11.4%	12.1%	11.9%
1994	12.5%	13.6%	14.4%	15.9%
1995	16.9%	17.1%	17.0%	16.3%
1996	16.3%	16.2%	16.0%	16.8%
1997	17.4%	16.9%	16.8%	16.5%

Source: Business Week, Corporate Scoreboard, May 1975 - March 1997

Return on Common Equity

Business Week All Industry Composite

	Year Ended	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
20 Year Moving Average	1975-94	12.9%	12.9%	12.9%	12.8%
	1976-95	13.1%	13.2%	13.1%	13.0%
	1977-96	13.3%	13.3%	13.3%	13.2%
	1978-97	13.5%	13.4%	13.4%	13.3%
10 Year Moving Average	1985-94	12.0%	12.1%	12.0%	12.0%
	1986-95	12.4%	12.6%	12.5%	12.5%
	1987-96	12.9%	13.1%	13.0%	13.1%
	1988-97	13.5%	13.8%	13.6%	13.6%
5 Year Moving Average	1990-94	11.4%	11.5%	11.5%	11.7%
	1991-95	12.2%	12.4%	12.6%	12.6%
	1992-96	13.2%	13.6%	13.9%	14.2%
	1993-97	14.9%	15.0%	15.3%	15.5%

Source: Business Week. Corporate Scoreboard, May 1975 - March 1997

Return on Equity

Regional Bell Operating Companies

	Ameritech	Bell Atlantic	BellSouth	SBC	US West	Average
1990	16.3%	14.8%	12.8%	12.9%	NA	14.2%
1991	14.5%	15.9%	11.3%	13.0%	10.4%	13.0%
1992	19.8%	17.4%	11.9%	14.3%	13.7%	15.4%
1993	20.4%	17.3%	6.3%	19.2%	39.0%	20.4%
1994	14.4%	19.6%	15.4%	20.7%	39.0%	21.8%
1995	30.7%	29.2%	11.9%	25.9%	32.8%	26.1%
1996	29.0%	24.7%	22.8%	32.1%	31.6%	28.0%
1997	28.7%	24.3%	22.2%	15.1%	29.6%	24.0%
1998	37.6%	23.2%	21.0%	35.4%	NM	29.3%
1990-92	16.9%	16.0%	12.0%	13.4%	12.1%	14.1%
1991-93	18.2%	16.9%	9.8%	15.5%	21.0%	16.3%
1992-94	18.2%	18.1%	11.2%	18.1%	30.6%	19.2%
1993-95	21.8%	22.0%	11.2%	21.9%	36.9%	22.8%
1994-96	24.7%	24.5%	16.7%	26.2%	34.5%	25.3%
1995-97	29.5%	26.1%	19.0%	24.4%	31.3%	26.0%
1996-98	31.8%	24.1%	22.0%	27.5%	30.6%	27.2%
1990-94	17.1%	17.0%	11.5%	16.0%	25.5%	17.4%
1991-95	20.0%	19.9%	11.4%	18.6%	27.0%	19.4%
1992-96	22.9%	21.6%	13.7%	22.4%	31.2%	22.4%
1993-97	24.6%	23.0%	15.7%	22.6%	34.4%	24.1%
1994-98	28.1%	24.2%	18.7%	25.8%	33.3%	26.0%

Return on Equity

Other Telecommunication Providers

	AT&T	ALLTEL	CTE	Cincinnati Bell	GTE	Frontier	Aliant	Sprint	TDS	MCI/World Com	Average
1990	20.2%	19.3%	11.6%	15.8%	18.1%	11.2%	15.2%	18.2%	6.6%	26.4%	16.3%
1991	3.2%	18.0%	12.5%	6.6%	14.5%	15.0%	16.0%	15.0%	3.6%	24.0%	12.8%
1992	21.4%	18.8%	17.0%	6.0%	16.9%	11.6%	15.9%	15.8%	4.8%	NM	14.2%
1993	24.3%	18.3%	15.4%	NM	10.0%	13.0%	17.7%	12.1%	3.0%	9.4%	13.7%
1994	27.7%	17.1%	17.2%	13.7%	23.3%	14.0%	17.5%	20.7%	4.4%	NM	17.3%
1995	0.8%	20.0%	14.9%	NM	29.2%	16.0%	12.6%	20.6%	6.5%	11.7%	14.7%
1996	29.9%	14.5%	13.5%	33.3%	39.4%	22.5%	16.7%	18.1%	6.8%	NM	21.6%
1997	20.8%	23.6%	22.1%	31.9%	36.3%	5.4%	18.2%	10.8%	NM	2.7%	19.1%
1998	21.7%	91.2%	16.2%	22.7%	27.9%	18.1%	19.2%	4.2%	NM	NM	27.7%
1990-92	14.9%	18.7%	13.7%	9.5%	16.5%	12.6%	15.7%	16.3%	5.0%	25.2%	14.8%
1991-93	16.3%	18.4%	15.0%	6.3%	13.8%	13.2%	16.5%	14.3%	3.8%	16.7%	13.4%
1992-94	24.5%	18.1%	16.5%	9.9%	16.7%	12.9%	17.0%	16.2%	4.1%	9.4%	14.5%
1993-95	17.6%	18.5%	15.8%	13.7%	20.8%	14.3%	15.9%	17.8%	4.6%	10.6%	15.0%
1994-96	19.5%	17.2%	15.2%	23.5%	30.6%	17.5%	15.6%	19.8%	5.9%	11.7%	17.7%
1995-97	17.2%	19.4%	16.8%	32.6%	35.0%	14.6%	15.8%	16.5%	6.7%	7.2%	18.2%
1996-98	24.1%	43.1%	17.3%	29.3%	34.5%	15.3%	18.0%	11.0%	6.8%	2.7%	20.2%
1990-94	19.4%	18.3%	14.7%	10.5%	16.6%	13.0%	16.5%	16.4%	4.5%	19.9%	15.0%
1991-95	15.5%	18.4%	15.4%	8.8%	18.8%	13.9%	15.9%	16.8%	4.5%	15.0%	14.3%
1992-96	20.8%	17.7%	15.6%	17.7%	23.8%	15.4%	16.1%	17.5%	5.1%	10.6%	16.0%
1993-97	20.7%	18.7%	16.6%	26.3%	27.6%	14.2%	16.5%	16.5%	5.2%	7.9%	17.0%
1994-98	20.2%	33.3%	16.8%	25.4%	31.2%	15.2%	16.8%	14.9%	5.9%	7.2%	18.7%

MIDVALE TELEPHONE EXCHANGE

Exhibit 2
Schedule: E-1
Title: Comparative Balance Sheet

Supporting Schedules: (a) E-5
Recap Schedules: (b) A-3

Explanation:
Schedule showing comparative balance sheets at the end of the test year and the 2 fiscal years ended prior to the test year.

	1999	1998	1997
ASSETS			
CASH	10,509	0	0
ACCOUNTS RECEIVABLE	74,237	50,875	67,957
INVENTORY	0	0	0
PREPAID EXPENSES	0	99,377	0
INVESTMENTS	0	0	0
TOTAL CURRENT	84,746	150,252	67,957
NON-REGUALTED	0	0	0
OTHER-NON CURRENT	0	0	0
EXTRAORDINARY PLANT RET	112,099	0	0
TELEPHONE PLANT UNDER CON	0	0	16,259
PLANTACQADJ	176,867	191,709	206,551
TELEPHONE PLANT IN SERVICE	3,060,663	3,034,757	2,573,354
LESS ACCUM DEP	-1,204,570	-1,122,615	-965,150
TOTAL ASSETS	2,229,806	2,254,103	1,898,972
LIABILITIES & EQUITY			
ACCOUNTS PAYABLE	16,857	14,989	254
ACCRUEDPAYROLL&OTHER	11,594	2,016	1,822
ACCRUED INTEREST	0	0	0
LONG TERM DEBT	470,233	540,580	578,237
DEFERREDTAXES	156,381	161,124	119,500
EQUITY	1,574,741	1,535,394	1,199,159
TOTAL LIABILITIES & EQUITY	2,229,806	2,254,103	1,898,972

Note: See Attached Supporting Documents

MIDVALE TELEPHONE EXCHANGE INC.
BALANCE SHEET STATE BREAKDOWN
ARIZONA ONLY

	1999	1998	1997
ASSETS			
CASH	10,509	0	0
ACCOUNTS RECEIVABLE	74,237	50,875	67,957
INVENTORY	0	0	0
PREPAID EXPENSES	0	99,377	0
INVESTMENTS	0	0	0
TOTAL CURRENT	84,746	150,252	67,957
NON-REGUALTED	0	0	0
OTHER-NON CURRENT	0	0	0
EXTRAORDINARY PLANT RET	112,099	0	0
TELEPHONE PLANT UNDER CON	0	0	16,259
PLANT ACQ ADJ	176,867	191,709	206,551
TELEPHONE PLANT IN SERVICE	3,060,663	3,034,757	2,573,354
LESS ACCUM DEP	(1,204,570)	(1,122,615)	(965,150)
TOTAL ASSETS	2,229,806	2,254,103	1,898,972
LIABILITIES & EQUITY			
ACCOUNTS PAYABLE	16,857	14,989	254
ACCRUED PAYROLL & OTHER	11,594	2,016	1,822
ACCRUED INTEREST	0	0	0
LONG TERM DEBT	470,233	540,580	578,237
DEFERRED TAXES	156,381	161,124	119,500
EQUITY	1,574,741	1,535,394	1,199,159
TOTAL LIABILITIES & EQUITY	2,229,806	2,254,103	1,898,972

MIDVALE TELEPHONE EXCHANGE INC.
BALANCE SHEET STATE BREAKDOWN
DECEMBER 31, 1999

ASSETS	MIDVALE CONSOLIDATED	RECLASS	IDAHO	OREGON	ARIZONA
CASH					
Idaho	260,941		260,941		
Oregon	0			0	
Arizona	10,509				10,509
ACCOUNTS RECEIVABLE					
Idaho	518,815		518,815		
Oregon	42,019			42,019	
Arizona	74,237				74,237
INVENTORY					
Idaho	164,800		164,800		
Oregon	0			0	
Arizona	0				0
PREPAID EXPENSES					
Idaho	10,943		10,943		
Oregon	0			0	
Arizona	0				0
INVESTMENTS					
Idaho	237,337		237,337		
Oregon	0			0	
Arizona	0				0
TOTAL CURRENT	1,319,601		1,192,836	42,019	84,746
NON-REGUALTED					
Idaho	53,900		53,900		
Oregon	0			0	
Arizona	0				0
OTHER-NON CURRENT					
Idaho	229,199		229,199		
Oregon	0			0	
Arizona	0				0
EXTRAORDINARY PLANT RETIREMENT					
Idaho	0		0		
Oregon	0			0	
Arizona	112,099				112,099
TELEPHONE PLANT UNDER CONSTRUCTION					
Idaho	0		0		
Oregon	0			0	
Arizona	0				0
PLANT ACQUISTION ADJUSTMENT					
Idaho	1,101,038		1,101,038		
Oregon	19,327			19,327	
Arizona	176,867				176,867
TELEPHONE PLANT IN SERVICE					
Idaho	10,628,688		10,628,688		
Oregon	1,287,823			1,287,823	
Arizona	3,060,663				3,060,663
LESS ACCUMULATED DEPRECIATION					
Idaho	(5,448,736)		(5,448,736)		
Oregon	(567,722)			(567,722)	
Arizona	(1,204,570)				(1,204,570)
TOTAL ASSETS	10,768,176		7,756,924	781,446	2,229,806

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MIDVALE TELEPHONE EXCHANGE INC.
BALANCE SHEET STATE BREAKDOWN
DECEMBER 31, 1999

	MIDVALE CONSOLIDATED	RECLASS	IDAHO	OREGON	ARIZONA
LIABILITIES & EQUITY					
ACCOUNTS PAYABLE					
Idaho	511,020		511,020		
Oregon	200			200	
Arizona	16,857				16,857
ACCRUED PAYROLL & OTHER					
Idaho	102,193		102,193		
Oregon	583			583	
Arizona	11,594				11,594
ACCRUED INTEREST					
Idaho	55,257		55,257		
Oregon	0			0	
Arizona	0				0
LONG TERM DEBT					
Idaho	7,689,500	(1,483,883)	6,205,617		
Oregon	0	1,013,649		1,013,649	
Arizona	0	470,233			470,233
DEFERRED TAXES					
Idaho	653,477	(217,051)	436,426		
Oregon	0	60,670		60,670	
Arizona	0	156,381			156,381
EQUITY					
Idaho	1,727,495	(1,281,084)	446,410		
Oregon	0	(293,657)		(293,657)	
Arizona	0	1,574,741			1,574,741
TOTAL LIABILITIES & EQUITY	10,768,176		7,756,924	781,446	2,229,806
		0			

MIDVALE TELEPHONE EXCHANGE INC.
BALANCE SHEET STATE BREAKDOWN
DECEMBER 31, 1998

ASSETS	MIDVALE CONSOLIDATED	RECLASS	IDAHO	OREGON	ARIZONA
CASH					
Idaho	232,675		232,675		
Oregon	0			0	
Arizona	0				0
ACCOUNTS RECEIVABLE					
Idaho	390,246		390,246		
Oregon	41,806			41,806	
Arizona	50,875				50,875
INVENTORY					
Idaho	111,880		111,880		
Oregon	0			0	
Arizona	0				0
PREPAID EXPENSES					
Idaho	10,464		10,464		
Oregon	0			0	
Arizona	99,377				99,377
INVESTMENTS					
Idaho	231,069		231,069		
Oregon	0			0	
Arizona	0				0
TOTAL CURRENT	1,168,392		976,334	41,806	150,252
NON-REGUALTED					
Idaho	80,263		80,263		
Oregon	0			0	
Arizona	0				0
OTHER-NON CURRENT					
Idaho	190,506		190,506		
Oregon	0			0	
Arizona	0				0
TELEPHONE PLANT UNDER CONSTRUCTION					
Idaho	0		0		
Oregon	0			0	
Arizona	0				0
PLANT ACQUISITION ADJUSTMENT					
Idaho	1,216,727		1,216,727		
Oregon	23,191			23,191	
Arizona	191,709				191,709
TELEPHONE PLANT IN SERVICE					
Idaho	10,123,339		10,123,339		
Oregon	1,225,067			1,225,067	
Arizona	3,034,757				3,034,757
LESS ACCUMULATED DEPRECIATION					
Idaho	(4,589,044)		(4,589,044)		
Oregon	(466,517)			(466,517)	
Arizona	(1,122,615)				(1,122,615)
TOTAL ASSETS	11,075,775		7,998,125	823,547	2,254,103

MIDVALE TELEPHONE EXCHANGE INC.
BALANCE SHEET STATE BREAKDOWN
DECEMBER 31, 1998

	MIDVALE CONSOLIDATED	RECLASS	IDAHO	OREGON	ARIZONA
LIABILITIES & EQUITY					
ACCOUNTS PAYABLE					
Idaho	240,099		240,099		
Oregon	250			250	
Arizona	14,989				14,989
ACCRUED PAYROLL & OTHER					
Idaho	12,520		12,520		
Oregon	546			546	
Arizona	2,016				2,016
ACCRUED INTEREST					
Idaho	52,172		52,172		
Oregon	0			0	
Arizona	0				0
LONG TERM DEBT					
Idaho	8,103,704	(1,581,029)	6,522,675		
Oregon	0	1,040,449		1,040,449	
Arizona	0	540,580			540,580
DEFERRED TAXES					
Idaho	691,382	(225,042)	466,340		
Oregon	0	63,918		63,918	
Arizona	0	161,124			161,124
EQUITY					
Idaho	1,958,096	(1,253,777)	704,319		
Oregon	0	(281,617)		(281,617)	
Arizona	0	1,535,394			1,535,394
TOTAL LIABILITIES & EQUITY	11,075,775		7,998,125	823,547	2,254,103
		0			

MIDVALE TELEPHONE EXCHANGE INC.
BALANCE SHEET STATE BREAKDOWN
DECEMBER 31, 1997

	MIDVALE CONSOLIDATED	RECLASS	IDAHO	OREGON	ARIZONA
ASSETS					
CASH					
Idaho	218,882		218,882		
Oregon	0			0	
Arizona	0				0
ACCOUNTS RECEIVABLE					
Idaho	465,038		465,038		
Oregon	56,831			56,831	
Arizona	67,957				67,957
INVENTORY					
Idaho	123,356		123,356		
Oregon				0	
Arizona					0
PREPAID EXPENSES					
Idaho	10,640		10,640		
Oregon				0	
Arizona					0
INVESTMENTS					
Idaho	840,825		840,825		
Oregon				0	
Arizona					0
TOTAL CURRENT	1,783,529		1,658,741	56,831	67,957
NON-REGUALTED					
Idaho	104,747		104,747		
Oregon				0	
Arizona					0
OTHER-NON CURRENT					
Idaho	187,584		187,584		
Oregon				0	
Arizona					0
TELEPHONE PLANT UNDER CONSTRUCTION					
Idaho	34,267		34,267		
Oregon	115,846			115,846	
Arizona	16,259				16,259
PLANT ACQUISITION ADJUSTMENT					
Idaho	1,093,879		1,093,879		
Oregon	27,055			27,055	
Arizona	206,551				206,551
TELEPHONE PLANT IN SERVICE					
Idaho	9,707,877		9,707,877		
Oregon	992,896			992,896	
Arizona	2,573,354				2,573,354
LESS ACCUMULATED DEPRECIATION					
Idaho	(3,833,225)		(3,833,225)		
Oregon	(403,636)			(403,636)	
Arizona	(965,150)				(965,150)
TOTAL ASSETS	11,641,833		8,953,870	788,991	1,898,972

MIDVALE TELEPHONE EXCHANGE INC.
BALANCE SHEET STATE BREAKDOWN
DECEMBER 31, 1997

	MIDVALE CONSOLIDATED	RECLASS	IDAHO	OREGON	ARIZONA
LIABILITIES & EQUITY					
ACCOUNTS PAYABLE					
Idaho	400,817		400,817		
Oregon	375			375	
Arizona	254				254
ACCRUED PAYROLL & OTHER					
Idaho	67,305		67,305		
Oregon	32			32	
Arizona	1,822				1,822
ACCRUED INTEREST					
Idaho	52,896		52,896		
Oregon	0			0	
Arizona	0				0
LONG TERM DEBT					
Idaho	8,069,270	(1,644,181)	6,425,089		
Oregon	0	1,065,945		1,065,945	
Arizona	0	578,237			578,237
DEFERRED TAXES					
Idaho	599,812	(163,286)	436,526		
Oregon	0	43,786		43,786	
Arizona	0	119,500			119,500
EQUITY					
Idaho	2,449,250	(878,013)	1,571,237		
Oregon	0	(321,146)		(321,146)	
Arizona	0	1,199,159			1,199,159
TOTAL LIABILITIES & EQUITY	11,641,833		8,953,870	788,991	1,898,972
		0			

MIDVALE TELEPHONE EXCHANGE

Exhibit 2 | Supporting Schedules: | Recap Schedules:
Schedule: E-2 | (a) E-6 | A-2
Title: Comparative Income Statements
Explanation:
Schedule showing comparative income statements for the test year and the 2 fiscal years ended prior to the test year.

	Year Ending 12/31/97	Year Ending 12/31/98	12/31/99 RECORDED
OPERATING REVENUES			
LOCAL SERVICES	108,555	143,935	146,183
ENDUSER REVENUE (SLC)	24,194	23,222	26,186
INTERSTATE ACCESS	415,191	417,490	377,001
INTRASTATE ACCESS	181,013	195,522	186,820
INTERSTATE USF	118,978	127,116	107,050
STATE USF			
DIRECTORY REVENUE	1,465	1,439	1,759
MISC.	3,490	1,861	22,081
UNCOLLECTIBLE	(7,260)	(514)	(1,279)
TOTAL REVENUE	845,627	910,072	865,801
OPERATING EXPENSES			
PLANT SPECIFIC OPERATIONS	143,281	110,831	127,720
PLANT NON-SPECIFIC OPERATIONS	86,549	89,746	62,925
DEP. AND AMORT	183,554	172,260	186,282
CUSTOMER OPERATIONS	84,153	87,337	96,131
CORPORATE OPERATIONS	272,545	270,891	254,880
PROVISION FOR DEFERRED INCOME	6,100	6,171	0
OTHER OPERATING TAXES	75,283	75,794	81,282
INTEREST EXPENSE	23,685	22,211	25,107
TOTAL EXPENSES	875,149	835,241	834,327
UTILITY OPERATING INCOME	(29,522)	74,831	31,474

Note: See Attached Supporting Documents

MIDVALE TELEPHONE EXCHANGE, INC.
ARIZONA INCOME STATEMENT

Account Name	Account #	Year Ending 12/31/97 (Adjusted)	Year Ending 12/31/98 (Adjusted)	Year Ending 12/31/99 (Adjusted)
5001	BASIC AREA REVENUE			
LOCAL SER. REVENUE-CASCABEL	5000.33	29,202.42	42,044.26	59,351.68
LOCAL SER. REVENUE-YOUNG	5000.55	74,047.85	96,926.61	78,240.90
		103,250.27	138,970.87	137,592.58
5060	OTHER LOCAL EXCHANGE REVENUE			
ALITAP-STATE PART-CASCABEL	5002.33		(25.32)	(25.32)
ALITAP-STATE PART-YOUNG	5002.55		(14.77)	(50.64)
SER. ORDERIC.O. WIRING-CASCABEL	5050.33	1,606.48	900.00	2,145.00
SER. ORDERIC O. WIRING-AZ	5050.55	3,424.51	3,777.99	5,921.15
VERTICAL SERVICES-CASCABEL	5061.33	-	-	27.00
VERTICAL SERVICES-YOUNG, AZ	5061.55	274.22	326.38	573.31
		5,305.21	4,964.28	8,590.50
5081	END USER REVENUE (SLC)			
I/S CALC REV.-CASCABEL	5001.33	8,072.46	7,190.43	8,551.70
I/S CALC REV-YOUNG	5001.55	16,122.03	16,031.99	17,634.42
		24,194.49	23,222.42	26,186.12
5082	SWTICHED ACCESS REVENUE (INTERSTATE)			
EE CCL ACCESS REV-CASCABEL	5081.33	5,365.73	5,383.84	8,833.15
EE CCL ACCESS REV. YOUNG	5081.55	7,114.10	7,205.08	10,664.51
EE SS ACCESS REV.-CASCABEL	5082.33	50,340.57	23,871.35	30,371.44
EE SW ACCESS REV.-YOUNG,AZ	5082.55	62,275.39	32,327.13	36,885.54
INTERSTATE PIC CHANGE CHRG, CASCABEL	5082.83		320.00	500.00
INTERSTATE PIC CHANGE CHRG, YOUNG	5082.85	520.00	435.00	830.00
CCL NECA CASCABEL	5101.33	40,578.00	56,786.00	41,013.73
CCL NECA YOUNG	5101.55	60,983.00	88,983.00	64,513.33
SW NECA - CASCABEL	5102.33	69,141.68	75,333.00	67,859.62
SWNECA-YOUNG	5102.55	118,872.24	126,846.00	115,529.73
USF NECA - CASCABEL	5103.33	118,978.00	127,116.00	107,079.52
		534,168.71	544,606.40	484,080.57
5084	STATE ACCESS REVENUE (INTRASTATE)			
INTRALATA PIC CHARGE - CASCABEL	5082.73		20.00	65.00
INTRALATA PIC CHARGE - YOUNG	5082.75		20.00	-
AE CCL ACCESS REV.-CASCABEL	5084.33	4,069.02	5,141.82	7,523.43
AE CCL ACCESS REV.-YOUNG,AZ	5084.55	2,455.66	3,662.28	4,832.74
AE SW ACCESS REV.-CASCABEL	5085.33	8,060.55	9,851.61	14,405.08
AE SW ACCESS REV -YOUNG,AZ	5085.55	7,366.98	10,986.84	14,498.22
M CCL ACCESS REV -CASCABEL	5087.33	39,865.40	33,623.25	29,048.85
M CCL ACCESS REV.-YOUNG,AZ	5087.55	10,465.22	16,227.39	15,480.00
M SW ACCESS REV - CASCABEL	5088.33	77,334.45	64,536.12	54,525.48
M SW ACCESS REV-YOUNG	5088.55	31,395.66	51,452.56	46,440.47
		181,012.94	195,521.87	186,819.27
5100	LONG DISTANCE MESSAGE REVENUE			
BILLED REVENUE - CASCABEL	5080.33	-	-	
BILLED REVENUE - YOUNG, AZ	5080.55	-	51.99	69.68
EA BILL & KEEP CLEARING ACCT.	5100.33	-	0.45	143.89
EA BILL & KEEP CLEARING ACCT.	5100.55	-	-	
EA BILL & KEEP REV-CASCABEL	5200.33	-	-	
EA BILL & KEEP REV-YOUNG	5200.55	5.36	-	373.13
		5.36	52.44	586.70
5230	DIRECTORY REVENUE			
DIRECTORY REVENUE - CASCABEL	5272.33	699.88	665.25	728.89
DIRECTORY REVENUE - YOUNG,AZ	5272.55	764.76	773.59	1,030.41
		1,464.64	1,438.84	1,759.30
5264	OTHER INCIDENTAL REGULATED REV			
OTHER REVENUE - CASCABEL	5264.33	71.16	67.61	149.60
OTHER REVENUE - YOUNG	5264.55	-	108.83	249.03
		71.16	176.44	398.63
5269	OTHER REVENUE SETTLEMENTS			
OPERATOR SER REV - CASCABEL	5273.33	855.50	284.80	200.00
OPERATOR SER REV-YOUNG,AZ	5273.55	2,558.40	1,347.10	996.00
		3,413.90	1,631.90	1,196.00
5270	CARRIER BILLING & COLLECTION REV			
INTERSTATE BILLING & COLL	5270.33	2,619.03	6,569.94	3,800.07
INTERSTATE BILLING & COLL	5270.55	3,222.45	4,390.97	3,361.79
INTRASTATE BILLING & COLL	5271.33	9,109.12	7,012.92	7,962.32
INTRASTATE BILLING & COLL	5271.55	4,795.09	3,914.80	4,775.49
		19,745.69	21,888.63	19,899.67
5301	UNCOLLECTIBLE REVENUE - TELECO			
UNCOLLECTIBLES - CASCABEL	5300.33	(5,252.14)	(67.05)	(994.78)
UNCOLLECTIBLES - YOUNG,AZ	5300.55	(2,007.65)	(446.70)	(284.05)
		(7,259.79)	(513.75)	(1,278.83)

MIDVALE TELEPHONE EXCHANGE, INC.
ARIZONA INCOME STATEMENT

Account Name	Account #	Year Ending 12/31/97 (Adjusted)	Year Ending 12/31/98 (Adjusted)	Year Ending 12/31/99 (Adjusted)
6100	PLANT SPECIFIC OPERATIONS			
GEN SUPPORT SERV.CASCABEL	6120.33	(7,934.22)	(11,783.50)	(13,706.94)
GEN SUPPORT SERV.-YOUNG,AZ	6120.55	(11,740.51)	(15,647.86)	(27,035.00)
CENTRAL OFF SWITCH-CASCABEL	6210.33	(16,642.15)	(12,416.63)	(14,561.69)
CENTRAL OFF SWITCH-YOUNG,AZ	6210.55	(20,470.50)	(8,398.47)	(17,939.64)
LOCAL NUMBER PORTABILITY SWITCHING - CASCABEL	6211.33	-	-	(18.64)
LOCAL NUMBER PORTABILITY SWITCHING - YOUNG	6211.55	-	-	(45.04)
C.O TRANS-CASCABEL	6230.33	(10,465.48)	(13,126.64)	(14,887.52)
CO. TRANS-YOUNG,AZ	6230.55	(14,401.97)	(3,804.70)	(6,609.29)
PAY STATION REPAIR-CASCABEL	6310.33	-	(13.49)	
PAY STATION REPAIR-YOUNG,AZ	6310.55	(218.74)	-	
BURIED CABLE REPAIR-CASCABEL	6423.33	(25,195.70)	(25,949.16)	(14,822.31)
BURIED CABLE REPAIR-YOUNG,AZ	6423.55	(36,211.33)	(19,690.24)	(18,158.50)
		(143,280.60)	(110,830.69)	(127,784.57)
6500	PLANT NONSPECIFIC OPERATIONS			
GENERAL PLANT ADM.-CASCABEL	6530.33	(43,371.38)	(66,981.48)	(41,480.60)
GENERAL PLANT ADM.-YOUNG,AZ	6530.55	(43,177.53)	(22,764.98)	(21,444.40)
		(86,548.91)	(89,746.46)	(62,925.00)
6560	DEPRECIATION AND AMORTIZATION			
DEPRECIATION EXP.-CASCABEL	6560.33	(64,983.00)	(72,492.90)	(70,497.33)
DEPRECIATION EXP -YOUNG,AZ	6560.55	(103,728.54)	(84,925.00)	(100,943.00)
AMORTIZATION EXP.-CASCABEL	6570.33	-	-	-
AMORTIZATION EXP-YOUNG,AZ	6570.55	(14,841.96)	(14,842.08)	(14,841.98)
		(183,553.50)	(172,259.98)	(186,282.31)
6600	CUSTOMER OPERATIONS			
CUSTOMER SERVICE-CASCABEL	6623.33	(14,237.27)	(16,209.25)	(20,754.67)
CUSTOMER SER.-YOUNG, AZ	6623.55	(31,571.50)	(40,099.54)	(43,776.91)
REV ACCT. MESS PROCESSING	6626.33	(2,382.92)	(4,511.94)	(2,619.36)
REV ACCT. MESS PROCESSING	6626.55	(5,506.37)	(8,888.89)	(6,329.74)
CABS EXPENSE - CASCABEL	6627.33	(1,655.77)	(1,675.84)	(3,986.82)
CABS EXPENSE - YOUNG, AZ	6627.55	(3,983.55)	(3,176.32)	(5,035.95)
REV ACCT/OTHER BILL & COLL	6628.33	(3,759.30)	(4,444.59)	(5,087.68)
REV ACCTIOTHER BIL & COLL	6628.55	(8,181.02)	(8,330.79)	(8,531.95)
EQUAL ACCESS EXP.-CASCABEL	6725.33	(1,067.29)	-	-
EQUAL ACCESS EXP.-YOUNG,AZ	6725.55	(11,807.79)	-	-
INTRALATA ACCESS-CASCABEL	6727.33	-	-	-
INTRALATA ACCESS-YOUNG	6727.55	-	-	(7.17)
		(84,152.78)	(87,337.16)	(96,130.25)
6700	CORPORATE OPERATIONS			
EXECUTIVE & PLANNING-CASCABEL	6710.33	(64,292.90)	(45,687.91)	(33,066.94)
EXECUTIVE & PLANNING-YOUNG,AZ	6710.55	(67,503.35)	(50,145.61)	(43,680.39)
ACCOUNTING & FINANCE-CASCABEL	6721.33	(41,340.06)	(45,510.00)	(36,943.58)
ACCOUNTING & FINANCE-YOUNG,AZ	6721.55	(73,475.30)	(89,871.71)	(78,178.76)
OTHER GENERAL ADM-CASCABEL	6728.33	(8,518.83)	(17,875.57)	(27,446.77)
OTHER GENERAL ADM-YOUNG,AZ	6728.55	(17,414.91)	(21,800.06)	(35,563.72)
		(272,545.35)	(270,890.86)	(254,880.16)
7220	PROVISION FOR DEFERRED INC TAX			
INCOME TAX EXP. CASCABEL	7230.33	(1,200.00)	(3,085.50)	(1,520.00)
INCOME TAX EXP., YOUNG,AZ	7230.55	(4,900.00)	(3,085.50)	(1,520.00)
		(6,100.00)	(6,171.00)	(3,040.00)
7240	OTHER OPERATING TAXES			
PROPERTY TAX - CASCABEL	7240.33	(29,162.40)	(31,036.36)	(33,994.96)
PROPERTY TAX - YOUNG, AZ	7240.55	(45,983.72)	(44,757.34)	(46,777.28)
OTHER TAXES - CASCABEL	7250.33	(40.04)	-	(278.39)
OTHER TAXES - YOUNG	7250.55	(96.77)	-	(232.12)
		(75,282.93)	(75,793.70)	(81,282.75)
7450	INTEREST EXPENSE			
REA INTEREST EXP CASCABEL	7510.33	(14,916.90)	(14,352.97)	(13,760.89)
RTFC INTEREST - EXPENSE	7510.55	-	-	
RTFC INTEREST EXP- CASCABEL	7512.33	(2,566.16)	(2,299.90)	(1,773.43)
RTFC INTEREST EXP- YOUNG	7512.55	(6,201.55)	(5,558.09)	(9,572.92)
		(23,684.61)	(22,210.96)	(25,107.24)

MIDVALE TELEPHONE EXCHANGE

Exhibit 2 Recap Schedules:
Schedule: E-3 A-5
Title: Comparative Statement of Changes in Financial Position
Explanation:
Schedule showing comparative changes in financial position for the test year and the 2 years ended prior to the test year.

See Attachment

MIDVALE TELEPHONE EXCHANGE, INC.
RATE CASE DEBT ALLOCATION
DECEMBER 31, 1999

RURAL UTILITY SERVICE DEBT

LOAN #	INT. RATE	G/L #	AMOUNT	TOTAL	IDAHO	OREGON	ARIZONA
# 12010	2 %	4210.01	610,162.04	610,162.04	610,162.04		
# 12020	5%	4210.02	289,779.49	289,779.49		289,779.49	
# 12030	5%		1,054,281.94				
# 12031	5%						
		4210.03		1,054,281.94	330,411.96	723,869.98	
# 12040	5%		232,249.38				
# 12041	5%						
		4210.04		232,249.38	232,249.38		
# 12050	5%		2,997,715.91				269,602.05
		4210.05		2,997,715.91	2,728,113.86		
TOTAL RUS DEBT				***5,184,188.76***	***3,900,937.24***	***1,013,649.47***	***269,602.05***
RTFC		***4050.06***		***200,631.28***			***200,631.28***
OTHER DEBT				***86,661.46***	***86,661.46***		
SAWTOOTH							
RURAL TELEPHONE FINANCE COOPERATIVE							
RTFC - PURCHASE			1,821,306.05				
RTFC - SWITCH			362,821.12				
				2,184,127.17	2,184,127.17		
BUILDING				33,891.31	33,891.31		
TOTAL SAWTOOTH				***2,218,018.48***	***2,218,018.48***		
TOTAL DEBT				***7,689,499.98***	***6,205,617.18***	***1,013,649.47***	***470,233.33***

MIDVALE TELEPHONE EXCHANGE, INC.
RATE CASE DEBT ALLOCATION
DECEMBER 31, 1998

RURAL UTILITY SERVICE DEBT

LOAN #	INT. RATE	G/L #	AMOUNT	TOTAL	IDAHO	OREGON	ARIZONA
# 12010	2 %	4210.01	642,830.00	642,830.00	642,830.00		
# 12020	5%	4210.02	297,452.53	297,452.53		297,452.53	
# 12030	5%		1,062,099.28				
# 12031	5%		20,039.97				
		4210.03		1,082,139.25	339,142.44	742,996.81	
# 12040	5%		220,159.05				
# 12041	5%		20,967.53				
		4210.04		241,126.58	241,126.58		
# 12050	5%		1,760,713.22				281,714.12
# 12051	5%		64,259.60				
# 12052	5%		119,339.27				
# 12053	5%		37,637.78				
# 12054	5%		160,649.02				
# 12055	5%		87,209.46				
# 12056	5%		101,063.09				
# 12057	5%		192,427.56				
# 12058	5%		46,166.58				
# 12550	5%		55,399.89				
# 12551	5%		34,259.79				
# 12552	5%		296,098.78				
# 12553	5%		117,533.63				
# 12554	5%		59,632.82				
		4210.05		3,132,390.49	2,850,676.37		
TOTAL RUS DEBT				***5,395,938.85***	***4,073,775.40***	***1,040,449.34***	***281,714.12***
RTFC		***4050.06***		***258,865.54***			***258,865.54***
OTHER DEBT				***62,850.00***	***62,850.00***		
SAWTOOTH							
RURAL TELEPHONE FINANCE COOPERATIVE							
RTFC - PURCHASE			1,924,849.45				
RTFC - SWITCH			378,947.00				
				2,303,796.45	2,303,796.45		
BUILDING				82,254.00	82,254.00		
TOTAL SAWTOOTH				***2,386,050.45***	***2,386,050.45***		
TOTAL DEBT				***8,103,704.84***	***6,522,675.85***	***1,040,449.34***	***540,579.66***

MIDVALE TELEPHONE EXCHANGE, INC.
RATE CASE DEBT ALLOCATION
DECEMBER 31, 1997

RURAL UTILITY SERVICE DEBT

LOAN #	INT. RATE	G/L #	AMOUNT	TOTAL	IDAHO	OREGON	ARIZONA
# 12010	2 %	4210.01	674,851.90	674,851.90	674,851.90		
# 12020	5%	4210.02	304,752.02	304,752.02		304,752.02	
# 12030	5%		1,108,640.37				
# 12031	5%						
		4210.03		1,108,640.37	347,447.89	761,192.48	
# 12040	5%		249,571.58				
# 12041	5%						
		4210.04		249,571.58	249,571.58		
# 12050	5%		3,260,508.65				293,236.53
		4210.05		3,260,508.65	2,967,272.12		
TOTAL RUS DEBT				***5,598,324.52***	***4,239,143.49***	***1,065,944.50***	***293,236.53***
RTFC		***4050.06***		***285,000.00***			***285,000.00***
OTHER DEBT				***41,324.18***	***41,324.18***		
SAWTOOTH							
RURAL TELEPHONE FINANCE COOPERATIVE							
RTFC - PURCHASE			2,018,848.10				
RTFC - SWITCH							
				2,018,848.10	2,018,848.10		
BUILDING				125,773.24	125,773.24		
TOTAL SAWTOOTH				***2,144,621.34***	***2,144,621.34***		
TOTAL DEBT				***8,069,270.04***	***6,425,089.01***	***1,065,944.50***	***578,236.53***

MIDVALE TELEPHONE EXCHANGE

Exhibit 2
Schedule: E-4
Title: Statement of Change in Stockholders' Equity
Explanation:
Schedule showing changes in stockholders' equity for the test year and the 2 years ended prior to the test year.

	COMMON STOCK	AMOUNT	PAID IN CAPITAL	RETAINED EARNINGS	TOTAL EQUITY
BAL 1-1-97	$250	$25,000	$7,910	$1,653,626	$1,686,536
EARNING FOR 1997				$112,714	$112,714
SUBTOTAL	$250	$25,000	$7,910	$1,766,340	$1,799,250
EARNINGS FOR 1998				$158,845	$158,845
SUBTOTAL	$250	$25,000	$7,910	$1,925,185	$1,958,095
EARNINGS FOR 1999				($230,601)	($230,601)
SUBTOTAL	$250	$25,000	$7,910	$1,694,584	$1,727,494

MIDVALE TELEPHONE EXCHANGE

Recap Schedules:
E-1
A-4

Exhibit 2
Schedule: E-5
Title: Detail of Utility Plant
Explanation:
Schedule showing utility plant balance, by detailed account number, at the end of the test year and the end of the prior fiscal year.

See Attached

MIDVALE TELEPHONE EXCHANGE, INC.
AZ RATE CASE

6/22 (a)

Account Name	Account #	Prior 12/31/1998 (Adjusted)	Ending 12/31/1999 (Adjusted)
1100 CASH - IDAHO			
CASH WEST ONE BANK	1120.01	131,477.32	123,663.69
CASH KEY BANK	1120.02	2,788.39	4,225.98
PETTY CASH	1120.04	800.00	800.00
CASH RADIO SHACK ACCT WEST ONE	1120.06	9,439.00	18,314.43
CASH US BANK (CAMBRIDGE)	1120.08	533.19	542.90
CASH - MACRO SAVINGS WEST ONE	1120.22	4,315.52	4,407.03
CASH - CD WEST ONE BANK	1120.23	39,586.57	41,525.40
CASH SAVINGS 1ST INTERSTATE	1120.24	14,827.33	15,433.09
MERRILL LYNCH	1120.26	826.17	372.32
CASH - MERRILL LYNCH - SAWTOOTH	1120.27	11,076.08	1,021.86
CASH IN BANK-SAWTOOTH	1120.77	17,005.43	50,634.61
		232,675.00	260,941.31
1133 CASH & CASH EQUIV. ARIZONA			
CASH SE AZ FCU - CHECKING	1120.09	0.00	10,483.50
CASH SE AZ FCU SAVINGS	1120.15	0.00	25.52
		0.00	10,509.02
1181 ACCOUNTS RECEIVABLE - IDAHO			
TELECOM ACCTS RECBL IDAHO	1180.11	27,784.59	45,719.77
TELECOMACCTS RECBL-SAW	1180.77	16,154.53	19,138.45
U S WEST ACCES/SC	1190.02	0.00	1,848.05
ACCTS RCBL - NECA IDAHO	1190.04	118,200.00	104,491.00
US INTELCO REC/NET	1190.06	1,989.63	8,316.57
A\R - NECA, CASCABEL	1190.13	19,503.00	17,219.00
A\R - M&L ENT. INC	1190.60	(9,581.47)	24,030.41
A/R - DENNIS FARRINGTON	1190.61	405.15	405.15
ACCOUNT RECEIVALE S & L	1190.69	10,097.53	13,709.78
A/R - NECA - SAWTOOTH	1190.73	4,335.00	7,639.00
A/R - CARRIERS-SAWTOOTH	1190.74	39,720.35	36,495.61
A/R CARRIERS	1190.80	121,776.18	103,562.17
A\R - MISC	1190.89	14,692.83	63,124.10
A\R-RADIO SHACK	1406.09	6,087.06	3,172.87
ACCOUNTS RECEIVABLE RNS	1406.27	18,103.06	63,589.24
RADIO SHACK COLLECTIONS INTERNET PYMTS.	4010.27	532.96	5,364.03
RADIO SHACK COLLECTIONS-LONG DISTANCE	4010.28	445.65	989.92
		390,246.05	518,815.12
1182 ACCOUNTS RECEIVABLE - OREGON			
TELECOM ACCTS RECBL OREGON	1180.22	19,699.14	23,694.68
A\R - NECA OREGON	1190.08	20,269.00	15,382.00
A\R - OECA	1190.09	1,838.00	2,942.00
		41,806.14	42,018.68
1183 ACCOUNTS RECEIVABLE - ARIZONA			
TELECOM ACCTS RECBL CASCL	1180.33	23,262.73	31,710.50
TELECOM ACCTS RECBL YOUNG	1180.55	15,241.18	26,762.42
A\R - NECA YOUNG	1190.15	15,268.00	12,111.00
U S WEST ACCESS YOUNG	1190.50	0.00	1,913.53
A/P US INTLECO - YOUNG	4010.15	(2,897.40)	1,739.73
		50,874.51	74,237.18
1221 INVENTORY - IDAHO			
INVENTORY MATERIALS	1220.10	50,388.58	101,140.96
INVENTORY - RADIO SHACK	1406.01	41,465.49	38,813.32
INVENTORY - OTHER	1406.02	10,812.98	16,942.02
INVENTORY - CABLE TV	1406.03	9,212.92	7,903.73

MIDVALE TELEPHONE EXCHANGE, INC.
AZ RATE CASE

Account Name	Account #	Prior 12/31/1998 (Adjusted)	Ending 12/31/1999 (Adjusted)
		111,879.97	164,800.03
1311 PREPAID EXP. IDAHO			
PREPAID INSURANCE	1310.01	6,008.01	7,159.20
PREPAID LEASES	1310.06	4,456.00	3,784.00
		10,464.01	10,943.20
1313 PREPAID EXP. AZ			
PREPAID ARIZ EXPENSE	1310.04	99,377.46	0.00
		99,377.46	0.00
1411 INVESTMENTS - IDAHO			
INVESTMENT - R\S FRANCHISE	1406.04	5,000.00	5,000.00
INVESTMENT - ID COMPANY	1406.05	3,000.00	3,000.00
INVESTMENT - RTFC	1406.07	34,790.22	35,629.65
INVESTMENT - WESTERN TELEDATA	1406.08	2,000.00	2,000.00
INVESTMENT - SYSTEM SEVEN	1406.17	14,000.00	14,000.00
INVEST-SNAKE RIVER CELLULAR	1406.20	39,187.00	39,187.00
ESTMENT - RTFC	1406.77	133,091.89	138,519.98
		231,069.11	237,336.63
1421 NON-REGULATED EQUIP - IDAHO			
NON-REGULATED EQUIPMENT	1406.10	23,985.81	23,985.81
NON-REG ALLOW DEP EQUIP	1406.11	(23,096.88)	(23,604.84)
NON-REG CABLE TV - ID	1406.14	112,617.10	112,617.10
NON-REG DEP CABLE TV	1406.15	(93,386.34)	(102,823.98)
NON REG CABLE TV - AZ	1406.18	173,555.88	176,335.88
NON REG ALL. DEP CABLE TV	1406.19	(115,018.00)	(133,574.00)
INVESTMENT - INT - ARIZONA	1406.26	2,006.78	2,006.78
ARIZONA INTERNET-ALLOW. DEP	1406.29	(401.00)	(1,043.00)
		80,263.35	53,899.75
1431 OTHER NON-CURRENT - IDAHO			
DEF RECBL INS MARY & LANE	1406.33	39,152.61	44,552.97
DEF RECBL INS SHIRLEY	1406.34	68,689.81	78,449.27
RNS NOTE RECEIVABLE - (RURAL NETWORK SERVICE	1406.50	82,663.31	106,196.31
		190,505.73	229,198.55
1443 EXTRAORDINARY PLANT RET. ARIZON			
DEFERRED CHARGES - ARIZONA	1439.01	0.00	112,098.50
		0.00	112,098.50
2005 PLT ACQ ADJ - ID			
PLANT - ACQ ADJ - SAWTOOTH	2005.77	1,422,826.49	1,422,826.49
RES AMT SAWTOOTH PLANT ACQ	2005.78	(206,099.28)	(321,788.62)
		1,216,727.21	1,101,037.87
2006 PLT ACQ. ADJ - OREGON			
HARPER/JUNTURA PLANT ADJ	2005.01	73,422.14	73,422.14
RES-AMORT H/J PLANT ADJ	2005.02	(50,231.20)	(54,095.54)
		23,190.94	19,326.60
2007 PLT ACQ ADJ - AZ			
PLANT - ACQ ADJ	2007.55	222,629.95	222,629.95
RES AMT. YOUNG PLT ACQ.	2007.56	(30,920.87)	(45,762.85)
		191,709.08	176,867.10

MIDVALE TELEPHONE EXCHANGE, INC.
AZ RATE CASE

Account Name	Account #	Prior 12/31/1998 (Adjusted)	Ending 12/31/1999 (Adjusted)
2111 IDAHO TELEPHONE PLT IN SERVICE			
LAND - IDAHO	2111.10	3,760.80	3,760.80
BUILDINGS - IDAHO	2111.11	374,286.44	374,286.44
LAND - SAWTOOTH	2111.70	73,600.00	73,600.00
BUILDINGS - SAWTOOTH	2111.77	221,912.82	228,143.82
VEHICLES	2112.11	368,073.81	422,228.38
VEHICLES - SAWTOOTH	2112.77	16,797.50	16,797.50
OTHER WORK EQUIP. - IDAHO	2116.11	421,864.42	438,487.45
OTHER WORK EQUIP.-SAWTH	2116.77	12,968.54	12,968.54
OFFICE FURNITURE - IDAHO	2122.11	69,703.22	69,703.22
OFFICE FURNITURE -SAWTH	2122.77	861.00	861.00
OFFICIAL STATION EQUIP	2123.11	3,348.44	3,348.44
GENERAL PURPOSE COMPUTERS	2124.11	217,398.45	256,389.28
DIGITAL ELECT SWITCH-IDAHO	2212.11	1,343,735.94	1,550,840.96
DIG ELECT SWITCH-SAWTOOTH	2212.77	367,569.13	428,998.95
CENTRAL OFFICE TRANS - ID	2230.11	1,006,852.52	1,103,441.44
CO TRANS - SAWTOOTH	2230.77	993,624.85	1,003,642.75
STATION APPRATUS	2311.11	27,232.00	27,232.00
PUBLIC TELE EQUIP - IDAHO	2351.11	2,896.80	2,896.80
PUBLIC TELE EQUIP-SAWTH	2351.77	24,502.10	24,502.10
BURIED CABLE - IDAHO	2423.11	3,345,248.58	3,359,456.18
BURIED CABLE - SAWTOOTH	2423.77	1,227,101.49	1,227,101.49
		10,123,338.85	10,628,687.54
2112 OREGON TELEPHONE PLT IN SERVIC			
LAND - OREGON	2111.22	4,237.00	4,237.00
BUILDINGS - OREGON	2121.22	15,380.60	15,380.60
DIG ELECT SWITCH-ORE	2212.22	227,420.57	282,208.21
CENTRAL OFFICE TRAN - OR	2230.22	73,337.72	81,306.04
PUBLIC TELE EQUIP - OREGON	2351.22	3,168.46	3,168.46
BURIED CABLE - OREGON	2423.22	901,522.57	901,522.57
		1,225,066.92	1,287,822.88
2113 ARIZONA TELEPHONE PLT IN SERVIC			
LAND - YOUNG	2111.54	20,207.26	20,207.26
BUILDINGS - YOUNG	2111.55	14,347.30	14,347.30
VEHICLES - CASCABEL	2112.33	29,644.90	29,644.90
VEHICLES - YOUNG	2112.55	24,900.00	24,900.00
OTHER WORK EQUIP.-CASCABEL	2116.33	21,980.00	21,980.00
OFFICE FURNITURE - YOUNG	2122.55	500.00	500.00
GEN PUR COMPUTERS-CASCABEL	2124.33	6,970.56	6,970.56
GEN PUR COMPUTERS-YOUNG	2124.55	1,972.46	1,972.46
DIG ELECT SWITCH-CASCABEL	2212.33	157,744.30	187,974.25
DIG ELECT SWITCH-YOUNG	2212.55	320,795.00	309,186.16
CENTRAL OFFICE TRAN-CASCABEL	2230.33	303,076.24	304,973.68
CENTRAL OFFICE TRANS-YOUNG	2230.55	560,420.47	565,808.81
PUBLIC TELE EQUIP - YOUNG	2351.55	5,619.22	5,619.22
BURIED CABLE - CASCABEL	2423.33	766,075.21	766,075.21
BURIED CABLE - YOUNG	2423.55	800,503.67	800,503.67
		3,034,756.59	3,060,663.48
3111 IDAHO PLT ACCUM DEP			
ACCUM. DEP. VEHICLE	3112.11	(301,653.14)	(272,800.07)
ACCUM DEP. VEHICLE-SAWTH	3112.77	(4,199.00)	(8,398.00)
ACCUM DEP OTHER WK EQ-ID	3116.11	(312,506.43)	(349,024.43)
ACCUM DEP OTHER WK-SAWTH	3116.77	(4,742.85)	(6,533.85)
ACCUM DEP BLDG - IDAHO	3121.11	(113,976.68)	(125,333.68)
ACCUM DEP BLDG.-SAWTH	3121.77	(40,992.14)	(47,780.14)

MIDVALE TELEPHONE EXCHANGE, INC.
AZ RATE CASE

Account Name	Account #	Prior 12/31/1998 (Adjusted)	Ending 12/31/1999 (Adjusted)
ACCUM DEP OFFICE FURN-ID	3122.11	(53,926.00)	(58,941.00)
ACCUM DEP F & F - SAWTOOTH	3122.77	(154.00)	(277.00)
ACCUM DEP OFFICE EQUIP-ID	3123.11	(3,348.44)	(3,348.44)
ACCUM DEP GEN PUR COMPTRS	3124.11	(148,071.91)	(174,702.74)
ACCUM DEP DIG SWH-ID	3212.11	(750,168.44)	(957,036.54)
ACCUM DEP DIG SW-SAWTH	3212.77	(76,195.00)	(135,091.52)
ACCUM DEP C.O. TRANS-IDAHO	3230.11	(329,013.24)	(440,035.97)
ACCUM DEP CO. TRANS-SAWTH	3230.77	(656,689.09)	(800,906.66)
ACCUM DEP STA APPRATUS-ID	3311.11	(16,796.60)	(16,796.60)
ACCUM DEP PUBLIC TELE-IDAHO	3351.11	(2,896.80)	(2,896.80)
ACCUM DEP PUBLIC TELE-SAWTH	3351.77	(24,502.10)	(24,502.10)
ACCUM DEP BURIED CABLE-ID	3423.11	(1,058,946.68)	(1,252,258.68)
ACCUM DEP BURIED CABLE-SAWTH	3423.77	(690,265.32)	(772,071.32)
		(4,589,043.86)	(5,448,735.54)
3112 OREGON PLT ACCUM DEP			
ACCUM DEP BLDG. - OREGON	3121.22	(9,097.26)	(9,559.26)
ACCUM DEP DIG SW-OR	3212.22	(49,327.00)	(92,763.90)
ACCUM DEP TRANS-OREGON	3230.22	(13,753.48)	(26,963.48)
ACCUM DEP PUBLIC TELE-OREGON	3351.22	(3,168.00)	(3,168.00)
ACCUM DEP BURIED CABLE-OREGON	3423.22	(391,171.48)	(435,267.48)
		(466,517.22)	(567,722.12)
3113 ARIZONA PLT ACCUM DEP			
ACCUM DEP. VEHICLE CASCABEL	3112.33	(13,544.90)	(17,344.90)
ACCUM DEP. VEHICLE -YOUNG	3112.55	(17,500.00)	(22,480.00)
ACCUM DEP OTHER WK EQ -CASCABEL	3116.33	(21,659.00)	(21,980.00)
ACCUM DEP BLDG. - YOUNG	3121.55	(996.00)	(1,474.00)
ACCUM DEP F & F YOUNG	3122.55	(243.00)	(314.00)
ACCUM DEP COMPUTERS CAS	3124.33	(2,360.00)	(3,755.00)
ACCUM DEP COMPUTERS - YOUNG	3124.55	(624.00)	(1,018.00)
ACCUM DEP DIG SW-CASCABEL	3212.33	(79,223.00)	(106,672.00)
ACCUM DEP DIG SW-YOUNG	3212.55	(85,708.00)	(18,622.00)
ACCUM DEP C.O. TRANS-AZ	3230.33	(88,879.00)	(97,115.00)
ACCUM DEP C.O. TRANS-YOUNG	3230.55	(367,043.57)	(403,686.57)
ACCUM DEP PUBLIC TELE-YOUNG	3351.55	(5,619.22)	(5,619.22)
ACCUM DEP BURIED CABLE-CASCABEL	3423.33	(133,447.00)	(165,366.00)
ACCUM DEP BURIED CABLE-YOUNG	3423.55	(305,767.85)	(339,122.83)
		(1,122,614.54)	(1,204,569.52)
4011 ACCOUNTS PAYABLE - IDAHO			
ACCOUNTS PAYABLE	4010.00	(169,950.54)	(131,258.16)
A/P AT&T	4010.01	(46,068.79)	(46,828.84)
A/P U.S. WEST COMM	4010.02	0.00	1,689.38
G.T.E. ACCOUNT PAY	4010.04	(39.14)	(10.87)
A/P US INTELCO	4010.05	(12,551.66)	(6,716.64)
ACCOUNTS PAYABLE OTHER	4010.07	(6,159.49)	(16,169.00)
EMPLOYEE CONTRIB TO SAVINGS	4010.45	(4,728.94)	(9,154.96)
USF CHARGE IDAHO	4010.47	(161.55)	(171.23)
CUSTOMER DEPOSITS-IDAHO	4040.11	(50.00)	(450.00)
CUSTOMER DEPOSITS - SAWTOOTH	4040.47	(288.61)	0.00
CUSTOMER DEPOSITS-SAWTH	4040.77	(100.00)	(950.00)
RTFC LOAN - LINE OF CREDIT	4050.11	0.00	(301,000.00)
		(240,098.72)	(511,020.32)
4012 ACCOUNTS PAYABLE OREGON			
CUSTOMER DEPOSITS-OREGON	4040.22	(250.00)	(200.00)
		(250.00)	(200.00)

MIDVALE TELEPHONE EXCHANGE, INC.
AZ RATE CASE

Account Name	Account #	Prior 12/31/1998 (Adjusted)	Ending 12/31/1999 (Adjusted)
4013 ACCOUNTS PAYABLE ARIZONA			
A/P AT&T YOUNG	4010.11	(14,539.36)	(15,906.56)
CUSTOMER DEPOSITS-CASCABEL	4040.33	(25.00)	(300.00)
CUSTOMER DEPOSITS-YOUNG	4040.55	(425.00)	(650.00)
		(14,989.36)	(16,856.56)
4021 PR AND OTHER TAXES - IDAHO			
PREPAID PROPERTY TAX	1310.02	(75,927.26)	(77,715.63)
PREPAID EXP - SAWTOOTH	1320.77	0.00	(3,586.93)
FEDERAL WITHHOLDING	4010.30	0.00	(4,917.80)
IDAHO INCOME TAX WITHHELD	4010.31	(2,971.44)	(4,049.68)
FICA & MEDICARE-EMPLOYEE	4010.33	0.00	(3,397.25)
FICA & MEDICARE-EMPLOYER	4010.34	(83.79)	(3,397.25)
A/P IDAHO SUTA	4010.35	(617.94)	(958.40)
A/P FUTA	4010.37	(88.44)	(150.48)
A/P FED EXCISE TAX	4010.40	(2,454.51)	(2,472.01)
A/P ITAP IDAHO	4010.42	(132.83)	(54.98)
A/P SALES TAXES, IDAHO	4010.44	(531.11)	(1,286.44)
USE TAX - IDAHO	4010.46	(463.33)	(90.43)
DEFICIENT IDAHO USE TAX	4010.50	(39.01)	0.00
TELECOMMUNICATIONS DEVICES	4010.64	(70.69)	(48.34)
STATE TAX	4010.83	5,860.00	(20.00)
FEDERAL TAX	4010.91	65,000.00	0.00
A/P IDAHO 911 CHARGE	4010.92	0.00	(47.48)
		(12,520.35)	(102,193.10)
4022 PAYROLL AND OTHER TAXES - OREG			
A/P OREGON 911 TAX	4010.41	(546.18)	(558.77)
A/P OTAP OREGON	4010.43	0.00	(24.34)
		(546.18)	(583.11)
4023 PAYROLL AND OTHER TAXES ARIZON			
GILA COUNTY (GLA) AZ USE TAX	4010.58	0.00	(9,741.05)
SALES TAX YOUNG	4010.59	(855.96)	(930.01)
ARIZONA INCOME TAX WITHHELD	4010.60	(128.86)	(142.07)
SALES TAX, CASCABEL	4010.61	(753.48)	(555.76)
ARIZONA SUTA	4010.62	(113.34)	0.00
E911 TAX CASCABEL	4010.63	(43.85)	(53.85)
A/P FUTA YOUNG	4010.77	0.00	(1.32)
AZ E911 TAX - YOUNG	4010.78	(81.07)	(90.78)
AZ TELECOMM DEVICES TAX	4010.79	(39.71)	(79.09)
		(2,016.27)	(11,593.93)
4031 ACC. INTEREST PAYABLE - IDAHO			
ACCRUED INTEREST, REA	4010.51	(22,335.11)	(21,465.53)
ACCRUED INTEREST OTHER	4010.52	(29,836.67)	(33,791.51)
		(52,171.78)	(55,257.04)
4101 DEBT PAYABLE - IDAHO			
CURRENT PORTION OF DEBT	4050.02	0.00	787,707.32
RTFC LOAN - CONSTRUCTION	4050.06	(258,865.54)	(200,631.28)
C D LOANS	4050.07	(30,060.00)	0.00
PICK-UPS LOAN-WEST ONE	4050.09	(15,888.08)	(10,485.46)
WEST ONE NOTE (LOWBOY II)	4050.10	(4,074.47)	0.00
PACIFIC ONE LOAN ((VEHICLE)	4050.15	(12,826.98)	(1,981.25)
1994 KENWORTH TRUCK LOAN - PAC ONE NOTE #9022	4050.16	0.00	(25,640.76)
PACIFIC ONE - STANLEY HOUSE	4050.17	0.00	(22,360.00)
NOTE/US BANK - 99 DODGE DURANGO LOAN	4050.18	0.00	(18,516.80)

MIDVALE TELEPHONE EXCHANGE, INC.
AZ RATE CASE

Account Name	Account #	Prior 12/31/1998 (Adjusted)	Ending 12/31/1999 (Adjusted)
BANK/WEST/VEHICLE LOAN - EAGLE-KAREN-#700	4050.19	0.00	(7,677.19)
CURRENT PORTION OF DEBT	4055.00	0.00	(787,707.32)
RTFC - SWITH LOAN	4209.77	(378,947.00)	(362,821.12)
REA LOAN A - 2%	4210.01	(642,830.00)	(610,162.04)
REA LOAN C, ACQU, NOTE	4210.02	(297,452.53)	(289,779.49)
REA LOAN C CONST. NOTE	4210.03	(1,082,139.25)	(1,054,281.94)
REA LOAN E LONG TERM	4210.04	(241,126.58)	(232,249.38)
RUS LOAN F	4210.05	(3,132,390.49)	(2,997,715.91)
RTFC - SAWTOOTH NOTE	4210.77	(1,924,849.45)	(1,821,306.05)
PACIFIC ONE- STANLEY HOUSE	4211.77	(82,253.89)	(33,891.31)
		(8,103,704.26)	(7,689,499.98)
4341 DEFERRED TAXES - IDAHO			
DEFERRED INC. TAX - FED.	4340.01	(519,317.45)	(489,132.45)
DEFERRED INC. TAX-IDAHO	4340.02	(172,065.00)	(164,345.00)
		(691,382.45)	(653,477.45)
4500 STOCKHOLDERS EQUITY			
COMMON STOCK	4510.00	(25,000.00)	(25,000.00)
ADDITIONAL PAID IN CAPITAL	4520.01	(7,910.26)	(7,910.26)
TREASURY STOCK	4530.01	64,000.00	64,000.00
RETAINED EARNINGS, PREF. TAXED	4550.01	(8,016.86)	(8,016.86)
RETAINED EARNINGS	4550.02	(2,017,595.96)	(2,403,310.00)
RETAINED EARNINGS - SAWTH	4550.77	195,273.10	422,141.19
		(1,799,249.98)	(1,958,095.93)
Grand Total		158,845.95	(230,601.16)

MIDVALE TELEPHONE EXCHANGE, INC.
AZ RATE CASE BALANCE SHEET

6/22
(2)

Group #	Description	Account #	Ending 12/31/1997 (Adjusted)
1100	CASH - IDAHO		
CASH WEST ONE BANK		1120.01	103,457.54
CASH KEY BANK		1120.02	1,798.00
CASH REA ACCT		1120.03	973.37
PETTY CASH		1120.04	800.00
CASH RADIO SHACK ACCT WEST ONE		1120.06	6,522.74
CASH US BANK (CAMBRIDGE)		1120.08	520.20
CASH - SMITH BARNEY		1120.10	37.82
CASH - MACRO SAVINGS WEST ONE		1120.22	4,193.62
CASH - CD WEST ONE BANK		1120.23	37,630.41
CASH SAVINGS 1ST INTERSTATE		1120.24	14,100.00
CASH IN BANK-SAWTOOTH		1120.77	48,848.79
			218,882.49
1181	ACCOUNTS RECEIVABLE - IDAHO		
TELECOM ACCTS RECBL IDAHO		1180.11	41,710.82
TELECOMACCTS RECBL-SAW		1180.77	20,068.41
A^CTS RCBL - NECA IDAHO		1190.04	134,397.00
. T CREDIT CARD/SC		1190.05	800.00
US INTELCO REC/NET		1190.06	1,781.88
AT&T ACCESS REC/CABS		1190.07	34,193.15
A/R-STUART ENTERPRISES		1190.65	516.27
A/R - NECA - SAWTOOTH		1190.73	6,434.00
A/R - CARRIERS-SAWTOOTH		1190.74	39,813.36
A/R CARRIERS CLEARING-SWTH		1190.75	8,246.07
A/R SAWTH TELEPH INC		1190.77	81,585.99
A/R CARRIERS		1190.80	94,051.73
A/R CARRIERS CLEARING		1190.81	(4,987.62)
A/R CARRIERS PRE-1996		1190.82	689.71
A\R - MISC		1190.89	1,924.15
A\R-RADIO SHACK		1406.09	4,485.08
A\R REC IDAHO CABLE TV		1406.16	(111.08)
A/R INTERNET		1406.32	(561.11)
			465,037.81
1182	ACCOUNTS RECEIVABLE - OREGON		
:COM ACCTS RECBL OREGON		1180.22	15,393.72
A\R - NECA OREGON		1190.08	40,723.00
A\R - OECA		1190.09	714.00
			56,830.72
1183	ACCOUNTS RECEIVABLE - ARIZONA		
TELECOM ACCTS RECBL CASCL		1180.33	12,874.05
TELECOM ACCTS RECBL YOUNG		1180.55	20,490.97
A\R - NECA, CASCABEL		1190.13	19,197.00
A\R - NECA YOUNG		1190.15	14,984.00
A/R CABLE TV ARIZONA		1406.31	411.12
			67,957.14
1221	INVENTORY - IDAHO		
INVENTORY MATERIALS		1220.10	60,063.38
INVENTORY - RADIO SHACK		1406.01	41,767.51
INVENTORY - OTHER		1406.02	11,933.08
INVENTORY - CABLE TV		1406.03	9,592.07
			123,356.04

MIDVALE TELEPHONE EXCHANGE, INC.
AZ RATE CASE BALANCE SHEET

Group #	Description	Account #	Ending 12/31/1997 (Adjusted)
1311	PREPAID - IDAHO		
PREPAID INSURANCE		1310.01	5,511.79
PREPAID LEASES		1310.06	5,128.00
			10,639.79
1411	INVESTMENTS - IDAHO		
INVESTMENT IN SUBSIDIARY - SAWTOOTH		1401.77	650,000.00
INVESTMENT - R\S FRANCHISE		1406.04	5,000.00
INVESTMENT - ID COMPANY		1406.05	3,000.00
INVESTMENT - RTFC		1406.07	18,909.93
INVESTMENT - WESTERN TELEDATA		1406.08	2,000.00
INVESTMENT - SYSTEM SEVEN		1406.17	14,000.00
INVEST-SNAKE RIVER CELLULAR		1406.20	39,187.00
INVESTMENT - RTFC		1406.77	108,728.27
			840,825.20
1421	NON-REGULATED EQUIP - IDAHO		
NON-REGULATED EQUIPMENT		1406.10	23,985.81
NON-REG ALLOW DEP EQUIP		1406.11	(22,231.82)
NON-REG CABLE TV - ID		1406.14	101,572.14
NON-REG DEP CABLE TV		1406.15	(81,601.36)
NON REG CABLE TV - AZ		1406.18	166,052.72
NON REG ALL. DEP CABLE TV		1406.19	(95,547.98)
IDAHO INTERNET - ALLOW DEP.		1406.27	12,517.94
			104,747.45
1431	OTHER NON-CURRENT - IDAHO		
DEF RECBL INS MARY & LANE		1406.33	33,752.25
DEF RECBL INS SHIRLEY		1406.34	58,960.22
RNS NOTE RECEIVABLE - (RURAL NETWORK SERVICE		1406.50	94,871.39
			187,583.86
1442	EXTRAORDINARY PLT. RET. OREGON		
OREGON PLANT RETIREMENT		1438.03	78,834.00
RES-AMORT OF ORE PLANT RET		1438.04	(78,834.00)
			0.00
2001	TELEPHONE PLT UNDER CONST. IDAH		
PLT CONST. YELLOW PINE		2003.11	34,266.83
			34,266.83
2002	TELEPHONE PLT UNDER CONST. ORE		
PLT CONST. OREGON		2003.22	115,846.01
			115,846.01
2003	TELEPHONE PLANT UNDER CONST. A		
PLT CONST. YOUNG		2003.55	16,259.27
			16,259.27
2005	PLT ACQ ADJ - ID		
PLANT - ACQ ADJ - SAWTOOTH		2005.77	1,193,322.38
RES AMT SAWTOOTH PLANT ACQ		2005.78	(99,443.55)
			1,093,878.83
2006	PLT ACQ. ADJ - OREGON		
HARPER/JUNTURA PLANT ADJ		2005.01	73,422.14
RES-AMORT H/J PLANT ADJ		2005.02	(46,367.20)

MIDVALE TELEPHONE EXCHANGE, INC.
AZ RATE CASE BALANCE SHEET

Group #	Description	Account #	Ending 12/31/1997 (Adjusted)
			27,054.94
2007	PLT ACQ ADJ - AZ		
PLANT - ACQ ADJ		2007.55	222,629.95
RES AMT. YOUNG PLT ACQ.		2007.56	(16,078.79)
			206,551.16
2111	IDAHO TELEPHONE PLT IN SERVICE		
LAND - IDAHO		2111.10	3,760.80
BUILDINGS - IDAHO		2111.11	343,841.56
LAND - SAWTOOTH		2111.70	73,600.00
BUILDINGS - SAWTOOTH		2111.77	221,912.82
VEHICLES		2112.11	339,077.41
OTHER WORK EQUIP. - IDAHO		2116.11	416,260.44
OTHER WORK EQUIP.-SAWTH		2116.77	7,868.04
OFFICE FURNITURE - IDAHO		2122.11	69,703.22
OFFICE FURNITURE -SAWTH		2122.77	861.00
O[illegible]CIAL STATION EQUIP		2123.11	3,348.44
G[illegible]ERAL PURPOSE COMPUTERS		2124.11	199,568.88
DIGITAL ELECT SWITCH-IDAHO		2212.11	1,313,424.15
DIG ELECT SWITCH-SAWTOOTH		2212.77	283,758.14
CENTRAL OFFICE TRANS - ID		2230.11	971,951.65
CO TRANS - SAWTOOTH		2230.77	878,995.03
STATION APPRATUS		2311.11	27,232.00
PUBLIC TELE EQUIP - IDAHO		2351.11	2,896.80
PUBLIC TELE EQUIP-SAWTH		2351.77	24,502.10
BURIED CABLE - IDAHO		2423.11	3,305,284.66
BURIED CABLE - SAWTOOTH		2423.77	1,220,029.49
			9,707,876.63
2112	OREGON TELEPHONE PLT IN SERVIC		
LAND - OREGON		2111.22	4,237.00
BUILDINGS - OREGON		2121.22	15,380.60
DIG ELECT SWITCH-ORE		2212.22	216,943.62
CENTRAL OFFICE TRAN - OR		2230.22	15,386.33
PU[illegible]IC TELE EQUIP - OREGON		2351.22	3,168.46
B[illegible]ED CABLE - OREGON		2423.22	737,779.81
			992,895.82
2113	ARIZONA TELEPHONE PLT IN SERVIC		
LAND - YOUNG		2111.54	20,207.26
BUILDINGS - YOUNG		2111.55	14,347.30
VEHICLES - CASCABEL		2112.33	14,644.90
VEHICLES - YOUNG		2112.55	24,900.00
OTHER WORK EQUIP.-CASCABEL		2116.33	21,980.00
OFFICE FURNITURE - YOUNG		2122.55	500.00
GEN PUR COMPUTERS-CASCABEL		2124.33	4,297.70
GEN PUR COMPUTERS-YOUNG		2124.55	1,972.46
DIG ELECT SWITCH-CASCABEL		2212.33	157,744.30
DIG ELECT SWITCH-YOUNG		2212.55	267,732.02
CENTRAL OFFICE TRAN-CASCABEL		2230.33	200,321.02
CENTRAL OFFICE TRANS-YOUNG		2230.55	510,547.03
PUBLIC TELE EQUIP - YOUNG		2351.55	5,619.22
BURIED CABLE - CASCABEL		2423.33	602,312.13
BURIED CABLE - YOUNG		2423.55	726,228.45
			2,573,353.79

MIDVALE TELEPHONE EXCHANGE, INC.
AZ RATE CASE BALANCE SHEET

Group #	Description	Account #	Ending 12/31/1997 (Adjusted)
3111	IDAHO PLT ACCUM DEP		
	ACCUM. DEP. VEHICLE	3112.11	(284,591.75)
	ACCUM DEP OTHER WK EQ-ID	3116.11	(268,257.51)
	ACCUM DEP OTHER WK-SAWTH	3116.77	(3,619.85)
	ACCUM DEP BLDG - IDAHO	3121.11	(102,773.68)
	ACCUM DEP BLDG.-SAWTH	3121.77	(34,267.14)
	ACCUM DEP OFFICE FURN-ID	3122.11	(48,322.20)
	ACCUM DEP F & F - SAWTOOTH	3122.77	(31.00)
	ACCUM DEP OFFICE EQUIP-ID	3123.11	(3,348.44)
	ACCUM DEP GEN PUR COMPTRS	3124.11	(114,059.38)
	ACCUM DEP DIG SWH-ID	3212.11	(588,117.44)
	ACCUM DEP DIG SW-SAWTH	3212.77	(135,050.03)
	ACCUM DEP C.O. TRANS-IDAHO	3230.11	(214,618.24)
	ACCUM DEP CO. TRANS-SAWTH	3230.77	(515,681.09)
	ACCUM DEP STA APPRATUS-ID	3311.11	(16,796.60)
	ACCUM DEP PUBLIC TELE-IDAHO	3351.11	(2,896.80)
	ACCUM DEP PUBLIC TELE-SAWTH	3351.77	(24,502.10)
	ACCUM DEP BURIED CABLE-ID	3423.11	(867,597.68)
	ACCUM DEP BURIED CABLE-SAWTH	3423.77	(608,694.32)
			(3,833,225.25)
3112	OREGON PLT ACCUM DEP		
	ACCUM DEP BLDG. - OREGON	3121.22	(8,635.26)
	ACCUM DEP DIG SW-OR	3212.22	(34,298.00)
	ACCUM DEP TRANS-OREGON	3230.22	(7,048.48)
	ACCUM DEP PUBLIC TELE-OREGON	3351.22	(3,168.00)
	ACCUM DEP BURIED CABLE-OREGON	3423.22	(350,486.48)
			(403,636.22)
3113	ARIZONA PLT ACCUM DEP		
	ACCUM DEP. VEHICLE CASCABEL	3112.33	(11,125.00)
	ACCUM DEP. VEHICLE -YOUNG	3112.55	(12,520.00)
	ACCUM DEP OTHER WK EQ -CASCABEL	3116.33	(19,186.00)
	ACCUM DEP BLDG. - YOUNG	3121.55	(518.00)
	ACCUM DEP F & F YOUNG	3122.55	(172.00)
	ACCUM DEP COMPUTERS CAS	3124.33	(1,455.00)
	ACCUM DEP COMPUTERS - YOUNG	3124.55	(230.00)
	ACCUM DEP DIG SW-CASCABEL	3212.33	(63,401.00)
	ACCUM DEP DIG SW-YOUNG	3212.55	(55,840.00)
	ACCUM DEP C.O. TRANS-AZ	3230.33	(63,622.00)
	ACCUM DEP C.O. TRANS-YOUNG	3230.55	(349,716.57)
	ACCUM DEP PUBLIC TELE-YOUNG	3351.55	(5,619.22)
	ACCUM DEP BURIED CABLE-CASCABEL	3423.33	(107,784.00)
	ACCUM DEP BURIED CABLE-YOUNG	3423.55	(273,960.85)
			(965,149.64)
4011	ACCOUNTS PAYABLE - IDAHO		
	A\R - M&L ENT. INC	1190.60	(4,477.89)
	ACCOUNTS PAYABLE	4010.00	(294,729.36)
	A/P AT&T	4010.01	(16.45)
	A/P U.S. WEST COMM	4010.02	(1,595.62)
	G.T.E. ACCOUNT PAY	4010.04	(24.25)
	A/P US INTELCO	4010.05	(13,800.55)
	AT&T CALLING CARD ACCT PAY	4010.06	(1,856.79)
	EMPLOYEE CONTRIB TO SAVINGS	4010.45	(3,687.32)
	USF CHARGE IDAHO	4010.47	(40.80)
	A/P - MTE - SAWTOOTH	4010.87	(81,598.46)

MIDVALE TELEPHONE EXCHANGE, INC.
AZ RATE CASE BALANCE SHEET

Group #	Description	Account #	Ending 12/31/1997 (Adjusted)
	CREDIT CARD CLEARING	4010.99	1,669.08
	CUSTOMER DEPOSITS-IDAHO	4040.11	(200.00)
	CUSTOMER DEPOSITS - SAWTOOTH	4040.47	(158.92)
	CUSTOMER DEPOSITS-SAWTH	4040.77	(300.00)
			(400,817.33)
4012	ACCOUNTS PAYABLE OREGON		
	CUSTOMER DEPOSITS-OREGON	4040.22	(375.00)
			(375.00)
4013	ACCOUNTS PAYABLE ARIZONA		
	A/P AT&T YOUNG	4010.11	50.00
	A/P US WEST COMM - YOUNG	4010.12	(634.98)
	A/P US INTLECO - YOUNG	4010.15	780.65
	CUSTOMER DEPOSITS-CASCABEL	4040.33	(250.00)
	CUSTOMER DEPOSITS-YOUNG	4040.55	(200.00)
			(254.33)
[illegible]21	PR AND OTHER TAXES - IDAHO		
	PREPAID PROPERTY TAX	1310.02	(78,963.78)
	IDAHO INCOME TAX WITHHELD	4010.31	(2,615.88)
	FICA & MEDICARE-EMPLOYEE	4010.33	(683.40)
	FICA & MEDICARE-EMPLOYER	4010.34	(795.09)
	A/P IDAHO SUTA	4010.35	(663.16)
	A/P FUTA	4010.37	(126.43)
	A/P FED EXCISE TAX	4010.40	(3,385.57)
	A/P OREGON 911 TAX	4010.41	(552.88)
	A/P SALES TAXES, IDAHO	4010.44	(1,212.30)
	MEDICAL INSURANCE-EMPLOYEE SHARE	4010.49	(1,572.98)
	TELECOMMUNICATIONS DEVICES	4010.64	(64.16)
	STATE TAX	4010.83	19,813.00
	FEDERAL TAX	4010.91	3,518.00
			(67,304.63)
4022	PAYROLL AND OTHER TAXES - OREG		
	A/P OTAP OREGON	4010.43	(31.72)
			(31.72)
4023	PAYROLL AND OTHER TAXES ARIZON		
	SALES TAX YOUNG	4010.59	(891.75)
	ARIZONA INCOME TAX WITHHELD	4010.60	(97.98)
	SALES TAX, CASCABEL	4010.61	(601.16)
	A/P ARIZONA SUTA	4010.62	(18.79)
	E911 TAX CASCABEL	4010.63	(73.62)
	A/P FUTA YOUNG	4010.77	(55.35)
	AZ E911 TAX - YOUNG	4010.78	(43.68)
	AZ TELECOMM DEVICES TAX	4010.79	(39.56)
			(1,821.89)
4031	ACC. INTEREST PAYABLE - IDAHO		
	ACCRUED INTEREST, REA	4010.51	(23,167.45)
	ACCRUED INTEREST OTHER	4010.52	(29,728.30)
			(52,895.75)
4101	DEBT PAYABLE - IDAHO		
	IBM CONTRACT	4050.03	(4,731.82)
	RTFC LOAN - CONSTRUCTION	4050.06	(285,000.00)

MIDVALE TELEPHONE EXCHANGE, INC.
AZ RATE CASE BALANCE SHEET

Group #	Description	Account #	Ending 12/31/1997 (Adjusted)
	WEST ONE NOTE (LOWBOY II)	4050.10	(13,202.00)
	PACIFIC ONE LOAN ((VEHICLE)	4050.15	(23,390.36)
	REA LOAN A - 2%	4210.01	(674,851.90)
	REA LOAN C, ACQU, NOTE	4210.02	(304,752.02)
	REA LOAN C CONST. NOTE	4210.03	(1,108,640.37)
	REA LOAN E LONG TERM	4210.04	(249,571.58)
	RUS LOAN F	4210.05	(3,260,508.65)
	RTFC - SAWTOOTH NOTE	4210.77	(2,018,848.10)
	PACIFIC ONE- STANLEY HOUSE	4211.77	(125,773.24)
			(8,069,270.04)
4341	DEFERRED TAXES - IDAHO		
	DEFERRED INC. TAX - FED.	4340.01	(448,450.00)
	DEFERRED INC. TAX-IDAHO	4340.02	(151,362.00)
			(599,812.00)
4500	STOCKHOLDERS EQUITY		
	MON STOCK	4510.00	(25,000.00)
	COMMON STOCK - SAWTOOTH	4510.77	(650,000.00)
	ADDITIONAL PAID IN CAPITAL	4520.01	(7,910.26)
	TREASURY STOCK	4530.01	64,000.00
	RETAINED EARNINGS, PREF. TAXED	4550.01	(8,016.86)
	RETAINED EARNINGS	4550.02	(1,723,686.33)
	RETAINED EARNINGS - SAWTH	4550.77	14,077.21
			(2,336,536.24)
	Grand Total		112,713.74

MIDVALE TELEPHONE EXCHANGE, INC.
AUDIT REPORT CONSOLIDATED BALANCE SHEET

6-22-00

Account Name	Account #	Prior 12/31/1998 (Adjusted)	Ending 12/31/1999 (Adjusted)
1120 CASH AND CASH EQUIVALENTS			
CASH WEST ONE BANK	1120.01	131,477.32	123,663.69
CASH KEY BANK	1120.02	2,788.39	4,225.98
PETTY CASH	1120.04	800.00	800.00
CASH RADIO SHACK ACCT WEST ONE	1120.06	9,439.00	18,314.43
CASH US BANK (CAMBRIDGE)	1120.08	533.19	542.90
CASH SE AZ FCU - CHECKING	1120.09	0.00	10,483.50
CASH SE AZ FCU SAVINGS	1120.15	0.00	25.52
CASH - MACRO SAVINGS WEST ONE	1120.22	4,315.52	4,407.03
CASH - CD WEST ONE BANK	1120.23	39,586.57	41,525.40
CASH SAVINGS 1ST INTERSTATE	1120.24	14,827.33	15,433.09
MERRILL LYNCH	1120.26	826.17	372.32
CASH - MERRILL LYNCH - SAWTOOTH	1120.27	11,076.08	1,021.86
CASH IN BANK-SAWTOOTH	1120.77	17,005.43	50,634.61
		232,675.00	271,450.33
1180 ACCOUNTS RECEIVABLE			
TELECOM ACCTS RECBL IDAHO	1180.11	27,784.59	45,719.77
TELECOM ACCTS RECBL OREGON	1180.22	19,699.14	23,694.68
TELECOM ACCTS RECBL CASCL	1180.33	23,262.73	31,710.50
TELECOM ACCTS RECBL YOUNG	1180.55	15,241.18	26,762.42
TELECOMACCTS RECBL-SAW	1180.77	16,154.53	19,138.45
U S WEST ACCES/SC	1190.02	0.00	1,848.05
ACCTS RCBL - NECA IDAHO	1190.04	118,200.00	104,491.00
US INTELCO REC/NET	1190.06	1,989.63	8,316.57
A\R - NECA OREGON	1190.08	20,269.00	15,382.00
A\R - OECA	1190.09	1,838.00	2,942.00
A\R - NECA, CASCABEL	1190.13	19,503.00	17,219.00
A\R - NECA YOUNG	1190.15	15,268.00	12,111.00
U S WEST ACCESS YOUNG	1190.50	0.00	1,913.53
A\R - M&L ENT. INC	1190.60	(9,581.47)	24,030.41
A/R - DENNIS FARRINGTON	1190.61	405.15	405.15
ACCOUNT RECEIVALE S & L	1190.69	10,097.53	13,709.78
A/R - NECA - SAWTOOTH	1190.73	4,335.00	7,639.00
A/R - CARRIERS-SAWTOOTH	1190.74	39,720.35	36,495.61
A/R CARRIERS	1190.80	121,776.18	103,562.17
A\R - MISC	1190.89	14,692.83	63,124.10
RADIO SHACK	1406.09	6,087.06	3,172.87
ACCOUNTS RECEIVABLE RNS	1406.27	18,103.06	63,589.24
A/P US INTLECO - YOUNG	4010.15	(2,897.40)	1,739.73
RADIO SHACK COLLECTIONS INTERNET PYMTS.	4010.27	532.96	5,364.03
RADIO SHACK COLLECTIONS-LONG DISTANCE	4010.28	445.65	989.92
		482,926.70	635,070.98
1220 INVENTORY			
INVENTORY MATERIALS	1220.10	50,388.58	101,140.96
INVENTORY - RADIO SHACK	1406.01	41,465.49	38,813.32
INVENTORY - OTHER	1406.02	10,812.98	16,942.02
INVENTORY - CABLE TV	1406.03	9,212.92	7,903.73
		111,879.97	164,800.03
1310 PREPAID			
PREPAID INSURANCE	1310.01	6,008.01	7,159.20
PREPAID ARIZ EXPENSE	1310.04	99,377.46	0.00
PREPAID LEASES	1310.06	4,456.00	3,784.00
		109,841.47	10,943.20

MIDVALE TELEPHONE EXCHANGE, INC.
AUDIT REPORT CONSOLIDATED BALANCE SHEET

Account Name	Account #	Prior 12/31/1998 (Adjusted)	Ending 12/31/1999 (Adjusted)
1406 INVESTMENTS			
INVESTMENT - R\S FRANCHISE	1406.04	5,000.00	5,000.00
INVESTMENT - ID COMPANY	1406.05	3,000.00	3,000.00
INVESTMENT - RTFC	1406.07	34,790.22	35,629.65
INVESTMENT - WESTERN TELEDATA	1406.08	2,000.00	2,000.00
INVESTMENT - SYSTEM SEVEN	1406.17	14,000.00	14,000.00
INVEST-SNAKE RIVER CELLULAR	1406.20	39,187.00	39,187.00
INVESTMENT - RTFC	1406.77	133,091.89	138,519.98
		231,069.11	237,336.63
1407 NON-REGULATED EQUIP			
NON-REGULATED EQUIPMENT	1406.10	23,985.81	23,985.81
NON-REG ALLOW DEP EQUIP	1406.11	(23,096.88)	(23,604.84)
NON-REG CABLE TV - ID	1406.14	112,617.10	112,617.10
NON-REG DEP CABLE TV	1406.15	(93,386.34)	(102,823.98)
NON REG CABLE TV - AZ	1406.18	173,555.88	176,335.88
NON REG ALL. DEP CABLE TV	1406.19	(115,018.00)	(133,574.00)
INVESTMENT - INT - ARIZONA	1406.26	2,006.78	2,006.78
ARIZONA INTERNET-ALLOW. DEP	1406.29	(401.00)	(1,043.00)
		80,263.35	53,899.75
1408 OTHER NON-CURRENT			
DEF RECBL INS MARY & LANE	1406.33	39,152.61	44,552.97
DEF RECBL INS SHIRLEY	1406.34	68,689.81	78,449.27
RNS NOTE RECEIVABLE - (RURAL NETWORK SERVICE	1406.50	82,663.31	106,196.31
		190,505.73	229,198.55
1438 EXTRAORDINARY PLANT RETIREMEN			
DEFERRED CHARGES - ARIZONA	1439.01	0.00	112,098.50
		0.00	112,098.50
2005 PLANT ACQ ADJUSTMENT			
HARPER/JUNTURA PLANT ADJ	2005.01	73,422.14	73,422.14
RES-AMORT H/J PLANT ADJ	2005.02	(50,231.20)	(54,095.54)
PLANT - ACQ ADJ - SAWTOOTH	2005.77	1,422,826.49	1,422,826.49
RES AMT SAWTOOTH PLANT ACQ	2005.78	(206,099.28)	(321,788.62)
PLANT - ACQ ADJ	2007.55	222,629.95	222,629.95
AMT. YOUNG PLT ACQ.	2007.56	(30,920.87)	(45,762.85)
		1,431,627.23	1,297,231.57
2111 TELE PLANT IN SERVICE			
LAND - IDAHO	2111.10	3,760.80	3,760.80
BUILDINGS - IDAHO	2111.11	374,286.44	374,286.44
LAND - OREGON	2111.22	4,237.00	4,237.00
LAND - YOUNG	2111.54	20,207.26	20,207.26
BUILDINGS - YOUNG	2111.55	14,347.30	14,347.30
LAND - SAWTOOTH	2111.70	73,600.00	73,600.00
BUILDINGS - SAWTOOTH	2111.77	221,912.82	228,143.82
VEHICLES	2112.11	368,073.81	422,228.38
VEHICLES - CASCABEL	2112.33	29,644.90	29,644.90
VEHICLES - YOUNG	2112.55	24,900.00	24,900.00
VEHICLES - SAWTOOTH	2112.77	16,797.50	16,797.50
OTHER WORK EQUIP. - IDAHO	2116.11	421,864.42	438,487.45
OTHER WORK EQUIP.-CASCABEL	2116.33	21,980.00	21,980.00
OTHER WORK EQUIP.-SAWTH	2116.77	12,968.54	12,968.54
BUILDINGS - OREGON	2121.22	15,380.60	15,380.60
OFFICE FURNITURE - IDAHO	2122.11	69,703.22	69,703.22
OFFICE FURNITURE - YOUNG	2122.55	500.00	500.00

MIDVALE TELEPHONE EXCHANGE, INC.
AUDIT REPORT CONSOLIDATED BALANCE SHEET

Account Name	Account #	Prior 12/31/1998 (Adjusted)	Ending 12/31/1999 (Adjusted)
OFFICE FURNITURE -SAWTH	2122.77	861.00	861.00
OFFICIAL STATION EQUIP	2123.11	3,348.44	3,348.44
GENERAL PURPOSE COMPUTERS	2124.11	217,398.45	256,389.28
GEN PUR COMPUTERS-CASCABEL	2124.33	6,970.56	6,970.56
GEN PUR COMPUTERS-YOUNG	2124.55	1,972.46	1,972.46
DIGITAL ELECT SWITCH-IDAHO	2212.11	1,343,735.94	1,550,840.96
DIG ELECT SWITCH-ORE	2212.22	227,420.57	282,208.21
DIG ELECT SWITCH-CASCABEL	2212.33	157,744.30	187,974.25
DIG ELECT SWITCH-YOUNG	2212.55	320,795.00	309,186.16
DIG ELECT SWITCH-SAWTOOTH	2212.77	367,569.13	428,998.95
CENTRAL OFFICE TRANS - ID	2230.11	1,006,852.52	1,103,441.44
CENTRAL OFFICE TRAN - OR	2230.22	73,337.72	81,306.04
CENTRAL OFFICE TRAN-CASCABEL	2230.33	303,076.24	304,973.68
CENTRAL OFFICE TRANS-YOUNG	2230.55	560,420.47	565,808.81
CO TRANS - SAWTOOTH	2230.77	993,624.85	1,003,642.75
STATION APPRATUS	2311.11	27,232.00	27,232.00
PUBLIC TELE EQUIP - IDAHO	2351.11	2,896.80	2,896.80
PUBLIC TELE EQUIP - OREGON	2351.22	3,168.46	3,168.46
[illegible]BLIC TELE EQUIP - YOUNG	2351.55	5,619.22	5,619.22
[illegible]BLIC TELE EQUIP-SAWTH	2351.77	24,502.10	24,502.10
BURIED CABLE - IDAHO	2423.11	3,345,248.58	3,359,456.18
BURIED CABLE - OREGON	2423.22	901,522.57	901,522.57
BURIED CABLE - CASCABEL	2423.33	766,075.21	766,075.21
BURIED CABLE - YOUNG	2423.55	800,503.67	800,503.67
BURIED CABLE - SAWTOOTH	2423.77	1,227,101.49	1,227,101.49
		14,383,162.36	14,977,173.90
3112 ACCUM DEP TELE PLANT			
ACCUM. DEP. VEHICLE	3112.11	(301,653.14)	(272,800.07)
ACCUM DEP. VEHICLE CASCABEL	3112.33	(13,544.90)	(17,344.90)
ACCUM DEP. VEHICLE -YOUNG	3112.55	(17,500.00)	(22,480.00)
ACCUM DEP. VEHICLE-SAWTH	3112.77	(4,199.00)	(8,398.00)
ACCUM DEP OTHER WK EQ-ID	3116.11	(312,506.43)	(349,024.43)
ACCUM DEP OTHER WK EQ -CASCABEL	3116.33	(21,659.00)	(21,980.00)
ACCUM DEP OTHER WK-SAWTH	3116.77	(4,742.85)	(6,533.85)
ACCUM DEP BLDG - IDAHO	3121.11	(113,976.68)	(125,333.68)
[illegible]CUM DEP BLDG. - OREGON	3121.22	(9,097.26)	(9,559.26)
[illegible]CUM DEP BLDG. - YOUNG	3121.55	(996.00)	(1,474.00)
ACCUM DEP BLDG.-SAWTH	3121.77	(40,992.14)	(47,780.14)
ACCUM DEP OFFICE FURN-ID	3122.11	(53,926.00)	(58,941.00)
ACCUM DEP F & F YOUNG	3122.55	(243.00)	(314.00)
ACCUM DEP F & F - SAWTOOTH	3122.77	(154.00)	(277.00)
ACCUM DEP OFFICE EQUIP-ID	3123.11	(3,348.44)	(3,348.44)
ACCUM DEP GEN PUR COMPTRS	3124.11	(148,071.91)	(174,702.74)
ACCUM DEP COMPUTERS CAS	3124.33	(2,360.00)	(3,755.00)
ACCUM DEP COMPUTERS - YOUNG	3124.55	(624.00)	(1,018.00)
ACCUM DEP DIG SWH-ID	3212.11	(750,168.44)	(957,036.54)
ACCUM DEP DIG SW-OR	3212.22	(49,327.00)	(92,763.90)
ACCUM DEP DIG SW-CASCABEL	3212.33	(79,223.00)	(106,672.00)
ACCUM DEP DIG SW-YOUNG	3212.55	(85,708.00)	(18,622.00)
ACCUM DEP DIG SW-SAWTH	3212.77	(76,195.00)	(135,091.52)
ACCUM DEP C.O. TRANS-IDAHO	3230.11	(329,013.24)	(440,035.97)
ACCUM DEP TRANS-OREGON	3230.22	(13,753.48)	(26,963.48)
ACCUM DEP C.O. TRANS-AZ	3230.33	(88,879.00)	(97,115.00)
ACCUM DEP C.O. TRANS-YOUNG	3230.55	(367,043.57)	(403,686.57)
ACCUM DEP CO. TRANS-SAWTH	3230.77	(656,689.09)	(800,906.66)
ACCUM DEP STA APPRATUS-ID	3311.11	(16,796.60)	(16,796.60)
ACCUM DEP PUBLIC TELE-IDAHO	3351.11	(2,896.80)	(2,896.80)

MIDVALE TELEPHONE EXCHANGE, INC.
AUDIT REPORT CONSOLIDATED BALANCE SHEET

Account Name	Account #	Prior 12/31/1998 (Adjusted)	Ending 12/31/1999 (Adjusted)
ACCUM DEP PUBLIC TELE-OREGON	3351.22	(3,168.00)	(3,168.00)
ACCUM DEP PUBLIC TELE-YOUNG	3351.55	(5,619.22)	(5,619.22)
ACCUM DEP PUBLIC TELE-SAWTH	3351.77	(24,502.10)	(24,502.10)
ACCUM DEP BURIED CABLE-ID	3423.11	(1,058,946.68)	(1,252,258.68)
ACCUM DEP BURIED CABLE-OREGON	3423.22	(391,171.48)	(435,267.48)
ACCUM DEP BURIED CABLE-CASCABEL	3423.33	(133,447.00)	(165,366.00)
ACCUM DEP BURIED CABLE-YOUNG	3423.55	(305,767.85)	(339,122.83)
ACCUM DEP BURIED CABLE-SAWTH	3423.77	(690,265.32)	(772,071.32)
		(6,178,175.62)	(7,221,027.18)
4001 LINE OF CREDIT PAYABLE			
RTFC LOAN - LINE OF CREDIT	4050.11	0.00	(301,000.00)
		0.00	(301,000.00)
4010 ACCOUNTS PAYABLE			
ACCOUNTS PAYABLE	4010.00	(169,950.54)	(131,258.16)
A/P AT&T	4010.01	(46,068.79)	(46,828.84)
A/P U.S. WEST COMM	4010.02	0.00	1,689.38
[illegible]E. ACCOUNT PAY	4010.04	(39.14)	(10.87)
A/P US INTELCO	4010.05	(12,551.66)	(6,716.64)
ACCOUNTS PAYABLE OTHER	4010.07	(6,159.49)	(16,169.00)
A/P AT&T YOUNG	4010.11	(14,539.36)	(15,906.56)
EMPLOYEE CONTRIB TO SAVINGS	4010.45	(4,728.94)	(9,154.96)
USF CHARGE IDAHO	4010.47	(161.55)	(171.23)
CUSTOMER DEPOSITS-IDAHO	4040.11	(50.00)	(450.00)
CUSTOMER DEPOSITS-OREGON	4040.22	(250.00)	(200.00)
CUSTOMER DEPOSITS-CASCABEL	4040.33	(25.00)	(300.00)
CUSTOMER DEPOSITS - SAWTOOTH	4040.47	(288.61)	0.00
CUSTOMER DEPOSITS-YOUNG	4040.55	(425.00)	(650.00)
CUSTOMER DEPOSITS-SAWTH	4040.77	(100.00)	(950.00)
		(255,338.08)	(227,076.88)
4011 ACC P/R AND OTHER TAXES			
PREPAID PROPERTY TAX	1310.02	(75,927.26)	(77,715.63)
PREPAID EXP - SAWTOOTH	1320.77	0.00	(3,586.93)
FEDERAL WITHHOLDING	4010.30	0.00	(4,917.80)
[illegible]HO INCOME TAX WITHHELD	4010.31	(2,971.44)	(4,049.68)
F[illegible]A & MEDICARE-EMPLOYEE	4010.33	0.00	(3,397.25)
FICA & MEDICARE-EMPLOYER	4010.34	(83.79)	(3,397.25)
A/P IDAHO SUTA	4010.35	(617.94)	(958.40)
A/P FUTA	4010.37	(88.44)	(150.48)
A/P FED EXCISE TAX	4010.40	(2,454.51)	(2,472.01)
A/P OREGON 911 TAX	4010.41	(546.18)	(558.77)
A/P ITAP IDAHO	4010.42	(132.83)	(54.98)
A/P OTAP OREGON	4010.43	0.00	(24.34)
A/P SALES TAXES, IDAHO	4010.44	(531.11)	(1,286.44)
A/P USE TAX - IDAHO	4010.46	(463.33)	(90.43)
DEFICIENT IDAHO USE TAX	4010.50	(39.01)	0.00
GILA COUNTY (GLA) AZ USE TAX	4010.58	0.00	(9,741.05)
SALES TAX YOUNG	4010.59	(855.96)	(930.01)
ARIZONA INCOME TAX WITHHELD	4010.60	(128.86)	(142.07)
SALES TAX, CASCABEL	4010.61	(753.48)	(555.76)
A/P ARIZONA SUTA	4010.62	(113.34)	0.00
E911 TAX CASCABEL	4010.63	(43.85)	(53.85)
TELECOMMUNICATIONS DEVICES	4010.64	(70.69)	(48.34)
A/P FUTA YOUNG	4010.77	0.00	(1.32)
AZ E911 TAX - YOUNG	4010.78	(81.07)	(90.78)
AZ TELECOMM DEVICES TAX	4010.79	(39.71)	(79.09)

MIDVALE TELEPHONE EXCHANGE, INC.
AUDIT REPORT CONSOLIDATED BALANCE SHEET

Account Name	Account #	Prior 12/31/1998 (Adjusted)	Ending 12/31/1999 (Adjusted)
STATE TAX	4010.83	5,860.00	(20.00)
FEDERAL TAX	4010.91	65,000.00	0.00
A/P IDAHO 911 CHARGE	4010.92	0.00	(47.48)
		(15,082.80)	(114,370.14)
4012 ACC INTEREST PAYABLE			
ACCRUED INTEREST, REA	4010.51	(22,335.11)	(21,465.53)
ACCRUED INTEREST OTHER	4010.52	(29,836.67)	(33,791.51)
		(52,171.78)	(55,257.04)
4050 LONG TERM			
CURRENT PORTION OF DEBT	4050.02	0.00	787,707.32
RTFC LOAN - CONSTRUCTION	4050.06	(258,865.54)	(200,631.28)
C D LOANS	4050.07	(30,060.00)	0.00
PICK-UPS LOAN-WEST ONE	4050.09	(15,888.08)	(10,485.46)
WEST ONE NOTE (LOWBOY II)	4050.10	(4,074.47)	0.00
PACIFIC ONE LOAN ((VEHICLE)	4050.15	(12,826.98)	(1,981.25)
1994 KENWORTH TRUCK LOAN - PAC ONE NOTE #9022	4050.16	0.00	(25,640.76)
[FIC ONE - STANLEY HOUSE	4050.17	0.00	(22,360.00)
NOTE/US BANK - 99 DODGE DURANGO LOAN	4050.18	0.00	(18,516.80)
BANK/WEST/VEHICLE LOAN - EAGLE-KAREN-#700	4050.19	0.00	(7,677.19)
RTFC - SWITH LOAN	4209.77	(378,947.00)	(362,821.12)
REA LOAN A - 2%	4210.01	(642,830.00)	(610,162.04)
REA LOAN C, ACQU, NOTE	4210.02	(297,452.53)	(289,779.49)
REA LOAN C CONST. NOTE	4210.03	(1,082,139.25)	(1,054,281.94)
REA LOAN E LONG TERM	4210.04	(241,126.58)	(232,249.38)
RUS LOAN F	4210.05	(3,132,390.49)	(2,997,715.91)
RTFC - SAWTOOTH NOTE	4210.77	(1,924,849.45)	(1,821,306.05)
PACIFIC ONE- STANLEY HOUSE	4211.77	(82,253.89)	(33,891.31)
		(8,103,704.26)	(6,901,792.66)
4051 LESS CURRENT PORTION OF LONG-T			
CURRENT PORTION OF DEBT	4055.00	0.00	(787,707.32)
		0.00	(787,707.32)
4340 DEFERRED INCOME TAXES			
' ERRED INC. TAX - FED.	4340.01	(519,317.45)	(489,132.45)
DEFERRED INC. TAX-IDAHO	4340.02	(172,065.00)	(164,345.00)
		(691,382.45)	(653,477.45)
4500 STOCKHOLDERS' EQUITY			
COMMON STOCK	4510.00	(25,000.00)	(25,000.00)
ADDITIONAL PAID IN CAPITAL	4520.01	(7,910.26)	(7,910.26)
TREASURY STOCK	4530.01	64,000.00	64,000.00
RETAINED EARNINGS, PREF. TAXED	4550.01	(8,016.86)	(8,016.86)
RETAINED EARNINGS	4550.02	(2,017,595.96)	(2,403,310.00)
RETAINED EARNINGS - SAWTH	4550.77	195,273.10	422,141.19
		(1,799,249.98)	(1,958,095.93)
Grand Total		158,845.95	(230,601.16)

MIDVALE TELEPHONE EXCHANGE, INC.
AUDIT REPORT CONSOLIDATED BALANCE SHEET

6/20/00

Group #	Description	Account #	Ending 12/31/1997 (Adjusted)
1120	CASH AND CASH EQUIVALENTS		
	CASH WEST ONE BANK	1120.01	103,457.54
	CASH KEY BANK	1120.02	1,798.00
	CASH REA ACCT	1120.03	973.37
	PETTY CASH	1120.04	800.00
	CASH RADIO SHACK ACCT WEST ONE	1120.06	6,522.74
	CASH US BANK (CAMBRIDGE)	1120.08	520.20
	CASH - SMITH BARNEY	1120.10	37.82
	CASH - MACRO SAVINGS WEST ONE	1120.22	4,193.62
	CASH - CD WEST ONE BANK	1120.23	37,630.41
	CASH SAVINGS 1ST INTERSTATE	1120.24	14,100.00
	CASH IN BANK-SAWTOOTH	1120.77	48,848.79
			218,882.49
1180	ACCOUNTS RECEIVABLE		
	TELECOM ACCTS RECBL IDAHO	1180.11	41,710.82
	TELECOM ACCTS RECBL OREGON	1180.22	15,393.72
	TELECOM ACCTS RECBL CASCL	1180.33	12,874.05
	TELECOM ACCTS RECBL YOUNG	1180.55	20,490.97
	TELECOMACCTS RECBL-SAW	1180.77	20,068.41
	ACCTS RCBL - NECA IDAHO	1190.04	134,397.00
	AT&T CREDIT CARD/SC	1190.05	800.00
	US INTELCO REC/NET	1190.06	1,781.88
	AT&T ACCESS REC/CABS	1190.07	34,193.15
	A\R - NECA OREGON	1190.08	40,723.00
	A\R - OECA	1190.09	714.00
	A\R - NECA, CASCABEL	1190.13	19,197.00
	A\R - NECA YOUNG	1190.15	14,984.00
	A/R-STUART ENTERPRISES	1190.65	516.27
	A/R - NECA - SAWTOOTH	1190.73	6,434.00
	A/R - CARRIERS-SAWTOOTH	1190.74	39,813.36
	A/R CARRIERS CLEARING-SWTH	1190.75	8,246.07
	A/R SAWTH TELEPH INC	1190.77	81,585.99
	A/R CARRIERS	1190.80	94,051.73
	A/R CARRIERS CLEARING	1190.81	(4,987.62)
	A/R CARRIERS PRE-1996	1190.82	689.71
	A/R MISC	1190.89	1,924.15
	A\R-RADIO SHACK	1406.09	4,485.08
	A\R REC IDAHO CABLE TV	1406.16	(111.08)
	A/R CABLE TV ARIZONA	1406.31	411.12
	A/R INTERNET	1406.32	(561.11)
			589,825.67
1220	INVENTORY		
	INVENTORY MATERIALS	1220.10	60,063.38
	INVENTORY - RADIO SHACK	1406.01	41,767.51
	INVENTORY - OTHER	1406.02	11,933.08
	INVENTORY - CABLE TV	1406.03	9,592.07
			123,356.04
1310	PREPAID		
	PREPAID INSURANCE	1310.01	5,511.79
	PREPAID LEASES	1310.06	5,128.00
			10,639.79
1406	INVESTMENTS		
	INVESTMENT IN SUBSIDIARY - SAWTOOTH	1401.77	650,000.00
	INVESTMENT - R\S FRANCHISE	1406.04	5,000.00

MIDVALE TELEPHONE EXCHANGE, INC.
AUDIT REPORT CONSOLIDATED BALANCE SHEET

Group #	Description	Account #	Ending 12/31/1997 (Adjusted)
	INVESTMENT - ID COMPANY	1406.05	3,000.00
	INVESTMENT - RTFC	1406.07	18,909.93
	INVESTMENT - WESTERN TELEDATA	1406.08	2,000.00
	INVESTMENT - SYSTEM SEVEN	1406.17	14,000.00
	INVEST-SNAKE RIVER CELLULAR	1406.20	39,187.00
	INVESTMENT - RTFC	1406.77	108,728.27
			840,825.20
1407	NON-REGULATED EQUIP		
	NON-REGULATED EQUIPMENT	1406.10	23,985.81
	NON-REG ALLOW DEP EQUIP	1406.11	(22,231.82)
	NON-REG CABLE TV - ID	1406.14	101,572.14
	NON-REG DEP CABLE TV	1406.15	(81,601.36)
	NON REG CABLE TV - AZ	1406.18	166,052.72
	NON REG ALL. DEP CABLE TV	1406.19	(95,547.98)
	IDAHO INTERNET - ALLOW DEP.	1406.27	12,517.94
			104,747.45
8	OTHER NON-CURRENT		
	DEF RECBL INS MARY & LANE	1406.33	33,752.25
	DEF RECBL INS SHIRLEY	1406.34	58,960.22
	RNS NOTE RECEIVABLE - (RURAL NETWORK SERVICE	1406.50	94,871.39
			187,583.86
1438	EXTRAORDINARY PLANT RETIREMEN		
	OREGON PLANT RETIREMENT	1438.03	78,834.00
	RES-AMORT OF ORE PLANT RET	1438.04	(78,834.00)
			0.00
2003	TELEPHONE PLANT UNDER CONSTRU		
	PLT CONST. YELLOW PINE	2003.11	34,266.83
	PLT CONST. OREGON	2003.22	115,846.01
	PLT CONST. YOUNG	2003.55	16,259.27
			166,372.11
2005	PLANT ACQ ADJUSTMENT		
	PER/JUNTURA PLANT ADJ	2005.01	73,422.14
	RES-AMORT H/J PLANT ADJ	2005.02	(46,367.20)
	PLANT - ACQ ADJ - SAWTOOTH	2005.77	1,193,322.38
	RES AMT SAWTOOTH PLANT ACQ	2005.78	(99,443.55)
	PLANT - ACQ ADJ	2007.55	222,629.95
	RES AMT. YOUNG PLT ACQ.	2007.56	(16,078.79)
			1,327,484.93
2111	TELE PLANT IN SERVICE		
	LAND - IDAHO	2111.10	3,760.80
	BUILDINGS - IDAHO	2111.11	343,841.56
	LAND - OREGON	2111.22	4,237.00
	LAND - YOUNG	2111.54	20,207.26
	BUILDINGS - YOUNG	2111.55	14,347.30
	LAND - SAWTOOTH	2111.70	73,600.00
	BUILDINGS - SAWTOOTH	2111.77	221,912.82
	VEHICLES	2112.11	339,077.41
	VEHICLES - CASCABEL	2112.33	14,644.90
	VEHICLES - YOUNG	2112.55	24,900.00
	OTHER WORK EQUIP. - IDAHO	2116.11	416,260.44
	OTHER WORK EQUIP.-CASCABEL	2116.33	21,980.00
	OTHER WORK EQUIP.-SAWTH	2116.77	7,868.04

MIDVALE TELEPHONE EXCHANGE, INC.
AUDIT REPORT CONSOLIDATED BALANCE SHEET

Group #	Description	Account #	Ending 12/31/1997 (Adjusted)
	BUILDINGS - OREGON	2121.22	15,380.60
	OFFICE FURNITURE - IDAHO	2122.11	69,703.22
	OFFICE FURNITURE - YOUNG	2122.55	500.00
	OFFICE FURNITURE -SAWTH	2122.77	861.00
	OFFICIAL STATION EQUIP	2123.11	3,348.44
	GENERAL PURPOSE COMPUTERS	2124.11	199,568.88
	GEN PUR COMPUTERS-CASCABEL	2124.33	4,297.70
	GEN PUR COMPUTERS-YOUNG	2124.55	1,972.46
	DIGITAL ELECT SWITCH-IDAHO	2212.11	1,313,424.15
	DIG ELECT SWITCH-ORE	2212.22	216,943.62
	DIG ELECT SWITCH-CASCABEL	2212.33	157,744.30
	DIG ELECT SWITCH-YOUNG	2212.55	267,732.02
	DIG ELECT SWITCH-SAWTOOTH	2212.77	283,758.14
	CENTRAL OFFICE TRANS - ID	2230.11	971,951.65
	CENTRAL OFFICE TRAN - OR	2230.22	15,386.33
	CENTRAL OFFICE TRAN-CASCABEL	2230.33	200,321.02
	CENTRAL OFFICE TRANS-YOUNG	2230.55	510,547.03
	CO TRANS - SAWTOOTH	2230.77	878,995.03
	S ION APPRATUS	2311.11	27,232.00
	PUBLIC TELE EQUIP - IDAHO	2351.11	2,896.80
	PUBLIC TELE EQUIP - OREGON	2351.22	3,168.46
	PUBLIC TELE EQUIP - YOUNG	2351.55	5,619.22
	PUBLIC TELE EQUIP-SAWTH	2351.77	24,502.10
	BURIED CABLE - IDAHO	2423.11	3,305,284.66
	BURIED CABLE - OREGON	2423.22	737,779.81
	BURIED CABLE - CASCABEL	2423.33	602,312.13
	BURIED CABLE - YOUNG	2423.55	726,228.45
	BURIED CABLE - SAWTOOTH	2423.77	1,220,029.49
			13,274,126.24
3112	ACCUM DEP TELE PLANT		
	ACCUM. DEP. VEHICLE	3112.11	(284,591.75)
	ACCUM DEP. VEHICLE CASCABEL	3112.33	(11,125.00)
	ACCUM DEP. VEHICLE -YOUNG	3112.55	(12,520.00)
	ACCUM DEP OTHER WK EQ-ID	3116.11	(268,257.51)
	ACCUM DEP OTHER WK EQ -CASCABEL	3116.33	(19,186.00)
	ACCUM DEP OTHER WK-SAWTH	3116.77	(3,619.85)
	ACCUM DEP BLDG - IDAHO	3121.11	(102,773.68)
	ACCUM DEP BLDG. - OREGON	3121.22	(8,635.26)
	ACCUM DEP BLDG. - YOUNG	3121.55	(518.00)
	ACCUM DEP BLDG.-SAWTH	3121.77	(34,267.14)
	ACCUM DEP OFFICE FURN-ID	3122.11	(48,322.20)
	ACCUM DEP F & F YOUNG	3122.55	(172.00)
	ACCUM DEP F & F - SAWTOOTH	3122.77	(31.00)
	ACCUM DEP OFFICE EQUIP-ID	3123.11	(3,348.44)
	ACCUM DEP GEN PUR COMPTRS	3124.11	(114,059.38)
	ACCUM DEP COMPUTERS CAS	3124.33	(1,455.00)
	ACCUM DEP COMPUTERS - YOUNG	3124.55	(230.00)
	ACCUM DEP DIG SWH-ID	3212.11	(588,117.44)
	ACCUM DEP DIG SW-OR	3212.22	(34,298.00)
	ACCUM DEP DIG SW-CASCABEL	3212.33	(63,401.00)
	ACCUM DEP DIG SW-YOUNG	3212.55	(55,840.00)
	ACCUM DEP DIG SW-SAWTH	3212.77	(135,050.03)
	ACCUM DEP C.O. TRANS-IDAHO	3230.11	(214,618.24)
	ACCUM DEP TRANS-OREGON	3230.22	(7,048.48)
	ACCUM DEP C.O. TRANS-AZ	3230.33	(63,622.00)
	ACCUM DEP C.O. TRANS-YOUNG	3230.55	(349,716.57)
	ACCUM DEP CO. TRANS-SAWTH	3230.77	(515,681.09)

MIDVALE TELEPHONE EXCHANGE, INC.
AUDIT REPORT CONSOLIDATED BALANCE SHEET

Group #	Description	Account #	Ending 12/31/1997 (Adjusted)
	ACCUM DEP STA APPRATUS-ID	3311.11	(16,796.60)
	ACCUM DEP PUBLIC TELE-IDAHO	3351.11	(2,896.80)
	ACCUM DEP PUBLIC TELE-OREGON	3351.22	(3,168.00)
	ACCUM DEP PUBLIC TELE-YOUNG	3351.55	(5,619.22)
	ACCUM DEP PUBLIC TELE-SAWTH	3351.77	(24,502.10)
	ACCUM DEP BURIED CABLE-ID	3423.11	(867,597.68)
	ACCUM DEP BURIED CABLE-OREGON	3423.22	(350,486.48)
	ACCUM DEP BURIED CABLE-CASCABEL	3423.33	(107,784.00)
	ACCUM DEP BURIED CABLE-YOUNG	3423.55	(273,960.85)
	ACCUM DEP BURIED CABLE-SAWTH	3423.77	(608,694.32)
			(5,202,011.11)
4010	ACCOUNTS PAYABLE		
	A\R - M&L ENT. INC	1190.60	(4,477.89)
	ACCOUNTS PAYABLE	4010.00	(294,729.36)
	A/P AT&T	4010.01	(16.45)
	A/P U.S. WEST COMM	4010.02	(1,595.62)
	G T E. ACCOUNT PAY	4010.04	(24.25)
	/ S INTELCO	4010.05	(13,800.55)
	AT&T CALLING CARD ACCT PAY	4010.06	(1,856.79)
	A/P AT&T YOUNG	4010.11	50.00
	A/P US WEST COMM - YOUNG	4010.12	(634.98)
	A/P US INTLECO - YOUNG	4010.15	780.65
	EMPLOYEE CONTRIB TO SAVINGS	4010.45	(3,687.32)
	USF CHARGE IDAHO	4010.47	(40.80)
	A/P - MTE - SAWTOOTH	4010.87	(81,598.46)
	CREDIT CARD CLEARING	4010.99	1,669.08
	CUSTOMER DEPOSITS-IDAHO	4040.11	(200.00)
	CUSTOMER DEPOSITS-OREGON	4040.22	(375.00)
	CUSTOMER DEPOSITS-CASCABEL	4040.33	(250.00)
	CUSTOMER DEPOSITS - SAWTOOTH	4040.47	(158.92)
	CUSTOMER DEPOSITS-YOUNG	4040.55	(200.00)
	CUSTOMER DEPOSITS-SAWTH	4040.77	(300.00)
			(401,446.66)
4011	ACC P/R AND OTHER TAXES		
	I 'AID PROPERTY TAX	1310.02	(78,963.78)
	IDAHO INCOME TAX WITHHELD	4010.31	(2,615.88)
	FICA & MEDICARE-EMPLOYEE	4010.33	(683.40)
	FICA & MEDICARE-EMPLOYER	4010.34	(795.09)
	A/P IDAHO SUTA	4010.35	(663.16)
	A/P FUTA	4010.37	(126.43)
	A/P FED EXCISE TAX	4010.40	(3,385.57)
	A/P OREGON 911 TAX	4010.41	(552.88)
	A/P OTAP OREGON	4010.43	(31.72)
	A/P SALES TAXES, IDAHO	4010.44	(1,212.30)
	MEDICAL INSURANCE-EMPLOYEE SHARE	4010.49	(1,572.98)
	SALES TAX YOUNG	4010.59	(891.75)
	ARIZONA INCOME TAX WITHHELD	4010.60	(97.98)
	SALES TAX, CASCABEL	4010.61	(601.16)
	A/P ARIZONA SUTA	4010.62	(18.79)
	E911 TAX CASCABEL	4010.63	(73.62)
	TELECOMMUNICATIONS DEVICES	4010.64	(64.16)
	A/P FUTA YOUNG	4010.77	(55.35)
	AZ E911 TAX - YOUNG	4010.78	(43.68)
	AZ TELECOMM DEVICES TAX	4010.79	(39.56)
	STATE TAX	4010.83	19,813.00
	FEDERAL TAX	4010.91	3,518.00

MIDVALE TELEPHONE EXCHANGE, INC.
AUDIT REPORT CONSOLIDATED BALANCE SHEET

Group #	Description	Account #	Ending 12/31/1997 (Adjusted)
			(69,158.24)
4012	ACC INTEREST PAYABLE		
ACCRUED INTEREST, REA		4010.51	(23,167.45)
ACCRUED INTEREST OTHER		4010.52	(29,728.30)
			(52,895.75)
4049	CONSTRUCTION DEBT		
RTFC LOAN - CONSTRUCTION		4050.06	(285,000.00)
			(285,000.00)
4050	LONG TERM		
IBM CONTRACT		4050.03	(4,731.82)
WEST ONE NOTE (LOWBOY II)		4050.10	(13,202.00)
PACIFIC ONE LOAN ((VEHICLE)		4050.15	(23,390.36)
REA LOAN A - 2%		4210.01	(674,851.90)
REA LOAN C, ACQU, NOTE		4210.02	(304,752.02)
RF* LOAN C CONST. NOTE		4210.03	(1,108,640.37)
R .OAN E LONG TERM		4210.04	(249,571.58)
RUS LOAN F		4210.05	(3,260,508.65)
RTFC - SAWTOOTH NOTE		4210.77	(2,018,848.10)
PACIFIC ONE- STANLEY HOUSE		4211.77	(125,773.24)
			(7,784,270.04)
4340	DEFERRED INCOME TAXES		
DEFERRED INC. TAX - FED.		4340.01	(448,450.00)
DEFERRED INC. TAX-IDAHO		4340.02	(151,362.00)
			(599,812.00)
4500	STOCKHOLDERS' EQUITY		
COMMON STOCK		4510.00	(25,000.00)
COMMON STOCK - SAWTOOTH		4510.77	(650,000.00)
ADDITIONAL PAID IN CAPITAL		4520.01	(7,910.26)
TREASURY STOCK		4530.01	64,000.00
RETAINED EARNINGS, PREF. TAXED		4550.01	(8,016.86)
RETAINED EARNINGS		4550.02	(1,723,686.33)
F .INED EARNINGS - SAWTH		4550.77	14,077.21
			(2,336,536.24)
	Grand Total		112,713.74

MIDVALE TELEPHONE EXCHANGE

Exhibit 2 Supporting Schedules: Recap Schedules:
Schedule: E-6 E-2
Title: Comparative Departmental Operating Income Statements
Income Statements
Explanation:
Schedule showing comparative departmental statements of operating income for the test year and the 2 fiscal years ended prior to the test year.

MTE does not have departments

MIDVALE TELEPHONE EXCHANGE

Exhibit 2
Schedule: E-7
Title: Operating Statistics
Explanation:
Schedule showing key operating statistics in comparative format, for the test year and the 2 fiscal years ended prior to the test year.

Telephone Statistics:	1999	1998	1997
Main Telephones	648	567	527
Company Telephones	6	6	6
Revenue Per Main Telephone	$1,121	$1,381	$1,440
Messages		171,372	177,884
Plant in Service	$3,060,663	$3,034,757	$2,573,354
Plant in Service Per Telephone	$4,680	$5,296	$4,828

MIDVALE TELEPHONE EXCHANGE

Exhibit 2
Schedule: E-8
Title: Taxes Charged to Operations
Explanation:
A schedule showing all significant taxes charged to operations for the test year and the 2 fiscal years ended prior to the test year.

	Account #	Year Ending 12/31/97	Year Ending 12/31/98	Year Ending 12/31/99
7220	PROVISION FOR DEFERRED INC TAX			
INCOME TAX EXP. CASCABEL	7230.33	1,200	3,086	1,520
INCOME TAX EXP., YOUNG,AZ	7230.55	4,900	3,086	1,520
		6,100	6,171	3,040
7240	OTHER OPERATING TAXES			
PROPERTY TAX - CASCABEL	7240.33	29,162	31,036	33,995
PROPERTY TAX - YOUNG, AZ	7240.55	45,984	44,757	46,777
OTHER TAXES - CASCABEL	7250.33	40	-	278
OTHER TAXES - YOUNG	7250.55	97	-	232
		75,283	75,794	81,283

Note: See Attached

MIDVALE TELEPHONE EXCHANGE, INC.
DEFERRED TAX ALLOCATION

DECEMBER 31, 1999

	TOTAL	ID/SAW	OREGON	AZ
A/C 2111	14,977,174	10,628,688	1,287,823	3,060,663
LESS: A/C 3XXX	(7,221,028)	(5,448,736)	(567,722)	(1,204,570)
NET PLANT ALLOCATOR	7,756,146	5,179,952	720,101	1,856,093
DISTRIBUTION PERCENTAGE	1.00	0.667851	0.092843	0.239306
DEFERRED TAX - FEDERAL	***489,132***	***326,668***	***45,412***	***117,052***
DEFERRED TAX - STATE	***164,345***	***109,758***	***15,258***	***39,329***

DECEMBER 31, 1998

	TOTAL	ID/SAW	OREGON	AZ
A/C 2111	14,383,162	10,123,339	1,225,067	3,034,757
LESS: A/C 3XXX	(6,178,176)	(4,589,044)	(466,517)	(1,122,615)
NET PLANT ALLOCATOR	8,204,987	5,534,295	758,550	1,912,142
DISTRIBUTION PERCENTAGE	1.00	0.674504	0.092450	0.233046
DEFERRED TAX - FEDERAL	***519,317***	***350,282***	***48,011***	***121,025***
DEFERRED TAX - STATE	***172,065***	***116,058***	***15,907***	***40,099***

DECEMBER 31, 1997

	TOTAL	ID/SAW	OREGON	AZ
A/C 2111	13,274,127	9,707,877	992,896	2,573,354
LESS: A/C 3XXX	(5,202,011)	(3,833,225)	(403,636)	(965,150)
NET PLANT ALLOCATOR	8,072,116	5,874,652	589,260	1,608,204
DISTRIBUTION PERCENTAGE	1.00	0.727771	0.072999	0.199230
DEFERRED TAX - FEDERAL	***448,450***	***326,369***	***32,737***	***89,344***
DEFERRED TAX - STATE	***151,362***	***110,157***	***11,049***	***30,156***

MIDVALE TELEPHONE EXCHANGE

Exhibit 2
Schedule: E-9
Title: Notes to Financial Statements
Explanation:
Disclosure of important facts pertaining to the understanding of the financial statements.

Disclosures should include, but not be limited to the following:

1. Accounting method.
   (See Attached)

2. Depreciation lives and methods employed by major classifications of utility property.
   (See Attached)

3. Income tax treatment - normalization or flow through.
   (See Attached)

4. Interest rate used to charge interest during construction, if applicable.
   N/A

NOTE D - TELECOMMUNICATIONS PLANT

The telephone plant in service is stated at cost (see Notes A and E). Listed below are the major classes of the Telecommunications Plant as of December 31:

	1999	1998
Land	$ 101,806	$ 101,806
Motor vehicles	493,572	439,417
Other work equipment	473,436	456,813
Buildings	632,155	625,924
Furniture and office equipment	339,745	300,754
Central office equipment	5,881,801	5,417,996
Buried cable	7,054,659	7,040,452
	$ 14,977,174	$ 14,383,162

The Company provides for depreciation on a straight-line basis at annual rates, which will amortize the depreciable property over estimated useful lives as established by the Utility Regulatory Agency of the state in which the Company operates. The provision as a percentage of the average balance of the telephone plant in-service was 7.53% and 7.89% in 1999 and 1998, respectively. Individual annual depreciation rates are as follows:

Motor vehicles	20%
Other work equipment	20%
Buildings	3%
Furniture and office equipment	7% - 20%
Central office equipment	5.3% - 12.5%
Buried cable	4% - 6.7%

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets Pledged:

Substantially all assets are pledged as security for long-term debt to United States of America (Rural Utility Service), except those of Sawtooth Telephone, Inc. which are pledged to the Rural Telephone Finance Cooperative (RTFC).

Income Taxes:

Deferred taxes are provided for accumulated temporary differences due to basis differences for assets and liabilities for financial reporting and income tax purposes. The significant components of deferred tax assets and liabilities are principally attributable to differences in accounting methods for the calculation of depreciation expense. Investment tax credits are accounted for by the flow-through method as a reduction of income tax expense in the period the credits are utilized.

Use of Estimates:

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses.

NOTE B - PREPAID EXPENSES

The following is a summary of the amounts recorded as prepaid items as of December 31:

	1999	1998
Prepaid insurance	$ 7,159	$ 6,008
Prepaid leases	3,784	4,456
Prepaid income taxes	00	70,860
Prepaid Arizona development expenses	00	99,377
	$ 10,943	$ 180,701

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash Equivalents:

The Company considers its short-term, highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

Accounts Receivable and Bad Debts:

The Company employs the direct write-off method in their accounting for accounts receivable. All balances are written off directly against accounts receivable when deemed uncollectible. Use of this method does not result in a material difference from the valuation method required by generally accepted accounting principles.

Inventory:

Material and supplies inventories are valued at the lower of cost or market. Cost is determined by the first-in, first-out method, and market represents the lower of replacement cost or estimated net realizable value.

Property, Plant and Equipment:

The telephone plant in service is stated at cost, except for those assets acquired in the acquisition of the Harper, Juntura, Young and Stanley exchanges. Utility accounting requires the assets acquired to be recorded at their original cost, including accumulated depreciation, at the date of acquisition. The cost in excess of the book value is considered an acquisition adjustment (Note E).

The Company provides for depreciation on a straight-line basis at various annual rates that depreciate the telephone plant property over its estimated useful lives as established by State Utility Commissions. Depreciation expense was $1,127,559 for 1999 and $1,091,127 for 1998.

MIDVALE TELEPHONE EXCHANGE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1999 and 1998

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

General:

Midvale Telephone Exchange, Inc., is a public utility located in Midvale, Idaho, and is licensed to provide telephone service to the residents of Midvale and the surrounding rural areas, Harper and Juntura, Oregon, and the Lakeview, Idaho, area. In July of 1994, the Company put into service the Cascabel exchange serving the rural area of Benson, Arizona. The Company acquired the Young, Arizona exchange in April of 1995, and in November of 1995 put the Warren, Idaho exchange into service. The Company completed the construction of the Yellow Pine and Warm Lake, Idaho exchanges and they began operation in November of 1998. In October 1998, the Company's wholly owned subsidiary, Sawtooth Telephone, Inc., acquired the Stanley, Idaho exchange. As a public utility, the Company is licensed and regulated by the Idaho Public Utilities Commission, the Oregon Public Utilities Commission and the Arizona Public Utility Commission. The Company began operations in 1908, as a partnership, and later incorporated in 1959.

Basis of Accounting:

The Company maintains its accounting records on the accrual basis. Revenue is recorded when earned, and expenses are recognized when incurred.

Principles of Consolidation:

The consolidated financial statements include the accounts of Midvale Telephone Exchange, Inc. and its wholly owned subsidiary, Sawtooth Telephone, Inc. All material intercompany transactions have been eliminated.

MIDVALE TELEPHONE EXCHANGE Supporting Schedules: Recap Schedules:

Exhibit 2 (a) E-2 (b) A-2

Schedule: F-1

Title: Projected Income Statements - Present and Proposed Rate

Explanation:

Schedule showing an income statement for the projected year, compared with actual test year results, at present rates proposed rates.

	12/31/99 RECORDED	AFTER RATE CHANGE
TOTAL REVENUE	865,801	1,258,613
TOTAL EXPENSES	834,327	1,165,690
% Return on Common Equity	13.0%	13.0%

Note: See Attached

MIDVALE TELEPHONE EXCHANGE

LOCAL RATE AND REVENUE SUMMARY - TOTAL ARIZONA

(A)	(B) DESCRIPTION	(C) 12/31/98 UNITS	(D) CURRENT RATE	(E) MONTHLY REV. @ CURRENT	(F) ANNUALIZED REV. @ CURRENT	(G) PROPOSED RATE	(H) MONTHLY REV. AT PROPOSED	(I) ANNUALIZED REV. AT PROPOSED	(J) ANNUAL REVENUE INCREASE
LOCAL									
Y	RESIDENCE- R1	363	$ 12.40	$ 4,501.20	$ 54,014.40	$ 24.00	$ 8,712.00	$ 104,544.00	$ 50,529.60
~~Y~~	~~RESIDENCE- Zone 1 Charge~~	~~0~~	~~$ 1.10~~	~~$ -~~	~~$ -~~	~~$ 1.10~~	~~$ -~~	~~$ -~~	~~$ -~~
~~Y~~	~~RESIDENCE- Zone 2 Charge~~	~~0~~	~~$ 3.30~~	~~$ -~~	~~$ -~~	~~$ 3.30~~	~~$ -~~	~~$ -~~	~~$ -~~
~~Y~~	~~RESIDENCE- Flat 2 Party~~	~~4~~	~~$ 10.76~~	~~$ 43.04~~	~~$ 516.48~~	~~$ 24.00~~	~~$ 96.00~~	~~$ 1,152.00~~	$ 635.52
Y	BUSINESS - B1	58	$ 32.00	$ 1,856.00	$ 22,272.00	$ 32.00	$ 1,856.00	$ 22,272.00	$ -
~~Y~~	~~BUSINESS- Zone 1 Charge~~	~~0~~	~~$ 1.10~~	~~$ -~~	~~$ -~~	~~$ 1.10~~	~~$ -~~	~~$ -~~	~~$ -~~
~~Y~~	~~BUSINESS- Zone 2 Charge~~	~~0~~	~~$ 3.30~~	~~$ -~~	~~$ -~~	~~$ 3.30~~	~~$ -~~	~~$ -~~	~~$ -~~
Y	BUSINESS - pay	3	$ 21.00	$ 63.00	$ 756.00	$ 21.00	$ 63.00	$ 756.00	$ -
~~Y~~	~~BUSINESS - Flat 4 Party~~	~~1~~	~~$ 24.20~~	~~$ 24.20~~	~~$ 290.40~~	~~$ 32.00~~	~~$ 32.00~~	~~$ 384.00~~	~~$ 93.60~~
~~Y~~	~~KEY SYSTEM~~	~~0~~	~~$ 32.00~~	~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~
~~Y~~	~~PBX - Zone 1~~	~~0~~	~~$ 45.80~~	~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~
~~Y~~	~~PBX - Zone 2~~	~~2~~	~~$ 44.70~~	~~$ 89.40~~	~~$ 1,072.80~~	~~$ 32.00~~	~~$ 64.00~~	~~$ 768.00~~	~~$ (304.80)~~
~~Y~~	~~PAL~~	~~0~~	~~$ 69.50~~	~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~
Y	Foreign Exchange	1	$ 250.00	$ 250.00	$ 3,000.00	$ 250.00	$ 250.00	$ 3,000.00	$ -
Y	VACATION - Zone 1 Charge	3	$ 6.75	$ 20.25	$ 243.00	$ 10.50	$ 31.50	$ 378.00	$ 135.00
~~Y~~	~~VACATION - Zone 2 Charge~~	~~2~~	~~$ 7.85~~	~~$ 15.70~~	~~$ 188.40~~	~~$ 10.50~~	~~$ 21.00~~	~~$ 252.00~~	~~$ 63.60~~
C	RESIDENCE- R1	172	$ 21.00	$ 3,612.00	$ 43,344.00	$ 24.00	$ 4,128.00	$ 49,536.00	$ 6,192.00
C	BUSINESS - B1	30	$ 21.00	$ 630.00	$ 7,560.00	$ 32.00	$ 960.00	$ 11,520.00	$ 3,960.00
C	BUSINESS - pay	0	$ 21.00	$ -	$ -	$ 21.00	$ -	$ -	$ -
~~C~~	~~KEY SYSTEM~~	~~0~~	~~$ 39.00~~	~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~
~~C~~	~~PBX~~	~~0~~	~~$ 30.00~~	~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~
~~C~~	~~PAL~~	~~0~~	~~$ 52.50~~	~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~
C	VACATION	0	$ 10.50	$ -	$ -	$ 10.50	$ -	$ -	$ -
NON-RECURRING CHARGES									
Y	SERVICE ORDER	55	$ 10.00	$ 550.00	$ 550.00	$ 10.00	$ 550.00	$ 550.00	$ -
C	SERVICE ORDER	15	$ 10.00	$ 150.00	$ 150.00	$ 10.00	$ 150.00	$ 150.00	$ -
Y	LINE CONNECTION	55	$ 12.00	$ 660.00	$ 660.00	$ 25.00	$ 1,375.00	$ 1,375.00	$ 715.00
~~Y~~	~~LINE CONNECTION - Zone 1~~	~~35~~	~~$ 33.25~~	~~$ 1,163.75~~	~~$ 1,163.75~~	~~$ 25.00~~	~~$ 875.00~~	~~$ 875.00~~	~~$ (288.75)~~
~~Y~~	~~LINE CONNECTION - Zone 2~~	~~20~~	~~$ 75.25~~	~~$ 1,505.00~~	~~$ 1,505.00~~	~~$ 25.00~~	~~$ 500.00~~	~~$ 500.00~~	~~$ (1,005.00)~~
C	LINE CONNECTION	15	$ 15.00	$ 225.00	$ 225.00	$ 25.00	$ 375.00	$ 375.00	$ 150.00
Y	PREMISE VISIT	55	$ 24.50	$ 1,347.50	$ 1,347.50	$ 30.00	$ 1,650.00	$ 1,650.00	$ 302.50
C	PREMISE VISIT	15	$ 30.00	$ 450.00	$ 450.00	$ 30.00	$ 450.00	$ 450.00	$ -
OTHER RATES & CHARGES									
CUSTOM CALLING									
~~Y~~	~~RES. CALL WAITING~~	~~8~~	~~$ 5.00~~	~~$ 40.00~~	~~$ 480.00~~	~~$ 5.00~~	~~$ 40.00~~	~~$ 480.00~~	~~$ -~~
~~Y~~	~~BUS. CALL WAITING~~	~~0~~	~~$ 7.50~~	~~$ -~~	~~$ -~~	~~$ 7.50~~	~~$ -~~	~~$ -~~	~~$ -~~
~~Y~~	~~RES. CALL FORWARDING~~	~~7~~	~~$ 2.74~~	~~$ 19.18~~	~~$ 230.16~~	~~$ 2.74~~	~~$ 19.18~~	~~$ 230.16~~	~~$ -~~
~~Y~~	~~BUS CALL FORWARDING~~	~~0~~	~~$ 4.00~~	~~$ -~~	~~$ -~~	~~$ 4.00~~	~~$ -~~	~~$ -~~	~~$ -~~
~~Y~~	~~RES 3-WAY CALLING~~	~~5~~	~~$ 3.52~~	~~$ 17.60~~	~~$ 211.20~~	~~$ 3.52~~	~~$ 17.60~~	~~$ 211.20~~	~~$ -~~
~~Y~~	~~BUS 3-WAY CALLING~~	~~0~~	~~$ 4.20~~	~~$ -~~	~~$ -~~	~~$ 4.20~~	~~$ -~~	~~$ -~~	~~$ -~~
~~Y~~	~~RES. 8 NO. SPEED CALLING~~	~~0~~	~~$ 1.74~~	~~$ -~~	~~$ -~~	~~$ 1.74~~	~~$ -~~	~~$ -~~	~~$ -~~
~~Y~~	~~BUS. 8 NO. SPEED CALLING~~	~~0~~	~~$ 3.00~~	~~$ -~~	~~$ -~~	~~$ 3.00~~	~~$ -~~	~~$ -~~	~~$ -~~
~~Y~~	~~RES. 30 NO. SPEED CALLING~~	~~0~~	~~$ 1.74~~	~~$ -~~	~~$ -~~	~~$ 1.74~~	~~$ -~~	~~$ -~~	~~$ -~~
~~Y~~	~~BUS. 30 NO. SPEED CALLING~~	~~0~~	~~$ 3.00~~	~~$ -~~	~~$ -~~	~~$ 3.00~~	~~$ -~~	~~$ -~~	~~$ -~~
~~Y~~	~~RES. FIXED CALLING~~	~~0~~	~~$ 2.50~~	~~$ -~~	~~$ -~~	~~$ 2.50~~	~~$ -~~	~~$ -~~	~~$ -~~
~~Y~~	~~BUS. FIXED CALLING~~	~~0~~	~~$ 2.50~~	~~$ -~~	~~$ -~~	~~$ 2.50~~	~~$ -~~	~~$ -~~	~~$ -~~
~~Y~~	~~RES. LINE BUSY DIV.~~	~~0~~	~~$ 1.85~~	~~$ -~~	~~$ -~~	~~$ 1.85~~	~~$ -~~	~~$ -~~	~~$ -~~
~~Y~~	~~BUS. LINE BUSY DIV.~~	~~0~~	~~$ 8.00~~	~~$ -~~	~~$ -~~	~~$ 8.00~~	~~$ -~~	~~$ -~~	~~$ -~~
~~Y~~	~~ANY 2 (20% DISCOUNT)~~	~~1~~	~~$ 6.19~~	~~$ 6.19~~	~~$ 74.28~~	~~$ 6.19~~	~~$ 6.19~~	~~$ 74.28~~	~~$ -~~
	~~ANY 3 (25% DISCOUNT)~~	~~0~~	~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~
	~~ANY 4 (30% DISCOUNT)~~	~~0~~	~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~
	~~ANY 5 (35% DISCOUNT)~~	~~0~~	~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~
MISCELLANEOUS									
C	VACATION RATE	0	$ 10.50	$ -	$ -	$ 10.50	$ -	$ -	$ -
Y	VACATION RATE - Zone 1	3	$ 6.75	$ 20.25	$ 243.00	$ 10.50	$ 31.50	$ 378.00	$ 135.00
~~Y~~	~~VACATION RATE - Zone 2~~	~~2~~	~~$ 7.85~~	~~$ 15.70~~	~~$ 188.40~~	~~$ 10.50~~	~~$ 21.00~~	~~$ 252.00~~	~~$ 63.60~~
	PAYPHONE-LOCAL	0	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Y	PRIVATE LINE EXTENSION	8	$ 7.00	$ 56.00	$ 672.00	$ 7.00	$ 56.00	$ 672.00	$ -
	INTRACHANGE P/L MILEAGE	0	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Y	OFF-PREMISE EXTENSION	2	$ 4.00	$ 8.00	$ 96.00	$ 4.00	$ 8.00	$ 96.00	$ -
	EMERG. RPT -MAIN STATION	0	$ -	$ -	$ -	$ -	$ -	$ -	$ -
	EMERG. RPT-ADD'L STATION	0	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Y	TRUNK HUNTING FEATURE	2	$ 8.00	$ 16.00	$ 192.00	$ 8.00	$ 16.00	$ 192.00	$ -
Y	BUSINESS CHANNEL TERM - Dedicated Channel	1	$ 6.50	$ 6.50	$ 78.00	$ 6.50	$ 6.50	$ 78.00	$ -
Y	BUSINESS CHANNEL TERM - Dedicated Trunk	6	$ 24.42	$ 146.52	$ 1,758.24	$ 24.42	$ 146.52	$ 1,758.24	$ -
Y	TRUNK TERMINATION	2	$ 26.70	$ 53.40	$ 640.80	$ 26.70	$ 53.40	$ 640.80	$ -
Y	PBX NUMBER BLOCK	5	$ 2.00	$ 10.00	$ 120.00	$ 2.00	$ 10.00	$ 120.00	$ -
~~Y~~	~~TRANS MIL-FIX 27%~~	~~1~~	~~$ 2.29~~	~~$ 2.29~~	~~$ 27.48~~	~~$ 2.29~~	~~$ 2.29~~	~~$ 27.48~~	~~$ -~~
~~Y~~	~~FIXED MILEAGE 20%~~	~~1~~	~~$ 4.98~~	~~$ 4.98~~	~~$ 59.76~~	~~$ 4.98~~	~~$ 4.98~~	~~$ 59.76~~	~~$ -~~

MIDVALE TELEPHONE EXCHANGE

LOCAL RATE AND REVENUE SUMMARY - TOTAL ARIZONA

(A)	(B) DESCRIPTION	(C) 12/31/08 UNITS	(D) CURRENT RATE	(E) MONTHLY REV. @ CURRENT	(F) ANNUALIZED REV. @ CURRENT	(G) PROPOSED RATE	(H) MONTHLY REV. AT PROPOSED	(I) ANNUALIZED REV. AT PROPOSED	(J) ANNUAL REVENUE INCREASE
Y	~~TRANS MIL FIX 41%~~	2	~~$ 4.93~~	~~$ 9.86~~	~~$ 118.32~~	~~$ 1.98~~	~~$ 9.86~~	~~$ 118.32~~	~~$ -~~
~~Y~~	~~TRANS MIL FIX 20%~~	~~2~~	~~$ 1.70~~	~~$ 3.40~~	~~$ 40.80~~	~~$ 1.70~~	~~$ 3.40~~	~~$ 40.80~~	~~$ -~~
~~Y~~	~~61X1-10 20%~~	~~1~~	~~$ 13.42~~	~~$ 13.42~~	~~$ 161.04~~	~~$ 13.42~~	~~$ 13.42~~	~~$ 161.04~~	~~$ -~~
~~Y~~	~~58X1-10 MILEAGE 27%~~	~~1~~	~~$ 17.23~~	~~$ 17.23~~	~~$ 206.76~~	~~$ 17.23~~	~~$ 17.23~~	~~$ 206.76~~	~~$ -~~
~~Y~~	~~25X.85 MILEAGE 20%~~	~~4~~	~~$ 8.71~~	~~$ 8.71~~	~~$ 104.52~~	~~$ 8.71~~	~~$ 8.71~~	~~$ 104.52~~	~~$ -~~
~~Y~~	~~25X.85 MILEAGE 41%~~	~~2~~	~~$ 8.71~~	~~$ 17.42~~	~~$ 209.04~~	~~$ 8.71~~	~~$ 17.42~~	~~$ 209.04~~	~~$ -~~
	~~80X1-10 MILEAGE 20%~~	~~4~~	~~$ 17.60~~	~~$ 17.60~~	~~$ 211.20~~	~~$ 17.60~~	~~$ 17.60~~	~~$ 211.20~~	~~$ -~~
Y	56K SPECIAL ACCESS	0	$ 188.50	$ -	$ -	$ 188.50	$ -	$ -	$ -
C	TOLL RESTRICTION - RES	3	$ 2.00	$ 6.00	$ 72.00	$ 2.00	$ 6.00	$ 72.00	$ -
~~C~~	~~TOLL RESTRICTION - BUS~~	~~0~~	~~$ 3.40~~	~~$ -~~	~~$ -~~	~~$ 2.00~~	~~$ -~~	~~$ -~~	~~$ -~~
Y	TOLL RESTRICTION - RES	4	$ 2.00	$ 8.00	$ 96.00	$ 2.00	$ 8.00	$ 96.00	$ -
~~Y~~	~~TOLL RESTRICTION - BUS~~	~~0~~	~~$ 2.00~~	~~$ -~~	~~$ -~~	~~$ 2.00~~	~~$ -~~	~~$ -~~	~~$ -~~
C	ADD'L BUS LIST	0	$ 1.50	$ -	$ -	$ 1.00	$ -	$ -	$ -
Y	ADD'L BUS LIST	3	$ 1.25	$ 3.75	$ 45.00	$ 1.00	$ 3.00	$ 36.00	$ (9.00)
~~C~~	~~ADD'L RES LIST~~	~~9~~	~~$ 1.00~~	~~$ 9.00~~	~~$ 108.00~~	~~$ 1.00~~	~~$ 9.00~~	~~$ 108.00~~	~~$ -~~
~~Y~~	~~ADD'L RES LIST~~	~~8~~	~~$ 1.00~~	~~$ 8.00~~	~~$ 96.00~~	~~$ 1.00~~	~~$ 8.00~~	~~$ 96.00~~	~~$ -~~
	ADDITIONAL INFORM	0	$ -	$ -	$ -	$ -	$ -	$ -	$ -
C	FOREIGN LISTING - RES	0	$ 2.00	$ -	$ -	$ 2.00	$ -	$ -	$ -
~~C~~	~~FOREIGN LISTING - BUS~~	~~0~~	~~$ 2.00~~	~~$ -~~	~~$ -~~	~~$ 2.00~~	~~$ -~~	~~$ -~~	~~$ -~~
Y	FOREIGN LISTING - RES	7	$ 1.00	$ 1.00	$ 12.00	$ 2.00	$ 2.00	$ 24.00	$ 12.00
~~Y~~	~~FOREIGN LISTING - BUS~~	~~0~~	~~$ 1.35~~	~~$ -~~	~~$ -~~	~~$ 2.00~~	~~$ -~~	~~$ -~~	~~$ -~~
C	NON-LIST	5	$ 2.00	$ 10.00	$ 120.00	$ 2.00	$ 10.00	$ 120.00	$ -
Y	NON-LIST	9	$ 1.20	$ 10.80	$ 129.60	$ 2.00	$ 18.00	$ 216.00	$ 86.40
C	NON- PUBLISHED	17	$ 2.00	$ 34.00	$ 408.00	$ 2.00	$ 34.00	$ 408.00	$ -
Y	NON- PUBLISHED	30	$ 1.50	$ 45.00	$ 540.00	$ 2.00	$ 60.00	$ 720.00	$ 180.00
~~C~~	~~PUBLIC ACCESS LINE (PAL)~~	~~0~~	~~$ 52.50~~	~~$ -~~	~~$ -~~	~~$ 52.50~~	~~$ -~~	~~$ -~~	~~$ -~~
~~Y~~	~~PUBLIC ACCESS LINE (PAL)~~	~~0~~	~~$ 69.50~~	~~$ -~~	~~$ -~~	~~$ 69.50~~	~~$ -~~	~~$ -~~	~~$ -~~
	CREDIT CARD SERVICE FEE	0	$ -	$ -	$ -	$ -	$ -	$ -	$ -
	DIRECTORY ASSISTANCE	0	$ -	$ -	$ -	$ -	$ -	$ -	$ -
C	LINE LEASE + ACCESS CHARGE	0	$ 21.00	$ -	$ -	$ 21.00	$ -	$ -	$ -
C	INSTALL CHG.	0	$ 25.00	$ -	$ -	$ 25.00	$ -	$ -	$ -
Y	LINE LEASE + ACCESS CHARGE	2	$ 8.25	$ 16.50	$ 198.00	$ 21.00	$ 42.00	$ 504.00	$ 306.00
Y	INSTALL CHG.	0	$ 22.00	$ -	$ -	$ 25.00	$ -	$ -	$ -
~~Y~~	~~EXTENSION CONTINUOUS~~	~~0~~	~~$ 4.00~~	~~$ -~~	~~$ -~~	~~$ 4.00~~	~~$ -~~	~~$ -~~	~~$ -~~
	MISC. REVENUE	0	$ -	$ -	$ -	$ -	$ -	$ -	$ -
	RETURN CHECK CHARGE	0	$ -	$ -	$ -	$ -	$ -	$ -	$ -
~~G~~	~~INSIDE WIRE MAINTENANCE~~	~~0~~	~~$ 1.00~~	~~$ -~~	~~$ -~~	~~$ 1.00~~	~~$ -~~	~~$ -~~	~~$ -~~
	TOTAL			$ 17,818.44	$ 147,257.53		$ 22,865.40	$ 209,209.80	$ 61,952.27
	YOUNG			$ 12,674.84	$ 94,609.33		$ 16,725.80	$ 146,259.60	$ 51,650.27
	CASCABEL			$ 5,126.00	$ 52,437.00		$ 6,122.00	$ 62,739.00	$ 10,302.00

SUMMARY OF LOCAL REVENUES	Arizona	Young	Cascabel
CURRENT ANNUALIZED REVENUES (COL F)	147,258	94,609	52,437
- UNCOLLECTIBLE (W/S 2)	(1,279)	(284)	(995)
NET REVENUES	145,979	94,325	51,442
+ PROPOSED INCREASE (COL J)	61,952	51,650	10,302
UNCOLLECTABLE FACTOR	-0.87%	-0.30%	-1.90%
- UNCOLLECTIBLE (INCREMENTAL CHANGE)	(538)	(155)	(195)
NET INCREASE	61,414	51,495	10,107
	207,393	145,821	61,549
+ STATE USF	221,360	19,627	154,096
	428,752	165,448	215,644
+ FEDERAL USF (AMT FROM W/S 5)	313,187	221,824	91,363
TOTAL PROPOSED LOCAL REVENUES	741,939	387,272	307,007

MIDVALE TELEPHONE EXCHANGE

Exhibit 2
Schedule: F-2
Title: Projected Changes In Financial
Present and Proposed Rates

Supporting Schedules:
(a) E-3
(c) F-3

Recap Schedules:
(b) A-5

Explanation:
Schedule showing projected changes in financial position for projected year compared with the test year, at present and proposed rates.

DESCRIPTION	TEST YEAR	AT PROPOSED RATES
LONG TERM DEBT		
RTFC CONST. LOAN CASCABEL	200,631	200,631
RUS 5% CASCABEL	268,586	268,586
OTHER & UNSERVED	37,695	1,080,798
TOTAL DEBT	506,912	1,550,015
EQUITY (CASCABEL & YOUNG)	1,606,651	1,816,869
OTHER	-	
TOTAL EQUITY	1,606,651	1,816,869
TOTAL	2,113,563	3,366,884

Note: See Attached

MIDVALE TELEPHONE EXCHANGE

CALCULATION OF COST OF CAPITAL - TOTAL ARIZONA

LINE	(A) DESCRIPTION	(B) CAPITAL AMOUNT	(C) CAPITAL RATIO	(D) COST	(E) WGT COST (C x D)
	LONG TERM DEBT				
1	RTFC CONST. LOAN CASCABEL	200,631	0.0949	0.0610	0.0058
2	RUS 5% CASCABEL	268,586	0.1271	0.0500	0.0064
3	OTHER	37,695	0.0178	0.0600	0.0011
4	TOTAL DEBT	506,912	0.2398		0.0132
5	EQUITY (CASCABEL & YOUNG)	1,606,651	0.7602	0.1300	0.0988
6	OTHER	-	0.0000	-	0.0000
7	TOTAL EQUITY	1,606,651	0.7602		0.0988
8	TOTAL	2,113,563	1.0000		0.1120

MIDVALE TELEPHONE EXCHANGE

CALCULATION OF COST OF CAPITAL - TOTAL ARIZONA

LINE	(A) DESCRIPTION	(B) CAPITAL AMOUNT	(C) CAPITAL RATIO	(D) COST	(E) WGT COST (C x D)
	LONG TERM DEBT				
1	RTFC CONST. LOAN CASCABEL	200,631	0.0596	0.0610	0.0036
2	RUS 5% CASCABEL	268,586	0.0798	0.0500	0.0040
3	OTHER (UNSERVED)	1,080,798	0.3210	0.0800	0.0257
4	TOTAL DEBT	1,550,015	0.4604		0.0333
5	EQUITY (CASCABEL & YOUNG, NEW)	1,816,869	0.5396	0.1300	0.0702
6	OTHER			-	
7	TOTAL EQUITY	1,816,869	0.5396		0.0702
8	TOTAL	3,366,884	1.0000		0.1035

MTE
Financing Assumptions

			Year 1	Year 2	Year 3
Loan	rate	term			
1	8.00%	15	$ 1,031,684	$ 993,688	$ 952,651
2	8.00%	15		$ 61,526	$ 59,260
3	8.00%	15			$ 68,886
4	8.00%	15			
5	8.00%	15			
6	8.00%	15			
7	8.00%	15			
8	8.00%	15			
9	8.00%	15			
Total			$ 1,031,684	$ 1,055,214	$ 1,080,798
Annual Interest					
1				$ 82,535	$ 79,495
2					$ 4,922
3					
4					
5					
6					
7					
8					
9					
Total			$ -	$ 82,535	$ 84,417
Annual Principal					
1				$ 37,996	$ 41,036
2					$ 2,266
3					
4					
5					
6					
7					
8					
9					
Total			$ -	$ 37,996	$ 43,302
Total Annual Payment					
1			$ 120,531	$ 120,531	$ 120,531
2				$ 7,188	$ 7,188
3					$ 8,048
4					
5					
6					
7					
8					
9					
Total			$ 120,531	$ 127,719	$ 135,767
EQUITY	20%		$ 257,921	$ 15,382	$ 17,222
Cumulative Equity			$ 257,921	$ 273,303	$ 290,524

MIDVALE TELEPHONE EXCHANGE

Exhibit 2
Schedule: F-3
Title: Projected Construction Requirements

Recap Schedules:
(a) F-2 & A-4

Explanation:
Schedule showing projected annual construction requirements, by property classification, for 1 to 3 years subsequent to the test year compared with the test year.

MTE

PROJECTED PLANT ADDITIONS

	TEST YEAR	Year 1	Year 2	Year 3
Land		20,000	0	0
Building		50,000	-	-
Switch		350,188	11,676	19,676
Carrier Local		106,055	5,600	5,600
Carrier Toll		45,970		
OSP Local		345,732	13,722	13,722
OSP Toll		87,238		
Microwave		82,420	-	-
Lease T1		41,861	41,261	41,261
Engineering		160,141	4,649	5,849
PLANT ADDITIONS		1,289,605	76,908	86,108
TOTAL PLANT	3,060,664	4,350,269	4,427,177	4,513,285

MIDVALE TELEPHONE EXCHANGE

Exhibit 2
Schedule: F-4
Title: Assumptions Used in Developing Projection
Explanation:
Documentation of important assumptions used in preparing forecasts and projections.

Important assumptions used in preparing projections should be explained.
Areas covered should include:

1. Customer growth
The number of lines is expected to increase by 241 due to the addition of the Millsite and Silver Bell Exchanges. (See Attached)

2. Growth in consumption and customer demand
Customer demand is driven by the number of lines and values such as minutes , revenues, and cost are based on ratios from the existing system.

3. Changes in expenses
The change in expenses is driven by the number of lines and are based on ratios from the existing system. (See Attached)

4. Construction requirements, including production reserves and changes in plant capacity
Construction requirements are based on engineering estimates of the plant needed to serve the Millsite and Silver Bell Exchanges.

5. Capital structure changes
Capital structure changes are based on the need for new borrowing to serve the Millsite and Silver Bell Exchanges.

MTE

Vacition % Millsite	25.0%	25.0%	25.0%	
Vacition % Silver Bell	5.0%	5.0%	5.0%	
	Year 1	Year 2	Year 3	TOTAL
MILLSITE EXCHANGE				
Millsite Service Area	148	10	10	168
Henderson Valley	34	4	4	42
SILVER BELL EXCHANGE				
Silver Bell	57	11	11	79
Rio Verde	42	15	15	72
Vacation Adj. Millsite	-37	-3	-3	-42
Vacation Adj. Silver Bell	-3	-1	-1	-4
TOTAL	241	37	37	315
CUMULATIVE	241	278	315	315

MIDVALE TELEPHONE EXCHANGE

CHANGE IN
OPERATING EXPENSES

PLANT SPECIFIC OPERATIONS	$27,462
PLANT NON-SPECIFIC OPERATIONS	$21,595
DEP. AND AMORT	$101,161
CUSTOMER OPERATIONS	$20,968
CORPORATE OPERATIONS	$56,051
OTHER OPERATING TAXES	$9,103
INTEREST EXPENSE	$55,023

MIDVALE TELEPHONE EXCHANGE

Exhibit 2
Schedule: H-1
Title: Summary of Revenues by Customer Classification-Present and Proposed Rates

Supporting Schedules:
(a) H-2

Recap Schedules:
(b) A-1

Explanation:
Schedule comparing revenues by customer classification for the test year, at present and proposed rates.

	CURRENT RATE	PROPOSED RATE	PERCENT CHANGE
CASCABEL			
RESIDENCE- R1	$ 21.00	$ 24.00	14.3%
BUSINESS - B1	$ 21.00	$ 32.00	52.4%
YOUNG			
RESIDENCE- R1	$ 12.40	$ 24.00	77.8% *
RESIDENCE- Zone 1 Charge	$ 1.10		
RESIDENCE- Zone 2 Charge	$ 3.30		
RESIDENCE- Flat 2 Party	$ 10.76		
BUSINESS - B1	$ 32.00	$ 32.00	-3.3% *
BUSINESS - Zone 1 Charge	$ 1.10		
BUSINESS - Zone 2 Charge	$ 3.30		
BUSINESS - pay	$ 21.00	$ 21.00	0.0%
BUSINESS - Flat 4 Party	$ 24.20	$ 32.00	32.2%

* Elimination of zone charges - this percent is for zone 1

See Attachment H-2

MIDVALE TELEPHONE EXCHANGE

Exhibit 2
Schedule: H-2
Title: Analysis of Revenue by Detailed Class
Explanation:
Schedule comparing revenues by detailed class of service, for the test year, at present and proposed rates.

Recap Schedules:
(a) H-1

See Attachment

MIDVALE TELEPHONE EXCHANGE

LOCAL RATE AND REVENUE SUMMARY - TOTAL ARIZONA

(A)	(B) DESCRIPTION	(C) 12/31/96 UNITS	(D) CURRENT RATE	(E) MONTHLY REV @ CURRENT	(F) ANNUALIZED REV. @ CURRENT	(G) PROPOSED RATE	(H) MONTHLY REV AT PROPOSED	(I) ANNUALIZED REV. AT PROPOSED	(J) ANNUAL REVENUE INCREASE
LOCAL									
Y	RESIDENCE - R1	363	$ 12.40	$ 4,501.20	$ 54,014.40	$ 24.00	$ 8,712.00	$ 104,544.00	$ 50,529.60
~~Y~~	~~RESIDENCE - Zone 1 Charge~~	~~0~~	~~$ 4.10~~	~~$ -~~	~~$ -~~	~~$ 4.10~~	~~$ -~~	~~$ -~~	~~$ -~~
~~Y~~	~~RESIDENCE - Zone 2 Charge~~	~~0~~	~~$ 3.30~~	~~$ -~~	~~$ -~~	~~$ 3.30~~	~~$ -~~	~~$ -~~	~~$ -~~
~~Y~~	~~RESIDENCE - Flat 2 Party~~	~~4~~	~~$ 10.76~~	~~$ 43.04~~	~~$ 516.48~~	~~$ 24.00~~	~~$ 96.00~~	~~$ 1,152.00~~	$ 635.52
Y	BUSINESS - B1	58	$ 32.00	$ 1,856.00	$ 22,272.00	$ 32.00	$ 1,856.00	$ 22,272.00	$ -
~~Y~~	~~BUSINESS - Zone 1 Charge~~	~~0~~	~~$ 1.10~~	~~$ -~~	~~$ -~~	~~$ 1.10~~	~~$ -~~	~~$ -~~	~~$ -~~
~~Y~~	~~BUSINESS - Zone 2 Charge~~	~~0~~	~~$ 3.30~~	~~$ -~~	~~$ -~~	~~$ 3.30~~	~~$ -~~	~~$ -~~	~~$ -~~
Y	BUSINESS - pay	3	$ 21.00	$ 63.00	$ 756.00	$ 21.00	$ 63.00	$ 756.00	$ -
~~Y~~	~~BUSINESS - Flat 4 Party~~	~~4~~	~~$ 24.20~~	~~$ 24.20~~	~~$ 290.40~~	~~$ 32.00~~	~~$ 32.00~~	~~$ 384.00~~	~~$ 93.60~~
~~Y~~	~~KEY SYSTEM~~	~~0~~	~~$ 32.00~~	~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~
~~Y~~	~~PBX - Zone 1~~	~~0~~	~~$ 43.20~~	~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~
~~Y~~	~~PBX - Zone 2~~	~~2~~	~~$ 44.70~~	~~$ 89.40~~	~~$ 1,072.80~~	~~$ 32.00~~	~~$ 64.00~~	~~$ 768.00~~	~~$ (304.80)~~
~~Y~~	~~PAL~~	~~0~~	~~$ 59.50~~	~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~
Y	Foreign Exchange	1	$ 250.00	$ 250.00	$ 3,000.00	$ 250.00	$ 250.00	$ 3,000.00	$ -
Y	VACATION - Zone 1 Charge	3	$ 6.75	$ 20.25	$ 243.00	$ 10.50	$ 31.50	$ 378.00	$ 135.00
~~Y~~	~~VACATION - Zone 2 Charge~~	~~2~~	~~$ 7.85~~	~~$ 15.70~~	~~$ 188.40~~	~~$ 10.50~~	~~$ 21.00~~	~~$ 252.00~~	~~$ 63.60~~
C	RESIDENCE - R1	172	$ 21.00	$ 3,612.00	$ 43,344.00	$ 24.00	$ 4,128.00	$ 49,536.00	$ 6,192.00
C	BUSINESS - B1	30	$ 21.00	$ 630.00	$ 7,560.00	$ 32.00	$ 960.00	$ 11,520.00	$ 3,960.00
C	BUSINESS - pay	0	$ 21.00	$ -	$ -	$ 21.00	$ -	$ -	$ -
C	KEY SYSTEM	0	$ 30.00	$ -	$ -	$ -	$ -	$ -	$ -
C	PBX	0	$ 30.00	$ -	$ -	$ -	$ -	$ -	$ -
C	PAL	0	$ 52.50	$ -	$ -	$ -	$ -	$ -	$ -
C	VACATION	0	$ 10.50	$ -	$ -	$ 10.50	$ -	$ -	$ -
NON-RECURRING CHARGES									
Y	SERVICE ORDER	55	$ 10.00	$ 550.00	$ 550.00	$ 10.00	$ 550.00	$ 550.00	$ -
C	SERVICE ORDER	15	$ 10.00	$ 150.00	$ 150.00	$ 10.00	$ 150.00	$ 150.00	$ -
Y	LINE CONNECTION	55	$ 12.00	$ 660.00	$ 660.00	$ 25.00	$ 1,375.00	$ 1,375.00	$ 715.00
~~Y~~	~~LINE CONNECTION - Zone 1~~	~~35~~	~~$ 33.25~~	~~$ 1,163.75~~	~~$ 1,163.75~~	~~$ 25.00~~	~~$ 875.00~~	~~$ 875.00~~	~~$ (288.75)~~
~~Y~~	~~LINE CONNECTION - Zone 2~~	~~20~~	~~$ 75.25~~	~~$ 1,505.00~~	~~$ 1,505.00~~	~~$ 25.00~~	~~$ 500.00~~	~~$ 500.00~~	~~$ (1,005.00)~~
C	LINE CONNECTION	15	$ 15.00	$ 225.00	$ 225.00	$ 25.00	$ 375.00	$ 375.00	$ 150.00
Y	PREMISE VISIT	55	$ 24.50	$ 1,347.50	$ 1,347.50	$ 30.00	$ 1,650.00	$ 1,650.00	$ 302.50
C	PREMISE VISIT	15	$ 30.00	$ 450.00	$ 450.00	$ 30.00	$ 450.00	$ 450.00	$ -
OTHER RATES & CHARGES									
CUSTOM CALLING									
~~Y~~	~~RES. CALL WAITING~~	~~8~~	~~$ 5.00~~	~~$ 40.00~~	~~$ 480.00~~	~~$ 5.00~~	~~$ 40.00~~	~~$ 480.00~~	~~$ -~~
~~Y~~	~~BUS. CALL WAITING~~	~~0~~	~~$ 7.50~~	~~$ -~~	~~$ -~~	~~$ 7.50~~	~~$ -~~	~~$ -~~	~~$ -~~
~~Y~~	~~RES. CALL FORWARDING~~	~~7~~	~~$ 2.74~~	~~$ 19.18~~	~~$ 230.16~~	~~$ 2.74~~	~~$ 19.18~~	~~$ 230.16~~	~~$ -~~
~~Y~~	~~BUS CALL FORWARDING~~	~~0~~	~~$ 4.00~~	~~$ -~~	~~$ -~~	~~$ 4.00~~	~~$ -~~	~~$ -~~	~~$ -~~
~~Y~~	~~RES 3-WAY CALLING~~	~~5~~	~~$ 3.52~~	~~$ 17.60~~	~~$ 211.20~~	~~$ 3.52~~	~~$ 17.60~~	~~$ 211.20~~	~~$ -~~
~~Y~~	~~BUS 3-WAY CALLING~~	~~0~~	~~$ 4.20~~	~~$ -~~	~~$ -~~	~~$ 4.20~~	~~$ -~~	~~$ -~~	~~$ -~~
~~Y~~	~~RES. 8 NO. SPEED CALLING~~	~~0~~	~~$ 4.74~~	~~$ -~~	~~$ -~~	~~$ 1.74~~	~~$ -~~	~~$ -~~	~~$ -~~
~~Y~~	~~BUS. 8 NO. SPEED CALLING~~	~~0~~	~~$ 3.00~~	~~$ -~~	~~$ -~~	~~$ 3.00~~	~~$ -~~	~~$ -~~	~~$ -~~
~~Y~~	~~RES. 30 NO. SPEED CALLING~~	~~0~~	~~$ 4.74~~	~~$ -~~	~~$ -~~	~~$ 1.74~~	~~$ -~~	~~$ -~~	~~$ -~~
~~Y~~	~~BUS. 30 NO. SPEED CALLING~~	~~0~~	~~$ 3.00~~	~~$ -~~	~~$ -~~	~~$ 3.00~~	~~$ -~~	~~$ -~~	~~$ -~~
~~Y~~	~~RES. FIXED CALLING~~	~~0~~	~~$ 2.50~~	~~$ -~~	~~$ -~~	~~$ 2.50~~	~~$ -~~	~~$ -~~	~~$ -~~
~~Y~~	~~BUS. FIXED CALLING~~	~~0~~	~~$ 2.50~~	~~$ -~~	~~$ -~~	~~$ 2.50~~	~~$ -~~	~~$ -~~	~~$ -~~
~~Y~~	~~RES. LINE BUSY DIV.~~	~~0~~	~~$ 1.85~~	~~$ -~~	~~$ -~~	~~$ 1.85~~	~~$ -~~	~~$ -~~	~~$ -~~
~~Y~~	~~BUS. LINE BUSY DIV.~~	~~0~~	~~$ 8.00~~	~~$ -~~	~~$ -~~	~~$ 8.00~~	~~$ -~~	~~$ -~~	~~$ -~~
~~Y~~	~~ANY 2 (20% DISCOUNT)~~	~~1~~	~~$ 6.19~~	~~$ 6.19~~	~~$ 74.28~~	~~$ 6.19~~	~~$ 6.19~~	~~$ 74.28~~	~~$ -~~
	~~ANY 3 (25% DISCOUNT)~~	~~0~~	~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~
	~~ANY 4 (30% DISCOUNT)~~	~~0~~	~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~
	~~ANY 5 (35% DISCOUNT)~~	~~0~~	~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~
MISCELLANEOUS									
C	VACATION RATE	0	$ 10.50	$ -	$ -	$ 10.50	$ -	$ -	$ -
Y	VACATION RATE - Zone 1	3	$ 6.75	$ 20.25	$ 243.00	$ 10.50	$ 31.50	$ 378.00	$ 135.00
~~Y~~	~~VACATION RATE - Zone 2~~	~~2~~	~~$ 7.85~~	~~$ 15.70~~	~~$ 188.40~~	~~$ 10.50~~	~~$ 21.00~~	~~$ 252.00~~	~~$ 63.60~~
	PAYPHONE-LOCAL	0	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Y	PRIVATE LINE EXTENSION	8	$ 7.00	$ 56.00	$ 672.00	$ 7.00	$ 56.00	$ 672.00	$ -
	INTRACHANGE P/L MILEAGE	0	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Y	OFF-PREMISE EXTENSION	2	$ 4.00	$ 8.00	$ 96.00	$ 4.00	$ 8.00	$ 96.00	$ -
	EMERG. RPT -MAIN STATION	0	$ -	$ -	$ -	$ -	$ -	$ -	$ -
	EMERG. RPT-ADD'L STATION	0	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Y	TRUNK HUNTING FEATURE	2	$ 8.00	$ 16.00	$ 192.00	$ 8.00	$ 16.00	$ 192.00	$ -
Y	BUSINESS CHANNEL TERM - Dedicated Channel	1	$ 6.50	$ 6.50	$ 78.00	$ 6.50	$ 6.50	$ 78.00	$ -
Y	BUSINESS CHANNEL TERM - Dedicated Trunk	6	$ 24.42	$ 146.52	$ 1,758.24	$ 24.42	$ 146.52	$ 1,758.24	$ -
Y	TRUNK TERMINATION	2	$ 26.70	$ 53.40	$ 640.80	$ 26.70	$ 53.40	$ 640.80	$ -
Y	PBX NUMBER BLOCK	5	$ 2.00	$ 10.00	$ 120.00	$ 2.00	$ 10.00	$ 120.00	$ -
~~Y~~	~~TRANS-ARL FIX 27%~~	~~4~~	~~$ 2.29~~	~~$ 2.29~~	~~$ 27.48~~	~~$ 2.29~~	~~$ 2.29~~	~~$ 27.48~~	~~$ -~~
~~Y~~	~~INTER-MILEAGE 20%~~	~~4~~	~~$ 4.98~~	~~$ 4.98~~	~~$ 59.76~~	~~$ 4.98~~	~~$ 4.98~~	~~$ 59.76~~	~~$ -~~

MIDVALE TELEPHONE EXCHANGE

LOCAL RATE AND REVENUE SUMMARY - TOTAL ARIZONA

(A)	(B) DESCRIPTION	(C) 12/31/98 UNITS	(D) CURRENT RATE	(E) MONTHLY REV. @ CURRENT	(F) ANNUALIZED REV. @ CURRENT	(G) PROPOSED RATE	(H) MONTHLY REV. AT PROPOSED	(I) ANNUALIZED REV. AT PROPOSED	(J) ANNUAL REVENUE INCREASE
~~Y~~	~~TRANS-MIL FIX-4P%~~	~~2~~	~~$ 4.98~~	~~$ 9.96~~	~~$ 119.52~~	~~$ 4.98~~	~~$ 9.96~~	~~$ 119.52~~	~~$ -~~
~~Y~~	~~TRANS-MIL FIX-20%~~	~~2~~	~~$ 1.70~~	~~$ 3.40~~	~~$ 40.80~~	~~$ 1.70~~	~~$ 3.40~~	~~$ 40.80~~	~~$ -~~
Y	61X1-10 20%	1	$ 13.42	$ 13.42	$ 161.04	$ 13.42	$ 13.42	$ 161.04	$ -
~~Y~~	~~58X1-10 MILEAGE-27%~~	~~1~~	~~$ 17.23~~	~~$ 17.23~~	~~$ 206.76~~	~~$ 17.23~~	~~$ 17.23~~	~~$ 206.76~~	~~$ -~~
~~Y~~	~~25X-85 MILEAGE-29%~~	~~1~~	~~$ 8.71~~	~~$ 8.71~~	~~$ 104.52~~	~~$ 8.71~~	~~$ 8.71~~	~~$ 104.52~~	~~$ -~~
~~Y~~	~~25X-85 MILEAGE-41%~~	~~2~~	~~$ 8.71~~	~~$ 17.42~~	~~$ 209.04~~	~~$ 8.71~~	~~$ 17.42~~	~~$ 209.04~~	~~$ -~~
	~~80X1-10 MILEAGE 20%~~	~~1~~	~~$ 17.60~~	~~$ 17.60~~	~~$ 211.20~~	~~$ 17.60~~	~~$ 17.60~~	~~$ 211.20~~	~~$ -~~
Y	56K SPECIAL ACCESS	0	$ 188.50	$ -	$ -	$ 188.50	$ -	$ -	$ -
C	TOLL RESTRICTION - RES	3	$ 2.00	$ 6.00	$ 72.00	$ 2.00	$ 6.00	$ 72.00	$ -
~~C~~	~~TOLL RESTRICTION - BUS~~	~~0~~	~~$ 3.00~~	~~$ -~~	~~$ -~~	~~$ 2.00~~	~~$ -~~	~~$ -~~	~~$ -~~
Y	TOLL RESTRICTION - RES	4	$ 2.00	$ 8.00	$ 96.00	$ 2.00	$ 8.00	$ 96.00	$ -
~~Y~~	~~TOLL RESTRICTION - RES~~	~~0~~	~~$ 2.00~~	~~$ -~~	~~$ -~~	~~$ 2.00~~	~~$ -~~	~~$ -~~	~~$ -~~
C	ADD'L BUS LIST	0	$ 1.50	$ -	$ -	$ 1.00	$ -	$ -	$ -
Y	ADD'L BUS LIST	3	$ 1.25	$ 3.75	$ 45.00	$ 1.00	$ 3.00	$ 36.00	$ (9.00)
~~C~~	~~ADD'L RES LIST~~	~~9~~	~~$ 1.00~~	~~$ 9.00~~	~~$ 108.00~~	~~$ 1.00~~	~~$ 9.00~~	~~$ 108.00~~	~~$ -~~
~~Y~~	~~ADD'L RES LIST~~	~~8~~	~~$ 1.00~~	~~$ 8.00~~	~~$ 96.00~~	~~$ 1.00~~	~~$ 8.00~~	~~$ 96.00~~	~~$ -~~
	ADDITIONAL INFORM	0	$ -	$ -	$ -	$ -	$ -	$ -	$ -
C	FOREIGN LISTING - RES	0	$ 2.00	$ -	$ -	$ 2.00	$ -	$ -	$ -
~~C~~	~~FOREIGN LISTING - BUS~~	~~0~~	~~$ 2.00~~	~~$ -~~	~~$ -~~	~~$ 2.00~~	~~$ -~~	~~$ -~~	~~$ -~~
Y	FOREIGN LISTING - RES	1	$ 1.00	$ 1.00	$ 12.00	$ 2.00	$ 2.00	$ 24.00	$ 12.00
~~Y~~	~~FOREIGN LISTING - BUS~~	~~0~~	~~$ 1.00~~	~~$ -~~	~~$ -~~	~~$ 2.00~~	~~$ -~~	~~$ -~~	~~$ -~~
C	NON-LIST	5	$ 2.00	$ 10.00	$ 120.00	$ 2.00	$ 10.00	$ 120.00	$ -
Y	NON-LIST	9	$ 1.50	$ 10.50	$ 129.60	$ 2.00	$ 18.00	$ 216.00	$ 86.40
C	NON- PUBLISHED	17	$ 2.00	$ 34.00	$ 408.00	$ 2.00	$ 34.00	$ 408.00	$ -
Y	NON- PUBLISHED	30	$ 1.50	$ 45.00	$ 540.00	$ 2.00	$ 60.00	$ 720.00	$ 180.00
~~C~~	~~PUBLIC ACCESS LINE (PAL)~~	~~0~~	~~$ 52.50~~	~~$ -~~	~~$ -~~	~~$ 52.50~~	~~$ -~~	~~$ -~~	~~$ -~~
~~Y~~	~~PUBLIC ACCESS LINE (PAL)~~	~~0~~	~~$ 69.50~~	~~$ -~~	~~$ -~~	~~$ 69.50~~	~~$ -~~	~~$ -~~	~~$ -~~
	CREDIT CARD SERVICE FEE	0	$ -	$ -	$ -	$ -	$ -	$ -	$ -
	DIRECTORY ASSISTANCE	0	$ -	$ -	$ -	$ -	$ -	$ -	$ -
C	LINE LEASE + ACCESS CHARGE	0	$ 21.00	$ -	$ -	$ 21.00	$ -	$ -	$ -
C	INSTALL CHG	0	$ 25.00	$ -	$ -	$ 25.00	$ -	$ -	$ -
Y	LINE LEASE + ACCESS CHARGE	2	$ 8.25	$ 16.50	$ 198.00	$ 21.00	$ 42.00	$ 504.00	$ 306.00
Y	INSTALL CHG	0	$ 22.00	$ -	$ -	$ 25.00	$ -	$ -	$ -
~~Y~~	~~EXTENSION CONTINUOUS~~	~~0~~	~~$ 4.00~~	~~$ -~~	~~$ -~~	~~$ 4.00~~	~~$ -~~	~~$ -~~	~~$ -~~
	MISC. REVENUE	0	$ -	$ -	$ -	$ -	$ -	$ -	$ -
	RETURN CHECK CHARGE	0	$ -	$ -	$ -	$ -	$ -	$ -	$ -
~~C~~	~~INSIDE WIRE MAINTENANCE~~	~~0~~	~~$ 1.00~~	~~$ -~~	~~$ -~~	~~$ 1.00~~	~~$ -~~	~~$ -~~	~~$ -~~
	TOTAL			$ 17,818.44	$ 147,257.53		$ 22,865.40	$ 209,209.80	$ 61,952.27
	YOUNG			$ 12,674.84	$ 94,609.33		$ 16,725.80	$ 146,259.60	$ 51,650.27
	CASCABEL			$ 5,126.00	$ 52,437.00		$ 6,122.00	$ 62,739.00	$ 10,302.00

SUMMARY OF LOCAL REVENUES	Arizona	Young	Cascabel
CURRENT ANNUALIZED REVENUES (COL F)	147,258	94,609	52,437
- UNCOLLECTIBLE (W/S 2)	(1,279)	(284)	(995)
NET REVENUES	145,979	94,325	51,442
+ PROPOSED INCREASE (COL J)	61,952	51,650	10,302
UNCOLLECTABLE FACTOR	-0.87%	-0.30%	-1.90%
- UNCOLLECTIBLE (INCREMENTAL CHANGE)	(538)	(155)	(195)
NET INCREASE	61,414	51,495	10,107
	207,393	145,821	61,549
+ STATE USF	221,360	19,627	154,096
	428,752	165,448	215,644
+ FEDERAL USF (AMT FROM W/S 5)	313,187	221,824	91,363
TOTAL PROPOSED LOCAL REVENUES	741,939	387,272	307,007

MIDVALE TELEPHONE EXCHANGE

Exhibit 2
Schedule: H-3
Title: Changes In Representative Rate Schedules
Explanation:
Schedule(s) comparing present rate schedules
with proposed rate schedule.

See Attachment H-2

MIDVALE TELEPHONE EXCHANGE

Exhibit 2
Schedule: H-4
Title: Typical Bill Analysis
Explanation:
Schedule(s) comparing typical customer bills at
varying consumption levels at present and proposed rates.

See Attachment H-2
See H-1

MIDVALE TELEPHONE EXCHANGE

Exhibit 2
Schedule: H-5
Title: Bill Count

Explanation:
Schedule(s) showing billing activity by block for each rate Required For:

See Attachment H-2

3

MIDVALE TELEPHONE

Net Telephone Plant

	MIDVALE TELEPHONE EXCHANGE			
	ARIZONA	OREGON	IDAHO	MIDVALE CONSOLIDATED
NET TELEPHONE PLANT	1,912,144	973,450	6,751,019	9,636,613

MIDVALE TELEPHONE EXCHANGE

SUMMARY OF RATE BASE -TOTAL ARIZONA

	A/C CODE	PLANT DESCRIPTION	BALANCE 12/31/98	BALANCE 12/31/99	AVERAGE	PROFORMA ADJUSTMENTS CPE/ADJ	NEW SWITCH	RATE CASE	AVERAGE AFTER PROFORMA	INTERSTATE AFTER PROFORMA	INTRASTATE AFTER PROFORMA	INTERSTATE % alloc.
Y	2111.54	LAND	20,207	20,207	20,207				20,207	7,250	12,957	35.8800%
Y	2111.55	BUILDINGS	14,347	14,347	14,347				14,347	5,148	9,199	35.8800%
C	2112.33	VEHICLES	29,645	29,645	29,645				29,645	10,637	19,008	35.8800%
Y	2112.55	VEHICLES	24,900	24,900	24,900					-	-	35.8800%
C	2116.33	OTHER WORK EQUIP	21,980	21,980	21,980				21,980	7,886	14,094	35.8800%
Y	2116.55	OTHER WORK EQUIP	-	-	-				-	-	-	35.8800%
Y	2122.55	OFFICE FURNITURE	500	500	500	-			500	179	321	35.8800%
Y	2123.55	OFFICIAL STATION EQUIP	-	-	-				-	-	-	35.8800%
C	2124.33	GEN PURCHASE COMPUTERS	6,971	6,971	6,971				6,971	2,501	4,470	35.8800%
Y	2124.55	GEN PUR COMPUTERS	1,972	1,972	1,972				1,972	708	1,265	35.8800%
C	2212.33	DIG. ELECT SWITCH	157,744	187,974	172,859				172,859	128,313	44,546	74.2300%
Y	2212.55	DIG ELECT SWITCH	320,795	309,186	314,991				314,991	233,817	81,173	74.2300%
C	2230.33	CENTRAL OFFICE TRAN	303,076	304,974	304,025				304,025	91,633	212,392	30.1400%
Y	2230.55	CENTRAL OFFICE TRANS	560,420	565,809	563,115				563,115	169,723	393,392	30.1400%
Y	2351.55	PUBLIC TELE EQUIP	5,619	5,619	5,619				5,619	1,544	4,076	27.4700%
C	2423.33	BURIED CABLE	766,075	766,075	766,075				766,075	210,441	555,634	27.4700%
Y	2423.55	BURIED CABLE	800,504	800,504	800,504				800,504	219,898	580,606	27.4700%
		TOTAL PLANT IN SERVICE	3,034,756	3,060,664	3,047,710	-	-	-	3,022,810	1,089,679	1,933,131	
		YOUNG	1,749,265	1,743,045	1,746,155				1,721,255	638,268	1,082,988	
		CASCABEL	1,285,491	1,317,619	1,301,555				1,301,555	451,411	850,144	
Y	2007.55	PLNT ACQ ADJ				-			-	-	-	
Y	2007.56	RES AMT. PLT ACQ							-	-	-	
C	3112.33	ACCUM DEP-VEHICLES	(13,545)	(13,545)	(13,545)				(13,545)	(4,918)	(8,627)	36.3100%
Y	3112.55	ACCUM DEP-VEHICLES	(17,500)	(22,480)	(19,990)				(19,990)	(7,258)	(12,732)	36.3100%
C	3116.33	ACCUM DEP- OTHER EQUIP	(21,659)	(21,980)	(21,820)				(21,820)	(7,923)	(13,897)	36.3100%
Y	3121.55	ACCUM DEP -BLDG	(996)	(1,474)	(1,235)				(1,235)	(448)	(787)	36.3100%
Y	3122.55	ACCUM DEP- F & FY	(243)	(314)	(279)				(279)	(101)	(177)	36.3100%
C	3124.33	ACCUM DEP- COMPUTERS	(2,360)	(3,755)	(3,058)				(3,058)	(1,110)	(1,947)	36.3100%
Y	3124.55	ACCUM DEP- COMPUTERS	(624)	(12,018)	(6,321)				(6,321)	(2,295)	(4,026)	36.3100%
C	3212.33	ACCUM DEP -DIGITAL SWITCH	(79,223)	(106,672)	(92,948)				(92,948)	(33,749)	(59,198)	36.3100%
Y	3212.55	ACCUM DEP -DIGITAL SWITCH	(85,708)	(18,622)	(52,165)				(52,165)	(18,941)	(33,224)	36.3100%
C	3230.33	ACCUM DEP -CO TRANS	(88,879)	(97,115)	(92,997)				(92,997)	(33,767)	(59,230)	36.3100%
Y	3230.55	ACCUM DEP -CO TRANS	(367,044)	(403,687)	(385,366)				(385,366)	(139,926)	(245,439)	36.3100%
Y	3351.55	ACCUM DEP -PUBLIC	(5,619)	(5,619)	(5,619)				(5,619)	(2,040)	(3,579)	36.3100%
C	3423.33	ACCUM DEP- BURIED CABLE	(133,447)	(165,366)	(149,407)				(149,407)	(54,250)	(95,157)	36.3100%
Y	3423.55	ACCUM DEP- BURIED CABLE	(305,768)	(339,123)	(322,446)				(322,446)	(117,080)	(205,366)	36.3100%
		RATE BASE	1,912,141	1,848,894	1,880,518	-	-	-	1,855,618	665,871	1,189,746	
		YOUNG	965,763	939,708	952,736				927,836	350,177	577,659	
		CASCABEL	946,378	909,186	927,782				927,782	315,694	612,088	

NOTES:

Y= YOUNG
C= CASCABEL

MIDVALE TELEPHONE EXCHANGE

COMPARATIVE INCOME STATEMENT - TOTAL ARIZONA

TOTAL ARIZONA

OPERATING REVENUES	12/31/99 RECORDED	PROFORMA ADJUSTMENTS FED USF YOUNG			RATE CASE EXP	RESULTS AFTER PROFORMA	INTERSTATE AFTER PROFORMA	INTRASTATE AFTER PROFORMA	INTERSTATE % alloc.
LOCAL SERVICES	146,183	-	-	-	-	146,183		146,183	
ENDUSER REVENUE (SLC)	26,186	-	-	-	-	26,186		26,186	
INTERSTATE ACCESS	377,001	-	-	-	-	377,001	417,490	(40,489)	
INTRASTATE ACCESS	186,820	-	-	-	-	186,820		186,820	
INTERSTATE USF	107,050	-	221,882	-	-	328,932		328,932	
STATE USF									
DIRECTORY REVENUE	1,759	-	-	-	-	1,759		1,759	
MISC.	22,081	-	-	-	-	22,081		22,081	
UNCOLLECTIBLE	(1,279)	-	-	-	-	(1,279)		(1,279)	
TOTAL REVENUE	865,801	-	221,882	-	-	1,087,683	417,490	670,193	
OPERATING EXPENSES									
PLANT SPECIFIC OPERATIONS	127,720	-	-	-	-	127,720	45,685	82,035	35.7700%
PLANT NON-SPECIFIC OPERATIONS	62,925	-	-	-	-	62,925	29,474	33,451	46.8400%
DEP. AND AMORT	186,282	-	-	-	-	186,282	75,128	111,154	40.3300%
CUSTOMER OPERATIONS	96,131	-	-	-	-	96,131	23,600	72,531	24.5500%
CORPORATE OPERATIONS	254,880	-	-	-	40,000	294,880	95,187	199,693	32.2800%
PROVISION FOR DEFERRED INCOME	-	-	-	-	-	-	-	-	36.4800%
OTHER OPERATING TAXES	81,282	-	-	-	-	81,282	29,652	51,630	36.4800%
INTEREST EXPENSE	25,107	-	-	-	-	25,107	9,159	15,948	36.4800%
TOTAL EXPENSES	834,327	-	-	-	40,000	874,327	307,885	566,442	
UTILITY OPERATING INCOME	31,474	-	221,882	-	(40,000)	213,356	109,605	103,751	

MIDVALE TELEPHONE EXCHANGE

COMPARATIVE INCOME STATEMENT - TOTAL ARIZONA

TOTAL ARIZONA

TOTAL YOUNG

	12/31/99 RECORDED	PROFORMA ADJUSTMENTS FED USF YOUNG	RATE CASE EXP	RESULTS AFTER PROFORMA	INTERSTATE AFTER PROFORMA	INTRASTATE AFTER PROFORMA	INTERSTATE % alloc.
OPERATING REVENUES							
LOCAL SERVICES	84,685			84,685		84,685	
ENDUSER REVENUE (SLC)	17,634			17,634		17,634	
INTERSTATE ACCESS	228,423			228,423	255,796	(27,373)	
INTRASTATE ACCESS	81,252			81,252		81,252	
INTERSTATE USF	-	221,882		221,882		221,882	
STATE USF							
DIRECTORY REVENUE	1,030			1,030		1,030	
MISC.	9,969			9,969		9,969	
UNCOLLECTIBLE	(284)			(284)		(284)	
TOTAL REVENUE	422,709	- 221,882	- -	644,591	255,796	388,795	
OPERATING EXPENSES							
PLANT SPECIFIC OPERATIONS	69,742			69,742	24,947	44,795	35.7700%
PLANT NON-SPECIFIC OPERATIONS	21,444			21,444	10,044	11,400	46.8400%
DEP. AND AMORT	115,785			115,785	46,696	69,089	40.3300%
CUSTOMER OPERATIONS	63,682			63,682	15,634	48,048	24.5500%
CORPORATE OPERATIONS	157,423		20,000	177,423	57,272	120,151	32.2800%
PROVISION FOR DEFERRED INCOME				-	-	-	36.4800%
OTHER OPERATING TAXES	47,009			47,009	17,149	29,860	36.4800%
INTEREST INCOME	9,573			9,573	3,492	6,081	36.4800%
TOTAL EXPENSES	484,658	- -	- 20,000	504,658	175,234	329,424	
UTILITY OPERATING INCOME	(61,949)	- 221,882	- (20,000)	139,933	80,562	59,371	

MIDVALE TELEPHONE EXCHANGE

COMPARATIVE INCOME STATEMENT - TOTAL ARIZONA

TOTAL ARIZONA

CASCABEL, AZ

OPERATING REVENUES	12/31/99 RECORDED	PROFORMA ADJUSTMENTS FED USF YOUNG	RATE CASE EXP	RESULTS AFTER PROFORMA	INTERSTATE AFTER PROFORMA	INTRASTATE AFTER PROFORMA	INTERSTATE % alloc.
LOCAL SERVICES	61,498			61,498		61,498	
END USER REVENUE (SLC)	8,552			8,552		8,552	
INTERSTATE ACCESS	148,578			148,578	161,694	(13,116)	
INTRASTATE ACCESS	105,568			105,568		105,568	
INTERSTATE USF	107,050			107,050		107,050	
STATE USF							
DIRECTORY REVENUE	729			729		729	
MISC.	12,112			12,112		12,112	
UNCOLLECTIBLE	(995)			(995)		(995)	
TOTAL REVENUE	443,092			443,092	161,694	281,398	
OPERATING EXPENSES							
PLANT SPECIFIC OPERATIONS	57,978			57,978	20,739	37,239	35.7700%
PLANT NON-SPECIFIC OPERATIONS	41,481			41,481	19,430	22,051	46.8400%
DEP. AND AMORT	70,497			70,497	28,431	42,066	40.3300%
CUSTOMER OPERATIONS	32,449			32,449	7,966	24,483	24.5500%
CORPORATE OPERATIONS	97,457		20,000	117,457	37,915	79,542	32.2800%
PROVISION FOR DEFERRED INCOME				-	-	-	36.4800%
OTHER OPERATING TAXES	34,273			34,273	12,503	21,770	36.4800%
INTEREST EXPENSE	15,534			15,534	5,667	9,867	36.4800%
TOTAL EXPENSES	349,669	- - -	20,000	369,669	132,651	237,018	
UTILITY OPERATING INCOME	93,423	- - -	(20,000)	73,423	29,043	44,380	

MIDVALE TELEPHONE EXCHANGE

CALCULATION OF COST OF CAPITAL - TOTAL ARIZONA

LINE	(A) DESCRIPTION	(B) CAPITAL AMOUNT	(C) CAPITAL RATIO	(D) COST	(E) WGT COST (C x D)
	LONG TERM DEBT				
1	RTFC CONST. LOAN CASCABEL	200,631	0.0949	0.0610	0.0058
2	RUS 5% CASCABEL	268,586	0.1271	0.0500	0.0064
3	OTHER	37,695	0.0178	0.0600	0.0011
4	TOTAL DEBT	506,912	0.2398		0.0132
5	EQUITY (CASCABEL & YOUNG)	1,606,651	0.7602	0.1300	0.0988
6	OTHER	-	0.0000	-	0.0000
7	TOTAL EQUITY	1,606,651	0.7602		0.0988
8	TOTAL	2,113,563	1.0000		0.1120

MIDVALE TELEPHONE EXCHANGE

CALCULATION OF REVENUE DEFICIENCY - TOTAL ARIZONA

LINE	DESCRIPTION		ARIZONA	YOUNG	CASCABEL	
1	RATE BASE		1,189,746	577,659	612,088	1,189,746
2	RATE OF RETURN ON RATE BASE		0.1120	0.1120	0.1120	
3	REQUIRED RETURN (LN 1 x LN 2)		133,294	64,718	68,576	133,294
4	UTILITY OPERATING INCOME		103,751	59,371	44,380	103,751
5	RETURN DEFICIENCY (LN 3 - LN 4)		29,543	5,347	24,196	29,543
6	**NET INCOME GROSS REVENUE CONVERSION**	**RATIO**				
6A	TOTAL GROSS REVENUE (W/S 2)		1.0000	1.0000	1.0000	
6B	LESS: UNCOLLECTIBLE (W/S 2 INTRASTATE)		0.0019	0.0007	0.0035	
6C	NET REVENUES (LN 6A - LN 6B)		0.9981	0.9993	0.9965	
6D	STATE INCOME TAX RATE (INPUT)		0.0800	0.0800	0.0800	
6E	STATE INCOME TAXES (LN 6C x LN 6D)		0.0798	0.0799	0.0797	
6F	FEDERAL INCOME TAX BASE (LN 6C - 6E)		0.9182	0.9193	0.9167	
6G	FEDERAL INCOME TAX RATE (INPUT)		0.3500	0.3500	0.3500	
6H	FEDERAL INCOME TAXES (LN 6F x LN 6G)		0.3214	0.3218	0.3209	
6I	NET OPERATING REVENUE (LN 6F - LN 6H)		0.5969	0.5976	0.5959	
6J	NET INC TO GROSS REVENUE MULT (1/ LN 6i)		1.6754	1.6735	1.6782	
6K	GROSS UP REVENUE (EQUITY ONLY)		79,413	38,445	41,021	
7	REVENUE INCREASE REQUIRED (LN 5 + LN 6K)		108,955	43,792	65,217	
	PERCENT INCREASE		16.3%	11.3%	23.2%	

MIDVALE TELEPHONE EXCHANGE

SOURCE REVENUE

TOTAL ARIZONA

	BEFORE PROPOSED RATES	CHANGES	AFTER PROPOSED RATES
LOCAL SERVICE	146,183	61,210	207,393
INTERSTATE USF	328,932	-	328,932
STATE USF	-	147,567	147,567
INTRASTATE ACCESS	186,820	(99,394)	87,426
MISCELLANEOUS	23,840	-	23,840
UNCOLLECTIBLE	(1,279)	(538)	(1,817)
TOTAL	684,496	108,844	793,340

TOTAL YOUNG

	BEFORE PROPOSED RATES	CHANGES	AFTER PROPOSED RATES
LOCAL SERVICE	84,685	61,136	145,821
INTERSTATE USF	221,882	-	221,882
STATE USF	-	17,238	17,238
INTRASTATE ACCESS	81,252	(34,427)	46,825
MISCELLANEOUS	10,999	-	10,999
UNCOLLECTIBLE	(284)	(155)	(439)
TOTAL	398,534	43,792	442,326

MIDVALE TELEPHONE EXCHANGE

SOURCE REVENUE

TOTAL CASCABEL

	BEFORE PROPOSED RATES	CHANGES	AFTER PROPOSED RATES
LOCAL SERVICE	61,498	51	61,549
INTERSTATE USF	107,050	-	107,050
STATE USF	-	130,329	130,329
INTRASTATE ACCESS	105,568	(64,967)	40,601
MISCELLANEOUS	12,841	-	12,841
UNCOLLECTIBLE	(995)	(195)	(1,190)
TOTAL	285,962	65,217	351,179

MIDVALE TELEPHONE EXCHANGE

LOCAL RATE AND REVENUE SUMMARY - TOTAL ARIZONA

(A)	(B) DESCRIPTION	(C) 12/31/98 UNITS	(D) CURRENT RATE	(E) MONTHLY REV. @ CURRENT	(F) ANNUALIZED REV. @ CURRENT	(G) PROPOSED RATE	(H) MONTHLY REV. AT PROPOSED	(I) ANNUALIZED REV. AT PROPOSED	(J) ANNUAL REVENUE INCREASE
LOCAL									
Y	RESIDENCE- R1	363	$ 12.40	$ 4,501.20	$ 54,014.40	$ 24.00	$ 8,712.00	$ 104,544.00	$ 50,529.60
~~Y~~	~~RESIDENCE- Zone 1 Charge~~	~~0~~	~~$ 1.10~~	~~$ -~~	~~$ -~~	~~$ 1.10~~	~~$ -~~	~~$ -~~	~~$ -~~
~~Y~~	~~RESIDENCE- Zone 2 Charge~~	~~0~~	~~$ 3.30~~	~~$ -~~	~~$ -~~	~~$ 3.30~~	~~$ -~~	~~$ -~~	~~$ -~~
~~Y~~	~~RESIDENCE- Flat 2 Party~~	~~4~~	~~$ 10.76~~	~~$ 43.04~~	~~$ 516.48~~	~~$ 24.00~~	~~$ 96.00~~	~~$ 1,152.00~~	$ 635.52
Y	BUSINESS - B1	58	$ 32.00	$ 1,856.00	$ 22,272.00	$ 32.00	$ 1,856.00	$ 22,272.00	
~~Y~~	~~BUSINESS - Zone 1 Charge~~	~~0~~	~~$ 1.10~~	~~$ -~~	~~$ -~~	~~$ 1.10~~	~~$ -~~	~~$ -~~	~~$ -~~
~~Y~~	~~BUSINESS - Zone 2 Charge~~	~~0~~	~~$ 3.30~~	~~$ -~~	~~$ -~~	~~$ 3.30~~	~~$ -~~	~~$ -~~	~~$ -~~
Y	BUSINESS - pay	3	$ 21.00	$ 63.00	$ 756.00	$ 21.00	$ 63.00	$ 756.00	$ -
Y	~~BUSINESS - Flat 4 Party~~	~~1~~	~~$ 24.20~~	~~$ 24.20~~	~~$ 290.40~~	~~$ 32.00~~	~~$ 32.00~~	~~$ 384.00~~	~~$ 93.60~~
~~Y~~	~~KEY SYSTEM~~	~~0~~	~~$ 32.00~~	~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~
~~Y~~	~~PBX - Zone 1~~	~~0~~	~~$ 45.80~~	~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~
~~Y~~	~~PBX - Zone 2~~	~~2~~	~~$ 44.70~~	~~$ 89.40~~	~~$ 1,072.80~~	~~$ 32.00~~	~~$ 64.00~~	~~$ 768.00~~	~~$ (304.80)~~
~~Y~~	~~PAL~~	~~0~~	~~$ 69.50~~	~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~
Y	Foreign Exchange	1	$ 250.00	$ 250.00	$ 3,000.00	$ 250.00	$ 250.00	$ 3,000.00	$ -
Y	VACATION - Zone 1 Charge	3	$ 6.75	$ 20.25	$ 243.00	$ 10.50	$ 31.50	$ 378.00	$ 135.00
~~Y~~	~~VACATION - Zone 2 Charge~~	~~2~~	~~$ 7.85~~	~~$ 15.70~~	~~$ 188.40~~	~~$ 10.50~~	~~$ 21.00~~	~~$ 252.00~~	~~$ 63.60~~
C	RESIDENCE- R1	172	$ 21.00	$ 3,612.00	$ 43,344.00	$ 24.00	$ 4,128.00	$ 49,536.00	$ 6,192.00
C	BUSINESS - B1	30	$ 21.00	$ 630.00	$ 7,560.00	$ 32.00	$ 960.00	$ 11,520.00	$ 3,960.00
C	BUSINESS - pay	0	$ 21.00	$ -	$ -	$ 21.00	$ -	$ -	$ -
~~C~~	~~KEY SYSTEM~~	~~0~~	~~$ 30.00~~	~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~
~~C~~	~~PBX~~	~~0~~	~~$ 30.00~~	~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~
~~C~~	~~PAL~~	~~0~~	~~$ 52.50~~	~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~
C	VACATION	0	$ 10.50	$ -	$ -	$ 10.50	$ -	$ -	$ -
NON-RECURRING CHARGES									
Y	SERVICE ORDER	55	$ 10.00	$ 550.00	$ 550.00	$ 10.00	$ 550.00	$ 550.00	$ -
C	SERVICE ORDER	15	$ 10.00	$ 150.00	$ 150.00	$ 10.00	$ 150.00	$ 150.00	$ -
Y	LINE CONNECTION	55	$ 12.00	$ 660.00	$ 660.00	$ 25.00	$ 1,375.00	$ 1,375.00	$ 715.00
~~Y~~	~~LINE CONNECTION - Zone 1~~	~~35~~	~~$ 33.25~~	~~$ 1,163.75~~	~~$ 1,163.75~~	~~$ 25.00~~	~~$ 875.00~~	~~$ 875.00~~	~~$ (288.75)~~
~~Y~~	~~LINE CONNECTION - Zone 2~~	~~20~~	~~$ 75.25~~	~~$ 1,505.00~~	~~$ 1,505.00~~	~~$ 25.00~~	~~$ 500.00~~	~~$ 500.00~~	~~$ (1,005.00)~~
C	LINE CONNECTION	15	$ 15.00	$ 225.00	$ 225.00	$ 25.00	$ 375.00	$ 375.00	$ 150.00
Y	PREMISE VISIT	55	$ 24.50	$ 1,347.50	$ 1,347.50	$ 30.00	$ 1,650.00	$ 1,650.00	$ 302.50
C	PREMISE VISIT	15	$ 30.00	$ 450.00	$ 450.00	$ 30.00	$ 450.00	$ 450.00	$ -
OTHER RATES & CHARGES									
CUSTOM CALLING									
~~Y~~	~~RES. CALL WAITING~~	~~8~~	~~$ 5.00~~	~~$ 40.00~~	~~$ 480.00~~	~~$ 5.00~~	~~$ 40.00~~	~~$ 480.00~~	~~$ -~~
~~Y~~	~~BUS. CALL WAITING~~	~~0~~	~~$ 7.50~~	~~$ -~~	~~$ -~~	~~$ 7.50~~	~~$ -~~	~~$ -~~	~~$ -~~
~~Y~~	~~RES. CALL FORWARDING~~	~~7~~	~~$ 2.74~~	~~$ 19.18~~	~~$ 230.16~~	~~$ 2.74~~	~~$ 19.18~~	~~$ 230.16~~	~~$ -~~
~~Y~~	~~BUS CALL FORWARDING~~	~~0~~	~~$ 4.00~~	~~$ -~~	~~$ -~~	~~$ 4.00~~	~~$ -~~	~~$ -~~	~~$ -~~
~~Y~~	~~RES 3-WAY CALLING~~	~~5~~	~~$ 3.52~~	~~$ 17.60~~	~~$ 211.20~~	~~$ 3.52~~	~~$ 17.60~~	~~$ 211.20~~	~~$ -~~
~~Y~~	~~BUS 3-WAY CALLING~~	~~0~~	~~$ 4.20~~	~~$ -~~	~~$ -~~	~~$ 4.20~~	~~$ -~~	~~$ -~~	~~$ -~~
~~Y~~	~~RES, 8 NO. SPEED CALLING~~	~~0~~	~~$ 1.74~~	~~$ -~~	~~$ -~~	~~$ 1.74~~	~~$ -~~	~~$ -~~	~~$ -~~
~~Y~~	~~BUS., 8 NO. SPEED CALLING~~	~~0~~	~~$ 3.00~~	~~$ -~~	~~$ -~~	~~$ 3.00~~	~~$ -~~	~~$ -~~	~~$ -~~
~~Y~~	~~RES, 30 NO. SPEED CALLING~~	~~0~~	~~$ 1.74~~	~~$ -~~	~~$ -~~	~~$ 1.74~~	~~$ -~~	~~$ -~~	~~$ -~~
~~Y~~	~~BUS., 30 NO. SPEED CALLING~~	~~0~~	~~$ 3.00~~	~~$ -~~	~~$ -~~	~~$ 3.00~~	~~$ -~~	~~$ -~~	~~$ -~~
~~Y~~	~~RES. FIXED CALLING~~	~~0~~	~~$ 2.50~~	~~$ -~~	~~$ -~~	~~$ 2.50~~	~~$ -~~	~~$ -~~	~~$ -~~
~~Y~~	~~BUS. FIXED CALLING~~	~~0~~	~~$ 2.50~~	~~$ -~~	~~$ -~~	~~$ 2.50~~	~~$ -~~	~~$ -~~	~~$ -~~
~~Y~~	~~RES. LINE BUSY DIV.~~	~~0~~	~~$ 1.85~~	~~$ -~~	~~$ -~~	~~$ 1.85~~	~~$ -~~	~~$ -~~	~~$ -~~
~~Y~~	~~BUS. LINE BUSY DIV.~~	~~0~~	~~$ 8.00~~	~~$ -~~	~~$ -~~	~~$ 8.00~~	~~$ -~~	~~$ -~~	~~$ -~~
~~Y~~	~~ANY 2 (20% DISCOUNT)~~	~~1~~	~~$ 6.19~~	~~$ 6.19~~	~~$ 74.28~~	~~$ 6.19~~	~~$ 6.19~~	~~$ 74.28~~	~~$ -~~
	~~ANY 3 (25% DISCOUNT)~~	~~0~~	~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~
	~~ANY 4 (30% DISCOUNT)~~	~~0~~	~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~
	~~ANY 5 (35% DISCOUNT)~~	~~0~~	~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~
MISCELLANEOUS									
C	VACATION RATE	0	$ 10.50	$ -	$ -	$ 10.50	$ -	$ -	$ -
Y	VACATION RATE - Zone 1	3	$ 6.75	$ 20.25	$ 243.00	$ 10.50	$ 31.50	$ 378.00	$ 135.00
~~Y~~	~~VACATION RATE - Zone 2~~	~~2~~	~~$ 7.85~~	~~$ 15.70~~	~~$ 188.40~~	~~$ 10.50~~	~~$ 21.00~~	~~$ 252.00~~	~~$ 63.60~~
	PAYPHONE-LOCAL	0	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Y	PRIVATE LINE EXTENSION	8	$ 7.00	$ 56.00	$ 672.00	$ 7.00	$ 56.00	$ 672.00	$ -
	INTRACHANGE P/L MILEAGE	0	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Y	OFF-PREMISE EXTENSION	2	$ 4.00	$ 8.00	$ 96.00	$ 4.00	$ 8.00	$ 96.00	$ -
	EMERG. RPT -MAIN STATION	0	$ -	$ -	$ -	$ -	$ -	$ -	$ -
	EMERG. RPT-ADD'L STATION	0	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Y	TRUNK HUNTING FEATURE	2	$ 8.00	$ 16.00	$ 192.00	$ 8.00	$ 16.00	$ 192.00	$ -
Y	BUSINESS CHANNEL TERM - Dedicated Channel	1	$ 6.50	$ 6.50	$ 78.00	$ 6.50	$ 6.50	$ 78.00	$ -
Y	BUSINESS CHANNEL TERM - Dedicated Trunk	6	$ 24.42	$ 146.52	$ 1,758.24	$ 24.42	$ 146.52	$ 1,758.24	$ -
Y	TRUNK TERMINATION	2	$ 26.70	$ 53.40	$ 640.80	$ 26.70	$ 53.40	$ 640.80	$ -
Y	PBX NUMBER BLOCK	5	$ 2.00	$ 10.00	$ 120.00	$ 2.00	$ 10.00	$ 120.00	$ -
~~Y~~	~~TRANS-MIL FIX 27%~~	~~1~~	~~$ 2.29~~	~~$ 2.29~~	~~$ 27.48~~	~~$ 2.29~~	~~$ 2.29~~	~~$ 27.48~~	~~$ -~~
~~Y~~	~~FIXED MILEAGE 20%~~	~~1~~	~~$ 4.98~~	~~$ 4.98~~	~~$ 59.76~~	~~$ 4.98~~	~~$ 4.98~~	~~$ 59.76~~	~~$ -~~

MIDVALE TELEPHONE EXCHANGE

LOCAL RATE AND REVENUE SUMMARY - TOTAL ARIZONA

(A)	(B) DESCRIPTION	(C) 12/31/98 UNITS	(D) CURRENT RATE	(E) MONTHLY REV. @ CURRENT	(F) ANNUALIZED REV. @ CURRENT	(G) PROPOSED RATE	(H) MONTHLY REV. AT PROPOSED	(I) ANNUALIZED REV. AT PROPOSED	(J) ANNUAL REVENUE INCREASE
~~Y~~	~~TRANS-MIL-FIX-41%~~	~~2~~	~~$ 4.98~~	~~$ 9.96~~	~~$ 119.52~~	~~$ 4.98~~	~~$ 9.96~~	~~$ 119.52~~	~~$ -~~
~~Y~~	~~TRANS-MIL-FIX-20%~~	~~2~~	~~$ 1.70~~	~~$ 3.40~~	~~$ 40.80~~	~~$ 1.70~~	~~$ 3.40~~	~~$ 40.80~~	~~$ -~~
~~Y~~	~~61X1.10-20%~~	~~1~~	~~$ 13.42~~	~~$ 13.42~~	~~$ 161.04~~	~~$ 13.42~~	~~$ 13.42~~	~~$ 161.04~~	~~$ -~~
~~Y~~	~~58X1.10-MILEAGE-27%~~	~~1~~	~~$ 17.23~~	~~$ 17.23~~	~~$ 206.76~~	~~$ 17.23~~	~~$ 17.23~~	~~$ 206.76~~	~~$ -~~
~~Y~~	~~25X.85-MILEAGE-20%~~	~~1~~	~~$ 8.71~~	~~$ 8.71~~	~~$ 104.52~~	~~$ 8.71~~	~~$ 8.71~~	~~$ 104.52~~	~~$ -~~
~~Y~~	~~25X.85-MILEAGE-41%~~	~~2~~	~~$ 8.71~~	~~$ 17.42~~	~~$ 209.04~~	~~$ 8.71~~	~~$ 17.42~~	~~$ 209.04~~	~~$ -~~
	~~80X1.10-MILEAGE-20%~~	~~1~~	~~$ 17.60~~	~~$ 17.60~~	~~$ 211.20~~	~~$ 17.60~~	~~$ 17.60~~	~~$ 211.20~~	~~$ -~~
Y	56K SPECIAL ACCESS	0	$ 188.50	$ -	$ -	$ 188.50	$ -	$ -	$ -
C	TOLL RESTRICTION - RES	3	$ 2.00	$ 6.00	$ 72.00	$ 2.00	$ 6.00	$ 72.00	$ -
~~C~~	~~TOLL RESTRICTION - BUS~~	~~0~~	~~$ 3.00~~	~~$ -~~	~~$ -~~	~~$ 2.00~~	~~$ -~~	~~$ -~~	~~$ -~~
Y	TOLL RESTRICTION - RES	4	$ 2.00	$ 8.00	$ 96.00	$ 2.00	$ 8.00	$ 96.00	$ -
~~Y~~	~~TOLL RESTRICTION - BUS~~	~~0~~	~~$ 2.00~~	~~$ -~~	~~$ -~~	~~$ 2.00~~	~~$ -~~	~~$ -~~	~~$ -~~
C	ADD'L BUS LIST	0	$ 1.50	$ -	$ -	$ 1.00	$ -	$ -	$ -
Y	ADD'L BUS LIST	3	$ 1.25	$ 3.75	$ 45.00	$ 1.00	$ 3.00	$ 36.00	$ (9.00)
~~C~~	~~ADD'L RES LIST~~	~~9~~	~~$ 1.00~~	~~$ 9.00~~	~~$ 108.00~~	~~$ 1.00~~	~~$ 9.00~~	~~$ 108.00~~	~~$ -~~
~~Y~~	~~ADD'L RES LIST~~	~~8~~	~~$ 1.00~~	~~$ 8.00~~	~~$ 96.00~~	~~$ 1.00~~	~~$ 8.00~~	~~$ 96.00~~	~~$ -~~
	ADDITIONAL INFORM	0	$ -	$ -	$ -	$ -	$ -	$ -	$ -
C	FOREIGN LISTING - RES	0	$ 2.00	$ -	$ -	$ 2.00	$ -	$ -	$ -
~~C~~	~~FOREIGN LISTING - BUS~~	~~0~~	~~$ 2.00~~	~~$ -~~	~~$ -~~	~~$ 2.00~~	~~$ -~~	~~$ -~~	~~$ -~~
Y	FOREIGN LISTING - RES	1	$ 1.00	$ 1.00	$ 12.00	$ 2.00	$ 2.00	$ 24.00	$ 12.00
~~Y~~	~~FOREIGN LISTING - BUS~~	~~0~~	~~$ 1.25~~	~~$ -~~	~~$ -~~	~~$ 2.00~~	~~$ -~~	~~$ -~~	~~$ -~~
C	NON-LIST	5	$ 2.00	$ 10.00	$ 120.00	$ 2.00	$ 10.00	$ 120.00	$ -
Y	NON-LIST	9	$ 1.20	$ 10.80	$ 129.60	$ 2.00	$ 18.00	$ 216.00	$ 86.40
C	NON- PUBLISHED	17	$ 2.00	$ 34.00	$ 408.00	$ 2.00	$ 34.00	$ 408.00	$ -
Y	NON- PUBLISHED	30	$ 1.50	$ 45.00	$ 540.00	$ 2.00	$ 60.00	$ 720.00	$ 180.00
~~C~~	~~PUBLIC ACCESS LINE (PAL)~~	~~0~~	~~$ 52.50~~	~~$ -~~	~~$ -~~	~~$ 52.50~~	~~$ -~~	~~$ -~~	~~$ -~~
~~Y~~	~~PUBLIC ACCESS LINE (PAL)~~	~~0~~	~~$ 69.50~~	~~$ -~~	~~$ -~~	~~$ 69.50~~	~~$ -~~	~~$ -~~	~~$ -~~
	CREDIT CARD SERVICE FEE	0	$ -	$ -	$ -	$ -	$ -	$ -	$ -
	DIRECTORY ASSISTANCE	0	$ -	$ -	$ -	$ -	$ -	$ -	$ -
C	LINE LEASE + ACCESS CHARGE	0	$ 21.00	$ -	$ -	$ 21.00	$ -	$ -	$ -
C	INSTALL CHG.	0	$ 25.00	$ -	$ -	$ 25.00	$ -	$ -	$ -
Y	LINE LEASE + ACCESS CHARGE	2	$ 8.25	$ 16.50	$ 198.00	$ 21.00	$ 42.00	$ 504.00	$ 306.00
Y	INSTALL CHG.	0	$ 22.00	$ -	$ -	$ 25.00	$ -	$ -	$ -
~~Y~~	~~EXTENSION-CONTINUOUS~~	~~0~~	~~$ 4.00~~	~~$ -~~	~~$ -~~	~~$ 4.00~~	~~$ -~~	~~$ -~~	~~$ -~~
	MISC. REVENUE	0	$ -	$ -	$ -	$ -	$ -	$ -	$ -
	RETURN CHECK CHARGE	0	$ -	$ -	$ -	$ -	$ -	$ -	$ -
~~C~~	~~INSIDE WIRE MAINTENANCE~~	~~0~~	~~$ 1.00~~	~~$ -~~	~~$ -~~	~~$ 1.00~~	~~$ -~~	~~$ -~~	~~$ -~~
	TOTAL			$ 17,818.44	$ 147,257.53		$ 22,865.40	$ 209,209.80	$ 61,952.27
	YOUNG			$ 12,674.84	$ 94,609.33		$ 16,725.80	$ 146,259.60	$ 51,650.27
	CASCABEL			$ 5,126.00	$ 52,437.00		$ 6,122.00	$ 62,739.00	$ 10,302.00

SUMMARY OF LOCAL REVENUES

	Arizona	Young	Cascabel
CURRENT ANNUALIZED REVENUES (COL F)	147,258	94,609	52,437
- UNCOLLECTIBLE (W/S 2)	(1,279)	(284)	(995)
NET REVENUES	145,979	94,325	51,442
+ PROPOSED INCREASE (COL J)	61,952	51,650	10,302
UNCOLLECTABLE FACTOR	-0.87%	-0.30%	-1.90%
- UNCOLLECTIBLE (INCREMENTAL CHANGE)	(538)	(155)	(195)
NET INCREASE	61,414	51,495	10,107
	207,393	145,821	61,549
+ STATE USF	147,567	17,238	130,329
	354,960	163,059	191,877
+ FEDERAL USF (AMT FROM W/S 5)	328,932	221,882	107,050
TOTAL PROPOSED LOCAL REVENUES	683,892	384,941	298,927

MIDVALE TELEPHONE EXCHANGE

STATE UNIVERSAL SERVICE FUNDING REQUIRED

TOTAL ARIZONA	PROPOSED REVENUE	STATE USF FUNDING REQUIRED
LOCAL	61,186	
INTERSTATE USF		
INTRASTATE ACCESS	(99,394)	
MISC+UNCOLLECT	(351)	
TOTAL	(38,559)	147,567

TOTAL YOUNG	PROPOSED REVENUE	STATE USF FUNDING REQUIRED
LOCAL	61,136	
INTERSTATE USF		
INTRASTATE ACCESS	(34,427)	
MISC+UNCOLLECT	(155)	
TOTAL	26,553	17,238

TOTAL CASCABEL	PROPOSED REVENUE	STATE USF FUNDING REQUIRED
LOCAL	51	
INTRASTATE ACCESS	(64,967)	
MISC+UNCOLLECT	(195)	
TOTAL	(65,112)	130,329

MIDVALE TELEPHONE EXCHANGE

STATE UNIVERSAL SERVICE FUNDING REQUIRED

CURRENT ACCESS RATES: Arizona Total

DESCRIPTION	QUANTITY	RATE	REVENUE		
CCL- ORIG	910227	0.0606	55,202		
CCL- TERM	838286	0.0582	48,778		
LOCAL TRANSPORT	1748513	0.0201	35,160	average	0.11141
LOCAL SWITCHING	1748513	0.0201	35,160		
BILLING & COLLECTING	89174	0.2300	20,510		
			194,810		

PROPOSED ACCESS RATES: Arizona Total

DESCRIPTION					
CCL- ORIG	910227	0.0300	27,307		
CCL- TERM	838286	0.0300	25,149		
LOCAL TRANSPORT	1748513	0.0100	17,485	average	0.06173
LOCAL SWITCHING	1748513	0.0100	17,485		
BILLING & COLLECTING	89174	0.2300	20,510		
SUB TOTAL			107,936		

CURRENT ACCESS RATES: Young

DESCRIPTION	QUANTITY	RATE	REVENUE		
CCL- ORIG	450508	0.0460	20,723		
CCL- TERM	485985	0.0460	22,355		
LOCAL TRANSPORT	936493	0.0150	14,047	average	0.08773
LOCAL SWITCHING	936493	0.0150	14,047		
BILLING & COLLECTING	47761	0.2300	10,985		
B&C factor	0.051				
			82,159		

PROPOSED ACCESS RATES: Young

DESCRIPTION					
CCL- ORIG	450508	0.0300	13,515		
CCL- TERM	485985	0.0300	14,580		
LOCAL TRANSPORT	936493	0.0100	9,365	average	0.06173
LOCAL SWITCHING	936493	0.0100	9,365		
BILLING & COLLECTING	47761	0.2300	10,985		
B&C factor	0.051				
			57,810		

CURRENT ACCESS RATES: Cascabel

DESCRIPTION	QUANTITY	RATE	REVENUE		
CCL- ORIG	459719	0.0750	34,479		
CCL- TERM	352301	0.0750	26,423		
LOCAL TRANSPORT	812020	0.0260	21,113	average	0.13873
LOCAL SWITCHING	812020	0.0260	21,113		
BILLING & COLLECTING	41413	0.2300	9,525		
B&C factor	0.051				
			112,652		

PROPOSED ACCESS RATES: Cascabel

DESCRIPTION					
CCL- ORIG	459719	0.0300	13,792		
CCL- TERM	352301	0.0300	10,569		
LOCAL TRANSPORT	812020	0.0100	8,120	average	0.06173
LOCAL SWITCHING	812020	0.0100	8,120		
BILLING & COLLECTING	41413	0.2300	9,525		
B&C factor	0.051				
			50,126		

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MIDVALE TELEPHONE

Net Telephone Plant

	MIDVALE TELEPHONE EXCHANGE			
	ARIZONA	OREGON	IDAHO	MIDVALE CONSOLIDATED
NET TELEPHONE PLANT	1,912,144	973,450	6,751,019	9,636,613

MIDVALE TELEPHONE EXCHANGE

SUMMARY OF RATE BASE -TOTAL ARIZONA

	A/C CODE	PLANT DESCRIPTION	BALANCE 12/31/98	BALANCE 12/31/99	AVERAGE	PROFORMA ADJUSTMENTS CPE/ADJ	NEW SWITCH	EAS	AVERAGE AFTER PROFORMA	INTERSTATE AFTER PROFORMA	INTRASTATE AFTER PROFORMA	INTERSTATE % alloc.
									-			
Y	2111.54	LAND	20,207	20,207	20,207				20,207	7,250	12,957	35.8800%
Y	2111.55	BUILDINGS	14,347	14,347	14,347				14,347	5,148	9,199	35.8800%
C	2112.33	VEHICLES	29,645	29,645	29,645				29,645	10,637	19,008	35.8800%
Y	2112.55	VEHICLES	24,900	24,900	24,900				24,900	8,934	15,966	35.8800%
C	2116.33	OTHER WORK EQUIP	21,980	21,980	21,980				21,980	7,886	14,094	35.8800%
Y	2116.55	OTHER WORK EQUIP	-	-	-				-	-	-	35.8800%
Y	2122.55	OFFICE FURNITURE	500	500	500	-			500	179	321	35.8800%
Y	2123.55	OFFICIAL STATION EQUIP	-	-	-				-	-	-	35.8800%
C	2124.33	GEN PURCHASE COMPUTERS	6,971	6,971	6,971				6,971	2,501	4,470	35.8800%
Y	2124.55	GEN PUR COMPUTERS	1,972	1,972	1,972				1,972	708	1,265	35.8800%
C	2212.33	DIG. ELECT SWITCH	157,744	187,974	172,859				172,859	128,313	44,546	74.2300%
Y	2212.55	DIG ELECT SWITCH	320,795	309,186	314,991				314,991	233,817	81,173	74.2300%
C	2230.33	CENTRAL OFFICE TRAN	303,076	304,974	304,025				304,025	91,633	212,392	30.1400%
Y	2230.55	CENTRAL OFFICE TRANS	560,420	565,809	563,115				563,115	169,723	393,392	30.1400%
Y	2351.55	PUBLIC TELE EQUIP	5,619	5,619	5,619				5,619	1,544	4,076	27.4700%
C	2423.33	BURIED CABLE	766,075	766,075	766,075				766,075	210,441	555,634	27.4700%
Y	2423.55	BURIED CABLE	800,504	800,504	800,504				800,504	219,898	580,606	27.4700%
Y									-	-	-	
									-			
									-			
		TOTAL PLANT IN SERVICE	3,034,756	3,060,664	3,047,710	-	-	-	3,047,710	1,098,613	1,949,097	
		YOUNG	1,749,265	1,743,045	1,746,155				1,746,155	647,202	1,098,954	
		CASCABEL	1,285,491	1,317,619	1,301,555				1,301,555	451,411	850,144	
Y	2007.55	PLNT ACQ ADJ				-			-	-	-	
Y	2007.56	RES AMT. PLT ACQ							-	-	-	
C	3112.33	ACCUM DEP-VEHICLES	(13,545)	(13,545)	(13,545)				(13,545)	(4,918)	(8,627)	36.3100%
Y	3112.55	ACCUM DEP-VEHICLES	(17,500)	(22,480)	(19,990)				(19,990)	(7,258)	(12,732)	36.3100%
C	3116.33	ACCUM DEP- OTHER EQUIP	(21,659)	(21,980)	(21,820)				(21,820)	(7,923)	(13,897)	36.3100%
Y	3121.55	ACCUM DEP -BLDG	(996)	(1,474)	(1,235)				(1,235)	(448)	(787)	36.3100%
Y	3122.55	ACCUM DEP- F & FY	(243)	(314)	(279)				(279)	(101)	(177)	36.3100%
C	3124.33	ACCUM DEP- COMPUTERS	(2,360)	(3,755)	(3,058)				(3,058)	(1,110)	(1,947)	36.3100%
Y	3124.55	ACCUM DEP- COMPUTERS	(624)	(12,018)	(6,321)				(6,321)	(2,295)	(4,026)	36.3100%
C	3212.33	ACCUM DEP -DIGITAL SWITCH	(79,223)	(106,672)	(92,948)				(92,948)	(33,749)	(59,198)	36.3100%
Y	3212.55	ACCUM DEP -DIGITAL SWITCH	(85,708)	(18,622)	(52,165)				(52,165)	(18,941)	(33,224)	36.3100%
C	3230.33	ACCUM DEP -CO TRANS	(88,879)	(97,115)	(92,997)				(92,997)	(33,767)	(59,230)	36.3100%
Y	3230.55	ACCUM DEP -CO TRANS	(367,044)	(403,687)	(385,366)				(385,366)	(139,926)	(245,439)	36.3100%
Y	3351.55	ACCUM DEP -PUBLIC	(5,619)	(5,619)	(5,619)				(5,619)	(2,040)	(3,579)	36.3100%
C	3423.33	ACCUM DEP- BURIED CABLE	(133,447)	(165,366)	(149,407)				(149,407)	(54,250)	(95,157)	36.3100%
Y	3423.55	ACCUM DEP- BURIED CABLE	(305,768)	(339,123)	(322,446)				(322,446)	(117,080)	(205,366)	36.3100%
		RATE BASE	1,912,141	1,848,894	1,880,518	-	-	-	1,880,518	674,805	1,205,712	
		YOUNG	965,763	939,708	952,736				952,736	359,111	593,625	
		CASCABEL	946,378	909,186	927,782				927,782	315,694	612,088	
		NOTES:										

Y= YOUNG
C= CASCABEL

MIDVALE TELEPHONE EXCHANGE

COMPARATIVE INCOME STATEMENT - TOTAL ARIZONA

TOTAL ARIZONA

OPERATING REVENUES	12/31/99 RECORDED	PROFORMA ADJUSTMENTS FED USF YOUNG	EAS	RATE CASE EXP	RESULTS AFTER PROFORMA	INTERSTATE AFTER PROFORMA	INTRASTATE AFTER PROFORMA	INTERSTATE % alloc.
LOCAL SERVICES	146,183	- -	-	-	146,183		146,183	
ENDUSER REVENUE (SLC)	26,186	- -	-	-	26,186		26,186	
INTERSTATE ACCESS	377,001	- -	-	-	377,001	417,490	(40,489)	
INTRASTATE ACCESS	186,820	- -	(17,190)	-	169,630		169,630	
INTERSTATE USF	107,050	- 221,882	(15,687)	-	313,245		313,245	
STATE USF								
DIRECTORY REVENUE	1,759	- -	-	-	1,759		1,759	
MISC.	22,081	- -	-	-	22,081		22,081	
UNCOLLECTIBLE	(1,279)	- -	-	-	(1,279)		(1,279)	
TOTAL REVENUE	865,801	- 221,882	(32,877)	-	1,054,806	417,490	637,316	
OPERATING EXPENSES								
PLANT SPECIFIC OPERATIONS	127,720	- -	-	-	127,720	45,685	82,035	35.7700%
PLANT NON-SPECIFIC OPERATIONS	62,925	- -	-	-	62,925	29,474	33,451	46.8400%
DEP. AND AMORT	186,282	- -	-	-	186,282	75,128	111,154	40.3300%
CUSTOMER OPERATIONS	96,131	- -	-	-	96,131	23,600	72,531	24.5500%
CORPORATE OPERATIONS	254,880	- -	-	40,000	294,880	95,187	199,693	32.2800%
PROVISION FOR DEFERRED INCOME	-	- -	-	-	-	-	-	36.4800%
OTHER OPERATING TAXES	81,282	- -	-	-	81,282	29,652	51,630	36.4800%
INTEREST EXPENSE	25,107	- -	-	-	25,107	9,159	15,948	36.4800%
TOTAL EXPENSES	834,327	- -	-	40,000	874,327	307,885	566,442	
UTILITY OPERATING INCOME	31,474	- 221,882	(32,877)	(40,000)	180,479	109,605	70,874	

MIDVALE TELEPHONE EXCHANGE

COMPARATIVE INCOME STATEMENT - TOTAL ARIZONA

TOTAL ARIZONA

TOTAL YOUNG

OPERATING REVENUES	12/31/99 RECORDED	PROFORMA ADJUSTMENTS FED USF YOUNG	EAS	RATE CASE EXP	RESULTS AFTER PROFORMA	INTERSTATE AFTER PROFORMA	INTRASTATE AFTER PROFORMA	INTERSTATE % alloc.
LOCAL SERVICES	84,685				84,685		84,685	
ENDUSER REVENUE (SLC)	17,634				17,634		17,634	
INTERSTATE ACCESS	228,423				228,423	255,796	(27,373)	
INTRASTATE ACCESS	81,252				81,252		81,252	
INTERSTATE USF	-	221,882			221,882		221,882	
STATE USF								
DIRECTORY REVENUE	1,030				1,030		1,030	
MISC.	9,969				9,969		9,969	
UNCOLLECTIBLE	(284)				(284)		(284)	
TOTAL REVENUE	422,709	- 221,882	-	-	644,591	255,796	388,795	
OPERATING EXPENSES								
PLANT SPECIFIC OPERATIONS	69,742				69,742	24,947	44,795	35.7700%
PLANT NON-SPECIFIC OPERATIONS	21,444				21,444	10,044	11,400	46.8400%
DEP. AND AMORT	115,785				115,785	46,696	69,089	40.3300%
CUSTOMER OPERATIONS	63,682				63,682	15,634	48,048	24.5500%
CORPORATE OPERATIONS	157,423			20,000	177,423	57,272	120,151	32.2800%
PROVISION FOR DEFERRED INCOME					-	-	-	36.4800%
OTHER OPERATING TAXES	47,009				47,009	17,149	29,860	36.4800%
INTEREST INCOME	9,573				9,573	3,492	6,081	36.4800%
TOTAL EXPENSES	484,658	- -	-	20,000	504,658	175,234	329,424	
UTILITY OPERATING INCOME	(61,949)	- 221,882	-	(20,000)	139,933	80,562	59,371	

MIDVALE TELEPHONE EXCHANGE

COMPARATIVE INCOME STATEMENT - TOTAL ARIZONA

TOTAL ARIZONA

CASCABEL, AZ

OPERATING REVENUES	12/31/99 RECORDED	PROFORMA ADJUSTMENTS FED USF YOUNG	EAS	RATE CASE EXP	RESULTS AFTER PROFORMA	INTERSTATE AFTER PROFORMA	INTRASTATE AFTER PROFORMA	INTERSTATE % alloc.
LOCAL SERVICES	61,498				61,498		61,498	
END USER REVENUE (SLC)	8,552				8,552		8,552	
INTERSTATE ACCESS	148,578				148,578	161,694	(13,116)	
INTRASTATE ACCESS	105,568		(17,190)		88,378		88,378	
INTERSTATE USF	107,050		(15,687)		91,363		91,363	
STATE USF								
DIRECTORY REVENUE	729				729		729	
MISC.	12,112				12,112		12,112	
UNCOLLECTIBLE	(995)				(995)		(995)	
TOTAL REVENUE	443,092		(32,877)		410,215	161,694	248,521	
OPERATING EXPENSES								
PLANT SPECIFIC OPERATIONS	57,978				57,978	20,739	37,239	35.7700%
PLANT NON-SPECIFIC OPERATIONS	41,481				41,481	19,430	22,051	46.8400%
DEP. AND AMORT	70,497				70,497	28,431	42,066	40.3300%
CUSTOMER OPERATIONS	32,449				32,449	7,966	24,483	24.5500%
CORPORATE OPERATIONS	97,457			20,000	117,457	37,915	79,542	32.2800%
PROVISION FOR DEFERRED INCOME					-	-	-	36.4800%
OTHER OPERATING TAXES	34,273				34,273	12,503	21,770	36.4800%
INTEREST EXPENSE	15,534				15,534	5,667	9,867	36.4800%
TOTAL EXPENSES	349,669	- -	-	20,000	369,669	132,651	237,018	
UTILITY OPERATING INCOME	93,423	- -	(32,877)	(20,000)	40,546	29,043	11,503	

MIDVALE TELEPHONE EXCHANGE

CALCULATION OF COST OF CAPITAL - TOTAL ARIZONA

LINE	(A) DESCRIPTION	(B) CAPITAL AMOUNT	(C) CAPITAL RATIO	(D) COST	(E) WGT COST (C x D)
	LONG TERM DEBT				
1	RTFC CONST. LOAN CASCABEL	200,631	0.0949	0.0610	0.0058
2	RUS 5% CASCABEL	268,586	0.1271	0.0500	0.0064
3	OTHER	37,695	0.0178	0.0600	0.0011
4	TOTAL DEBT	506,912	0.2398		0.0132
5	EQUITY (CASCABEL & YOUNG)	1,606,651	0.7602	0.1300	0.0988
6	OTHER	-		-	
7	TOTAL EQUITY	1,606,651	0.7602		0.0988
8	TOTAL	2,113,563	1.0000		0.1120

MIDVALE TELEPHONE EXCHANGE

CALCULATION OF REVENUE DEFICIENCY - TOTAL ARIZONA

LINE	DESCRIPTION		ARIZONA	YOUNG	CASCABEL
1	RATE BASE		1,205,712	593,625	612,088
2	RATE OF RETURN ON RATE BASE		0.1120	0.1120	0.1120
3	REQUIRED RETURN (LN 1 x LN 2)		135,083	66,507	68,576
4	UTILITY OPERATING INCOME		70,874	59,371	11,503
5	RETURN DEFICIENCY (LN 3 - LN 4)		64,208	7,136	57,073
6	**NET INCOME GROSS REVENUE CONVERSION**	**RATIO**			
6A	TOTAL GROSS REVENUE (W/S 2)		1.0000	1.0000	1.0000
6B	LESS: UNCOLLECTIBLE (W/S 2 INTRASTATE)		0.0020	0.0007	0.0040
6C	NET REVENUES (LN 6A - LN 6B)		0.9980	0.9993	0.9960
6D	STATE INCOME TAX RATE (INPUT)		0.0800	0.0800-	0.0800
6E	STATE INCOME TAXES (LN 6C x LN 6D)		0.0798	0.0799	0.0797
6F	FEDERAL INCOME TAX BASE (LN 6C - 6E)		0.9182	0.9193	0.9163
6G	FEDERAL INCOME TAX RATE (INPUT)		0.3500	0.3500	0.3500
6H	FEDERAL INCOME TAXES (LN 6F x LN 6G)		0.3214	0.3218	0.3207
6i	NET OPERATING REVENUE (LN 6F - LN 6H)		0.5968	0.5976	0.5956
6J	NET INC TO GROSS REVENUE MULT (1/ LN 6i)		1.6756	1.6735	1.6790
6K	GROSS UP REVENUE (EQUITY ONLY)		80,498	39,507	41,069
7	REVENUE INCREASE REQUIRED (LN 5 + LN 6K)		144,706	46,643	98,141
	PERCENT INCREASE		22.7%	12.0%	39.5%

MIDVALE TELEPHONE EXCHANGE

SOURCE REVENUE

TOTAL ARIZONA

	BEFORE PROPOSED RATES	CHANGES	AFTER PROPOSED RATES
LOCAL SERVICE	146,183	61,210	207,393
INTERSTATE USF	313,245	-	313,245
STATE USF	-	225,567	225,567
INTRASTATE ACCESS	186,820	(141,618)	45,202
MISCELLANEOUS	23,840	-	23,840
UNCOLLECTIBLE	(1,279)	(538)	(1,817)
TOTAL	668,809	144,620	813,429

TOTAL YOUNG

	BEFORE PROPOSED RATES	CHANGES	AFTER PROPOSED RATES
LOCAL SERVICE	84,685	61,136	145,821
INTERSTATE USF	221,882	-	221,882
STATE USF	-	44,313	44,313
INTRASTATE ACCESS	81,252	(58,651)	22,601
MISCELLANEOUS	10,999	-	10,999
UNCOLLECTIBLE	(284)	(155)	(439)
TOTAL	398,534	46,643	445,177

MIDVALE TELEPHONE EXCHANGE

SOURCE REVENUE

TOTAL CASCABEL

	BEFORE PROPOSED RATES	CHANGES	AFTER PROPOSED RATES
LOCAL SERVICE	61,498	51	61,549
INTERSTATE USF	91,363	-	91,363
STATE USF	-	181,253	181,253
INTRASTATE ACCESS	105,568	(82,967)	22,601
MISCELLANEOUS	12,841	-	12,841
UNCOLLECTIBLE	(995)	(195)	(1,190)
TOTAL	270,275	98,141	368,416

MIDVALE TELEPHONE EXCHANGE

LOCAL RATE AND REVENUE SUMMARY - TOTAL ARIZONA

(A)	(B) DESCRIPTION	(C) 12/31/98 UNITS	(D) CURRENT RATE	(E) MONTHLY REV. @ CURRENT	(F) ANNUALIZED REV. @ CURRENT	(G) PROPOSED RATE	(H) MONTHLY REV. AT PROPOSED	(I) ANNUALIZED REV. AT PROPOSED	(J) ANNUAL REVENUE INCREASE
LOCAL									
Y	RESIDENCE- R1	363	$ 12.40	$ 4,501.20	$ 54,014.40	$ 24.00	$ 8,712.00	$ 104,544.00	$ 50,529.60
~~Y~~	~~RESIDENCE- Zone 1 Charge~~	~~0~~	~~$ 1.10~~	~~$ —~~	~~$ —~~	~~$ 1.10~~	~~$ —~~	~~$ —~~	~~$ —~~
~~Y~~	~~RESIDENCE- Zone 2 Charge~~	~~0~~	~~$ 3.30~~	~~$ —~~	~~$ —~~	~~$ 3.30~~	~~$ —~~	~~$ —~~	~~$ —~~
~~Y~~	~~RESIDENCE- Flat 2 Party~~	~~4~~	~~$ 10.76~~	~~$ 43.04~~	~~$ 516.48~~	~~$ 24.00~~	~~$ 96.00~~	~~$ 1,152.00~~	$ 635.52
Y	BUSINESS - B1	58	$ 32.00	$ 1,856.00	$ 22,272.00	$ 32.00	$ 1,856.00	$ 22,272.00	$ -
~~Y~~	~~BUSINESS - Zone 1 Charge~~	~~0~~	~~$ 1.10~~	~~$ —~~	~~$ —~~	~~$ 1.10~~	~~$ —~~	~~$ —~~	~~$ —~~
~~Y~~	~~BUSINESS - Zone 2 Charge~~	~~0~~	~~$ 3.30~~	~~$ —~~	~~$ —~~	~~$ 3.30~~	~~$ —~~	~~$ —~~	~~$ —~~
Y	BUSINESS - pay	3	$ 21.00	$ 63.00	$ 756.00	$ 21.00	$ 63.00	$ 756.00	$ -
~~Y~~	~~BUSINESS - Flat 4 Party~~	~~1~~	~~$ 24.20~~	~~$ 24.20~~	~~$ 290.40~~	~~$ 32.00~~	~~$ 32.00~~	~~$ 384.00~~	~~$ 93.60~~
~~Y~~	~~KEY SYSTEM~~	~~0~~	~~$ 32.00~~	~~$ —~~	~~$ —~~	~~$ —~~	~~$ —~~	~~$ —~~	~~$ —~~
~~Y~~	~~PBX - Zone 1~~	~~0~~	~~$ 45.80~~	~~$ —~~	~~$ —~~	~~$ —~~	~~$ —~~	~~$ —~~	~~$ —~~
~~Y~~	~~PBX - Zone 2~~	~~2~~	~~$ 44.70~~	~~$ 89.40~~	~~$ 1,072.80~~	~~$ 32.00~~	~~$ 64.00~~	~~$ 768.00~~	~~$ (304.80)~~
~~Y~~	~~PAL~~	~~0~~	~~$ 69.50~~	~~$ —~~	~~$ —~~	~~$ —~~	~~$ —~~	~~$ —~~	~~$ —~~
Y	Foreign Exchange	1	$ 250.00	$ 250.00	$ 3,000.00	$ 250.00	$ 250.00	$ 3,000.00	$ -
Y	VACATION - Zone 1 Charge	3	$ 6.75	$ 20.25	$ 243.00	$ 10.50	$ 31.50	$ 378.00	$ 135.00
~~Y~~	~~VACATION - Zone 2 Charge~~	~~2~~	~~$ 7.85~~	~~$ 15.70~~	~~$ 188.40~~	~~$ 10.50~~	~~$ 21.00~~	~~$ 252.00~~	~~$ 63.60~~
C	RESIDENCE- R1	172	$ 21.00	$ 3,612.00	$ 43,344.00	$ 24.00	$ 4,128.00	$ 49,536.00	$ 6,192.00
C	BUSINESS - B1	30	$ 21.00	$ 630.00	$ 7,560.00	$ 32.00	$ 960.00	$ 11,520.00	$ 3,960.00
C	BUSINESS - pay	0	$ 21.00	$ -	$ -	$ 21.00	$ -	$ -	$ -
~~C~~	~~KEY SYSTEM~~	~~0~~	~~$ 30.00~~	~~$ —~~	~~$ —~~	~~$ —~~	~~$ —~~	~~$ —~~	~~$ —~~
~~C~~	~~PBX~~	~~0~~	~~$ 30.00~~	~~$ —~~	~~$ —~~	~~$ —~~	~~$ —~~	~~$ —~~	~~$ —~~
~~C~~	~~PAL~~	~~0~~	~~$ 52.50~~	~~$ —~~	~~$ —~~	~~$ —~~	~~$ —~~	~~$ —~~	~~$ —~~
C	VACATION	0	$ 10.50	$ -	$ -	$ 10.50	$ -	$ -	$ -
NON-RECURRING CHARGES									
Y	SERVICE ORDER	55	$ 10.00	$ 550.00	$ 550.00	$ 10.00	$ 550.00	$ 550.00	$ -
C	SERVICE ORDER	15	$ 10.00	$ 150.00	$ 150.00	$ 10.00	$ 150.00	$ 150.00	$ -
Y	LINE CONNECTION	55	$ 12.00	$ 660.00	$ 660.00	$ 25.00	$ 1,375.00	$ 1,375.00	$ 715.00
~~Y~~	~~LINE CONNECTION - Zone 1~~	~~35~~	~~$ 33.25~~	~~$ 1,163.75~~	~~$ 1,163.75~~	~~$ 25.00~~	~~$ 875.00~~	~~$ 875.00~~	~~$ (288.75)~~
~~Y~~	~~LINE CONNECTION - Zone 2~~	~~20~~	~~$ 75.25~~	~~$ 1,505.00~~	~~$ 1,505.00~~	~~$ 25.00~~	~~$ 500.00~~	~~$ 500.00~~	~~$ (1,005.00)~~
C	LINE CONNECTION	15	$ 15.00	$ 225.00	$ 225.00	$ 25.00	$ 375.00	$ 375.00	$ 150.00
Y	PREMISE VISIT	55	$ 24.50	$ 1,347.50	$ 1,347.50	$ 30.00	$ 1,650.00	$ 1,650.00	$ 302.50
C	PREMISE VISIT	15	$ 30.00	$ 450.00	$ 450.00	$ 30.00	$ 450.00	$ 450.00	$ -
OTHER RATES & CHARGES									
CUSTOM CALLING									
~~Y~~	~~RES. CALL WAITING~~	~~8~~	~~$ 5.00~~	~~$ 40.00~~	~~$ 480.00~~	~~$ 5.00~~	~~$ 40.00~~	~~$ 480.00~~	~~$ —~~
~~Y~~	~~BUS. CALL WAITING~~	~~0~~	~~$ 7.50~~	~~$ —~~	~~$ —~~	~~$ 7.50~~	~~$ —~~	~~$ —~~	~~$ —~~
~~Y~~	~~RES. CALL FORWARDING~~	~~7~~	~~$ 2.74~~	~~$ 19.18~~	~~$ 230.16~~	~~$ 2.74~~	~~$ 19.18~~	~~$ 230.16~~	~~$ —~~
~~Y~~	~~BUS CALL FORWARDING~~	~~0~~	~~$ 4.00~~	~~$ —~~	~~$ —~~	~~$ 4.00~~	~~$ —~~	~~$ —~~	~~$ —~~
~~Y~~	~~RES 3-WAY CALLING~~	~~5~~	~~$ 3.52~~	~~$ 17.60~~	~~$ 211.20~~	~~$ 3.52~~	~~$ 17.60~~	~~$ 211.20~~	~~$ —~~
~~Y~~	~~BUS 3-WAY CALLING~~	~~0~~	~~$ 4.20~~	~~$ —~~	~~$ —~~	~~$ 4.20~~	~~$ —~~	~~$ —~~	~~$ —~~
~~Y~~	~~RES, 8 NO. SPEED CALLING~~	~~0~~	~~$ 1.74~~	~~$ —~~	~~$ —~~	~~$ 1.74~~	~~$ —~~	~~$ —~~	~~$ —~~
~~Y~~	~~BUS., 8 NO. SPEED CALLING~~	~~0~~	~~$ 3.00~~	~~$ —~~	~~$ —~~	~~$ 3.00~~	~~$ —~~	~~$ —~~	~~$ —~~
~~Y~~	~~RES, 30 NO. SPEED CALLING~~	~~0~~	~~$ 1.74~~	~~$ —~~	~~$ —~~	~~$ 1.74~~	~~$ —~~	~~$ —~~	~~$ —~~
~~Y~~	~~BUS., 30 NO. SPEED CALLING~~	~~0~~	~~$ 3.00~~	~~$ —~~	~~$ —~~	~~$ 3.00~~	~~$ —~~	~~$ —~~	~~$ —~~
~~Y~~	~~RES. FIXED CALLING~~	~~0~~	~~$ 2.50~~	~~$ —~~	~~$ —~~	~~$ 2.50~~	~~$ —~~	~~$ —~~	~~$ —~~
~~Y~~	~~BUS. FIXED CALLING~~	~~0~~	~~$ 2.50~~	~~$ —~~	~~$ —~~	~~$ 2.50~~	~~$ —~~	~~$ —~~	~~$ —~~
~~Y~~	~~RES. LINE BUSY DIV.~~	~~0~~	~~$ 1.85~~	~~$ —~~	~~$ —~~	~~$ 1.85~~	~~$ —~~	~~$ —~~	~~$ —~~
~~Y~~	~~BUS. LINE BUSY DIV.~~	~~0~~	~~$ 8.00~~	~~$ —~~	~~$ —~~	~~$ 8.00~~	~~$ —~~	~~$ —~~	~~$ —~~
~~Y~~	~~ANY 2 (20% DISCOUNT)~~	~~1~~	~~$ 6.19~~	~~$ 6.19~~	~~$ 74.28~~	~~$ 6.19~~	~~$ 6.19~~	~~$ 74.28~~	~~$ —~~
	~~ANY 3 (25% DISCOUNT)~~	~~0~~	~~$ —~~	~~$ —~~	~~$ —~~	~~$ —~~	~~$ —~~	~~$ —~~	~~$ —~~
	~~ANY 4 (30% DISCOUNT)~~	~~0~~	~~$ —~~	~~$ —~~	~~$ —~~	~~$ —~~	~~$ —~~	~~$ —~~	~~$ —~~
	~~ANY 5 (35% DISCOUNT)~~	~~0~~	~~$ —~~	~~$ —~~	~~$ —~~	~~$ —~~	~~$ —~~	~~$ —~~	~~$ —~~
MISCELLANEOUS									
C	VACATION RATE	0	$ 10.50	$ -	$ -	$ 10.50	$ -	$ -	$ -
Y	VACATION RATE - Zone 1	3	$ 6.75	$ 20.25	$ 243.00	$ 10.50	$ 31.50	$ 378.00	$ 135.00
~~Y~~	~~VACATION RATE - Zone 2~~	~~2~~	~~$ 7.85~~	~~$ 15.70~~	~~$ 188.40~~	~~$ 10.50~~	~~$ 21.00~~	~~$ 252.00~~	~~$ 63.60~~
	PAYPHONE-LOCAL	0	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Y	PRIVATE LINE EXTENSION	8	$ 7.00	$ 56.00	$ 672.00	$ 7.00	$ 56.00	$ 672.00	$ -
	INTRACHANGE P/L MILEAGE	0	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Y	OFF-PREMISE EXTENSION	2	$ 4.00	$ 8.00	$ 96.00	$ 4.00	$ 8.00	$ 96.00	$ -
	EMERG. RPT -MAIN STATION	0	$ -	$ -	$ -	$ -	$ -	$ -	$ -
	EMERG. RPT-ADD'L STATION	0	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Y	TRUNK HUNTING FEATURE	2	$ 8.00	$ 16.00	$ 192.00	$ 8.00	$ 16.00	$ 192.00	$ -
Y	BUSINESS CHANNEL TERM - Dedicated Channel	1	$ 6.50	$ 6.50	$ 78.00	$ 6.50	$ 6.50	$ 78.00	$ -
Y	BUSINESS CHANNEL TERM - Dedicated Trunk	6	$ 24.42	$ 146.52	$ 1,758.24	$ 24.42	$ 146.52	$ 1,758.24	$ -
Y	TRUNK TERMINATION	2	$ 26.70	$ 53.40	$ 640.80	$ 26.70	$ 53.40	$ 640.80	$ -
Y	PBX NUMBER BLOCK	5	$ 2.00	$ 10.00	$ 120.00	$ 2.00	$ 10.00	$ 120.00	$ -
~~Y~~	~~TRANS MIL FIX 27%~~	~~1~~	~~$ 2.29~~	~~$ 2.29~~	~~$ 27.48~~	~~$ 2.29~~	~~$ 2.29~~	~~$ 27.48~~	~~$ —~~
~~Y~~	~~FIXED MILEAGE 20%~~	~~1~~	~~$ 4.98~~	~~$ 4.98~~	~~$ 59.76~~	~~$ 4.98~~	~~$ 4.98~~	~~$ 59.76~~	~~$ —~~

MIDVALE TELEPHONE EXCHANGE

LOCAL RATE AND REVENUE SUMMARY - TOTAL ARIZONA

(A)	(B) DESCRIPTION	(C) 12/31/98 UNITS	(D) CURRENT RATE	(E) MONTHLY REV. @ CURRENT	(F) ANNUALIZED REV. @ CURRENT	(G) PROPOSED RATE	(H) MONTHLY REV. AT PROPOSED	(I) ANNUALIZED REV. AT PROPOSED	(J) ANNUAL REVENUE INCREASE
~~Y~~	~~TRANS MIL FIX 41%~~	~~2~~	~~$ 4.98~~	~~$ 9.96~~	~~$ 119.52~~	~~$ 4.98~~	~~$ 9.96~~	~~$ 119.52~~	~~$ -~~
~~Y~~	~~TRANS MIL FIX 20%~~	~~2~~	~~$ 1.70~~	~~$ 3.40~~	~~$ 40.80~~	~~$ 1.70~~	~~$ 3.40~~	~~$ 40.80~~	~~$ -~~
~~Y~~	~~61X1.10 20%~~	~~1~~	~~$ 13.42~~	~~$ 13.42~~	~~$ 161.04~~	~~$ 13.42~~	~~$ 13.42~~	~~$ 161.04~~	~~$ -~~
~~Y~~	~~58X1.10 MILEAGE 27%~~	~~1~~	~~$ 17.23~~	~~$ 17.23~~	~~$ 206.76~~	~~$ 17.23~~	~~$ 17.23~~	~~$ 206.76~~	~~$ -~~
~~Y~~	~~25X.85 MILEAGE 20%~~	~~1~~	~~$ 8.71~~	~~$ 8.71~~	~~$ 104.52~~	~~$ 8.71~~	~~$ 8.71~~	~~$ 104.52~~	~~$ -~~
~~Y~~	~~25X.85 MILEAGE 41%~~	~~2~~	~~$ 8.71~~	~~$ 17.42~~	~~$ 209.04~~	~~$ 8.71~~	~~$ 17.42~~	~~$ 209.04~~	~~$ -~~
	~~80X1.10 MILEAGE 20%~~	~~1~~	~~$ 17.60~~	~~$ 17.60~~	~~$ 211.20~~	~~$ 17.60~~	~~$ 17.60~~	~~$ 211.20~~	~~$ -~~
Y	56K SPECIAL ACCESS	0	$ 188.50	$ -	$ -	$ 188.50	$ -	$ -	$ -
C	TOLL RESTRICTION - RES	3	$ 2.00	$ 6.00	$ 72.00	$ 2.00	$ 6.00	$ 72.00	$ -
~~C~~	~~TOLL RESTRICTION - BUS~~	~~0~~	~~$ 3.00~~	~~$ -~~	~~$ -~~	~~$ 2.00~~	~~$ -~~	~~$ -~~	~~$ -~~
Y	TOLL RESTRICTION - RES	4	$ 2.00	$ 8.00	$ 96.00	$ 2.00	$ 8.00	$ 96.00	$ -
~~Y~~	~~TOLL RESTRICTION - BUS~~	~~0~~	~~$ 2.00~~	~~$ -~~	~~$ -~~	~~$ 2.00~~	~~$ -~~	~~$ -~~	~~$ -~~
C	ADD'L BUS LIST	0	$ 1.50	$ -	$ -	$ 1.00	$ -	$ -	$ -
Y	ADD'L BUS LIST	3	$ 1.25	$ 3.75	$ 45.00	$ 1.00	$ 3.00	$ 36.00	$ (9.00)
~~C~~	~~ADD'L RES LIST~~	~~9~~	~~$ 1.00~~	~~$ 9.00~~	~~$ 108.00~~	~~$ 1.00~~	~~$ 9.00~~	~~$ 108.00~~	~~$ -~~
~~Y~~	~~ADD'L RES LIST~~	~~8~~	~~$ 1.00~~	~~$ 8.00~~	~~$ 96.00~~	~~$ 1.00~~	~~$ 8.00~~	~~$ 96.00~~	~~$ -~~
	ADDITIONAL INFORM	0	$ -	$ -	$ -	$ -	$ -	$ -	$ -
C	FOREIGN LISTING - RES	0	$ 2.00	$ -	$ -	$ 2.00	$ -	$ -	$ -
~~C~~	~~FOREIGN LISTING - BUS~~	~~0~~	~~$ 2.00~~	~~$ -~~	~~$ -~~	~~$ 2.00~~	~~$ -~~	~~$ -~~	~~$ -~~
Y	FOREIGN LISTING - RES	1	$ 1.00	$ 1.00	$ 12.00	$ 2.00	$ 2.00	$ 24.00	$ 12.00
~~Y~~	~~FOREIGN LISTING - BUS~~	~~0~~	~~$ 1.25~~	~~$ -~~	~~$ -~~	~~$ 2.00~~	~~$ -~~	~~$ -~~	~~$ -~~
C	NON-LIST	5	$ 2.00	$ 10.00	$ 120.00	$ 2.00	$ 10.00	$ 120.00	$ -
Y	NON-LIST	9	$ 1.20	$ 10.80	$ 129.60	$ 2.00	$ 18.00	$ 216.00	$ 86.40
C	NON- PUBLISHED	17	$ 2.00	$ 34.00	$ 408.00	$ 2.00	$ 34.00	$ 408.00	$ -
Y	NON- PUBLISHED	30	$ 1.50	$ 45.00	$ 540.00	$ 2.00	$ 60.00	$ 720.00	$ 180.00
~~C~~	~~PUBLIC ACCESS LINE (PAL)~~	~~0~~	~~$ 52.50~~	~~$ -~~	~~$ -~~	~~$ 52.50~~	~~$ -~~	~~$ -~~	~~$ -~~
~~Y~~	~~PUBLIC ACCESS LINE (PAL)~~	~~0~~	~~$ 69.50~~	~~$ -~~	~~$ -~~	~~$ 69.50~~	~~$ -~~	~~$ -~~	~~$ -~~
	CREDIT CARD SERVICE FEE	0	$ -	$ -	$ -	$ -	$ -	$ -	$ -
	DIRECTORY ASSISTANCE	0	$ -	$ -	$ -	$ -	$ -	$ -	$ -
C	LINE LEASE + ACCESS CHARGE	0	$ 21.00	$ -	$ -	$ 21.00	$ -	$ -	$ -
C	INSTALL CHG.	0	$ 25.00	$ -	$ -	$ 25.00	$ -	$ -	$ -
Y	LINE LEASE + ACCESS CHARGE	2	$ 8.25	$ 16.50	$ 198.00	$ 21.00	$ 42.00	$ 504.00	$ 306.00
Y	INSTALL CHG.	0	$ 22.00	$ -	$ -	$ 25.00	$ -	$ -	$ -
~~Y~~	~~EXTENSION CONTINUOUS~~	~~0~~	~~$ 4.00~~	~~$ -~~	~~$ -~~	~~$ 4.00~~	~~$ -~~	~~$ -~~	~~$ -~~
	MISC. REVENUE	0	$ -	$ -	$ -	$ -	$ -	$ -	$ -
	RETURN CHECK CHARGE	0	$ -	$ -	$ -	$ -	$ -	$ -	$ -
~~C~~	~~INSIDE WIRE MAINTENANCE~~	~~0~~	~~$ 1.00~~	~~$ -~~	~~$ -~~	~~$ 1.00~~	~~$ -~~	~~$ -~~	~~$ -~~
	TOTAL			$ 17,818.44	$ 147,257.53		$ 22,865.40	$ 209,209.80	$ 61,952.27
	YOUNG			$ 12,674.84	$ 94,609.33		$ 16,725.80	$ 146,259.60	$ 51,650.27
	CASCABEL			$ 5,126.00	$ 52,437.00		$ 6,122.00	$ 62,739.00	$ 10,302.00

SUMMARY OF LOCAL REVENUES

	Arizona	Young	Cascabel
CURRENT ANNUALIZED REVENUES (COL F)	147,258	94,609	52,437
- UNCOLLECTIBLE (W/S 2)	(1,279)	(284)	(995)
NET REVENUES	145,979	94,325	51,442
+ PROPOSED INCREASE (COL J)	61,952	51,650	10,302
UNCOLLECTABLE FACTOR	-0.87%	-0.30%	-1.90%
- UNCOLLECTIBLE (INCREMENTAL CHANGE)	(538)	(155)	(195)
NET INCREASE	61,414	51,495	10,107
	207,393	145,821	61,549
+ STATE USF	225,567	44,313	181,253
	432,959	190,134	242,802
+ FEDERAL USF (AMT FROM W/S 5)	313,245	221,882	91,363
TOTAL PROPOSED LOCAL REVENUES	746,204	412,016	334,165

MIDVALE TELEPHONE EXCHANGE

STATE UNIVERSAL SERVICE FUNDING REQUIRED

TOTAL ARIZONA	PROPOSED REVENUE	STATE USF FUNDING REQUIRED
LOCAL	61,186	
INTERSTATE USF		
INTRASTATE ACCESS	(141,618)	
MISC+UNCOLLECT	(351)	
TOTAL	(80,782)	225,567

TOTAL YOUNG	PROPOSED REVENUE	STATE USF FUNDING REQUIRED
LOCAL	61,136	
INTERSTATE USF		
INTRASTATE ACCESS	(58,651)	
MISC+UNCOLLECT	(155)	
TOTAL	2,330	44,313

TOTAL CASCABEL	PROPOSED REVENUE	STATE USF FUNDING REQUIRED
LOCAL	51	
INTRASTATE ACCESS	(82,967)	
MISC+UNCOLLECT	(195)	
TOTAL	(83,112)	181,253

MIDVALE TELEPHONE EXCHANGE

STATE UNIVERSAL SERVICE FUNDING REQUIRED

CURRENT ACCESS RATES: Arizona Total

DESCRIPTION	QUANTITY	RATE	REVENUE		
CCL- ORIG	910227	0.0606	55,202		
CCL- TERM	838286	0.0582	48,778		
LOCAL TRANSPORT	1748513	0.0201	35,160	average	0.11141
LOCAL SWITCHING	1748513	0.0201	35,160		
BILLING & COLLECTING	89174	0.2300	20,510		
			194,810		

PROPOSED ACCESS RATES: Arizona Total

DESCRIPTION					
CCL- ORIG	730227	0.0300	21,907		
CCL- TERM	658286	0.0300	19,749		
LOCAL TRANSPORT	1388513	0.0100	13,885	average	0.06284
LOCAL SWITCHING	1388513	0.0100	13,885		
BILLING & COLLECTING	89174	0.2000	17,835		
SUB TOTAL			87,260		

CURRENT ACCESS RATES: Young

DESCRIPTION	QUANTITY	RATE	REVENUE		
CCL- ORIG	450508	0.0460	20,723		
CCL- TERM	485985	0.0460	22,355		
LOCAL TRANSPORT	936493	0.0150	14,047	average	0.08773
LOCAL SWITCHING	936493	0.0150	14,047		
BILLING & COLLECTING	47761	0.2300	10,985		
B&C factor	0.051				
			82,159		

PROPOSED ACCESS RATES: Young

DESCRIPTION					
CCL- ORIG	450508	0.0300	13,515		
CCL- TERM	485985	0.0300	14,580		
LOCAL TRANSPORT	936493	0.0100	9,365	average	0.06020
LOCAL SWITCHING	936493	0.0100	9,365		
BILLING & COLLECTING	47761	0.2000	9,552		
B&C factor	0.051				
			56,377		

CURRENT ACCESS RATES: Cascabel

DESCRIPTION	QUANTITY	RATE	REVENUE		
CCL- ORIG	459719	0.0750	34,479		
CCL- TERM	352301	0.0750	26,423		
LOCAL TRANSPORT	812020	0.0260	21,113	average	0.13873
LOCAL SWITCHING	812020	0.0260	21,113		
BILLING & COLLECTING	41413	0.2300	9,525		
B&C factor	0.051				
			112,652		

PROPOSED ACCESS RATES: Cascabel

DESCRIPTION					
CCL- ORIG	279719	0.0300	8,392		
CCL- TERM	172301	0.0300	5,169		
LOCAL TRANSPORT	452020	0.0100	4,520	average	0.06832
LOCAL SWITCHING	452020	0.0100	4,520		
BILLING & COLLECTING	41413	0.2000	8,283		
B&C factor	0.051				
			30,884		

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MIDVALE TELEPHONE

Net Telephone Plant

	MIDVALE TELEPHONE EXCHANGE			
	ARIZONA	OREGON	IDAHO	MIDVALE CONSOLIDATED
NET TELEPHONE PLANT	1,912,144	973,450	6,751,019	9,636,613

MIDVALE TELEPHONE EXCHANGE

SUMMARY OF RATE BASE -TOTAL ARIZONA

	A/C CODE	PLANT DESCRIPTION	BALANCE 12/31/98	BALANCE 12/31/99	AVERAGE	PROFORMA ADJUSTMENTS CPE/ADJ	EAS	UNSERVED	AVERAGE AFTER PROFORMA	INTERSTATE AFTER PROFORMA	INTRASTATE AFTER PROFORMA	INTERSTATE % alloc.
Y	2111.54	LAND	20,207	20,207	20,207				20,207	7,250	12,957	35.8800%
		LAND						20,000	20,000	7,176	12,824	35.8800%
Y	2111.55	BUILDINGS	14,347	14,347	14,347				14,347	5,148	9,199	35.8800%
		BUILDINGS						50,000	50,000	17,940	32,060	35.8800%
C	2112.33	VEHICLES	29,645	29,645	29,645				29,645	10,637	19,008	35.8800%
Y	2112.55	VEHICLES	24,900	24,900	24,900				24,900	8,934	15,966	35.8800%
C	2116.33	OTHER WORK EQUIP	21,980	21,980	21,980				21,980	7,886	14,094	35.8800%
Y	2116.55	OTHER WORK EQUIP	-	-	-				-	-	-	35.8800%
Y	2122.55	OFFICE FURNITURE	500	500	500	-			500	179	321	35.8800%
Y	2123.55	OFFICIAL STATION EQUIP	-	-	-				-	-	-	35.8800%
C	2124.33	GEN PURCHASE COMPUTERS	6,971	6,971	6,971				6,971	2,501	4,470	35.8800%
Y	2124.55	GEN PUR COMPUTERS	1,972	1,972	1,972				1,972	708	1,265	35.8800%
C	2212.33	DIG. ELECT SWITCH	157,744	187,974	172,859				172,859	128,313	44,546	74.2300%
Y	2212.55	DIG ELECT SWITCH	320,795	309,186	314,991				314,991	233,817	81,173	74.2300%
		DIG ELECT SWITCH						350,188	350,188	259,945	90,243	74.2300%
C	2230.33	CENTRAL OFFICE TRAN	303,076	304,974	304,025				304,025	91,633	212,392	30.1400%
Y	2230.55	CENTRAL OFFICE TRANS	560,420	565,809	563,115				563,115	169,723	393,392	30.1400%
		CENTRAL OFFICE TRANS						667,415	667,415	201,159	466,256	30.1400%
Y	2351.55	PUBLIC TELE EQUIP	5,619	5,619	5,619				5,619	1,544	4,076	27.4700%
C	2423.33	BURIED CABLE	766,075	766,075	766,075				766,075	210,441	555,634	27.4700%
Y	2423.55	BURIED CABLE	800,504	800,504	800,504				800,504	219,898	580,606	27.4700%
Y									-	-	-	74.2300%
									-			
									-			
		TOTAL PLANT IN SERVICE	3,034,756	3,060,664	3,047,710	-	-	1,087,603	4,135,313	1,584,832	2,550,481	
		YOUNG	1,749,265	1,743,045	1,746,155				1,746,155	647,202	1,098,954	
		CASCABEL	1,285,491	1,317,619	1,301,555				1,301,555	451,411	850,144	
C	2003.33	PLNT CONST.	-	-	-				-	-	-	27.4300%
Y	2003.55	PLNT CONST.							-	-	-	27.4300%
Y	2007.55	PLNT ACQ ADJ				-			-	-	-	34.3500%
Y	2007.56	RES AMT. PLT ACQ							-	-	-	34.3540%
C	3112.33	ACCUM DEP-VEHICLES	(13,545)	(13,545)	(13,545)				(13,545)	(4,918)	(8,627)	36.3100%
Y	3112.55	ACCUM DEP-VEHICLES	(17,500)	(22,480)	(19,990)				(19,990)	(7,258)	(12,732)	36.3100%
C	3116.33	ACCUM DEP- OTHER EQUIP	(21,659)	(21,980)	(21,820)				(21,820)	(7,923)	(13,897)	36.3100%
Y	3121.55	ACCUM DEP -BLDG	(996)	(1,474)	(1,235)				(1,235)	(448)	(787)	36.3100%
Y	3122.55	ACCUM DEP- F & FY	(243)	(314)	(279)				(279)	(101)	(177)	36.3100%
C	3124.33	ACCUM DEP- COMPUTERS	(2,360)	(3,755)	(3,058)				(3,058)	(1,110)	(1,947)	36.3100%
Y	3124.55	ACCUM DEP- COMPUTERS	(624)	(12,018)	(6,321)				(6,321)	(2,295)	(4,026)	36.3100%
C	3212.33	ACCUM DEP -DIGITAL SWITCH	(79,223)	(106,672)	(92,948)				(92,948)	(33,749)	(59,198)	36.3100%
Y	3212.55	ACCUM DEP -DIGITAL SWITCH	(85,708)	(18,622)	(52,165)				(52,165)	(18,941)	(33,224)	36.3100%
C	3230.33	ACCUM DEP -CO TRANS	(88,879)	(97,115)	(92,997)				(92,997)	(33,767)	(59,230)	36.3100%
Y	3230.55	ACCUM DEP -CO TRANS	(367,044)	(403,687)	(385,366)				(385,366)	(139,926)	(245,439)	36.3100%
Y	3351.55	ACCUM DEP -PUBLIC	(5,619)	(5,619)	(5,619)				(5,619)	(2,040)	(3,579)	36.3100%
C	3423.33	ACCUM DEP- BURIED CABLE	(133,447)	(165,366)	(149,407)				(149,407)	(54,250)	(95,157)	36.3100%
Y	3423.55	ACCUM DEP- BURIED CABLE	(305,768)	(339,123)	(322,446)				(322,446)	(117,080)	(205,366)	36.3100%
		RATE BASE	1,912,141	1,848,894	1,880,518	-	-	1,087,603	2,968,121	1,161,025	1,807,096	
		YOUNG	965,763	939,708	952,736				952,736	359,111	593,625	
		CASCABEL	946,378	909,186	927,782				927,782	315,694	612,088	
		NOTES:										

Y= YOUNG
C= CASCABEL

MIDVALE TELEPHONE EXCHANGE

COMPARATIVE INCOME STATEMENT - TOTAL ARIZONA

TOTAL ARIZONA

OPERATING REVENUES	12/31/99 RECORDED	PROFORMA ADJUSTMENTS	FED USF YOUNG	EAS	RATE CASE EXP	UNSERVED	RESULTS AFTER PROFORMA	INTERSTATE AFTER PROFORMA	INTRASTATE AFTER PROFORMA	INTERSTATE % alloc.
LOCAL SERVICES	146,183	-	-	-	-	71,477	217,660		217,660	
ENDUSER REVENUE (SLC)	26,186	-	-	-	-	10,122	36,308		36,308	
INTERSTATE ACCESS	377,001	-	-		-	63,636	440,637	417,490	23,147	
INTRASTATE ACCESS	186,820	-	-	(17,190)	-	57,272	226,902		226,902	
INTERSTATE USF	107,050	-	221,824	(15,687)	-		313,187		313,187	
STATE USF										
DIRECTORY REVENUE	1,759	-	-	-	-		1,759		1,759	
MISC.	22,081	-	-	-	-	2,073	24,154		24,154	
UNCOLLECTIBLE	(1,279)	-	-	-	-	(715)	(1,994)		(1,994)	
TOTAL REVENUE	865,801	-	221,824	(32,877)	-	203,865	1,258,613	417,490	841,123	
OPERATING EXPENSES										
PLANT SPECIFIC OPERATIONS	127,720	-	-	-	-	27,462	155,182	55,509	99,673	35.7700%
PLANT NON-SPECIFIC OPERATIONS	62,925	-	-	-	-	21,595	84,520	39,589	44,931	46.8400%
DEP. AND AMORT	186,282	-	-	-	-	101,161	287,443	115,926	171,517	40.3300%
CUSTOMER OPERATIONS	96,131	-	-	-	-	20,968	117,099	28,748	88,351	24.5500%
CORPORATE OPERATIONS	254,880	-	-	-	40,000	56,051	350,931	113,281	237,650	32.2800%
PROVISION FOR DEFERRED INCOME	-	-	-	-	-		-	-	-	36.4800%
OTHER OPERATING TAXES	81,282	-	-	-	-	9,103	90,385	32,972	57,413	36.4800%
INTEREST EXPENSE	25,107	-	-	-	-	55,023	80,130	29,231	50,899	36.4800%
TOTAL EXPENSES	834,327	-	-	-	40,000	291,363	1,165,690	415,256	750,434	
UTILITY OPERATING INCOME	31,474	-	221,824	(32,877)	(40,000)		92,923	2,234	90,689	

MIDVALE TELEPHONE EXCHANGE

COMPARATIVE INCOME STATEMENT - TOTAL ARIZONA

TOTAL ARIZONA

TOTAL YOUNG

		PROFORMA ADJUSTMENTS							
OPERATING REVENUES	12/31/99 RECORDED		FED USF YOUNG	EAS	RATE CASE EXP	RESULTS AFTER PROFORMA	INTERSTATE AFTER PROFORMA	INTRASTATE AFTER PROFORMA	INTERSTATE % alloc.
LOCAL SERVICES	84,685					84,685		84,685	
ENDUSER REVENUE (SLC)	17,634					17,634	16,032	1,602	
INTERSTATE ACCESS	228,423					228,423	255,796	(27,373)	
INTRASTATE ACCESS	81,252					81,252		81,252	
INTERSTATE USF	-		221,824			221,824		221,824	
STATE USF									
DIRECTORY REVENUE	1,030					1,030		1,030	
MISC.	9,969					9,969		9,969	
UNCOLLECTIBLE	(284)					(284)		(284)	
TOTAL REVENUE	422,709	-	221,824	-	-	644,533	271,828	372,705	
OPERATING EXPENSES									
PLANT SPECIFIC OPERATIONS	69,742					69,742	24,947	44,795	35.7700%
PLANT NON-SPECIFIC OPERATIONS	21,444					21,444	10,044	11,400	46.8400%
DEP. AND AMORT	115,785					115,785	46,696	69,089	40.3300%
CUSTOMER OPERATIONS	63,682					63,682	15,634	48,048	24.5500%
CORPORATE OPERATIONS	157,423				20,000	177,423	57,272	120,151	32.2800%
PROVISION FOR DEFERRED INCOME						-	-	-	36.4800%
OTHER OPERATING TAXES	47,009					47,009	17,149	29,860	36.4800%
INTEREST INCOME	9,573					9,573	3,492	6,081	36.4800%
TOTAL EXPENSES	484,658	-	-	-	20,000	504,658	175,234	329,424	
UTILITY OPERATING INCOME	(61,949)	-	221,824	-	(20,000)	139,875	96,594	43,281	

MIDVALE TELEPHONE EXCHANGE

COMPARATIVE INCOME STATEMENT - TOTAL ARIZONA

TOTAL ARIZONA

CASCABEL, AZ

OPERATING REVENUES	12/31/99 RECORDED	PROFORMA ADJUSTMENTS FED USF YOUNG	EAS	RATE CASE EXP	RESULTS AFTER PROFORMA	INTERSTATE AFTER PROFORMA	INTRASTATE AFTER PROFORMA	INTERSTATE % alloc.
LOCAL SERVICES	61,498				61,498		61,498	
END USER REVENUE (SLC)	8,552				8,552	7,190	1,362	
INTERSTATE ACCESS	148,578				148,578	161,694	(13,116)	
INTRASTATE ACCESS	105,568		(17,190)		88,378		88,378	
INTERSTATE USF	107,050		(15,687)		91,363		91,363	
STATE USF								
DIRECTORY REVENUE	729				729		729	
MISC.	12,112				12,112		12,112	
UNCOLLECTIBLE	(995)				(995)		(995)	
TOTAL REVENUE	443,092		(32,877)		410,215	168,884	241,331	
OPERATING EXPENSES								
PLANT SPECIFIC OPERATIONS	57,978				57,978	20,739	37,239	35.7700%
PLANT NON-SPECIFIC OPERATIONS	41,481				41,481	19,430	22,051	46.8400%
DEP. AND AMORT	70,497				70,497	28,431	42,066	40.3300%
CUSTOMER OPERATIONS	32,449				32,449	7,966	24,483	24.5500%
CORPORATE OPERATIONS	97,457			20,000	117,457	37,915	79,542	32.2800%
PROVISION FOR DEFERRED INCOME					-	-	-	36.4800%
OTHER OPERATING TAXES	34,273				34,273	12,503	21,770	36.4800%
INTEREST EXPENSE	15,534				15,534	5,667	9,867	36.4800%
TOTAL EXPENSES	349,669	- -	-	20,000	369,669	132,651	237,018	
UTILITY OPERATING INCOME	93,423	- -	(32,877)	(20,000)	40,546	36,233	4,313	

MIDVALE TELEPHONE EXCHANGE

CALCULATION OF COST OF CAPITAL - TOTAL ARIZONA

LINE	(A) DESCRIPTION	(B) CAPITAL AMOUNT	(C) CAPITAL RATIO	(D) COST	(E) WGT COST (C x D)
	LONG TERM DEBT				
1	RTFC CONST. LOAN CASCABEL	200,631	0.0596	0.0610	0.0036
2	RUS 5% CASCABEL	268,586	0.0798	0.0500	0.0040
3	OTHER (UNSERVED)	1,080,798	0.3210	0.0800	0.0257
4	TOTAL DEBT	1,550,015	0.4604		0.0333
5	EQUITY (CASCABEL & YOUNG, NEW)	1,816,869	0.5396	0.1300	0.0702
6	OTHER			-	
7	TOTAL EQUITY	1,816,869	0.5396		0.0702
8	TOTAL	3,366,884	1.0000		0.1035

MIDVALE TELEPHONE EXCHANGE

CALCULATION OF REVENUE DEFICIENCY - TOTAL ARIZONA

LINE	DESCRIPTION		ARIZONA	YOUNG	CASCABEL
1	RATE BASE		1,807,096	593,625	612,088
2	RATE OF RETURN ON RATE BASE		0.1035	0.1035	0.1035
3	REQUIRED RETURN (LN 1 x LN 2)		186,955	61,414	63,324
4	UTILITY OPERATING INCOME		90,689	43,281	4,313
5	RETURN DEFICIENCY (LN 3 - LN 4)		96,266	18,133	59,011
6	**NET INCOME GROSS REVENUE CONVERSION**	**RATIO**			
6A	TOTAL GROSS REVENUE (W/S 2)		1.0000	1.0000	1.0000
6B	LESS: UNCOLLECTIBLE (W/S 2 INTRASTATE)		0.0024	0.0008	0.0041
6C	NET REVENUES (LN 6A - LN 6B)		0.9976	0.9992	0.9959
6D	STATE INCOME TAX RATE (INPUT)		0.0800	0.0800	0.0800
6E	STATE INCOME TAXES (LN 6C x LN 6D)		0.0798	0.0799	0.0797
6F	FEDERAL INCOME TAX BASE (LN 6C - 6E)		0.9178	0.9193	0.9162
6G	FEDERAL INCOME TAX RATE (INPUT)		0.3500	0.3500	0.3500
6H	FEDERAL INCOME TAXES (LN 6F x LN 6G)		0.3212	0.3218	0.3207
6i	NET OPERATING REVENUE (LN 6F - LN 6H)		0.5966	0.5975	0.5955
6J	NET INC TO GROSS REVENUE MULT (1/ LN 6i)		1.6762	1.6735	1.6792
6K	GROSS UP REVENUE (EQ. INT. X RB X LN6J)		85,724	28,048	29,163
7	REVENUE INCREASE REQUIRED (LN 5 + LN 6K)		181,991	46,181	88,174
	PERCENT INCREASE		21.6%	12.4%	36.5%

MIDVALE TELEPHONE EXCHANGE

SOURCE REVENUE

TOTAL ARIZONA

	BEFORE PROPOSED RATES	CHANGES	AFTER PROPOSED RATES
LOCAL SERVICE	217,660	61,210	278,870
INTERSTATE USF	313,187	-	313,187
STATE USF	-	221,360	221,360
INTRASTATE ACCESS	226,902	(100,204)	126,698
MISCELLANEOUS	23,840	-	23,840
UNCOLLECTIBLE	(1,994)	-	(1,994)
TOTAL	779,595	182,365	961,960

MIDVALE TELEPHONE EXCHANGE

LOCAL RATE AND REVENUE SUMMARY - TOTAL ARIZONA

(A)	(B) DESCRIPTION	(C) 12/31/98 UNITS	(D) CURRENT RATE	(E) MONTHLY REV. @ CURRENT	(F) ANNUALIZED REV. @ CURRENT	(G) PROPOSED RATE	(H) MONTHLY REV. AT PROPOSED	(I) ANNUALIZED REV. AT PROPOSED	(J) ANNUAL REVENUE INCREASE
LOCAL									
Y	RESIDENCE- R1	363	$ 12.40	$ 4,501.20	$ 54,014.40	$ 24.00	$ 8,712.00	$ 104,544.00	$ 50,529.60
~~Y~~	~~RESIDENCE- Zone 1 Charge~~	~~0~~	~~$ 1.10~~	~~$ -~~	~~$ -~~	~~$ 1.10~~	~~$ -~~	~~$ -~~	~~$ -~~
~~Y~~	~~RESIDENCE- Zone 2 Charge~~	~~0~~	~~$ 3.30~~	~~$ -~~	~~$ -~~	~~$ 3.30~~	~~$ -~~	~~$ -~~	~~$ -~~
~~Y~~	~~RESIDENCE- Flat 2 Party~~	~~4~~	~~$ 10.76~~	~~$ 43.04~~	~~$ 516.48~~	~~$ 24.00~~	~~$ 96.00~~	~~$ 1,152.00~~	$ 635.52
Y	BUSINESS - B1	58	$ 32.00	$ 1,856.00	$ 22,272.00	$ 32.00	$ 1,856.00	$ 22,272.00	$ -
~~Y~~	~~BUSINESS- Zone 1 Charge~~	~~0~~	~~$ 1.10~~	~~$ -~~	~~$ -~~	~~$ 1.10~~	~~$ -~~	~~$ -~~	~~$ -~~
~~Y~~	~~BUSINESS- Zone 2 Charge~~	~~0~~	~~$ 3.30~~	~~$ -~~	~~$ -~~	~~$ 3.30~~	~~$ -~~	~~$ -~~	~~$ -~~
Y	BUSINESS - pay	3	$ 21.00	$ 63.00	$ 756.00	$ 21.00	$ 63.00	$ 756.00	$ -
~~Y~~	~~BUSINESS - Flat 4 Party~~	~~1~~	~~$ 24.20~~	~~$ 24.20~~	~~$ 290.40~~	~~$ 32.00~~	~~$ 32.00~~	~~$ 384.00~~	~~$ 93.60~~
~~Y~~	~~KEY SYSTEM~~	~~0~~	~~$ 32.00~~	~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~
~~Y~~	~~PBX - Zone 1~~	~~0~~	~~$ 45.80~~	~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~
~~Y~~	~~PBX - Zone 2~~	~~2~~	~~$ 44.70~~	~~$ 89.40~~	~~$ 1,072.80~~	~~$ 32.00~~	~~$ 64.00~~	~~$ 768.00~~	~~$ (304.80)~~
~~Y~~	~~PAL~~	~~0~~	~~$ 69.50~~	~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~
Y	Foreign Exchange	1	$ 250.00	$ 250.00	$ 3,000.00	$ 250.00	$ 250.00	$ 3,000.00	$ -
Y	VACATION - Zone 1 Charge	3	$ 6.75	$ 20.25	$ 243.00	$ 10.50	$ 31.50	$ 378.00	$ 135.00
~~Y~~	~~VACATION - Zone 2 Charge~~	~~2~~	~~$ 7.85~~	~~$ 15.70~~	~~$ 188.40~~	~~$ 10.50~~	~~$ 21.00~~	~~$ 252.00~~	~~$ 63.60~~
C	RESIDENCE- R1	172	$ 21.00	$ 3,612.00	$ 43,344.00	$ 24.00	$ 4,128.00	$ 49,536.00	$ 6,192.00
C	BUSINESS - B1	30	$ 21.00	$ 630.00	$ 7,560.00	$ 32.00	$ 960.00	$ 11,520.00	$ 3,960.00
C	BUSINESS - pay	0	$ 21.00	$ -	$ -	$ 21.00	$ -	$ -	$ -
~~C~~	~~KEY SYSTEM~~	~~0~~	~~$ 30.00~~	~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~
~~C~~	~~PBX~~	~~0~~	~~$ 30.00~~	~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~
~~C~~	~~PAL~~	~~0~~	~~$ 52.50~~	~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~
C	VACATION	0	$ 10.50	$ -	$ -	$ 10.50	$ -	$ -	$ -
NON-RECURRING CHARGES									
Y	SERVICE ORDER	55	$ 10.00	$ 550.00	$ 550.00	$ 10.00	$ 550.00	$ 550.00	$ -
C	SERVICE ORDER	15	$ 10.00	$ 150.00	$ 150.00	$ 10.00	$ 150.00	$ 150.00	$ -
Y	LINE CONNECTION	55	$ 12.00	$ 660.00	$ 660.00	$ 25.00	$ 1,375.00	$ 1,375.00	$ 715.00
~~Y~~	~~LINE CONNECTION - Zone 1~~	~~35~~	~~$ 33.25~~	~~$ 1,163.75~~	~~$ 1,163.75~~	~~$ 25.00~~	~~$ 875.00~~	~~$ 875.00~~	~~$ (288.75)~~
~~Y~~	~~LINE CONNECTION - Zone 2~~	~~20~~	~~$ 75.25~~	~~$ 1,505.00~~	~~$ 1,505.00~~	~~$ 25.00~~	~~$ 500.00~~	~~$ 500.00~~	~~$ (1,005.00)~~
C	LINE CONNECTION	15	$ 15.00	$ 225.00	$ 225.00	$ 25.00	$ 375.00	$ 375.00	$ 150.00
Y	PREMISE VISIT	55	$ 24.50	$ 1,347.50	$ 1,347.50	$ 30.00	$ 1,650.00	$ 1,650.00	$ 302.50
C	PREMISE VISIT	15	$ 30.00	$ 450.00	$ 450.00	$ 30.00	$ 450.00	$ 450.00	$ -
OTHER RATES & CHARGES									
CUSTOM CALLING									
~~Y~~	~~RES. CALL WAITING~~	~~8~~	~~$ 5.00~~	~~$ 40.00~~	~~$ 480.00~~	~~$ 5.00~~	~~$ 40.00~~	~~$ 480.00~~	~~$ -~~
~~Y~~	~~BUS. CALL WAITING~~	~~0~~	~~$ 7.50~~	~~$ -~~	~~$ -~~	~~$ 7.50~~	~~$ -~~	~~$ -~~	~~$ -~~
~~Y~~	~~RES. CALL FORWARDING~~	~~7~~	~~$ 2.74~~	~~$ 19.18~~	~~$ 230.16~~	~~$ 2.74~~	~~$ 19.18~~	~~$ 230.16~~	~~$ -~~
~~Y~~	~~BUS CALL FORWARDING~~	~~0~~	~~$ 4.00~~	~~$ -~~	~~$ -~~	~~$ 4.00~~	~~$ -~~	~~$ -~~	~~$ -~~
~~Y~~	~~RES 3-WAY CALLING~~	~~5~~	~~$ 3.52~~	~~$ 17.60~~	~~$ 211.20~~	~~$ 3.52~~	~~$ 17.60~~	~~$ 211.20~~	~~$ -~~
~~Y~~	~~BUS 3-WAY CALLING~~	~~0~~	~~$ 4.20~~	~~$ -~~	~~$ -~~	~~$ 4.20~~	~~$ -~~	~~$ -~~	~~$ -~~
~~Y~~	~~RES, 8 NO. SPEED CALLING~~	~~0~~	~~$ 1.74~~	~~$ -~~	~~$ -~~	~~$ 1.74~~	~~$ -~~	~~$ -~~	~~$ -~~
~~Y~~	~~BUS., 8 NO. SPEED CALLING~~	~~0~~	~~$ 3.00~~	~~$ -~~	~~$ -~~	~~$ 3.00~~	~~$ -~~	~~$ -~~	~~$ -~~
~~Y~~	~~RES, 30 NO. SPEED CALLING~~	~~0~~	~~$ 1.74~~	~~$ -~~	~~$ -~~	~~$ 1.74~~	~~$ -~~	~~$ -~~	~~$ -~~
~~Y~~	~~BUS., 30 NO. SPEED CALLING~~	~~0~~	~~$ 3.00~~	~~$ -~~	~~$ -~~	~~$ 3.00~~	~~$ -~~	~~$ -~~	~~$ -~~
~~Y~~	~~RES. FIXED CALLING~~	~~0~~	~~$ 2.50~~	~~$ -~~	~~$ -~~	~~$ 2.50~~	~~$ -~~	~~$ -~~	~~$ -~~
~~Y~~	~~BUS. FIXED CALLING~~	~~0~~	~~$ 2.50~~	~~$ -~~	~~$ -~~	~~$ 2.50~~	~~$ -~~	~~$ -~~	~~$ -~~
~~Y~~	~~RES. LINE BUSY DIV.~~	~~0~~	~~$ 1.85~~	~~$ -~~	~~$ -~~	~~$ 1.85~~	~~$ -~~	~~$ -~~	~~$ -~~
~~Y~~	~~BUS. LINE BUSY DIV.~~	~~0~~	~~$ 8.00~~	~~$ -~~	~~$ -~~	~~$ 8.00~~	~~$ -~~	~~$ -~~	~~$ -~~
~~Y~~	~~ANY 2 (20% DISCOUNT)~~	~~1~~	~~$ 6.19~~	~~$ 6.19~~	~~$ 74.28~~	~~$ 6.19~~	~~$ 6.19~~	~~$ 74.28~~	~~$ -~~
	~~ANY 3 (25% DISCOUNT)~~	~~0~~	~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~
	~~ANY 4 (30% DISCOUNT)~~	~~0~~	~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~
	~~ANY 5 (35% DISCOUNT)~~	~~0~~	~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~
MISCELLANEOUS									
C	VACATION RATE	0	$ 10.50	$ -	$ -	$ 10.50	$ -	$ -	$ -
Y	VACATION RATE - Zone 1	3	$ 6.75	$ 20.25	$ 243.00	$ 10.50	$ 31.50	$ 378.00	$ 135.00
~~Y~~	~~VACATION RATE - Zone 2~~	~~2~~	~~$ 7.85~~	~~$ 15.70~~	~~$ 188.40~~	~~$ 10.50~~	~~$ 21.00~~	~~$ 252.00~~	~~$ 63.60~~
	PAYPHONE-LOCAL	0	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Y	PRIVATE LINE EXTENSION	8	$ 7.00	$ 56.00	$ 672.00	$ 7.00	$ 56.00	$ 672.00	$ -
	INTRACHANGE P/L MILEAGE	0	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Y	OFF-PREMISE EXTENSION	2	$ 4.00	$ 8.00	$ 96.00	$ 4.00	$ 8.00	$ 96.00	$ -
	EMERG. RPT -MAIN STATION	0	$ -	$ -	$ -	$ -	$ -	$ -	$ -
	EMERG. RPT-ADD'L STATION	0	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Y	TRUNK HUNTING FEATURE	2	$ 8.00	$ 16.00	$ 192.00	$ 8.00	$ 16.00	$ 192.00	$ -
Y	BUSINESS CHANNEL TERM - Dedicated Channel	1	$ 6.50	$ 6.50	$ 78.00	$ 6.50	$ 6.50	$ 78.00	$ -
Y	BUSINESS CHANNEL TERM - Dedicated Trunk	6	$ 24.42	$ 146.52	$ 1,758.24	$ 24.42	$ 146.52	$ 1,758.24	$ -
Y	TRUNK TERMINATION	2	$ 26.70	$ 53.40	$ 640.80	$ 26.70	$ 53.40	$ 640.80	$ -
Y	PBX NUMBER BLOCK	5	$ 2.00	$ 10.00	$ 120.00	$ 2.00	$ 10.00	$ 120.00	$ -
~~Y~~	~~TRANS-MIL-FIX 27%~~	~~1~~	~~$ 2.29~~	~~$ 2.29~~	~~$ 27.48~~	~~$ 2.29~~	~~$ 2.29~~	~~$ 27.48~~	~~$ -~~
~~Y~~	~~FIXED MILEAGE 20%~~	~~1~~	~~$ 4.98~~	~~$ 4.98~~	~~$ 59.76~~	~~$ 4.98~~	~~$ 4.98~~	~~$ 59.76~~	~~$ -~~

MIDVALE TELEPHONE EXCHANGE

LOCAL RATE AND REVENUE SUMMARY - TOTAL ARIZONA

(A)	(B) DESCRIPTION	(C) 12/31/98 UNITS	(D) CURRENT RATE	(E) MONTHLY REV. @ CURRENT	(F) ANNUALIZED REV. @ CURRENT	(G) PROPOSED RATE	(H) MONTHLY REV. AT PROPOSED	(I) ANNUALIZED REV. AT PROPOSED	(J) ANNUAL REVENUE INCREASE
~~Y~~	~~TRANS MIL FIX 41%~~	~~2~~	~~$ 4.98~~	~~$ 9.96~~	~~$ 119.52~~	~~$ 4.98~~	~~$ 9.96~~	~~$ 119.52~~	~~$ -~~
~~Y~~	~~TRANS MIL FIX 20%~~	~~2~~	~~$ 1.70~~	~~$ 3.40~~	~~$ 40.80~~	~~$ 1.70~~	~~$ 3.40~~	~~$ 40.80~~	~~$ -~~
~~Y~~	~~61X1.10 20%~~	~~1~~	~~$ 13.42~~	~~$ 13.42~~	~~$ 161.04~~	~~$ 13.42~~	~~$ 13.42~~	~~$ 161.04~~	~~$ -~~
~~Y~~	~~58X1.10 MILEAGE 27%~~	~~1~~	~~$ 17.23~~	~~$ 17.23~~	~~$ 206.76~~	~~$ 17.23~~	~~$ 17.23~~	~~$ 206.76~~	~~$ -~~
~~Y~~	~~25X.85 MILEAGE 20%~~	1	~~$ 8.71~~	~~$ 8.71~~	~~$ 104.52~~	~~$ 8.71~~	~~$ 8.71~~	~~$ 104.52~~	~~$ -~~
Y	~~25X.85 MILEAGE 41%~~	~~2~~	~~$ 8.71~~	~~$ 17.42~~	~~$ 209.04~~	~~$ 8.71~~	~~$ 17.42~~	~~$ 209.04~~	~~$ -~~
	~~80X1.10 MILEAGE 20%~~	~~1~~	~~$ 17.60~~	~~$ 17.60~~	~~$ 211.20~~	~~$ 17.60~~	~~$ 17.60~~	~~$ 211.20~~	~~$ -~~
Y	56K SPECIAL ACCESS	0	$ 188.50	$ -	$ -	$ 188.50	$ -	$ -	$ -
C	TOLL RESTRICTION - RES	3	$ 2.00	$ 6.00	$ 72.00	$ 2.00	$ 6.00	$ 72.00	$ -
C	~~TOLL RESTRICTION - BUS~~	~~0~~	~~$ 3.00~~	~~$ -~~	~~$ -~~	~~$ 2.00~~	~~$ -~~	~~$ -~~	~~$ -~~
Y	TOLL RESTRICTION - RES	4	$ 2.00	$ 8.00	$ 96.00	$ 2.00	$ 8.00	$ 96.00	$ -
~~Y~~	~~TOLL RESTRICTION - BUS~~	~~0~~	~~$ 2.00~~	~~$ -~~	~~$ -~~	~~$ 2.00~~	~~$ -~~	~~$ -~~	~~$ -~~
C	ADD'L BUS LIST	0	$ 1.50	$ -	$ -	$ 1.00	$ -	$ -	$ -
Y	ADD'L BUS LIST	3	$ 1.25	$ 3.75	$ 45.00	$ 1.00	$ 3.00	$ 36.00	$ (9.00)
~~C~~	~~ADD'L RES LIST~~	~~9~~	~~$ 1.00~~	~~$ 9.00~~	~~$ 108.00~~	~~$ 1.00~~	~~$ 9.00~~	~~$ 108.00~~	~~$ -~~
~~Y~~	~~ADD'L RES LIST~~	~~8~~	~~$ 1.00~~	~~$ 8.00~~	~~$ 96.00~~	~~$ 1.00~~	~~$ 8.00~~	~~$ 96.00~~	~~$ -~~
	ADDITIONAL INFORM	0	$ -	$ -	$ -	$ -	$ -	$ -	$ -
C	*FOREIGN LISTING - RES*	0	$ 2.00	$ -	$ -	$ 2.00	$ -	$ -	$ -
~~C~~	~~FOREIGN LISTING - BUS~~	~~0~~	~~$ 2.00~~	~~$ -~~	~~$ -~~	~~$ 2.00~~	~~$ -~~	~~$ -~~	~~$ -~~
Y	FOREIGN LISTING - RES	1	$ 1.00	$ 1.00	$ 12.00	$ 2.00	$ 2.00	$ 24.00	$ 12.00
~~Y~~	~~FOREIGN LISTING - BUS~~	~~0~~	~~$ 1.25~~	~~$ -~~	~~$ -~~	~~$ 2.00~~	~~$ -~~	~~$ -~~	~~$ -~~
C	NON-LIST	5	$ 2.00	$ 10.00	$ 120.00	$ 2.00	$ 10.00	$ 120.00	$ -
Y	NON-LIST	9	$ 1.20	$ 10.80	$ 129.60	$ 2.00	$ 18.00	$ 216.00	$ 86.40
C	NON- PUBLISHED	17	$ 2.00	$ 34.00	$ 408.00	$ 2.00	$ 34.00	$ 408.00	$ -
Y	NON- PUBLISHED	30	$ 1.50	$ 45.00	$ 540.00	$ 2.00	$ 60.00	$ 720.00	$ 180.00
~~C~~	~~PUBLIC ACCESS LINE (PAL)~~	~~0~~	~~$ 52.50~~	~~$ -~~	~~$ -~~	~~$ 52.50~~	~~$ -~~	~~$ -~~	~~$ -~~
~~Y~~	~~PUBLIC ACCESS LINE (PAL)~~	~~0~~	~~$ 69.50~~	~~$ -~~	~~$ -~~	~~$ 69.50~~	~~$ -~~	~~$ -~~	~~$ -~~
	CREDIT CARD SERVICE FEE	0	$ -	$ -	$ -	$ -	$ -	$ -	$ -
	DIRECTORY ASSISTANCE	0	$ -	$ -	$ -	$ -	$ -	$ -	$ -
C	LINE LEASE + ACCESS CHARGE	0	$ 21.00	$ -	$ -	$ 21.00	$ -	$ -	$ -
C	INSTALL CHG.	0	$ 25.00	$ -	$ -	$ 25.00	$ -	$ -	$ -
Y	LINE LEASE + ACCESS CHARGE	2	$ 8.25	$ 16.50	$ 198.00	$ 21.00	$ 42.00	$ 504.00	$ 306.00
Y	INSTALL CHG.	0	$ 22.00	$ -	$ -	$ 25.00	$ -	$ -	$ -
~~Y~~	~~EXTENSION CONTINUOUS~~	~~0~~	~~$ 4.00~~	~~$ -~~	~~$ -~~	~~$ 4.00~~	~~$ -~~	~~$ -~~	~~$ -~~
	MISC. REVENUE	0	$ -	$ -	$ -	$ -	$ -	$ -	$ -
	RETURN CHECK CHARGE	0	$ -	$ -	$ -	$ -	$ -	$ -	$ -
~~C~~	~~INSIDE WIRE MAINTENANCE~~	~~0~~	~~$ 1.00~~	~~$ -~~	~~$ -~~	~~$ 1.00~~	~~$ -~~	~~$ -~~	~~$ -~~
	TOTAL			$ 17,818.44	$ 147,257.53		$ 22,865.40	$ 209,209.80	$ 61,952.27
	YOUNG			$ 12,674.84	$ 94,609.33		$ 16,725.80	$ 146,259.60	$ 51,650.27
	CASCABEL			$ 5,126.00	$ 52,437.00		$ 6,122.00	$ 62,739.00	$ 10,302.00

SUMMARY OF LOCAL REVENUES	Arizona	Young	Cascabel
CURRENT ANNUALIZED REVENUES (COL F)	147,258	94,609	52,437
- UNCOLLECTIBLE (W/S 2)	(1,279)	(284)	(995)
NET REVENUES	145,979	94,325	51,442
+ PROPOSED INCREASE (COL J)	61,952	51,650	10,302
UNCOLLECTABLE FACTOR	-0.87%	-0.30%	-1.90%
- *UNCOLLECTIBLE (INCREMENTAL CHANGE)*	(538)	(155)	(195)
NET INCREASE	61,414	51,495	10,107
	207,393	145,821	61,549
+ STATE USF	221,360	19,627	154,096
	428,752	165,448	215,644
+ *FEDERAL USF (AMT FROM W/S 5)*	313,187	221,824	91,363
TOTAL PROPOSED LOCAL REVENUES	741,939	387,272	307,007

MIDVALE TELEPHONE EXCHANGE

STATE UNIVERSAL SERVICE FUNDING REQUIRED

TOTAL ARIZONA	PROPOSED REVENUE	STATE USF FUNDING REQUIRED
LOCAL	61,186	
INTERSTATE USF		
INTRASTATE ACCESS	(100,204)	
MISC+UNCOLLECT	(351)	
TOTAL	(39,369)	221,360

TOTAL YOUNG	PROPOSED REVENUE	STATE USF FUNDING REQUIRED
LOCAL	61,136	
INTERSTATE USF		
INTRASTATE ACCESS	(34,427)	
MISC+UNCOLLECT	(155)	
TOTAL	26,553	19,627

TOTAL CASCABEL	PROPOSED REVENUE	STATE USF FUNDING REQUIRED
LOCAL	51	
INTRASTATE ACCESS	(65,777)	
MISC+UNCOLLECT	(195)	
TOTAL	(65,922)	154,096

MIDVALE TELEPHONE EXCHANGE

STATE UNIVERSAL SERVICE FUNDING REQUIRED

CURRENT ACCESS RATES: Arizona Total

DESCRIPTION	QUANTITY	RATE	REVENUE		
CCL- ORIG	910227	0.0606	55,202		
CCL- TERM	838286	0.0582	48,778		
LOCAL TRANSPORT	1748513	0.0201	35,160	average	0.11141
LOCAL SWITCHING	1748513	0.0201	35,160		
BILLING & COLLECTING	89174	0.2300	20,510		
			194,810		

PROPOSED ACCESS RATES: Arizona Total

DESCRIPTION					
CCL- ORIG	730227	0.0300	21,907		
CCL- TERM	658286	0.0300	19,749		
LOCAL TRANSPORT	1388513	0.0100	13,885	average	0.06284
LOCAL SWITCHING	1388513	0.0100	13,885		
BILLING & COLLECTING	89174	0.2000	17,835		
SUB TOTAL			87,260		

CURRENT ACCESS RATES: Young

DESCRIPTION	QUANTITY	RATE	REVENUE		
CCL- ORIG	450508	0.0460	20,723		
CCL- TERM	485985	0.0460	22,355		
LOCAL TRANSPORT	936493	0.0150	14,047	average	0.08773
LOCAL SWITCHING	936493	0.0150	14,047		
BILLING & COLLECTING	47761	0.2300	10,985		
B&C factor	0.051				
			82,159		

PROPOSED ACCESS RATES: Young

DESCRIPTION					
CCL- ORIG	450508	0.0300	13,515		
CCL- TERM	485985	0.0300	14,580		
LOCAL TRANSPORT	936493	0.0100	9,365	average	0.06020
LOCAL SWITCHING	936493	0.0100	9,365		
BILLING & COLLECTING	47761	0.2000	9,552		
B&C factor	0.051				
			56,377		

CURRENT ACCESS RATES: Cascabel

DESCRIPTION	QUANTITY	RATE	REVENUE		
CCL- ORIG	459719	0.0750	34,479		
CCL- TERM	352301	0.0750	26,423		
LOCAL TRANSPORT	812020	0.0260	21,113	average	0.13873
LOCAL SWITCHING	812020	0.0260	21,113		
BILLING & COLLECTING	41413	0.2300	9,525		
B&C factor	0.051				
			112,652		

PROPOSED ACCESS RATES: Cascabel

DESCRIPTION					
CCL- ORIG	279719	0.0300	8,392		
CCL- TERM	172301	0.0300	5,169		
LOCAL TRANSPORT	452020	0.0100	4,520	average	0.06832
LOCAL SWITCHING	452020	0.0100	4,520		
BILLING & COLLECTING	41413	0.2000	8,283		
B&C factor	0.051				
			30,884		

Three Months
Originating Point: Cascabel
Terminating Point Benson
Total Lines 163
Messages 4148

Group	Number of Lines in Each Group	Number of Calls in Each Group	Percent of Lines in Each Group	Percent of Calls in Each Group
0 Calls	13	0	8.0%	0.0%
1 Call	13	13	8.0%	0.3%
2-5 Calls	77	230	47.2%	5.5%
6-10 Calls	34	270	20.9%	6.5%
10+ Calls	26	3635	16.0%	87.6%
	163	4148	100.0%	100.0%

Call per line per mo 8.5

Three Months
Originating Point: Cascabel
Terminating Point San Manual
Total Lines 163
Messages 1209

Group	Number of Lines in Each Group	Number of Calls in Each Group	Percent of Lines in Each Group	Percent of Calls in Each Group
0 Calls	90	0	55.2%	0.0%
1 Call	7	7	4.3%	0.2%
2-5 Calls	21	78	12.9%	1.9%
6-10 Calls	4	82	2.5%	2.0%
10+ Calls	41	1042	25.2%	25.1%
	163	1209	100.0%	29.1%

Call per line per month 2.5

Calculation of Access Loss

Exhibit 6

		3 Month Toll	Annual Toll	3 Month Messages	Annual Messages	3 Month Minutes	Annual Minutes	2.1 times stimulation Annual Messages	Annual Minutes
Originating Point Terminating Point	Cascabel Benson	$ 2,042	$ 8,167	4,148	16,592	15,125	60,500	34,843	127,050
Originating Point Terminating Point	Cascabel San Manual	$ 713	$ 2,852	1,109	4,436	4,935	19,740	9,316	41,454
TOTAL							80,240		

Losses for Termination Ratio = 0.923077

Access Rate				1,606,640 Percent of System Minutes	163 Per Line Cost
0.1114	Cascabel to Benson	Access	$ 12,961	3.8%	$6.63
0.1114	Cascabel to San Manual	Access	$ 4,229	1.2%	$2.16

MIDVALE TELEPHONE EXCHANGE

ARIZONA

LOCAL ACCESS TARIFF

2000

SCHEDULE OF RATES AND CHARGES

TOGETHER WITH RULES AND REGULATIONS

APPLICABLE TO TELEPHONE SERVICE

PROVIDED IN THE TERRITORY SERVED BY THE

MIDVALE TELEPHONE EXCHANGE, INC.

WITHIN THE STATE OF ARIZONA AS FOLLOWS:

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DEFINITIONS

Access Line

The circuit which travels from the Central Office to the subscriber's premises, terminating at the protector which provides direct access to the local exchange and the toll switching networks.

Channel

The electrical path provided by the Telephone Company between two or more locations.

Circuit

A channel used for the transmission of electrical energy in the furnishing of telephone service.

Connecting Company

A corporation, association, partnership, or individual owning or operating one or more exchanges and with whom traffic is interchanged.

Contract

The service agreement between a subscriber and the Company under which services and facilities are furnished in accordance with the provisions of the applicable Tariffs.

Customer Provided Equipment (CPE)

Devices, apparatus, and their associated wiring provided by a subscriber for use with facilities furnished by the Company.

Direct Dialing

The capability for a subscriber to dial anywhere in the United States with a series of numbers without operator assistance.

Exchange Area

The territory served by an Exchange.

DEFINITIONS (continued)

Extension and PBX. Station Mileage

The charges made for the additional circuit required to furnish such stations beyond the allowable distance from the main station or PBX switchboard.

Extension Station

An additional station connected on the same circuit as the main station and having the same telephone number as the main station.

Extra Listing

Any listing of a name or information in connection with a subscriber's telephone number beyond the single listing provided with regular service.

Foreign Exchange Directory Listing

An alphabetical and directory listing in the directory of an exchange other than the exchange in which a subscriber is furnished local service.

Individual Line

An exchange line designed for the connection of a single access line.

Installation Charge

A nonrecurring charge made for the placing or furnishing of telephone equipment, which may apply in place of or in addition to Service Connection Charges and other applicable charges for service or equipment.

Key System

An arrangement of key-equipped instruments capable of providing intercommunication and multi-trunk communication with the general exchange and interexchange network.

Local Exchange

That portion of a channel which connects a station to the interexchange channel; it also applies to a channel connecting two or more stations within an exchange area.

DEFINITIONS (continued)

Local Exchange Service

Telephone service furnished between subscriber's stations located within the same local service area.

Local Message

A communication between subscribers' stations within the same Local Service Area.

Local Service Area

That geographical area throughout which a subscriber obtains telephone service without the payment of a toll charge.

Main Station

A suitable telephone instrument or station which is connected to a network access line through a Central Office and has a unique telephone number.

Premises

All of the building or the adjoining portions of a building occupied and used by the subscriber; or all of the buildings occupied and used by the subscriber as a place of business or residence, which are located on a continuous plot of ground not intersected by a public highway or thoroughfare.

Primary Station

Synonymous with Main Station.

Private Branch Exchange (PBX)

An arrangement of equipment used by a subscriber and connected directly to a central office by means of trunk access lines, from which connection is made to stations at various locations or customer premises, thereby providing telecommunications between these stations as well as communication with the general exchange system.

DEFINITIONS (continued)

Private Line

A circuit provided to furnish communication only between the two or more telephones directly connected to it, and not having connection with either central office or P.B.X. switching apparatus.

Public Telephone

An exchange station equipped with a coin collecting and/or card accepting device which is installed for the convenience of the public at a location chosen or accepted by the Company.

Subscriber

A person or agency subscribing for telephone service at a particular location. As used in this Tariff, subscribership is associated with a specific location or continuous property where service is furnished, not with a particular individual or firm. If such individual or firm requests service at multiple locations, each such location requires a separate subscription, even within a single Exchange. The privileges, restrictions, and rates established for a subscriber to any class of service are limited to the service at one location; and no group treatment of the multiple subscriptions undertaken by any one individual or firm is contemplated or to be implied, except when definitely provided for in the schedules.

Tariff

The document filed by the Company with the Public Utilities Commission that lists the communication services offered by the Company and the associated rates and charges.

Telecommunications Station

A suitable telecommunications instrument, consisting of a transmitter, receiver, and associated apparatus, so connected as to permit the transmission and reception of voice and/or data telecommuncations.

DEFINITIONS (continued)

Tie Trunk

A circuit connecting two PBX systems for the purpose of intercommunicating between the stations connected with such PBX switching apparatus. The circuit is not intended to provide general exchange service through either of the PBX systems with which it connects.

Toll Message

A message, typically between stations in different local service areas, for which a per-message or per-minute charge is levied.

Toll Service

Originating and/or terminating telecommunications service rendered by the Company between stations in different local service areas.

Trunk

A telecommunications channel (a) between two ranks of switching equipment in the same central office, (b) between central office units in the same switching center, or (c) between two switching centers.

GENERAL RULES AND REGULATIONS

A APPLICATION

The rules and regulations specified herein apply to the intrastate services and facilities of the Midvale Telephone Exchange, Inc., hereinafter referred to as the Company. Failure on the part of the subscribers to observe these rules and regulations of the Company, after due notice of such failure, automatically gives the Company authority to discontinue service.

In the event of a conflict between any rate, rule, regulation, or provision contained in these General Rules and Regulations and any rate, rule, regulation or provision contained in the specified tariffs, the latter shall prevail.

These tariffs cancel and supersede all other tariffs of the Company issued and effective prior to the effective date of these tariffs.

B OBLIGATIONS OF THE COMPANY

1. Availability of Facilities

The Company's obligation to furnish telephone service is dependent upon its ability to secure suitable facilities and to provide such service without unreasonable expense.

2. Interruption of Service

An allowance will be made upon notice and demand to the Company following an interruption of service not due to subscriber negligence, provided the interruption continues for more than twenty-four (24) hours from the time it is reported to or detected by the Company. The allowance will be the prorated portion of the monthly rate for the service made inoperative.

3. Directory Errors and Omission

The Company endeavors to list accurately in the local telephone directory the names of customers, their telephone numbers, and other customer information that has been properly requested. The Company will waive the tariff rate for special directory services in cases in which the company is responsible for directory listing errors.

GENERAL RULES AND REGULATIONS (continued)

B. OBLIGATIONS OF THE COMPANY (continued)

4. Use of Connecting Company Lines

Lines of other connecting companies may be used to reach points outside the Company area when suitable arrangements can be made.

5. Defacement of Premises

The Company will repair or replace any defaced or damaged subscriber property when such defacement or damage results from the Company's negligent installation, placement, or removal of Company property.

6. Adjustment of Charges

In case of overbilling, where when the amount of overcharge can be determined,. the Company will make a full refund. In the case of underbilling, the Company reserves for a period of three years the right to backbill for the deficiency charges.

C. USE OF SERVICE AND FACILITIES

1. Ownership and Use of Equipment

All equipment and lines furnished by the Company are the property of the Company even though located on the subscriber's premises. Company agents or employees shall have the right to enter said premises at any reasonable hour to install or maintain equipment, make collections, or remove equipment.

The Company may refuse to install or maintain any service at locations which are hazardous to Company employees. If such service is furnished, the subscriber may be required to install and maintain such service, holding the Company harmless from any claims for damage by reason of the installation and maintenance of this service.

GENERAL RULES AND REGULATIONS (continued)

C. USE OF SERVICE AND FACILITIES (continued)

2. Interconnection Policy

Subscriber-provided terminal equipment may be used and subscriber-provided communication system may be connected with the facilities furnished by the Company for telecommunications services subject to regulations outlined in other parts of this tariff. In case any unauthorized attachment is made, the Company shall have the right to disconnect, suspend, or terminate the service.

3. Use of Subscriber Services

Subscriber telephone service is furnished only for the use by the subscriber, his family, and associates. The Company may refuse to install or permit such service to remain on premises of public or semi-public character. The equipment may be installed at such locations if it is located so it is not accessible for public use.

4. Tampering with Equipment

The Company may refuse to furnish telephone service when company equipment shows any evidence of tampering for the purpose of obtaining service without payment of charges applicable to the service rendered by the Company.

5. Use of Improper Language or Impersonation of Another

The Company may refuse service to anyone who uses or permits abusive or obscene language over Company facilities or impersonates another individual with fraudulent or malicious intent.

6. Governmental Objections to Service

The Company may refuse service or discontinue service to anyone upon objection to such service by or behalf of any governmental authority.

7. Indiscriminate Use of Facilities

The Company may refuse to furnish service or require upgrading of services provided to any subscriber who allows indiscriminate use of Company facilities, except in case of emergencies.

GENERAL RULES AND REGULATIONS (continued)

D. ESTABLISHMENT AND FURNISHING OF SERVICE

1. Application for Service

Application for service must be made on the Company's standard form, which becomes a contract when accepted in writing by the Company or upon establishment of service. The subscriber may be required to pay in advance all charges for the first billing period and connection charge if applicable. The conditions of such contracts are subject to all provisions of this and other applicable tariffs. Requests for additional service may be made verbally, if provided in the original contract, and no advance payment will be required. A move within the exchange area is not considered to terminate the contract, and orders for such may be made orally or in writing.

2. Telephone Numbers

The customer has no property right in the telephone numbers assigned by the Company and no right to continuance of service through any particular central office. The Company may change the telephone number or central office designation of a customer whenever such change is considered desirable in the conduct of the Company's business. When existing service is continued for a new customer, the telephone number assigned to the former customer may be retained by the new customer only: (a) if the former customer consents and properly notifies the Company in writing; and (b) if arrangements acceptable to the Company are made by the new customer to pay all charges against the service to the company.

3. Alterations

The subscriber agrees to notify the Company of any alterations which will necessitate changes in the Company's wiring; and the subscriber agrees to pay the Company's current charges for such changes.

4. Payment of Service

The subscriber is required to pay all charges for services rendered by the Company, both exchange and tall in accordance with provisions contained elsewhere in this tariff. The subscriber is responsible for all charges for service rendered at his telephone, including collect charges.

GENERAL RULES AND REGULATIONS (continued)

D. USE OF SERVICE AND FACILITIES (Continued)

5. Maintenance and Repairs

The Company shall bear the expense of all repair and maintenance of its facilities, except where damage or destruction of its facilities is due to the gross neglect of the subscriber. The subscriber may not rearrange., remove, or disconnect any Company facilities without consent of the Company.

6. Line Extensions

Lines will be extended to permanent customers in accordance with the guidelines established in the Construction Charge section.

Where required by the conditions, applicants may be required to provide to the Company suitable private right- of-way parallel to the public highway.

7. Unusual Installation Costs

When special conditions or special requirements of the subscriber involve unusual construction or installation costs, the subscriber may be required to pay a reasonably proportionate share of such cost. Title to all facilities constructed and paid for wholly or in part by the subscriber is vested in the Company.

E. TELEPHONE DIRECTORIES

The Company will furnish to its subscribers, without charge, only such directories as it deems necessary for the efficient use of the service. Other directories will be furnished at the discretion of the Company at a reasonable charge.

F. ESTABLISHMENT AND MAINTENANCE OF CREDIT

1. Deposits

The Company adopts by reference the Rules and Regulations promulgated by the Arizona Corporation Commission and all amendments to those rules which may be hereafter adopted by the Arizona Corporation Commission. Copies of these Rules and Regulations are on file in the business office and are available for public inspection.

GENERAL RULES AND REGULATIONS (continued)

F. ESTABLISHMENT AND MAINTENANCE OF CREDIT (continued)

2. Interest to be Paid on Deposits

Simple interest, at the rate provided by the Arizona Corporation Commission, shall accrue from the date of deposit until the date of refund or application to the customer's telephone bill.

3. Reconnection Charge

Where service has been terminated by the Company in accordance with the Arizona Corporation Commission Rules and Regulations, the regular non-recurring charges (Refer to section: Service Connection, Move and Change Charge) shall apply for reconnection of service.

G. MINIMUM CONTRACT PERIODS

Except as hereinafter provided, the minimum contract period for all services and facilities is one month at the same location.

The length of contract period for directory listings, where the listing actually appears in the directory, is the directory period. The directory period is from the day on which the directory is first distributed to the subscribers to the day on which the succeeding directory is first distributed to subscribers.

The Company may require a minimum contract period longer than one month at the same location in connection with special (nonstandard) types or arrangements of equipment, or for unusual construction necessary to meet special demands and involving extra cost.

H. TERMINATION OF SERVICE

1. Early Termination of Service at Subscriber's Request

Service may be terminated prior to the expiration of the minimum contract period upon notice to the Company and payment of any applicable termination charges in addition to any applicable balance due for service which has been furnished.

In the case of service for which the minimum contract period is one month, termination will require payment of the balance due for the minimum period.

GENERAL RULES AND REGULATIONS (continued)

H. TERMINATION OF SERVICE (continued)

1. Early Termination of Service at Subscriber's Request (continued)

In the case of directory listings where the listing has appeared in the directory or where an unlisted or unpublished listing has been properly omitted, the charges are due to the end of the directory period, except that in the following cases charges will be continued only to the date of the termination of the extra listing or proper omission with a minimum charge of one month.

(1) The Contract for the main service is terminated.

(2) The listed party becomes a subscriber to some other class of exchange service.

(3) The listed party moves to a new location.

(4) The listed party dies.

For special equipment, the charges will be based on the individual circumstances in each case as agreed upon at the time of installation.

Contracts for periods longer than one month covering services whose installation required line extensions may be terminated upon payment of all charges that would accrue to the end of the contract period, or the contract will be transferred to a new applicant who is to occupy the same premises and will subscribe to the service effective on the day following termination by the original subscriber.

2. Subsequent Termination of Service at Subscriber's Request

Service may be terminated after the expiration of the initial contract period upon notice to the Company and payment of all charges due to the date of termination. .

3. Termination of Service by the Company

The Company adopts by reference the Rules and Regulations promulgated by the Arizona Corporation Commission (specifically, A.A.C. R-14-2-5 and A.A.C. R-14-2-11) and all subsequent amendments thereto. Copies of these Rules and Regulations are on file in the business office and are available for public inspection.

GENERAL RULES AND REGULATIONS (continued)

I. PAYMENT FOR SERVICE AND FACILITIES

1. Date Payment Due

The subscriber shall pay for service and facilities monthly in advance and shall pay all duly incurred toll and one-time charges when billed. Failure to receive a bill does not relieve the subscriber of the responsibility for payment in accordance with the provisions set forth herein.

All bills for service are due and payable at the office of the Company on or before the 20th day following the postmarked date of the statement. After the 20th day, bills are delinquent and the service is liable to termination. A delinquent bill is subject to a late charge of 1.5% per month, and the Company may apply any deposit towards the outstanding balance.

2. Returned Check Policy

A charge of $15.00 will be made for any dishonored check returned to the Company. If two returned checks are received from a subscriber within a 12-month period, the Company may require that all subsequent payments be made by cash, money order, or certified check.

J. SPECIAL SERVICES AND FACILITIES

Extraordinary special services and facilities not otherwise provided for in this Tariff may be furnished or leased pursuant to special contract for such period as may be agreed upon, provided such special service or facility or the use made thereof is not unlawful and does not interfere with the Company's telephone service. Applicable charges will be determined by the Company's revenue requirements for each individual system. In the event any such special service or facility or the use made thereof is found to interfere with the Company's telephone service, the Company may terminate such contract and cease to furnish such special service or facility upon thirty days written notice--provided further that the Commission may terminate such contract whenever it deems public interest requires it.

K.. TAXES

The Company will charge and collect any privilege, sales or use tax or impositions based on gross revenues. The tax requirements charged and collected will be in addition to normal rates and charges.

NETWORK ACCESS LINE SERVICE

RATES

	MONTHLY RATES	
	Residence (R-1)	Business (B-1)
Local Service R-1	$24.00	$32.00

CONDITIONS

The above rates apply to the provision of network access lines which, when connected to a suitable telephone instrument provides access to the telephone network.

Instruments must be provided by the subscriber, subject to the conditions described in the Connection With Subscriber-Owned Equipment portion of this tariff.

Additional instruments may be attached to network access lines. The Company reserves the right to limit the number of instruments connected to an access line if they cause interference with the normal operation of the line.

Business Rates Apply:

At any location where activities are of a business, trade, or professional nature.

At any location where the listing of service at that location indicates a business, trade, or profession.

Where only one network access line is provided at a location which is both a residence and a business.

At schools, hospitals, libraries, churches, and other similar institutions.

Residence Rates Apply:

In private residences where business listings are not provided and telephone service is not used for the conduct of business.

In the place of residence of a clergyman, or of a physician or other medical practitioner, provided the subscriber does not maintain an office in the residence.

SERVICE CONNECTION, MOVE AND CHANGE CHARGES

RATES

	Business	Residence
Service Order	$12.00	$12.00
Line Connection	$15.00	$15.00
Premises Visit	$30.00	$30.00

CONDITIONS

These charges are intended to cover the expense incurred by the Company in conjunction with the following:

Establishment of service;
Change in location of a service to other premises;
Transfer of service from one customer to another;
Change of telephone number at customer's request;
Installation of auxiliary equipment;
Restoration of service disconnected for nonpayment or failure to establish credit.

Charges shown are in addition to installation charges shown under other Tariff schedules.

Charges shown in this schedule are based on work being performed during regularly scheduled working hours of the Company's employees. Work performed with overtime labor costs will be performed at direct cost to the customer.

DEFINITIONS

Service Order

Applicable to work done in receiving, recording, and processing information necessary to execute a customer's request for the establishment of service. It is also applicable to work responsive to a customer's request for additions, moves, or changes to existing service.

SERVICE CONNECTION, MOVE AND CHANGE CHARGES (continued)

DEFINITIONS (continued

Premises Visit

Applicable if a Company employee must visit the customer's premises to move or change a service drop or standard network interface at the customer's request. Not applicable when a Company employee is on the customer's premises for any other business purpose.

Line Connection

Applicable to work done in the Central Office or work involving Central Office equipment necessary to provide a network access line or make changes to an existing network access line.

If service requires work in more than one Central Office area, a separate charge applies to the work in each office.

OFF-PREMISES EXTENSION SERVICE

RATES	Installation Charge	Monthly Rate
Continuous Property	Actual Cost	No Charge
Continuous Property - Additional Network Interface	Applicable Nonrecurring Charges	$4.00
Discontinuous Property Each Location	Applicable Nonrecurring Charges	Applicable Access Line Rate

CONDITIONS

Off-premises extension service, where the extension is located in a different building on the same continuous property as the main access line termination, may be installed by the Company. The installation charge will be negotiated between the subscriber and the Company. The subscriber is responsible for the maintenance of any subscriber-owned wiring. No recurring monthly charge will apply in this situation.

Continuous property extensions are defined as those where the drop to the additional access point comes directly from the premises of the main access line termination and does not come out of the distribution cable.

Continuous property extensions requiring an additional network interface are defined as those where the drop to the additional access point comes out of the distribution cable and requires an additional network interface.

When off-premises extension service is provided on Discontinuous property, each location is treated as an access line termination and the applicable access line rates will apply at each location. Installation will be performed based on all applicable Nonrecurring service connection elements.

INTRAEXCHANGE SPECIAL ACCESS

RATES

	Installation	Monthly Rate
Per Channel Termination	Actual Cost	Business Access Line Rate

CONDITIONS

The Company will furnish and maintain Special Access, where facilities are available and within the Exchange Area, for communication between stations not connected to the telephone network.

The channel terminal rate will apply for each termination within the Exchange Area.

DIRECTORY LISTINGS

RATES

		Monthly Rate
Additional or Alternate Listing -	Business	$1.50
	Residence	1.00
Cross Reference or Duplicate		1.00
Extra Lines, per line		1.00
Unlisted		2.00
Unpublished		2.00
Foreign Exchange		2.00

CONDITIONS

The regulations for directory listings, as provided in this section, apply only to that section of the directory containing the regular alphabetical list of names of subscribers.

Primary Listing

One listing without charge, termed the Primary Listing, is provided as follows:

1. For each separate subscriber service. When two or more main station lines or PBX trunk lines are consecutively operated, the first number of the group is considered the primary listing.

B. Unlisted telephone numbers are listed in the information file, but are not listed in the Company's directory. They will be given out upon request.

C. Unpublished numbers are not listed either in the directory or the information file and will not to be given out to anyone unless such disclosure is authorized by a court of law.

DIRECTORY LISTINGS (continued)

Restrictions

Names in directory listings shall be limited to the following:

1. In connection with residence service:
   (a) The individual names of the subscriber, or
   (b) The individual name of a member of the subscriber's family, or
   (c) The individual name of a permanent member of the subscriber's household, or
   (d) Dual (joint) listings for customers with the same surname residing at the same address.
2. In connection with business service.
   (a) The individual name of the subscriber, or
   (b) The name under which the subscriber is actually doing business, or
   (c) The name under which a business is actually being conducted by someone other than the subscriber and which the subscriber is authorized by such other to use, or
   (d) The individual names of the officers, partners, or employees of the subscriber, or
   (e) The names of departments when such listings are deemed necessary from a public reference viewpoint.

The Company may require that the subscriber provide the Company with written permission for the insertion or continuance of listings. The Company may refuse to accept or may delete listings of a business which the subscriber claims to represent. The Company may refuse to accept or may delete a listing which includes the trade name of another.

CUSTOMER-PROVIDED PAY TELEPHONE SERVICE

RATES

Public Access Line (PAL)	$32

CONDITIONS

1. Customer-provided coin-operated telephones must comply with the requirements including, but not limited to, the following:

   (a) The telephone instrument must be registered under Part 68 of the FCC Rules and Regulations or be connected behind a protective coupler registered under Part 68 of the FCC Rules and Regulations.

   (b) The telephone instrument must comply with the requirements of all applicable federal, state, and local laws and regulations concerning disabled, handicapped, and/or hearing-impaired persons.

   (c) The telephone instrument must allow coin-free operator and emergency 911 access in any exchange where 911 service is available. Where 911 service is not available, detailed instructions for completing coin-free emergency calls must be posted on the pay telephone instrument.

2. Extensions to a pay telephone permitting third-party access to conversations are prohibited.

3. Instruments shall be located in a well-lighted location and provided at all times with a current telephone book in legible condition.

4. On the instrument itself, or in clear view in close proximity to the instrument, the following information must appear:

   (a) Name, address and telephone number of owner;

   (b) The procedure for reporting service difficulties and the method of obtaining refunds:

   (c) A statement that the instrument is not owned by the Local Exchange Company and that charges for calls made on the instrument are not regulated;

CUSTOMER-PROVIDED PAY TELEPHONE SERVICE (continued)

CONDITIONS (continued)

(d) Dialing instructions;

(e) Relevant operational characteristics such as pre-pay or post-pay; and

(f) Emergency dialing information, including dial-tone first, coin-free 911, or other emergency access.

5. The PAL customer of record is responsible for compliance with Tariff conditions, as well as the installation and maintenance of instrument(s).

6. In addition to the rates and charges above, Public Access Lines shall bear all charges related to business access line service such as maintenance of service, toll, and Directory Assistance.

   The owner is responsible for payment of all billings. The Company may require as a condition of connection a mandatory security deposit to ensure payment.

7. Directory listings for subscribers to Public Access Line service are provided under the regulations governing the furnishing of listings to business access line customers.

8. Owners must apply for service on an application form provided by the Company.

9. When an alternate operator services provider is utilized for any customer-owned telephone, a notice to its customers must be posted, identifying the operator service provider and stating the following: (1) the procedure for obtaining rate information; (2) the procedure for reporting service difficulties; (3) a method for obtaining refunds; (4) emergency dialing information; and (5) instructions for accessing the Local Exchange Company operator. Failure to comply with notice requirements may result in disconnection of service.

CONSTRUCTION CHARGES

1. GENERAL

Charges under this tariff are for facility extensions to prevent the unreasonable burdening of the general body of existing customers.

All plant facilities will be owned and maintained by the Company. However, by mutual agreement with the Company, the applicant or subdivider/developer, may clear the right-of-way, furnish and install the underground supporting structure, or open and close a trench for buried services -- all in accordance with the Company's construction specifications. The Company in these cases may furnish and install the fixtures and wire or cable at its expense. Ownership of facilities, structures, etc., so provided by applicant shall be vested in the Company.

Nonrecurring charges under this tariff are payable in advance, are non-interest-bearing, and are not refundable except as specified in this Tariff.

2. LINE EXTENSIONS

A. Facilities provided without Construction Charge

Under normal conditions, the Company, without charge, will extend its lines for up to 300 feet in order to reach applicants.

B. Construction Charges for Line Extensions of Excess Length

1. If line extension requirements exceed 300 feet, a construction charge will apply. In the case of a group of applicants, the charge will be apportioned equally among members of the group.

2. Any such construction charge shall be paid in advance.

3. Payments for line construction are nonrefundable, and no credit will be allowed for future installation or line extensions constructed under the above regulations.

4. Plant extensions to provide service on a basis other than as covered above will entail construction charges as determined by the Company from the conditions.

CONSTRUCTION CHARGES (continued)

2. LINE EXTENSIONS (continued)

C. Actual cost determination

1. In those circumstances where extensions to facilities exceed the 300 foot allowance, the customer, in addition to any material or labor to be furnished by him, will pay in advance the estimated total cost of the Company's construction as prescribed in a contract executed between the Company and the customer.

2. Should the amount advanced by the customer exceed the actual cost, a refund will be made after completion of the Company's construction.

3. In no instance will the Company charge more than the actual cost at the closing of the job order.

4. When the construction provided includes provisions for additional future customers (at Company option), the charges assessed to current applicants shall be based upon a proration of the cost to their services, not upon the actual total cost of the job order.

D. Exceptional circumstances

1. Where construction involves unusual conditions such as unusual terrain, or where extraordinary charges applicable to government land crossings, forestry permits, etc., are involved, the Company's charges may depart from those specified in this schedule.

2. Where the type of construction requested by the customer differs from that normally provided by the Company, the customer will bear any additional cost or receive any savings associated with the construction. Company concurrence with the customer request will be provided only in accordance with standard utility construction specifications.

3. When the application of this schedule appears impracticable or unjust, the Company or the customer may, prior to commencing construction, refer the matter to the Arizona Corporation Commission for a special ruling on or for approval of mutually agreed upon special conditions.

CONSTRUCTION CHARGES (continued)

3. COLLECTIVE APPLICATIONS AND GROUPING OF APPLICANTS

When construction is required to serve a new applicant, a survey shall be made of all prospects who might be served from the new construction or an extension thereof and who might benefit from inclusion in the project. Allowances will be made only for those prospective customers signing contracts for service at the time the project is initiated.

Where not more than one-half mile of proposed construction separates successive applicants, they will be grouped in a single project. Otherwise, distinct projects will be established.

An applicant at any premises will receive only one plant facility extension allowance, regardless of the number of services ordered at that premises.

4. TEMPORARY OR SPECULATIVE PROJECTS

Plant facilities to provide service to an applicant engaged in temporary or speculative projects shall be provided in accordance with terms specified in a contract executed between the customer and the Company.

Charges for such a temporary or speculative project may include the construction and removal of telephone facilities.

5. REAL ESTATE SUBDIVISIONS

A subdivision or real estate development is defined as improved or unimproved land under a definite plan of development wherein it can be shown that there are reasonable prospects within the next five years for four or more customers for nontemporary main telephone line services.

Line extensions and/or additions into real estate subdivisions will be made by the Company, provided 100% of the estimated total cost for facilities to provide service is advanced to the Company by the subdivider.

After completion of construction the Company will review annually, over a period of five (5) years, the permanently established service connections within the development and will refund to the customer a prorated portion of the advance that was based on 100%

CONSTRUCTION CHARGES (continued)

5. REAL ESTATE SUBDIVISIONS (continued)

occupancy. Each succeeding year's refund will be based on connections added in that year only.

Should the developer or subdivider fail to provide for the distribution facilities as provided for in this condition, customers residing in the subdivision or development will be treated either as individuals or as collectively grouped applicants, as is appropriate.

6. CHARGES TO SUBSEQUENT APPLICANTS

When a subsequent applicant is secured who can be served f rom an existing project within five years of the initial date of same project, the new applicant will pay to the Company a prorated portion of the facility charge paid by the original applicants to that project.

When a customer discontinues service and service is reestablished for a new applicant at the same location, and the facilities remain in place, the new applicant will not be required to pay additional charges.

7. DISCONNECTS

When one or more customers on a project disconnect within the five-year term, no refund on the nonrecurring facility charge will be made to the disconnected customers. Charges to remaining customers are unaffected by disconnects.

8. MOVE OR CHANGE OF FACILITIES AT CUSTOMER'S REQUEST

If the Company changes or moves facilities on a Customer's property at the customer's request, the Company will charge the customer the actual cost incurred. The Company reserves the right to deny any such request.

CONNECTION WITH SUBSCRIBER-OWNED EQUIPMENT

RATES

Monthly Rate

Local line access will be supplied at the rates described in the "Network Access Line Service" section of this Tariff.

Service Call

If a trouble report results in a service call and the trouble is found to be in the customer- provided equipment: $30.00

CONDITIONS

Customer-provided terminal equipment or communication systems (CPE) used in conjunction with telephone service shall not interfere with any of the service offerings of the Company, endanger Company employees or the public, damage or require the alteration of Company facilities, interfere with the proper functioning of Company facilities, or impair the operation of the telephone network. Upon notice from the Company that the CPE is causing or is likely to cause such hazard or interference, the customer shall make whatever changes are necessary to correct the problem.

The Company shall not be responsible for the installation, operation, or maintenance of any CPE. Where a service difficulty or trouble report from customer-provided equipment or facilities results in visits by the Company to the customer premises, the customer shall be responsible for the payment of all associated Company charges.

Where CPE is connected to Company facilities, the responsibility of the Company shall be limited to the furnishing, operation, and maintenance of such facilities in a manner suitable for telephone service. The Company shall not be responsible for the through transmission of signals generated by the CPE, or for the quality of, or defects in, such transmission, or the reception of signals by the CPE.

The Company shall not be responsible to the customer if changes in any of the facilities, operations, or procedures of the Company render any CPE obsolete or require modification or alteration of such equipment or otherwise affect its use or performance.

Where CPE is used with telephone service in violation of any of these conditions, the Company will take whatever action is necessary to protect the network and will promptly

CONNECTION WITH SUBSCRIBER-OWNED EQUIPMENT (continued)

CONDITIONS (continued)

notify the customer of the violation in writing. The customer shall discontinue use of the equipment or correct the violation. Written confirmation of the corrective action taken will be supplied to the Company within10 days following receipt of notice of the violation by the customer. Failure of the customer to comply with these requirements shall result in suspension of the customer's service until the customer complies with the provision of this Tariff.

OPTIONAL TRUNK HUNTING SERVICE ARRANGEMENTS

RATES

	Monthly Rate
Optional Hunting Service per line or Trunk in a group so arranged	.5 x Business Access Line Rate

CONDITIONS

Trunk hunting service arrangement permits calls to be transferred automatically to a predetermined alternate number or to the next available line of a customer's group of hunting lines, when the line associated with the called number of the customer is busy. These arrangements can be made or modified only at the central office. This charge is in addition to the network access line rate.

When a special number is reserved or specific sequential numbers are reserved at a customer's request for the customer's future use of additional lines, there will be a monthly charge of 1/3 the business access line rate.

MESSAGE RESTRICTION-LOCAL EXCHANGE SERVICE

RATES

	Monthly Rate
Long Distance Message Restriction - Residence	$2.00
- Business	$3.00
Miscellaneous Message Restriction - Residence	$2.00
- Business	$3.00

CONDITIONS

1. Long Distance Message Restriction - Local Exchange Service is an arrangement which permits Local Exchange Service line users to dial local service area calls but prevents the origination of long distance calls. In addition, this arrangement denies the user access to "zero" (operator) dialing.

2. Long Distance Message Restriction - Local Exchange Service is provided for use only on individual network access lines and only where the customer has other network access line service on the same premises arranged for unrestricted use of the telecommunications network.

3. The acceptance of collect call messages is not restricted by this arrangement.

4. Where available, Miscellaneous Message Restriction - Local Exchange Service is an arrangement whereby the subscriber's exchange access line is prohibited from dialing selective services (for example, 976 service).

EMERGENCY REPORTING SYSTEM

RATES

	Monthly Rate	Installation or Move Charge
Basic system including one main system	$10.00	Applicable Nonrecurring Charges
Additional stations, each	$10.00	Applicable Nonrecurring Charges

CONDITIONS

The service offered in this Rate is designed for use by unattended emergency reporting departments. A party calling the listed emergency reporting number activates a conference circuit which rings telephones, enabling the caller to report the emergency to answering parties.

Remote answering terminals permit individuals away from home, upon hearing the emergency siren, to call a designated telephone number which will connect them to the emergency reporting system. ***This feature requires an unpublished business line. It will handle up to three simultaneous calls.***

The siren control circuit is a private line, suitable for supervisory control, from the emergency reporting system common equipment to the siren.

SECOND NUMBER SERVICE

RATES

	Monthly Rate
Second Number Service - Residence	$3.00
Second Number Service - Business	$4.00

DESCRIPTION

Second Number Service allows a single subscriber line to be used for two distinct purposes. Calls to the primary number activate a single long ring; calls to the second number activate two short rings. Thus the second number can serve as a teen number (for a residence subscriber), a different department or business (for a business subscriber), or a fax number (when the subscriber uses a fax machine with distinctive ring capability).

CONDITIONS

1. The customer must have primary number service on the same premises.

2. Second Number Service is provided subject to the availability of existing facilities.

3. The Second Number Charge and all third party and collect calls will be billed to the primary number.

4. Regulations, rates, and charges as described elsewhere in this Tariff apply as appropriate.

OPERATOR VERIFICATION/INTERRUPTION SERVICE

RATES

Verification, per request	$1.50
Interrupt, per request	2.10

DESCRIPTION

1. Customers may obtain assistance in determining if a called line is in use (herein called *verification*) or in interrupting a conversation in progress due to an urgent or emergency situation (herein called *interrupt*) by calling the "0" operator.

2. Verification and interrupt service is furnished where and to the extent that facilities permit.

3. The customer shall indemnify and save the Company harmless against all claims that may arise from either party to the interrupted call or any person.

REGULATIONS

1. Verification:

   A charge shall apply each time the operator verifies a called line and hears voice communication.

2. Interrupt:

   A charge shall apply each time an operator interrupts a conversation that is in progress on the called line.

3. If an operator both verifies the condition of the line and interrupts conversation on the same request, only the interrupt charge shall apply.

4. The charge for interrupt shall apply whenever the operator interrupts the conversation even though one or the other of the interrupted parties refuses to terminate the conversation in progress.

5. Charges for verify/interrupt service may be billed to a Calling Card. Charges may not be billed on a collect basis.

OPERATOR VERIFICATION/INTERRUPTION SERVICE (continued)

REGULATIONS (continued)

6. The charges for verify/interrupt service are in addition to any applicable rates (e.g., operator assistance charges or calling card messages charges).

7. If, as a result of interrupt, the line is cleared and, at the calling party's request, the operator completes the call, the applicable operator assistance charges, and/or calling card message charges shall apply in addition to the interrupt charges.

8. The verify charge shall not apply if the number verified is not in use and the operator completes the call.

9. No verification or interrupt charge shall apply if the requesting customer truthfully declares that the call is from an authorized Public Emergency Agency--defined as a government agency operated by the federal, state or local government possessing the capability and legal authority to provide prompt aid to the public in an emergency.

10. No charge shall apply if the operator encounters a trouble condition or has reason to believe a trouble condition exists.

11. Verification and interrupt service is furnished to coin and non-coin customers.

12. Person-to-Person service is not offered.

BEFORE THE
ARIZONA CORPORATION COMMISSION

IN THE MATTER OF MIDVALE TELEPHONE EXCHANGE, INC.'S APPLICATION FOR AUTHORITY TO INCREASE RATES AND FOR DISBURSEMENTS FROM THE ARIZONA USF	)	DOCKET NO. T-02532A-00-0512

REBUTTAL TESTIMONY

OF

DON C. READING, PH.D.

EXHIBIT
A-4
Admitted

1 Q. PLEASE STATE YOUR NAME AND ADDRESS FOR THE RECORD.

2 A. Don Reading, 1227 El Pelar, Boise, Idaho 83702.

3 Q. WHAT IS YOUR PRESENT OCCUPATION?

4 A. I am a consulting economist and vice-president of Ben Johnson
5 Associates, Inc.®, an economic research firm specializing in public
6 utility regulation.

7 Q. HAVE YOU PREPARED OTHER PREFILED TESTIMONY IN THIS
8 CASE?

9 A. Yes. My original prefiled direct testimony was filed in conjunction
10 with Midvale's application in this proceeding.

11 Q. WHAT IS THE PURPOSE OF THIS TESTIMONY?

12 A.. I am submitting rebuttal testimony in response to the testimony of
13 various ACC Staff witnesses.

14 Q. PLEASE DESCRIBE GENERALLY THE METHODOLOGY THE
15 STAFF USED TO ANALYZE MIDVALE'S FILING.

16 A. As I explained in my earlier direct testimony, Midvale constructed its
17 filing using three scenarios: (1) a base case, (2) the base case plus EAS,
18 and (3) the base case with EAS plus the extension of service to two new
19 exchanges. The Staff's analysis used alternative number three as a
20 base. It then reverses Midvale's pro forma adjustments reflecting the
21 provision of EAS because Staff believes EAS is not in the public
22 interest. Staff also backs out the pro forma adjustments for the
23 unserved areas on the grounds that these changes are not "known and

1 measurable." Finally, Staff makes a number of other miscellaneous
2 adjustments based on a variety of rationales and considerations.
3 Q. DO YOU AGREE WITH THESE ADJUSTMENTS?
4 A. While Midvale continues to believe its EAS proposal is reasonable and
5 in the public interest, I agree that the Staff's adjustments are
6 appropriate and correct if the Commission rejects EAS. I do not,
7 however, agree with the Staff's assertion that the pro forma
8 adjustments for unserved areas should be rejected because they are not
9 "known and measurable," nor do I believe their adjustments are
10 properly calculated. Finally, as to the miscellaneous adjustments, I
11 agree with some and disagree with others.
12 Q. HOW IS YOUR TESTIMONY ORGANIZED?
13 A. Following this introduction, I respond to the direct testimony of Staff
14 witnesses Darron Carlson, Sonn Albrecht, Allen Buckalew, Joel
15 Reiker, and Richard Boyles. With each witness, I will indicate my
16 areas of agreement and disagreement with proposed adjustments, and
17 explain my reasoning.
18 Q. LET'S START WITH THE TESTIMONY OF STAFF WITNESS
19 DARRON CARLSON. DO YOU HAVE ANY RESPONSES TO HIS
20 DIRECT TESTIMONY?
21 A. Yes. In addition to my disagreement with some of Mr. Carlson's
22 revenue and expense adjustments, I take issue with his assertion that
23 the Company was "uncooperative" when it did not understand or agree
24 with the Staff's information requests. Staff sent Midvale six separate

rounds of information requests, not counting those made during the on site audit, consisting of approximately 115 requests, many in multiple parts. More than a few of these requests were for data compilations including time periods long before the test year. Some, in fact, requested information from the inception of Midvale's Arizona service in 1993 through the test year.

Midvale complied with all these requests to the best of its ability until the sixth round of discovery when it finally objected to two or three requests on the grounds that the requested information was irrelevant and would be unduly burdensome to prepare. As to the specific example of lack of cooperation cited by Mr. Carlson, Midvale did not refuse to provide billing information as Mr. Carlson states. It in fact gave Mr. Carlson all of its raw billing data and invited him to make his own calculations.

Q. WHAT ABOUT THE DISCREPANCIES MENTIONED BY MR. CARLSON AT THE BEGINNING OF HIS DIRECT TESTIMONY. CAN YOU SUMMARIZE HIS CONTENTIONS?

A. Yes. Carlson states that staff has,

> identified some inconsistencies between the narrative testimonies of the Company's witnesses and the actual numbers produced by calculations on the "A" through "H" schedules. Also the Company's filing included numerous other schedules/exhibits that do not reconcile with the "A" through "H" schedules. [Carlson Direct, p. 4]

Q. HOW DO YOU RESPOND THIS STATEMENT?

A. I believe Mr. Carlson did not fully understand my submission of exhibits accompanying my direct testimony. Let me summarize my earlier Direct Testimony describing the exhibits.

> Exhibit 2 contains a set of Schedules A-1 through H-5 that follow the Arizona Corporation Commission's Regulation R14-2-103 Rate Application Filing Requirements. Exhibits 3 through 5 contain a set of schedules indicating the impact of the base case, the EAS case, and the case involving serving unserved areas. [Reading Direct, p. 2]

Schedules A through H, those used by Mr. Carlson, represented the composite scenario and merged together the base case, the EAS case, and the unserved areas case. Most of the differences between those schedules and those submitted in Exhibit 5 are simply due to the format required by the schedules but not necessarily followed in Exhibit 5.

Q. WHAT ABOUT MR. CARLSON'S INABILITY TO RECONCILE THE WEIGHTED COST OF CAPITAL CITED IN YOUR DIRECT TESTIMONY TO THAT USED IN SCHEDULE A-1?

A. Mr. Carlson states that:

> Company witness Dr. Don Reading's direct testimony, on page 8, sets the weighted cost of capital at 11.2 percent; however, Schedule A-1 of the Company's filing reflects 10.346 percent as the rate of return. [Carlson Direct, p. 4]

Mr. Carlson is comparing apples to oranges. The composite scenario (including EAS and unserved areas assumptions used in completing Schedule A-1) has a different mix of debt and equity which results in a slightly lower rate of return (10.346 %)

than that used in the base case scenario which I referred to in my direct testimony (i.e., 11.2 %). The reduction in the cost of capital which is reflected in these calculations will only occur if Midvale borrows additional funds to expand into the unserved area.

Q. MR. CARLSON STATES THAT TAX RATE CHANGES RESULT IN A SLIGHTLY HIGHER INTRASTATE GROSS REVENUE CONVERSION FACTOR (GRCF) THAN THAT USED BY MIDVALE. DO YOU AGREE?

A. Yes. I agree that updating federal and state tax rates leads to a more appropriate GRCF of 1.7652.

Q. MR. CARLSON [DIRECT TESTIMONY, P. 17] CONTENDS MISCELLANEOUS INTEREST EXPENSE SHOULD BE A "BELOW THE LINE" EXPENSE. DO YOU AGREE WITH THIS ADJUSTMENT?

A. If miscellaneous interest expense is removed from the Company's expenses, a corresponding adjustment needs to be made to the capital structure. This changes our weighted cost of capital from .112 to .113. With this corresponding weighted cost of capital adjustment, we accept Staff's recommendation for the removal of interest expense.

Q. PLEASE TURN TO THE NEXT WITNESS, SONN ALBRECHT. HOW DO YOU RESPOND TO ALBRECHT'S RATE BASE TESTIMONY?

A. I agree that Adjustment E (removal of deregulated public telephone equipment plant) on Schedule SSA-2 is appropriate. This investment was inadvertently included in Midvale's initial filing.

Q. STAFF WITNESS ALBRECHT ALSO RECOMMENDS ADJUSTMENTS TO ACCUMULATED DEPRECIATION. DO YOU CONCUR WITH THESE ADJUSTMENTS?

A. Yes. Midvale accepts Ms. Albrecht's adjustments.

Q. WHAT ABOUT MS. ALBRECHT'S RECOMMENDED ADJUSTMENTS TO DEFERRED TAXES? DO YOU AGREE WITH THESE ADJUSTMENTS?

A. Ms. Albrecht's calculations of Deferred Income Taxes are reasonable, so Midvale does not quarrel with Staff's interpretations or adjustments.

Q. LET'S TURN NOW TO THE TESTIMONY FILED BY STAFF WITNESS ALLEN BUCKALEW. DO YOU AGREE WITH MR. BUCKALEW'S ASSESSMENT OF THE ECONOMICS OF PROVIDING SERVICE TO THE UNSERVED AREAS?

A. No. Mr. Buckalew, when discussing the unserved areas Midvale is proposing to serve, suggests that

> if the Millsite and Silver Bell customers have about the same toll, other service usage, access charges and federal revenues as Midvale's existing exchanges, the local exchange rate would have to be about $24 per month in order to cover all expenses for providing services to these areas. [Buckalew Direct, p. 12].

1 The first problem with this statement is that Mr. Buckalew
2 erroneously assumes that the newly served areas will immediately
3 receive federal USF support. As a general rule, new service areas do
4 not receive federal support revenues until approximately the first
5 quarter of the third year of service. While I furnished Mr. Buckalew
6 with the text of one FCC order that granted a waiver of the normal two
7 year waiting period, there is no assurance that the FCC would grant
8 such a waiver in this case (or that Midvale could cost effectively
9 litigate such a request).
10 The second problem with his assumption is that it is flatly inconsistent
11 with Staff witness Carlson's insistence that revenues and expenses for
12 the unserved areas are not "known and measurable." On the one hand,
13 the Staff rejects reliable estimates of the cost to serve Millsite and
14 Silver Bell but then includes in its analysis federal USF revenues that
15 are extremely improbable for at least two years after service
16 commences.
17 Q. WHAT WOULD THE RESULT BE IF THE COMMISSION
18 ACCEPTED MR. BUCKALEW'S ERRONEOUS ANALYSIS?
19 A. Midvale will incur significant revenue shortfalls for more than two
20 years after commencing service to Millsite and Silver Bell.
21 Q. HAVE YOU QUANTIFIED THIS OMISSION?
22 A. Yes. Exhibit 7, Pages 3-4 is directly comparable to Mr. Buckalew's
23 Exhibit AGB-1. It differs from his presentation in that it shows the
24 impact of the newly served areas <u>not</u> receiving federal support for at

1 least 3 years by removing the annual interstate USF amounts of
2 $164,437 Mr. Buckalew included in his calculation of estimated non-
3 local revenues. As shown on Page 4 of Exhibit 7, without federal
4 support Midvale would have to charge more than $45.00 to cover all
5 expenses for providing service to these areas. At the $24.00 rate
6 recommended by Mr. Buckalew it would mean – using his estimates –
7 that Midvale would lose more than $328,874 during the first 2 years of
8 providing service to Millsite and Silver Bell. For a Company with
9 annual revenues of just over $1 million in Arizona, this is a totally
10 unsustainable loss.
11 Q. ARE YOU THEN RECOMMENDING A RATE OF $45.00?
12 A. No. The $45.00 rate is simply an example I used to demonstrate the
13 flaws in Mr. Buckalew's argument. However, it is an accurate
14 representation of the end use rate necessary to generate the actual
15 revenue requirement associated with these unserved areas. Of course,
16 pricing the service at this level would discourage some potential
17 customers from signing up for the service. In turn, this would further
18 increase the per line cost of serving those customers who could afford
19 such a high rate. Accordingly, I am recommending that Midvale be
20 allowed to charge a residential rate of $24.00, and to receive state
21 universal funds to make up the remainder of its revenue requirement.
22 Midvale cannot afford to expand into these unserved areas unless it
23 receives a reasonable level of state universal service support.

Q. WHAT IS YOUR RESPONSE TO MR. BUCKALEW'S RATE DESIGN TESTIMONY?

A. Mr. Buckalew is concerned that Midvale's proposed percentage increase in local rates for the Young exchange is excessive. He states that:

> a one-time increase of almost 94 percent in residential service rates for the Young Exchange would create a sudden burden to those customers [Buckalew Direct, p. 22]

Q. IS MR. BUCKALEW CORRECT?

A. Actually residential customers in the Young exchange are paying a distance based zone charge, an addition to the base rate, which effectively made their rates either $13.50 or $15.70. Taking this into consideration, a rate of $24.00 would represent an actual increase of 53 to 78 percent, rather than the 94 percent figure quoted by Buckalew. While I concede that an increase of even 53 to 78 percent could be considered a significant burden, it should be noted that Qwest currently charges $16.18 ($13.18 + $3.00 zone charge) for basic local flat rate service for residential customers in exchanges exhibiting similar rural characteristics. Our revised recommendation of $21.00 for residential customers in Young is just 30% more than the current Qwest rate. It should also be noted that customers in the Young exchange have for some time been paying lower rates than they would have paid if they had remained customers of Qwest. Finally, as Mr. Buckalew himself points out when discussing access charges, 'higher

than average rates" are warranted because "the Company provides service to a higher cost area." [Buckalew Direct, p. 24]

Q. LET'S TURN NOW TO MR. BUCKALEW'S DISCUSSION OF ACCESS CHARGES. HE STATES ON PAGE 23 OF HIS DIRECT TESTIMONY THAT HE DOES NOT BELIEVE A REDUCTION IN INTRASTATE ACCESS RATES IS APPROPRIATE. DO YOU HAVE ANY COMMENT?

A. Yes. As I stated on page 14 of my Direct Testimony, there is a growing gap between interstate and intrastate access rates and the line between local and long distance calls is becoming blurred. For instance, many wireless carriers are now offering plans in which local and long distance calls are identically priced. Given these trends, Midvale anticipates it will eventually be necessary to close the gap between intrastate and interstate access rates in order to remain competitive. However, if the Commission determines that this is not the time to reduce access charges, the Company can accept leaving intrastate access revenues at the current level.

Q. STAFF DOES SUPPORT A SINGLE ACCESS RATE FOR THE TWO EXCHANGES AS LONG AS "IT GENERATES THE SAME LEVEL OF ACCESS REVENUES." [BUCKALEW, DIRECT, P. 24.] IF THE COMMISSION DECIDES NOT TO CLOSE THE GAP BETWEEN STATE AND INTERSTATE ACCESS RATES, DO YOU AGREE WITH THIS RECOMMENDATION?

A. Yes. Melding Midvale's two distinct access charges, on a revenue neutral basis, would have the advantage of greatly simplifying its billing system, and it would ameliorate some of the concerns about extremely high access charges I expressed in my original direct testimony. The revenue neutral rate for uniform access charges is 11.141 cents.

Q. LET'S TURN TO STAFF'S COST OF CAPITAL WITNESS, JOEL REIKER. WHAT IS MR. REIKER'S COST OF EQUITY RECOMMENDATION?

A. He uses the comparable earnings, Discounted Cash Flow (DCF), and the Capital Asset Pricing Model (CAPM) methods to arrive at a recommended cost of equity for Midvale of 11.5 percent.

Q. WHAT ARE THE PROBLEMS WITH HIS ANALYSES?

A. In his comparable earnings analysis, Mr. Reiker concludes that the

> comparable earnings method results in historical earned returns ranging from 24.3 to 26.7 percent. These high returns are indicative of the riskier nature of the sample companies' business makeup, in that a high percentage of their revenues come from competitive telecommunications services. [Reiker Direct, p. 20]

Mr. Reiker then completely disregards these results on the grounds that:

> the results of the comparable earnings method are also skewed by U S West's reported ROE of 199.7 percent and 130.8 percent in 1998 and 1999. Staff believes that the results are unreasonably high for use in determining the cost of equity for regulated telephone operations, and will exclude them. [Reiker Direct, p. 20]

Q. WHAT ABOUT HIS DCF ANALYSIS?

A. Mr. Reiker's DCF analysis produced results ranging from 4.6 percent to 16.5 percent [Reiker Direct, p. 20]. Although the DCF results using sustainable earnings were both 16.5 percent, he again decides to adjust his results downward, explaining that Staff

> believes that these results are unreasonably high due to U S West's reported ROE of 199.7 percent and 130.8 percent in 1998 and 1999, respectively, and will exclude them. [Reiker Direct, p. 21]

He then concludes:

> that the 11.8 percent DCF results using earnings growth are the most reasonable and reflect recent growth patterns.[Reiker Direct, p. 21]

Q. WHAT ARE THE RESULTS OF HIS CAPM ANALYSIS?

A. The CAPM analysis resulted in a current estimate of 12.0 percent and a projected estimate of 12.6 percent. However, Reiker again justifies making a downward adjustment

> because the beta factor utilized in these results reflects the impact of high-risk competitive telecommunications services. Staff believes that a lower beta factor of 0.60, would better reflect the risks associated with Midvale's regulated telecommunications services and would produce results using the intermediate horizon of 10.1 percent and 10.7 percent, with a resulting average of 10.4 percent. [Reiker Direct, p. 21]

Q. HOW DO THE RESULTS OF THESE ANALYSES TRANSLATE TO HIS ULTIMATE RECOMMENDATION OF 11.5 PERCENT?

A. They don't. In all three analyses, the results show that Midvale's cost of equity is considerably in excess of Mr. Reiker's proposed 11.5%. So he simply disregards the objective results, and substitutes his own judgment. But the studies themselves confirm that the 13% return on equity I recommended as reasonable for Midvale's regulated Arizona operations. While Mr. Reiker correctly questioned the anomalous Qwest data, his comparable earnings test would still have produced a cost of equity in excess of 13% even with Qwest's elimination. In fact, his Schedule JMR-5 indicates that no telecommunication company in his database had returns on common equity under 13% since 1993! In short, Mr. Reiker arrives at a result which is not consistent with the underlying data, and which does not provide a reasonable, balanced view of the capital costs associated with serving Midvale's low density, rural service area in Arizona.

Q. DOES MR. REIKER OFFER ANY OTHER RATIONALE FOR HIS PROPOSAL?

A. Mr. Reiker says that he adjusted the study results downward to account for

> the decreased financial risk related to Midvale's Arizona capital structure, as well as the Company's risk associated with it's operations, in that a significant portion of the comparable companies' earnings are derived from unregulated, competitive operations. [Reiker Direct, p. 21-22]

Q. HOW DO YOU RESPOND TO THESE ASSERTIONS?

A. While I can agree that some comparable companies are operating in competitive or deregulated markets, I cannot agree that companies like BellSouth and SBC Communications are less risky than a small firm like Midvale. In fact, the suggestion is absurd on its face. Mr. Reiker's comparable companies are very large, highly diversified firms which serve some of the largest, most economically stable areas in the country. BellSouth, for example, has 44 million customers, 103,900 employees, revenues of $26,200,000,000, a market capitalization of $78,000,000,000, and an A-, "Low Risk" ranking from Standard & Poor's. Midvale, on the other hand, has less than 2000 total customers (638 in Arizona), 32 employees (4 FTEs in Arizona), and under $3 million in revenue ($866,000 in Arizona). It is completely unreasonable to view Midvale as less risky than a company like BellSouth.

Moreover, Midvale, just like those companies in Mr. Reiker's data base, is facing the risks and uncertainties associated with increased competition and a changing industry structure. Midvale is attempting to remain viable in part through the development of unregulated, competition based subsidiaries. In this regard, Midvale and these larger carriers face similar problems. There is no valid basis for treating Midvale as being completely immune to competition and changing industry conditions. To the contrary, Midvale, like many small independents, faces unique challenges associate with competition. For example, a single collocated comptetitor could cherry

pick the best customers and significantly increase the per line revenue requirement in a small exchange.

None of the evidence offered by Mr. Reiker supports his assumption that Midvale is somehow less risky than large, diversified incumbent carriers serving the nation's most populous areas. Even if Midvale had some sort of guarantee that it will not face any competitive threats, it would still face risks which are as great as, or greater than, those faced by the large carriers in Mr. Reiker's data base, if for no other reason than because Midvale serves such small, lightly populated geographic areas. Even minor fluctuations in economic conditions could potentially cause a substantial reduction in Midvale's customer base and revenue stream in Arizona, for the simple reason that it serves such a small number of customers, and most of these customers have very similar geographic, demographic and economic characteristics.

Under these circumstances, Midvale should receive a return on equity which is <u>higher</u> than the indicated cost of equity to the large telecommunications firms in Mr. Reiker's data base. Midvale's requested return on equity of 13% is quite reasonable and should be approved by the Commission.

Q. LET'S TURN TO THE FINAL STAFF WITNESS, RICHARD BOYLES. HOW DO YOU RESPOND TO MR. BOYLES' DEPRECIATION TESTIMONY?

A. The adjustments he recommends are acceptable, since they are in line with other rural LECs in Arizona.

Q. HAVE YOU SUMMARIZED YOUR ADJUSTMENTS IN AN EXHIBIT?

A. Yes. Page~~s 7~~-8 of my Exhibit 7 provides some updated estimates of Midvale's revenue requirement. The schedule is formated similar to staff witness Carslon's Schedule DWC-1 for ease of comparison. Page 8, column A, represents the base case scenario with the adjustments recommended by Staff. Page 8, column B represents the EAS and unserved areas scenario, with the adjustments recommended by Staff.

Q. CAN YOU SUMMARIZE THE ADJUSTMENTS INCORPORATED INTO EXHIBIT 7?

A. Yes. The adjustments to rate base include the removal of $5,619 related to deregulated public telephone equipment per Schedules SSA-1 and SSA-2, the accumulated depreciation adjustment of $224,220 per Schedule SSA-3, and the accumulated deferred tax adjustment of $156,381 referred to in Schedule SSA-1. The adjustments to operating income include the $49,757 net depreciation expense adjustment per DWC-4 and DWC-12, the removal of interest expenses per DWC-16, and the inclusion of allocated federal and state income taxes per DWC-17. Adjustments to the GRCF include revising tax rates per Schedule DWC-2.

Q. WHAT DOES EXHIBIT 7 SHOW AS THE REQUIRED RATE INCREASE?

A. Exhibit 7, Page 8, line 8 shows Midvale's revenue requirement, which equates to a ~~9.14~~ 5.57% STE % increase in rates for the base case, and a 26.65 % increase in rates in the scenario involving EAS and unserved areas.

Q. WHAT WAS THE ANALOGOUS INCREASE COMPUTED BY STAFF?

A. Schedule DWC-1, column B shows an increase of 2.38 % and is directly comparable to my Schedule 2, column A (i.e., ~~5.57~~ 9.14 %).

Q. HOW DO YOU ACCOUNT FOR THE DIFFERENCE IN THE INCREASE?

A. The majority (there was a minor discrepancy in adjusted rate base) of the difference results from the use of a lower allowed rate of return by Staff. As discussed in Section 4, I don't believe Staff's recommended reduction to the cost of capital is appropriate for a small company like Midvale.

Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes, it does.

MIDVALE TELEPHONE EXCHANGE

CALCULATION OF COST OF CAPITAL - TOTAL ARIZONA

LINE	(A) DESCRIPTION	(B) CAPITAL AMOUNT	(C) CAPITAL RATIO	(D) COST	(E) WGT COST (C x D)
	LONG TERM DEBT				
1	RTFC CONST. LOAN YOUNG MITEL SWITCH	200.631	0.0966	0.0610	0.0059
2	RUS 5% CASCABEL	269.601	0.1298	0.0500	0.0065
3	OTHER		0.0000	0.0600	0.0000
4	TOTAL DEBT	470.232	0.2264		0.0124
5	EQUITY (CASCABEL & YOUNG)	1,606.651	0.7736	0.1300	0.1006
6	OTHER	-			

MIDVALE TELEPHONE EXCHANGE

CALCULATION OF COST OF CAPITAL - TOTAL ARIZONA

	(A)	(B)	(C)	(D)	(E)
		CAPITAL	CAPITAL		WGT COST
LINE	DESCRIPTION	AMOUNT	RATIO	COST	(C x D)
	LONG TERM DEBT				
1	RTFC CONST. LOAN YOUNG MITEL SWITCH	200,631	0.0602	0.0610	0.0037
2	RUS 5% CASCABEL	269,601	0.0810	0.0500	0.0040
3	OTHER (UNSERVED)	1,043,103	0.3132	0.0800	0.0251
4	TOTAL DEBT	1,513,335	0.4544		0.0328
5	EQUITY (CASCABEL & YOUNG, NEW)	1,816,869	0.5456	0.1300	0.0709
6	OTHER			-	
7	TOTAL EQUITY	1,816,869	0.5456		0.0709
8	TOTAL	3,330,204	1.0000		0.1037

Unserved Areas				
Number of Lines		278		
Summary of Rate Base				
	Plant Description	*Unserved*	*Intrastate*	*Interstate %*
	Land	20,000	12,824	35.88%
	Buildings	50,000	32,060	35.88%
	Dig Elect Switch	350,188	90,243	74.23%
	Central Office Trans	667,415	466,256	30.14%
Rate Base		1,087,603	601,384	
	Required Rate of Return	10.14%	10.14%	
Required Return on Rate Base		110,283	60,980	
Required Return on Rate Base & Income Taxes[1]		122,497	67,734	
	Operating Expenses			
	Plant Specific	27,462	17,639	35.77%
	Other Plant	21,595	11,480	46.84%
	Dep. And Amortization	101,161	60,363	40.33%
	Customer Operations	20,968	15,820	24.55%
	Corporate Operations	56,051	37,958	32.28%
	Other operating Taxes	9,103	5,782	36.48%
	Miscellaneous	55,023	34,951	36.48%
Total Operating Expenses		291,363	183,992	
Requirement for Unserved Areas		413,860	251,726	251,726
Revenues				
	Estimated Operating Non Local Revenues[2]		171,516	
	Required Local Operating Revenue		80,211	
	Average Local Rate		24.04	

[1] Based on 25% equity, 11.5% cost of equity, and 8% cost of debt. Income to Revenue Multiplier equals to 1.7652

[2] Non Local Revenues were calculated based on Staff Adjusted Recommended Operating Revenues per line

Network Access Service Revenues	206,624
Interstate USF	164,437
Directory Revenue	1,759
Miscellaneous	22,081
Uncollectible	(1,279)
Total Non Local revenues	393,622
Midvale's Current Lines	638
Revenues per Line	617
Estimated Number of Lines in Unserved Areas	278
Estimated Operating Revenues	171,516

Unserved Areas				
Number of Lines		278		
Summary of Rate Base				
	Plant Description	*Unserved*	*Intrastate*	*Interstate %*
	Land	20,000	12,824	35.88%
	Buildings	50,000	32,060	35.88%
	Dig Elect Switch	350,188	90,243	74.23%
	Central Office Trans	667,415	466,256	30.14%
Rate Base		1,087,603	601,384	
	Required Rate of Return	10.14%	10.14%	
Required Return on Rate Base		110,283	60,980	
Required Return on Rate Base & Income Taxes[1]		122,497	67,734	
	Operating Expenses			
	Plant Specific	27,462	17,639	35.77%
	Other Plant	21,595	11,480	46.84%
	Dep. And Amortization	101,161	60,363	40.33%
	Customer Operations	20,968	15,820	24.55%
	Corporate Operations	56,051	37,958	32.28%
	Other operating Taxes	9,103	5,782	36.48%
	Miscellaneous	55,023	34,951	36.48%
Total Operating Expenses		291,363	183,992	
Requirement for Unserved Areas		413,860	251,726	251,726
Revenues				
	Estimated Operating Non Local Revenues[2]		99,864	
	Required Local Operating Revenue		151,862	
	Average Local Rate		45.52	
[1] Based on 25% equity, 11.5% cost of equity, and 8% cost of debt. Income to Revenue Multiplier equals to 1.7652				
[2] Non Local Revenues were calculated based on Staff Adjusted Recommended Operating Revenues per line				
	Network Access Service Revenues		206,624	
	Interstate USF		0	
	Directory Revenue		1,759	
	Miscellaneous		22,081	
	Uncollectible		(1,279)	
	Total Non Local revenues		*229,185*	
	Midvale's Current Lines		638	
	Revenues per Line		359	
	Estimated Number of Lines in Unserved Areas		278	
	Estimated Operating Revenues		99,864	

COMPUTATION OF INCREASE IN GROSS REVENUE REQUIREMENTS

LINE NO.	Description	[A] Per Company	[B] Per Staff
1	Adjusted Rate Base	$ 1,807,096	$ 1,244,841
2	Adjusted Operating Income (Loss)	$ 90,689	$ 116,375
3	Current Rate of Return (Ln 2/Ln 1)	05.02%	09.35%
4	Required Return on Rate Base (Ln 1 x Ln 5)	$ 186,962	$ 126,227
5	Required Rate of Return	10.346%	10.14%
6	Operating Income Deficiency (Ln 4 - Ln 2)	$ 96,273	$ 9,852
7	Gross Revenue Conversion Factor (Schedule DWC-2)	1.6762	1.7652
8	Increase (Decrease) in Gross Revenue Requirements (Ln 6 x Ln 7)	$ 181,991	$ 17,391
9	Adjusted Test Year Operating Revenue	$ 841,123	$ 730,428
10	Recommended Operating Revenue (Ln 8 + Ln 9)	$ 1,023,114	$ 747,819
11	Percentage Increase (Decrease) in Operating Revenue (Ln 8 / Ln 9)	21.64%	02.38%

COMPUTATION OF INCREASE IN GROSS REVENUE REQUIREMENTS

LINE NO.	Description	[A] Per Company	[B] Per Staff
1	Adjusted Rate Base	$ 1,807,096	$ 1,244,841
2	Adjusted Operating Income (Loss)	$ 90,689	$ 116,375
3	Current Rate of Return (Ln 2/Ln 1)	05.02%	09.35%
4	Required Return on Rate Base (Ln 1 x Ln 5)	$ 186,962	$ 126,227
5	Required Rate of Return	10.346%	10.14%
6	Operating Income Deficiency (Ln 4 - Ln 2)	$ 96,273	$ 9,852
7	Gross Revenue Conversion Factor (Schedule DWC-2)	1.7652	1.7652
8	Increase (Decrease) in Gross Revenue Requirements (Ln 6 x Ln 7)	$ 169,941	$ 17,391
9	Adjusted Test Year Operating Revenue	$ 841,123	$ 730,428
10	Recommended Operating Revenue (Ln 8 + Ln 9)	$ 1,011,064	$ 747,819
11	Percentage Increase (Decrease) in Operating Revenue (Ln 8 / Ln 9)	20.20%	02.38%

COMPUTATION OF INCREASE IN GROSS REVENUE REQUIREMENTS

LINE NO.	Description	[A] Per Company	[B] Per Staff
1	Adjusted Rate Base	$ 1,189,746	$ 1,244,841
2	Adjusted Operating Income (Loss)	$ 103,751	$ 116,375
3	Current Rate of Return (Ln 2/Ln 1)	08.72%	09.35%
4	Required Return on Rate Base (Ln 1 x Ln 5)	$ 133,252	$ 126,227
5	Required Rate of Return	11.200%	10.14%
6	Operating Income Deficiency (Ln 4 - Ln 2)	$ 29,501	$ 9,852
7	Gross Revenue Conversion Factor (Schedule DWC-2)	1.6762	1.7652
8	Increase (Decrease) in Gross Revenue Requirements (Ln 6 x Ln 7)	$ 49,449	$ 17,391
9	Adjusted Test Year Operating Revenue	$ 670,193	$ 730,428
10	Recommended Operating Revenue (Ln 8 + Ln 9)	$ 719,642	$ 747,819
11	Percentage Increase (Decrease) in Operating Revenue (Ln 8 / Ln 9)	07.38%	02.38%

COMPUTATION OF INCREASE IN GROSS REVENUE REQUIREMENTS

LINE NO.	Description	[A] Base	[B] EAS & Unserved
1	Adjusted Rate Base [1]	$ 1,244,843	$ 1,846,227
2	Adjusted Operating Income (Loss) [2]	$ 102,831	$ 64,484
3	Current Rate of Return (Ln 2/Ln 1)	08.26%	03.49%
4	Required Return on Rate Base (Ln 1 x Ln 5)	$ 140,667	$ 191,454
5	Required Rate of Return	11.30%	10.37%
6	Operating Income Deficiency (Ln 4 - Ln 2)	$ 37,836	$ 126,970
7	Gross Revenue Conversion Factor [3] (Schedule DWC-2)	1.7652	1.7652
8	Increase (Decrease) in Gross Revenue Requirements (Ln 6 x Ln 7)	$ 66,789	$ 224,127
9	Adjusted Test Year Operating Revenue [4]	$ 730,428	$ 841,123
10	Recommended Operating Revenue (Ln 8 + Ln 9)	$ 797,217	$ 1,065,250
11	Percentage Increase (Decrease) in Operating Revenue (Ln 8 / Ln 9)	09.14%	26.65%

Notes:

[1] $5,619 of Public telephone equipment removed per SSA-1,2
$224,220 adjustment in accumulated depreciation per SSA-3
$156,381 accumulated deferred tax adjustment per SSA-1

[2] $49,757 net depreciation expense adjustment per DWC-4,12
$25,107 removal of interest expense per DWC-16 [A]
$80,130 removal of interest expense per DWC-16 [B]
$47,413 federal & state income taxes included per DWC-17

[3] tax rates revised per DWC-2

[4] Base case revenues [A]
Estimated EAS & Unserved revenues [B]

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that on the 11th day of April, 2001, I caused to be served a true and correct copy of the foregoing by the method indicated below, and addressed to the following:

Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

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James A. McClure
OF COUNSEL

July 14, 2000

Docket Control Center
Arizona Corporation Commission
1200 W. Washington St.
Phoenix, AZ 85007-2927

Dear Sir or Madam:

I am enclosing for filing, an original and ten copies of Midvale Telephone Exchange, Inc.'s application. The applicant will publish a legal notice within twenty days as required by Commission rules.

I am enclosing a self addressed stamped envelope and a copy of this letter. Please stamp the copy of the letter and return it to me to acknowledge receipt. We do not need a stamped copy of the application.

If you have any questions or comments, please give me a call.

Sincerely yours,

Conley Ward

Conley Ward

CEW/nlg
cc: Lane Williams (with encl.)
Karen Williams (with encl)
Don Reading (with encl.)

EXHIBIT
A-5
Admitted

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ATTORNEYS FOR APPLICANTS

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF MIDVALE TELEPHONE EXCHANGE, INC.'S APPLICATION FOR AUTHORITY TO INCREASE RATES AND FOR DISBURSEMENTS FROM THE ARIZONA USF	CASE NO. _____ MIDVALE'S APPLICATION

Midvale Telephone Exchange, Inc. ("Midvale" or "Applicant")) hereby applies to the Arizona Corporation Commission ("Commission") for an Order authorizing Applicant to increase local exchange rates, provide extended area service and receive distributions from the Arizona Universal Service Fund, all as more fully described herein. In support of this Application, Applicant states as follows:

I.

Applicant is an independently owned local exchange telephone company that provides local exchange and other telecommunication services in the States of Arizona, Oregon, and Idaho. In Arizona, Applicant provides local exchange service

and other telecommunications services to the Young and Cascabel exchanges pursuant to certificates of convenience and necessity issued by the Commission.

II.

Applicant requests that all notices and communications concerning this application be directed to the following individuals at the addresses given below:

Lane Williams
Midvale Telephone Exchange, Inc.
2205 Keithley Creek Road
P. O. Box 7
Midvale, ID 83645
(208) 355-2211
(208) 355-2222 (fax)

With copies to:

Conley E. Ward
Givens Pursley LLP
277 North 6th Street, Suite 200
Boise, ID 83701
(208) 388-1200
(208) 388-1300 (fax)

Don Reading
Ben Johnson Associates
1227 El Pelar
Boise, ID 83702
(208) 342-1700
(208) 384-1511 (fax)

III.

The Commission last established Midvale's local exchange rates in connection with Midvale's 1994 purchase of the Young exchange from U S WEST Communications, Inc. ("U S WEST"). ACC Decision No. 58736, September 1, 1994. At the time of the Young purchase, Midvale committed to a four year freeze in local exchange rates. This rate freeze commitment expired on September 1, 1998.

IV.

The attached pre-filed direct testimony and exhibits of Lane Williams and Don Reading more fully explain Applicants' request for a rate increase and the reasons why the requested increase is just, reasonable, and in the public interest.

V

Applicant has prepared this Application using three alternative revenue requirement scenarios, all of which are based on a calendar 1999 test year. The first alternative ("Base Case") is a traditional test year adjusted for known and measurable changes. This scenario produces a net increase in revenue requirement of $108,955 per year.

Scenario two ("EAS Case") assumes implementation of extended area service ("EAS") from Midvale's Cascabel exchange to U S WEST's Benson and San Miguel exchanges. Under this alternative, the net increase in revenue requirement is $144,706 per year.

The final alternative ("Unserved Areas Case") assumes that Midvale extends service to two currently unserved areas, known as Millsite and Silver Bell. Under this alternative, the net revenue requirement increase would be $181,991 on an annual basis.

VI.

Under all three scenarios, Applicant proposes to rebalance its existing rates. At present, Cascabel's local exchange rates are $21 per month for both business and residential customers, while the corresponding base rates in Young are $12.40 for residential customer, plus zone charges, and $32 for businesses. Applicant proposes to standardize the local rates in both exchanges at $24 per month for residential

customers and $32 for businesses. In addition, Applicant proposes to decrease its intrastate access charges in both exchanges to $.06 per minute. Other proposed rate changes are described in detail in Dr. Reading's testimony and exhibits.

VII.

Under all three scenarios, Applicant will require annual support payments from the Arizona Universal Service Fund to meet its revenue requirement. In the Base Case, Midvale will require annual AUSF payments of $130,329. The EAS Case requires total annual AUSF draws of $225,567. Combining the EAS Case with the Unserved Areas Case reduces the annual AUSF draw to $221,360.

VIII.

The unserved Millsite exchange includes four contiguous subdivisions located about 15 miles south of Prescott, plus the Henderson Valley Ranch subdivision located approximately 15 miles east of Prescott. The proposed Silver Bell exchange, located southwest of Phoenix, includes the contiguous Silver Bell and Sawtooth subdivisions and the non-contiguous Rio Verde subdivision. Maps and legal descriptions of the proposed Millsite and Silver Bell exchanges are attached hereto as Exhibits A and B respectively. A larger map showing both exchanges is attached as Exhibit C.

Millsite has approximately 200 potential customers and Silver Belle approximately 185. Applicant is in the process of securing all local permits and approvals required to extend service to these areas, and will complete this process prior to the Commission's decision in this case.

IX.

A proposed Local Access Tariff, incorporating the changes referenced in the Application and the accompanying testimony, is attached is attached to Dr.

Reading's testimony as Exhibit 7. Applicant proposes that its new rates be made effective with bills issued on and after September 1, 2000.

X.

Applicant stand ready for immediate consideration of this Application under such procedures as the Commission may require.

WHEREFORE, Applicants respectfully request an Order by this Commission:

1. Finding that the proposed increase requested herein is just and reasonable, and authorizing Applicant to increase annual intrastate revenues by $181,991;

2. Authorizing Applicant to adjust its rates in accordance with the terms of this Application;

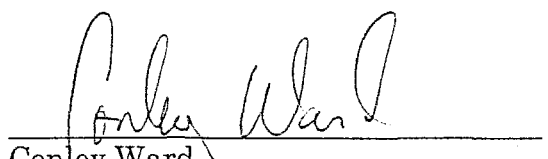
3. Authorizing Applicant to provide extended area service in accordance with the terms of this Application;

4. Providing for annual disbursements to Applicant from the Arizona Universal Service Fund in the amount of $224,567;

4. Amending Applicant's certificate of convenience and necessity to include the currently unserved Millsite and Silver Belle area; and

5. Granting such other relief as the Commission deems just and reasonable in this matter.

RESPECTFULLY SUBMITTED this 14th day of July, 2000.



Conley Ward
GIVENS PURSLEY LLP
Attorneys for Applicant

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that on the 14th day of July, 2000, I caused to be served a true and correct copy of the foregoing by the method indicated below, and addressed to the following:

Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

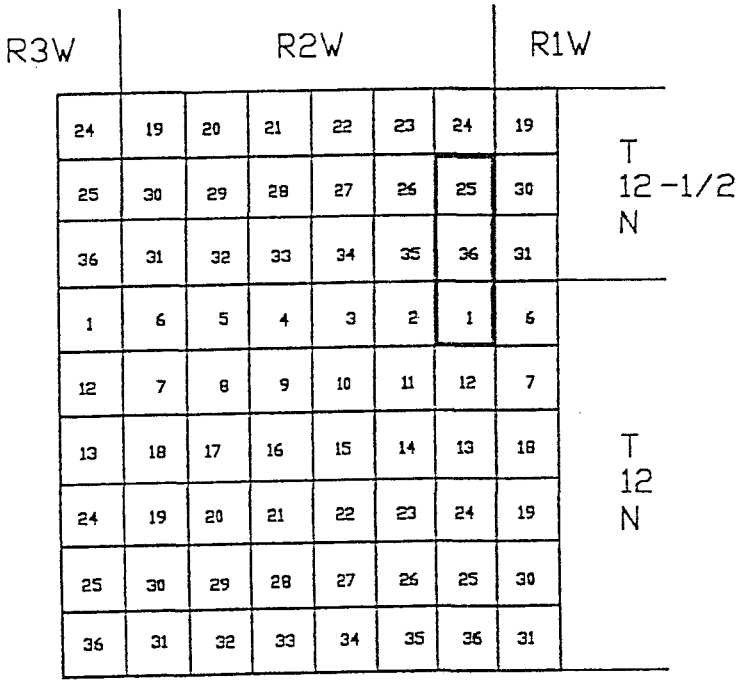
X U.S. Mail _ Fax _ Hand Delivery _ Federal Express

Conley Ward
GIVENS PURSLEY LLP
Attorneys for Applicant

MIDVALE TELEPHONE EXCHANGE, INC.
PROPOSED
MILLSITE EXCHANGE BOUNDARIES

SHEET 1 OF 2

Rev. 3-26-98



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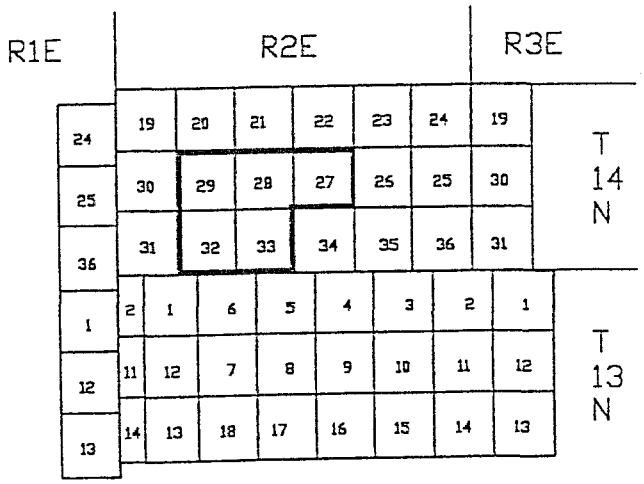
MIDVALE TELEPHONE EXCHANGE, INC.
PROPOSED
HENDERSON VALLEY SERVICE BOUNDARIES

SHEET 2 OF 2

12-5-97

(Non-contiguous Area for Proposed Millsite, AZ)



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hsonbdry.dwg /12-05-97

Proposed Millsite Exchange Boundaries Described as Follows:
Rev. 3-26-98

BEGINNING at the southeast corner, Section 1, T-12-N, R-2-W, of the Gila and Salt River Base and Meridian, Yavapai County, Arizona;
THENCE, West to the southwest corner, Section 1, T-12-N, R-2-W;
THENCE, North to the northwest corner, Section 25, T-12 ½ -N, R-2-W;
THENCE, East to the northeast corner, Section 25. T-12 ½ -N, R-2-W;
THENCE, South to the point of the beginning being the southeast corner, Section 1, T-12-N, R-2-W, of the Gila and Salt River Base and Meridian, Yavapai County, Arizona.

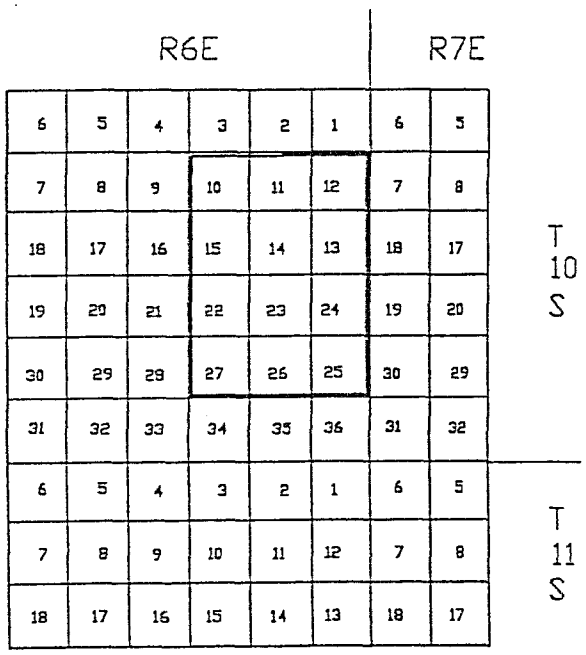
Proposed Non-contiguous Henderson Valley Service Boundaries Described as Follows:

BEGINNING at the southeast corner, Section 33, T-14-N, R-2-E, of the Gila and Salt River Base and Meridian, Yavapai County, Arizona;
THENCE, West to the southwest corner, Section 32, T-14-N, R-2-E;
THENCE, North to the northwest corner, Section 29, T-14-N, R-2-E;
THENCE, East to the northeast corner, Section 27, T-14-N, R-2-E;
THENCE, South to the southeast corner, Section 27, T-14-N, R-2-E;
THENCE, West to the southeast corner, Section 28, T-14-N, R-2-E;
THENCE, South to the point of the beginning being the southeast corner, Section 33, T-14-N, R-2E, of the Gila and Salt River Base and Meridian, Yavapai County, Arizona.

MIDVALE TELEPHONE EXCHANGE, INC.
PROPOSED
SILVER BELL EXCHANGE BOUNDARIES

12-5-97

SHEET 1 OF 2



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sbel bdry.dwg /12-05-97

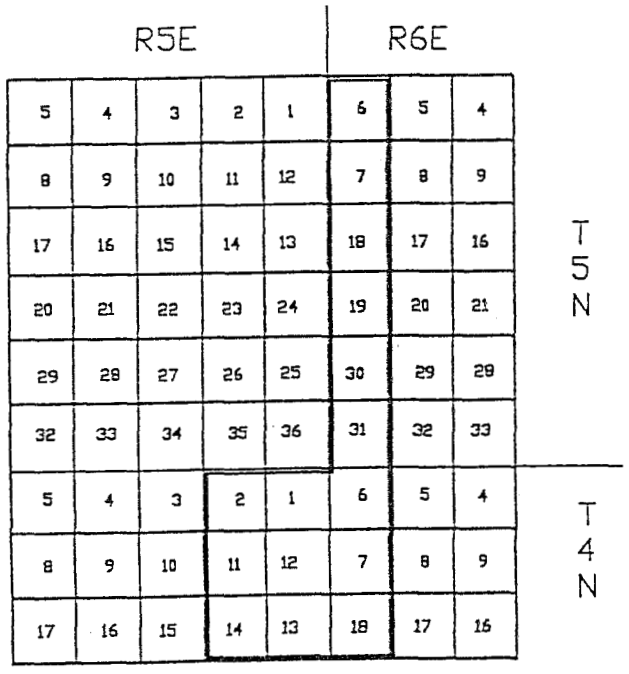
Proposed Silver Bell Exchange Boundaries Described as Follows:

BEGINNING at the southeast corner, Section 25, T-10-S, R-6-E, of the Gila and Salt River Base and Meridian, Pinal County, Arizona;
THENCE, West to the southwest corner, Section 27, T-10-S, R-6-E;
THENCE, North to the northwest corner, Section 10, T-10-S, R-6-E;
THENCE, East to the northeast corner, Section 12, T-10-S, R-6-E;
THENCE, South to the point of beginning being the southeast corner, Section 25, T-10-S, R-6-E, of the Gila and Salt River Base and Meridian, Pinal County, Arizona.

MIDVALE TELEPHONE EXCHANGE, INC.
PROPOSED
RIO VERDE EXCHANGE BOUNDARIES

Sheet 1 of 3

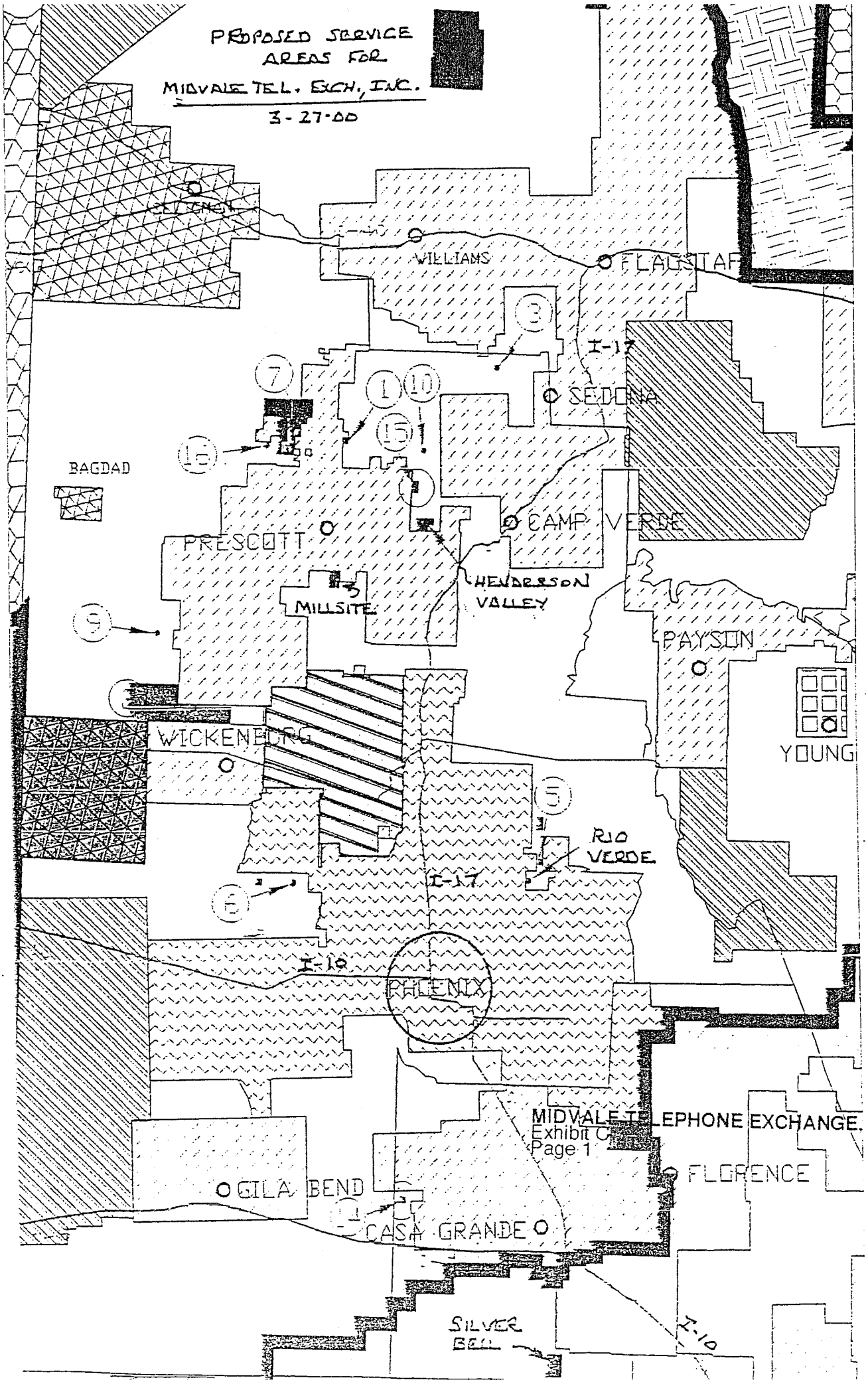
Rev. 3-26-98



RLMCLwits, 1"=3'
rvdebdry.dwg /12-05-97

Proposed Rio Verde Exchange Boundaries Described as Follows:
Revised 3-26-98

BEGINNING at the southeast corner, Section 18, T-4-N, R-6-E, of the Gila and Salt River Base and Meridian, Maricopa County, Arizona;
THENCE, West to the southwest corner, Section 14, T-4-N, R-5-E;
THENCE, North to the northwest corner, Section 2, T-4-N, R-5-E;
THENCE, East to the northwest corner, Section 6, T-4-N, R-6-E;
THENCE, North to the northwest corner, Section 6, T-5-N, R-6-E;
THENCE, East to the northeast corner, Section 6, T-5-N, R-6-E;
THENCE, South to the point of beginning being the southeast corner, Section 18, T-4-N, R-6-E, of the Gila and Salt River Base and Meridian, Maricopa County, Arizona.


PROPOSED SERVICE
AREAS FOR
MIDVALE TEL. EXCH., INC.
3-27-00
WILLIAMS
FLAGSTAFF
I-17
SEDONA
BAGDAD
CAMP VERDE
PRESCOTT
HENDERSON
VALLEY
MILLSITE
PAYSON
WICKENBURG
YOUNG
RIO
VERDE
I-17
I-10
PHOENIX
MIDVALE TELEPHONE EXCHANGE, INC.
Exhibit C
Page 1
FLORENCE
GILA BEND
CASA GRANDE
SILVER
BELL
I-10

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF MIDVALE TELEPHONE EXCHANGE, INC.'S APPLICATION FOR AUTHORITY TO INCREASE RATES AND FOR DISBURSEMENTS FROM THE ARIZONA USF	))))))	DOCKET NO. T-02532A-00-0512

MIDVALE TELEPHONE EXCHANGE, INC.'S
SUMMARY OF TESTIMONY

MIDVALE'S DIRECT TESTIMONY

Lane Williams

Mr. Williams is the General Manager of Midvale Telephone Exchange, Inc. ("Midvale"). Mr. William's direct testimony provides a brief description of Midvale and a general overview of the Company's filing in this case. Midvale is a family owned telephone company that provides local exchange telephone service to approximately 2000 subscribers in rural exchanges in Idaho, Oregon and Arizona. In Arizona, Midvale provides service to the communities of Young and Cascabel.

Mr. Williams points out that it has been several years since Midvale's last revenue requirement determination. During the intervening years, Midvale has made substantial investments to modernize its service with digital switches and fiber optic cable interoffice facilities. The proposed rate increase is designed to recover the cost of these expenditures and a general inflation in expenses since the last rate increase.

In addition to the proposed rate increase, Midvale is also requesting that the Commission authorize extended area service ("EAS") between its Cascabel exchange and the communities of Benson and San Manual. Midvale is also seeking authority to provide service to approximately 400 potential customers in two new exchanges--Millsite and Silver Bell. The residents of these two areas currently do not have landline telephone service. Finally, Midvale requests funding from the Arizona Universal Service Fund to enable Midvale to continue providing affordable rates in its high cost rural service territory.

Don Reading

Dr. Reading's testimony provides the financial testimony supporting Midvale's request. Dr. Reading's testimony is accompanied by Exhibit Nos. 1-7. Exhibit No. 1 describes Dr. Reading's qualifications as an expert on ratemaking matters. Exhibit No. 2 contains Schedules A-1 through H-5 that follow the Arizona Commission's filing requirements. Exhibit No. 3 provides eight schedules, including a summary of rate base, a comparative income statement, a capital structure analysis, and a calculation of Midvale's revenue deficiency without the proposed

EAS or service to Millsite and Silver Bell. Exhibit No. 4 provides similar information, with the impact of the proposed EAS added to Exhibit No. 3's "base case." Exhibit No. 5 follows the same format, incorporating the impacts of EAS and the extension of service to the two new exchanges. Exhibit No. 6 contains EAS traffic data, and Exhibit No. 7 contains a set of proposed tariffs.

Dr. Reading testifies that a just and reasonable return on equity for Midvale is 13% and that Midvale's weighted cost of debt is approximately 5.5%. This produces an overall weighted cost of capital of 11.2%. Using this cost of capital, Dr. Reading concludes that Midvale is entitled to a revenue increase of $108,955 in the base case. If the Company's EAS request is granted, the necessary increase in revenues is $144,706 per year. Finally, if both EAS and the request to extend service are granted, the increased revenue requirement becomes $181,991 per year.

Dr Reading proposes to standardize Midvale's local rates at $24/month for residential customers and $32/month for business customers. He also reduces Midvale's existing intrastate access charges to a uniform $.06 per minute, eliminates custom calling charges, and consolidates and revises some unused or little used rates and rate categories. These rates would produce a revenue shortfall for Midvale under all three revenue requirement scenarios. Dr. Reading argues that the resulting revenue shortfall should be made up by annual disbursements from the Arizona Universal Service Fund ("AUSF"). If Dr Reading's recommendations are followed, annual AUSF disbursements to Midvale would be $130,329 in the base case, $225,567 if EAS is granted, and $221,360 for both EAS and the requested extension of service to Millsite and Silver Bell.

MIDVALE'S REBUTTAL TESTIMONY

Lane Williams

Mr. Williams' rebuttal testimony responds to three issues raised by the Commission staff in its direct testimony.

First, Mr. Williams points out that the Staff's support of the extension of service to Millsite and Silver Bell "doesn't make sense" in light of the Staff's refusal to allow Midvale to include the cost of the extension in its revenue requirement on

the grounds that the increased costs are not "known and measurable." Under these circumstances, Midvale would sustain approximately $328,874 in unrecoverable losses during the first two years of service. No provider will undertake telephone service to unserved areas in the face of these type of losses. Mr. Williams also notes that the Staff's opposition to partial AUSF funding of the expansion is inexplicable "in a case such as this where the universal service goal could not be more clearly at issue." Williams Rebuttal at 3, L. 22-23.

Mr. Williams also reiterates his support of EAS for Cascabel, and states that the Staff's concern about EAS arbitrage could be mitigated by confining EAS to Benson.

Finally, Mr. Williams testifies that the Staff's refusal to allow Midvale to recapture its rate case expense is arbitrary and unreasonable. By the time this case is finished, Midvale will have more than $150,000 in out of pocket rate case expenses, even if the costs attributable to the service extension are eliminated. The Staff's proposal to allow only a three year amortization of a total of $60,000 is not remotely compensatory. Mr. Williams finds the Staff position particularly galling because the disallowed costs were largely incurred in responding to Staff's voluminous discovery requests and in an attempt to respond to the Commission's solicitation of service to unserved areas.

Don Reading

Dr. Reading's rebuttal testimony responds to a number of Staff proposed adjustments, some of which are relatively insignificant in terms of revenue requirement. With respect to the meaningful Staff adjustments, Dr. Reading accepts the Staff's proposals regarding depreciation and deferred taxes. However, he rejects the Staff's argument that the cost of serving Millsite and Silver Bell are not known and measurable, and points out that the Staff is in error in its insistence that federal universal service funds would defray some of the extension costs. Dr. Reading also sharply disagrees with the Staff's 11.5% estimate of Midvale's cost of equity capital, and explains that this estimate is directly contradicted by the Staff's own exhibits.

Dr. Reading concludes by recalculating Midvale's revenue requirement in the light of agreed upon Staff adjustments. The necessary revenue increase in the base case is $66,789, equivalent to a 9.14% increase. If EAS and service to Millsite and Silver Bell is authorized, the necessary increase becomes $224,127, for a total percentage rate increase of 26.65%.

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that on the 17th day of May, 2001, I caused to be served a true and correct copy of the foregoing by the method indicated below, and addressed to the following:

Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

_ U.S. Mail X Fax _ Hand Delivery X Federal Express

Todd C. Wiley
Gallagher & Kennedy, P.A.
2575 East Camelback Rd
Phoenix, AZ 85016-9225

_ U.S. Mail X Fax _ Hand Delivery _ Federal Express

Timothy Berg, Esq.
Theresa Dwyer, Esq.
3003 N. Central Ave, Suite 2600
Phoenix, AZ 85023

_ U.S. Mail X Fax _ Hand Delivery _ Federal Express

Tamara S. Herrera
Ryley Carlock & Applewhite
101 North First Avenue, Suite 2700
Phoenix, AZ 85003-1973

_ U.S. Mail X Fax _ Hand Delivery _ Federal Express

Conley Ward
GIVENS PURSLEY LLP
Attorneys for Applicant

Corporation commission

ARTICLE 12. Arizona Universal Service Fund.

R14-2-1201. Definitions.

In this Article, unless the context otherwise requires, the following definitions shall apply:

1. **"Administrator"** is the person designated pursuant to R14-2-1212 to administer the AUSF and perform the functions required by this Article.

2. **"Arizona Corporation Commission"** or **"Commission."** The regulatory agency of the State of Arizona having jurisdiction over public service corporations operating in Arizona.

3. **"Arizona Universal Service Fund"** or **"AUSF"** is the funding mechanism established by this Article through which surcharges are collected and support paid in accordance with this Article.

4. **"AUSF Support"** is the amount of money, calculated pursuant to this Article, which a provider of basic local telephone exchange service is eligible to receive from the AUSF pursuant to this Article.

5. **"AUSF Support Area"** is the geographic area for which a local exchange carrier's eligibility to receive AUSF support is calculated.

6. **"Basic local exchange telephone service"** is telephone service that provides the following features:

    a. Access to one-party residential service with a voice grade line;

    b. Access to touchtone capabilities;

    c. Access to an interexchange carrier;

    d. Access to emergency services, including but not limited to emergency 911;

    e. Access to directory assistance service;

    f. Access to operator service;

    g. Access to a white page or similar directory listing; and

    h. Access to telephone relay systems for the hearing and speech

EXHIBIT A-6 Admitted

impaired.

7. **"Benchmark rates"** for a telecommunications services provider are those rates approved by the Commission for that provider for basic local exchange telephone service, plus the Customer Access Line Charge approved by the Federal Communications Commission.

8. **"Commercial Mobile Radio Service"** is any radio communication service carried on between mobile stations or receivers and land stations, or by mobile stations communicating among themselves, that is provided for profit, and that makes available to the public service that is connected to the public switched network.

9. **"Conversion Factor"** is a multiplier that is used to convert a quantity of interconnecting trunks for both wireless and wireline customers into equivalent access lines, for the sole purpose of developing Category 1 surcharges. The value of the Conversion Factor shall be 10 (ten) until completion of the review provided for in R14-2-1216.

10. **"Interconnecting Trunk"** is a one-way or two-way voice grade or equivalent voice grade switched message transmission channel furnished by a local switched access provider to a provider of wireless services or to a wireline customer of such local switched access provider to interconnect the provider of wireless services or wireline customer to the public switched network.

11. **"Intermediate Local Exchange Carriers"** are incumbent providers of basic local exchange telephone service with more than 20,000 access lines but fewer than 200,000 access lines in Arizona.

12. **"Large Local Exchange Carriers"** are incumbent providers of basic local exchange telephone service serving 200,000 or more access lines in Arizona.

13. **"Small Local Exchange Carriers"** are incumbent providers of basic local exchange telephone service with 20,000 or fewer access lines in Arizona.

14. **"Total Service Long Run Incremental Cost"** is the total additional cost incurred by a telecommunications company to produce the entire quantity of a service, given that the telecommunications company already provides all of its other services. Total Service Long Run Incremental Cost is based on the least cost, most efficient technology that is capable of being implemented at the time the decision to provide the service is made.

15. **"U.S. Census Blocks"** are geographic areas defined by the U.S. Department of Commerce. The areas, which define the way in which census data is aggregated, generally contain between 250 and 550 housing units.

Arizona Corporation commission

Commission Rules

ARTICLE 12. Arizona Universal Service Fund.

R14-2-1202. Calculation of AUSF Support.

A. The amount of AUSF support to which a provider of basic local exchange telephone service is eligible for a given AUSF support area shall be based upon the difference between the benchmark rates for basic local exchange telephone service provided by the carrier, and the appropriate cost to provide basic local exchange telephone service as determined by the Commission, net of any universal service support from federal sources.

B. For a small local exchange carrier, the AUSF support area shall include all exchanges served by the local exchange carrier in Arizona. The appropriate cost of providing basic local exchange telephone service for purposes of determining AUSF support for a small local exchange carrier shall be the embedded cost of the incumbent provider. For any request for AUSF support by a small local exchange carrier filed more than three years after the effective date of this Article, the AUSF support area shall be the geographic areas as determined by the Commission.

C. For an intermediate local exchange carrier, the AUSF support area shall be either all exchanges in Arizona served by that carrier, or such other support area as may be approved by the Commission. The appropriate cost of providing basic local exchange telephone service for purposes of determining AUSF support for an intermediate local exchange carrier shall be the embedded cost of the incumbent provider. For any request for AUSF support by an intermediate local exchange carrier filed more than three years after the effective date of this Article, the AUSF support area shall be geographic areas as determined by the Commission, and the appropriate cost of providing basic local exchange telephone service for purposes of determining AUSF support shall be the Total Service Long Run Incremental Cost of the incumbent provider. In the event that the FCC adopts a somewhat different forward-looking costing methodology and/or a different geographic study/support area for the Federal universal service fund program, a local exchange carrier may request a waiver from this rule in order to utilize the same cost study methodology and/or geographic study areas in both jurisdictions.

D. For a large local exchange carrier, the AUSF support area shall be U.S. census block groups, and the appropriate cost of providing basic local exchange telephone service for purposes of determining AUSF support shall be the Total Service Long Run Incremental

Cost. In the event that the FCC adopts a somewhat different forward-looking costing methodology and/or a different geographic study/support area for the Federal universal service fund program, a local exchange carrier may request a waiver from this rule in order to utilize the same cost study methodology and/or geographic study areas in both jurisdictions. Any request for AUSF support by a large local exchange carrier shall include a Total Service Long Run Incremental Cost study, or cost study based on FCC adopted methodology, of basic local exchange service. The cost study shall be developed and presented in a manner that identifies the cost for the individual support areas for which AUSF funding is being requested.

Universal Service Fund Index

Corporation commission

Commission Rules

ARTICLE 12. Arizona Universal Service Fund.

R14-2-1203. Request for AUSF Support.

A provider of basic local exchange telephone service may request that the Commission authorize AUSF support with a filing under R14-2-103 or other method as the Commission may prescribe, and upon compliance with all applicable rules set forth in R14-2-1101 through R14-2-1115. A request for AUSF support shall include a statement describing the need for such funding. The Commission shall determine the appropriate cost of providing basic local exchange service for each AUSF support area for which AUSF support is requested and shall calculate in accordance with R14-2-1202 the amount of AUSF support, if any, to which the applicant is entitled.

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AZ CORP COMMISSION
DOCUMENT CONTROL

BEFORE THE ARIZONA CORPORATION COMMISSION

WILLIAM A. MUNDELL
CHAIRMAN
JIM IRVIN
COMMISSIONER
MARC SPITZER
COMMISSIONER

Arizona Corporation Commission
DOCKETED

MAR 15 2001

DOCKETED BY

IN THE MATTER OF MIDVALE TELEPHONE EXCHANGE, INC.'S APPLICATION FOR AUTHORITY TO INCREASE RATES AND FOR DISBURSEMENT FROM THE ARIZONA USF

T-02532A-00-0512

NOTICE OF FILING OF DIRECT TESTIMONY

OF CURT HUTTSELL

Intervenor Citizens Communications Company hereby gives notice that on this date it filed with the Commission the original and ten copies of the direct testimony of Curt Huttsell in this matter.

RESPECTFULLY SUBMITTED this 15 day of March, 2001.

GALLAGHER & KENNEDY, P.A.

By

Michael M. Grant
Todd C. Wiley
2575 East Camelback Road
Phoenix, Arizona 85016-9225
Attorneys for Citizens Communications Companies

EXHIBIT
C-1
Admitted

Original and ten (10) copies
of the foregoing document filed
this 15th day of March, 2001, with:

Docket Control
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

Copy of the foregoing document hand delivered
this 15th day of March, 2001, to:

Deborah Scott
Director, Utilities Division
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

Hearing Division
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

Copy of the foregoing document
mailed this 15th day of March, 2001, to:

Lane Williams
Midvale Telephone Exchange, Inc.
2205 Keithley Creek Road
Post Office Box 7
Midvale, Idaho 83645

Conley E. Ward
Givens Pursley, LLP
Suite 200
277 North 6th Street
Boise, Idaho 83701

Tamara S. Herrera
Ryley Carlock & Applewhite
Suite 2700
101 North First Avenue
Phoenix, Arizona 85003

Don Reading
Ben Johnson Associates
1227 El Pelar
Boise, Idaho 83702

Theresa Dwyer
Fennemore Craig, P.C.
Suite 2600
3003 North Central Avenue
Phoenix, Arizona 85012

By Lynda Magusa

3099-0050/911232

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AZ CORP COMMISSION
DOCUMENT CONTROL

BEFORE THE ARIZONA CORPORATION COMMISSION

WILLIAM A. MUNDELL
CHAIRMAN
JIM IRVIN
COMMISSIONER
MARC SPITZER
COMMISSIONER

IN THE MATTER OF MIDVALE TELEPHONE EXCHANGE, INC.'S APPLICATION FOR AUTHORITY TO INCREASE RATES AND FOR DISBURSEMENT FROM THE ARIZONA USF	T-02532A-00-0512

DIRECT TESTIMONY OF

CURT HUTTSELL

CITIZENS COMMUNICATIONS

MARCH 15, 2001

Q. Please state your name and business address.

A. My name is Curt Huttsell. My business address is 4 Triad Center, Suite 200, Salt Lake City, Utah 84180.

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

A. I am employed by Citizens Communications ("Citizens") as Director, State Government Affairs.

Q. Please describe your current duties and responsibilities.

A. I am responsible for the management of regulatory and government affairs for Citizens' local exchange and long distance telecommunications operations in Arizona, Utah and New Mexico. My responsibilities include the implementation of all regulatory policies, oversight of all regulatory activities including Citizens' intrastate rates and tariffs, and the management of state regulatory and legislative proceedings and relations.

Q. Please describe your education and professional experience.

A. I have been awarded B.S. and M.A. degrees in economics from Central Missouri State University and the Ph.D. in economics from the University of Nebraska.

I joined Citizens Communications in July of 1999. Prior to joining Citizens, I was Senior Economic Analyst with the consulting firm of INDETEC International. The domestic

clients that I served while with INDETEC included U S WEST, BellSouth, Pacific Bell, Nevada Bell, GTE, Bell Atlantic and Cincinnati Bell. My international clients included the South Africa Telecommunications Regulatory Authority, Empresa de Telecomunicaciones de Santa fe de Bogotá and the Vodafone Network (Australia). I have also served as Utility Economist within the Telecommunications Section of the Utah Division of Public Utilities and as Research Economist on the Telecommunications Department Staff of the Missouri Public Service Commission. While with the Utah Division and the Missouri Commission, I worked on many issues, including state universal service funds, unbundling and interconnection, the structure of exchange access charges, incentive regulation, and network modernization.

Q. Have you previously testified before any state regulatory commissions?

A. Yes. In addition to the Utah and Missouri Public Service Commissions, I have testified before the Idaho Public Utilities Commission, the Iowa Utilities Board, the Montana Public Service Commission, the Nebraska Public Service Commission and the Washington Utilities and Transportation Commission.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to respond in part to the testimony of Mr. Lane R. Williams and Dr. Don C. Reading in this docket on behalf of the Midvale Telephone Exchange ("Midvale"). Specifically, my testimony addresses Midvale's proposal to establish Extended Area Service ("EAS") between its Cascabel exchange and Qwest's

Benson and San Manuel exchanges (Don C. Reading, Direct Testimony and Exhibits, July 14, 2000, page 22, lines 9-15).

Q. What is EAS?

A. EAS is service that enables subscribers to call from their local exchange to other exchanges for a flat monthly fee. With EAS, subscribers do not incur usage-sensitive charges for placing calls between exchanges. EAS is different from a local calling plan ("LCP"), which also permits subscribers to call other exchanges for a flat monthly fee. An LCP is an optional service for the subscriber and usually allows flat-rated calling in only one direction. In contrast, EAS is mandatory and permits subscribers in the affected exchanges to both place and receive calls without the caller incurring usage-sensitive charges.

Q. Why is Citizens concerned about the Commission establishing EAS between local exchanges belonging to Midvale and Qwest?

A. Citizens has an interest in the outcome of Midvale's EAS proposal because Citizens will soon acquire the Benson exchange and Mammoth wire center from Qwest. The Mammoth wire center is part of the San Manuel exchange. In addition, the Commission has ordered Citizens and Qwest to implement optional two-way local calling between the San Manuel exchange and the Tucson metropolitan calling area within 12 months after closing. See Arizona Corporation Commission Decision No. 63268, pp. 6, 20-21, Docket Nos. T-01051B-99-0737, T-01954B-99-0737, dated December 15, 2000.

Q. Does Citizens support Midvale's EAS proposal?

A. No. Citizens is opposed to establishing EAS between Midvale's Cascabel exchange on the one hand and the San Manuel and Benson exchanges on the other. The reasons for Citizens' opposition are twofold. First, Citizens opposes overlapping EAS areas. Midvale's proposal creates two EAS areas overlapping at Cascabel. In Citizens' experience, overlapping EAS areas invite arbitrage through EAS bridging. Preventing EAS bridging can be costly and difficult for both the Commission and local exchange carriers like Citizens. Second, Citizens' future customers in Benson and Mammoth would not benefit appreciably from having EAS to Cascabel, but as compared to the current arrangement, Citizens will both sacrifice toll and access revenues and incur higher costs. Consequently, consumers of Citizens' other services, even those outside of Benson and Mammoth, may pay higher rates and charges if the Commission approves Midvale's proposal.

Q. What do you mean by EAS bridging?

A. EAS bridging occurs whenever a third party purchases and resells EAS, thereby enabling its subscribers to avoid paying usage-sensitive toll charges. The EAS bridger also avoids paying switched access charges to the affected local exchange carrier. In so doing, the EAS bridger profits from the difference between the flat EAS rates for a given volume of traffic and usage-sensitive toll and exchange access charges. EAS bridging is commonly illegal in that it usually violates the provisions of both local exchange and exchange access tariffs.

Q. Has Citizens come across EAS bridging in its service territory?

A. Yes. In Montana, for example, Citizens recently encountered an EAS bridger who used a combination of Citizens' local lines and call forwarding services to link overlapping EAS areas. The bridger was an Internet Service Provider whose server was located in the exchange of an independent telephone company near Citizens' Eureka exchange. The independent's exchange is known as Eureka Rural. EAS had been established from Eureka to Eureka Rural, from Citizens' Troy exchange to Eureka and from Citizens' Libby exchange to Eureka. Thus, Eureka was the overlapping EAS area.

The bridger obtained local residential service under his own name and local business service under the name of his ISP. He subscribed to residential lines in Troy, Libby and Eureka, each equipped with call forwarding, and business lines in Libby and Eureka, also equipped with call forwarding. The service addresses for the local lines were either fictitious or terminated at locations with no connections to interior wiring or customer premises equipment beyond the network interface device.

In this fashion, the bridger's ISP customers in Troy and Libby were bridged through Eureka to his server in Eureka Rural and avoided paying toll charges. The bridger, in turn, escaped paying switched access charges. He filed a complaint with the Montana PSC when Citizens restricted the number of calls that could be simultaneously forwarded from his local lines. After an investigation lasting several months, the Montana Commission took no action on the ISP's complaint.

Q. Could a third party introduce a similar EAS bridging arrangement in Arizona under Midvale's EAS proposal?

A. Yes. A bridger could establish himself in Cascabel as in Eureka, MT, and forward calls from Benson to San Manuel and from San Manuel to Benson. Furthermore, with optional local calling from San Manuel to Tucson, an EAS bridger could forward calls from Benson and Cascabel to Tucson and from Tucson to Cascabel and Benson.

Q. Why will Citizens' future customers in Benson and Mammoth not benefit appreciably from having EAS to and from Cascabel?

A. Subscribers in Benson and Mammoth place too few calls to Cascabel and receive too few for EAS to be of much benefit to them. According to information recently supplied by Midvale, the 170 subscriber lines in Cascabel placed only 6.3 calls per line per month to Benson and fewer than 3.5 per line per month to San Manuel. In terms of the number of lines in Benson, this means that the typical account received a very small proportion of a call per month from Cascabel. Even assuming all the calls from Cascabel to San Manuel were destined for Mammoth, this call volume also means that the typical account in Mammoth received a very small proportion of a call per month from Cascabel.

According to information supplied by Qwest, callers in Benson and Mammoth seldom dial up Cascabel subscribers. A very small percentage of Qwest's accounts in Benson call Cascabel each month and a very small percentage in Mammoth call Cascabel. Such infrequent calling is not indicative of a community of interest.

call Cascabel each month and a very small percentage in Mammoth call Cascabel. Such infrequent calling is not indicative of a community of interest.

Q. Could Citizens' future customers in Benson and Mammoth be harmed by Midvale's EAS proposal?

A. Yes. Citizens' revenues will likely fall and its costs rise as a result of implementing Midvale's EAS proposal. Revenues will likely decrease as customers in Cascabel, Benson and Mammoth substitute EAS for interexchange calling, and costs may well rise as Citizens adds interoffice trunks to carry the EAS traffic and separate it from toll traffic. To the extent revenues decline and costs increase, Citizens might have to make up the difference in its upcoming general rate review in Arizona. The Commission's recent decision approving the transfer of certain Qwest wire centers to Citizens ordered Citizens to file an application enabling the Commission to examine the reasonableness of all of Citizens' existing rates. See Arizona Corporation Commission Decision No. 63268, pp. 4, 20-21, Docket Nos. T-01051B-99-0737, T-01954B-99-0737, dated December 15, 2000. Not only are Citizens' local exchange rates in Benson and Mammoth subject to change in this upcoming review, but all of Citizens' rates everywhere in Arizona are subject to change, except for the Navajo Reservation. It is unfair to ask Citizens' current and future customers to help pay for EAS routes that largely benefit customers in Cascabel.

Q. Mr. Williams contends that it is undesirable for Cascabel customers to incur toll charges placing calls to essential service providers such as schools, medical facilities and law enforcement officials (Lane Williams, Direct Testimony, July 14, 2000, page 4, lines 13-16). Do you agree?

A. No. Given the recent information supplied by Midvale, it does not appear that Midvale's Cascabel subscribers are unduly burdened placing long-distance calls to Benson and San Manuel. The average duration of a call from Cascabel to Benson is under 3.8 minutes, and the average duration of a call from Cascabel to San Manuel is less than 4.2 minutes. Even at the toll rate of 10¢ per minute, the average call from Cascabel to Benson would cost only 38¢, and the typical call to from Cascabel to San Manuel would cost only 42¢.

Q. Dr. Reading claims that Benson and Cascabel have a strong community of interest with Cascabel (Don C. Reading, Direct Testimony and Exhibits, July 14, 2000, page 22, lines 10-12). Would you care to comment?

A. Yes. Dr. Reading's testimony does not examine nearly enough factors to determine a community of interest. He mentions only call volumes in one direction, from Cascabel to Benson and San Manuel. As I have pointed out above, call volumes in the opposite direction are very small. Moreover, neither Dr. Reading's nor Mr. Williams' testimony address any other important factors, such as a demonstrated public need or socio-economic ties in the affected area.

Q. Have you had an opportunity to review Qwest's direct testimony in this proceeding?

A. Yes, I have reviewed the testimony of Starla R. Rook on behalf of Qwest.

Q. Do you have any comments on Ms. Rook's testimony?

A. Yes. Ms. Rook recommends that the Commission adopt rules regarding the criteria for determining a community of interest, the methodology for measuring EAS costs and the mechanisms for recovering EAS cost. Citizens concurs in Qwest's recommendation. These elements of establishing EAS should apply uniformly throughout Arizona.

Q. Please summarize your testimony.

A. Citizens opposes Midvale's proposal to establish EAS between Cascabel and Benson and between Cascabel and San Manuel. Overlapping EAS areas such as would result encourage EAS bridging that evades approved toll and access tariffs. Policing EAS bridging is difficult and costly. Moreover, in this particular instance, Citizens' future customers in Benson and Mammoth would seem to benefit little from EAS to and from Cascabel. They make and receive too few calls per month. It is unfair to ask Citizens' customers to bear higher rates supporting EAS routes that largely benefit subscribers in Cascabel. Finally, Citizens supports Qwest's recommendation that the Commission institute a rulemaking on EAS criteria, cost estimation and cost recovery.

Q. Does this conclude your testimony at this time?

A. Yes.

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BEFORE THE ARIZONA CORPORATION COMMISSION

WILLIAM A. MUNDELL
CHAIRMAN
JIM IRVIN
COMMISSIONER
MARC SPITZER
COMMISSIONER

IN THE MATTER OF MIDVALE TELEPHONE EXCHANGE, INC.'S APPLICATION FOR AUTHORITY TO INCREASE RATES AND FOR DISBURSEMENT FROM THE ARIZONA USF	T-02532A-00-0512

SUMMARY OF DIRECT TESTIMONY OF CURT HUTTSELL FILED ON BEHALF OF CITIZENS COMMUNICATIONS COMPANY

In accordance with the Hearing Officer's February 1, 2001 Procedural Order, intervenor Citizens Communications Company hereby files a brief, written summary of the direct testimony of Citizens' witness Curt Huttsell pre-filed on March 15, 2001.

PURPOSE OF TESTIMONY

Mr. Huttsell is Citizens' Director of State Government Affairs. The purpose of Mr. Huttsell's testimony is to oppose applicant Midvale Telephone Exchange's request for an order granting Extended Area Service (EAS) between Midvale's Cascabel exchange and Qwest's Benson and San Manuel exchanges. Citizens has an interest in Midvale's EAS proposal because Citizens will soon acquire the Benson exchange and the San Manuel exchange's Mammoth wire center from Qwest. Citizens also is concerned about Midvale's EAS proposal because the Commission has ordered Citizens and Qwest to implement optional two-way local calling between the San Manuel exchange and the Tucson metropolitan calling area.

EXHIBIT
C-7
Admitted

ILLEGAL EAS BRIDGING

Mr. Huttsell's testimony establishes that Midvale's EAS request should be denied for three reasons. One, Midvale's EAS request involves overlapping EAS areas in Cascabel and invites illegal arbitrage through EAS bridging. Overlapping EAS areas encourage EAS bridging that evades approved toll and access tariffs. Policing EAS bridging is difficult and costly. Unfortunately, Citizens has faced illegal bridging in other states including a recent example in Montana. Mr. Huttsell's testimony illustrates the dangers of potential EAS bridging from Midvale's EAS request. Here, a bridger could establish himself in Cascabel and forward calls from Benson to San Manuel and from San Manuel to Benson. Even further, Citizens and Qwest's optional local calling from San Manuel to Tucson would allow an EAS bridger to forward calls between Benson/Cascabel and Tucson.

UNFAIR BURDENS ON CITIZENS' CUSTOMERS

Two, Citizens' future customers in Benson and San Manuel will receive almost no benefits from EAS service in Cascabel but may pay higher rates and charges as a result of Midvale's EAS proposal. Citizens' future customers in Benson and Mammoth make and receive too few calls per month from Cascabel to benefit from EAS. It is unfair to ask Citizens' customers to bear higher rates supporting EAS routes that largely benefit just a few subscribers in Cascabel. If EAS is approved in Cascabel, Citizens will suffer decreased toll and access revenues and incur higher costs. That means Citizens' customers--even those outside of Benson and Mammoth--may pay higher rates and charges if the Commission approves Midvale's proposal because Citizens likely will seek a rate increase before the Commission.

COMMUNITY OF INTEREST ISSUES

Third, Midvale has failed to demonstrate any "community of interest" justifying

EAS in Cascabel. Again, subscribers in Benson and Mammoth place too few calls to Cascabel and receive too few for EAS to be of much benefit to them. Such infrequent calling between Benson/San Manuel and Cascabel is not indicative of a community of interest. Mr. Huttsell disagrees with testimony from Midvale's Mr. Williams that Cascabel subscribers are unduly burdened in placing long-distance calls to Benson and San Manuel. Mr. Huttsell also disputes testimony from Midvale's Dr. Reading that Benson and San Manuel have a strong community of interest with Cascabel. Dr. Reading's testimony does not examine all of the necessary factors to determine a community of interest. Finally, Citizens supports Qwest's testimony from Starla Rook and her recommendations regarding EAS. Mr. Huttsell also will testify that Citizens concurs in Staff's testimony and recommendations regarding EAS.

RESPECTFULLY SUBMITTED this 16 day of May, 2001.

GALLAGHER & KENNEDY, P.A.

By _____

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By Linda Maguire

3099-0050/926657

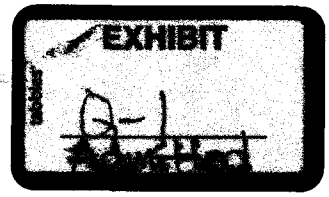
Summary of the Direct Testimony of Starla R. Rook on behalf of Qwest Corporation

In this rate case, Midvale has proposed an expansion of the local calling areas between Midvale's Cascabel exchange and Qwest's Benson and San Manuel exchanges. Qwest opposes Midvale's proposal on two fronts: 1) Midvale has failed to demonstrate that a mutual community of interest exists between the exchanges which would justify expansion of the local calling area, and 2) Midvale's proposal will result in a calling structure which may be used to provide illegal EAS bridging.

Community of Interest

The last major EAS expansion in Arizona occurred within the parameters of the 1993 U S WEST (n/k/a Qwest) rate case. In that case, the Commission analyzed factors such as public input, call volume and direction, socio-economic linkages, and contiguity to determine whether sufficient justification existed to warrant expansion of local calling areas. Following resolution of the rate case, the Commission hosted an industry workshop to explore issues surrounding EAS. General consensus following conclusion of the workshop was that the EAS areas established in the 1993 rate case were far-reaching enough that additional expansion would not be required for some time. As a result, formal rules to address factors to be considered when establishing EAS areas were never adopted. Qwest recommends that if the Commission is now going to entertain EAS expansion requests, such rules be developed. The surrebuttal testimony submitted by Allen Buckalew on behalf of the Commission reiterates the need for EAS rules. In his testimony, submitted in this docket on May 3, 2001, Mr. Buckalew recommends that if Midvale is allowed to serve a portion of the Rio Verde area as the company has proposed, a request for EAS between Rio Verde and Phoenix should be considered. Qwest believes it is imperative that before this, or any other EAS request is reviewed by the Commission, standardized EAS rules must be adopted to ensure that such requests are in the best interest of consumers.

Qwest maintains that Midvale has not demonstrated a mutual community of interest exists between Cascabel and the Qwest exchanges in question. Fewer than 2% of Qwest's customers in Benson and San Manuel called Cascabel in the months studied. Similarly, Midvale reported very limited call volumes



between Cascabel and San Manuel (2.5 calls per month), although volumes from Cascabel to Benson were somewhat higher (8.5 calls per month). There is obviously miniscule demand for EAS to Cascabel from Qwest customers in San Manuel and Benson and providing the service would be of little or no benefit to them. If forced to pay for this unwanted service, Qwest customers would, in essence, be subsidizing another company's customers. Qwest does not believe this to be sound public policy and recommends that Midvale's proposal be denied.

Illegal EAS Bridging

EAS bridging is a form of illegal arbitrage whereby a company uses a combination of a line, call forwarding services, and possibly its own equipment to complete calls between two or more overlapping EAS areas to complete calls without paying toll or access charges. EAS bridging is a violation of Qwest's Arizona Exchange and Network Services and Access tariffs. Commissions and courts in other states have taken aggressive action to shut down illegal EAS bridging activity, requiring considerable time and resources to do so. Qwest is encouraging this Commission to not allow any opportunity for illegal bridging activity as current and future EAS proposals are examined.

The immediate proposal by Midvale presents the possibility for EAS bridging and therefore should be denied. If EAS between Cascabel and San Manuel and Benson is approved as Midvale has recommended, the local calling areas of Benson and San Manuel will overlap into Cascabel. Midvale's plan will result in local calling between San Manuel and Cascabel and Cascabel and Benson. However, toll charges will continue to apply for calls between Benson and San Manuel. An EAS bridger could subscribe to local flat rated access lines in Cascabel, and forward calls between Benson and San Manuel, allowing customers in those exchanges to bypass toll charges. If Midvale's proposal is approved, the potential for illegal EAS bridging is magnified once Qwest's sale of exchanges to Citizens Utilities Rural Company is completed. As part of the stipulation associated with the sale of exchanges, Qwest and Citizens will offer an optional two-way calling plan between the San Manuel exchange and the Tucson calling area. With this calling plan in place, and EAS between San Manuel and Cascabel implemented, parties located in Benson could illegally bypass toll charges for calls to Tucson (or any of the exchanges included in Tucson's local calling

areas) by subscribing to an EAS bridging service located in Cascabel and San Manuel. The potential for toll arbitrage in conjunction with provisions in the Qwest/Citizens sale of exchange agreement should be carefully considered by the Commission when evaluating Midvale's request for EAS expansion.

Conclusion

Midvale has failed to demonstrate that a mutual community of interest exists between the Cascabel exchange and the Qwest exchanges of Benson and San Manuel. In addition, Midvale's proposal will result in overlapping local calling areas that present the potential for illegal EAS bridging. The Commission has thus far avoided establishing overlapping calling areas, thereby eliminating the possibility for illegal EAS bridging. It is important that the Commission analyze the potential for illegal EAS bridging when determining whether specific EAS proposals are in the best interests of Arizona consumers. For these reasons, Midvale's EAS proposal should be denied. Qwest recommends that a separate rulemaking proceeding be established to address the need for standardized criteria to be applied uniformly to all telecommunications providers when determining whether the expansion of local calling areas is in the public interest.

BEFORE THE ARIZONA CORPORATION COMMISSION

WILLIAM A. MUNDELL
CHAIRMAN
JIM IRVIN
COMMISSIONER
MARC SPITZER
COMMISSIONER

IN THE MATTER OF MIDVALE TELEPHONE EXCHANGE, INC.'S APPLICATION FOR AUTHORITY TO INCREASE RATES AND FOR DISBURSEMENTS FROM THE ARIZONA USF	)	DOCKET NO. T-02532A-00-0512

DIRECT TESTIMONY OF

STARLA R. ROOK

QWEST CORPORATION

Contains Confidential and Proprietary Information

(Redacted Version)

MARCH 15, 2001

EXHIBIT
Q-2

TESTIMONY INDEX

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Q. PLEASE STATE YOUR NAME, OCCUPATION, AND BUSINESS ADDRESS.

A. My name is Starla R. Rook. I am employed by Qwest Corporation (Qwest) as Manager –Policy and Law. My business address is 5090 N. 40th Street, Room 425, Phoenix, AZ, 85018.

Q. PLEASE REVIEW YOUR WORK EXPERIENCE, EDUCATION, AND PRESENT RESPONSIBILITIES.

A. I have been continuously employed by Qwest and its predecessor companies, U S WEST and Northwestern Bell, since 1974. I have held a number of management positions in various departments, including Engineering, Regulatory, Retail Markets, and most recently, Policy and Law. I have a certificate in Program Management from Denver University. My current responsibilities include developing testimony, conducting research, responding to interrogatories, and assisting in pre-hearing preparation. The primary focus of my work for the past four years has been on gathering data and facts on IntraLATA Toll[1], Operator Services, Directory Assistance, and Basic Exchange competition within the former U S WEST fourteen state operating region, performing analysis on the information, and integrating in-depth competitive intelligence into pre-filed testimony.

Q. HAVE YOU TESTIFIED IN ARIZONA PREVIOUSLY?

[1] Throughout this testimony, the term "toll" is used interchangeably with the term "long distance."

A. No, I have not; however, I have been actively involved in the preparation of written testimony in Docket No. T-1051B-99-0105, Qwest's rate case proceeding.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. My testimony will respond to the proposal put forth by Midvale Telephone Exchange, Inc. (Midvale) in this proceeding for authority to expand the local calling areas between Midvale's Cascabel exchange to Qwest's Benson and San Manuel exchanges.[2]

Q. DOES QWEST SUPPORT THE EXPANSION OF LOCAL CALLING AREAS SUBMITTED BY MIDVALE IN THIS DOCKET?

A. No, it does not. Qwest believes that substantial call volumes and a mutual community of interest must be demonstrated prior to establishment of an extended area service (EAS) route. Otherwise, individuals who, though required to pay for the service, will make little or no use of it, while others, who make substantial use of the service, will pay little for it. An analysis performed by Qwest illustrates that only a few Qwest customers call Cascabel each month. Midvale's proposal will provide little or no benefit to Qwest customers, yet Qwest customers will be asked to bear the financial burden of the proposed calling area expansion.

In addition, Qwest is concerned about the precedence established, should the Arizona Corporation Commission (Commission) allow the creation of overlapping local calling areas such as Midvale has proposed. In other

[2] Direct Testimony of Don C. Reading, Midvale Telephone Exchange, Page 22.

states where overlapping calling areas have been implemented, entrepreneurs have illegally "bridged" calls between the local calling routes to bypass legitimate toll and access charges. The potential for illegal EAS bridging becomes even greater once the sale of certain Qwest exchanges to Citizens Utilities Rural Company (Citizens) is finalized and optional two-way local calling is established between the San Manuel and Tucson exchanges. EAS bridging is in direct violation of Qwest's tariffs and deprives Qwest of legitimate and substantial sources of revenue.

For these reasons, Qwest is opposed to Midvale's proposal and recommends it be denied.

I. PROCEDURAL HISTORY

Q. WHAT IS EAS?

A. EAS is a service that allows customers in one local calling area to call customers in another local calling area for a flat monthly charge without regard to number or duration of calls. The amount customers pay for EAS does not vary with their usage of the service. If EAS is not in place, customers calling from one local calling area to another local calling area do so using toll service or dedicated facilities. The charge for toll service may vary depending on the number and duration of calls to the other local calling area, or on the time of day the call is placed.

Q. WHAT FACTORS HAVE HISTORICALLY BEEN CONSIDERED WHEN EVALUATING WHETHER EAS SHOULD BE PERMITTED BETWEEN LOCAL CALLING AREAS?

A. In Docket No. E-1051-93-183, Qwest's 1993 rate case, factors such as public input, call volume and direction, socio-economic linkages, and contiguity were analyzed to determine whether there was sufficient community of interest to warrant EAS expansion in several exchanges.[3]

Q. DID THE COMMISSION SPECIFY HOW THE LOST REVENUE ASSOCIATED WITH EAS EXPANSIONS PROPOSED IN DOCKET NO. E-1051-93-183 SHOULD BE RECOVERED?

A. Yes. The Commission, in issuing its decision in the case, indicated that foregone revenue should be recovered through the rate design of the rate case.[4] The Commission also indicated that in future cases, communities desiring to be added to an EAS route "may have to pay their own share of that additional foregone toll revenue, instead of requiring all of U S WEST's customers to pay."[5]

Q. DO ARIZONA RULES PROVIDE GUIDELINES TO BE USED IN DETERMINING IF ESTABLISHMENT OF EAS BETWEEN LOCAL CALLING AREAS IS JUSTIFIED?

A. No. Following resolution of Qwest's 1993 rate case, the Commission hosted an industry workshop to explore issues surrounding EAS in

[3] Docket No. E-1051-93-183, In the Matter of the Application of U S WEST Communications, Inc., A Colorado Corporation, For a Hearing to Determine the Earnings of the Compay, The Fair Value of the Company for Ratemaking Purposes, To Fix a Just and Reasonable Rate of Return Thereon and to Approve Rate Schedules Designed to Develop Such Return, Decision No. 58927, January 3, 1995, Page 112,.
[4] *ID*, Page 115.
[5] *ID*.

Arizona.[6] Participants included representatives from the Commission, including Commissioner Weeks and Mr. Bob Gray, MCI, AT&T, Sprint, and Qwest. The general consensus at the conclusion of the workshop was that the EAS areas established in Qwest's 1993 rate case were far-reaching enough that future EAS expansion would not be necessary for some time. Consequently, a formal rulemaking proceeding was not initiated and there are currently no rules which address the factors to be considered when establishing EAS areas in Arizona.

Q. DOES QWEST RECOMMEND THAT SUCH RULES BE ESTABLISHED?

A. Yes, especially if the Commission is now reconsidering its stance regarding EAS. Adoption of rules to be applied uniformly to all telecommunications providers in the state will ensure that future EAS proposals are in the public interest. Guidelines addressing standardized criteria to determine whether a community of interest exists, EAS costing methodology, and cost recovery mechanisms have become increasingly necessary as telecommunications competition has escalated in the state. Local exchange companies are continually searching for ways to enhance their value proposition to consumers. One avenue to accomplish this is through expansion of local calling areas. EAS requests will also become more prevalent as smaller communities are incorporated into larger metro areas. Qwest recommends the Commission initiate a rulemaking proceeding to address EAS rules.

II. COMMUNITY OF INTEREST

[6] The workshop was held on July 12, 1995.

Q. DOES MIDVALE CONTEND THAT A COMMUNITY OF INTEREST EXISTS BETWEEN ITS CASCABEL EXCHANGE AND THE QWEST EXCHANGES OF BENSON AND SAN MANUEL?

A. Yes. Dr. Reading, in his testimony for Midvale, indicates that Benson is the commercial center for Cascabel and that usage studies performed by Midvale demonstrate that Cascabel customers make 8.5 calls per line per month to Benson and 2.5 calls per month to San Manuel.[7] Mr. Lane Williams, also testifying for Midvale, expressed that Cascabel customers must now pay a toll charge to call essential service providers such as schools, businesses, medical facilities, etc.[8]

Q. DOES QWEST AGREE WITH MIDVALE THAT CALL VOLUMES FROM CASCABEL TO THE QWEST EXCHANGES OF BENSON AND SAN MANUEL ARE SIGNIFICANT ENOUGH TO WARRANT EAS?

A. No. While there appears to be notable call volumes from Cascabel to Benson, based upon the data in Dr. Reading's testimony described above, the same cannot be said for the Cascabel to San Manuel route. Two and a half calls per month from one exchange to another cannot reasonably be considered significant.

Q. DID MIDVALE SOLICIT DATA FROM QWEST TO DETERMINE WHETHER A COMMUNITY OF INTEREST EXISTS FROM THE QWEST EXCHANGES IN QUESTION TO CASCABEL?

[7] Don C. Reading Direct Testimony, Page 22.

A. No.

Q. DID MIDVALE PRESENT ANY DATA TO THE COMMISSION RELATIVE TO THE IMPACT ITS EAS PROPOSAL MIGHT HAVE ON QWEST AND ITS CUSTOMERS?

A. No.

Q. HAS QWEST PERFORMED AN ANALYSIS OF THE CALL VOLUMES FROM THE IMPACTED QWEST EXCHANGES TO THE MIDVALE EXCHANGE?

A. Yes. Qwest has analyzed call volumes from its Benson and San Manuel exchanges to Cascabel to determine the level of interest among Qwest customers. This analysis is summarized on Confidential Exhibit SRR-1. Call volumes from Benson and San Manuel exchanges to Midvale's Cascabel exchange were extremely low during the study period, indicating that customers in these Qwest exchanges make very few calls to the Midvale exchange.[9] As indicated in Confidential Exhibit SRR-1, fewer than 2% of Qwest customers in the Benson and San Manuel exchanges called Cascabel in the months studied. These call usage patterns indicate no demand for expansion of the local calling area from the Qwest exchanges to the Midvale exchange. From Qwest customers' perspective, based on the study data, EAS to Cascabel would be an unnecessary and unwanted service. If forced to pay for it, Qwest

[8] Mr. Lane Williams Direct Testimony, Page 4.
[9] Normally, Qwest's analysis of EAS proposals includes a review of how many customers make two or more calls per month to the petitioned exchange in a given study period. In the case of

customers would in essence be subsidizing another company's customers while receiving little or no benefit from the service. Qwest does not believe this to be sound public policy. Hence, it is Qwest's recommendation that Midvale's proposal be denied.

III. ILLEGAL EAS BRIDGING

Q. PLEASE DESCRIBE WHAT IS MEANT BY ILLEGAL EAS BRIDGING.

A. A company engaged in EAS bridging illegally uses a combination of a line, call forwarding services and possibly its own equipment to complete calls between two or more overlapping EAS areas without incurring access and/or toll charges. Thus, the company essentially builds a "bridge" between EAS areas to avoid toll charges.

Q. SHOULD THE POTENTIAL FOR EAS BRIDGING BE CONSIDERED BY THE COMMISSION IN DETERMINING WHETHER REQUESTS FOR EAS SHOULD BE APPROVED?

A. Yes. Unfortunately, EAS bridging is a form of illegal arbitrage that is difficult to detect and, once detected, difficult to eliminate. For example, an EAS bridging case in Colorado in which the Colorado Public Utilities Commission, individual commissioners, and U S WEST were defendants, took almost four years to resolve. Ultimately, the case was escalated to the state Supreme Court, who ruled in favor of the defendants.[10] Exhibit SRR-2 contains a copy of the Colorado Supreme Court Decision. To

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Midvale's request, however, call volumes were so low as to require Qwest to base its analysis on the number of customers making at least *one* call per month.

[10] Supreme Court, State of Colorado, No. 965A417 and 965A418, April 13, 1998.

avoid such activity occurring in Arizona, the Commission should include in any evaluation of a proposed EAS route the potential for illegal EAS bridging.

Q. PLEASE EXPLAIN IN MORE DETAIL HOW PARTIES MAY TAKE ADVANTAGE OF OVERLAPPING EAS AREAS TO AVOID TOLL AND ACCESS CHARGES.

A. Normally, when a customer wishes to call beyond his or her local calling area, the call is handled by a toll provider. The end user is billed toll charges for the call and the toll provider is billed switched access charges. Overlapping local calling areas allow companies to illegally bridge local calls so that the end user avoids paying toll charges and the bridger avoids paying switched access charges. Using the Midvale request as an example, the local calling areas of Benson and San Manuel will overlap into Cascabel if the proposal is approved. Midvale's plan will result in local calling between San Manuel and Cascabel and Cascabel and Benson. However, toll charges will continue to apply for calls between Benson and San Manuel. This is demonstrated on Exhibit SRR-3. An EAS bridger could subscribe to local flat rated access lines in Cascabel, and use computer equipment and/or call forwarding services to forward calls between Benson and San Manuel, allowing customers in those exchanges to bypass toll charges. This scenario is depicted on Exhibit SRR-4.

Q. IS THERE ANOTHER FACTOR RELATING TO THE POTENTIAL FOR TOLL ARBITRAGE THAT THE COMMISSION SHOULD CONSIDER WHEN EVALUATING MIDVALE'S EAS PROPOSAL?

A. Yes. Qwest is in the process of selling the Benson exchange and the Mammoth wire center in the San Manuel exchange to Citizens.[11] As part of the Joint Stipulation entered into between Qwest, Citizens, and the Commission Staff associated with the sale (attached as Exhibit SRR-5), Qwest and Citizens agreed to implement optional two-way local calling between the San Manuel exchange and the Tucson metropolitan calling area.[12] If Midvale's immediate EAS request is approved, calls between San Manuel and Cascabel will also be local. Once these two separate actions are completed, parties located in Benson could illegally bypass toll charges for calls to Tucson or any of the exchanges included in Tucson's local calling area[13] by subscribing to an EAS bridging service located in Cascabel and San Manuel. The EAS bridger could receive calls from Benson, transfer them to Cascabel, transfer them to San Manuel, and then on to Tucson. In that way, all legs of the call will be local (Benson to Cascabel, Cascabel to San Manuel, and San Manuel to Tucson) and no toll charges will be incurred. This is depicted on Exhibit SRR-4. The potential for toll arbitrage in conjunction with provisions in the Qwest/Citizens sale of exchange agreement should also be carefully considered by the Commission when evaluating Midvale's request for EAS expansion.

[11] Docket Nos. T-01051B-99-0737 and T-01954B-99-0737, In the Matter of the Joint Application of Qwest Corporation and Citizens Utilities Rural Company, Inc. for Approval of the Transfer of Assets in Certain Telephone Wire Centers to Citizens Rural and the Deletion of Those Wire Centers From Qwest's Service Territory.
[12] Docket Nos. T-01051B-99-0737 and T-01954B-99-0737, Joint Stipulation, August 8, 2000, Page 8.
[13] Tucson's local calling area includes Coronado, Green Valley, Marana, Robles, Tubac, and Vail.

Q. WHAT IS THE POSSIBLE IMPACT ON TELECOMMUNICATIONS COMPANIES AND THEIR CUSTOMERS IF OVERLAPPING EAS AREAS ARE APPROVED AND EAS BRIDGING OCCURS?

A. Legitimate telecommunications companies will lose revenues, as usage-based toll and switched access services are replaced with flat-rated local access and call forwarding services. The effect of the resulting revenue shortfall may mean higher rates for consumers. This was substantiated by the Washington Utilities and Transportation Commission in issuing its Order against an illegal EAS bridger in that state:

> The Commission also agrees with the Public Utilities Commission of Utah in a case where it evaluated the legality of EAS bridging and set forth strong policy reasons against EAS bridging:
>
> "This is not a case of small, virtuous Davids being set upon by a powerful, evil Goliath out to crush legitimate competition. These respondents are offering no innovation in service or technology. This is a case of these respondents setting out to exploit a legal anomaly which was created by this Commission in an effort to promote equity between telephone service providers and customers. These respondents are turning the Commission's effort to promote equity on its head. For their own profit, they are enabling some USWC (U S WEST) customers to realize savings to which they are not entitled. In the process, these respondents are depriving USWC of revenues which it would collect otherwise, and they are competing unfairly with authorized resellers of MTS [message toll service or long distance] service who abide by the applicable USWC tariffs. They also do not contribute revenues which would otherwise go to the Universal Service Fund, thus potentially saddling telephone service subscribers in outlying areas of the state with higher costs than they would incur otherwise. Respondents' service is, in short, contrary to the public interest." U S WEST Communications, Inc. v. Bridge

Communications, Inc., Docket No. 93-049-20, Utah Public Utilities Commission (August 19, 1994).[14]

In addition, illegal EAS bridging causes call volumes which would otherwise be transported over the toll network to instead be handled by local trunks and switches which may not be sized to handle the increased traffic. The increased local call volumes could jeopardize the integrity of the local network, resulting in busy line conditions for end users.

Q. PLEASE PROVIDE DETAILS OF QWEST'S EXPERIENCE WITH ILLEGAL EAS BRIDGING IN OTHER STATES.

A. Qwest encountered a non-profit organization in Washington whose members paid an $8.00 initiation fee and $8.00 monthly dues for which they were allowed to use a private telecommunications system operated for their exclusive use. Access to the system was limited to 30 calls per month. Some members subscribed to Qwest services that allowed them to transfer calls and "donate" their lines to the non-profit corporation, where they were connected to the private system. The organization utilized computer equipment which enabled calls to be transferred statewide. The calls were of a distance as to qualify as toll calls, but because of the use of overlapping EAS areas and the call transfer function, these calls were completed without payment of toll charges by subscribers or access charges by the non-profit organization. The Washington Utilities and Transportation Commission initiated an investigation into the organization's activities, determined that it was engaged in unlawful EAS bridging, and ordered it to cease and desist

[14] Washington Utilities and Transportation Commission, In the Matter of Determining the Proper Classification of United & Informed Citizen Advocates Network, Docket No. UT-971515, Final

from conducting such activity.[15] The Washington Commission Order is attached as Exhibit SRR-6.

The Utah case cited previously by the Washington Commission resulted from a complaint Qwest filed with the Utah Public Service Commission against two illegal EAS bridgers who were offering service in overlapping EAS areas. Subscribers to the service dialed a local number, entered a Personal Identification Number, then dialed a telephone number outside of the local calling area. For this service, subscribers were charged $.25 per call, regardless of the length of the call. To provision the service, the EAS bridgers purchased business access lines with call transfer functionality from Qwest. The Utah Commission found the EAS bridgers to be "illicit resellers of U S WEST's service," operating in violation of U S WEST's tariffs, and authorized U S WEST to disconnect service. The Order issued by the Utah Commission is attached as Exhibit SRR-7.

In Colorado, Qwest filed suit against three companies providing illegal EAS bridging services in Qwest's service area. The illegal EAS bridgers ultimately took their case to the Colorado Supreme Court, alleging that they were not providing "interexchange telecommunications services," despite a Colorado Public Utilities Commission ruling to the contrary. They contended they should not be required to purchase services from Qwest's Access Service Tariff. The Supreme Court upheld the PUC's ruling and ordered the companies to comply with all applicable tariffs,

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Cease and Desist Order, February 9, 1999.

[15] Docket No. UT-971515, In the Matter of Determining the Proper Classification of United & Informed Citizen Advocates Network, Commission Decision and Final Cease and Desist Order, February 9, 1999.

specifically, the Access Service Tariff.[16] (See Exhibit SRR-2 for the Colorado Supreme Court's Decision.)

Q. IS EAS BRIDGING AS YOU'VE DESCRIBED IT IN VIOLATION OF QWEST'S ARIZONA TARIFFS?

A. Yes. Language in Qwest's Exchange and Network Services Tariff, Section 2.2.1 C. 4. states:

> A customer shall not provide switched voice or data communications between local exchange areas, including the bridging of Extended Area Service (EAS) zones, using underlying services from this Tariff or the Exchange and Network Services Catalog. Providers of interexchange service that furnish service between local calling areas, must purchase services from the Access Service Tariff for their use in furnishing their authorized intrastate telecommunications services to end user customers.

In addition, Section 6.1.2. D. 2. b. of the Competitive Exchange and Network Services Administrative Guidelines defines fraudulent use of toll service as:

> The obtaining, or attempting to obtain, or assisting another to obtain or to attempt to obtain MTS, by rearranging, tampering with, or making connection with any facilities of the Company, or by any trick, scheme, false representation, or false credit device, or by or through any other fraudulent means or device whatsoever, with intent to avoid the payment, in whole or in part, of the regular charges for such service.

[16] Supreme Court, State of Colorado, No. 96SA417 and 96SA418, April 13, 1998.

Qwest's Access Services Tariff also contains provisions designed to prohibit arbitrage such as that employed by illegal EAS bridgers:

> Providers of interexchange service that furnish service between Local Calling Areas must purchase services from this Tariff for their use in furnishing their authorized intrastate telecommunications services to end user customers and for operational purposes directly related to the furnishing of such services. (Section 1.1)

While tariff protections exist, it is very difficult to identify illegal EAS bridging, as it requires a knowledge of how the customer is using the local access line and proof that the intent is to bypass toll and switched access charges. Consequently, it is far better to avoid the opportunity for illegal EAS bridging by not allowing overlapping local calling areas than to try to rectify the problem through Commission and Court intervention after it has occurred.

Q. HAVE PREVIOUS ACTIONS BY THIS COMMISSION PROHIBITED ILLEGAL EAS BRIDGING?

A. Yes. The Commission has avoided establishing overlapping local calling areas, thereby eliminating the possibility of illegal EAS bridging. However, as the number of EAS requests is likely to increase, it is important that the Commission be aware of the potential for illegal EAS bridging when evaluating whether proposals are in the best interest of Arizona consumers.

IV. CONCLUSION

Q. PLEASE SUMMARIZE YOUR TESTIMONY

A. Qwest recommends that a separate rulemaking be initiated to address the need for standardized criteria to be applied uniformly to all telecommunications providers when determining whether the expansion of local calling areas is in the public interest. Midvale has not demonstrated that a community of interest exists between its Cascabel exchange and the Qwest exchange of San Manuel. Furthermore, a study of Qwest call volumes to Cascabel indicates that fewer than 2% of Qwest customers in the Benson and San Manuel exchanges make more than one call to Cascabel per month. The calling volumes clearly show there is simply no advantage to Qwest customers in Midvale's proposal.

In addition, Qwest urges the Commission to carefully consider the potential for illegal EAS bridging and toll arbitrage presented by this and future EAS proposals. Midvale's proposal will result in a calling structure which has, in other states, proven advantageous to those who illegally desire to bypass toll and access charges by bridging overlapping local calling areas. Illegal EAS bridging requires significant Company and Commission resources to uncover and arrest and has resulted in millions of dollars of lost toll and access revenue for Qwest in other states where it has occurred. Based on this experience, Qwest has found that it is far better to avoid any and all possibilities for EAS bridging than to try to correct the situation later. Actions taken by the Commission in this case will impact future applications and as such, should be carefully considered in terms of the precedence being set.

1 For the above-stated reasons, Qwest recommends the Commission deny
2 Midvale's EAS proposal.
3
4 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**
5 A. Yes, it does.

BEFORE THE ARIZONA CORPORATION COMMISSION

WILLIAM A. MUNDELL
CHAIRMAN
JIM IRVIN
COMMISSIONER
MARC SPITZER
COMMISSIONER

IN THE MATTER OF MIDVALE TELEPHONE EXCHANGE, INC.'S APPLICATION FOR AUTHORITY TO INCREASE RATES AND FOR DISBURSEMENTS FROM THE ARIZONA USF	)	DOCKET NO. T-02532A-00-0512

EXHIBITS OF

STARLA R. ROOK

QWEST CORPORATION

MARCH 15, 2001

INDEX OF EXHIBITS

DESCRIPTION	EXHIBIT
Qwest Call Volumes to Cascabel (PROPRIETARY)	SRR-1
Colorado Supreme Court Decision	SRR-2
Local Calling Schematic – Midvale Proposal	SRR-3
EAS Bridging Potential	SRR-4
Joint Stipulation – Sale of Qwest Exchanges to Citizens	SRR-5
Washington Utilities and Transportation Commission Order	SRR-6
Public Service Commission of Utah Report and Order	SRR-7

PHX/1161461.1/67817.249

BEFORE THE ARIZONA CORPORATION COMMISSION

WILLIAM A. MUNDELL
CHAIRMAN
JIM IRVIN
COMMISSIONER
MARC SPITZER
COMMISSIONER

IN THE MATTER OF MIDVALE TELEPHONE EXCHANGE, INC.'S APPLICATION FOR AUTHORITY TO INCREASE RATES AND FOR DISBURSEMENTS FROM THE ARIZONA USF	)	DOCKET NO. T-02532A-00-0512

DIRECT TESTIMONY OF

STARLA R. ROOK

QWEST CORPORATION

Contains Confidential and Proprietary Information

MARCH 15, 2001

BEFORE THE ARIZONA CORPORATION COMMISSION

WILLIAM A. MUNDELL
CHAIRMAN
JIM IRVIN
COMMISSIONER
MARC SPITZER
COMMISSIONER

IN THE MATTER OF MIDVALE TELEPHONE EXCHANGE, INC.'S APPLICATION FOR AUTHORITY TO INCREASE RATES AND FOR DISBURSEMENT FROM THE ARIZONA UNIVERSAL SERVICE FUND	)	DOCKET NO. T-02532A-00-0512 AFFIDAVIT OF STARLA R. ROOK
STATE OF ARIZONA	)	
COUNTY OF MARICOPA	)	

Starla R. Rook, of lawful age being first duly sworn, deposes and states:

1. My name is Starla R. Rook. I am Manager – Policy and Law of Qwest Corporation in Phoenix, Arizona. I have caused to be filed written testimony and exhibits in support of Qwest Corporation in Docket No. T-02532A-00-0512.

2. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded are true and correct to the best of my knowledge and belief.

Further affiant sayeth not.

Starla R. Rook

SUBSCRIBED AND SWORN to before me this 13th day of March, 2001.

Cheryl E. Najar
Notary Public residing at
City, State Phoenix, Arizona

My Commission Expires:

"OFFICIAL SEAL"
Cheryl E. Najar
Notary Public-Arizona
Maricopa County
My Commission Expires 5/15/2003

BEFORE THE ARIZONA CORPORATION COMMISSION

WILLIAM A. MUNDELL
CHAIRMAN
JIM IRVIN
COMMISSIONER
MARC SPITZER
COMMISSIONER

IN THE MATTER OF MIDVALE	)	
TELEPHONE EXCHANGE, INC.'S	)	
APPLICATION FOR AUTHORITY TO	)	
INCREASE RATES AND FOR	)	
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USF	)	

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STARLA R. ROOK

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MARCH 15, 2001

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PHX/1161461.1/67817.249

EXHIBIT 1
Proprietary and Confidential
(Redacted Version)

EXHIBIT 2

SUPREME COURT, STATE OF COLORADO
No. 96SA417 and 96SA418

April 13, 1998

96SA417
AVICOMM, INC.,
a Colorado Corporation, Plaintiff-Appellant,

v.

THE COLORADO PUBLIC UTILITIES COMMISSION,
COMMISSIONER CHRISTINE E.M. ALVAREZ,
COMMISSIONER VINCENT MAJKOWSKI,
COMMISSIONER ROBERT HICKS, and
US WEST COMMUNICATIONS, INC., Defendants-Appellees.

and

AGATE MUTUAL TELEPHONE COMPANY; BIG SANDY TELECOMMUNICATIONS, INC.; BIJOU TELEPHONE CO-OP ASSOCIATION, INC.; COLUMBINE TELEPHONE COMPANY; DELTA COUNTY TELE-COM, INC.; EASTERN SLOPE RURAL TELEPHONE ASSOCIATION, INC.; NUCLA-NATURITA TELEPHONE COMPANY; NUNN TELEPHONE COMPANY; PHILLIPS COUNTY TELEPHONE COMPANY; PLAINS COOPERATIVE TELEPHONE ASSOCIATION, INC.; STRASBURG TELEPHONE COMPANY; SUNFLOWER TELEPHONE COMPANY, INC.; WIGGINS TELEPHONE ASSOCIATION, ("AGATE, et al."); FARMERS TELEPHONE COMPANY; HAXTUN TELEPHONE COMPANY; PEETZ COOPERATIVE TELEPHONE COMPANY; PINE DRIVE TELEPHONE COMPANY; RICO TELEPHONE COMPANY; ROGGEN TELEPHONE COOPERATIVE ASSOCIATION; STONEHAM COOPERATIVE TELEPHONE CORPORATION; UNIVERSAL TELEPHONE COMPANY OF COLORADO; WILLARD TELEPHONE COMPANY, ("FARMERS et al."); and
EL PASO TELEPHONE COMPANY, Intervenors-Appellees.

96SA418
MOUNTAIN SOLUTIONS LTD., INC., a Colorado corporation;
and DENVER DIRECT DIAL, L.L.C., Plaintiffs-Appellants,

v.

THE COLORADO PUBLIC UTILITIES COMMISSION,

COMMISSIONER CHRISTINE E.M. ALVAREZ,
COMMISSIONER VINCENT MAJKOWSKI,
COMMISSIONER ROBERT HICKS, and
US WEST COMMUNICATIONS, INC., Defendants-Appellees.

and

AGATE MUTUAL TELEPHONE COMPANY; BIG SANDY TELECOMMUNICATIONS, INC.; BIJOU TELEPHONE CO-OP ASSOCIATION, INC.; COLUMBINE TELEPHONE COMPANY; DELTA COUNTY TELE-COM, INC.; EASTERN SLOPE RURAL TELEPHONE ASSOCIATION, INC.; NUCLA-NATURITA TELEPHONE COMPANY; NUNN TELEPHONE COMPANY; PHILLIPS COUNTY TELEPHONE COMPANY; PLAINS COOPERATIVE TELEPHONE ASSOCIATION, INC.; STRASBURG TELEPHONE COMPANY; SUNFLOWER TELEPHONE COMPANY, INC.; WIGGINS TELEPHONE ASSOCIATION, ("AGATE, et al."); FARMERS TELEPHONE COMPANY; HAXTUN TELEPHONE COMPANY; PEETZ COOPERATIVE TELEPHONE COMPANY; PINE DRIVE TELEPHONE COMPANY; RICO TELEPHONE COMPANY; ROGGEN TELEPHONE COOPERATIVE ASSOCIATION; STONEHAM COOPERATIVE TELEPHONE CORPORATION; UNIVERSAL TELEPHONE COMPANY OF COLORADO; WILLARD TELEPHONE COMPANY, ("FARMERS et al."); and
EL PASO TELEPHONE COMPANY, Intervenors-Appellees.

Appeal from the District Court, City and County of Denver
Honorable Nancy E. Rice, Judge

EN BANC JUDGMENT AFFIRMED

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JUSTICE MULLARKEY delivered the Opinion of the Court.
JUSTICE SCOTT dissents.

The district court consolidated AviComm, Utilities Commission, No. 96CV341 (Denver Dist. Ct. Sept. 26, 1996), and Mountain Solutions Ltd. v. Public Utilities Commission, No. 96CV240 (Denver Dist. Ct. Sept. 26, 1996) to determine whether appellants Mountain Solutions Ltd., Inc. and Denver Direct Dial, L.L.C. (collectively, the "Providers") should be required to purchase telephone services from U S West's Access Service Tariff or be allowed to continue to purchase from U S West's Exchange and Network Services Tariff. The appellants appealed the district court's ruling affirming the decision of the Public Utilities Commission (PUC) that Providers provided "interexchange telecommunications services" as defined by section 40-15-102(12), 17 C.R.S. (1993), and must purchase service from the Access Service Tariff. We have jurisdiction over this appeal pursuant to section 40-6-115(5), 11 C.R.S. (1997). We now affirm the judgment of the district court.

I.

For telephone purposes, Colorado is divided into geographic regions called "local calling areas."[1] Within those local calling areas, local exchange carriers (LECs) such as U S West,

[1] See Rule 2.33 of the Commission's Rules on Telephone Service Providers and Telephone Utilities, 4 CCR 723-2 (1998). Local calling areas are approved by the PUC pursuant to section 40-15-206, 17 C.R.S. (1993).

provide unlimited local calling service for a [illegible] When a customer wishes to call beyond his or her [illegible] area, the call is generally handled by an interexchange carrier (IXC).. These interexchange calls are billed at a per-minute charge which the customer pays to the IXC. In turn, the IXC compensates the LEC at the originating and terminating end of the call through payment of "access charges." These access charges are a source of revenue to the LECs which helps defray the cost of providing local exchange service, and are taken into account by the PUC in setting rates.

The Providers in this case sell a service which allows a subscriber to place intrastate telephone calls outside that subscriber's local calling area without incurring long-distance toll charges. This service is possible when two local calling areas partially overlap and a Provider's office is located within the area of overlap. For example, Longmont and Boulder are in the same local calling area. Boulder and Denver are also in the same local calling area, but Denver and Longmont are not. Assume X lives in Longmont and wishes to call Y who lives in Denver. If X calls Y directly, X has made an interexchange call and pays a per-minute charge. If X is a subscriber of a Provider, however, X places a local call to the Provider located in Boulder which

[2] See 4 CCR 723-2-2.33 (1998); § 40-15-102(3) 17 C.R.S. (1993).

uses its computer equipment to forward X's call. Provider patches together two local phone calls to make what would otherwise be a toll call. X pays a flat rate to the Provider which is less than the toll rate would be. The Providers charge their customers a flat, monthly rate for this "call transfer service" because no long-distance charge is incurred. The call transfer service is made possible through the use of the Providers' own computers in conjunction with certain purchased U S West services under U S West's Exchange and Network Services Tariff. Thus, the Providers enable their subscribers to make interexchange calls without incurring any long-distance charges.

On October 28, 1994, the Providers filed an Application for Declaratory Order with the PUC pursuant to Rule 60 of the PUC's Rules of Practice and Procedure. See 4 CCR 723-1-60 (1996). The Providers sought, inter alia, a declaration that the Providers did not provide "interexchange telecommunications services" pursuant to section 40-15-102(12) and thus were not required to purchase services from U S West's Access Service Tariff. Numerous parties intervened including U S West, IXCs, several small LECs, and AviComm, Inc. (AviComm), a company that provides a similar service to that of the Providers' call transfer service.

This matter was referred to an administrative law judge (ALJ), and the Providers and the appellees moved for summary

judgment. The ALJ, on summary judgment, conclud Providers provide interexchange telecommunications services or the functional equivalent of such services and, as a result, were required to purchase switched access from U S West pursuant to the Access Service Tariff. The ALJ reasoned that if he were to rule otherwise, section 40-15-102 would be in conflict with the anti-discrimination provisions of sections 40-15-105 and 40-3-106(1)(a), 17 C.R.S. (1993).

The PUC adopted these recommendations and held that the Providers were in violation of the Exchange and Network Services Tariff because they resold to customers services which could not be resold by the terms of the tariff. The PUC stated that the Providers could no longer purchase services from the Exchange and Network Services Tariff because allowing them to do so would result in illegal preferences or discrimination. The PUC construed the phrase, "priced based upon usage," in the definition of "interexchange telecommunications services" in section 40-15-102(12) to be merely descriptive and not language which exempted the Providers from the definition. Therefore, the PUC stated, the Providers could be required to purchase services from U S West's Access Service Tariff because they provided "interexchange telecommunications services" as defined by statute or the functional equivalent thereof. The PUC concluded by holding that this matter was an adjudication and not a rule-

making procedure. The Providers appealed and t affirmed the determinations of the PUC.[3]

II.

Before we reach the substantive issue in this appeal, we must address three preliminary matters raised by the parties: (1) whether the Federal Telecommunication Act of 1996 preempts state law; (2) whether summary judgment was improperly granted; and (3) whether the PUC engaged in improper rule-making.

A.

The Providers contend that the Federal Telecommunications Act of 1996, Pub. L. No. 104-104, 110 Stat. 56 (1996) (1996 Act), applies in this case and preempts any tariff that is contrary to the 1996 Act. The 1996 Act places on local exchange carriers the "duty not to prohibit, and not to impose unreasonable or discriminatory conditions or limitations on, the resale of its telecommunications services." 47 U.S.C.A. § 251(b)(1) (1991 & Supp. 1997).

Absent clear legislative intent to the contrary, statutes are given prospective application only. See Bennett v. New

[3] Utilities commissions in other states have reached the same result as the PUC. See Idaho Local Exch. Cos. v. Upper Valley Communications, Inc., Case No. GNR-T-94-1, Order No. 25885, 1995 WL 82345 (Idaho PUC Feb. 3, 1995); U S West Communications, Inc. v. Bridge Communications, Inc., Docket No. 93-049-20, 1994 WL 570650 (Utah PSC Aug. 19, 1994); In re U.S. Metrolink Corp., 103 P.U.R. 4th 194 (Wash. U.T.C. 1989; see also In the Matter of a General Investigation of Digilink, No. 12.392-U (Kan. Corp. Comm'n Mar. 27, 1995).

Jersey, 470 U.S. 632, 639 (1985); Smith v. Colo Gas Co., 794 F. Supp. 1035, 1038 (D. Colo. 1992); 2 J. Sutherland, Statutes and Statutory Construction § 41.04 (5th ed. 1993). The 1996 Act was enacted long after the 1994 commencement of this proceeding, and as a result, the PUC did not consider the 1996 Act. We hold that the 1996 Act is not applicable to this case.

B.

The Providers argue that the PUC erred in granting summary judgment because disputed issues of material fact existed, namely, whether the Providers "transmit" information as is required to be deemed a telecommunications service. Section 40-15-102(29) defines "telecommunications service" as "the electronic or optical transmission of information between separate points by prearranged means." The Providers contend that the equipment and facilities used for the actual transmission of information belong exclusively to U S West and the record does not support the PUC's determination as a matter of law that the Providers transmit information. This argument is without merit.

Summary judgment is a drastic remedy and should only be granted if there is a clear showing that no genuine issue as to any material fact exists and the moving party is entitled to judgment as a matter of law. See C.R.C.P. 56; Greenwood Trust Co. v. Conley, 938 P.2d 1141, 1149 (Colo. 1997). The moving

party has the initial burden to show that there issue of material fact. See Greenwood Trust, 938 P.2d at 1149. Once the moving party has met its initial burden, the burden shifts to the nonmoving party to establish that there is a triable issue of fact. See id. The nonmoving party is entitled to all favorable inferences that may be drawn from the undisputed facts, and all doubts as to whether a triable issue of fact exists must be resolved against the moving party. See Bayou Land Co. v. Talley, 924 P.2d 136, 151 (Colo. 1996). When a trial court is presented with cross-motions for summary judgment, the court must consider each motion separately, review the record, and determine whether a genuine dispute as to any fact material to that motion exists. See Churchey v. Adolph Coors Co., 759 P.2d 1336, 1340 (Colo. 1988); AF Property Partnership v. Department of Revnue, 852 P.2d 1267, 1270 (Colo. App. 1992). The fact that both parties moved for summary judgment does not decrease either party's burden of proof. See Churchey, 759 P.2d at 1340.

Therefore, we must consider appellees' motions for summary judgment separately and all doubts must be resolved in favor of the Providers. See Bayou Land, 924 P.2d at 151. The Providers acknowledge that the call transfer service is not possible without the use of their equipment. We agree with the ALJ's conclusion which was adopted by the PUC:

> It is clear that appellants provide a service that permits their subscribers to originate and terminate

> calls between calling areas. These calls toll calls. Although U S West's network originate and terminate the calls, U S West cannot provide the connection between exchanges. There must be some intervention by [the Providers] which they provide through their [premises'] equipment and software. As such, there is transmission of information by electronic means between separate points, even if the transmission is within [a Provider's] office. Without the intervention of [the Providers], such calls could not be electronically transmitted between the calling areas.

We defer to the findings of the PUC and hold that the Providers transmit information and provide "telecommunications service" pursuant to section 40-15-102(29). There is no triable issue of fact.

C.

AviComm raises a preliminary jurisdictional issue. It argues that the PUC proceeding was a rule-making procedure conducted in violation of the requirements prescribed by Colorado law for agency rule-making. We disagree.

The proceeding at issue here was clearly adjudicatory, not rule-making, and we acknowledge that different statutory requirements apply to adjudication and rule-making under the Administrative Procedure Act. See); §§ 24-4-102 to -103, 7 C.R.S. (1997); City of Aurora v. Public Utils. Comm'n, 785 P.2d 1280, 1286-87 (Colo. 1990). An adjudicative proceeding involves a determination of rights, duties, or obligations of identifiable parties by applying existing legal standards to facts developed at a hearing conducted for the purpose of resolving the

particular interests in question. See Douglas Comm'rs v. Public Utils. Comm'n, 829 P.2d 1303, 1307-08 (Colo. 1992); City of Aurora, 785 P.2d at 1287. In contrast, a "rule" is "the whole or any part of every agency statement of general applicability and future effect implementing, interpreting, or declaring law or policy or setting forth the procedure or practice requirements of an agency." § 24-4-102(15). If a proceeding is rule-making, then, the agency must follow the notice, publication, and content requirements detailed in section 24-4-103.

We have recognized the reality that "agency proceedings often require application of both rule-making and adjudicatory authority because of the nature of the subject matter, the issues to be resolved, or the interests of parties or intervenors." Mountain States, 816 P.2d at 284. In order to determine whether the proceeding constitutes rule-making, we look to the actual conduct and effect of the particular proceeding, as well as to the purposes for which the proceeding was brought. See id.

Here, the PUC applied existing law to the facts of this case and the decision applied to identifiable parties in a declaratory action brought by the Providers. We realize that the PUC's decision may affect other parties like AviComm which have operations similar to those of the Providers' call transfer service. However, the fact that this decision may have collateral effects upon other providers similarly situated to the

Providers in this case does not transform an ac into a rule-making proceeding. "As is often the case in adjudications by the judicial branch, collateral effects to third parties result from adjudicatory proceedings." Douglas County, 829 P.2d at 1307.

AviComm cites Mountain States, 816 P.2d 278, and Home Builders Association of Metropolitan Denver v. Public Utilities Commission, 720 P.2d 552 (Colo. 1986), in support of its position. In both cases, this court invalidated PUC adjudicatory decisions because we found that the matters involved rule-making and the PUC did not follow proper rule-making procedures. In Mountain States, the PUC initiated the proceeding to determine which telecommunication products and services should be subject to the Intrastate Telecommunications Services Act. See Mountain States, 816 P.2d at 284-85. In Home Builders, the PUC adopted a new formula applicable to future permanent customers which amended an existing rule. See Home Builders, 720 P.2d at 561.

However, both of these cases are readily distinguishable from the case at hand. Unlike the proceeding in Mountain States, this proceeding was initiated by the Providers, rather than the PUC, through their request for a declaratory order, and AviComm voluntarily intervened in this action. Also the PUC in this case did not amend an existing rule, but rather, applied existing statutory standards. Administrative agencies like the PUC have a certain amount of discretion to exercise their authority through

either adjudication or rule-making. See Charne P.2d 62, 66 (Colo. 1989) (stating that an agency may make policy through adjudication or rule-making, but that the agency's discretion is limited). This case falls within that area of discretion. Absent the Providers' filing of a declaratory action, the PUC could have instituted its own declaratory proceeding, see Mountain States, 816 P.2d at 285, or chosen to act through rule-making. Given that this action was filed and there was no on-going rule-making proceeding involving this topic, the PUC acted properly in proceeding to resolve the case before it. The PUC was not required to dismiss or hold in abeyance the Providers' declaratory action while it initiated a rule-making proceeding. The PUC acted within the bounds of its discretion and we will not overturn its decision for failure to treat this matter as rule-making.

III.

A.

Before considering the substantive issue raised by the Providers, we will summarize briefly the principles that guide our analysis. Like the district court, our review of a PUC decision is limited to determining whether the PUC has regularly pursued its authority, whether its decision is just and reasonable, and whether its conclusions are in accordance with the evidence. See § 40-6-115(3), 17 C.R.S. (1993); Silverado Communication Corp. v. Public Utils. Comm'n, 893 P.2d 1316, 1319

(Colo. 1995). In this case, there are no dispu and we are called upon to decide only issues of law. In interpreting the relevant statues and rules, we give due deference to the PUC's interpretation because "[t]he PUC is uniquely qualified through expertise derived from many years of regulating the telecommunications industry to resolve any ambiguities that became apparent in applying the statutory criteria to particular telecommunications services." Colorado Office of Consumer Counsel v. Mountain States Tel. and Tel. Co., 816 P.2d 278, 287 (Colo. 1991) (Lohr, J., dissenting); see also Integrated Network Servs., Inc. v. Public Utils. Comm'n, 875 P.2d 1373, 1377 (Colo. 1994).

Several well established concepts of statutory construction also come into play in this case. In interpreting a statute, we must give effect to the intent of the lawmaking body, see Gambler's Express Inc. v. Public Utils. Comm'n, 868 P.2d 405, 410 (Colo. 1994), and there is a presumption that the General Assembly intends a just and reasonable result, see § 2-4-201(1)(c), 1 C.R.S. (1997); Colorado-Ute Elec. v. Public Utils. Comm'n, 760 P.2d 627, 635 (Colo. 1988). Thus, a statutory interpretation that defeats the legislative intent or leads to an absurd result will not be followed. See Conte v. Meyer, 882 P.2d 962, 965 (Colo. 1994). A statute must be read and considered as a whole and should be construed to give consistent, harmonious, and sensible effect to all of its parts. See Gambler's Express,

868 P.2d at 410. Finally, although we must gi statute's plain and ordinary meaning, see Colorado Office of Consumer Counsel v. Public Utils. Comm'n, 752 P.2d 1049, 1052 (Colo. 1988), the intention of the legislature will prevail over a literal interpretation of the statute that leads to an absurd result, see Rodriguez v. Schutt, 914 P.2d 921, 925 (Colo. 1996); People v. Bowman, 812 P.2d 725, 728 (Colo. App. 1991). With this background in mind, we turn to the substantive issue raised by the Providers.

B.

The Providers contend that they do not provide "interexchange telecommunications services" pursuant to section 40-15-102(12) and thus, are not required to purchase services from U S West's Access Service Tariff. We reject this argument.

Tariffs are the means by which utilities record and publish their rates along with all policies relating to the rates. See § 40-3-103, 17 C.R.S. (1993); U S West Communications, Inc. v. City of Longmont, 948 P.2d 509, 516 (Colo. 1997). Tariffs are legally binding, see Longmont, 948 P.2d at 517,[4] and the proper

[4] In Longmont, we held that a tariff was not a "statute" for the purposes of abrogating the common law rule requiring utility companies to pay for relocation costs that was stated in City & County of Denver v. Mountain States Telephone & Telegraph Co., 754 P.2d 1172 (Colo. 1988). See Longmont, 948 P.2d at 518. However, we noted as a general proposition that tariffs are legally binding. See id. at 517.

application of rates and tariffs is within the authority of the PUC. See § 40-3-102, 17 C.R.S. (1993); Silverado, 893 P.2d at 1320.

In this case, there are two tariffs at issue: 1) the Exchange and Network Services Tariff, Colorado P.U.C. No. 8 (Exchange Tariff), which provides for flat-rate local telephone services; and 2) the Access Service Tariff, Colorado P.U.C. No. 16 (Access Tariff), which provides for regulated or usage-based rates that are generally more expensive than flat-rate service. The Providers currently buy their flat-rate services from U S West pursuant to the Exchange Tariff.

Generally, an IXC operating within U S West's service area can connect to the IXC's subscribers only by purchasing service pursuant to U S West's Access Tariff under rate terms that are usage-sensitive. The Access Tariff furnishes "switched access services" to businesses that supply "interexchange telecommunications services." See Access Tariff. Section 40-15-102(28) defines "switched access" as "the services or facilities furnished by a local exchange company to interexchange providers which allow them to use the basic exchange network for origination or termination of interexchange telecommunications services." Section 40-15-102(12) of the Intrastate Telecommunications Services Act, see §§ 40-15-101 to -404, 17 C.R.S. (1993) (the Act), states:

> "Interexchange telecommunications services" means telephone services, not included in basic local

exchange service, and which are priced ba usage.

The Providers contend that they do not provide "interexchange telecommunications services" pursuant to section 40-15-102(12) because they charge a flat rate for their services, and do not price their services "based upon usage."

The PUC rejected the Providers' argument. It determined that the price "based upon usage" language of the statute was not an essential element defining interexchange telecommunications services, but rather, that the term was descriptive in nature. According to the PUC, the interexchange telecommunications services available in 1987 when the statute was drafted were priced based on usage and the statutory language simply reflected that fact. Under the PUC's reasoning, the key question is whether the telephone service offered by the Providers is "not included in basic local exchange service." Here, there is no dispute that the Providers' service is "not included in basic local exchange service." But for a Provider's ability to patch together two local telephone calls by locating its business in the overlap zone between two local calling areas, the completed telephone call would be beyond the caller's local exchange. For these reasons, the PUC found that the Providers were engaged in supplying interexchange telecommunications services.

None of the parties has pointed us to any legislative history regarding section 40-15-102(12) and our own research has

disclosed nothing relevant. This provision was article was repealed and reenacted in 1987. See ch. 313, sec. 1, § 40-15-102, 1987 Colo. Sess. Laws 1476, 1477-79.

Whether interexchange services in 1987 were priced based on usage clearly is a matter within the PUC's expertise, and this court will defer to the agency's expertise on the 1987 pricing practice. Further, we are persuaded by the logic of the PUC's conclusion that the statutory reference to pricing based on usage is intended to be descriptive rather than an essential element of the statutory definition.

To reach the opposite conclusion and to construe flat-rate pricing as dispositive would lead to absurd results. As we will demonstrate below, this is true for two reasons. First, any such pricing requirement could be easily circumvented as the Providers have done here. Second, the Providers' proposed interpretation would conflict with other relevant statutory provisions.

With respect to the first point, we note that the Providers are able to price their service at a flat rate only because they are violating the terms of the Exchange Tariff. The Exchange Tariff includes several restrictions on use of the business service including a restriction limiting use to certain parties: the customer, the customer's immediate family, the customer's employees and representatives, a communications common carrier in the provision of overseas data message service, customers who share local exchange service, joint users, and telephone

answering service. See Exchange Tariff § 2.2.: found, and the Providers do not dispute, that the Providers' customers are general subscribers who do not fall within any of the listed categories. Additionally, the Providers violate the Exchange Tariff's prohibition on the resale of the flat-rate trunk-lines. Exchange Tariff section 2.2.5 states that the service "shall not be used for performing any part of the work of transmitting, delivering, or collecting any message where any toll or consideration has been or is to be paid any party other than [U S West]." (Emphasis added.) The PUC found, and the Providers do not dispute, that the Providers' call transfer service constitutes a prohibited resale of services to the Providers' customers. See Integrated Network Servs., 875 P.2d at 1381-82 (holding resellers are subject to measured, rather than flat, rates). Thus, if the Providers are correct that the method of pricing is dispositive, they cannot meet their own test because they cannot lawfully charge a flat rate for their services.

Second, as stated above, if we were to accept the Providers' argument, absurd results would follow including logical inconsistencies between the definitions in the statute. "Interexchange provider" is defined as "a person who provides telecommunications services between exchange areas" and "telecommunications service" is "the electronic or optical transmission of information between separate points by

prearranged means." § 40-15-102(11), (29). Beca Providers transmit information between exchange areas, Providers are clearly "interexchange providers of telecommunications services." If we were to agree with the Providers' argument that they do not provide "interexchange telecommunications services," the resulting absurdity is that the Providers would be "interexchange providers of telecommunications services," while not providing "interexchange telecommunications services."

Moreover, allowing the Providers to continue purchasing from the U S West Exchange Tariff rather than the Access Tariff would raise the specter of discrimination among IXCs contrary to sections 40-15-105(1)[5] and 40-3-106(1)(a)[6], 17 C.R.S. (1993).

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[5] Section 40-15-105(1) provides:

> (1) No local exchange provider shall, as to its pricing and provision of access, make or grant any preference or advantage to any person providing telecommunications service between exchanges nor subject any such person to, nor itself take advantage of, any prejudice or competitive disadvantage for providing access to the local exchange network. Access charges by a local exchange provider shall be cost-based, as determined by the commission, but shall not exceed its average price by rate element and by type of access in effect in the state of Colorado on July 1, 1987.

[6] Section 40-3-106(1)(a) provides:

> (1)(a) Except when operating under paragraph (b) of this subsection (1) or pursuant to article 3.4 of this title, no public utility, as to rates, charges, service, or facilities, or in any other respect, shall make or grant any preference or advantage to any corporation or person or subject any corporation or person to any prejudice or disadvantage. No public utility shall establish or maintain any unreasonable

(continued...)

Both sections prohibit U S West from granting a special advantage as to its services.[7]

The Providers assert that U S West provides three identical services to the Providers' call transfer service and those services are not provided pursuant to the Access Tariff. The three services are Foreign Exchange Service (FES), Emergency Foreign Exchange Service (EFES), and Market Expansion Line Service (MEL). FES and EFES are offered by U S West through its Private Line Transport Services Tariff, Colorado P.U.C. No. 14 sections 5.3.8, 5.3.9, while MEL is available through the Exchange Tariff section 5.4.4. The Providers originally contended before the PUC that the ALJ's decision would have unintended negative consequences on these three services, but this argument has been abandoned on appeal.

(...continued)

> difference as to rates, charges, service, facilities, or in any respect, either between localities or as between any class of service. The commission has the power to determine any question of fact arising under this section.

[7] Additionally, the PUC stated that the Providers may also be fraudulently using U S West's services, see Exchange Tariff, section 2.2.9.A.5, and may be avoiding contributing to the High Cost Fund, see § 40-15-208, 17 C.R.S. (1993). The PUC also found that the Providers violate section 40-15-206, 17 C.R.S. (1993), because the Providers' service expands its subscribers' local calling areas without PUC approval. Because of our holding, we need not address these findings.

The PUC, however, found that these three are not comparable to the Providers' service. There is no evidence in the record to support the Providers' contention of comparability and the parties rely solely on U S West tariffs appended to the appellate briefs to explain how the three U S West services operate. Interpretation of the tariffs is a matter within the PUC's expertise, and we have no basis to overturn the PUC's finding on comparability. Moreover, because of the very nature of tariffs, the inclusion of MEL, FES, and EFES in the tariffs means that subscribers to these services pay rates which properly compensate U S West for its costs. Thus, regardless of whatever technological similarities may exist among the three U S West services and the Providers' service, the critical difference is that the Providers' service does not adequately compensate U S West for its costs because the Providers do not use the Access Tariff. For these reasons, we agree with the PUC that the call transfer service offered by the Providers is not comparable to MEL, FES, and EFES.

Finally, the Providers' argument is inconsistent with the legislative declaration of the Act which states that one of its purposes is "guaranteeing the affordability of basic telephone service" while fostering free market competition. See § 40-15-101, 17 C.R.S. (1993). Access charges are a source of revenue which helps defray the cost of providing local exchange service. Allowing the Providers to avoid paying their fair share of access

costs ultimately would raise the rates of all s local exchange service.

In summary, we hold that in accordance with the applicable tariffs and statutes, the Providers provide "interexchange telecommunications services" within the meaning of the statute and cannot continue to purchase access from the Exchange Tariff. Allowing the Providers to continue to purchase from the Exchange Tariff would lead to logical inconsistencies between definitions and violations of Colorado law. We agree with the district court which stated that to hold otherwise would "exalt form over substance by suggesting that the billing procedure for a service, rather than the service itself, should determine the nature of the service."

IV.

For these reasons, we uphold the PUC's determination to deny the relief requested by the Providers in their Application for Declaratory Order. As a result, the Providers must comply with all applicable tariffs, specifically the Access Service Tariff. Accordingly, the judgment of the district court is affirmed.

JUSTICE SCOTT dissents.

Avicomm v. PUC, No. 96SA417
Mountain Solutions v. PUC, No. 96SA418

JUSTICE SCOTT dissenting:

I agree with the majority that in following "concepts of statutory construction . . . we must give effect to the intent of the lawmaking body." Maj. op. at 16. However, the "lawmaking body" in this case is the General Assembly and not the Public Utility Commission (PUC), whose "powers are not unlimited." Consumer Counsel v. Mountain States Tel., 816 P.2d 278, 283 (Colo. 1991). The legislative enactment, section 40-15-102(12), 17 C.R.S. (1993), limits the PUC's authority. Therefore, in my view, the only proper venue to alter section 40-15-102(12) so as to strike out the "based on usage" clause from the definition, is the General Assembly and not the PUC or this court. Thus, I do not join the judgment of the majority.

While I share the majority's view that the PUC was not required to conduct a rulemaking proceeding in order to resolve the issues raised by Avicomm, Inc., Mountain Solutions, Ltd., Inc., and Denver Direct Dial, LLC (Collectively, the "Providers"), I believe the Providers' practice of "bridging" local exchange service areas does not constitute an offering of "interexchange telecommunications service" within the plain meaning of section 40-15-102(12). In addition, I would require the PUC to consider the effect of the resale provisions of the

Telecommunications Act of 1996 on the legality Exchange and Network Services Tariff.

Accordingly, I would reverse and remand this matter to the PUC for further proceedings.

I.

By using services purchased under the Exchange and Network Services Tariff to switch traffic that crosses local exchange area boundaries, the Providers avoid paying access charges to US West.[1] However, the fact that the practice of "bridging" local exchange areas is obviously intended to allow the Providers to exploit a statutory loophole in order to circumvent the PUC's access charge rules is not relevant to the resolution of this case.

In interpreting a statute, we attempt to determine what the General Assembly intended in adopting the statutory language under review. See City of Westminster v. Dogan Constr. Co., 930 P.2d 585, 590 (Colo. 1997). Where the terms used by the General Assembly are clear, though, consideration of extrinsic "indicia of legislative intent" is inappropriate, and the "[w]ords should

[1] These access charges are designed to allocate the costs associated with building, maintaining, and operating US West's network between consumers who make calls within their own local exchange service area to consumers who place calls across local exchange area boundaries. The access charge regime is based on the assumption that calls within a single local exchange service area will be subject to flat-rate pricing while calls that cross local area boundaries will be priced on a per-use basis.

be given effect according to their plain and orc

Id.

Our task is not to determine whether the General Assembly would have included the Providers' services within the definition of "interexchange telecommunications services" established by section 40-15-102(12) if it had considered the possibility that such services might be offered on a flat-rate basis. Instead, we must decide whether the definition actually incorporated into the statute is broad enough to include the Providers' services. I submit that the definition, which provides that "interexchange telecommunications services" are "priced based upon usage," plainly does not include any service not priced based upon usage.

The majority avoids the plain meaning of the words in section 40-15-102(12) by resort to the principle that statutes should not be construed in such a way as to produce "absurd" results. See maj. op. at 16. The fact that a citizen can avoid the reach of the PUC's regulatory authority, however, does not make the statutory meaning "absurd." For example, individuals and businesses often structure their affairs in such a way as to avoid the obligation to pay assessments imposed by the tax code, but the courts do not rewrite the tax statutes in order to ensure that revenue collections meet assumed legislative expectations.[2]

[2] The analogy to tax planning is closer than it may appear, because the access charges are in effect a "tax" on certain kinds of calls, i.e., calls that cross local exchange area boundaries,
(continued. . .)

These efforts are neither legally nor morally if a citizen's actions permitted by the statute are inconsistent with the purpose of the legislation, the legislature, and not this court, must act to amend the tax laws. As Learned Hand observed half a century ago: "[T]here is nothing sinister in so arranging one's affairs as to keep taxes as low as possible. Everyone does so, rich or poor; and all do right, for nobody owes any public duty to pay more than the law demands: taxes are enforced exactions, not voluntary contributions. To demand more in the name of morals is mere cant." Commissioner v. Newman, 159 F.2d 848, 850-51 (2d Cir. 1947).

Here, while it may be difficult to accept, the law and its reach are not necessarily coterminous with morality, or even the "logic of the PUC's conclusion." Maj. op. at 20.

The majority contends that the plain meaning of the words used in section 40-15-102(12) is "inconsistent" with other definitions in the telecommunications statute. Section 40-15-102(11) defines "interexchange provider" as a "person who provides telecommunications services between exchange areas," and section 40-15-102(29) says "telecommunications service" is "the electronic or optical transmission of information between separate points by prearranged means." The majority reasons that

(. . .continued)

designed to subsidize others kinds of calls, i.e., calls within a single calling area.

under these definitions, the Providers are "int providers of telecommunications service."

I see two problems with this reasoning. First, if the meaning of the phrase "interexchange telecommunications services" can be inferred by reference to the definitions of "interexchange provider" and "telecommunications service," then section 40-15-102(12) is surplusage, a conclusion to be avoided under basic principles of statutory construction. See Bennett Bear Creek Farm Water and Sanitation Dist. v. City and County of Denver, 928 P.2d 1254, 1262 (Colo. 1996). Second, the words and phrases used in statutes are often terms of art. We should not intervene to amend the statute by judicial fiat simply because the General Assembly has given a term a special--and perhaps even counterintuitive--definition.

In planning their business strategies, regulated business enterprises should be entitled to rely on the plain meaning of the words used in the statutes governing their activities. In light of the unambiguous definition established by section 40-15-102(12), I would hold that call transfer services are not "interexchange telecommunications services."[3]

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[3] The cases cited by the majority to show that other states concur in its analysis, see maj. op. at 9 n.3, are not on point. For example, in Idaho Local Exchange Companies v. Upper Valley Communications, Inc., Case No. GNR-T-94-1, Order No. 25885, 1995 WL 82345 (Idaho PUC Feb. 3, 1995), the service provider charged customers for each call, putting the service within the statutory definition of interexchange service, which expressly included a "per-unit" pricing requirement. The other cases cited, US West

(continued. . .)

Unfortunately, by our judgment today, we r regulated by the PUC not only to comply with the plain meaning of the statute's defined terms, but to anticipate the "logic of the PUC[]" without notice, even when, as here, that logic is not consistent with the plain language adopted by the General Assembly.[4]

II.

The majority observes that "the Providers are able to price their service at a flat rate only because they are violating the terms of the Exchange Tariff." Maj. op at 20. The majority, however, simply assumes that the restrictions in the tariff are valid while refusing to consider the implications of the

(. . .continued)

Communications, Inc. v. Bridge Communications, Inc., Docket No. 93-049-20, 1994 WL 570650 (Utah PSC Aug. 19, 1994), and In re U.S. Metrolink Corp., 103 P.U.R. 4th 194 (Wash. U.T.C. 1989), do not appear to have interpreted any similar statutory definition.

[4] The PUC's approach to interpreting section 40-15-102(12), is reminiscent of a famous colloquy on the meaning of language:

> "When I use a word," Humpty Dumpty said in a rather scornful tone, "it means just what I choose it to mean--neither more nor less."
>
> "The question is," said Alice, "whether you can make words mean different things."
>
> "The question is," said Humpty Dumpty, "which is to be master--that's all . . . . They've a temper, some of them--particularly verbs, they're the proudest--adjectives, you can do anything with, but not verbs--however, I can manage the whole lot!"

Lewis Carroll, Through the Looking Glass 198 (Julian Messner 1982). In this case, PUC becomes the master of the statute, managing the whole lot in ways contrary to the plain language.

Telecommunications Act of 1996, Pub. L. No. 104-1 (1996).

Section 251(b)(1) of the Act provides that a local exchange carrier may not "prohibit . . . [or] impose unreasonable or discriminatory conditions or limitations on . . . the resale of its telecommunications services." 47 U.S.C. § 251(b)(1). On its face, this provision appears to prohibit US West from forbidding resale of the services offered under its Exchange and Network Services Tariff. Under the 1996 Act, resale restrictions are presumptively unreasonable whether they are contained in a resale agreement or in a tariff filed with the PUC. See In the Matter of Implementation of the Local Competition Provisions in the Telecommunications Act of 1996, CC Docket No. 96-98, First Report and Order, 11 FCC Rcd. 15499 at ¶ 939 (FCC Aug. 8, 1996); vacated sub nom. Iowa Utils. Bd. v. Federal Communications Comm'n, 120 F.3d 753 (8th Cir. 1997), cert. granted, 118 S. Ct. 879 (Jan. 26, 1998).

It is by no means apparent to me that the duty imposed by section 251(b)(1) is limited to situations where a reseller seeks to provide only basic local services as opposed to competitive services, as US West suggests. In any event, I think the PUC should examine this issue in the first instance. If the resale restrictions are allowed, the PUC should come forward with a principled legal basis for distinguishing legitimate limits allowed by the 1996 Act from unreasonable and discriminatory

conditions forbidden by the statute. Otherwise seek to provide other types of telecommunications service may be frustrated in their efforts to resell tariffed offerings.

The PUC's decision in this case was mailed on January 10, 1996, less than a month before the 1996 Act became law. Although the PUC was free to issue its decision without regard to the imminent enactment of a federal statute with potentially preemptive consequences, see Arapahoe County Public Airport Authority v. Centennial Express Airlines, Inc., No. 97SC123 slip op. (Colo. Apr. 13, 1998), I would remand for consideration of the effect of federal law in the context of further proceedings conducted for the purpose of applying what I see as the correct definition of "interexchange telecommunications services."[5]

III.

Accordingly, because the plain language of the statute serves not only to give the regulated notice but also to limit the authority of the regulator, I respectfully dissent.

[5] The majority correctly notes that the 1996 Act has a purely prospective application, but the issue to be decided concerns ongoing, i.e., prospective, conduct by both the Providers and US West.

EXHIBIT 3

Arizona Corporation Commission
Docket No. T-02532A-00-0512
Qwest Corporation - SRR-3
Exhibits of Starla R. Rook
Page 1, March 15, 2001

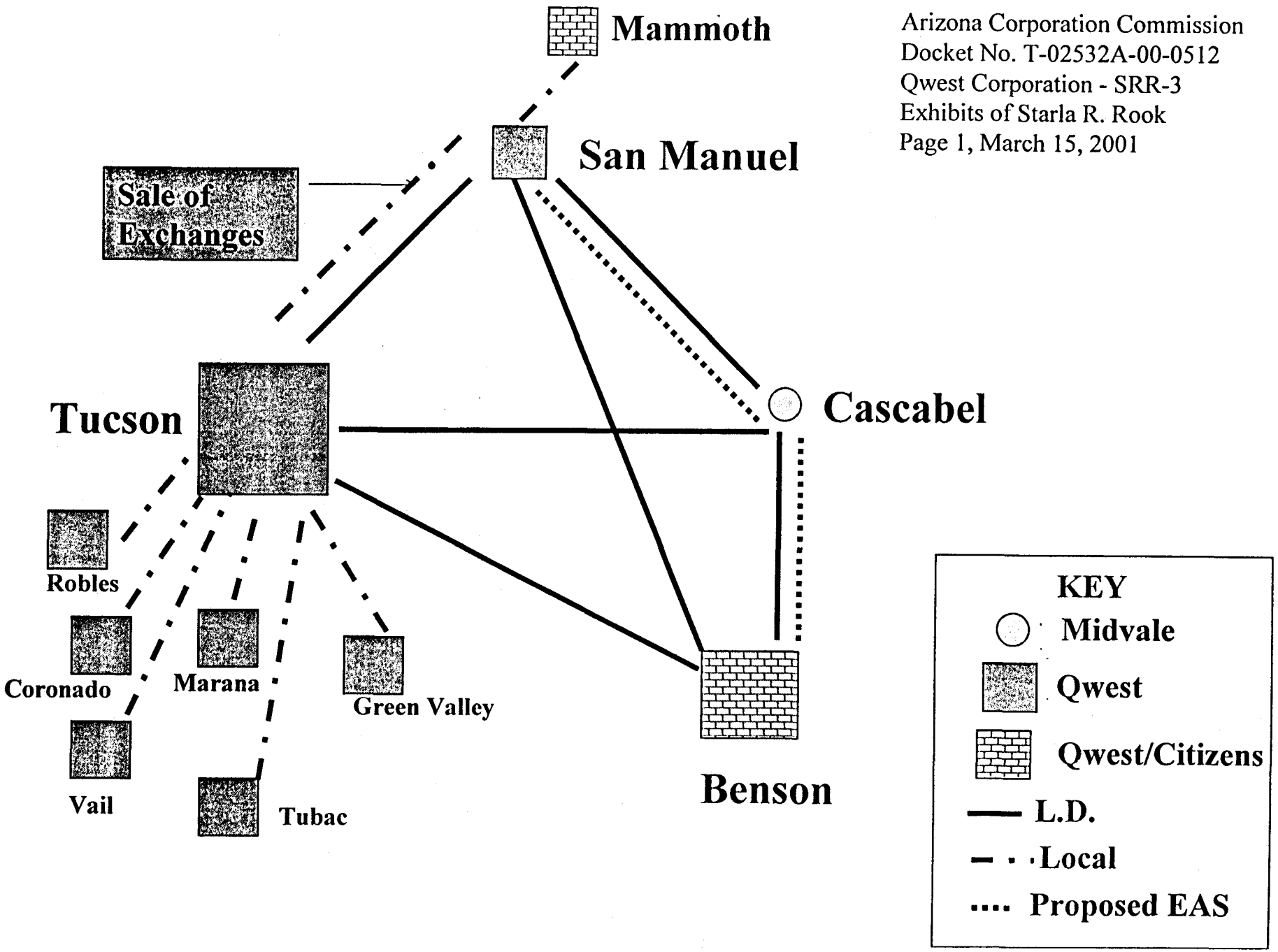

EXHIBIT 4

Arizona Corporation Commission
Docket No. T-02532A-00-0512
Qwest Corporation - SRR-4
Exhibits of Starla R. Rook
Page 1, March 15, 2001

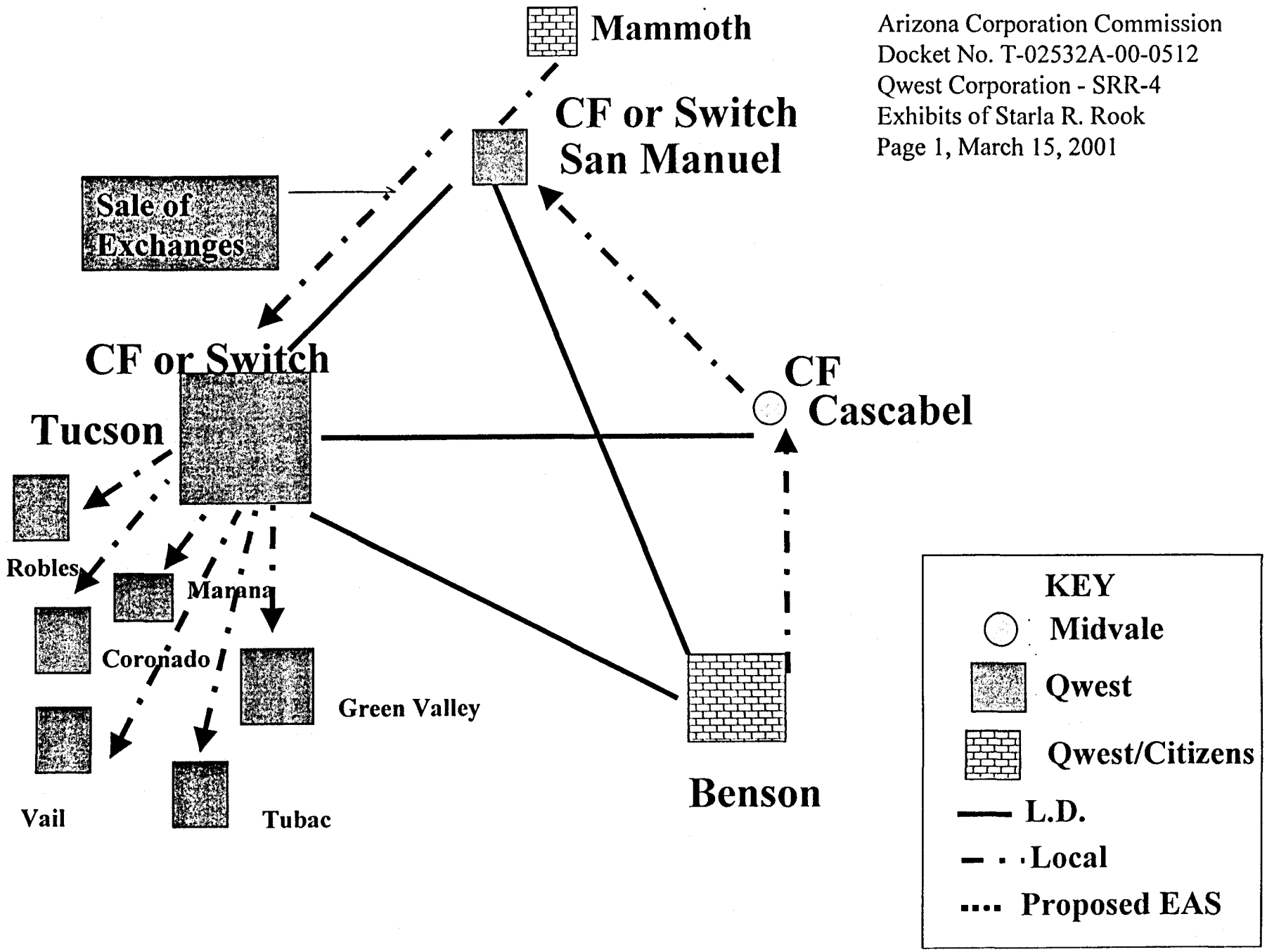

EXHIBIT 5

BEFORE THE ARIZONA CORPORATION COMMISSION

CARL J. KUNASEK
CHAIRMAN
JIM IRVIN
COMMISSIONER
WILLIAM MUNDELL
COMMISSIONER

IN THE MATTER OF THE JOINT APPLICATION OF QWEST CORPORATION AND CITIZENS UTILITIES RURAL COMPANY, INC. FOR APPROVAL OF THE TRANSFER OF ASSETS IN CERTAIN TELEPHONE WIRE CENTERS TO CITIZENS RURAL AND THE DELETION OF THOSE WIRE CENTERS FROM QWEST'S SERVICE TERRITORY.	DOCKET NO. T-01051B-99-0737 T-01954B-99-0737 **JOINT STIPULATION**

This JOINT STIPULATION is entered into this 8th day of August, 2000, by and between the Arizona Corporation Commission Utilities Division Staff ("Staff"), Citizens Utilities Rural Company ("Citizens Rural"),[1] and QWEST Corporation, formerly known as U S WEST Communications, Inc. ("QWEST"). The Staff, Citizens Rural, and QWEST are collectively referred to herein as the "Parties".

RECITALS

On December 22, 1999, QWEST and Citizens Rural filed a Joint Application with the Arizona Corporation Commission seeking approval of the sale of certain telephone properties in Arizona and the transfer of the Certificates of Convenience and Necessity ("CC&N") from QWEST to Citizens Rural. The Arizona wire centers are:

[1] A subsidiary of Citizens Communications Company ("Citizens").

Ashfork	Grand Canyon	Patagonia	Whitlow
Benson	Hayden	Pima	Wickenburg
Bisbee	Joseph City	Safford	Willcox
Circle City	Kearny	Somerton	Williams
Douglas	Mammoth	St. David	Winslow
Dudleyville	Maricopa	Stanfield	Yarnell
Elgin	Miami	Superior	Yuma Main
Fortuna	Mt. Lemmon	Tombstone	Yuma Southeast
Gila Bend	Page	Tonto Creek	
Globe	Palominas	Wellton	

Maps of these serving areas are on file with the Commission. Upon regulatory approval, Citizens Rural will acquire a total of approximately 154,000 access lines served by these 38 wire centers.

The following parties have intervened in this docket: the Residential Utility Consumer Office ("RUCO"), GCB Communications; Arizona Dialtone; Arizona Consumer Council; City of Yuma; Greater Yuma Economic Development Corporation; Arizona Utility Investors, Inc.; Southern Gila County Economic Development Corporation; Marvin Lustiger; and Communication Workers of America.

QWEST and Citizens Rural's application included written testimony and exhibits of Maureen Arnold and Phil Grate on behalf of QWEST, and F. Wayne Lafferty and C. Dale Register on behalf of Citizens Rural. After the application was filed, Staff and RUCO conducted extensive discovery regarding the proposed transfer of exchanges, requesting and receiving information from both QWEST and Citizens Rural. On March 25, 2000, the

following parties filed written responsive testimonies:

Staff: Linda A. Jaress, Richard L. Boyles, and Robert G. Gray

RUCO: Marylee Diaz Cortez

Arizona Dialtone: Thomas W. Bade

Yuma: Martha M. Dempsey; Debra L. Kosmata-Nidiffer; and Laura S. Neinast.

Staff and RUCO recommended that the application be approved, subject to certain conditions. Arizona Dialtone and Yuma did not object to the transfer, but did seek certain assurances. After filing its testimony, Citizens and Arizona Dialtone executed a letter agreement (attached hereto as Exhibit A) that resolved all issues between them. On June 21, 2000, Citizens and QWEST filed rebuttal testimony responding to the prefiled testimony of Staff and RUCO.

The Parties have engaged in settlement discussions to attempt to resolve all open issues between them. Based on these discussions, the parties have entered into this Joint Stipulation to expedite the Commission's approval of the Joint Application in Docket Nos. T-01954B-99-0737 and T-01051B-99-00737, subject to the conditions set forth below.

AGREEMENT

1. Rates and Charges

Citizens Rural will adopt all of QWEST's intrastate rates and charges in effect on the date of this Joint Stipulation for each of the wire centers it is acquiring from QWEST. These rates and charges are not subject to change with the resolution of the current QWEST rate case. These

intrastate rates and charges will remain in effect until such time as Citizens Rural receives authorization from the Commission to increase or decrease them. If Citizens Rural obtains additional revenues from the Federal Universal Service Fund related to the wire centers it is acquiring from QWEST, the rates and charges adopted by Citizens Rural will be interim and subject to refund in the next rate case, effective on the date Citizens Rural becomes entitled to the additional Federal Universal Service Fund revenues.

2. **Rate Filing**

Within 18 months of the closing of the transfer of the wire centers from QWEST to Citizens Rural, Citizens Communications will file an application that will allow the Commission to examine existing rates - including the appropriate level of Arizona USF support -- for the existing Citizens Rural exchanges, the Citizens Rural exchanges acquired from GTE California,[2] the Citizens Rural exchanges acquired from QWEST in this Docket and for Citizens Telecommunications Company of the White Mountains' exchanges. Citizens has indicated that it intends to file its rate application with the expectation of consolidating its various telephone rates. This agreement does not bind the parties to support a consolidated filing and leaves the parties free to adopt any position whatsoever regarding consolidation of rates.

3. **Availability of Services and Filing of Tariffs**

Citizens Rural will provide the same products and services to customers in each of the wire centers that QWEST currently provides to its customers. Both QWEST and Citizens Rural assert that the provision of public

[2] Docket Nos. T-01954B-99-0511 and T-01846B-00-0511, approved by Commission Decision No. 62648, dated June 13, 2000.

safety services such as 911 will continue to be provided in the same manner, and without interruption, to all customers in the affected exchanges. Citizens Rural will file new intrastate tariffs with the Commission, which mirror QWEST's tariffs currently on file at the Commission, which will be subject to Staff review and approval.

4. **Service Quality**

In the acquired wire centers, Citizens Rural will adopt and be subject to QWEST's Service Quality Plan Tariff, except that Subsection 2.6.1.E will not apply until twelve (12) months after closing.

5. **Investment in the Acquired Wire Centers**

In the four years following Commission approval of the Joint Stipulation, Citizens Rural commits to investing $109 million in the acquired wire centers. These investments include, but are not limited to, outside plant cable reinforcements, trunking and interoffice route relief, SS7 equipment and features, switch upgrades and expansions, interoffice transmission equipment, dial-up Internet and DSL equipment, and various support assets.

In November 2001, and in each November for the next four years (through November 2005), Citizens Rural will submit to the Staff a record of investments to date and its planned investments for the next year. The submission will detail system-wide investments and specific investments by wire center, and will discuss and reconcile planned investments, versus actual investments since the previous year.

6. **Specific Investment Projects**

In the Wickenburg and Safford wire centers Citizens Rural will, within one year after closing, replace the existing interoffice facilities with

fiber optic facilities to relieve interoffice congestion. The intent of these replacements is to furnish high-speed data transmission services to and from the two wire centers.

In addition, Citizens will open a public office in the Greater Yuma Area within one year after closing. The public office will permit customers to pay their bills, place service orders and have access to a local manager.

7. **Removal of Bridged Tap and Load Coil Encumbrances**

Within four years after closing, Citizens Rural will remove bridged tap and load coils from all loops under 18 kilofeet within the transfer area, where such encumbrances detrimentally affect the provision of DSL or other data transmission services. In those exchanges where DSL service is offered, Citizens will condition any local loop shorter than 18 kilofeet within 30 days of receiving a bona fide request. As part of the submission required in paragraph 5, above, Citizens Rural will describe its progress toward this goal.

8. **DSL Survey**

Citizens Rural will deploy DSL in the Yuma exchange within one year after closing and in the Safford exchange within 4 years of closing. Citizens Rural will survey customers outside these exchanges as to interest in purchasing DSL within twelve months after closing and provide these services when economically feasible by the end of 2005. Citizens Rural will report the results of its surveys and its conclusions concerning additional deployment as part of its rate filing described in Paragraph 2, above.

9. **QWEST Investment**

QWEST will use a total $56 million from the Transfer within three years after this transaction closes (no less than 1/3 of this amount to be used

within the first year after this transaction closes, and no less than 2/3 of this amount to be used within the first two years after this transaction closes) to upgrade plant and equipment to enhance the quality of service for QWEST's remaining Arizona consumers. This commitment shall be incremental to planned investment levels for each year and in addition to QWEST's commitment of a minimum of $402 million per year in its Arizona exchanges as set forth in Decision 62672 in Docket No. T-1051B-99-0497. QWEST will upgrade cross-boxes, terminal boxes and replace defective feeder or distribution cable and/or undertake other service quality improvement programs. QWEST will prioritize improvements in any year primarily based upon the number of trouble reports it receives. This investment shall not be included in rate base in the next QWEST rate case, so that in the next QWEST rate case, the net intrastate rate base will be reduced by $56 million. The adjustment is a one time adjustment that will be made only in the next rate case.

QWEST will continue its usual level of plant improvements and maintenance activity as determined by QWEST in the Transferred Wire Centers until the final closing of the transfer and the assumption by Citizens of responsibility for the Transferred Wire Centers. At the time of closing, held orders, as defined by Corporation Commission Rule R14-2-505(A)(3), shall be in the no penalty range in aggregate for the 38 sales wire centers, per 2.6.1.E of the Arizona Service Quality Plan Tariff, based on the total number of lines in the sales wire centers at the time of closing.

QWEST will replace the existing 1200 pair lead pulp cable (the "cable") that runs between the Bisbee Central Office and 126 Naco Highway

with fiber optic cables. QWEST will use its best efforts to have all customers currently served by the cable moved to the new fiber cable by December 31, 2000. If the move is not completed by the date of the closing, Citizens will complete the move.

10. **Treatment of Gain on Sale**

In consideration of all elements of this Agreement, Staff agrees that the gain realized by QWEST from the sales transaction with Citizens shall be recorded below the line for regulatory purposes.

11. **Transition Costs**

Citizens Rural will account for all costs specifically attributable to and required by the transition of ownership, such as rehoming exchanges. The Parties will defer the issue of whether it is appropriate to recover these costs to Citizens Rural's next rate case, or any future proceeding where this issue may be relevant.

12. **Local Calling Plans for San Manuel and Whitlow Exchanges**

Citizens Rural and QWEST will implement optional two-way local calling between the Whitlow exchange and the Phoenix metropolitan calling area and between the San Manuel exchange and the Tucson metropolitan calling area within twelve months after consummation of the sale. The rate charged for such optional service shall not be less than its total service long-run incremental cost. Additional cost and pricing issues will be addressed in rate proceedings for Citizens Rural and QWEST.

13. **Interconnection Agreements**

Citizens Rural will abide by the terms and conditions of QWEST's existing interconnection and inter-carrier agreements until it is able to

renegotiate new agreements with the affected providers. All interconnection and inter-carrier agreements between Citizens Rural and telecommunications services providers in the acquired wire centers will be submitted to the Commission for approval as required by law or regulation.

14. **Eligible Telecommunications Carrier Status**

In order to be designated an Eligible Telecommunications Carrier ("ETC") in the QWEST wire centers it is acquiring, Citizens Rural will: (A) offer the services that are supported by Federal universal service support mechanisms under section 254(c), either using its own facilities or a combination of its own facilities and resale of another carrier's services (including the services offered by another eligible telecommunications carrier); and (B) advertise the availability of such services and the charges therefore using media of general distribution. Citizens Rural should be entitled to any waivers or requested extensions of waivers currently in effect or pending for QWEST for the full term of the waiver or requested extension. Citizens Rural will also offer Lifeline and Link Up Service on the same terms and conditions as currently available to QWEST subscribers in each of the wire centers it will be acquiring and it will advertise the availability of Lifeline and Link Up service as required under federal and state law.

15. **Publication of Directories**

Citizens Rural's Directory Services Company will provide white and yellow page directories in the wire centers acquired from QWEST similar to those directories that are currently provided by QWEST.

16. **Acquisition Adjustment**

In this proceeding, Citizens Rural has not requested that the

Commission establish the ratemaking treatment for the difference between the book value of the properties purchased from QWEST and the purchase price paid. While Citizens Rural intends to record the consideration paid over the book value of the net assets acquired from QWEST in accordance with FCC Part 32 Accounting Rules, Citizens Rural agrees that the recognition of such premium for regulatory purposes, including but not limited to, ratemaking or fair value rate base determination purposes, shall not be allowed without the prior authorization of the Commission. Citizens Rural acknowledges that the Staff generally opposes the recovery of such an acquisition premium in rates, but that the Staff has agreed to defer the issue to Citizens Rural's next rate case, or until such time, if ever, as Citizens Rural seeks recovery of such acquisition adjustment.

17. **Deferred Taxes and Investment Tax Credits**

Staff has not analyzed whether any deferred income taxes and/or income tax credits will exist on the date of closing which should be deducted from rate base or refunded to ratepayers. The Parties will defer the issue of the existence, quantification and treatment of any deferred income taxes and/or investment tax credits to Citizen Rural's next rate case proceeding, or to any future Citizens proceeding where this issue may be relevant. Within two months after closing, QWEST will provide to the other Parties an accounting of the balances in these accounts.

18. **Study Area Waiver**

Citizens Rural and QWEST intend to petition the Federal Communications Commission ("FCC") for a study area waiver. Citizens Rural will provide the Staff with a draft copy of such petition prior to filing for its

review, together with a statement of impacts. If the draft is acceptable, Staff will ask the Hearing Officer to include a provision in the proposed order that the Commission does not object to the FCC granting any required Part 36 study area waivers based on this transaction, or to any reconfiguration of study area boundaries for the sale wire centers. Staff will further support inclusion of this provision in the Commission's final order.

19. **Notice to Customers**

Citizens Rural and QWEST will notify customers by bill insert or separate mailing of the changes in ownership once the Commission approves the transaction. The Notice will inform customers, among other things, (1) that existing rates will not change, (2) that Citizens Rural will assume the responsibility of QWEST as intraLATA carrier and (3) of a phone number where customers can call to have any questions they may have answered. Citizens Rural and QWEST will submit their proposed Notice to the Staff for review and approval prior to mailing.

The parties agree to waive any Primary Interexchange Carrier ("PIC") change charges associated with the transfer of Qwest's intraLATA customer base to Citizens in the affected exchanges, or other interexchange carrier, as long as the customer transfer to a new intraLATA carrier of choice is within 60 days after the transfer and the new intraLATA carrier of choice has not otherwise paid, or would not in the ordinary course pay, the PIC change charge.

20. **Notice to Commission**

Citizens Rural and QWEST will file with the Commission, a joint written notice of the closing of the transaction within five days of formal

closing. Citizens Rural and QWEST will also provide the Commission with written notice of all other approvals or authorizations required for consummation of the transfer.

21. Reseller Discounts

Citizens Rural will abide by the terms of the letter agreement with Arizona Dialtone, attached as Exhibit A.

GENERAL TERMS AND CONDITIONS

22. Conditions Precedent

The terms and conditions of this Stipulation are not effective unless and until the Commission approves this Stipulation without material modification and the sale of the wire centers closes. Each provision of this Joint Stipulation is in consideration and support of all the other provisions, and expressly conditioned upon acceptance by the Commission without change.

23. Effect of Commission's Failure to Approve

If the Commission fails to adopt this Joint Stipulation according to its terms by September 30, 2000, or it is otherwise disapproved by any court of competent jurisdiction, this Joint Stipulation is deemed to be withdrawn and of no further force or effect and the Parties will be free to pursue their respective positions in these proceedings without prejudice. Each party may file any application, testimony and price schedule it chooses, cross-examine witnesses and, in general, put on such case as it deems appropriate in any proceeding that would have been affected by this Stipulation.

24. Compromise

This Stipulation represents a compromise in the positions of the

Parties. By executing this Stipulation no party acknowledges the validity or invalidity of any particular method, theory or principle of regulation, and no party agrees that any principle, method or theory of regulation employed in arriving at this Stipulation is appropriate for resolving any issue in any other proceeding. There are no findings of fact or conclusions of law implicit in this Stipulation other than those stated herein.

25. **Privileged and Confidential Negotiations**

All negotiations relating to this Stipulation are privileged and confidential, and no party is bound by any position asserted in the negotiations, except to the extent expressly stated in this Stipulation. As such, evidence of conduct or statements made in the negotiation of this Stipulation are not admissible as evidence in any proceeding before the Commission or a court.

26. **Stipulation in the Public Interest**

This Stipulation is in the public interest and that all of its terms and conditions are fair, just and reasonable.

27. **Complete Agreement**

This Stipulation and Agreement represents the complete agreement of the Parties. There are no other understandings or commitments other than those specifically set forth herein. The Parties acknowledge that this Stipulation and Agreement resolve all issues that were, or could have been, raised in these proceedings and is a complete and total stipulation between these parties.

28. **No Precedent**

The facts and circumstances of these dockets are unique and that

the resolution of issues reflected in this Stipulation do not constitute a precedent that may be cited, referenced or otherwise relied upon by any party in any future proceeding before this Commission or in any other regulatory or judicial proceeding. Except as otherwise specifically agreed upon in this Stipulation, nothing contained herein will constitute a settled regulatory practice for the purpose of any other proceeding.

29. **Support and Defend**

Each party will support and defend this stipulation, this sales transaction, and the relief sought by the applicants in their joint application before the Commission and in any forum where it may be at issue.

30. **Limit on Subsequent Actions**

No party will maintain any cause of action before the Commission, or any court, contending that approval of the sale of the wire centers by the Commission should be vacated, withdrawn, or rescinded in any manner, based upon any alleged subsequent breach of any material term or condition of this Stipulation by either Citizens or QWEST. No other limitation is intended to exist upon the lawful jurisdiction of the Commission to address the issues set forth in this Stipulation.

31. **Confidentiality**

Citizens and QWEST reserve the opportunity to request confidential treatment for any information filed pursuant to the terms of the Stipulation.

DATED as of the date first written above.

QWEST CORPORATION

By: _____

Its: Vice President - Arizona

CITIZENS UTILITIES RURAL COMPANY

By: Craig A. Marks

Its: Assoc. Gen. Counsel

ARIZONA CORPORATION COMMISSION
UTILITIES DIVISION STAFF

By: for Barbara Wytaske

Its: Assistant Director

PHX/TBERG/1092075.1/67817.201

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FILE NUMBER
36340-0111

June 5, 2000

VIA FAX AND FIRST CLASS MAIL

Craig J. Marks, Esq.
Associate General Counsel
Citizens Utilities Company
2901 North Central Avenue
Suite 1660
Phoenix, AZ 85012

Re: TRANSFER OF SERVICE AREAS FROM USWEST TO CITIZENS
ACC Docket No. T-01051B-99-0737

Dear Craig:

This letter is to document terms of a settlement between Citizens Utilities Rural Company, Inc., and Arizona Dialtone, Inc. and GCB Communications, Inc. concerning issues of the existing Interconnection Agreements and wholesale discounts in the USWest areas that are being acquired by Citizens. The parties have reached agreement on an appropriate level of wholesale discounts that will adequately address their respective concerns in the subject ACC Docket. The terms of the agreement are as follows:

Citizens and Arizona Dialtone will enter into a new single Interconnection Agreement covering all of Citizens' areas in Arizona. The new Interconnection Agreement will have a term of two years and will contain the same terms as are in the existing Interconnection Agreements except that the percentage wholesale discount rates for PAL and Business lines will be as follows: 16% in the White Mountains and Navajo areas, and 16.5% in the Citizens Rural areas and the new areas being acquired from US West. Citizens will draft the new Interconnection Agreement and provide copies to Arizona Dialtone by June 19, 2000, for review and execution. In return, GCB and Arizona Dialtone agree to withdraw their intervention in the above captioned matter.

and GTE
(AM)

Exhibit A

If I have properly stated the terms, please acknowledge Citizens' assent to this agreement by signing the enclosed copy of this letter in the space provided below and return it to me. Upon receipt of your signed copy of this letter, we will proceed to carry out the terms.

Thank you for your attention to this matter. I was unable to reach you by telephone before leaving for my vacation, but I will be back in the office on June 15, 2000. If you have any questions or concerns do not hesitate to contact me.

Very truly yours,

MORRILL & ARONSON, P.L.C.

William D. Cleaveland

William D. Cleaveland

WDC/lm

cc: Mr. Thomas Bade

ACCEPTANCE OF TERMS:

Citizens Utilities Company

By Craig A. Marks
Craig A. Marks, Esq.
Associate General Counsel

6/6/00
Date

K:\WDC\DOCS\US WEST\Marks.ltr.wpd

EXHIBIT 6

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of Determining the) DOCKET NO. UT-971515
Proper Classification of:)
UNITED & INFORMED CITIZEN) FOURTH SUPPLEMENTAL ORDER
ADVOCATES NETWORK)

COMMISSION DECISION AND
FINAL CEASE AND DESIST ORDER
. . . . .)

SUMMARY

PROCEEDINGS: On October 28, 1997, the Washington Utilities and Transportation Commission (Commission) instituted this proceeding to determine whether United & Informed Citizens Advocates Network (U & I CAN) conducts business as a telecommunications company subject to Commission regulation, or performs any act requiring registration or approval by the Commission without securing authorization. A prehearing conference was held on November 18, 1997. A motion by U & I CAN to disqualify Marjorie R. Schaer as Administrative Law Judge was heard and denied. Requests by U S WEST Communications, Inc. (U S WEST) and GTE Northwest (GTE) to intervene were granted. A prehearing conference order by Judge Schaer was entered on December 5, 1997. That order reflected the decisions made orally at the prehearing conference, and set out a schedule for the proceeding. A protective order was entered by the Commission on December 5, 1997.

On December 11, 1997, U & I CAN filed objections to the Prehearing Conference Order. U & I CAN requested that the Commission overturn that Order in part, and disqualify Judge Schaer. The Commission denied the request in an order entered January 23, 1998. The parties pre-filed testimony and exhibits in accordance with the schedule in the prehearing conference order.

On May 19, 1998, a hearing was conducted. Judge Schaer declined to reconsider U & I CAN's motions previously ruled upon, including the request for disqualification. U & I CAN's motions to stay proceedings and dismiss for lack of jurisdiction were denied. U & I CAN was granted a continuing objection to the admission of any evidence or testimony in this case, did not present testimony or other evidence, and did not conduct any cross-examination of witnesses. Testimony and exhibits on behalf of the other parties were admitted, and form the factual basis for this order. At the conclusion of the hearing the parties waived entry of an initial order.

COMMISSION: The Commission has jurisdiction to determine whether U & I CAN is engaged in any activity without complying with the statutory requirements of RCW Title

80. Furthermore, the Commission has a public interest in regulating extended-area-service (EAS) bridging.
U & I CAN is a company owning, operating, or managing facilities used to provide telecommunications for sale to the general public. U & I CAN is a telecommunications company as defined by RCW 80.04.010, and it must register with the Commission prior to providing service as required by RCW 80.36.350. U & I CAN, and its principals, must cease and desist from offering telecommunications services in the state of Washington unless and until they are properly registered with the Commission. It is appropriate for the Commission to enter a final order in this matter.

PARTIES: U & I CAN appeared represented by J. Byron Holcomb, attorney, Bainbridge Island. Shannon E. Smith, Assistant Attorney General, Olympia, appeared for the Washington Utilities and Transportation Commission and its staff (Commission Staff). U S WEST, represented by Peter Butler, attorney, Seattle, and GTE, represented by Timothy J. O'Connell, attorney, Everett, appeared and sought intervention by motions, which were granted.

MEMORANDUM

I. BACKGROUND

A. Proceedings

On October 28, 1997, the Washington Utilities and Transportation Commission (Commission) instituted this proceeding to determine whether U & I CAN conducts business as a telecommunications company subject to Commission regulation, or performs any act requiring registration or approval by the Commission, without securing authorization. The Commission scheduled a prehearing conference in accordance with WAC 480-09-460 for November 18, 1997. At the prehearing conference, Administrative Law Judge Marjorie R. Schaer heard U & I CAN's oral motion to disqualify her as presiding officer. The motion was denied orally at the prehearing conference. U & I CAN's motion to stay proceedings to enable it to obtain administrative review of the decision was also denied. Petitions by U S WEST and GTE to intervene filed pursuant to WAC 480-09-430 were granted, over U & I CAN's objection. These decisions were subsequently confirmed by written order.[1]

A protective order was issued by the Commission on the same day.[2] The order was specially crafted to protect member lists, membership information, membership usage, call detail, and similar information. TR 27.

On December 11, 1997, U & I CAN filed objections to the Prehearing Conference Order. U & I CAN requested that the Commission overturn that Order, in part, and disqualify Judge Schaer. Commission Staff, GTE, and U S WEST filed responses on January 6, 1998. The Commission affirmed the prehearing order.[3]

On May 19, 1998, the hearing was conducted. Mr. Holcomb, counsel for U & I CAN, stated that he was making a "special appearance" to challenge the Commission's jurisdiction and to object to any evidence offered or admitted in this proceeding.[4] Judge Schaer declined to reconsider U & I CAN's motions previously ruled upon, including the request for disqualification. U & I CAN's motions to stay proceedings, and dismiss for lack of jurisdiction were denied. U & I CAN was granted a continuing objection to the admission of any evidence or testimony in this case, did not present testimony or other evidence, and did not conduct any cross-examination of witnesses.

At the conclusion of the hearing the parties waived entry of an initial order. Commission Staff, U S WEST, and GTE filed post-hearing briefs on or about August 7, 1998.

B. Facts

U & I CAN did not present any witnesses in this proceeding. U & I CAN presented a motion to dismiss this proceeding for lack of jurisdiction. Attached to the motion were two incomplete documents, which were admitted as Exhibit 1. On the basis of these documents, U&I CAN claims it is a non-profit corporation. It has never provided a complete copy of its articles of incorporation, or of the corporate minutes reflecting the adoption of its bylaws. U&I CAN was asked by the Administrative Law Judge to provide this information. It agreed on the record to do so, but did not. The record is not sufficient to determine whether U & I CAN is a non-profit corporation, or an unincorporated entity. No proof of non-profit corporate status was sustained.

U&I CAN's operations constitute what typically is known as "EAS bridging." An extended-area-service (EAS) area is a region in which all calls placed from a location in that region to another in that region are non-toll, i.e.,the call does not incur access and/or toll charges. Phone calls placed in an EAS to a location, outside an EAS, however, incur access and or toll charges. EAS bridging provides the ability to call from one exchange to another exchange without incurring a toll charge. RCW 80.36.850. See also, Ex. T-7 at 3. As explained by US West witness Joseph T. Thayer:

An EAS bridger is one who illegally uses a combination of customized call management services and his or her own equipment to complete calls between two overlapping EAS regions without incurring access and/or toll charges. Thus he or she has effectively built a "bridge" between EAS regions to avoid toll charges.

Id. at 3-4, ll. 19-10, 1-2.

The Commission has determined that U&I CAN unlawfully bridges EAS. United & Informed Citizen Advocates Network, a non-profit Washington Corporation v. Pacific Northwest Bell Telephone Co. d/b/a US West Communications, Inc., Third Supp. Order, Commission Decision and Order Granting Interlocutory Review of Order; Affirming Second Order, Docket No. UT-960659, at 8, 11-13 (Feb. 5, 1998). EAS bridgers deprive

local exchange companies, such as U S WEST and GTE, of a legitimate and substantial source of revenue. U S WEST and GTE offer local toll calling in their service territories, including the portions of those territories where U & I CAN also provides telecommunications service.

U & I CAN operates its telecommunications system by using call-forwarding features it (or its members on its behalf) purchases from the local exchange company. U & I CAN uses a personal computer containing a voice mail card. When the computer receives a call, the voice mail card will "flash hook" and redial. Ex. T-2 at 3. The software in the computer answers calls and requests the calling party to identify the party being called. Id. To complete the EAS bridge, the voice mail card in U&I CAN's computer transmits a series of three tones to the calling party. In response, the calling party enters his or her personal identification number. The computer gives another audible tone, at which signal, the calling party then enters the telephone number of the party being called. The computer transmits a final series of tones to the calling party, who is then connected with the party being called. Ex. T-2 at 4; see also Ex. 8 at 2-3.

U S WEST tested the call volume on the access lines used by U & I CAN and determined that the usage on these numbers indicates bridging. 4,024 calls during a twenty-six day period were recorded for one of the numbers. This would equal approximately 154 calls per day if the calls originated at a residence, or 251 calls per day if a business. Ex. T-2 at 6.

U&I CAN claims it has no customers, only members. U&I CAN members currently pay a one-time initiation fee of $8.00, and then pay monthly membership dues of $8.00. Exs. T-2 at 5; T-7 at 5. The members pay this flat, monthly fee to access the system up to 30 times per month. If a member exceeds the 30 calls, U&I CAN assesses a second flat fee of $8.00. Id, at 7.

II. RELEVANT STATUTES AND REGULATIONS

A. RCW 80.04.010. Key terms are defined:

"Private telecommunications system" means a telecommunications system controlled by a person or entity for the sole and exclusive use of such person, entity, or affiliate thereof. "Private telecommunications system" does not include a system offered for hire, sale, or resale to the general public.

"Telecommunications company" includes every corporation, company, association, joint stock association, partnership and person, their lessees, trustees or receivers appointed by any court whatsoever, and every city or town owning, operating or managing any facilities used to provide telecommunications for hire, sale, or resale to the general public within this state.

"Facilities" means lines, conduits, ducts, poles, wires, cables, cross-arms, receivers, transmitters, instruments, machines, appliances, instrumentalities and all devices, real estate, easements, apparatus, property and routes used, operated, owned or controlled by any telecommunications company to facilitate the provision of telecommunications service.

"Telecommunications" is the transmission of information by wire, radio, optical cable, electromagnetic, or other similar means. As used in this definition, "information" means knowledge or intelligence represented by any form of writing, signs, signals, pictures, sounds, or any other symbols.

B. RCW 80.04.015:

Whether or not any person or corporation is conducting business subject to regulation under this title, or has performed or is performing any act requiring registration or approval of the commission without securing such registration or approval, shall be a question of fact to be determined by the commission. Whenever the commission believes that any person or corporation is engaged in any activity without first complying with the requirements of this title, it may institute a special proceeding requiring such person or corporation to appear before the commission at a location convenient for witnesses and the production of evidence and produce information, books, records, accounts, and other memoranda, and give testimony under oath as to the activities being conducted. The commission may consider any and all facts that may indicate the true nature and extent of the operations or acts and may subpoena such witnesses and documents as it deems necessary.

After investigation, the commission is authorized and directed to issue the necessary order or orders declaring the activities to be subject to, or not subject to, the provisions of this title. In the event the activities are found to be subject to the provisions of this title, the commission shall issue such orders as may be necessary to require all parties involved in the activities to comply with this title, and with respect to services found to be reasonably available from alternative sources, to issue orders to cease and desist from providing jurisdictional services pending full compliance.

C. RCW 80.36.350:

Each telecommunications company not operating under tariff in Washington on January 1, 1985, shall register with the commission before beginning operations in this state.

D. RCW 80.36.850:

"Extended area service" means the ability to call from one exchange to another exchange without incurring a toll charge.

III. ISSUES PRESENTED

A. Does the Commission Have Jurisdiction to Determine Whether U & I CAN Is Engaged in Any Regulated Activity Without Complying with Statutory Requirements?

B. Does The Commission Have A Public Interest in Regulating EAS Bridging?

C. Is U & I CAN a Telecommunications Company?

IV. COMMISSION DISCUSSION AND DECISION

A. Does the Commission Have Jurisdiction to Determine Whether U & I CAN Is Engaged in Any Regulated Activity Without Complying with Statutory Requirements?

At the hearing on May 19, 1998, the Administrative Law Judge denied U & I CAN's motion to dismiss this proceeding. This decision deserves review and discussion by the Commission. U & I CAN argues that the Commission lacks jurisdiction on five grounds: 1) U & I CAN is a non-profit corporation; 2) U & I CAN does not conduct business; 3) U & I CAN's Articles of Incorporation and By-laws do not authorize it to provide services to the general public; 4) the Commission determined in Docket No. UT-960659 that U & I CAN has no lines or access lines of its own; and 5) U & I CAN is a membership organization.

RCW 80.04.015 provides that whenever the Commission believes that any person or corporation is engaged in any activity without complying with statutory requirements, it may institute a special proceeding. The statute applies equally to U & I CAN whether it is a corporation (which it has not proven) or is only a company run by individuals. The inquiry to be made in that proceeding is a question of fact: is the activity of the entity the provision of telecommunications service. The definition of "telecommunications company" in RCW 80.04.010 also applies to every corporation or company. The fact that U & I CAN may be a non-profit corporation is not determinative of whether its activities include provision of telecommunications services and, thus, make it subject to the jurisdiction of the Commission. U & I CAN's organizational status does not justify any failure to comply with statutory requirements, and cannot be invoked to defeat review of its activities by the Commission.

U & I CAN's argument that it is not organized to conduct business as a telecommunications company, ergo it does not provide telecommunications, is flawed. The Commission's jurisdiction is based upon the conduct of U & I CAN, not its organizational purpose.

RCW 80.04.015 is consistent with the Washington State Constitution, Article XII, Section 19. Article XII, Section 19, establishes the right of legal entities to organize for the purpose of conducting business as telecommunications companies, subject to

legislative control. U & I CAN misinterprets the State Constitution by claiming that the legislature's authority to regulate legal entities is determined by self-serving statements of an organization's purpose. RCW 80.04.015 authorizes the Commission to regulate entities based upon their conduct. This authority is consistent with the legislature's constitutional authority to control entities expressly organized for the purpose of providing telecommunications.

U & I CAN's argument that the Commission lacks jurisdiction because the U & I CAN Articles of Incorporation and bylaws do not authorize U & I CAN to provide telecommunications services to the general public is tantamount to a claim that U & I CAN is incapable of performing an unauthorized activity. Even when specifically asked by the administrative law judge to provide enough information for a determination to be made of whether U & I CAN is actually a non-profit corporation, such information was promised, but not provided. The Commission cannot determine on this record whether U & I CAN is, in fact, a non-profit corporation. Because the Commission inquiry is the same for either a corporation or a company, and is a factual inquiry based upon the conduct on that entity, the Commission can act in this matter without knowing which kind of business is before it.

U & I CAN also argues that the Commission is not empowered to order a company to register as a telephone company, when such an order would violate its articles and bylaws. This argument mischaracterizes the scope of this proceeding. There is a critical distinction between compelling an entity to commit an unauthorized act, and requiring an entity to comply with state law. Whether or not U & I CAN has committed an ultra vires act is not the focus of this proceeding. If providing telecommunications services would be an ultra vires activity then it may mean that U & I CAN should stop providing those services, but it is not factual evidence that U & I CAN is not providing those services. This case has been initiated to determine whether U & I CAN conducts activities that require prior registration or approval of the Commission. The jurisdiction of the Commission is established by law, not by private consent.

U & I CAN's argument that the Commission lacks jurisdiction because of a prior determination that it did not have standing to bring a complaint against U S WEST Communications, Inc. (U S WEST) is without merit. In Docket No. UT-960659 the Commission found that U & I CAN did not have standing to bring claims against U S WEST because it did not have a direct customer relationship which would impose duties upon U S WEST.[5] The telephone lines which were the subject of that case were held in U & I CAN individual subscriber's names. The issue in this case is whether U & I CAN owns, operates, or manages any facilities to provide telecommunications. RCW 80.04.010 broadly defines "facilities" to include instruments, machines, appliances, and all devices or apparatus. The Commission's prior determination that U & I CAN is not a customer of U S WEST has no bearing on this case.

Finally, U & I CAN argues that it provides only restricted access to telecommunications services to its members, and does not provide telecommunications to the general public for hire, sale, or resale. This claim addresses a question of fact to be determined by the Commission. U & I CAN's argument is not germane to its challenge to the Commission's jurisdiction in this matter. Whether U & I CAN membership is available to the general public is an issue of material fact; U & I CAN is not entitled to summary disposition as a matter of law.

COMMISSION DECISION: The Commission has jurisdiction to determine whether U & I CAN is engaged in any regulated activity without complying with the statutory requirements of RCW Title 80.

B. Does The Commission Have A Public Interest in Regulating EAS Bridging?

The Commission Staff argues that U & I CAN's service is affected with the public interest because it has, or could have, a significant effect on the public switched telephone network in a manner that harms the public interest. U & I CAN's system is designed to allow users to bypass toll charges through EAS bridging. The Commission agrees with the Commission Staff that EAS bridging affects the public interest.

The Commission previously has held that EAS bridging is contrary to the public interest:

We understand that many of MetroLink's customers have achieved substantial savings in toll charges. However, those savings represent reduced revenues to the the carriers providing access. By approving the US West tariff revision, we will continue to uphold our policy that all network users should pay their fair share of costs associated with their use. Approving this tariff means that costs caused by users who avoid toll charges will not be passed along to all customers in the form of higher local rates.

The Commission believes that approving this settlement is consistent with the public interest. It is consistent with our policies that the integrity of the telecommunications network be maintained for all customers and that costs be borne by those who cause them.

GTE Northwest, Inc. v. Pacific Northwest Bell Telephone Co., Docket No. U-881719-F, 113 PUR4th, 431, 433 (May 1, 1990).

The Commission also agrees with the Public Utilities Commission of Utah in a case where it evaluated the legality of EAS bridging and set forth strong policy reasons against EAS bridging:

This is not a case of small, virtuous Davids being set upon by a powerful, evil Goliath out to crush legitimate competition. These respondents are offering no innovation in service or technology. This is a case of these respondents setting out to exploit a legal anomaly

which was created by this Commission in an effort to promote equity between telephone service providers and customers. These respondents are turning the Commission's effort to promote equity on its head. For their own profit, they are enabling some USWC customers to realize savings to which they are not entitled. In the process, these respondents are depriving USWC of revenues which it would collect otherwise, and they are competing unfairly with authorized resellers of MTS [message toll service or long distance] service who abide by the applicable USWC tariffs. They also do not contribute revenues which would otherwise go to the Universal Service Fund, thus potentially saddling telephone service subscribers in outlying areas of the state with higher costs than they would incur otherwise. Respondents' service is, in short, contrary to the public interest.

US West Communications, Inc. v. Bridge Communications, Inc., Docket No. 93-049-20, Utah Public Utilities Commission (August 19, 1994).

In fact, the Commission has determined in a separate proceeding involving U & I CAN that it is illegal in Washington to provide Extended Area Service (EAS) without payment of access charges. United & Informed Citizen Advocates Network, a non-profit Washington Corporation v. Pacific Northwest Bell Telephone Co. d/b/a US West Communications, Inc., Third Supp. Order, Commission Decision and Order Granting Interlocutory Review of Order; Affirming Second Order, Docket No. UT-960659, at 8, 11-13 (February 5, 1998).

COMMISSION DECISION: Because the public has an interest in whether EAS bridgers should be allowed to operate, U&I CAN should be subject to regulation by the Commission.

C. Is U & I CAN a Telecommunications Company?

The definition of a telecommunications company in RCW 80.04.010 serves as a checklist to determine whether U & I CAN engages in any activity requiring registration or approval by the Commission.

A telecommunications company includes:

- every corporation, company, association, joint stock association, partnership and person,

- owning, operating or managing any facilities used to provide telecommunications

- for hire, sale, or resale

- to the general public.

1. Is U & I CAN a corporation or company?

U & I CAN's Certificate of Incorporation and undated By-laws demonstrate U & I CAN's putative corporate status. Ex. 1. U & I CAN's claim that it is a non-profit entity is not supported by the evidence in this case. Despite its agreement to produce relevant documents after a bench request for the information, U & I CAN failed to submit additional corporate records and has not established its formal corporate status in this proceeding. U & I CAN did not present any testimony regarding its compliance with the statutory requirements for a non-profit corporation, nor did it present a witness who could respond to questions on its corporate status. The documents in Exhibit 1, without more, are not sufficient to establish non-profit status. The documents are incomplete; no corporate minutes, federal tax returns, charitable trust registration with the Secretary of State, evidence that profits of the firm are not distributed to individuals, or other indicia of an ongoing non-profit corporate entity were presented.

U & I CAN claims in its motion that it has no customers, only members. Again, no testimony from U & I CAN is available on this point. Not only did U & I CAN present no testimony or exhibits, U & I CAN also refused to respond to data requests from U S WEST and GTE. If further proceedings are held in this matter, U & I CAN has been ordered to respond to those data requests. U & I CAN "members" currently pay a one-time initiation fee of $8.00 and then pay monthly membership dues of $8.00. Ex. T-7 at 5. The members pay this flat, monthly fee to access the system 30 times per month. If a member exceeds the 30 calls, U & I CAN assesses additional fees of $8.00 per each group of calls. Id., at 7. The only limitation on membership is sponsorship by an existing U & I CAN member. U & I CAN pays its members $6.00 for each new member sponsored. Ex. 9. The U & I CAN newsletter contains advertising for other businesses. Ex. 9.

COMMISSION DECISION: U & I CAN is a "company" within the meaning of RCW 80.04.010. U & I CAN sells memberships. Its members are customers in the same sense that any service sector business has customers. U & I CAN incurs expenses, utilizes a pricing structure for its services, generates revenues, markets its services, and publishes advertising for other businesses in its newsletter publication.

U & I CAN's nomenclature does not control the Commission's factual investigation. The finding that U&I CAN is a company is based upon the true nature and extent of U & I CAN's operations.

2. Does U & I CAN provide telecommunications?

U & I CAN's operations constitute what typically is known as "EAS bridging." EAS, or extended area service, provides the ability to call from one exchange to another exchange without incurring a toll charge. RCW 80.36.850. See also, Ex. T-7 at 3. An EAS bridger uses a combination of customized call management services and his or her own

equipment to complete calls between two overlapping EAS regions without incurring access and/or toll charges. Thus, he or she has effectively built a "bridge" between EAS regions to avoid legitimately owed toll charges. Id. at 3-4.

U & I CAN operates its telecommunications system by using call-forwarding features it or members strategically placed in an EAS region purchase from the local exchange company. U & I CAN then places a facility, a personal computer containing a voice mail card, at the location . When the computer receives a call, the voice mail card will "flash hook" and redial. Ex. T-2 at 3. The software in the computer answers calls and requests the calling party to identify the party being called. Id. To complete the EAS bridge, the voice mail card in U & I CAN's computer transmits a series of three tones to the calling party, the calling party then enters his or her personal identification number, the calling party is given another audible tone, and then enters the telephone number of the party being called. The calling party hears a final series of tones, and is connected with the party being called. Ex. T-2 at 4; See also Ex. 8 at 2-3.

COMMISSION DECISION: RCW 80.04.010 defines "telecommunications" as the transmission of information by wire, optical cable, or other similar means. As used in that definition, "information" means knowledge or intelligence represented by any form of signals, or sounds. EAS bridging requires transmission and a series of audible signals in order to function; thus, U & I CAN performs telecommunications.

3. Does U & I CAN Own, Operate or Manage Facilities Used to Provide Telecommunications?

U & I CAN owns computers equipped with voice cards that transfer calls. Ex. 3. The Commission Staff argues that the personal computers and the voice cards are "facilities," as they are broadly defined in RCW 80.04.010, supra, p. 4. In addition to owning the personal computers, U & I CAN also manages the use of call transfer features that U & I CAN or its members purchase from the local exchange company. Ex. T-2 at 3.

U S WEST argues that U & I CAN's computers equipped with flash hook and redial capabilities satisfy the definition of facilities. The computers are a "machine" which facilitates the provision of telecommunications service. U S WEST states that the Commission previously found that a similar device ("Telexpand") constituted a telecommunications facility:

The Telexpand is a facility as defined by statute. MetroLink operates the Telexpand. When a MetroLink customer places a call via the Telexpand, the machine forwards the requested number to the U S WEST central office. That signal is a "transmission of information by wire" which meets the statutory definition of "telecommunications." MetroLink provides the service "for hire, sale and resale." MetroLink's Telexpand service thus fits squarely within the definition of a telecommunications company set forth in RCW 80.04.010. The statute requires that the "facilities" be owned, operated or managed

by the telecommunications company but does not require ownership of the wire or other means of transmission.[6]

The Commission agrees with U S WEST that there is no discernible difference between the facilities used by MetroLink and the facilities used by U & I CAN. The Commission found that MetroLink operated a telecommunications service.

COMMISSION DECISION: The call forwarding or transfer services provided by U & I CAN are "telecommunications" as broadly defined in RCW 80.04.010, supra, p. 4. U & I CAN owns, operates or manages facilities used to provide telecommunications. U & I CAN operates a telecommunications service.

4. Does U & I CAN Provide Telecommunications for Hire, Sale, or Resale?

U & I CAN requires its members to pay both an initiation fee and a flat monthly fee for its service. This flat monthly fee is expressed in terms of the number of times a member accesses the telecommunications system in a given month. A member is allowed to access the system 30 times per month. Ex. T-5. If a member accesses the system more than 30 times, the member will be charged an additional $8.00 fee for that month. Ex. T-5 at 7. U & I CAN monitors the number of times each member uses the system. Ex. 6.

U & I CAN offers a two-step pricing plan for the purchase of services by members. U & I CAN membership is a month-to-month arrangement. The primary benefit of membership is the cost-saving access to U & I CAN's EAS bridging service.

COMMISSION DECISION: The obligation of members to pay for telecommunications services provided by U & I CAN constitutes sales transactions. U & I CAN provides telecommunications for sale.

5. Does U & I CAN Provide Telecommunications to the General Public?

U & I CAN argues that its members do not comprise the general public, and places great weight on the requirement that new members be sponsored by an existing member. Ex. 9, Attachment 2.

The Commission Staff notes that U & I CAN's members do not all reside in the same building, nor do they work in the same business complex, and argues that, therefore, they do not share the commonality of location required for private shared telecommunication services under RCW 80.04.010. (See Ex. 6). Nor does U & I CAN operate a private telecommunications system because its telecommunications service is not used exclusively by U & I CAN but, instead, is used by the various members for their personal benefit. The Commission Staff also notes that the public service laws do not distinguish U & I CAN members from the general public, and concludes that U & I CAN's members are the general public.

U S WEST argues that U & I CAN's own literature describes its open and non-discriminatory membership policy. (See Ex. T-2). U S WEST also points out that members do not have vested or ownership interests in U & I CAN.

COMMISSION DECISION: Joining in U & I CAN requires only that a potential member be sponsored by another member who has "a like mind and that they will be active in [U&I CAN's] advocations," and that the members participate in a poll regarding their opinions on an assigned "issue of the month." Ex. 1 and 6. However, the true nature of the like mind shared by U & I CAN members appears to be to lower telecommunications expenses. This common interest in illegally paying lower phone rates does not, in and of itself, constitute a sufficient community to support classification as a private telecommunications system. This interest in cost-cutting is common among members of the general public, even though most members are willing to follow legitimate paths for their toll calls.

U&I CAN relies upon member sponsorships as a marketing tool, and it pays its members for each new member sponsored. Member sponsorship is no more than an incentive and mechanism for validating and tracking payments to its existing members for marketing U & I CAN's telecommunications service. Membership is conditioned upon making monthly payments. U & I CAN members subscribe to its telecommunications service.

In the MetroLink case, the Commission faced a nearly identical situation regarding a company that was bridging EAS boundaries in order to provide toll service without incurring toll charges. Second Supp. Order, In the Matter of Determining the Proper Classification of U.S. MetroLink Corp., Docket No. U-88-2370-J (May 1, 1989).[7] In MetroLink, the Commission determined that MetroLink did in fact provide service to the public, despite the fact that it provided services to its "association members." See First Supp. Order at p. 4-5. The Commission found:

[W]hat MetroLink actually does is essentially identical to the operations of numerous regulated toll providers in the state of Washington. Simply stated, MetroLink holds itself out to the public to interconnect access lines provided by local exchange companies and thereby provide[s] interexchange services commonly known as toll. The various organizational structures and arrangements utilized by MetroLink to maintain the appearance of something other than what it is demonstrate only the ingenuity of those who seek to avoid regulation.

MetroLink, Second Supp. Order at p. 3.

U & I CAN provides telecommunications to the general public.

6. Does U & I CAN Operate as a Telecommunications Company?

The Commission is authorized to determine whether U & I CAN is operating as a telecommunications company. RCW 80.04.015. Toll call service between telephone exchanges is reasonably available from other providers, including U S WEST and GTE, who are parties to this proceeding. U & I CAN is a company owning, operating, or managing facilities used to provide telecommunications for sale to the general public. The Commission is authorized to order U & I CAN to cease and desist from providing jurisdictional services pending full compliance with the public service laws in Title 80 RCW. Id.

COMMISSION DECISION: U & I CAN is conducting business as a telecommunications company and the Commission should classify U & I CAN as a telecommunications company. U & I CAN must register with the Commission prior to providing service. RCW 80.36.350. The activities of U & I CAN are subject to the provisions of Title 80 RCW. U & I CAN should be ordered to cease and desist from operating its telecommunications facilities and providing telecommunications service until it has fully complied with the provisions of Title 80 RCW. Because the corporate status of U & I CAN has not been established on this record, this cease and desist order should apply to both the putative corporation and its principals.

FINDINGS OF FACT

1. The Washington Utilities and Transportation Commission (Commission) is an agency of the State of Washington, vested by statute with the authority to regulate rates, rules, regulations, practices, accounts, securities and transfers of public services companies, including telecommunications companies.

2. United & Informed Citizens Advocates Network (U & I CAN) is a Washington company. U & I CAN recruits members from the general public, who are required to pay an initiation fee and monthly dues. There are no restrictions on membership other than sponsorship by a current U & I CAN member. In return for the payment of fees, members are sold thirty (30) "accesses" per month to U & I CAN 's facilities used to provide telecommunications services. If more than 30 accesses are made, additional fees are charged for each group of 30 accesses. U & I CAN offers a two-step pricing plan for the purchase of services by members. U & I CAN membership is a month-to-month arrangement. The primary benefit of membership is the cost-saving access to U & I CAN's EAS bridging service. The obligation of members to pay for telecommunications services provided by U & I CAN constitutes sales transactions. U & I CAN provides telecommunications for sale.

3. U & I CAN claims that it is a non-profit corporation. U & I CAN's incomplete Articles` of Incorporation and undated bylaws demonstrate U & I CAN's putative corporate status. Ex. 1. U & I CAN's claim that it is a non-profit entity is not supported by the evidence in this case. Despite its agreement to produce a complete copy of its articles of incorporation, and a copy of that portion of the corporate minutes which

document adoption of the document claimed to be its bylaws, after a bench request for the information, U & I CAN did not submit the information requested. U & I CAN has not established its non-profit corporate status in this proceeding. The putative corporate status of U & I CAN does not affect any of the Commission's factual findings regarding the effect of the actions carried out by the company which establish, as a matter of fact, that U & I CAN owns telecommunications facilities, and uses those facilities to provide telecommunications services to the general public in the state of Washington. The findings would apply equally to a corporation or to an unincorporated business.

4. RCW 80.04.010 broadly defines "facilities" to include instruments, machines, appliances, and all devices or apparatus. U & I CAN's facilities consist of computers equipped with voice cards having hook flash and redial features. When the computer receives a call, the voice mail card will hook flash and redial. Ex. T-2 at 3. The software in the computer answers calls and requests the calling party to identify the party being called. Id. To complete the Extended-Area-Service (EAS) bridge, the voice-mail card in U & I CAN's computer transmits a series of three tones to the calling party, the calling party then enters his or her personal identification number, the calling party is given another audible tone, and then enters the telephone number of the party being called. The calling party hears a final series of tones, and is connected with the party being called. Ex. T-2 at 4; see also Ex. 8 at 2-3. These computers are connected to the public switched network through the use of access lines provided for U & I CAN's use by members whose premises are located in EAS areas.

These access lines with call forwarding features are provided by local exchange companies, including U S WEST and GTE.
By combining its computers with the access lines, U & I CAN is able to transfer an unlimited number of calls over EAS boundaries without paying toll or access charges.

U & I CAN's operations thus constitute what typically is known as "EAS bridging." EAS, or extended area service, provides the ability to call from one exchange to another exchange without incurring a toll charge. RCW 80.04.010 defines "telecommunications" as the transmission of information by wire, optical cable, or other similar means. As used in that definition, "information" means knowledge or intelligence represented by any form of signals, or sounds. EAS bridging requires transmission and a series of audible signals in order to function. U & I CAN performs telecommunications.

5. RCW 80.04.015 provides that whenever the Commission believes that any person or corporation is engaged in any activity without complying with statutory requirements, it may institute a special proceeding. The instant case is such a proceeding. The statute applies equally to U & I CAN whether it is a corporation (which it has not proven, and is specifically not found to be) or is only a company run by individuals.

6. The definition of "telecommunications company" in RCW 80.04.010 applies to every corporation or company. RCW 80.04.015 is consistent with the Washington State

Constitution, Article XII, Section 19. Article XII, Section 19, establishes the right of legal entities to organize for the purpose of conducting business as telecommunications companies, subject to legislative control. RCW 80.04.015 authorizes the Commission to regulate entities based upon their conduct.

7. U & I CAN conducts activities that require prior registration or approval of the Commission.

8. U & I CAN's service is affected with the public interest because it has, or could have, a significant effect on the public switched telephone network in a manner that harms the public interest. U & I CAN's system is designed to allow users to bypass toll charges through EAS bridging. Costs caused by users who avoid toll charges will be passed along to all customers in the form of higher local rates.

9. U & I CAN is attempting to exploit a legal anomaly which was created by the legislature in an effort to promote equity between telephone service providers and customers. RCW 80.36.855. U & I CAN is depriving U S WEST and GTE of revenues which they would collect otherwise, and it is competing unfairly with authorized resellers of long distance service who abide by the applicable tariffs.

10. The Commission determined in a separate proceeding involving U & I CAN that it is illegal in Washington to bridge EAS territories without payment of access charges.

11. U & I CAN claims it has no customers, only members. U & I CAN "members" currently pay a one-time initiation fee of $8.00, and then pay monthly membership dues of $8.00. Exs. T-7 at 5. The members pay this flat, monthly fee to purchase access to the system 30 times per month. If the member exceeds the 30 calls purchased, U & I CAN assesses additional fees of $8.00 per each additional group of 30 calls. Id., at 7. The only limitation on membership is sponsorship by an existing U & I CAN member. U & I CAN pays its members $6.00 for each new member sponsored. Ex. 9. The U & I CAN newsletter contains advertising for other businesses. Ex. 9. U & I CAN is a "company" within the meaning of RCW 80.04.010. U & I CAN sells memberships. Its members are customers in the same sense that any service sector business has customers. U & I CAN incurs expenses, utilizes a pricing structure for its services, generates revenues, markets its services, and publishes advertising for other businesses in its newsletter publication. Member sponsorship is no more than an incentive and mechanism for validating and tracking payments to its existing members for marketing U & I CAN's telecommunications service. Membership is conditioned upon making monthly payments. U & I CAN members subscribe to its telecommunications service.

12. U & I CAN's members do not all reside in the same building, nor do they work in the same business complex and, therefore, they do not share the commonality of location required for private shared telecommunication services under RCW 80.04.010.

13. U & I CAN does not operate a private telecommunications system because its telecommunications service is not used exclusively by U & I CAN but, instead, is used by the various members for their personal benefit.

14. The only common goal or "like mind" shown on the record to be shared by U & I CAN members is a quest to lower telecommunications expenses. This common interest in illegally paying lower phone rates does not, in and of itself, constitute a sufficient community to support classification as a private telecommunications system. What U & I CAN actually does is essentially identical to the operations of numerous regulated toll providers in the state of Washington. Simply stated, U & I CAN holds itself out to the public to interconnect access lines provided by local exchange companies and thereby provides interexchange services commonly known as toll. The various organizational structures and arrangements utilized by U & I CAN to maintain the appearance of something other than what it is demonstrate only the ingenuity of its attempt to avoid regulation. U & I CAN provides telecommunications to the general public.

15. U & I CAN is conducting business as a telecommunications company, and it must register with the Commission prior to providing service. RCW 80.36.350. The activities of U & I CAN are subject to the provisions of Title 80 RCW. All parties involved in the activities should be ordered to comply with Title 80 RCW. U & I CAN should be classified as a telecommunications company.

16. U & I CAN should be ordered to cease and desist from operating its telecommunications facilities and providing telecommunications service until it has fully complied with the provisions of Title 80 RCW. Because the corporate status of U & I CAN has not been established on this record, this cease and desist order should apply to both the putative corporation and its principals.

CONCLUSIONS OF LAW

1. The Washington Utilities and Transportation Commission has jurisdiction over the subject matter of this proceeding and the parties thereto.

2. U & I CAN is classified as a telecommunications company as defined by RCW 80.04.010, and must register with the Commission pursuant to RCW 80.36.350. U & I CAN is not exempt from regulation pursuant to RCW 80.36.370 (2).

3. U & I CAN, and its principals, should cease and desist from offering or providing telecommunications services in the state of Washington unless and until it registers as a telecommunications company with the Commission.

4. It is appropriate for the Commission to enter a final order in this matter.

ORDER

THE COMMISSION ORDERS That:

1. The respondent, U & I CAN, is classified as a telecommunications company within the state of Washington.

2. U & I CAN and its principals are directed by this order to cease and desist from conducting activities requiring authority from this Commission without first having obtained such authority.

3. The Commission retains jurisdiction over the parties and subject matter of this proceeding to effect the terms of this order.

DATED at Olympia, Washington, and effective this 9th day of February 1999.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

ANNE LEVINSON, Chairwoman

RICHARD HEMSTAD, Commissioner

WILLIAM R. GILLIS, Commissioner

NOTICE TO PARTIES:

This is a final order of the Commission. In addition to judicial review, administrative relief may be available through a petition for reconsideration, filed within 10 days of the service of this order pursuant to RCW 34.05.470 and WAC 480-09-810, or a petition for rehearing pursuant to RCW 80.04.200 or RCW 81.04.200 and WAC 480-09-820(l).

ENDNOTES:

[1] First Supplemental Order - Prehearing Conference Order, Docket No. UT-971515 (December 5, 1997) (Prehearing Conference Order).

[2] Second Supplemental Order - Protective Order, Docket No. UT-971515 (December 5, 1997).

[3] Third Supplemental Order - Order Denying Objection to First Supplemental Order - Prehearing Conference Order, Docket No. UT-971515 (January 23, 1998).

[4] Mr. Holcomb made a general appearance on behalf of U & I CAN at the prehearing conference.

[5] Washington Corporation v. Pacific Northwest Bell Telephone Co. d/b/a US West Communications, Inc., Third Supp. Order, Commission Decision and Order Granting Interlocutory Review of Order; Affirming Second Order, Docket No. UT-960659, at pp.6-7 (February 5, 1998).

[6] In the Matter of Determining the Proper Classification of U.S. MetroLink Corp., Cause No. U-88-2370-J, First Supplemental Order, at p. 19 (February 7, 1989).

[7] U&I CAN's operations are nearly identical to MetroLink's. MetroLink's operations are described in the First Supplemental Order, In the Matter of Determining the Proper Classification of U.S. MetroLink Corp., Supra.

EXHIBIT 7

COPY RECEIVED
AUG - 9 1994
U S WEST INC.
LAW DEPARTMENT
SEATTLE

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Complaint of U S WEST COMMUNICATIONS, INC., Against BRIDGE COMMUNICATIONS, INC., and AMERICAN LONG DISTANCE COMMUNICATIONS SERVICES, INC.	DOCKET NO. 93-049-20 REPORT AND ORDER

ISSUED: August 19, 1994

SYNOPSIS

In a complaint brought by a telephone corporation against two customers for resale of telephone service in violation of filed tariff, the Commission held that respondents were a legally distinguishable class from other customers taking the same services, by virtue of respondents' role as a paid conduit for distribution of those services to parties not otherwise entitled thereto, and hence proceedings against respondents were not invidiously discriminatory, nor did the proceedings jeopardize the interests of other customers, rendering a rulemaking proceeding neither mandatory nor advisable; the Commission found that respondents' distribution constituted a resale within the meaning of the applicable tariff provisions, and since resale of the services at issue were prohibited by the tariff, the complainant was authorized to withdraw service.

Appearances:

Molly K. Hastings	For	US West Communications, Inc., Complainant
David R. Irvine	"	Bridge Communications, Inc., Respondent
R. Paul Van Dam	"	American Long Distance Communications Services, Inc., Respondent
Michael Ginsberg, Assistant Attorney General	"	Division of Public Utilities, Utah Department of Commerce, Intervenor

PROCEDURAL HISTORY

This matter was initiated by complaint filed September 24, 1993. After protracted pre-hearing maneuvering, including motions to dismiss denied by the Commission, the matter came on regularly for hearing the twentieth day of April, 1994. Evidence was offered and received, and thereafter the parties submitted post-hearing memoranda. The Administrative Law Judge, having been fully advised in the premises, now enters the following Report, containing proposed Findings of Fact, Conclusions of Law, and the Order based thereon.

FINDINGS OF FACT

1. US West Communications, Inc., (hereafter "USWC"), complainant herein, is a telephone corporation certificated by this Commission. Bridge Communications, Inc., (hereafter "Bridge"), respondent herein, is a corporation not certificated by this Commission whose activities are complained of. American Long Distance Communications Services, Inc., (hereafter "ALD"), respondent herein, is likewise a corporation whose activities are complained of. The Division of Public Utilities, (hereafter "DPU"), intervenor herein, is an agency of Utah State Government charged, *inter alia*, with tariff enforcement.

2. In the course of telecommunications regulation, this

Commission has established a number of Extended Area Service ("EAS") regions throughout Utah. The defining property of EAS telephone service is that it enables the subscriber to dial outside the service area of the subscriber's local central telephone office (but within a defined geographic region) without incurring Message Telecommunication Service (MTS), commonly known as "toll," charges. Within EAS regions, subscription to EAS service is a mandatory flat-rated part of basic telephone charges.[1]

3. One EAS region includes most of Salt Lake County and north into central Davis County. A second region includes Ogden and south into central Davis County. This creates an overlapping area in Davis County in which subscribers are included in both EAS regions and can, accordingly, dial north or south, to Ogden or Salt Lake City, without incurring toll charges.[2]

4. The purpose for establishing the EAS regions was to balance the interests of customers wishing a monthly flat rate charge for frequent calls within their perceived local calling area and USWC's interest in a fair return

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[1]Transcript at 61.

[2]Pre-filed testimony of James B. Farr at 4-5.

on its service.[3]

5. Both Respondents have situated their businesses within the overlapping EAS region in Davis County. They have subscribed to USWC's business services (subscribing for multiple lines), including a feature that enables them to re-route incoming calls to another destination within their EAS region.[4]

6. Both respondents offer a service to their customers whereby the respective customers can dial in-to respondents' respective facilities, and, after furnishing a Personal Identification Number (PIN), which Respondents' equipment verifies automatically, can then dial a number outside the respective customers' EAS region.[5] Respondents' equipment then uses USWC's transfer feature to complete the call. Respondents each charge their customers a flat rate of 25 cents per call,[6] regardless of length of time, for this service. For the customer, the effect is to avoid otherwise applicable

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[3]In effect, EAS subscribers get a volume discount on certain calls otherwise subject to toll charges. Those who make little use of EAS are, in effect, subsidizing those who make average or heavy use.

[4]Hearing Exhibit 10.

[5]Pre-filed testimony of James B. Farr, at 4.

[6]Pre-filed testimony of James B. Farr at 5.

toll charges.[7]

7. Any subscriber in the overlapping EAS region may achieve a similar result through the use of a call forwarding or similar feature; a hypothetical subscriber, for example, may forward his or her calls to an Ogden number and receive a call there placed by a hypothetical caller in Salt Lake City. The Salt Lake caller, of course, may not even know that he or she is getting the benefit of avoiding the otherwise applicable toll charges. In the example, the hypothetical caller dials a Davis County number within the caller's EAS region--the caller's intent is not to call an Ogden number, let alone avoid toll charges.

8. Since, in the previous example, the call originates as an ordinary call within the caller's EAS, and the transfer is likewise within the callee's EAS,[8] USWC's equipment will not pick up anything untoward; there is no way to track abuse of the system. In Respondents' case, this is how they avoid getting charged toll for their customers' calls.[9]

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[7]Pre-filed testimony of James B. Farr at 3.

[8]Transcript at 69-70.

[9]*Id.*

9. Both Respondents assert that they offer voice mail service, a service unregulated by this Commission, in addition to the call transfer service described above. For reasons discussed below, we deem the voice mail issue irrelevant to the resolution of this matter, and, accordingly, make no finding in regard thereto.[10]

10. Bridge's expert witness offered that the call transfer service was in some way inferior to USWC's regular toll service in that the call completion rate was lower; that rate must not be too bad, or respondents could not sustain their business[11]--and would not be resisting so desperately surrendering the call transfer service. We find that the service is sufficiently close to USWC's MTS service as to be interchangeable.

11. Respondent Bridge has asserted vociferously that the technical details of how Bridge's and USWC's equipment interact is crucial to the resolution of this matter. Bridge has never offered any specifics as to how or why

[10]However, we cannot resist noting the anomaly that despite Respondents' claims that they are primarily voice mail providers, they have not settled this matter, as they easily could, by ceasing to offer the call transfer service.

[11]Particularly since Respondents charge their flat rate for uncompleted calls, including busy signals.

this is so,[12] and we have not become aware of any such reasons in the course of the proceedings. For reasons discussed below, we deem any such issue irrelevant to the resolution of this matter, and we make no findings thereon.[13]

CONCLUSIONS OF LAW

The Commission has party and subject matter jurisdiction.

CLAIM OF DISCRIMINATION

Respondents have filed several motions to dismiss during the course of these proceedings; they have asserted that the reasons for denying the same have never been adequately set forth. We shall make one more attempt.

Though respondents have presented variations on the theme, their basic premise is that respondents' call transfer service offered to third parties does not differentiate respondents from any other central Davis County subscriber having the ability to forward or transfer calls. From this premise, they argue that all other so-enabled Davis County subscribers will be affected by these proceedings, and that, accordingly, the proceedings should be converted into rulemaking, or we should serve all transfer-enabled

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[12]Not even in its post-hearing memoranda.

[13]In any event, nothing in Bridge's expert's training or background appears to qualify him to speak to such issues, and in the absence of any credible evidence, we would be unable to make a finding, even if we thought the issue important.

subscribers and name them parties.[14] The latter course would, of course, render further proceedings impossible as a practical matter. We reject respondents' argument on two grounds.

First, we reject absolutely respondents' contention that their activities do not differentiate them from other Davis County subscribers with a transfer capability. A little set theory may illustrate the point.

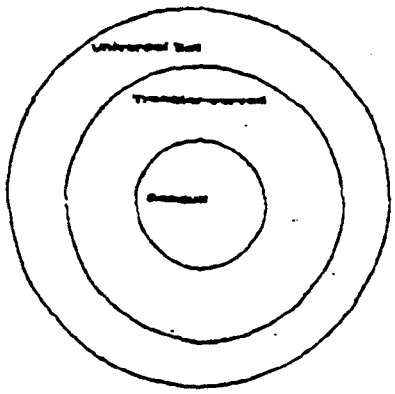
A set is simply a collection of entities (members) sharing certain common, defining characteristics or properties. Consider first the set of all telephone subscribers in central Davis County: the defining characteristics of the members of this set are connected to USWC's system and the ability, by virtue of location within two EAS regions, to call toll-free within both regions. This is our "universal set."

Within sets there may exist subsets. Subset members have all the defining characteristics of members of the larger set (superset) but possess certain additional defining characteristics which distinguish them from other members of the superset.

Within our universal set there are, for our purposes, two subsets: subscribers having transfer capability (which we will call "transfer-served"), and the transfer-served who provide third parties the benefit of their service for compensation (which we

[14]Otherwise, contend respondents, we are guilty of invidious discrimination against them.

will call "conduits"). Conduits constitute a subset of the transfer-served subset (and a sub-subset of the universal set). We can illustrate graphically as in the figure above.



Invidious legal discrimination can occur only regarding like entities. Respondents' argument thus boils down to a claim that they do not constitute, for legal purposes, a subset distinguishable from other transfer-served central Davis County subscribers. The main point they raise in support of this claim is that other commercial establishments so located may benefit financially from the transfer capability. This is true, as far as it goes. Customers of a transfer-served firm, for example, might place calls, otherwise subject to toll charges, to sales people.

There is, however, a crucial difference. However much such establishments may save in overhead by the use of the transfer capability, their cash flow is in no way dependent on that capability. The overhead benefit is incidental to conducting a non-communication related (or at least a non-regulated communication-related) business. The transfer capability is being used for the concern's own benefit, and the benefit to other

parties, if any, is incidental. It is the concern's own telephone service and traffic being facilitated, not that of outside parties. Further, such concerns control where the traffic will be transferred--they direct the call's ultimate destination; they do not simply turn their capability over to outside parties to use as they will for their own traffic and to choose their own destination for the call. The non-conduit concerns are simply using their own service, for which they have paid, for their own purposes, and in the manner envisaged by the tariff; they are not directly generating income from that service. In short, respondents act as conduits, and they get paid for that role. The other transfer-served customers, commercial or residential, do not.

We conclude these differences are more than sufficient to negate any claim of invidious discrimination. Respondents constitute a subset readily distinguishable from the supersets of the transfer-served and the universal set. Thus the interests of members of those supersets are not at issue in these proceedings, and there is no reason for them to participate, nor is there any reason to convert these proceedings into rulemaking.

We conclude that the characteristics so distinguishing respondents have legal significance which justifies these proceedings.

Respondents' final argument on the discrimination issue should be addressed: as we understand it, since there may be

other, undiscovered, concerns doing the same thing as respondents, we cannot proceed until all such concerns have been served.

This is analogous to arguing that no burglars can be prosecuted until all have been rounded up. The argument is preposterous. If we were knowingly to pick and choose which firms could operate as do respondents, and which could not, the claim of discrimination would have validity; but because neither we nor USWC can presently ferret out all who may be abusing the system clandestinely, we are not precluded from proceeding against those heretofore discovered.[15] If others surface, they can be made the subject of appropriate proceedings and accorded the due process to which they are entitled. This Commission can make law by the use of *stare decisis*[16] as well as by rulemaking.

Respondents' motions to dismiss should be denied, and we will herein affirm our previous denials of the same.

TARIFF INTERPRETATION

The only issue in these proceedings, and the one respondents have striven mightily to avoid through continued tactics of confusion, delay, and obfuscation, is the interpretation

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[15]Respondents were asked during discovery to furnish the names of other like concerns; Bridge finally provided one bare name and address at the hearing. We deem that insufficient to sustain any claim of discrimination.

[16]Salt Lake Citizens Congress, et al., v. Mountain States Telephone and Telegraph Company, dba Mountain Bell, et al., 846 P.2d 1245 (Utah 1992).

of USWC's tariff, to wit: is respondents' use of their service from USWC permitted under USWC's tariff? The resolution of that depends on resolving the issue of whether they are resellers within the meaning of the tariff.

The relevant provisions are two sections of the Utah Exchange and Network Services Tariff,[17] the first of which, Section 2.2.5, provides:

> Resale/Sharing of service is allowed pursuant to the terms of Section 5.10 of this Tariff.

The second provision is Section 5.10 A.2 of the same tariff which provides:

> Access to the Network furnished to the customer of record providing Resale/Sharing services, is limited to the following Type and Classes of Service.
>
> a. Measured Rate Resale/Sharing Access Trunks as defined in [section] 5.10.1 following and Network Access Registers.
>
> b. Flat Rate Resale/Sharing Access Trunks as defined in [section] 5.10.1 following and network access registers. (Emphasis added.)

The access trunks referred to are limited to

[17]This tariff governs what may be loosely termed local residential and commercial telephone service. It includes access to the long-distance network. A separate tariff, the Access Service Tariff, governs resale of MTS service. Respondents can subscribe to this tariff, but then they would have to pay applicable USWC charges and contribute to the Universal Service Fund. Their business is profitable precisely because they provide the equivalent of long distance service to their customers while avoiding the costs of competing authorized MTS resellers such as MCI and Sprint.

resale/sharing areas comprised of single buildings, parts of buildings, or specifically delineated (with legal description furnished to USWC) geographic area in which the customer provides exchange service.[18] The resellers are authorized only to serve customers located within the resale/sharing area (Section 5.10.A.15). Clearly respondents are not providing this type of exchange service--they provide only the toll-avoidance service, which is the equivalent of long distance service which would otherwise be subject to MTS charges, and they have certainly not established any resale/sharing area.

Respondents profess great puzzlement and confusion concerning these tariff provisions. We don't believe the perplexity is warranted.

Respondents first profess an inability to find in the tariff any prohibition of their activities. An elementary syllogism may elucidate: Only resale/sharing trunk service is authorized for resale; respondents are not providing that type of service; QED respondents' service is not authorized for resale. True, Section 2.2.5 does not use the word "only," but the phrase

[18]The provision is for the benefit of office and apartment complexes, and like entities, wishing to provide their own internal service for occupants. It implies that the entire resale/sharing area is wired together to provide a local telephone service. Transcript at 107-108. Obviously this in no way describes respondents' operation.

"is limited to" in Section 5.10 certainly provides a synonym.[19]

Respondents' second line of defense is the contention that even if resale is prohibited, they are not resellers. They advance two branches to the argument. First, they assert, they have nothing to resell--they are mere subscribers to USWC's service. We cannot agree. They have two items as their stock in trade: an advantageous EAS location and transfer capability. Their activity involves transferring the benefit of both to other parties for compensation. Both are USWC's tariffed services, so respondents have something to sell which they receive from USWC--and nothing else.[20]

Respondents' second contention is that the term "reseller" in this context is some arcane term of art requiring an elaborate definition. Respondents offer no such definition, and we do not perceive the need for one.

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[19]Even absent the phrase in section 5.10, the clear import of the language in section 2.2.5 is to prohibit resale of any services not delineated in section 5.10. Particularly in a context such as this, there is no reason to list a limited collection of services for resale if all are for resale. In terms of set theory, there is no reason to delineate a subset if it is co-extensive with the superset. Or, in terms of statutory construction, "*inclusio unius est exclusio alterius*" (to include one implies exclusion of the other) Black's Law Dictionary 4th Ed. 906.

[20]We disregard respondents' claimed voice mail service. They have not claimed the two services cannot be separated, and we have no reason to believe separation is impossible. If indeed respondents' primary business is voice mail, they can settle this matter easily by dropping the call transfer service.

We digress briefly here. Bridge asserts that the Administrative Law Judge unduly narrowed the issues in this matter. Bridge claims that one issue improperly excluded was that of the mechanics (perhaps more accurately "electronics") of the interaction between Bridge's and USWC's equipment. Presumably one reason to explore this matter was to establish the need for a more elaborate definition of reseller.

We do not see that the relevant tariff provisions are at all dependent on the details of equipment interaction.[21] Even if we thought the technical workings of the equipment had some relevance, Bridge's only witness in this regard was David L. Wilner, whose education and experience, or lack thereof, inspire no confidence that he is qualified to speak to such issues. By way of education, he possesses not so much as a high school diploma, and his only technical background is a brief stint as a telephone repairman. He claims to have once taken in-house training (at an AT&T affiliate long before divestiture) in tariff writing.

We recognize that the qualifications for an expert witness are, these days, elastic. But Mr. Wilner's qualifications

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[21]As a further example of Bridge's attempts to obfuscate, Bridge's reply brief tries to make something of the Administrative Law Judge's (ALJ) use of the term "blackbox" in regard to Bridge's equipment, misconstruing the term as having, in the ALJ's mind, some pejorative connotation. As the context of the ALJ's remarks show, he was using the term simply as a generic term for equipment the inner workings of which are not known. The ALJ used the same term for USWC's equipment--equally with no pejorative intent.

are stretched so thin that in our estimation they break. We accord his testimony no credibility whatever.[22] Since Bridge did not even offer any credible testimony on the technical issue, it can hardly complain if we ignore that issue.

Returning to our main discussion, the Latin prefix "re" means to iterate or perform an action again.[23] To sell is to relinquish for money or other valuable consideration.[24] Thus to resell is to "sell again." We believe the dictionary definition is quite clear and adequate for our purposes and nicely describes respondents' activities. We see no reason to suppose it does not embody the intent of the drafters of the tariff. In terms of statutory construction, language is to be assigned its ordinary, plain meaning absent exceptional circumstances, and we do not discern any exceptional circumstances here. Respondents subscribe to EAS and call transfer services, tariffed and sold by USWC, for money, and for money, respondents transfer those same services to others who have not subscribed to them. Respondents are unauthorized resellers, and all of respondents' energetic attempts

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[22]For example, Wilner made much of the issue of "control" of the call. He never did clarify what he fancies by this term. For our purposes, it is sufficient that respondents' equipment enables the calls to be redirected--that is all the control necessary. Exactly how that is achieved is legally irrelevant.

[23]Websters New Collegiate Dictionary, 1973 Ed. 960.

[24]*Id.* 1051

to obfuscate that simple state of affairs cannot change it.

Respondents' last line of defense is citation of Josephson v. Mountain Bell,[25] a case in which the Utah Supreme Court said that filed tariffs are to be construed strictly against the utility.[26] We agree with and follow that principle. Strict construction of the tariff, however, does not require us to find vagueness or ambiguity where none exists, nor does it require us to adopt a strained and unreasonable construction to the utility's detriment. This we would have to do to find for respondents.

It may well be that the applicable tariff provisions require a certain amount of close reading and tracking of cross-references; that does not in itself create ambiguity or vagueness. Nor do we believe that makes reading the tariff unduly burdensome. Many documents to which respondents are held, including Commission rules, are at least equally convoluted.

CONCLUSION

We should be very clear what is and is not involved in these proceedings. This is not a case of small, virtuous Davids being set upon by a powerful, evil Goliath out to crush legitimate

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[25] 576 P.2d 850 (Utah 1978).

[26] The case was decided on the alternative bases that the utility had not complied strictly with the tariff or that the tariff provision itself was unjust and unreasonable and thus should be judged void. Accordingly, the language regarding strict construction of the tariff is dictum.

competition. These respondents are offering no innovation in service or technology. This is a case of these respondents setting out to exploit a legal anomaly which was created by this Commission in an effort to promote equity between telephone service providers and customers. These respondents are turning the Commission's effort to promote equity on its head. For their own profit, they are enabling some USWC customers to realize savings to which those customers are not entitled. In the process, these respondents are depriving USWC of revenues which it would collect otherwise, and they are competing unfairly with authorized resellers of MTS service who abide by the applicable USWC tariffs. They also do not contribute revenues which would otherwise go to the Universal Service Fund,[27] thus potentially saddling telephone service subscribers in outlying areas of the state with higher costs than they would incur otherwise. Respondents' service is, in short, contrary to the public interest.

Having concluded that respondents are illicit resellers of USWC's service, we need not reach the issue whether they are public utilities.

The complaint of USWC should be sustained, and it should

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[27]The Universal Service Fund was created to subsidize telephone service to customers in small, isolated locations. Without the fund, such customers would have to bear the full costs of service, which, in many cases, would be prohibitive. The fund is financed by a surcharge on calls subject to MTS charges.

be authorized to cut off service to respondents for violation of its tariffs.

ORDER

NOW, THEREFORE, IT IS HEREBY ORDERED that:

>> The motions to dismiss of BRIDGE COMMUNICATIONS, INC., and AMERICAN LONG DISTANCE SERVICES, INC., be, and they are, singularly and collectively, denied.

>> US WEST COMMUNICATIONS, INC., be, and it is, authorized to withdraw service, singularly and collectively, from BRIDGE COMMUNICATIONS, INC., and AMERICAN LONG DISTANCE COMMUNICATIONS SERVICES, INC., and to withhold such service until such time as said respondents, or either of them, furnish adequate assurance that such service will not be resold contrary to the applicable tariffs.

>> Any person aggrieved by this Order may petition the Commission for review within 20 days of the date of this Order. Failure so to do will forfeit the right to appeal to the Utah Supreme Court.

DATED at Salt Lake City, Utah, this 19th day of August, 1994.

/s/ A. Robert Thurman
Administrative Law Judge

Approved and Confirmed this 19th day of August, 1994, as the Report and Order of the Public Service Commission of Utah.

/s/ Stephen F. Mecham, Chairman

(SEAL) /s/ James M. Byrne, Commissioner

/s/ Stephen C. Hewlett, Commissioner

Attest:

/s/ Julie Orchard
Commission Secretary

BEFORE THE ARIZONA CORPORATION CC

WILLIAM A. MUNDELL
Chairman
JIM IRVIN
Commissioner
MARC SPITZER
Commissioner

IN THE MATTER OF THE APPLICATION OF MIDVALE TELEPHONE EXCHANGE, INC., FOR AUTHORITY TO INCREASE RATES AND FOR DISBURSMENT FROM THE ARIZONA UNIVERSAL SERVICE FUND	)))))	DOCKET NO. T-02532A-00-0512

DIRECT

TESTIMONY

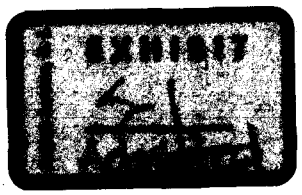
OF

SONN S. AHLBRECHT

RATE ANALYST II

UTILITIES DIVISION

MARCH 15, 2001



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Accumulated Depreciation SSA-3

EXECUTIVE SUMMARY
MIDVALE TELEPHONE EXCHANGE, INC.
DOCKET NO. T-02532A-00-0512
RATE BASE
SONN AHLBRECHT

The testimony of Staff witness, Sonn S. Ahlbrecht, addresses the Company's rate base. Staff recommends an intrastate rate base of $1,244,841, or $562,255 less than the $1,807,096 rate base proposed by the Company. The primary components of Staff's adjustments to rate base included the following:

- Reclassification of $5,619 in public telephone equipment due to deregulated status.

- Removal of proforma plant in the amount of $1,087,603 related to unserved areas.

- Decrease to Cascalbel Accumulated Depreciation by $9,195 based upon depreciation expense recalculated by Staff at approved rates for that exchange.

- Reduction of Young Accumulated Depreciation by $215,025 due to Staff's recalculation of depreciation expense based upon depreciation rates originally approved for Qwest for that exchange.

- Increase to Accumulated Deferred Income Taxes of $156,381 as reflected in the general ledger of Midvale that are attributable to Arizona operations.

INTRODUCTION

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

A. My name is Sonn S. Ahlbrecht. My business address is 1200 West Washington, Phoenix, Arizona 85007.

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

A. I am employed by the Utilities Division of the Arizona Corporation Commission ("Commission") as a Rate Analyst II.

Q. Please describe your educational background and professional experience.

A. I graduated from Arizona State University with a Bachelor of Science Degree in Accounting. I was granted Certified Public Accountant certification in the State of Arizona in July of 1997. In 1998, I obtained certification from the Maricopa County Community College District to teach accounting at community colleges within the Maricopa County District.

I have attended many seminars related to auditing, revenue requirement, and rate design. Since joining the Commission, I have participated in several regulatory training seminars sponsored by the National Association of Regulatory Utility Commissioners ("NARUC"), Utilitech, Inc., the Arizona Corporation Commission, the Internal Revenue Service, and the Arizona Department of Revenue. I also have been required to complete Continuing Professional Education credit hours to retain my designation as a CPA.

I have been employed by the Commission as a regulatory auditor and a rate analyst since July of 1998. Prior to joining the Commission, I worked in a variety of industries including public accounting, education, health care, and manufacturing.

. . .

. . .

Q. Please describe your duties and responsibilities as a Rate Analyst II.

A. My responsibilities include examination and verification of utility accounting records in conjunction with rate applications. In addition, I analyze data for ratemaking purposes, evaluate the utility's current rate structure, propose rates and service charges based upon information analyzed during my regulatory audit, and prepare written reports, testimony, and schedules that include recommendations to the Commission. My responsibilities also include testifying at formal public hearings regarding audit findings and recommendations, as well as providing information regarding those recommendations before the Commissioners in Open Meeting.

PURPOSE OF TESTIMONY

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

A. I am presenting Staff's analysis and recommendations regarding the Original Cost Rate Base ("OCRB") in Midvale Telephone Exchange, Inc.'s ("Midvale" or "Company"), application for an increase in permanent rates. Staff witness, Darron Carlson, is presenting Staff's recommendations regarding revenue requirement. Staff witness, Alan Buckalew, is presenting Staff's recommendations regarding separations and rate design. Staff witness, Joel Reiker, is presenting Staff's recommendations regarding Staff's cost of capital, and Staff witness, Richard Boyles, is presenting Staff's engineering analysis.

Q. Was this testimony prepared by you or under your direction?

A. Yes, it was.

Q. What is the basis of your recommendations?

A. I performed a regulatory audit of the Company's records to determine whether sufficient, relevant and reliable evidence exists to support the proposals in Midvale's rate application. The regulatory audit consisted of examining and testing accounting ledgers, reports and supporting documents, checking the accumulation of amounts in the records,

tracing recorded amounts to source documents, and verifying that the accounting principles applied were in accordance with the Federal Communication Commission ("FCC") Uniform System of Accounts for telecommunications companies.

SUMMARY OF ADJUSTMENTS

Q. Please summarize the recommendations and adjustments addressed in your testimony.

A. My testimony will address five adjustments to OCRB resulting in a total decrease of $1,025,383 before Intrastate separations as illustrated in Schedule SSA-1.

The first adjustment removes non-regulated pay telephone assets from Plant in Service related to the Young exchange. Another adjustment was made to remove the Proforma additions of plant for Unserved Areas the Company proposes to serve. Two adjustments were made to Accumulated Depreciation for both the Cascabel and Young exchanges. The final adjustment to OCRB includes Deferred Taxes attributed to the Arizona exchanges.

ORIGINAL COST RATE BASE

Q. Has the Company prepared a Schedule showing the elements of Reconstruction Cost New Rate Base Net of Depreciation ("RCND")?

A. No. The Company did not file RCND Schedules. Therefore, Staff evaluated the Original Cost Rate Base also as the Fair Value Rate Base ("FVRB").

Q. What is the amount of OCRB Staff is recommending?

A. As shown on Schedule SSA-1, Staff is recommending an Intrastate Original Cost Rate Base of $1,244,841. Staff's recommended OCRB is a decrease of $562,255 from Midvale's proposed Intrastate Original Cost Rate Base of $1,807,096.

. . .

. . .

Q. Please explain the five adjustments Staff made to Midvale's unseparated OCRB amount.

A. As shown on Schedule SSA–1, Staff made two adjustments, A and B, to Plant in Service resulting in a total decrease of $1,093,222. Please refer to the section of this Testimony entitled Original Cost Plant in Service for further analysis regarding these two adjustments.

Q. Did Staff make any adjustments to Accumulated Depreciation?

A. Yes. Adjustments C and D decrease Accumulated Depreciation by $224,220. Please refer to the section of this Testimony entitled Accumulated Depreciation for a detailed illustration of these two adjustments.

Q. Did Staff make any other adjustments to unseparated OCRB?

A. Yes. Adjustment E, increased Accumulated Deferred Income Taxes by $156,381. Staff recommends this adjustment to include Deferred Income Taxes reflected in the general ledger of Midvale attributable to Arizona operations.

Q. Please summarize your adjustments to OCRB.

A. When Staff decreases Company proposed OCRB of $2,968,117 by $1,025,383, the result is the unseparated Staff recommended amount of $1,942,734. The Intrastate allocation factors are then applied to the individual components that comprise Staff's recommended amount to calculate Intrastate Original Cost Rate Base for Arizona as $1,244,841.

ORIGINAL COST PLANT IN SERVICE

Q. Please explain the adjustments Staff made to Original Cost Plant in Service reflected on Schedule SSA-2.

A. Staff recommends five adjustments that result in a decrease of $1,093,222 to unseparated Plant in Service.

. . .

Adjustments A, B, C, and D, reduce the respective plant balances to remove Proforma additions related to Unserved Areas proposed by the Company. Midvale's application reflects a total of $1,087,603 in plant additions required to be installed for the Unserved Areas. Staff consistently does not allow Proforma plant in OCRB, as it does not meet either the criteria of "used and useful", or "known and measurable". These four adjustments to Plant in Service equate to Adjustment B, on Schedule SSA-1, for Unserved Areas.

Adjustment E, on Schedule SSA-2, reduced the Public Telephone Equipment account for the Young exchange by $5,619 as a result of an April 1997 ruling by the Federal Communications Commission deregulating pay telephones. This adjustment corresponds to Adjustment A, on Schedule SSA-1, for the Young exchange.

Q. What is the result of Staff's adjustments to Original Cost Plant in Service?

A. Staff's adjustments result in a decrease of $1,093,22, from Midvale's proposed $4,135,313 to Staff recommended $3,042,091. Further, this amount requires separation between Interstate and Intrastate, resulting in $1,945,021 for total Midvale Intrastate Original Cost Plant in Service.

ACCUMULATED DEPRECIATION

Q. Please explain Staff's adjustments to Accumulated Depreciation as illustrated on Schedule SSA-3.

A. Midvale's application reflects $1,167,196 for Average Accumulated Depreciation for Test Year Ended December 31, 1999; $373,775 of that amount is attributed to the Cascabel exchange, and $793,421 to the Young exchange.

Staff's reduction for the Cascabel exchange, Adjustment A, in the amount of $9,195, was calculated by summing depreciation expense for each year since inception in August of

1993 though the end of the Test Year. Based upon Staff's analysis, Accumulated Depreciation at December 31, 1999, is $404,849. To remain consistent with the format presented by the Company, Staff then averaged the December 31, 1999 balance, with the Accumulated Depreciation balance as of December 31, 1998, or $324,311. Staff recommends an Average Accumulated Depreciation balance for Test Year Ended December 31, 1999, for the Cascabel exchange of $364,580, a reduction of $9,195 as reflected on Schedule SSA-3, as Adjustment A, and Schedule SSA-1, as Adjustment C.

Staff's reduction for the Young exchange, Adjustment B, in the amount of $215,025, was calculated by summing depreciation expense for each year since acquisition from Qwest (f/k/a US WEST) in April of 1995, though the end of the Test Year. Based upon Staff's analysis, Accumulated Depreciation at December 31, 1999, is $514,326. To remain consistent with the format presented by the Company, Staff then averaged the December 31, 1999 balance, with the Accumulated Depreciation balance as of December 31, 1998, or $642,466. Staff recommends an Average Accumulated Depreciation balance for Test Year Ended December 31, 1999, for the Young exchange of $578,396, a reduction of $215,025 as reflected on Schedule SSA-3, as Adjustment B, and Schedule SSA-1, as Adjustment D.

Q. Why is the Accumulated Depreciation adjustment for the Young exchange substantially larger than the adjustment to the Cascabel exchange?

A. Staff discovered that Midvale was using the Cascabel depreciation rates for the Young exchange from the time of purchase from Qwest. Since Midvale recorded the Young exchange at Qwest's original cost and offset that amount by Qwest's accumulated depreciation, Midvale should have continued to apply Qwest's authorized depreciation rates after the purchase. This would serve to maintain consistency as the Young depreciation rates are what the present service rates were based upon for that exchange. The decrease in Accumulated Depreciation for the Young exchange is attributed the

Company utilizing higher depreciation rates than those approved for that exchange.

Q. What is Staff's recommendation for total Accumulated Depreciation?

A. Staff recommends a decrease in Accumulated Depreciation of $224,220 from the Company proposed amount of $1,167,196 to Staff calculated $942,976 as depicted on Schedule SSA-3. Additionally, Staff applied the Intrastate factor of 63.69 percent to that amount to arrive at a Staff recommended Intrastate Accumulated Depreciation balance of $600,581.

Q. Does this conclude your direct testimony?

A. Yes, it does.

Executive Summary
of the Testimony of
Allen G. Buckalew

Mr. Buckalew was asked by the Staff of the Arizona Corporation Commission to provide an analysis of the rate design and separations issues in Midvale's applications for increases in rates.

Mr. Buckalew's first task was to analyze whether Midvale Telephone Company complied with the FCC rules on separation found in Part 36 of the Code of Federal Regulations for Telecommunications. Part 36 of the Code outlines the procedures for the determination of the appropriate allocation of property costs, revenues, expenses, taxes, and reserves, as recorded on the company's books or to estimated values, to intrastate and interstate jurisdictions. The procedures are necessary because a characteristic of an integrated telecommunications system is that a large portion of total costs are common or joint in nature and therefore can be used for either intrastate or interstate services. After reviewing the studies for Part 36, Mr. Buckalew determined that Midvale Telephone Company complied with the rules and properly allocated telephone plant costs, revenues, expenses, and taxes to the Arizona jurisdiction. The Company's procedures are correct and consistent with the procedures found in the FCC rules.

The Company claimed a revenue deficiency of $108,955. The Company proposed to eliminate this deficiency by increasing the rates for residential and

business customers in local service revenues by $61,210, and obtaining $147,567 from the Arizona Universal Service Fund. The Staff has revised the requested revenue requirement and after some adjustments in the rate base, accumulated depreciation, income-to-revenue multiplier, and exclusion of the EAS and Unserved Areas proposals, it has determined that an increase of $17,391 in revenues is needed. Mr. Buckalew's second task was to analyze Midvale's proposed rate design and to propose an alternative design if necessary. Mr. Buckalew determined that it was necessary to propose an alternative rate design.

Mr. Buckalew agrees with the Company's proposal to consolidate the rate structure under one rate design for all of its customers as far as possible. Mr. Buckalew's proposed business rate is $30 per month. In the area of residential rate design, Mr. Buckalew recommends no change in local rates for Cascabel residential customers and an increase to $17.15 for Young local exchange residential customers.

The Company proposes to include custom calling services in basic service. Mr. Buckalew disagrees; custom calling is not part of basic service and must have a separate price. Mr. Buckalew suggests a rate of $2.00 for the bundled group of custom calling services.

The Company also proposes to decrease access charge rates. Mr. Buckalew finds no reason to decrease access charge rates, especially for a Company with higher service area costs.

Mr. Buckalew recommends that the Company's request for extension of its CC&N into Millsite and Silver Bell be approved. Mr. Buckalew also recommends a basic local exchange rate of $24.00 for residential and $30.00 for business customers in Millsite and Silver Bell. After the facilities are built and customers are being served, the Company should apply for Federal high cost support and return to the Commission for a determination of the permanent local exchange rates and whether any AUSF is necessary.

MIDVALE TELEPHONE EXCHANGE, INC.
Docket No. T-02532A-00-0512
Test Year Ended December 31, 1999

Schedule SSA-1

ORIGINAL COST RATE BASE

Line No.		Company as Filed	Staff Adjustment	Ref	Staff as Adjusted	Intrastate Per Staff
	Plant in Service:					
1	Cascabel	$ 1,301,555	$ -		$ 1,301,555	$ 850,143
2	Young	$ 1,746,155	$ (5,619)	A	$ 1,740,536	$ 1,094,878
3	Unserved Areas	$ 1,087,603	$ (1,087,603)	B	$ -	$ -
4	**Total Plant in Service**	**$ 4,135,313**	**$ (1,093,222)**		**$ 3,042,091**	**$ 1,945,021**
	Less Accumulated Depreciation:					
5	Cascabel	$ 373,775	$ (9,195)	C	$ 364,580	$ 232,201
6	Young	$ 793,421	$ (215,025)	D	$ 578,396	$ 368,380
7	Unserved Areas	$ -	$ -		$ -	$ -
8	**Total Accumulated Depreciation**	**$ 1,167,196**	**$ (224,220)**		**$ 942,976**	**$ 600,581**
	Net Plant:					
9	Cascabel	$ 927,780	$ 9,195		$ 936,975	$ 617,942
10	Young	$ 952,734	$ 209,406		$ 1,162,140	$ 726,498
11	Unserved Areas	$ 1,087,603	$ (1,087,603)		$ -	$ -
12	**Total Net Plant**	**$ 2,968,117**	**$ (869,002)**		**$ 2,099,115**	**$ 1,344,440**
	Deductions:					
13	Plant Advances	$ -	$ -		$ -	$ -
14	Contributions Gross	$ -	$ -		$ -	$ -
15	Accumulated Deferred Income Taxes	$ -	$ 156,381	E	$ 156,381	$ 99,599
16	**Total Deductions**	$ -	$ 156,381		$ 156,381	$ 99,599
	Additions:					
17	Inventory	$ -	$ -		$ -	$ -
18	Prepaid Arizona Expenses	$ -	$ -		$ -	$ -
19	**Total Additions**	$ -	$ -		$ -	$ -
20	**AVERAGE RATE BASE**	**$ 2,968,117**	**$ (1,025,383)**		**$ 1,942,734**	**$ 1,244,841**

Explanation of Adjustments:

A Please refer to Schedule SSA-2
B Please refer to Schedule SSA-2
C Please refer to Schedule SSA-3
D Please refer to Schedule SSA-3
E To reflect Deferred Income Taxes on the records of Midvale related to Arizona operations.

MIDVALE TELEPHONE EXCHANGE, INC.
Docket No. T-02532A-00-0512
Test Year Ended December 31, 1999

Schedule SSA-2

ORIGINAL COST PLANT IN SERVICE

Line No.			Company as Filed	Staff Adjustment	Ref	Staff as Adjusted	Intrastate %	Intrastate Per Staff
1	2111.54	Land - Young	$ 20,207	$ -		$ 20,207	64.1200%	$ 12,957
2	2111.XX	Land - Unserved Areas	$ 20,000	$ (20,000)	A	$ -	64.1200%	$ -
3	2111.55	Buildings - Young	$ 14,347	$ -		$ 14,347	64.1200%	$ 9,199
4	2111.XX	Buildings - Unserved Areas	$ 50,000	$ (50,000)	B	$ -	64.1200%	$ -
5	2112.33	Vehicles - Cascabel	$ 29,645	$ -		$ 29,645	64.1200%	$ 19,008
6	2112.55	Vehicles - Young	$ 24,900	$ -		$ 24,900	64.1200%	$ 15,966
7	2114.33	Special Purpose Vehicles - Cascabel	$ -	$ -		$ -	64.1200%	$ -
8	2114.55	Special Purpose Vehicles - Young	$ -	$ -		$ -	64.1200%	$ -
9	2116.33	Other Work Equipment- Cascabel	$ 21,980	$ -		$ 21,980	64.1200%	$ 14,094
10	2116.55	Other Work Equipment- Young	$ -	$ -		$ -	64.1200%	$ -
11	2122.33	Office Furniture & Equip - Cascabel	$ -	$ -		$ -	64.1200%	$ -
12	2122.55	Office Furniture & Equip - Young	$ 500	$ -		$ 500	64.1200%	$ 321
13	2123.55	Official Station Equip - Young	$ -	$ -		$ -	64.1200%	$ -
14	2124.33	General Purpose Computers - Cascabel	$ 6,971	$ -		$ 6,971	64.1200%	$ 4,470
15	2124.55	General Purpose Computers - Young	$ 1,972	$ -		$ 1,972	64.1200%	$ 1,265
16	2212.33	Digital Electronic Switch - Cascabel	$ 172,859	$ -		$ 172,859	25.7700%	$ 44,546
17	2212.55	Digital Electronic Switch - Young	$ 314,991	$ -		$ 314,991	25.7700%	$ 81,173
18	2212.XX	Digital Electronic Switch - Unserved Areas	$ 350,188	$ (350,188)	C	$ -	25.7700%	$ -
19	2230.33	Central Office Trans - Cascabel	$ 304,025	$ -		$ 304,025	69.8600%	$ 212,392
20	2230.55	Central Office Trans - Young	$ 563,115	$ -		$ 563,115	69.8600%	$ 393,392
21	2230.XX	Central Office Trans - Unserved Areas	$ 667,415	$ (667,415)	D	$ -	69.8600%	$ -
22	2351.33	Public Telephone Equip - Cascabel	$ -	$ -		$ -	0.0000%	$ -
23	2351.55	Public Telephone Equip - Young	$ 5,619	$ (5,619)	E	$ -	72.5300%	$ -
24	2423.33	Buried Cable - Cascabel	$ 766,075	$ -		$ 766,075	72.5300%	$ 555,634
25	2423.55	Buried Cable - Young	$ 800,504	$ -		$ 800,504	72.5300%	$ 580,605
26	2003.33	TPUC - Cascabel	$ -	$ -		$ -	0.0000%	$ -
27	2003.55	TPUC - Young	$ -	$ -		$ -	0.0000%	$ -
28	2007.56	Res Amt Young Plant Acq	$ -	$ -		$ -	0.0000%	$ -
29		**TOTAL AVERAGE PLANT IN SERVICE**	**$4,135,313**	**$ (1,093,222)**		**$3,042,091**		**$ 1,945,021**
30		**Average Cascabel Plant**	**$1,301,555**	**$ -**		**$1,301,555**		**$ 850,143**
31		**Average Young Plant**	**$1,746,155**	**$ (5,619)**		**$1,740,536**		**$ 1,094,878**
32		**Average Unserved Areas Plant**	**$1,087,603**	**$ (1,087,603)**		**$ -**		**$ -**

Explanation of Adjustments:

A To remove Proforma Adjustment related to Unserved Areas.
B To remove Proforma Adjustment related to Unserved Areas.
C To remove Proforma Adjustment related to Unserved Areas.
D To remove Proforma Adjustment related to Unserved Areas.
E To remove assets related to pay telephone service due to ruling by the Federal Communications Commission dated April of 1997 deregulating pay telephones.

MIDVALE TELEPHONE EXCHANGE, INC.
Docket No. T-02532A-00-0512
Test Year Ended December 31, 1999

Schedule SSA-3

ACCUMULATED DEPRECIATION

Line No.	Description	Company as Filed	Staff Adjustment	Ref	Staff as Adjusted	Intrastate %	Intrastate Per Staff
1	12/31/99 Balance - Cascabel	$ 373,775	$ (9,195)	A	$ 364,580	63.6900%	$ 232,201
2	12/31/99 Balance - Young	793,421	(215,025)	B	578,396	63.6900%	$ 368,380
3	**12/31/99 Balance - Total Arizona**	**$ 1,167,196**	**$ (224,220)**		**$ 942,976**		**$ 600,581**

Computation to arrive at Adjustment A:

4	Depreciation Expense for 1993	$ 20,710		
5	Depreciation Expense for 1994	54,713		
6	Depreciation Expense for 1995	58,731		
7	Depreciation Expense for 1996	61,029		
8	Depreciation Expense for 1997	63,389		
9	Depreciation Expense for 1998	65,740		
10	Depreciation Expense for 1999	80,538		
11	Accumulated Depreciation - 12/31/99		$ 404,849	
12	Accumulated Depreciation - 12/31/98		$ 324,311	
13	Cascabel Average Accumulated Depreciation - 12/31/99			$ 364,580

Computation to arrive at Adjustment B:

14	Accumulated Depreciation Balance-at time of purchase from US West/Qwest dated April 14, 1995		$ 556,685	
	Add:			
15	Depreciation Expense for 1995	$ 51,473		
16	Depreciation Expense for 1996	90,411		
17	Depreciation Expense for 1997	106,696		
18	Depreciation Expense for 1998	109,207		
19	Depreciation Expense for 1999	118,404	$ 476,191	
	Less:			
20	Retirements for 1995	$ (201,134)		
21	Retirements for 1996	(67,228)		
22	Removal of Accumulated Depreciation related to reclassification of pay telephone assets	(3,644)		
23	Retirements for 1998	-		
24	Retirements for 1999	(246,544)	$ (518,550)	
25	Accumulated Depreciation - 12/31/99		$ 514,326	
26	Accumulated Depreciation - 12/31/98		$ 642,466	
27	Young Average Accumulated Depreciation - 12/31/99			$ 578,396
28	**Staff determined Average Accumulated Depreciation at Test Year End - December 31, 1999**			**$ 942,976**

BEFORE THE ARIZONA CORPORATION CC

WILLIAM A. MUNDELL
Chairman
JIM IRVIN
Commissioner
MARC SPITZER
Commissioner

IN THE MATTER OF THE APPLICATION OF MIDVALE TELEPHONE EXCHANGE FOR A HEARING TO DETERMINE THE EARNINGS OF THE COMPANY, THE FAIR MARKET VALUE OF THE COMPANY FOR RATE MAKING PURPOSES, TO FIX A JUST AND REASONABLE RATE OF RETURN THEREON, TO APPROVE RATE SCHEDULES DESIGNED TO DEVELOP SUCH A RETURN AND TO CONSIDER THE REQUEST TO EXTEND THE COMPANY'S CERTIFICATE OF CONVENIENCE AND NECESSITY TO INCLUDE NEW SERVICE AREAS	)	DOCKET NO. T-02532A-00-0512

DIRECT

TESTIMONY

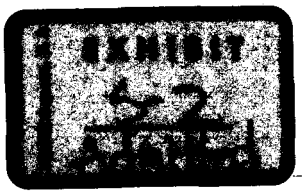
OF

DARRON W. CARLSON

SENIOR RATE ANALYST

UTILITIES DIVISION

MARCH 15, 2001



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EXECUTIVE SUMMARY
OF THE
DIRECT TESTIMONY
OF
STAFF WITNESS
DARRON W. CARLSON
REGARDING
MIDVALE TELEPHONE EXCHANGE
DOCKET NO. T-02532A-00-0512

The direct testimony of Staff witness, Darron W. Carlson, addresses the Company's operating revenues and expenses and the Company's revenue requirement. Staff recommends intrastate operating revenue of $747,819. Staff's recommended intrastate operating revenue is $17,391 more than the Test Year revenue and $275,295 less than the $1,023,114 intrastate operating revenue proposed by the Company. Staff's recommended intrastate operating revenue reflects Staff's adjustments to operating expenses, rate base, and cost of capital. Staff's primary operating revenue and expense adjustments are as follows:

1. Midvale's Requested Extended Area Service ("EAS")

Staff adjustments increased two revenue accounts by a total of $32,877. Staff removed Midvale's pro forma adjustments reducing these accounts due to EAS based on Staff witness, Mr. Allen G. Buckalew's recommendation to deny approval of the EAS request.

2. Midvale's Requested Unserved Areas

Staff's adjustments decreased six revenue accounts by a total of $143,572. Also, Staff's adjustments decreased seven expense accounts by a total of $183,992. This results from Staff's removal of all of Midvale's pro forma adjustments increasing these accounts due to its inclusion of estimated revenues and expenses expected from the new unserved areas. Staff believes the inclusion of these estimates is not appropriate in a rate case filing as they are not "known and measurable".

. . .

. . .

3. Depreciation Expense

Staff's adjustment increased depreciation expense by $29,690. Staff's adjustment reflects the new depreciation rates recommended by Staff witness, Mr. Richard Boyles on a going-forward basis.

4. Corporate Operations Expense

Staff's adjustment decreased corporate operations expense by $13,543. Staff's adjustment reflects Staff's belief that the Company claimed rate case expenses are excessive and included items not associated with the rate case. Staff's adjustment reflects its reasonable determination of the proper level of rate case expense.

5. Miscellaneous (Interest Expense)

Staff's adjustment decreased miscellaneous (interest expense) by $15,948. Staff's adjustment reflects Staff's belief that interest expense is a "below-the-line" expense item and should not be included in the calculation of operating income.

6. Federal and State Income Tax

Staff's adjustment increased federal and state income tax by $47,413. Staff's adjustment was necessary because Midvale failed to claim any income tax liability, an operating expense. Staff calculated Test Year income tax based on the adjusted jurisdictional revenues and expenses.

INTRODUCTION

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

A. My name is Darron W. Carlson. My business address is 1200 West Washington, Phoenix, Arizona 85007.

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

A. I am employed by the Utilities Division of the Arizona Corporation Commission ("ACC" or "Commission") as a Senior Rate Analyst.

Q. How long have you held this position?

A. I have held this position since August of 1995. Prior to that, I was a Utilities Auditor III for one and a half years and a Utilities Auditor II for two and a half years.

Q. Please describe your educational background and professional experience.

A. I hold a Bachelor of Arts degree in both Accounting and Business Management from Northeastern Illinois University in Chicago, Illinois. I have participated in a number of seminars and workshops related to utility rate-making, cost of capital and similar issues, sponsored by the Commission, the National Association of Regulatory Utility Commissioners ("NARUC") and others.

Prior to my employment with the Commission, I was employed as a Program Compliance Auditor III with the Arizona Department of Agriculture for seven years. My other work experience ranges from Military Payroll Auditor to Controller in private corporations.

Q. What are your duties as a Senior Rate Analyst at the Commission?

A. I am responsible for the examination and verification of financial and statistical information included in utility rate applications. I analyze the financial condition of utilities and prepare reports and recommendations on financial and accounting matters,

cost of capital, revenue requirements and rate design. I also review requests for financing, and the financial considerations of requests for Certificates of Convenience and Necessity ("CC&N"). My responsibilities also include providing expert testimony in formal hearings before the Commission on all of the aforementioned matters.

PURPOSE OF TESTIMONY

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

A. The purpose of my testimony in this proceeding is to present a portion of Staff's position and recommendations regarding the Midvale Telephone Exchange ("Midvale" or "Company") rate application. This application, dated July 14, 2000, and docketed as sufficient on August 11, 2000, requests permanent adjustments to rates and charges for utility service. The application also includes a request to extend the Company's CC&N to include new unserved areas. On August 28, 2000, a Commission hearing officer issued a Procedural Order setting filing deadlines and various dates for an eventual hearing on this matter. A revised Procedural Order was issued on February 1, 2001. My testimony presents Staff's recommendations pertaining to total Company test year operating revenues and expenses and the intrastate revenue requirement.

Q. Was this testimony prepared by you or under your direction and supervision?

A. Yes.

GENERAL INFORMATION

Q. What other Staff witnesses are involved in the presentation of Staff's recommendations or have provided substantial relevant information that you relied upon?

A. Mr. Richard Boyles is responsible for the engineering and technical analysis along with the new Staff proposed plant depreciation rates. Ms. Sonn S. Ahlbrecht is responsible for the analysis and recommendations on rate base. Mr. Allen G. Buckalew is responsible for the separations and allocations analysis, the CC&N extension and the rate design to

include the Extended Area Service ("EAS") requested by the Company. Mr. Joel Reiker is responsible for the cost of capital analysis. All of the aforementioned are Staff witnesses and are providing pre-filed testimony in this case.

Q. As part of your assigned duties at the Commission, did you perform a regulatory audit of Midvale as a part of your analysis of the rate increase request?

A. Yes, I did. I examined the accounting books and records, tested revenue, verified selected expenditures and reviewed the asset and liability accounts. My work also included a review of the Commission's records of Midvale's filings. In addition, I made oral and written requests for data and engaged in discussions with Midvale representatives. As a result of Staff's audit and the recommendations of the aforementioned Staff witnesses, I am recommending adjustments to Midvale's rate increase request.

Q. What is the general condition of Midvale's accounting records?

A. Staff's examination revealed that the Company's accounting records are maintained in a satisfactory manner. Amounts in Midvale's general ledger are accurate and generally reliable as verified by supporting documentation. Midvale's representatives were generally responsive to Staff's requests for data but were uncooperative if they did not understand and/or agree with Staff's needs for information. As an example, Staff requested that the Company provide billing information to allow Staff to evaluate the need for annualization adjustments of its revenue and expenses so that Staff could utilize an end of Test Year customer count to match an end of Test Year rate base, which is Staff's normal procedure for most utilities. The Company refused to provide the requested information and questioned Staff's failure to accept the average Test Year information as filed by the Company. If the Company had provided the requested information, Staff could have evaluated whether annualization of revenues and expenses would have provided a more accurate picture of the Company's financial position on a

going-forward basis. Staff recommends that the Company be ordered to file as part of its application, detailed monthly billing data, in any future rate cases, to allow a proper evaluation as to whether annualization of revenues and expenses is appropriate.

Staff identified some inconsistencies between the narrative testimonies of the Company's witnesses and the actual numbers produced by calculations on the "A" through "H" schedules. Also the Company's filing included numerous other schedules/exhibits that do not reconcile with the "A" through "H" schedules. Throughout my testimony, where these discrepancies exist, I have utilized the amounts in the "A" through "H" schedules to represent the Company's proposal. For instance, Company witness, Dr. Don Reading's direct testimony, on page 8, sets the weighted cost of capital at 11.2 percent; however, Schedule A-1 of the Company's filing reflects 10.346 percent as the rate of return. I used the rate of return on Schedule A-1, 10.346 percent, as the Company's proposed rate of return.

Q. Is the Company current on its payment of property taxes and sales taxes?

A. Yes.

SUMMARY OF ADJUSTMENTS

Q. Please summarize the recommendations and adjustments addressed in your direct testimony.

A. My direct testimony addresses the following issues:

Local Service Revenues – This adjustment decreases the Company's intrastate operating revenues by $81,599. This adjustment reflects Staff's removal of the Company's pro forma inclusion of revenues associated with the unserved areas.

. . .

. . .

Network Access Service Revenues – This adjustment decreases the Company's intrastate operating revenues by $43,425. This adjustment reflects Staff's removal of the Company's pro forma inclusion of revenues associated with the unserved areas and Staff's removal of the Company's pro forma adjustment associated with its EAS request.

Interstate Universal Service Fund Revenues – This adjustment increases the Company's intrastate operating revenues by $15,687. This adjustment reflects Staff's removal of the Company's pro forma adjustment associated with its EAS request.

Miscellaneous Revenues – This adjustment decreases the Company's intrastate operating revenues by $2,073. This adjustment reflects Staff's removal of the Company's pro forma inclusion of revenues associated with the unserved areas.

Uncollectible Revenues – This adjustment increases the Company's intrastate operating revenues by $715. This adjustment reflects Staff's removal of the Company's pro forma inclusion of uncollectibles associated with the unserved areas.

Plant Specific Expenses – This adjustment decreases the Company's intrastate operating expenses by $17,638. This adjustment reflects Staff's removal of the Company's pro forma inclusion of expenses associated with the unserved areas.

Other Plant Expenses – This adjustment decreases the Company's intrastate operating expenses by $11,480. This adjustment reflects Staff's removal of the Company's pro forma inclusion of expenses associated with the unserved areas.

Depreciation Expense – This adjustment decreases the Company's intrastate operating expenses by $30,673. This adjustment reflects Staff's removal of the Company's pro

forma inclusion of expenses associated with the unserved areas and also reflects Staff's proposed depreciation rates instead of the Company's current rates.

Customer Operations Expense – This adjustment decreases the Company's intrastate operating expenses by $15,820. This adjustment reflects Staff's removal of the Company's pro forma inclusion of expenses associated with the unserved areas.

Corporate Operations Expense – This adjustment decreases the Company's intrastate operating expenses by $51,501. This adjustment reflects Staff's removal of the Company's pro forma inclusion of expenses associated with the unserved areas and Staff's adjustment of the Company's proposed rate case expense and its related amortization period.

Property Taxes and Other Taxes – This adjustment decreases the Company's intrastate operating expenses by $5,782. This adjustment reflects Staff's removal of the Company's pro forma inclusion of expenses associated with the unserved areas.

Miscellaneous (Interest Expense) – This adjustment decreases the Company's intrastate operating expenses by $50,899. This adjustment reflects Staff's removal of the Company's pro forma inclusion of expenses associated with the unserved areas and Staff's removal of interest expense, as interest expense is a "below the line" item not included in the calculation of operating income.

Federal & State Income Tax – This adjustment increases the Company's intrastate operating expenses by $47,413. This adjustment increases the Company's proposed income tax expense to reflect Staff's recommended Test Year revenues and expenses.

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REVENUE REQUIREMENTS

Q. Please summarize the results of your analysis of Midvale's application and state Staff's recommended revenue requirement.

A. Staff is recommending an intrastate revenue requirement of $747,819 for Midvale. Staff's recommended revenue requirement represents a $17,391 increase from the adjusted Test Year revenue of $730,428. Staff's recommended intrastate revenue requirement is $275,295 less than the Company's proposal of $1,023,114. Schedule DWC-1, presents the calculation of the recommended intrastate revenue requirement.

GROSS REVENUE CONVERSION FACTOR

Q. Please summarize the results of your analysis of Midvale's application and state Staff's recommended gross revenue conversion factor.

A. Staff recommends using 1.7652 as the intrastate gross revenue conversion factor. Staff's recommended gross revenue conversion factor represents a 0.089 increase in Midvale's proposed Test Year intrastate gross revenue conversion factor of 1.6762.

Q. Why do the Company and Staff gross revenue conversion factors differ?

A. The gross revenue conversion factors differ because Midvale used out-dated and/or incorrect income tax rates to calculate its conversion factor.

The Company used 8.0 percent for the Arizona corporate income tax rate. Staff used the new rate for Arizona corporate income tax, effective January 1, 2001, of 6.968 percent. The change in the Arizona income tax rate is known and measurable. Therefore, the newest tax rate is the correct rate to use in deriving the revenue requirement on a going-forward basis.

The Company used a federal corporate income tax rate of 35 percent that applies to taxable income exceeding $10,000,000 to calculate its gross revenue conversion factor.

Based on Staff's recommended revenue requirement, the effective federal corporate income tax rate is 26.9 percent. However, the incremental federal corporate income tax rate that is applicable to the revenue increase recommended by Staff is 39 percent. Therefore, Staff used 39 percent for the calculation of the gross revenue conversion factor.

Schedule DWC-2, presents the calculation of Staff's recommended intrastate gross revenue conversion factor.

OPERATING INCOME

Operating Income Summary

Q. What are the results of your analysis of Test Year revenues, expenses and operating income?

A. As shown on Schedule DWC-3, my analysis resulted in Test Year intrastate revenues of $730,428, Test Year intrastate expenses of $614,053 and Test Year intrastate net operating income of $116,375.

Operating Income Adjustment No. 1 – Local Service Revenues

Q. What has Midvale proposed for Test Year local service revenues?

A. In addition to the Company's Test Year amount of $172,369 for the total Company, Midvale is proposing a pro forma adjustment to increase this amount by $81,599 for the total Company to reflect its request to include estimated revenues expected from the unserved areas. The Company's total adjusted Test Year local service revenues are $253,968.

The effects of the Company's proposed increase in local service revenues are reflected on the income statement, Schedule C-1, of the Company's filing.

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Q. Do you agree with the Company's pro forma adjustment to increase local service revenues?

A. No. The Company's proposal is based on the inclusion of estimated revenues from the unserved areas and Staff believes they are not appropriate in a rate case filing as they are not "known and measurable".

Q. What adjustment is Staff recommending for local service revenues?

A. As shown on Schedule DWC-5, Staff recommends decreasing intrastate local service revenues by $81,599.

Operating Income Adjustment No. 2 – Network Access Service Revenues

Q. What has Midvale proposed for Test Year network access service revenues?

A. In addition to the Company's Test Year amount of $563,821 for the total Company, Midvale is proposing a pro forma adjustment to decrease this amount by $17,190 for the total Company to reflect its removal of access revenue associated with its EAS request. Midvale is also proposing a pro forma adjustment to increase this amount by $120,908 for the total Company to reflect its request to include estimated revenues expected from the unserved areas. Midvale's total Company adjusted Test Year network access service revenues are $667,539. The effects of the Company's proposed increase in network access service revenues are reflected on the income statement, Schedule C-1, of the Company's filing.

Q. Do you agree with the Company's pro forma adjustments to increase network access service revenues?

A. No. The Company's proposal is based on the assumption that the EAS request would be granted. Staff witness, Mr. Allen G. Buckalew, has recommended that the EAS request not be granted in this case. It is also based on the inclusion of estimated revenues from

the unserved areas and Staff believes they are not appropriate in a rate case filing as they are not "known and measurable".

Q. What adjustment is Staff recommending for network access service revenues?

A. As shown on Schedule DWC-6, Staff recommends decreasing intrastate network access service revenues by $43,425.

Operating Income Adjustment No. 3 – Interstate Universal Service Fund Revenues

Q. What has Midvale proposed for Test Year interstate universal service fund revenues?

A. In addition to the Company's Test Year amount of $107,050 for the total Company, Midvale is proposing a pro forma adjustment to increase this amount by $221,824 for the total Company to reflect its increased funding due to the lifting of federal caps on universal service funds. Also, Midvale is proposing a pro forma adjustment to decrease this amount by $15,687 for the total Company to reflect its removal of universal service funding potentially lost in association with its EAS request. Midvale's total Company adjusted Test Year interstate universal service fund revenues are $313,187. The effects of the Company's proposed adjustments are reflected on the income statement, Schedule C-1, of the Company's filing.

Q. Do you agree with the Company's pro forma adjustments to increase interstate universal service fund revenues?

A. No. The Company's proposal is based on the assumption that the EAS request would be granted. As stated previously, Staff has recommended that the EAS request not be granted, therefore, Staff believes the removal of the adjustment, related to the EAS request, is necessary.

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Q. What adjustment is Staff recommending for interstate universal service fund revenues?

A. As shown on Schedule DWC-7, Staff recommends decreasing intrastate federal universal service fund revenues by $15,687.

Operating Income Adjustment No. 4 – Miscellaneous Revenues

Q. What has Midvale proposed for Test Year miscellaneous revenues?

A. In addition to the Company's Test Year amount of $22,081 for the total Company, Midvale is proposing a pro forma adjustment to increase this amount by $2,073 for the total Company to reflect its request to include estimated revenues expected from the unserved areas. Midvale's total Company adjusted Test Year miscellaneous revenues are $24,154. The effect of the Company's proposed increase in miscellaneous revenues is reflected on the income statement, Schedule C-1, of the Company's filing.

Q. Do you agree with the Company's pro forma adjustment to increase miscellaneous revenues?

A. No. The Company's proposal is based on the inclusion of estimated revenues from the unserved areas and Staff believes they are not appropriate in a rate case filing as they are not "known and measurable".

Q. What adjustment is Staff recommending for intrastate miscellaneous revenues?

A. As shown on Schedule DWC-8, Staff recommends decreasing intrastate miscellaneous revenues by $2,073.

Operating Income Adjustment No. 5 – Uncollectible Revenues

Q. What has Midvale proposed for Test Year uncollectible revenues?

A. In addition to the Company's Test Year uncollectible revenue of $1,279 for the total Company, Midvale is proposing a pro forma adjustment to recognize an additional $715 for the total Company to reflect its request to include estimated revenues expected from

the unserved areas. Midvale is proposing $1,994 as total Company adjusted Test Year uncollectible revenues. The effect of the Company's proposed increase in uncollectible revenues is reflected on the income statement, Schedule C-1 of the Company's filing.

Q. Do you agree with the Company's pro forma adjustment to increase uncollectible revenues?

A. No. The Company's proposal is based on the inclusion of estimated revenues from the unserved areas and Staff believes they are not appropriate in a rate case filing as they are not "known and measurable"

Q. What adjustment is Staff recommending for uncollectible revenues?

A. As shown on Schedule DWC-9, Staff recommends decreasing intrastate uncollectible revenues by $715.

Operating Income Adjustment No. 6 – Plant Specific Expenses

Q. What has Midvale proposed for Test Year plant specific expenses?

A. In addition to the Company's Test Year amount of $127,720 for the total Company, Midvale is proposing a pro forma adjustment to increase this amount by $27,462 for the total Company to reflect its request to include estimated expenses expected from the unserved areas. The Company's total adjusted Test Year plant specific expenses are $155,182. The effect of the Company's proposed increase in plant specific expenses is reflected on the income statement, Schedule C-1, of the Company's filing.

Q. Do you agree with the Company's pro forma adjustment to increase plant specific expenses?

A. No. The Company's proposal is based on the inclusion of estimated expenses from the unserved areas and Staff believes they are not appropriate in a rate case filing as they are not "known and measurable".

Q. What adjustment is Staff recommending for plant specific expenses?

A. As shown on Schedule DWC-10, Staff recommends decreasing intrastate plant specific expenses by $17,638.

Operating Income Adjustment No. 7 – Other Plant Expenses

Q. What has Midvale proposed for Test Year other plant expenses?

A. In addition to the Company's Test Year amount of $62,925 for the total Company, Midvale is proposing a pro forma adjustment to increase this amount by $21,595 for the total Company to reflect its request to include estimated expenses expected from the unserved areas. The Company's total adjusted Test Year other plant expenses are $84,520. The effect of the Company's proposed increase in other plant expenses is reflected on the income statement, Schedule C-1 of the Company's filing.

Q. Do you agree with the Company's pro forma adjustments to increase other plant expenses?

A. No. The Company's proposal is based on the inclusion of estimated expenses from the unserved areas and Staff believes they are not appropriate is a rate case filing as they are not "known and measurable".

Q. What adjustment is Staff recommending for other plant expenses?

A. As shown on Schedule DWC-11, Staff recommends decreasing intrastate other plant expenses by $11,480.

Operating Income Adjustment No. 8 – Depreciation Expense

Q. What has Midvale proposed for Test Year depreciation expense?

A. In addition to the Company's Test Year amount of $186,282 for the total Company, Midvale is proposing a pro forma adjustment to increase this amount by $101,161 for the total Company to reflect its request to include estimated expense expected from the

unserved areas. Midvale's total Company adjusted Test Year depreciation expense is $287,443. The effect of the Company's proposed increase in depreciation expense is reflected on the income statement, Schedule C-1, of the Company's filing.

Q. Do you agree with the Company's pro forma adjustment to increase depreciation expense?

A. No. The Company's proposal is based on the inclusion of estimated expenses expected from the unserved areas and Staff believes they are not appropriate in a rate case filing as they are not "known and measurable".

Additionally, Staff Engineering has determined that the Company's current depreciation rates should be adjusted to better reflect individual plant lives. Staff witness, Mr. Richard Boyles has reviewed the Company plant and current depreciation rates and has designed an alternative depreciation rate schedule that Staff recommends on a going-forward basis. Please refer to Mr. Boyle's direct testimony for further details of his analysis.

Q. Has Staff prepared a schedule showing the calculation of depreciation expense using Staff's proposed depreciation rates by plant account?

A. Yes. Schedule DWC-4, shows the calculation of Staff's proposed depreciation expense.

Q. What adjustment is Staff recommending for intrastate depreciation expense?

A. As shown on Schedule DWC-12, Staff recommends decreasing intrastate depreciation expense by $30,673.

<u>Operating Income Adjustment No. 9 – Customer Operations Expense</u>

Q. What has Midvale proposed for Test Year customer operations expense?

A. In addition to the Company's Test Year amount of $96,131 for the total Company, Midvale is proposing a pro forma adjustment to increase this amount by $20,968 for the

total Company to reflect its request to include estimated expense expected from the unserved areas. Midvale's total Company adjusted Test Year customer operations expense is $117,099. The effects of the Company's proposed increase in customer operations expense are reflected on the income statement, Schedule C-1, of the Company's filing.

Q. Do you agree with the Company's pro forma adjustment to increase customer operations expense?

A. No. The Company's proposal is based on the inclusion of estimated expense expected from the unserved areas and Staff believes they are not appropriate in a rate case filing as they are not "known and measurable".

Q. What adjustment is Staff recommending for customer operations expense?

A. As shown on Schedule DWC-13, Staff recommends decreasing intrastate customer operations expense by $15,820.

Operating Income Adjustment No. 10 – Corporate Operations Expense

Q. What has Midvale proposed for Test Year corporate operations expense?

A. In addition to the Company's Test Year amount of $254,880 for the total Company, Midvale is proposing a pro forma adjustment to increase this amount by $56,051 for the total Company to reflect its request to include estimated expenses expected from the unserved areas. Midvale is also proposing a pro forma adjustment to increase this amount by $40,000 for the total Company to reflect its estimated rate case expenses involved in this proceeding. Midvale's total Company adjusted Test Year corporate operations expense is $350,931. The effect of the Company's proposed increase in corporate operations expense is reflected on the income statement, Schedule C-1 of the Company's filing.

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Q. Do you agree with the Company's pro forma adjustment to increase corporate operations expense?

A. No. The Company's proposal is based on the inclusion of estimated expense expected from the unserved areas and Staff believes they are not appropriate in a rate case filing as they are not "known and measurable".

The Company's proposed corporate operations expense also includes the Company's estimated rate case expense. At Staff's request the Company provided an updated estimate of its rate case expense. In Staff's opinion, the Company's estimate of $149,000 is not reasonable. The Company's estimated rate case expense includes $41,610 of engineering costs. The Company has not demonstrated how these costs are related to the rate case. Costs related to the CC&N extension should be capitalized instead of recognized as rate case expense. Staff recommends $60,000 for rate case expense. Staff amortized this $60,000 expense over three years to arrive at an annual rate case expense of $20,000. Staff's pro forma adjustment reflects this level of expense.

Q. What adjustment is Staff recommending for corporate operations expense?

A. As shown on Schedule DWC-14, Staff recommends decreasing intrastate corporate operations expense by $51,501.

Operating Income Adjustment No. 11 – Property Taxes and Other Taxes

Q. What has Midvale proposed for Test Year property taxes and other taxes?

A. In addition to the Company's Test Year amount of $81,282 for the total Company, Midvale is proposing a pro forma adjustment to increase this amount by $9,103 for the total Company to reflect its request to include expenses from the unserved areas. The Company's total adjusted Test Year property taxes and other taxes are $90,385. The effect of the Company's proposed increase in property taxes and other taxes is reflected on the income statement, Schedule C-1 of the Company's filing.

Q. Do you agree with the Company's pro forma adjustment to increase property taxes and other taxes?

A. No. The Company's proposal is based on the inclusion of estimated taxes expected from the unserved areas and Staff believes they are not appropriate in a rate case filing as they are not "known and measurable".

Q. What adjustment is Staff recommending for property taxes and other taxes?

A. As shown on Schedule DWC-15, Staff recommends decreasing intrastate property taxes and other taxes by $5,782.

Operating Income Adjustment No. 12 – Miscellaneous (Interest Expense)

Q. What has Midvale proposed for Test Year miscellaneous (interest expense)?

A. In addition to the Company's Test Year amount of $25,107 for the total Company, Midvale is proposing a pro forma adjustment to increase this amount by $55,023 for the total Company to reflect its request to include estimated expense expected from the unserved areas. The Company's total adjusted Test Year miscellaneous (interest expense) is $80,130. The effect of the Company's proposed increase in miscellaneous (interest expense) is reflected on the income statement, Schedule C-1, of the Company's filing.

Q. Do you agree with the Company's pro forma adjustment to increase miscellaneous (interest expense)?

A. No. The Company's proposal is based on the inclusion of estimated expenses from the unserved areas and Staff believes they are not appropriate in a rate case filing as they are not "known and measurable".

Additionally, Staff believes that interest expense is a "below the line" expense item and should not be included in the calculation of operating income.

Q. What adjustment is Staff recommending for miscellaneous (interest expense)?

A. As shown on Schedule DWC-16, Staff recommends decreasing intrastate miscellaneous (interest expense) by $50,899.

Operating Income Adjustment No. 13 – Federal and State Income Tax

Q. What has Midvale proposed for Test Year intrastate federal and state income tax?

A. The Company's filing did not include any income tax expense in the presentation of Test Year operating income. However, the Company's general ledger shows Test Year intrastate federal and state income tax of a negative $3,040.

Q. Do you agree with the Company's failure to recognize intrastate federal and state income tax for the Test Year?

A. No. Staff believes that, for taxable entities such as Midvale, income tax expense should be recognized on a stand-alone basis. That is, income tax for the Test Year should be calculated based on the adjusted jurisdictional revenues and expenses. Staff used the Arizona jurisdictional revenues and expenses to calculate the Test Year income tax liability.

Q. What adjustment is Staff recommending for Test Year intrastate federal and state income tax?

A. As shown on Schedule DWC-17, Staff recommends increasing intrastate federal and state income tax by $47,413.

RECOMMENDATIONS

Q. Please summarize Staff's primary recommendations.

A. Staff's primary recommendations are reflected on Schedule DWC-1.

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Staff recommends authorization of a $17,391 (2.38 percent) increase in revenue to provide a 10.14 percent return on an Original Cost Rate Base of $1,244,841.

Staff further recommends the rates and charges as presented in the testimony of Staff witness, Mr. Allen G. Buckalew.

Staff further recommends the approval of the Company's request to extend its Certificate of Convenience and Necessity, as reviewed in the testimony of Staff witness, Mr. Allen G. Buckalew.

Staff further recommends that the Company be ordered to include, in any future rate case filing with this Commission, detailed monthly billing data to facilitate necessary evaluations.

Q. Does this conclude your direct testimony?

A. Yes, it does.

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Schedule DWC-1

COMPUTATION OF INCREASE IN GROSS REVENUE REQUIREMENTS

LINE NO.	DESCRIPTION	[A] PER COMPANY	[B] PER STAFF
1	Adjusted Rate Base	$ 1,807,096	$ 1,244,841
2	Adjusted Operating Income (Loss)	$ 90,689	$ 116,375
3	Current Rate of Return (Ln 2/Ln 1)	5.02%	9.35%
4	Required Return on Rate Base (Ln 1 x Ln 5)	$ 186,962	$ 126,227
5	Required Rate of Return	10.346%	10.14%
6	Operating Income Deficiency (Ln 4 - Ln 2)	$ 96,273	$ 9,852
7	Gross Revenue Conversion Factor (Schedule DWC-2)	1.6762	1.7652
8	Increase (Decrease) in Gross Revenue Requirements (Ln 6 x Ln 7)	$ 181,991	$ 17,391
9	Adjusted Test Year Operating Revenue	$ 841,123	$ 730,428
10	Recommended Operating Revenue (Ln 8 + Ln 9)	$ 1,023,114	$ 747,819
11	Percentage Increase (Decrease) in Operating Revenue (Ln 8 / Ln 9)	21.64%	2.38%

References:

Column [A]: Company Schedules A-1, B-1, C-1, C-3 and D-1

The Company's proposed increase in gross revenue on line 8 is not mathematically correct. That is, it is not equal to the operating income deficiency times the gross revenue conversion factor which is $161,374.

Column [B]: Staff Schedules DWC-2, DWC-3, SSA-1 and JMR-1

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Schedule DWC-2

GROSS REVENUE CONVERSION FACTOR
INCOME TO REVENUE MULTIPLIER

LINE NO.	DESCRIPTION		
1	Gross Intrastate Revenue		1.0000
2	Less: Uncollectible Revenue		0.00175
3	Total Revenue (Ln 1 - Ln 2)		0.99825
4	Less: Taxes on Local Revenue Service		0.0000
5	Taxable Income (Ln 3 - Ln 4)		0.99825
6	State Income Tax Rate	0.06968	
6a	Less: State Income Tax (Ln 5 x Ln 6)		0.06956
7	Federal Income Tax Base (Ln 5 - Ln 6a)		0.92869
7a	Federal Income Tax Rate (Incremental)	0.39000	
7b	Less: Federal Income Tax ((Ln 5 - Ln 6a) x Ln 7a)		0.36219
8	Net Operating Income (Ln 7 - Ln 7b)		0.56650
9	Income to Revenue Multiplier (1/Ln 8)		**1.7652**

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Schedule DWC-3

OPERATING INCOME STATEMENT

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJS	REF	[C] STAFF ADJUSTED	[D] INTERSTATE AS ADJ	[E] INTRASTATE AS ADJ
	REVENUES:						
1	Local Service Revenues	$ 253,968	$ (81,599)	1	$ 172,369	$ -	$ 172,369
2	Network Access Service Revenues	667,539	(103,718)	2	563,821	357,197	206,624
3	Interstate USF	313,187	15,687	3	328,874	-	328,874
4	Directory Revenue	1,759	-		1,759	-	1,759
5	Miscellaneous	24,154	(2,073)	4	22,081	-	22,081
6	Uncollectible	(1,994)	715	5	(1,279)	-	(1,279)
7	**Total Operating Revenues**	**$ 1,258,613**	$ (170,988)		$ 1,087,625	$ 357,197	$ 730,428
	EXPENSES:						
8	Plant Specific	$ 155,182	$ (27,462)	6	$ 127,720	$ 45,685	$ 82,035
9	Other Plant	84,520	(21,595)	7	62,925	29,474	33,451
10	Network Operations	-	-		-	-	-
11	Access Expense	-	-		-	-	-
12	Total Plant Non-Specific (Lines 9 - 11).	84,520	(21,595)		62,925	29,474	33,451
13	Depreciation Expense	287,443	(51,404)	8	236,039	95,195	140,844
14	Customer Operations	117,099	(20,968)	9	96,131	23,600	72,531
15	Corporate Operations	350,931	(76,051)	10	274,880	88,731	186,149
16	Other Operating Income & Expenses	-	-		-	-	-
17	Property Taxes & Other Taxes	90,385	(9,103)	11	81,282	29,652	51,630
18	Miscellaneous	80,130	(80,130)	12	-	-	-
19	Total Selling, General & Administrative	925,988	(237,656)		688,332	237,178	451,154
20	**Total Operating Expenses:**	$ 1,165,690	$ (286,713)		$ 878,977	$ 312,337	$ 566,640
21	**INCOME (LOSS) FROM OPERATIONS**	**$ 92,923**	**$ 115,725**		**$ 208,648**	**$ 44,860**	**$ 163,788**
	TAXES:						
22	Federal & State Income Tax (Reflects Intrastate portion only)	$ -	47,413	13	47,413	-	47,413
	NET OPERATING INCOME						**$ 116,375**

References:

Column [A]: Company Schedule C-1
Column [B]: Staff Schedules DWC-5 through DWC-17
Column [C]: Column [A] plus Column [B]
Column [D]: Column [C] minus Column [E]
Column [E]: Column [C] times separations rate derived from Company Schedule C-1

Adjustment No. 1: Schedule DWC-5
Adjustment No. 2: Schedule DWC-6
Adjustment No. 3: Schedule DWC-7
Adjustment No. 4: Schedule DWC-8
No. 5: Schedule DWC-9
No. 6: Schedule DWC-10
No. 7: Schedule DWC-11
No. 8: Schedule DWC-12
No. 9: Schedule DWC-13
No. 10: Schedule DWC-14
No. 11: Schedule DWC-15
No. 12: Schedule DWC-16
No. 13: Schedule DWC-17

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Schedule DWC-5

OPERATING INCOME ADJUSTMENT NO. 1
LOCAL SERVICE REVENUES

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENT	[C] STAFF AS ADJUSTED
1	Total Company Local Service Revenues	$ 253,968	$ (81,599)	$ 172,369
2	Intrastate Allocation Factor	100.00%	100.00%	100.00%
3	Intrastate Local Service Revenues	$ 253,968	$ (81,599)	**$ 172,369**

References:

Column [A]: Company Schedule C-1

Column [B]: DWC Direct Testimony

Column [C]: Column [A] minus Column [B]

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Schedule DWC-6

OPERATING INCOME ADJUSTMENT NO. 2
NETWORK ACCESS SERVICE REVENUES

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENT	[C] STAFF AS ADJUSTED
	INTERSTATE ACCESS:			
INTER-1	Total Company Access Service Revenues	$ 440,637	$ (63,636)	$ 377,001
INTER-2	Intrastate Allocation Factor (Rounded)	5.25%	5.25%	5.25%
INTER-3	Intrastate Network Access Service Revenues	$ 23,147	$ (3,343)	$ 19,804
	INTRASTATE ACCESS:			
INTRA-1	Total Company Access Service Revenues	$ 226,902	$ (40,082)	$ 186,820
INTRA-2	Intrastate Allocation Factor	100.00%	100.00%	100.00%
INTRA-3	Intrastate Network Access Service Revenues	$ 226,902	$ (40,082)	$ 186,820
	COMBINED TOTAL:			
COMBO-1	Total Company Access Service Revenues	$ 667,539	$ (103,718)	$ 563,821
COMBO-2	Intrastate Allocation Factor	NMF	NMF	NMF
COMBO-3	Intrastate Network Access Service Revenues	$ 250,049	$ (43,425)	**$ 206,624**

References:

Column [A]: Company Schedule C-1

Column [B]: DWC Direct Testimony

Column [C]: Column [A] minus Column [B]

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Schedule DWC-7

OPERATING INCOME ADJUSTMENT NO. 3
INTERSTATE UNIVERSAL SERVICE FUNDS

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENT	[C] STAFF AS ADJUSTED
1	Total Company U.S.F. Revenues	$ 313,187	$ 15,687	$ 328,874
2	Intrastate Allocation Factor	100.00%	100.00%	100.00%
3	Intrastate Interstate U.S.F. Revenues	$ 313,187	$ 15,687	**$ 328,874**

References:

Column [A]: Company Schedule C-1

Column [B]: DWC Direct Testimony

Column [C]: Column [A] minus Column [B]

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Schedule DWC-8

OPERATING INCOME ADJUSTMENT NO. 4
MISCELLANEOUS REVENUES

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENT	[C] STAFF AS ADJUSTED
1	Total Company Miscellaneous Revenues	$ 24,154	$ (2,073)	$ 22,081
2	Intrastate Allocation Factor	100.00%	100.00%	100.00%
3	Intrastate Miscellaneous Revenues	$ 24,154	$ (2,073)	**$ 22,081**

References:

Column [A]: Company Schedule C-1

Column [B]: DWC Direct Testimony

Column [C]: Column [A] minus Column [B]

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Schedule DWC-9

OPERATING INCOME ADJUSTMENT NO. 5
UNCOLLECTIBLE REVENUES

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENT	[C] STAFF AS ADJUSTED
1	Total Company Uncollectible Revenues	$ (1,994)	$ 715	$ (1,279)
2	Intrastate Allocation Factor	100.00%	100.00%	100.00%
3	Intrastate Uncollectible Revenues	$ (1,994)	$ 715	**$ (1,279)**

References:

Column [A]: Company Schedule C-1

Column [B]: DWC Direct Testimony

Column [C]: Column [A] minus Column [B]

MIDVALE TELEPHONE EXCHANGE
Docket No. T-02532A-00-0512
Test Year Ended December 31, 1999

Schedule DWC-10

OPERATING INCOME ADJUSTMENT NO. 6
PLANT SPECIFIC EXPENSES

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENT	[C] STAFF AS ADJUSTED
1	Total Company Plant Specific Expenses	$ 155,182	$ (27,462)	$ 127,720
2	Intrastate Allocation Factor	64.23%	64.23%	64.23%
3	Intrastate Plant Specific Expenses	$ 99,673	$ (17,638)	**$ 82,035**

References:

Column [A]: Company Schedule C-1

Column [B]: DWC Direct Testimony

Column [C]: Column [A] minus Column [B]

MIDVALE TELEPHONE EXCHANGE
Docket No. T-02532A-00-0512
Test Year Ended December 31, 1999

Schedule DWC-11

OPERATING INCOME ADJUSTMENT NO. 7
OTHER PLANT EXPENSES

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENT	[C] STAFF AS ADJUSTED
1	Total Company Other Plant Expenses	$ 84,520	$ (21,595)	$ 62,925
2	Intrastate Allocation Factor	53.16%	53.16%	53.16%
3	Intrastate Other Plant Expenses	$ 44,931	$ (11,480)	**$ 33,451**

References:

Column [A]: Company Schedule C-1

Column [B]: DWC Direct Testimony

Column [C]: Column [A] minus Column [B]

MIDVALE TELEPHONE EXCHANGE
Docket No. T-02532A-00-0512
Test Year Ended December 31, 1999

Schedule DWC-12

OPERATING INCOME ADJUSTMENT NO. 8
DEPRECIATION EXPENSE

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENT	[C] STAFF AS ADJUSTED
1	Total Company Depreciation Expense	$ 287,443	$ (51,404)	$ 236,039
2	Intrastate Allocation Factor	59.67%	59.67%	59.67%
3	Intrastate Depreciation Expense	$ 171,517	$ (30,673)	**$ 140,844**

References:

Column [A]: Company Schedule C-1

Column [B]: DWC Direct Testimony

Column [C]: Column [A] minus Column [B]

MIDVALE TELEPHONE EXCHANGE
Docket No. T-02532A-00-0512
Test Year Ended December 31, 1999

Schedule DWC-13

OPERATING INCOME ADJUSTMENT NO. 9
CUSTOMER OPERATIONS EXPENSE

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENT	[C] STAFF AS ADJUSTED
1	Total Company Customer Operations	$ 117,099	$ (20,968)	$ 96,131
2	Intrastate Allocation Factor	75.45%	75.45%	75.45%
3	Intrastate Customer Operations Expense	$ 88,351	$ (15,820)	**$ 72,531**

References:

Column [A]: Company Schedule C-1

Column [B]: DWC Direct Testimony

Column [C]: Column [A] minus Column [B]

MIDVALE TELEPHONE EXCHANGE
Docket No. T-02532A-00-0512
Test Year Ended December 31, 1999

Schedule DWC-14

OPERATING INCOME ADJUSTMENT NO. 10
CORPORATE OPERATIONS EXPENSE

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENT	[C] STAFF AS ADJUSTED
1	Total Company Corporate Operations	$ 350,931	$ (76,051)	$ 274,880
2	Intrastate Allocation Factor	67.72%	67.72%	67.72%
3	Intrastate Corporate Operations Expense	$ 237,650	$ (51,501)	**$ 186,149**

References:

Column [A]: Company Schedule C-1

Column [B]: DWC Direct Testimony

Column [C]: Column [A] minus Column [B]

MIDVALE TELEPHONE EXCHANGE
Docket No. T-02532A-00-0512
Test Year Ended December 31, 1999

Schedule DWC-15

OPERATING INCOME ADJUSTMENT NO. 11
PROPERTY TAXES AND OTHER TAXES

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENT	[C] STAFF AS ADJUSTED
1	Total Company Property and Other Taxes	$ 90,385	$ (9,103)	$ 81,282
2	Intrastate Allocation Factor	63.52%	63.52%	63.52%
3	Intrastate Property Taxes and Other Taxes	$ 57,412	$ (5,782)	**$ 51,630**

References:

Column [A]: Company Schedule C-1

Column [B]: DWC Direct Testimony

Column [C]: Column [A] minus Column [B]

MIDVALE TELEPHONE EXCHANGE
Docket No. T-02532A-00-0512
Test Year Ended December 31, 1999

Schedule DWC-16

OPERATING INCOME ADJUSTMENT NO. 12
MISCELLANEOUS (INTEREST EXPENSE)

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENT	[C] STAFF AS ADJUSTED
1	Total Company Miscellaneous (Interest Exp.)	$ 80,130	$ (80,130)	$ -
2	Intrastate Allocation Factor	63.52%	63.52%	63.52%
3	Intrastate Miscellaneous (Interest Expense)	$ 50,899	$ (50,899)	$ -

References:

Column [A]: Company Schedule C-1

Column [B]: DWC Direct Testimony

Column [C]: Column [A] minus Column [B]

MIDVALE TELEPHONE EXCHANGE
Docket No. T-02532A-00-0512
Test Year Ended December 31, 1999

Schedule DWC-17

OPERATING INCOME ADJUSTMENT NO. 13
FEDERAL AND STATE INCOME TAX (INTRASTATE PORTION ONLY)

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENT	[C] STAFF AS ADJUSTED
1	Total Company Federal & State Income Tax	$ -	$ 47,413	$ 47,413
2	Intrastate Allocation Factor	100.00%	100.00%	100.00%
3	Intrastate Federal and State Income Tax	$ -	$ 47,413	**$ 47,413**

References:

Column [A]: Company Schedule C-1

Column [B]: DWC Direct Testimony

Column [C]: Column [A] minus Column [B]

BEFORE THE ARIZONA CORPORATION COMMISSION

WILLIAM A. MUNDELL
Chairman
JIM IRVIN
Commissioner
MARC SPITZER
Commissioner

IN THE MATTER OF THE APPLICATION OF MIDVALE TELEPHONE EXCHANGE, INC., FOR AUTHORITY TO INCREASE RATES AND FOR DISBURSEMENT FROM THE ARIZONA UNIVERSAL SERVICE FUND	DOCKET NO. T-02532A-00-0512

DIRECT

TESTIMONY

OF

JOEL REIKER

SENIOR RATE ANALYST

UTILITIES DIVISION

MARCH 15, 2001

EXHIBIT
5-3
Admitted

Jbc129t

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EXECUTIVE SUMMARY
MIDVALE TELEPHONE EXCHANGE, INC.
DOCKET NO. T-02532A-00-0512
RATE OF RETURN
JOEL REIKER

1. Staff recommends a capital structure consisting of 22.60 percent long-term debt and 77.40 percent common equity.

2. Staff recommends a cost of long-term debt of 5.47 percent.

3. Staff recommends an 11.50 percent cost of equity capital. The 11.50 percent figure is based on the results of Staff's cost of equity analysis, which used both the DCF and CAPM methodologies.

4. Based on the results of Staff's capital structure, cost of equity, and debt analyses, Staff recommends a 10.14 percent cost of capital for Midvale. This figure represents the weighted cost of both the Company's debt and common equity.

Introduction

Q. Please state your name, occupation, and business address.

A. My name is Joel M. Reiker. I am a Senior Rate Analyst employed by the Arizona Corporation Commission ("ACC" or "Commission") in the Utilities Division. My business address is 1200 West Washington, Phoenix, Arizona 85007.

Q. Briefly describe your responsibilities as a Senior Rate Analyst.

A. In my capacity as a Senior Rate Analyst, I provide recommendations to the Commission on mergers, acquisitions, financings and sales of assets. I also perform studies to estimate the cost of capital for utilities that are seeking rate relief.

Q. Please describe your educational background and professional experience.

A. In 1998, I graduated Cum Laude from Arizona State University, receiving a Bachelor of Science degree in Global Business with a specialization in Finance. My course of studies included classes in corporate and international finance, investments, accounting, and economics. In 1999, after working as in internal auditor for one year, I was employed by the Commission as an Auditor III, in the Accounting & Rates Section's Financial Analysis Unit. Since that time, I have attended various seminars and classes on general regulatory and business issues, including cost of capital and energy derivatives. In December of 2000, I was promoted to a Senior Rate Analyst.

Q. What is the scope of your testimony in this case?

A. I will address the appropriate capital structure, as well as the appropriate cost of debt and equity to be recommended for setting rates for Midvale Telephone Exchange, Inc. ("Midvale" or "Company").

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Summary of Testimony and Recommendations

Q. Briefly summarize how your cost of capital testimony is organized.

A. My cost of capital testimony is organized into six sections. First, I will discuss the current and projected economic environment and how it influences Midvale's cost of capital. Second, I will discuss Midvale's risk. Third, I will compare my recommended capital structure with the Company's proposed capital structure, and the financial risk faced by Midvale. Fourth, I will explain my recommended cost of debt. In the next section, I will present the findings of my cost of equity capital analysis, in which I utilized the discounted cash flow ("DCF"), capital asset pricing model ("CAPM"), and comparable earnings methodologies. I will then present my recommended cost of equity for Midvale, as well as my recommended weighted cost of capital. Finally, I will comment on Midvale's cost of capital testimony. Schedules JMR-1 through JMR-9 support my cost of capital analysis.

Q. Please summarize the recommendations and adjustments that you will address in your testimony.

A. Capital Structure – Staff recommends a capital structure consisting of 22.60 percent long-term debt and 77.40 percent common equity.

Cost of Debt – Staff recommends a cost of long-term debt of 5.47 percent.

Cost of Equity Capital – Staff recommends an 11.50 percent cost of equity capital based primarily on the results of the DCF and CAPM methodologies.

Cost of Capital – Using the results of Staff's analysis of capital structure, cost of debt and equity, Staff recommends a 10.14 cost of capital for Midvale. This represents the weighted cost of both the Company's debt and equity.

. . .

Economic Summary

Q. How does the economic environment affect the cost of capital of Midvale?

A. The cost of capital for any company is influenced by the economic conditions, in which it operates and seeks to obtain capital. The overall health of the economy affects both the availability and cost of capital. Because the cost of equity capital is forward-looking, the outlook for the National and Arizona economies should be reviewed. The results of this review should then be considered when recommending a cost of equity capital for Midvale. Schedule JMR-2, shows the economic indicators reviewed for this testimony.

Q. What economic indicators and forecasts have you examined in your determination of the cost of capital for Midvale?

A. I reviewed inflation as measured by the Consumer Price Index ("CPI"), Gross Domestic Product ("GDP") and various interest rates. I also reviewed the *Value Line Selection & Opinion, Blue Chip Financial Forecasts* and *Arizona's Economy,* for an indication of the conditions economists are projecting for the national and local economies.

Q. How would you characterize the current level of inflation?

A. Staff would characterize inflation, as measured by the CPI, as low to moderate at present. From 1990 to 1995, inflation declined steadily from 6.1 percent to 2.5 percent. In 1996, however, it rose to 3.3 percent. Since 1997, it has slowly risen from 1.7 percent to its current level of 3.4 percent.

Q. What is the current rate of growth in the U.S. economy?

A. At the end of 2000, the rate of growth in the U.S. economy, as measured by GDP, was 5.0 percent, the highest level in over ten years.

Q. What are current interest rate levels?

A. Short-term interest rates have risen modestly in the past year, from 4.7 percent in 1999, to a current level of 5.7 percent. Interest rates on 30-year Treasury's have remained steady in the range of 5.4 percent to 5.9 percent since falling from 6.6 percent in 1997. The Prime rate has risen to the 9.5 percent level, up from 8.0 percent in 1999.

Q. What is the outlook for the national and state economies?

A. Nationally, sustained growth in Real GDP in the 3.3 percent to 3.6 percent range, decreasing interest rates in the next year, as well as decreased inflation.[1] The following Quote from the December 22, 2000, *Value Line Selection & Opinion* illustrates this:

> "The reluctance of most consumers now to buy at any price is further indication that we are not on the cusp of a new round of inflation."
>
> "For now, we think the most likely scenario is that the economy, with the help of one or more interest rate cuts in the new year, will grow by 3%, or so. We place odds that a recession will evolve in 2001 at only 25%-35%."

Arizona's economy continues to remain strong. According to the Fall 2000 edition of *Arizona's Economy*, published by the Eller Graduate School of Management at the University of Arizona, "White hot or red hot—the economy is still smoking. Even so, inflation remains subdued and has actually cooled in recent months." In Arizona, the economy should continue to grow. Gains in personal income are expected to be in the range of 6.6 percent for 2001, and job growth is expected to grow at 3.5 percent. The 5-year economic outlook for Arizona reflects below average rates of growth as the economy is expected to cool off.[2]

Thus, in accordance with a promising outlook of sustainable economic and population growth, there do not appear to be any unusual conditions in the Arizona economy that would negatively affect Midvale's earnings.

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[1] Long-term Consensus Forecast, *Blue Chip Financial Forecasts*, November 1, 2000.
[2] *Arizona's Econoomy*, Eller College of Business and Public Administration, The University of Arizona. Pp. 7-9.

Risk

Q. Please define Business Risk.

A. Business risk is the risk associated with the fluctuation in earnings due to the basic nature of the firm's business.

Q. Why is it important to determine the level of business risk an investment offers when determining the cost of equity capital?

A. Investors require a higher rate of return from an investment that bears a high level of risk and a lower rate of return from an investment that bears a lower level of risk. A Company's cost of equity is the return expected and required by investors that motivates them to invest in that company. It is based upon prospective investors' evaluation of the risk associated with the investment. Therefore, risk is an important factor to examine when estimating the cost of equity capital.

Q. What factors contribute to investors' risk perception of an investment in local telecommunications service utilities?

A. Factors such as capital structure, competition, capital expenditures, growth prospects, size, and ability to enter the capital markets contribute to the perception of risk.

Q. What type of competitive pressures does Midvale face?

A. According to the Company's response to Staff data request AGB-65, "The Company is not aware of any facilities based competitors in either the Young or Cascabel exchanges."

Q. How does the competitive environment faced by Midvale compare to the competitive environment currently faced by large telecommunications services companies such as Qwest Communications?

A. Qwest Communications, the largest telecommunications provider in Arizona, is currently facing limited competition in some areas. Cox Communications is offering basic local

service in several residential areas in direct competition with U S WEST. In downtown Phoenix and Tucson, there are several telecommunications services providers who are seeking to provide service to business customers.

Midvale currently experiences none of this competition. No other local service providers, other than wireless, are providing service within Midvale's service area.

Q. Is Midvale planning any significant plant additions?

A. Schedule JMR-3, illustrates the Company's historical and projected levels of plant. It can be seen that Midvale added approximately $460,000 in net plant in 1998, or approximately 17 percent of total plant, followed by approximately $25,000 in 1999.

The Company's rate application seeks authority to amend its Certificate of Convenience and Necessity ("CC&N") to include the currently unserved "Millsite" and "Silver Belle" areas. If the Commission approves the Company's request to extend its CC&N, additional capital will be required to finance plant. According to its application, the Company plans to issue approximately $1.08 million in new debt and $260,000 in equity to finance plant in the currently unserved areas. The plant additions depicted in Schedule JMR-3 include the additional capital related to the Millsite and Silver Belle service areas. In 2000, the Company is projecting an increase of approximately $1.2 million in net plant, an increase of approximately 42 percent.

Q. Has Midvale's customer base experienced much growth?

A. Yes, it has. From 1995 to 1999, the average number of access lines grew approximately 39 percent. The Company's average annual growth has exceeded growth in the counties in which it operates. Schedule JMR-3, shows that the Company's four-year growth rate (1995-1999) was 8.7 percent, compared to a 3.0, 2.7, and 2.8 percent growth rate for Gila, Cochise, and Pima Counties, respectively. According to its application, the

Company expects to add approximately 385 customers over the next three years as a result of serving the Millsite and Silver Belle areas. Most of the Company's customers are residential; who traditionally are a source of relatively stable revenues.

Q. How does a high rate of customer growth translate into increased business risk?

Rapidly growing companies typically have high cash flow requirements for incremental plant investment and often are unable or unwilling to pay dividends. Rapidly growing companies often find it more difficult to obtain debt financing due to the increased strain it places on their cash flow. The use of an historical test year in rate-making means that the shareholders of these companies bear most of the risk of placing plant in service in anticipation of additional customers.

These risks as they relate to Midvale are somewhat reduced. In the event that financing is needed to fund additional plant, Midvale, like many other rural telecommunications services utilities, benefits from the below-market-cost debt, offered by the Rural Telephone Finance Cooperative ("RTFC"). The RTFC is a private, member-owned cooperative finance organization offering alternative financing to rural telecommunications utilities.

Q. Please distinguish between business risk and financial risk.

A. Business risk is the risk associated with the fluctuation in earnings due to the basic nature of the firm's business. Financial risk is the risk to shareholders caused by a firm's reliance on debt financing.

Q. What is the relationship between business risk, financial risk and capital structure?

A. Generally, firms with a high variability in earnings will choose to have a higher proportion of equity in their capital structures. However, equity financing is generally more expensive than debt financing. Therefore, a firm must balance its capital structure

between the less risky equity and the more economical debt. Utilities, for the most part, have more debt in their capital structures than firms in other industries. Regulated operations tend to have lower business risk, allowing for increased levels of debt in the utilities' capital structures.

Q. What is the Company's proposed Test Year capital structure?

A. The company proposes a capital structure consisting of 22.20 percent long-term debt, 1.78 percent short-term debt, and 76.02 percent common equity.

Q. Is this the same capital structure reported in Midvale's 1999 Annual Report, filed with the Commission?

A. No, it is not. The Company's December 31, 1999 Annual Report on file with the Commission, reflects a capital structure consisting of approximately 80.0 percent long-term debt and 20.0 percent equity.

Q. Please explain this difference.

A. The capital structure reported in the Company's 1999 Annual Report on file with the Commission, reflects the entirety of Midvale's multi-state operations, whereas, the Company's proposed capital structure in this rate case reflects the capital amounts allocated to its Arizona operations.

Q. On what basis has the Company calculated its Arizona-specific capital structure?

A. The debt portion of Midvale's Arizona-specific capital structure reflects the total portion of its RTFC and Rural Utility Services ("RUS") loans, as well as short-term debt, allocated to Arizona. The total of this amount equals $506,912.

The Equity portion of Midvale's proposed Arizona-specific capital structure, was calculated by subtracting the sum of Arizona-specific long-term debt and other payables

from the sum of Arizona-specific plant and other assets. Total equity allocated to Arizona under this method is $1,606,651.

Q. What is Staff's recommended capital structure for Midvale?

A. Staff is adopting the Company's allocated capital structure, with the exception of short-term debt. Staff's recommended capital structure consists of 22.60 percent long-term debt and 77.40 percent equity.

Q Please explain the difference between the Company's and Staff's capital structure recommendation.

A. The Company included $37,695 in short-term debt in its capital structure. Staff did not adopt this component.

According to Schedule A-3, of the Company's application, short-term debt hasn't been included in the Company's capital structure since 1997, indicating that short-term debt does not appear to be a permanent method of financing.

Q. How does Midvale's capital structure compare with that of other investor-owned local telecommunications services companies?

A. Schedule JMR-4, Pages 1 and 2, shows the capital structures of five publicly traded telecommunications services companies followed by *Value Line,* as well as Midvale for 1998 and 1999. Compared to the five publicly traded telecommunications services companies shown in the Schedule, Midvale's Arizona-specific capital structure reflects much less financial risk due to it's greater reliance on equity financing.

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Q. You mentioned previously that if Midvale receives approval to serve the Millsite and Silver Belle service areas, it plans to issue approximately $1.08 million in additional debt and $260,000 in equity to finance the additional plant. How will this affect its capital structure?

A. According to the Company's application, the total investment in the unserved areas is expected to be approximately $1.45 million. The Company plans to issue approximately $260,000 in equity and intends to borrow approximately $1.08 million from the RTFC at an expected interest rate of 8 percent. The addition of the $1.08 million in debt will have the affect of balancing the capital structure, resulting in approximately 40-50 percent debt, and 50-60 percent equity.

Q. How would you characterize Midvale's overall risk exposure related to its local exchange service?

A. Due to the aforementioned factors, Staff would characterize Midvale's overall risk exposure related to its local exchange operations as moderate. As mentioned before, Midvale experiences little or no competition, RTFC funding is available at below-market cost, and the Company's Arizona capital structure exhibits less financial risk than larger telecommunications services providers.

The Cost of Debt

Q. What is the Company's proposed cost of debt?

A. The Company has proposed a weighted cost of short and long-term debt of 5.51 percent.

Q. What is Staff's proposed cost of debt for Midvale?

A. Staff is recommending that a cost of long-term debt of 5.47 percent be adopted. This represents the cost rates on the Company's RTFC and RUS loans. This is the same cost of debt proposed by the Company after accounting for Staff's removal of the $37,695 in short-term debt.

The Cost of Equity

Q. What standards do you apply in your determination of the allowed return on common equity for Midvale?

A. The return on common equity should fairly compensate Midvale's equity investors for the risk incurred in investing in the Company. The fair return on equity can be determined through the use of two market-based models, the discounted cash flow ("DCF") model, and the capital asset pricing model ("CAPM"). In the case of Midvale, which does not have publicly-traded stock and, therefore, lacks the information necessary for the application of the market-based models, a group of similar, publicly-traded utilities must be used as proxies.

Q. What companies did you select as proxies or comparables for Midvale?

A. I selected the five publicly traded telecommunications services companies previously discussed in the capital structure section of this testimony. They are Alltel Corp., BellSouth, GTE Communications, SBC Communications, and U S WEST.

Q. Why have you chosen to use these particular companies as comparables to Midvale?

A. I have chosen these particular companies primarily because local exchange services contribute a significant portion of revenue to their operations, they are followed by *Value Line*, making reliable data readily available, and investors are more likely to associate these particular firms with local telephone operations than other telecommunications services companies.

Comparable Earnings

Q. What are the underlying assumptions for the comparable earnings standard?

A. There are two underlying assumptions. First, as the cost of equity is based upon investors' expectations, investors may use recent historical returns as a basis for expected returns. The second assumption is that an investor in a utility should be allowed to earn a

return comparable to that earned by an investor in other firms of comparable risk. Therefore, earnings of similar telecommunications services companies were examined to determine comparable returns for Midvale.

Q. What return on equity ("ROE") did the comparable telecommunications services companies earn in 1998 and 1999?

A. Schedule JMR-5, illustrates the returns on common equity earned by the comparable companies for the past ten years. As a group they have earned between 11 and 27 percent return on equity. For the past two years, 1998 and 1999, the mean ROE for the comparable companies was 24.3 percent and 26.7 percent, respectively. For many of these firms, regulated local telephone operations comprise less than half of their total revenues. The majority of their revenues reflect amounts earned by unregulated competitive operations, which traditionally yield higher returns than basic local telephone service.

Q. Did investors consider 1999 ROE for the publicly traded telecommunications companies sufficient?

A. Yes. Column 4, of Schedule JMR-6, depicts the market-to-book ratio of the comparable companies. It indicates that, on average, investors are willing to pay 8.10 times the book value per share for these telecommunications services company stocks. A market-to-book ratio greater than 1.00 is generally considered to be adequate to attract new equity capital. In order for a company to have the ability to attract new equity capital without diluting the value of the existing shares, it must have a market-to-book ratio greater than 1.00. Ratios greater than 1.00 also serve to ensure the marketability of a new equity issue (p. 250)[3] All of the five comparables used in my analysis have a market-to-book ratio greater than 1.00. Therefore, the 26.7 percent ROE earned by the comparables in 1998

[3] Morin, Roger A. Regulatory Finance: Utilities' Cost of Capital. Public Utilities Reports, Inc., Arlington VA, 1994.

was more than adequate to compensate investors for the risk of investing in the telecommunications services utility industry.

Discounted Cash Flow

Q. Please provide a brief summary of the theory upon which the DCF method of estimating the cost of equity is based.

A. The DCF method of estimating the cost of equity is based upon the theory that the market price of an asset (stock) is equal to the present value of all expected future cash flows (dividends). Through a mathematical restatement, the discount rate, or cost of capital, can be derived from the cash flows, asset price, and a growth rate. The formula is generally applied to a sample of companies that exhibit similar risk to the company in question and the resulting estimates for the discount rates are then averaged. This process tends to balance out the inevitable errors that occur when estimating the cost of capital using only a single company.[4]

Q. What is the DCF formula used in your analysis?

A. The formula used in my analysis is:

$$k = D_1/P_0 + g$$

Where,

k = the cost of equity

D_1 = the current annualized dividend (D_0) multiplied by $(1 + g)$

P_0 = the market price of the stock

g = the expected growth rate

The DCF model shown above assumes that a company has a constant payout ratio and its earnings are expected to grow at a constant rate. Thus, if a stock has a market price of

[4] Brealy, Richard A. and Stewart C. Myers. Principles of Corporate Finance. McGraw-Hill, Inc., New York, NY, 1991, page 54.

historical trends reflect investors' future expectations of dividend growth. The dividends per share of the comparable companies from 1995 through 1999 were subjected to a log-linear regression analysis in order to determine the historical annual growth rate of dividends for the most recent five-year (1995 to 1999) period. The results of the regression analyses are shown in Schedule JMR-7. An examination of the results indicates an average five-year growth rate of 2.31 percent.

Q. What dividend growth rate did *Value Line* project for the comparable companies?

A. Schedule JMR-7, shows the average of the projected dividend growth rates for the five comparable companies to be 2.60 percent over the next five years. This rate is slightly higher than the five-year historical rate.

Q. Did you use any other method to determine the growth component other than historical dividend growth?

A. Yes, I did. Because dividend growth does not occur independently, it must be examined in a larger context. Dividend growth can only be maintained through growth in earnings. It would be virtually impossible for dividend growth to exceed earnings growth over the long run, as it would ultimately lead to payout ratios in excess of 100 percent, which simply are not sustainable. The company would effectively have to issue new debt or equity in order to support its dividend payments. This situation would likely result in eventual financial distress. Conversely, if earnings growth consistently exceeds dividend growth, it follows that dividends will be raised. Therefore, growth in earnings per share should also be examined in the estimation of g. Schedule JMR-7, also shows the average rate of growth in earnings per share. The five-year earnings per share growth rate was 9.31 percent.

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Q. What earnings growth rate did *Value Line* project for the comparable companies?

A. Schedule JMR-7, shows the average of the projected earnings growth rates for the eleven comparable companies followed by *Value Line* to be 12.7 percent over the next five years. This rate is well above the 9.31 percent five-year historical earnings growth rate.

Q. Aside from earnings and dividend per share growth, what other growth rate did you consider for g?

A. Another method of determining *g* for the DCF model is the sustainable growth rate. The sustainable growth rate is simply the product of the percentage of earnings retained by the company and the expected return on equity. This concept is based upon the theory that dividend growth can only be achieved if a company retains and reinvests a portion of its earnings in itself to earn a return.

Q. What is the formula for the sustainable growth rate?

A. The sustainable growth rate formula is:

$$g = br$$

Where

g = sustainable growth

b = expected return on equity

r = the retention ratio (1-dividend payout ratio)

Q. What sustainable growth rate did you calculate for the comparables?

A. The average five-year sustainable growth rate was 13.87 percent. The rate was calculated by multiplying return on equity (b) by the retention ratio (r) and then averaging the results over a five-year period.

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Q. What are the results of your DCF analysis?

A. Schedule JMR-8 depicts the results of my DCF analysis. The results range from 4.6 percent to 16.5 percent.

Capital Asset Pricing Model

Q. Please describe the Capital Asset Pricing Model ("CAPM").

A. The CAPM provides an estimate for the expected return on an investment (stock). The model assumes that the expected return is a combination of the prevailing risk-free interest rate and a market risk premium adjusted for the riskiness of the investment relative to the market. Thus, there is an assumed relationship among the returns of the risk-free interest rate, the return on the stock market and the return on an individual stock. The expected return generated by the CAPM is then used as a proxy for the cost of equity capital for that company.

Q. What is the CAPM formula?

A. $K = R_f + \quad (R_m - R_f)$

Where:

K =Expected rate of return (cost of equity)

R_f =Risk-free rate of interest

=Beta coefficient

R_m =Expected rate of return on the market

$(R_m - R_f)$ =Expected risk premium on the market

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Q. How have you implemented the CAPM in your analysis of the cost of equity for Midvale?

A. The CAPM described in Chapter 8, of Principles of Corporate Finance[5], provides the basis for the model. The cost of equity estimates generated by the CAPM are used to supplement the estimates produced by the DCF model explained above, rather than as the primary determinant of the cost of equity.

Q. What is the risk-free rate of interest?

A. The risk-free rate is the current yield-to-maturity on U.S. Treasury Bills ("T-Bills"). All U.S. securities are considered to be free of default risk, but the 90-day T-Bill is the only one that is considered to be free of interest rate risk as well. This is due to its short holding period. However, most investors have holding periods exceeding 90 days.

The CAPM allows for intermediate-term and long-term estimates through the use of longer-term risk-free securities. Five-year Treasury notes (intermediate-term) and 30-year Treasury bonds (long-term), are used to provide estimates that more closely match investors' holding periods. Ninety-day T-Bills are also used in order to provide a range of investor holding periods. The 90-day T-Bill, five-year Treasury note and 30-year Treasury bond rates used, from the December 29th *Wall Street Journal* were 5.71 percent, 5.01 percent, and 5.44 percent, respectively.

Forecasted yields on the same risk-free instruments found in the January 1, 2001, *Blue Chip Financial Forecasts* were also used in order to obtain a sense of interest rate expectations. The projected short-term interest rates are slightly lower than the current rates indicating that there is a consensus opinion of a decrease in these rates in the near

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[5] Brealy, Richard A. and Stewart C. Myers. Principles of Corporate Finance. McGraw-Hill, Inc., New York, NY, 1991.

future. However, the intermediate and longer-term rates are projected to be slightly higher.

Q. Please describe the beta ( ) coefficient.

A. Beta is a measure of the sensitivity of an investment's price to market movements—a measure of relative risk. However, because Midvale is not a publicly-traded company, Staff employed the average beta of the five publicly-traded sample utility companies, as a proxy for Midvale's beta. Schedule JMR-6, shows the average beta for the *Value Line* sample companies is 0.82.

It is important to note that the average beta is more reflective of the betas of competitive companies than of regulated companies. Typically, betas of water utility companies between 0.50 and 0.60 are more representative of operations that are close to 100 percent regulated utility operations.

Q. Please describe the expected risk premium on the market (R_m-R_f).

A. The expected risk premium on the market is the amount of additional return that investors expect from investing in the market over the return on the risk-free asset, T-Bills, Treasury notes, and Treasury bonds. The equity risk premium used in my analysis was obtained from Ibbotson Associates for the 73-year period from 1926 to 1999 and represents the arithmetic average difference between S&P 500 and government security returns. The 73-year period is used to eliminate shorter-term biases, while at the same time including unexpected past events. The average risk premia are shown under the (Rp) column of Schedule JMR-9; Rp is simply (R_m-R_f).

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Q. What are the results of your CAPM analysis?

A. Schedule JMR-9 shows the results of my CAPM analysis. They range from 12.0 percent to 13.5 percent using current interest rates. Using consensus-forecast estimates from *Blue Chip Financial Forecasts*, results range from 12.3 percent to 13.3 percent.

Recommendations

Q. What are the results of your cost of equity analysis?

A. The results of my comparable earnings, DCF, and CAPM analyses are shown in Schedules JMR-8 and JMR-9.

Q. Please summarize your recommendations.

A. The comparable earnings method results in historical earned returns ranging from 24.3 to 26.7 percent. These high returns are indicative of the riskier nature of the sample companies' business make-up, in that a high percentage of their revenues come from competitive telecommunications services. The results of the comparable earnings method are also skewed by U S WEST's reported ROE of 199.7 percent and 130.8 percent in 1998 and 1999. Staff believes that the results of the comparable earnings method are unreasonably high for use in determining the cost of equity for regulated telephone operations, and will exclude them.

The DCF model, using various combinations of spot and average stock prices and earnings, dividend and sustainable growth, produced results ranging from 4.6 percent to 16.5 percent. Staff usually adopts the results derived from using dividend growth because they are most consistent with DCF theory. In this case, the results derived from using dividend growth with the average and spot stock price were both 4.6 percent, well below the company's cost of debt and the current prime rate. Rather than increasing dividends consistent with rises in earnings in recent years, large telecommunications services companies have been retaining an increasing proportion of earnings to invest in

competitive operations such as wireless and broadband services. Staff, therefore, believes that the results using dividend growth are unreasonably low, and will exclude them.

The DCF results using sustainable earnings with the average and spot stock price were both 16.5 percent. Staff believes that these results are unreasonably high due to U S WEST's reported ROE of 199.7 percent and 130.8 percent in 1998 and 1999, respectively, and will exclude them. The DCF results using earnings growth with the average and spot stock price were both 11.8 percent. Staff believes that these results are the most reasonable and reflect recent growth patterns.

Staff also considered the CAPM results for the intermediate-horizon on the basis that they reflect average holding periods of investors. In this case, The CAPM results are 12.0 percent and 12.6 percent. However, the beta factor utilized in these results reflects the impact of high-risk competitive telecommunications services. Staff believes that a lower beta factor of 0.60 (as explained previously), would better reflect the risks associated with Midvale's regulated telecommunications services and would produce results using the intermediate horizon of 10.1 percent and 10.7 percent, with a resulting overall average of 10.40 percent.

Q. What is Staff's recommendation for Midvale's cost of equity?

A. Staff is recommending a cost of equity of 11.50 percent for Midvale.

Q. What is the basis for Staff's recommendation?

A. The basis for Staff's 11.50 percent cost of common equity is the DCF result of 11.80 percent based upon earnings growth. Staff has adjusted this number downward to account for the decreased financial risk related to Midvale's Arizona capital structure, as well as the Company's risk associated with it's operations, in that a significant portion of

the comparable companies' earnings are derived from unregulated, competitive operations. This downward adjustment is further reinforced by the CAPM results of 10.40 percent, using a beta factor of 0.60, which is more representative of 100 percent regulated operations.

Q. What is Staff's recommendation for a weighted average cost of capital ("WACC") to be used as the return on rate base?

A. Staff's recommendation for an overall WACC is 10.14 percent.

Comments on Direct Testimony of Don Reading, Ph.D.

Q. What methodologies did Dr. Reading use to arrive at his estimation for the cost of equity capital for Midvale?

A. Dr. Reading used the comparable earnings, DCF, and risk premium approaches to arrive at his estimate of Midvale's cost of equity.

Q. Which method has the Commission consistently adopted in the past?

A. The Commission has consistently adopted the results of the annual DCF model because its results are market-based.

Q. How does Dr. Reading arrive at his estimated cost of equity of 13.0 percent?

A. According to his pre-filed direct testimony, Dr. Reading recommends that the Commission concentrate on the mid-range of his estimates; 10.9 percent to 12.25 percent for the DCF method, 11.0 percent to 12.25 percent for his risk premium calculation, and 12.0 percent to 14.0 percent for the comparable earnings approach.

Q. Please describe the comparable earnings approach used by Dr. Reading and its shortcomings.

A. Dr. Reading's comparable earnings approach utilizes ROE data for three sets of companies; Standard & Poor's index of 400 industrials, the Federal Trade Commission's "All Manufacturers" group, and a group of approximately 900 companies monitored by *Business Week.*

Staff believes that this methodology is flawed and results in excessive cost of equity estimates for Midvale. Staff questions the use of industrials and manufacturing firms as comparable to Midvale's regulated local telephone operations. A major assumption of the comparable earnings approach is that an investor in a utility should be allowed to earn a return comparable to that earned by an investor in other firms of *comparable risk.* Dr. Reading has examined the earnings of groups of unregulated firms, "which do not exert large amounts of monopoly power". By nature, regulated operations such as Midvale's are characteristic of monopolies, that is why they are regulated. Staff therefore, calls in to question the comparability between utilities, such as Midvale, and industrials/manufacturers, who are subject to competition and do not have protected service territories.

Q. Does Staff have comments on the other two methodologies utilized by Dr. Reading in his estimate of Midvale's cost of equity?

A. Yes. Dr. Readings DCF results, which utilized market data from the Regional Bell Operating Companies and various other telecommunications firms ranged from 10.9 percent to 12.25 percent, with a midpoint of 11.58 percent. Dr. Reading's other market-based model, which was the risk premium approach, ranged from 11.0 percent to 12.25 percent, with a midpoint of 11.63 percent. Both of these market-based models resulted in estimates that were close to my recommended cost of equity of 11.50 percent for Midvale. Staff believes that this similarity reinforces the soundness of the market-based approaches.

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Q. Does this conclude your direct testimony?

A. Yes, it does.

Midvale Telephone Exchange
Capital Structure
And Weighted Cost of Capital
December 31, 1999

Staff Recommended

	Amount	Weight (%)	Cost	Weighted Cost
Long Term Debt				
RTFC Const. Loan Cascabel	$ 200,631	9.66%	6.10%	0.59%
RUS Cascabel	$ 268,586	12.94%	5.00%	0.65%
Total Long Term Debt	$ 469,217	22.60%	5.47%	1.24%
Equity (Cascabel & Young, Ne	$ 1,606,651	77.40%	11.50%	8.90%
Total Equity	$ 1,606,651	77.40%		
Total Capital	$ 2,075,868	100.00%		10.14%

Economic Indicators
1990 to Present

YEAR	CHANGE IN CPI	CHANGE IN GDP*	3-MONTH T-BILLS	PRIME RATE	30-YR T-BONDS	DOW JONES IND. AVG.
1990	6.1%	1.8%	7.5%	10.0%	8.6%	2,634
1991	3.1%	-0.5%	5.4%	8.5%	8.1%	3,169
1992	2.9%	3.0%	3.5%	6.3%	7.7%	3,301
1993	2.7%	2.7%	3.0%	6.0%	6.6%	3,754
1994	2.7%	4.0%	4.3%	7.1%	7.4%	3,834
1995	2.5%	2.7%	5.5%	8.8%	6.9%	5,117
1996	3.3%	3.6%	5.0%	8.3%	6.7%	6,448
1997	1.7%	4.4%	5.1%	8.4%	6.6%	7,908
1998	1.6%	4.4%	4.8%	8.4%	5.6%	9,181
1999	2.7%	4.2%	4.7%	8.0%	5.9%	11,497
Current	3.4%	5.0%	5.7%	9.5%	5.4%	10,869

1990-Current CPI, GDP, and Prime Rate = *Economic Indicators*, 01/01 (Data Through February 7, 2001)
1990-1999 DJIA is the year-end close from http://averages.dowjones.com/
1990-1999 3-Month T-Bills, 30-Yr T-Bonds from http://www.bog.frb.fed.us/releases/h15/data.htm
Current 3-Month T-Bill, Prime Rate, 30-Year T-Bond, and DJIA from WSJ, 12/29/00
*GDP revised by Bureau of Economic Analysis now uses chained, 1996 dollars

Midvale Telephone Exchange

Plant Additions, Access Lines, and Population

1997 to 2002

	Plant	Net Plant Additions	Change		Average Number Of Access Lines	Change	Population Growth by County: Gila	Coshise	Pima
1997	$ 2,573,354			1995	429		44,525	112,000	758,575
1998	3,034,757	$ 461,403	17.93%	1996	476	11.0%	45,300	114,925	780,750
1999	3,060,664	25,907	0.85%	1997	511	7.4%	47,450	119,650	789,650
Projected *2000	4,350,269	1,289,605	42.13%	1998	544	6.5%	49,175	123,750	823,900
Projected *2001	4,427,177	76,908	1.77%	1999	600	10.3%	50,150	124,575	845,775
Projected *2002	4,513,285	86,108	1.94%						
			4-Yr. Annual Growth '95-'99		8.7%		3.0%	2.7%	2.8%

* Includes the budget for serving unserved areas.

Source: Midvale's Schedule A-4
Annual Reports on file with the Commission
Company responses to Staff's data requests

Midvale Telephone Exchange

Capital Structure of Publicly Traded Telecommunications Companies
Fiscal Year 1998

Name	Long-Term Debt	Preferred Stock	Common Equity	Total
Alltel Corp	51.6%	0.0%	48.4%	100.0%
BellSouth	35.1%	0.0%	64.9%	100.0%
GTE Corp	63.7%	0.0%	36.3%	100.0%
SBC Communications	45.7%	3.9%	50.3%	100.0%
U S West	92.0%	0.0%	8.0%	100.0%
Average	52.9%	1.1%	46.0%	100.0%
Midvale Telephone	22.60%	0.00%	77.40%	100.0%

Source: July 7, 2000 Value Line
Midvale's application

Midvale Telephone Exchange

Capital Structure of Publicly Traded Telecommunications Companies
Fiscal Year 1999

Name	Long-Term Debt	Preferred Stock	Common Equity	Total
Alltel Corp	47.1%	0.0%	52.9%	100.0%
BellSouth	38.1%	0.0%	61.9%	100.0%
GTE Corp	56.3%	0.0%	43.7%	100.0%
SBC Communications	38.7%	2.2%	59.1%	100.0%
U S West	89.0%	0.0%	11.0%	100.0%
Average	48.1%	0.9%	51.0%	100.0%
Midvale Telephone	22.6%	0.00%	77.4%	100.0%

Source: July 7, 2000 Value Line
Midvale's application

Publicly Traded Telecommunications Companies
Return on Common Equity - Year End

Company	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Alltel Corp	18.7%	17.0%	17.8%	15.6%	18.6%	17.3%	17.4%	18.1%	17.7%	18.0%
BellSouth	12.9%	11.5%	12.0%	12.0%	14.6%	18.8%	19.0%	18.4%	20.2%	25.6%
GTE Corp	16.3%	15.6%	17.7%	17.7%	21.8%	36.8%	38.0%	34.8%	28.4%	31.5%
SBC Communications	12.8%	13.1%	14.0%	14.0%	19.7%	30.2%	30.7%	34.0%	32.2%	27.8%
U S West	0.0%	0.0%	0.0%	0.0%	34.6%	31.8%	29.7%	25.0%	199.7%	130.8%
Maximum	18.7%	17.0%	17.8%	17.7%	34.6%	36.8%	38.0%	34.8%	32.2%	31.5%
Minimum	0.0%	0.0%	0.0%	0.0%	14.6%	17.3%	17.4%	18.1%	17.7%	18.0%
Mean	12.1%	11.4%	12.3%	11.9%	21.9%	27.0%	27.0%	26.1%	24.6%	25.7%
Truncated Average	10.5%	10.1%	10.9%	10.4%	15.0%	20.2%	19.9%	19.4%	24.3%	26.7%

Source: Value Line Investment Survey, July 7, 2000

Publicly Traded Telecommunications Companies
Financial Information
12/31/1999

Line No.	Company	Market Price Per Share: Current	Market Price Per Share: 00 High	Market Price Per Share: 00 Low	Mkt To Book	98 Revs. (000)	99 Revs. (000)	98 Total Cap. (000)	99 Total Cap. (000)	Int. Cov.	Beta	99 ROE
1	Alltel Corp	62.000	83.900	55.900	3.72	5,194	6,302	3,276	7,958	5.30	0.75	18.0%
2	BellSouth	44.000	53.500	34.400	5.42	23,123	25,224	25,276	24,319	6.30	0.85	25.6%
3	GTE Corp	64.000	76.700	55.800	5.75	25,473	25,436	26,168	26,050	5.70	0.90	31.5%
4	SBC Communications	45.000	50.000	34.800	5.39	28,785	48,960	25,392	45,201	7.10	0.85	27.8%
5	U S West	84.000	92.900	63.700	20.24	12,378	13,182	9,347	11,444	4.30	0.75	130.8%
	Maximum				20.24	$28,785	$48,960	$26,168	$45,201	7.10	0.90	130.8%
	Minimum				3.72	$5,194	$6,302	$3,276	$7,958	4.30	0.75	18.0%
	Mean				8.10	$18,991	$23,801	$17,902	$22,994	5.94	0.82	46.7%
	Truncated Average											26.7%

Current price = Most recent price as reported in July 7, 2000 Value Line Investment Survey
Market to Book ratio = Current price divided by book value per share as of 6/30/2000 per 10Q data
Int. Coverage, Beta, Total Cap., Revenue, and ROE from July 7, 2000 Value Line

Earnings Per Share, Dividends Per Share and Sustainable Growth Rates
Five Years Ending Fiscal Year 1999

Company	Earnings 5 Year	Dividends 5 Year	Sustainable 5 Year
Alltel Corp	7.22%	5.95%	8.11%
BellSouth	15.04%	1.51%	10.23%
GTE Corp	6.66%	0.00%	12.45%
SBC Communications	8.75%	4.09%	15.95%
U S West	8.87%	0.00%	22.60%
Maximum	15.04%	5.95%	22.60%
Minimum	6.66%	0.00%	8.11%
AVERAGE(1)	9.31%	2.31%	13.87%
Value Line Forecast	12.70%	2.60%	

(1) Excludes negative results

Results of Cost of Equity Analysis
And Staff's Recommendation

Publicly Traded Telecommunications Companies

METHOD

Comparable Earnings (Return on Common Equity)		**RESULT**
Comparable Publicly Traded Telecom Utilities:	1998	24.3%
Comparable Publicly Traded Telecom Utilities:	1999	26.7%

DISCOUNTED CASH FLOW	D_1/P_0	+	g	=	k
5 Year D.P.S. Growth & Avg. Stock Price	2.3%	+	2.3%	=	4.6%
5 Year E.P.S. Growth & Avg. Stock Price	2.5%	+	9.3%	=	11.8%
5 Year Sust. Growth & Avg. Stock Price	2.6%	+	13.9%	=	16.5%
5 Year D.P.S. Growth & Spot Stock Price	2.3%	+	2.3%	=	4.6%
5 Year E.P.S. Growth & Spot Stock Price	2.5%	+	9.3%	=	11.8%
5 Year Sust. Growth & Spot Stock Price	2.6%	+	13.9%	=	16.5%
DCF Using Value Line's Projected Earnings and Projected Dividend Growth					
5 Year D.P.S. Growth & Avg. Stock Price	2.3%	+	2.6%	=	4.9%
5 Year D.P.S. Growth & Spot Stock Price	2.3%	+	2.6%	=	4.9%
5 Year E.P.S. Growth & Avg. Stock Price	2.6%	+	12.7%	=	15.3%
5 Year E.P.S. Growth & Spot Stock Price	2.6%	+	12.7%	=	15.3%

Company Estimate	**13.00%**
Staff Recommendation	**11.50%**

Results of Cost of Equity Analysis
Capital Asset Pricing Model

Capital Asset Pricing Model using Average Beta for Publicy Traded Telecommunications Companies

	Rf	+	β	x	(Rp)	=	RESULT k
Short-horizon Cost of Equity - Current	5.71%	+	0.82	x	9.50%	=	13.5%
Intermediate-horizon Cost of Equity - Current	5.01%	+	0.82	x	8.50%	=	12.0%
Long-horizon Cost of Equity - Current	5.44%	+	0.82	x	8.10%	=	12.1%
Short-horizon Cost of Equity - Projected	5.50%	+	0.82	x	9.50%	=	13.3%
Intermediate-horizon Cost of Equity - Projected	5.60%	+	0.82	x	8.50%	=	12.6%
Long-horizon Cost of Equity - Projected	5.70%	+	0.82	x	8.10%	=	12.3%

Capital Asset Pricing Model using Typical Beta for Publicy Traded Water Utility Companies

Short-horizon Cost of Equity - Current	5.71%	+	0.60	x	9.50%	=	11.4%
Intermediate-horizon Cost of Equity - Current	5.01%	+	0.60	x	8.50%	=	10.1%
Long-horizon Cost of Equity - Current	5.44%	+	0.60	x	8.10%	=	10.3%
Short-horizon Cost of Equity - Projected	5.50%	+	0.60	x	9.50%	=	11.2%
Intermediate-horizon Cost of Equity - Projected	5.60%	+	0.60	x	8.50%	=	10.7%
Long-horizon Cost of Equity - Projected	5.70%	+	0.60	x	8.10%	=	10.6%

Expected equity risk premium is estimated as the simple difference between the historical arithmetic mean equity return and the historical arithmetic mean on U.S. Treasury Bill total returns (Short-horizon), intermediate-term government bond income returns (Intermediate-horizon), or long-term government bond income returns (Long-horizon), described in Chapter 8 of the SBBI 2000 Yearbook, published by Ibbotson Associates.

The current risk-free rate is the yield-to-maturity on 90-day U.S. Treasury Bills (Short-horizon), 5-year U.S. Treasury Notes (Intermediate-horizon), or 30-year U.S. Treasury Bonds (Long-horizon), *Wall Street Journal*, October, 30, 2000.

The projected risk-free rate is the consensus forecast for the yield on 3-month U.S. Treasury Bills (Short-horizon), 5-year U.S. Treasury Notes (Intermediate-horizon), or 30-year U.S. Treasury Bonds (Long-horizon), *Blue Chip Financial Forecasts*, January 1, 2001

BEFORE THE
ARIZONA CORPORATION COMMISSION

In the Matter of the Midvale Telephone Exchange, Inc.'s Application for Authority To Increase Rates and for Disbursements from the Arizona USF.	)))))	DOCKET NO. T-02532A-00-0512

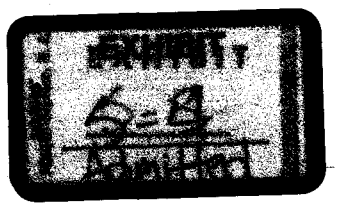
TESTIMONY OF

ALLEN G. BUCKALEW

ON BEHALF OF

THE ARIZONA CORPORATION COMMISSION

MARCH 15, 2001



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Executive Summary
of the Testimony of
Allen G. Buckalew

Mr. Buckalew was asked by the Staff of the Arizona Corporation Commission to provide an analysis of the rate design and separations issues in Midvale's applications for increases in rates.

Mr. Buckalew's first task was to analyze whether Midvale Telephone Company complied with the FCC rules on separation found in Part 36 of the Code of Federal Regulations for Telecommunications. Part 36 of the Code outlines the procedures for the determination of the appropriate allocation of property costs, revenues, expenses, taxes, and reserves, as recorded on the company's books or to estimated values, to intrastate and interstate jurisdictions. The procedures are necessary because a characteristic of an integrated telecommunications system is that a large portion of total costs are common or joint in nature and therefore can be used for either intrastate or interstate services. After reviewing the studies for Part 36, Mr. Buckalew determined that Midvale Telephone Company complied with the rules and properly allocated telephone plant costs, revenues, expenses, and taxes to the Arizona jurisdiction. The Company's procedures are correct and consistent with the procedures found in the FCC rules.

The Company claimed a revenue deficiency of $108,955. The Company proposed to eliminate this deficiency by increasing the rates for residential and

business customers in local service revenues by $61,210, and obtaining $147,567 from the Arizona Universal Service Fund. The Staff has revised the requested revenue requirement and after some adjustments in the rate base, accumulated depreciation, income-to-revenue multiplier, and exclusion of the EAS and Unserved Areas proposals, it has determined that an increase of $17,391 in revenues is needed. Mr. Buckalew's second task was to analyze Midvale's proposed rate design and to propose an alternative design if necessary. Mr. Buckalew determined that it was necessary to propose an alternative rate design.

Mr. Buckalew agrees with the Company's proposal to consolidate the rate structure under one rate design for all of its customers as far as possible. Mr. Buckalew's proposed business rate is $30 per month. In the area of residential rate design, Mr. Buckalew recommends no change in local rates for Cascabel residential customers and an increase to $17.15 for Young local exchange residential customers.

The Company proposes to include custom calling services in basic service. Mr. Buckalew disagrees; custom calling is not part of basic service and must have a separate price. Mr. Buckalew suggests a rate of $2.00 for the bundled group of custom calling services.

The Company also proposes to decrease access charge rates. Mr. Buckalew finds no reason to decrease access charge rates, especially for a Company with higher service area costs.

Mr. Buckalew recommends that the Company's request for extension of its CC&N into Millsite and Silver Bell be approved. Mr. Buckalew also recommends a basic local exchange rate of $24.00 for residential and $30.00 for business customers in Millsite and Silver Bell. After the facilities are built and customers are being served, the Company should apply for Federal high cost support and return to the Commission for a determination of the permanent local exchange rates and whether any AUSF is necessary.

I. QUALIFICATIONS AND INTRODUCTION

Q. PLEASE STATE YOUR NAME, OCCUPATION AND BUSINESS ADDRESS.

A. My name is Allen G. Buckalew. I am an Economist specializing in the telecommunications industry at J.W. Wilson & Associates, Inc. Our offices are at 1601 North Kent Street, Rosslyn Plaza C – Suite 1104, Arlington, VA 22209.

Q. PLEASE OUTLINE YOUR EDUCATIONAL BACKGROUND.

A. I hold an A.A. and a B.S. degree with high honors, both from the University of Florida, and a M.S. degree from George Washington University. My major areas of concentration were economics and telecommunications.

Q. HOW HAVE YOU BEEN EMPLOYED IN THE PAST?

A. Before I entered the University of Florida, I worked for four years in Naval Telecommunications. After graduating from the University of Florida, I worked for four years at the Federal Communications Commission ("FCC") as an Industry Economist in the Common Carrier Bureau and was employed extensively in areas involving telecommunications, economics, accounting, engineering, and policy matters. For example, one of my major projects was "The Economic Implications and Interrelationships Arising from Policies and Practices Relating to Customer

Interconnection, Jurisdictional Separations and Rate Structures," (Docket 20003). This case opened the terminal equipment (e.g., telephone sets, and private branch exchanges ("PBXs")) market in the United States to competition. I also provided economic analysis in several rate cases. For example, "Communications Satellite Corporation, Investigation into Charges, Practices, Classifications, Rates and Regulations," (Docket 16070). My major responsibility was to serve as economic advisor and analyst for the Common Carrier Bureau.

After the FCC, I was appointed Associate Director for Telecommunications Research of the National Regulatory Research Institute ("NRRI") at Ohio State University. My responsibilities at NRRI focused on telecommunications policy as seen from an analytical perspective that combined accounting, engineering, and economic disciplines. During my employment at the Institute, I completed several studies for state public utility commissions, including "The Impact of Measured Telephone Rates on Telephone Usage of Government and Nonprofit Organizations" (for the Public Utilities Commission of Ohio) and "Toward An Analysis of Telephone License Contracts and Measured Rates" (for the Maryland Public Service Commission).

In addition, I have provided several state Commissions with technical and economic assistance. This assistance was related to identifying, explaining and analyzing major issues in telecommunications cases. Since joining J.W. Wilson &

Associates, Inc. in May 1980, I have provided economic analysis in numerous proceedings in most of the States of the United States, Canada, Bolivia, Nepal, Egypt, and Tanzania. I have provided analysis for the Federal Communications Commission and the United States Department of Justice. For example, I analyzed the separation process of the FCC in September 1980, in the report entitled: "A Study of Jurisdictional Separations to Compare AT&T's Interstate Settlements Information System with the Separations Manual and Division of Revenue Process." In addition, I testified on behalf of the Department of Justice in the case that broke up the Bell system. In addition, I have worked for numerous State Attorneys General. For example, I evaluated the merger proposal of Bell Atlantic and NYNEX for the National Association of Attorneys General, the Bell Atlantic and GTE merger proposal for the Pennsylvania Attorney General. I also analyzed and the merger proposal of MCI and WorldCom for the California Public Utilities Commission.

Q. ARE YOU A MEMBER OF ANY PROFESSIONAL ORGANIZATIONS AND HONOR SOCIETIES?

A. Yes. I am a member of the Society of Depreciation Professionals, the American Economic Association, Omicron Delta Epsilon (an international honor society in economics) and Beta Gamma Sigma (an honor society in business).

1 **Q. COULD YOU BRIEFLY SUMMARIZE YOUR PROFESSIONAL**
2 **RESPONSIBILITIES TO DATE?**

3 A. Yes. My primary responsibilities have been to supervise and actively participate in
4 public utility regulatory policy research, especially in the telecommunications
5 field. These responsibilities require the use and application of economic,
6 accounting, and engineering analyses.

7 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING?**

8 A. I present this testimony on behalf of the Staff of the Arizona Corporation
9 Commission ("Staff").

10 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

11 A. I have been asked by the Staff to provide an analysis of the rate design and
12 separations proposals in Midvale's application for an increase in rates, including
13 the proposed implementation of new extended area service ("EAS") and proposed
14 provision of service to unserved areas.

15 **Q. HOW ARE YOU GOING TO ADDRESS THIS TASK?**

16 A. I am going to start by presenting my analysis of the separation process, explaining
17 briefly the procedures outlined in Part 36 and Part 69 of the Code of Federal
18 Regulation ("CFR") for Telecommunications. Next, I will address the

Company's proposal regarding the provision of service to currently unserved areas by Midvale. Then I will discuss why the Commission should not allow the Company to implement extended area service as proposed, and what alternative should be considered instead. Finally, I will review the Company's proposed rate structure, and present my recommendations regarding rates.

II. JURISDICTION SEPARATION COST STUDIES

Q. COULD YOU EXPLAIN THE PURPOSE OF THE SEPARATION PROCEDURE OUTLINED IN PART 36 OF THE CODE OF FEDERAL REGULATIONS FOR TELECOMMUNICATIONS?

A. Part 36 of the Code of Federal Regulations for Telecommunications outlines the procedures for the determination of the appropriate allocation of property costs, revenues, expenses, taxes, and reserves, as recorded on the company's books or to estimated values, to intrastate and interstate jurisdictions. The procedures are necessary because a characteristic of an integrated telecommunications system is that a large portion of total costs are common or joint in nature and therefore can be used for either intrastate or interstate services.

Q. WHAT IS THE FUNDAMENTAL BASIS FOR THE SEPARATION PROCEDURES IN PART 36?

1 A. The separation of property costs, revenues, expenses, etc., between the intrastate
2 and interstate jurisdictions follows, fundamentally, the use of the
3 telecommunications plant in each of the operations.[1] Therefore, the first of the two
4 steps is to divide the cost of the plant into categories. Then, the next step is to
5 divide the categories into state and federal jurisdictions by direct assignment when
6 possible, and by the application of the appropriate use factors to all the remaining
7 cost.

8 **Q. NOW, COULD YOU DESCRIBE THE PRINCIPLES THAT UNDERLINE**
9 **THE PROCEDURES IN PART 36?**

10 A. Section 36.2 of the Code of Federal Regulations, Telecommunications, describes
11 the fundamental principles that underlie the separation procedures in Part 36.
12 These general principles are:

13 "(1) Separations are intended to apportion costs among categories or
14 jurisdictions by actual use or by direct assignment.

15 (2) Separations are made on the 'Actual use' basis, which gives
16 consideration to relative occupancy and relative time measurements.

[1] The classification to accounts of such amounts is that prescribed by the Federal Communications Commission's Uniform Systems of Accounts for Telecommunications Companies. Code of Federal Regulations, Telecommunications §36.1 (f).

(3) In the development of 'actual use' measurements, measurements of use are (i) determined for telecommunications plant or for work performed by operating forces on a unit basis (e.g., conversation-minute-kilometers per message, weighted standard work seconds per call) in studies of traffic handled or work performed during and (ii) applied to overall traffic volumes, i.e., 24-hour rather than busy hour volumes."

Q. WHAT ARE THE KEY ELEMENTS IN THIS SEPARATION PROCESS?

A. The key elements in the entire separation process are the separation of the plant cost and the measurement of actual usage; these two factors drive the separation process.

Q. HOW DOES PART 36 CLASSIFY THE TELECOMMUNICATIONS PLANT?

A. Part 36, §36.2 (b) describes the telecommunications plant as segregable into two broad classifications: (i) the interexchange plant, which is used to provide toll services, and (ii) the exchange plant, used primarily to provide local services. Furthermore, we find three broad types of plant in the interexchange classification – the operator systems, the switching plant, and the trunk transmission equipment. In the case of the exchange classification, four broad types of plant are found, the

1 operator systems, switching plant, trunk equipment, and subscriber plant.

2 **Q. COULD YOU DESCRIBE THE APPORTIONING PROCESS FOR PART**
3 **36 FOLLOWED BY MIDVALE TELEPHONE COMPANY?**

4 A. Midvale Telephone Company used the Revenue Management System ("RMS") in
5 preparing the cost allocation studies that allegedly follow the process indicated in
6 Part 36 of the Code of Federal Regulations for Telecommunications. The RMS is
7 software that follows the principles and steps I just briefly described.

8 **Q. HAVE YOU ANALYZED THE COST ALLOCATION STUDY**
9 **PRESENTED BY MIDVALE TELEPHONE COMPANY FOR PART 36?**

10 A. Yes, I have. Midvale provided both a paper copy and an electronic copy of the
11 Part 36 Cost Study. Using this information we were able to fully understand the
12 Company's procedures and assumptions. We were also able to corroborate the
13 allocation basis for the distribution of property costs, revenues, expenses, and taxes
14 against the procedure outline in Part 36.

15 **Q. WHAT WERE YOUR FINDINGS AFTER REVIEWING THE**
16 **COMPANY'S STUDY?**

17 A. We were able to track the allocation basis presented in the study for each of the
18 telecommunication accounts, which I find in accordance with the separation

procedures for telecommunications companies outlined in Part 36. The separation of the costs of the telephone plant among categories is presented in the FCC rules in the Code of Federal Regulations, Part 36.

Q. YOU HAVE ALSO MENTIONED COST ALLOCATION STUDIES FOR PART 69. COULD YOU BRIEFLY INDICATE THE OBJECTIVE OF THE PROCEDURES DESCRIBED IN PART 69 OF THE CFR?

A. Part 69 of the Code of Federal Regulations for Telecommunications establishes the rules for access charges for interstate services provided by telephone companies.[2] There is a relationship between Part 36 and Part 69. Part 36 separates the jurisdictional cost and Part 69 takes the jurisdiction costs and constructs rates. I used Part 69 as a further check of the allocation in Part 36.

Q. WHAT ARE THE CHARGES INCLUDED IN THE ALLOCATION PROCESS OF PART 69?

A. The charges for access service are for the End User Common Line element, and for line port costs in excess of basic, analog service. They shall include charges for each of the following elements: (i) Carrier common line; (ii) Local switching; (iii) Information; (iv) Tandem-switching transport; (v) Direct-trunked transport; (vi) Special access; (vii) Line information database; (viii) Entrance facilities; (ix) Universal Service Fund; and (x) Lifeline assistance.[3]

1 **Q. HAVE YOU ANALYZED THE COST ALLOCATION STUDY**
2 **PRESENTED BY MIDVALE TELEPHONE COMPANY FOR PART 69?**

3 A. Yes, I have. The Company provided the electronic version of the cost study for
4 Part 69. I followed the same procedure as I did with the cost study for Part 36, and
5 I was able to track the general sources of each of the elements allocated as
6 presented in the cost study filed by the Company for Part 69.

7 **Q. WHAT WERE YOUR FINDINGS AFTER REVIEWING THE**
8 **COMPANY'S COST ALLOCATION STUDY?**

9 A. I agree that the allocation basis ("source," as they call it) is defined according to
10 the outline presented in Part 69 of the Code of Federal Regulations for
11 Telecommunications. Thus, the outlined process is consistent with the steps
12 described in Subpart B, D, and E of Part 69 of the CFR for Telecommunications.

13 **Q. WHAT ARE YOUR CONCLUSIONS REGARDING THE ALLOCATION**
14 **AND SEPARATION FACTORS IN THE PART 36 ANALYSIS?**

15 A. After reviewing the cost studies for Part 36, and considering all available
16 information for my analysis, I did not find any problem in the allocation
17 methodology for telephone plant costs, revenues, expenses, and taxes of the

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[2] Code of Federal Regulations, Telecommunications §69.1.
[3] Code of Federal Regulations, Telecommunications §69.4.

Arizona jurisdiction. They are correct and consistent with the procedures presented in the FCC rules.

III. UNSERVED LOCAL AREAS

Q. WHAT IS THE COMPANY PROPOSING IN REGARD TO UNSERVED AREAS?

A. The Company has proposed three revenue requirement scenarios. The first two, the base case and the EAS case, are discussed later. The third scenario relates to unserved areas, where Midvale Telephone Company would provide service to the unserved exchanges of Millsite and Silver Bell, which have an estimated 200 and 185 customers, respectively. The Company expects to invest about $1.45 million, and would like to draw $221,360 annually from the AUSF to support its unserved areas scenario.

It is the Company's opinion that such areas have always been a business objective if they were financially viable. However, the Company has not examined in detail the provision of service without AUSF support (Lane Williams' Testimony, page 6 line 4. and page 5, line 10-13).

Q. WHAT IS YOUR OPINION ABOUT THE COMPANY'S PROPOSAL IN THE "UNSERVED AREAS SCENARIO"?

A. The Commission's rules do not allow drawings from the AUSF without an embedded cost study for the support area for which AUSF funding is being requested (Article 12. Arizona Universal Service Fund, R14-2-1202, Calculation of AUSF Support). The Company's proposal for extension of its CC&N into Millsite and Silver Bell should be approved. I have developed a rate for service in these unserved areas that can be implemented as service is provided to customers.

Q. HAVE YOU CALCULATED THE MONTHLY COST THE CUSTOMERS SHOULD PAY IN THESE UNSERVED AREAS?

A. Yes. Exhibit AGB-1 shows an annual revenue requirement, calculated from the estimated cost that the Company has filed in regard to the unserved areas. This amount does not consider relief from the Federal USF high cost fund like the Company will receive for the Young exchange. If the Millsite and Silver Bell customers have about the same toll, other service usage, access charges and Federal revenues as Midvale's existing exchanges, the local exchange rate would have to be about $ 24.00 per month in order to cover all expenses for providing service to these areas. This rate would be lower and closer to the Company-wide rates if it were to receive payments from the Federal USF equal to Young. I suggest a local residential rate of $24.00 and business rate of $30.00. All other rates, for example, custom calling and access, would be the same as my recommendation for the Company's existing service areas. These rates will be

allowed until the unserved area is fully developed and the Company is providing service. At that time the Company will present its actual costs to the Commission.

HOW WOULD YOU COMPARE THE COST PER LINE OF THE UNSERVED AREAS WITH RESPECT TO MIDVALE'S CURRENT COST?

A. The Staff has calculated that the just and proper revenue requirement for Midvale's exchanges in Young and Cascabel is $747,819. Based on that, I determined that the average residential rate would be about $18.45 per line. The projected cost of unserved areas exceeds the average cost of providing local service in the other exchanges.

Q. HOW COULD THE COST OF UNSERVED AREAS BE FINANCED?

A. My analysis of the costs to provide service to the unserved areas of Millsite and Silver Bell suggests that it can be done with very little or no support from the AUSF. The rates for Millsite and Silver Bell should be set to reflect the higher cost of serving these customers. The rate should also reflect support from Federal USF.

Q. SO THE RATES FOR UNSERVED AREAS ARE NOT GOING TO BE THE SAME AS THE OTHER MIDVALE'S EXCHANGES IN ARIZONA,

1 **CORRECT?**

2 A. Yes. I suggest that the rates for Silver Bell and Millsite be set based on the
3 Company's initial cost projections. The suggested local exchange rate is $24.00
4 for residential and $30.00 for business customers. Costs for Millsite and Silver
5 Bell (once the plant is in-place) will be determined and may be combined with the
6 rest of the Company, and a new rate will be determined in conjunction with USF
7 support.

8 **Q. CAN YOU SUGGEST OTHER SOURCES OF REVENUES IN ORDER TO**
9 **FINANCE SERVICE TO UNSERVED AREAS?**

10 A. Yes. Staff recognizes the importance of providing basic service to people who lack
11 phone service. The Company should seek Federal USF support. If that support is
12 similar to the amount the Company receives for Young, then I would expect that
13 the rate for the unserved areas may be lower than the initial projection. In
14 addition, once customers are being served then Midvale can return to the
15 Commission to propose a level of AUSF funding. For now, based on the
16 Company's cost projections and assuming the Company's current level of access
17 charges and other service revenue, I recommend a rate of $24.00 for residential
18 local service (see Exhibit AGB-1).

IV. EXTENDED AREA SERVICE ("EAS")

Q. HAVE YOU ANALYZED MIDVALE'S PROPOSAL FOR EXTENDED AREA SERVICE?

A. Yes, I have. As I stated earlier, in its application, Midvale presents three proposed revenue requirements. One revenue requirement is for its base case that does not include either EAS or additional service areas. The second proposed revenue requirement adds EAS and will be discussed in this section of my testimony. And, the third adds the unserved service areas to the EAS revenue requirement that I just discussed.

The base scenario proposes an increase in revenue requirement that the Company estimates to be $108,955 per year (Midvale's Application, Part V, page 3). The EAS Case scenario adds the revenue requirement for the provision of extended area services between the Company's Cascabel exchange and the towns of Benson and San Manuel in the U S WEST exchange to its base case. This scenario produces an additional required increase in revenues of $35,751. The impact above the base case comes from a reduction in Interstate USF and Intrastate access revenues due to the decrease in toll calls and increase in local calls.

Q. ARE THERE ANY GUIDELINES TO FOLLOW FOR CONSIDERING

NEW EXTENDED AREA SERVICE?

A. In the 1993 U S WEST request for EAS, the ACC Staff recommended that the Commission set up a process for reviewing EAS without adopting a specific calling volume criterion to define the existence of a community of interest. However, the Staff recommended that the Commission "consider calling volumes, socio-economic linkages, contiguity and public input as factors in determining whether a community of interest exists" (Decision No. 58927, U S WEST Rate Case – 1993, Docket No. E-1051-93-183. Section IX. Other Rate Issues, Subsection A. Extended Area Service, page 115, lines 16-18, 20-23). In addition, the Staff suggested that a review of EAS should be considered at least 10 percent of the customers in the exchange or 200 customers, which ever is less, submitted a petition to the Commission. The idea behind the Staff's suggestions is to determine whether consumers want the service and that the public interest is served by any additional EAS routes. Once a sufficient community of interest has been established, then the cost and rate design issues must be considered. Then consumers and the Commission can make a reasonable choice on the benefits of EAS versus the cost. The Commission should consider all of the elements which might indicate that EAS is beneficial to all of these subscribers, i.e., that there exists a qualifying community of interest between the exchanges. Additionally, since the cost is proposed to be shared by all subscribers in the Company's region

1 and other Arizona consumers, the Commission should be presented with some real
2 benefits from this plan prior to its approval. Commissions generally look at traffic
3 studies, rate analysis, market research, customer's education regarding the
4 ramifications of EAS, costs and other evidence.

5 **Q. HAS THE COMPANY PRESENTED SUFFICIENT JUSTIFICATION FOR**
6 **THE IMPLEMENTATION OF THE NEW EAS, ACCORDING TO THESE**
7 **CONCERNS?**

8 A. No. The Company has failed to present data that would show that consumers want
9 the EAS, that call volumes between these exchanges is significant or that a strong
10 community of interest exists. In other words, the Company has not filed customer
11 petitions or studies that would suggest such interest. Although it has provided call
12 volumes from its customers to these exchanges, these are not sufficient indicators
13 of a strong community of interest between Cascabel and the communities of San
14 Manuel and Benson. The alleged need of Cascabel's customers to call schools,
15 businesses, medical facilities, law enforcement offices, etc., in those towns does
16 not justify higher local rates for all customers. It also seems that the community of
17 interest in Cascabel is divided between (a) the North of Cascabel and San Manuel,
18 and (b) the South of Cascabel and Benson.

19

Q. HOW IS THE COMPANY PLANNING TO FUND THE COST FOR NEW EAS?

A. Although the Company is proposing the same rates for the EAS case as for the base scenario, the loss in revenue due to the reduction of interstate USF and Intrastate access charges will be funded by an increase in the amount of AUSF requested by the Company. Witness Don C. Reading at page 24, lines 1-3, states that the Company proposes to draw $ 225,567 from the AUSF (an increase of $78,000 above the base case). The AUSF (established by the Commission on September 22, 1989) is a funding mechanism to help local telephone companies to provide basic local service to customers in high cost rural areas. I would not recommend the use of AUSF funds to support toll calling in general and specifically in this case where a few customers make a large number of calls. The use of AUSF funds without more justification is not appropriate. In other words, I do not see a valid reason to tax all Arizonans for the expansion of a few customers' local calling areas. Basic service and toll services are available and currently used in these areas. The proposed increase in AUSF, due only to EAS in order to benefit 163 customers in the Cascabel exchange, represents a subsidy of $39.88 per line per month. All telephone customers in Arizona would be required to pay for a subsidy for the provision of EAS to these customers.

1 **Q. WHAT IS YOUR RECOMMENDATION REGARDING MIDVALE'S**
2 **PROPOSED EXTENDED AREA SERVICE TO BENSON AND SAN**
3 **MANUEL?**

4 A. The Company has not performed any socioeconomic studies. Neither has it
5 presented customer petitions to demonstrate the benefits that extended calling area
6 service with Benson and San Manuel could bring to Cascabel customers.
7 Therefore, based on the information they have provided, I would recommend that
8 the Commission deny Midvale's petition.

9 In addition, implementation of extended area service to San Manuel or Benson is
10 too expensive. The Company's revenue requirements associated with EAS
11 translate into almost $40 per customer. The data suggests that only a few
12 customers are responsible for the large volume of calls. Less than 20 percent of
13 customers make most of the calls to San Manuel or Benson.

14 **Q. CAN YOU SUGGEST OTHER ALTERNATIVES FAVORABLE TO**
15 **CASCABEL CUSTOMERS?**

16 A. If the Commission were to approve an optional EAS calling plan that would be
17 offered to only those customers who would pay for this service, it would be so
18 expensive that none of Cascabel customers would take it. Furthermore, there are
19 already reasonable optional toll plans offered to these customers that are less

expensive than EAS. Cascabel customers already have less costly alternatives to call Benson and San Manuel. For example, Cascabel, Benson and San Manuel are in the same LATA, and Qwest offers a 10 cents per minute, 24 hours 7 days, instate calling plan for residential customers. Exhibit AGB-2 shows toll calling plans that Qwest offers to businesses at no more than 14 cents per minute; other competitive carriers have similar plans. Therefore, most of Cascabel's customers would find toll charges, based on their call volumes, much lower than a compensatory rate for EAS. Converting the existing toll usage into local usage via EAS is not beneficial to the existing customers with little usage, nor to other ratepayers in the State.

V. RATE DESIGN

Q. PLEASE DESCRIBE THE APPROACH FOLLOWED BY THE COMPANY.

A. Dr. Reading says that the Company's rates, if they were to cover all the cost of service, would endanger universal service. He proposes to increase basic exchange rates to $24.00 for residential and $32.00 for business customers. The Company proposes to increase basic rates by 94 percent for the Young exchange customers and 14 percent for Cascabel. The Company proposes to increase basic service rates for residential customers (from $12.40 in the Young exchange and

1 $21.00 in the Cascabel exchange) to the same rate throughout the Company of

2 $24.00. The Company proposes to increase the business rate from $21.00 in

3 Cascabel to $32.00, equal to the current rate in Young.

1 **Q. HAVE YOU REVISED THE RATE DESIGN THAT THE COMPANY HAS**
2 **PROPOSED IN ORDER TO REACH THE INCREASE IN REVENUE**
3 **REQUIREMENTS PROPOSED BY STAFF?**

4 A. Yes, I have. In the Company's proposed base case revenue requirement it claims a
5 revenue deficiency of $108,955 after all adjustments. It proposes to eliminate this
6 deficiency mainly by increasing the rates for residential and business customers in
7 local service revenues by $61,210, and drawing $147,567 from the Arizona
8 Universal Service Fund (Midvale's Exhibit 3, Schedules 5 and 6). The Staff's
9 recommended revenue requirement is $747,819, a deficiency from adjusted test
10 year operating revenue of $17,391. In order to recover this deficiency I propose
11 that local basic rates for Young and Cascabel be set at $30.00 for business, that the
12 residential rate in Cascabel remains at $21.00, and that Young's residential rate be
13 increased to $17.15.

14 The Company's proposed rate structure in order to eliminate unnecessary
15 differences in the same categories seems reasonable, and I support such a move.
16 However, in order to accomplish increased revenues, I do not agree with the
17 drastic rate increase that the Company proposes. As I have stated, a one-time
18 increase of almost 94 percent in residential service rates for the Young exchange
19 would create a sudden burden to those customers. Even at the level that I
20 recommend the increase for Young customers is significant at almost 38 percent. I

1 agree that rates should be moved towards costs and that the current rates need to be
2 increased for Young.

3 **Q. WHAT DO YOU RECOMMEND FOR SERVICES OTHER THAN BASIC**
4 **LOCAL EXCHANGE SERVICE?**

5 Generally, custom calling is a good source of additional revenues, but the demand
6 of such services by Midvale customers is not significant. For this reason, the
7 Company, instead of modifying the rates, proposes to bundle the services into the
8 basic rates. I disagree with the Company's custom calling proposal. Custom
9 calling is not part of basic service and should have a separate price. The demand
10 for these services is low and may be due to the rates currently being charged. I
11 also agree with the Company that the costs to offer the customer calling services
12 are very low. I recommend a rate of $2.00 which covers costs and will encourage
13 usage.

14 The Young exchange has several categories that the Company will consolidate in
15 order to simplify pricing with insignificant results from a revenue prospective. I
16 agree that this is appropriate, although it has very little revenue impact.

17 The Company also proposes to lower intrastate access rates, which are different for
18 the two exchanges. I do not believe that this access reduction is appropriate. It
19 costs more to provide service in these two exchanges; high access charges help

compensate for that high cost. I do agree that a single access rate is appropriate provided it generates the same level of access revenues. Although it is true that the current rates for Intrastate Access are at levels that are higher than average rates, the Company provides service to a higher cost area. There has been no reason presented (other than the rates are higher) for this decrease. I believe it is reasonable to charge higher access rates for a company with higher costs. Therefore, I suggest that the Commission deny Midvale's rate reduction in intrastate access charges.

Exhibit AGB-3 presents my suggested changes in the Company's existing rates.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes; it does.

Unserved Areas

Number of lines 278

Summary of Rate Base

Plant Description	*Unserved*	*Intrastate*	*Interstate %*
Land	20,000	12,824	35.88%
Buildings	50,000	32,060	35.88%
Dig Elect Switch	350,188	90,243	74.23%
Central Office Trans	667,415	466,256	30.14%
Rate Base	1,087,603	601,384	
Required Rate of Return	10.14%	10.14%	
Required Return on Rate Base	110,283	60,980	
Required Return on Rate Base & Income Taxes[1]	122,497	67,734	
Operating Expenses			
Plant Specific	27,462	17,639	35.77%
Other Plant	21,595	11,480	46.84%
Dep. and Amortization	101,161	60,363	40.33%
Customer Operations	20,968	15,820	24.55%
Corporate Operations	56,051	37,958	32.28%
Other Operating Taxes	9,103	5,782	36.48%
Miscellaneous	55,023	34,951	36.48%
Total Operating Expenses	291,363	183,992	
Requirement for Unserved Areas	413,860	251,726	
Revenues			
Estimated Operating Non Local Revenues[2]		171,516	
Required Local Operating Revenue		80,211	
Average Local Rate		24.00	

[1] Based on 25% equity, 11.5% cost of equity, and 8% cost of debt. Income to Revenue Multiplier equals to 1.7652

[2] Non Local Revenues were calculated base on Staff Adjusted Recommended Operating Revenues per line

Network Access Service Revenues	206,624
Interstate USF	164,437
Directory Revenue	1,759
Miscellaneous	22,081
Uncollectible	(1,279)
Total Non Local Revenues	*393,622*
Midvale's Current Lines	638
Revenues per Line	617
Estimated Number of lines in Unserved Areas	278
Estimated Operating Revenues	171,516

MIDVALE TELEPHONE EXCHANGE

LOCAL RATE AND REVENUE SUMMARY - TOTAL ARIZONA

(A)	(B) DESCRIPTION	(C) 12/31/1999 UNITS	(D) CURRENT RATE	(E) MONTHLY REV. @ CURRENT	(F) ANNUALIZED REV. @ CURRENT	New UNITS	(G1) PROPOSED RATE	(H1) MONTHLY REV. AT PROPOSED	(I1) ANNUALIZED REV. AT PROPOSED	(J1) ANNUAL REVENUE INCREASE
	LOCAL									
Y	RESIDENCE- R1	363	$ 12.40	$ 4,501.20	$ 54,014.40	367	$ 17.15	$ 6,294.05	$ 75,528.60	$ 21,514.20
~~Y~~	~~RESIDENCE- Zone 1 Charge~~	~~0~~	~~$ 1.10~~	~~$ -~~	~~$ -~~		~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~
~~Y~~	~~RESIDENCE- Zone 2 Charge~~	~~0~~	~~$ 3.30~~	~~$ -~~	~~$ -~~		~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~
~~Y~~	~~RESIDENCE- Flat 2 Party~~	~~4~~	~~$ 10.76~~	~~$ 43.04~~	~~$ 516.48~~		~~$ -~~	~~$ -~~	~~$ -~~	$ (516.48)
Y	BUSINESS - B1	58	$ 32.00	$ 1,856.00	$ 22,272.00	61	$ 30.00	$ 1,830.00	$ 21,960.00	$ (312.00)
~~Y~~	~~BUSINESS- Zone 1 Charge~~	~~0~~	~~$ 1.10~~	~~$ -~~	~~$ -~~		~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~
~~Y~~	~~BUSINESS- Zone 2 Charge~~	~~0~~	~~$ 3.30~~	~~$ -~~	~~$ -~~		~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~
Y	BUSINESS - pay	3	$ 21.00	$ 63.00	$ 756.00	3	$ 21.00	$ 63.00	$ 756.00	$ -
~~Y~~	~~BUSINESS- Flat 4 Party~~	~~1~~	~~$ 24.20~~	~~$ 24.20~~	~~$ 290.40~~		~~$ -~~	~~$ -~~	~~$ -~~	~~$ (290.40)~~
~~Y~~	~~KEY SYSTEM~~	~~0~~	~~$ 32.00~~	~~$ -~~	~~$ -~~		~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~
~~Y~~	~~PBX- Zone 1~~	~~0~~	~~$ 45.80~~	~~$ -~~	~~$ -~~		~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~
~~Y~~	~~PBX- Zone 2~~	~~2~~	~~$ 44.70~~	~~$ 89.40~~	~~$ 1,072.80~~		~~$ -~~	~~$ -~~	~~$ -~~	~~$ (1,072.80)~~
~~Y~~	~~PAL~~	~~0~~	~~$ 69.50~~	~~$ -~~	~~$ -~~		~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~
Y	Foreign Exchange	1	$ 250.00	$ 250.00	$ 3,000.00		$ 250.00	$ -	$ -	$ (3,000.00)
Y	VACATION - Zone 1 Charge	3	$ 6.75	$ 20.25	$ 243.00	5	$ 10.50	$ 52.50	$ 630.00	$ 387.00
~~Y~~	~~VACATION- Zone 2 Charge~~	~~2~~	~~$ 7.85~~	~~$ 15.70~~	~~$ 188.40~~		~~$ -~~	~~$ -~~	~~$ -~~	~~$ (188.40)~~
								$ -		
C	RESIDENCE- R1	172	$ 21.00	$ 3,612.00	$ 43,344.00	172	$ 21.00	$ 3,612.00	$ 43,344.00	$ -
C	BUSINESS - B1	30	$ 21.00	$ 630.00	$ 7,560.00	30	$ 30.00	$ 900.00	$ 10,800.00	$ 3,240.00
C	BUSINESS - pay	0	$ 21.00	$ -	$ -	0	$ 21.00	$ -	$ -	$ -
~~C~~	~~KEY SYSTEM~~	~~0~~	~~$ 30.00~~	~~$ -~~	~~$ -~~		~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~
~~C~~	~~PBX~~	~~0~~	~~$ 30.00~~	~~$ -~~	~~$ -~~		~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~
~~C~~	~~PAL~~	~~0~~	~~$ 52.50~~	~~$ -~~	~~$ -~~		~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~
C	VACATION	0	$ 10.50	$ -	$ -	0	$ 10.50	$ -	$ -	$ -
	NON-RECURRING CHARGES									
Y	SERVICE ORDER	55	$ 10.00	$ 550.00	$ 550.00	55	$ 10.00	$ 550.00	$ 550.00	$ -
C	SERVICE ORDER	15	$ 10.00	$ 150.00	$ 150.00	15	$ 10.00	$ 150.00	$ 150.00	$ -
Y	LINE CONNECTION	55	$ 12.00	$ 660.00	$ 660.00	55	$ 25.00	$ 1,375.00	$ 1,375.00	$ 715.00
~~Y~~	~~LINE CONNECTION- Zone 1~~	~~35~~	~~$ 33.25~~	~~$ 1,163.75~~	~~$ 1,163.75~~		~~$ -~~	~~$ -~~	~~$ -~~	~~$ (1,163.75)~~
~~Y~~	~~LINE CONNECTION- Zone 2~~	~~20~~	~~$ 75.25~~	~~$ 1,505.00~~	~~$ 1,505.00~~		~~$ -~~	~~$ -~~	~~$ -~~	~~$ (1,505.00)~~
C	LINE CONNECTION	15	$ 15.00	$ 225.00	$ 225.00	15	$ 25.00	$ 375.00	$ 375.00	$ 150.00
Y	PREMISE VISIT	55	$ 24.50	$ 1,347.50	$ 1,347.50	55	$ 30.00	$ 1,650.00	$ 1,650.00	$ 302.50
C	PREMISE VISIT	15	$ 30.00	$ 450.00	$ 450.00	15	$ 30.00	$ 450.00	$ 450.00	$ -
	OTHER RATES & CHARGES									
	CUSTOM CALLING									
Y	CUSTOM CALLING BUNDLE					20	$ 2.00	$ 40.00	$ 480.00	$ 480.00
~~Y~~	~~RES. CALL WAITING~~	~~8~~	~~$ 5.00~~	~~$ 40.00~~	~~$ 480.00~~		~~$ -~~	~~$ -~~	~~$ -~~	~~$ (480.00)~~
~~Y~~	~~BUS. CALL WAITING~~	~~0~~	~~$ 7.50~~	~~$ -~~	~~$ -~~		~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~
~~Y~~	~~RES. CALL FORWARDING~~	~~7~~	~~$ 2.74~~	~~$ 19.18~~	~~$ 230.16~~		~~$ -~~	~~$ -~~	~~$ -~~	~~$ (230.16)~~
~~Y~~	~~BUS CALL FORWARDING~~	~~0~~	~~$ 4.00~~	~~$ -~~	~~$ -~~		~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~
~~Y~~	~~RES 3-WAY CALLING~~	~~5~~	~~$ 3.52~~	~~$ 17.60~~	~~$ 211.20~~		~~$ -~~	~~$ -~~	~~$ -~~	~~$ (211.20)~~
~~Y~~	~~BUS 3-WAY CALLING~~	~~0~~	~~$ 4.20~~	~~$ -~~	~~$ -~~		~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~
~~Y~~	~~RES, 8 NO. SPEED CALLING~~	~~0~~	~~$ 1.74~~	~~$ -~~	~~$ -~~		~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~
~~Y~~	~~BUS., 8 NO. SPEED CALLING~~	~~0~~	~~$ 3.00~~	~~$ -~~	~~$ -~~		~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~
~~Y~~	~~RES, 30 NO. SPEED CALLING~~	~~0~~	~~$ 1.74~~	~~$ -~~	~~$ -~~		~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~
~~Y~~	~~BUS., 30 NO. SPEED CALLING~~	~~0~~	~~$ 3.00~~	~~$ -~~	~~$ -~~		~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~
~~Y~~	~~RES. FIXED CALLING~~	~~0~~	~~$ 2.50~~	~~$ -~~	~~$ -~~		~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~
~~Y~~	~~BUS. FIXED CALLING~~	~~0~~	~~$ 2.50~~	~~$ -~~	~~$ -~~		~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~
~~Y~~	~~RES. LINE BUSY DIV.~~	~~0~~	~~$ 1.85~~	~~$ -~~	~~$ -~~		~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~
~~Y~~	~~BUS. LINE BUSY DIV.~~	~~0~~	~~$ 8.00~~	~~$ -~~	~~$ -~~		~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~
~~Y~~	~~ANY 2 (20% DISCOUNT)~~	~~1~~	~~$ 6.19~~	~~$ 6.19~~	~~$ 74.28~~		~~$ -~~	~~$ -~~	~~$ -~~	~~$ (74.28)~~
	~~ANY 3 (25% DISCOUNT)~~	~~0~~	~~$ -~~	~~$ -~~	~~$ -~~		~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~
	~~ANY 4 (30% DISCOUNT)~~	~~0~~	~~$ -~~	~~$ -~~	~~$ -~~		~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~
	~~ANY 5 (35% DISCOUNT)~~	~~0~~	~~$ -~~	~~$ -~~	~~$ -~~		~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~
	MISCELLANEOUS									
C	VACATION RATE	0	$ 10.50	$ -	$ -		$ -	$ -	$ -	$ -
Y	VACATION RATE - Zone 1	3	$ 6.75	$ 20.25	$ 243.00	5	$ 10.50	$ 52.50	$ 630.00	$ 387.00
~~Y~~	~~VACATION RATE - Zone 2~~	~~2~~	~~$ 7.85~~	~~$ 15.70~~	~~$ 188.40~~		~~$ -~~	~~$ -~~	~~$ -~~	~~$ (188.40)~~
	PAYPHONE-LOCAL	0	$ -	$ -	$ -		$ -	$ -	$ -	$ -
Y	PRIVATE LINE EXTENSION	8	$ 7.00	$ 56.00	$ 672.00	8	$ 7.00	$ 56.00	$ 672.00	$ -
	INTRACHANGE P/L MILEAGE	0	$ -	$ -	$ -		$ -	$ -	$ -	$ -

(A)	(B) DESCRIPTION	(C) 12/31/1999 UNITS	(D) CURRENT RATE	(E) MONTHLY REV. @ CURRENT	(F) ANNUALIZED REV. @ CURRENT	New UNITS	(G1) PROPOSED RATE	(H1) MONTHLY REV. AT PROPOSED	(I1) ANNUALIZED REV. AT PROPOSED	(J1) ANNUAL REVENUE INCREASE
Y	OFF-PREMISE EXTENSION	2	$ 4.00	$ 8.00	$ 96.00	2	$ 4.00	$ 8.00	$ 96.00	$ -
	EMERG. RPT -MAIN STATION	0	$ -	$ -	$ -		$ -	$ -	$ -	$ -
	EMERG. RPT-ADD'L STATION	0	$ -	$ -	$ -		$ -	$ -	$ -	$ -
Y	TRUNK HUNTING FEATURE	2	$ 8.00	$ 16.00	$ 192.00	2	$ 8.00	$ 16.00	$ 192.00	$ -
Y	BUSINESS CHANNEL TERM - Dedicated Channel	1	$ 6.50	$ 6.50	$ 78.00	1	$ 6.50	$ 6.50	$ 78.00	$ -
Y	BUSINESS CHANNEL TERM - Dedicated Trunk	6	$ 24.42	$ 146.52	$ 1,758.24	6	$ 24.42	$ 146.52	$ 1,758.24	$ -
Y	TRUNK TERMINATION	2	$ 26.70	$ 53.40	$ 640.80	2	$ 26.70	$ 53.40	$ 640.80	$ -
Y	PBX NUMBER BLOCK	5	$ 2.00	$ 10.00	$ 120.00	5	$ 2.00	$ 10.00	$ 120.00	$ -
~~Y~~	~~TRANS MIL FIX 27%~~	~~1~~	~~$ 2.29~~	~~$ 2.29~~	~~$ 27.48~~		~~$~~	~~$~~	~~$~~	~~$ (27.48)~~
~~Y~~	~~FIXED MILEAGE 20%~~	~~1~~	~~$ 4.98~~	~~$ 4.98~~	~~$ 59.76~~		~~$~~	~~$~~	~~$~~	~~$ (59.76)~~
~~Y~~	~~TRANS MIL FIX 41%~~	~~2~~	~~$ 4.98~~	~~$ 9.96~~	~~$ 119.52~~		~~$~~	~~$~~	~~$~~	~~$ (119.52)~~
~~Y~~	~~TRANS MIL FIX 20%~~	~~2~~	~~$ 1.70~~	~~$ 3.40~~	~~$ 40.80~~		~~$~~	~~$~~	~~$~~	~~$ (40.80)~~
~~Y~~	~~61X1.10 20%~~	~~1~~	~~$ 13.42~~	~~$ 13.42~~	~~$ 161.04~~		~~$~~	~~$~~	~~$~~	~~$ (161.04)~~
~~Y~~	~~58X1.10 MILEAGE 27%~~	~~1~~	~~$ 17.23~~	~~$ 17.23~~	~~$ 206.76~~		~~$~~	~~$~~	~~$~~	~~$ (206.76)~~
~~Y~~	~~25X.85 MILEAGE 20%~~	~~1~~	~~$ 8.71~~	~~$ 8.71~~	~~$ 104.52~~		~~$~~	~~$~~	~~$~~	~~$ (104.52)~~
~~Y~~	~~25X.85 MILEAGE 41%~~	~~2~~	~~$ 8.71~~	~~$ 17.42~~	~~$ 209.04~~		~~$~~	~~$~~	~~$~~	~~$ (209.04)~~
	~~80X1.10 MILEAGE 20%~~	~~1~~	~~$ 17.60~~	~~$ 17.60~~	~~$ 211.20~~		~~$~~	~~$~~	~~$~~	~~$ (211.20)~~
Y	56K SPECIAL ACCESS	0	$ 188.50	$ -	$ -	0	$ 188.50	$ -	$ -	$ -
C	TOLL RESTRICTION - RES	3	$ 2.00	$ 6.00	$ 72.00	3	$ 2.00	$ 6.00	$ 72.00	$ -
~~C~~	~~TOLL RESTRICTION - BUS~~	~~0~~	~~$ 3.00~~	~~$~~	~~$~~		~~$~~	~~$~~	~~$~~	~~$~~
Y	TOLL RESTRICTION - RES	4	$ 2.00	$ 8.00	$ 96.00	4	$ 2.00	$ 8.00	$ 96.00	$ -
~~Y~~	~~TOLL RESTRICTION - BUS~~	~~0~~	~~$ 2.00~~	~~$~~	~~$~~		~~$~~	~~$~~	~~$~~	~~$~~
C	ADD'L BUS LIST	0	$ 1.50	$ -	$ -	9	$ 1.00	$ 9.00	$ 108.00	$ 108.00
Y	ADD'L BUS LIST	3	$ 1.25	$ 3.75	$ 45.00	11	$ 1.00	$ 11.00	$ 132.00	$ 87.00
~~C~~	~~ADD'L RES LIST~~	~~9~~	~~$ 1.00~~	~~$ 9.00~~	~~$ 108.00~~		~~$~~	~~$~~	~~$~~	~~$ (108.00)~~
~~Y~~	~~ADD'L RES LIST~~	~~8~~	~~$ 1.00~~	~~$ 8.00~~	~~$ 96.00~~		~~$~~	~~$~~	~~$~~	~~$ (96.00)~~
	ADDITIONAL INFORM	0	$ -	$ -	$ -		$ -	$ -	$ -	$ -
C	FOREIGN LISTING - RES	0	$ 2.00	$ -	$ -	0	$ 2.00	$ -	$ -	$ -
~~C~~	~~FOREIGN LISTING - BUS~~	~~0~~	~~$ 2.00~~	~~$~~	~~$~~		~~$~~	~~$~~	~~$~~	~~$~~
Y	FOREIGN LISTING - RES	1	$ 1.00	$ 1.00	$ 12.00	1	$ 2.00	$ 2.00	$ 24.00	$ 12.00
~~Y~~	~~FOREIGN LISTING - BUS~~	~~0~~	~~$ 1.25~~	~~$~~	~~$~~		~~$~~	~~$~~	~~$~~	~~$~~
C	[illegible] LIST	5	$ 2.00	$ 10.00	$ 120.00	5	$ 2.00	$ 10.00	$ 120.00	$ -
Y	[illegible]-LIST	9	$ 1.20	$ 10.80	$ 129.60	9	$ 2.00	$ 18.00	$ 216.00	$ 86.40
C	NON- PUBLISHED	17	$ 2.00	$ 34.00	$ 408.00	17	$ 2.00	$ 34.00	$ 408.00	$ -
Y	NON- PUBLISHED	30	$ 1.50	$ 45.00	$ 540.00	30	$ 2.00	$ 60.00	$ 720.00	$ 180.00
~~C~~	~~PUBLIC ACCESS LINE (PAL)~~	~~0~~	~~$ 52.50~~	~~$~~	~~$~~		~~$~~	~~$~~	~~$~~	~~$~~
~~Y~~	~~PUBLIC ACCESS LINE (PAL)~~	~~0~~	~~$ 69.50~~	~~$~~	~~$~~		~~$~~	~~$~~	~~$~~	~~$~~
	CREDIT CARD SERVICE FEE	0	$ -	$ -	$ -	0	$ -	$ -	$ -	$ -
	DIRECTORY ASSISTANCE	0	$ -	$ -	$ -	0	$ -	$ -	$ -	$ -
C	LINE LEASE + ACCESS CHARGE	0	$ 21.00	$ -	$ -	0	$ 21.00	$ -	$ -	$ -
C	INSTALL CHG.	0	$ 25.00	$ -	$ -	0	$ 25.00	$ -	$ -	$ -
Y	LINE LEASE + ACCESS CHARGE	2	$ 8.25	$ 16.50	$ 198.00	2	$ 21.00	$ 42.00	$ 504.00	$ 306.00
Y	INSTALL CHG.	0	$ 22.00	$ -	$ -	0	$ 25.00	$ -	$ -	$ -
~~Y~~	~~EXTENSION CONTINUOUS~~	~~0~~	~~$ 4.00~~	~~$~~	~~$~~		~~$~~	~~$~~	~~$~~	~~$~~
	MISC. REVENUE	0	$ -	$ -	$ -	0	$ -	$ -	$ -	$ -
	RETURN CHECK CHARGE	0	$ -	$ -	$ -	0	$ -	$ -	$ -	$ -
~~C~~	~~INSIDE WIRE MAINTENANCE~~	~~0~~	~~$ 1.00~~	~~$~~	~~$~~		~~$~~	~~$~~	~~$~~	~~$~~
	TOTAL			$ 17,818.44	$ 147,257.53			$ 17,890.47	$ 164,635.64	$ 17,378.11
	YOUNG			$ 12,674.84	$ 94,609.33			$ 12,344.47	$ 108,808.64	$ 14,199.31
	CASCABEL			$ 5,126.00	$ 52,437.00			$ 5,546.00	$ 55,827.00	$ 3,390.00

SUMMARY OF LOCAL REVENUES

	Arizona	Young	Cascabel
CURRENT ANNUALIZED REVENUES (COL F)	147,258	94,609	52,437
- UNCOLLECTIBLE (W/S 2)	(1,279)	(284)	(995)
NET REVENUES	145,979	94,325	51,442
+ PROPOSED INCREASE (COL K)	17,378	14,199	3,390
TOTAL ANNUALIZED REVENUES FROM RATES	163,357	108,525	54,832

BEFORE THE ARIZONA CORPORATION COMMISSION

WILLIAM A. MUNDELL
Chairman
JIM IRVIN
Commissioner
MARK SPITZER
Commissioner

IN THE MATTER OF THE APPLICATION OF MIDVALE TELEPHONE EXCHANGE, INC., FOR AUTHORITY TO INCREASE RATES AND FOR DISBURSEMENT FROM THE ARIZONA UNIVERSAL SERVICE FUND	)	DOCKET NO. T-02532A-00-0512

DIRECT

TESTIMONY AND EXHIBITS

OF

RICHARD L. BOYLES

UTILITIES ENGINEER - TELECOMMUNICATIONS

UTILITIES DIVISION

March 15, 2001

Jbc130t

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EXECUTIVE SUMMARY

The Direct Testimony of Staff witness, Richard L. Boyles, addresses the Company's performance with respect to service quality, discusses issues of plant modernization and utilization and sponsors Staff's recommendations with regards to the depreciation rates that should apply to each of the Company's plant accounts. In Staff's opinion, the Company is providing acceptable levels of service and sufficient plant capacity to accommodate growth and seasonal variations in its number of customers. When applied to the Company's unadjusted end of test year plant balances, Staff's depreciation recommendation results in a composite depreciation rate of 7.75 percent and an annual depreciation accrual of $237,334. In this analysis, the proposed rates increase the annual depreciation accrual by $32,113.

INTRODUCTION

Q. Please state your name and business address.

A. My name is Richard L. Boyles. My business address is 1200 West Washington, Phoenix, Arizona 85007.

Q. By whom are you employed and what is your position?

A. I am employed by the Arizona Corporation Commission ("the Commission") in its Utilities Division. My title is Utilities Engineer - Telecommunications.

Q. Briefly describe your responsibilities as a Utilities Engineer - Telecommunications.

A. I work in the Engineering Section of the Utilities Division and I am responsible for providing technical assistance to the Commissioners and to other Utilities Division staff members on matters that come before the Commission involving telecommunications service providers operating in the State.

Q. Please summarize your educational background and professional experience.

A. I graduated from the University of Washington in 1978 with a Bachelor of Science Degree in Electrical Engineering. Prior to joining the Commission in March of 2000 as a Utilities Engineer, I worked for a telephone operating company for twenty-one years, where I held management positions in Network Engineering, Central Office Maintenance, Network Monitoring and Switch Technical Support.

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

A. The purpose of my testimony is to address Midvale Telephone Exchanges, Inc.'s, ("Midvale" or "Company") performance with respect to service quality. I will also discuss the issues of plant modernization and plant utilization in my testimony. Finally, I will sponsor Staff's recommendations with regard to the depreciation rates that should apply to each of Midvale's plant accounts on a going forward basis.

SERVICE QUALITY

Q. Did Staff review the service quality results for the exchanges and, if so, what service results did Staff review?

A. Yes. A review of Commission complaints for the years of 1997 through January 2001 was performed. A total of three informal complaints were found and they can be categorized as follows: New Service (1), Service (1) and Quality of Service (1). Of the three service related complaints, one occurred in 1998, one in 1999 and one in 2000. There have been no informal complaints during 2001. In the opinion of Consumer Services, Midvale appears to be responsive to customer complaints and there are no formal complaints on file with Docket Control.

The interval for clearing customer trouble reports is another measure of service quality. Midvale's objective for this measurement is for 100 percent of customer reported trouble to be cleared within 24 hours. This objective was met in the Cascabel exchange in 1999, and the Young exchange in 1996, 1998 and 1999. Overall, for 1996 through June, 2000, Midvale cleared 94.1 percent of customer reported trouble within 24 hours. This result demonstrates that, for the two exchanges, only 17 trouble tickets were not cleared within the objective time frame.

Q. Does Midvale monitor its network alarms from a centralized location so that service-impacting problems can be responded to quickly?

A. No. Due to the small size of the exchanges, alarm monitoring is not centralized. However, Midvale personnel can access each switch remotely from a computer terminal to perform certain maintenance and repair functions.

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Q. Has the Commission received any comments from Midvale customers regarding the Company's filing?

A. The Company notified customers of its rate increase request on or about February 20, 2001. As of the date of preparation of this Testimony, one petition with 206 signatures has been docketed in opposition to the Company's proposed rate increase for the Young exchange.

PLANT MODERNIZATION

Q. Has Midvale taken actions to modernize their switching network?

A. Yes. The central office switches in each exchange are digital technology. Digital switches provide performance reliability and the flexibility to easily expand when more capacity is required. The switches can be equipped to offer a range of capabilities including local and toll, 2 PIC Equal Access, and custom calling features such as call forwarding and call waiting. In addition, the Young digital switch can provide Centrex features and SS7 based services such as Caller ID, etc., to provide new revenue generating opportunities.

Q. Has Midvale upgraded its inter-office facilities?

A. The inter-office facility between the Cascabel and Young exchanges and Qwest is on fiber optic cable. Placement of the fiber cable in the Young exchange replaced an analog microwave radio system.

Q. What has the Company done to improve the quality of its outside plant facilities?

A. There is no open wire outside plant in either the Cascabel or Young exchange. The Company has also rebuilt certain outside plant cables in the Young exchange to improve service quality.

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Q. Are there other actions that Midvale has taken to improve the infrastructure of its network?

A. Yes. Digital Line Concentrators ("DLC's") locations have been constructed to provide service to customers that previously had not had service.

PLANT UTILIZATION

Q. Was the capacity of the switching network reviewed to determine if margins were sufficient for reasonable growth?

A. Yes. Staff reviewed the working versus equipped (available) line quantities in the serving central office switch and in the loop plant of each exchange. The switching composite ratio for the company was 0.81. Staff believes this ratio is within reasonable expectations given the modular nature of the switches and is similar to that of other carriers.

A similar review was performed for the subscriber carrier systems. The composite ratio for the three systems reviewed was 0.55 which Staff believes is reasonable for pair gain systems in rural exchanges with low customer density and is one, which provides for adequate growth.

Q. Was a review of fill factors for feeder and distribution cable in the outside plant also performed?

A. Yes. The composite ratio for the fiber and copper feeder routes reviewed was 0.50 and 0.70 for the copper distribution loop. Staff believes these ratios are reasonable for feeder distribution in these rural exchanges and are ones that provide for adequate growth.

Q. Although the fill factors were all found to be adequate for growth, do you have any concerns that excessive capacity might have been deployed in Midvale's network?

A. No. In my opinion unnecessary excess capacity has not been constructed.

Q. Were field inspections performed to validate that plant records were accurate and that network equipment was installed and maintained in a reasonable manner?

A. Yes. Engineering Staff visited each exchange and performed a plant inspection. In general, the plant inspections looked for network elements for which a major capital expenditure was identified. The condition of the facilities was evaluated to make a determination whether adequate maintenance was being performed. It is Staff's opinion that Midvale is taking appropriate actions to maintain its facilities in a manner that will provide quality service to its customer base.

DEPRECIATION

Q. What are the current depreciation rates that Midvale is using?

A. Midvale was authorized to utilize its current depreciation rates for the Cascabel exchange pursuant to Decision No. 58048, dated October 29, 1992. These are listed under column D on Schedule 1. In the Direct Testimony of Don C. Reading, the Company states it has used these same rates in the Young exchange since the purchase of that exchange from U S WEST pursuant to Decision No. 58736, dated September 1, 1994.

Q. What are the depreciation rates that Midvale is proposing in its rate application?

A. The Company did not propose revised rates in its application.

Q. Does your analysis concern only those depreciation rates that should be used going forward?

A. Yes.

Q. What other information is presented in Schedule 1?

A. Schedule 1 also shows the depreciation rates by plant account for Arizona Telephone Company (column C), Table Top Telephone Company (column E), Citizens Utilities Rural Company (column F), Citizens Communications Company of the White Mountains

(column G), Qwest Communications (column H) and Southwestern Telephone (column I). Arizona Telephone Company and Table Top Telephone Company ("Table Top") were selected because these rural companies had, in recent years, filed rate cases that included a review of depreciation rates.

Q. What information is presented in Schedule 2?

A. Schedule 2 is a comparison of the depreciation that results when depreciation rates that have been approved for several other rural telephone companies in Arizona and Qwest are applied to the Company's test year (12/31/99) plant balances (Application Exhibit 3, Schedule 2). Also listed in Schedule 2, are the rates Midvale is currently using (response to data request DWC-53).

Q. Why did Staff prepare a comparative analysis of depreciation rates.

A. It is Staff's opinion that it is appropriate to look at the rates of other rural exchange carriers in Arizona. Staff believes this will provide the proper balance between the interests of the ratepayer and those of the Company while at the same time taking technical obsolescence and competitive considerations into account. For purposes of this analysis, Staff utilized unadjusted end of test year plant balances and the same depreciation rates for each exchange.

Q. Describe the methodology that Staff used in its analysis.

A. First, Staff became familiar with Midvale's network and service area while conducting its analysis in this case. Staff reviewed the rates used by the other Arizona rural exchange carriers. Staff then selected a rate in each plant account that it thought was reasonable based upon network considerations, service area considerations, similarities between carriers and other considerations. Using the December 31, 1999 plant balances that were provided by Midvale with its filing, each of the depreciation rate scenarios (as listed in Schedule 1) were calculated to determine what impact the scenario would have on the

amount of accrual change required. This provided a way of determining the incremental impact of the various rates when applied to Midvale's plant investment. This last step was used primarily to gauge the reasonableness of Staff's proposed rates.

Q. Does Staff agree with the depreciation rates that Midvale is proposing in its rate application?

A. No. Staff believes that some increase in depreciation rates is appropriate to maintain relative parity with rates used by other rural carriers and to encourage continued investment in infrastructure improvements.

Q. What is Staff's recommendation regarding the depreciation rates that should apply to Midvale plant accounts on a going forward basis?

A. The depreciation rates shown under column K, on Schedule 1, are the rates Staff is recommending for the Cascabel and Young exchanges and any new service areas that may result from the Company's Application. Staff's recommended rates produce a composite rate of 7.75 percent compared to Midvale's current composite rate of 6.71 percent. In this comparative analysis, Staff's proposed rates increase the annual depreciation accrual by $32,113. These are increases over the projected current accrual amount and are based on the un-adjusted 1999 Test Year (12/31/99) plant balances in Midvale's initial filing. Schedule 2, shows the calculation of the annual depreciation accruals.

Q. What rationale did Staff use to select the rates it is recommending for each plant account?

A. The proposed rate for account 2116 (Work Equipment), is the same as that approved for Arizona Telephone Company. The rate for this account varies widely between the companies; however, in Staff's opinion, the rate selected represents a reasonable compromise and expected life.

Midvale's currently authorized rates were selected for accounts 2124 (General Purpose Computers) and 2212 (Digital Switching). The rate for account 2124, is the same as that recently approved by the Commission for Table Top. Staff believes continuation of the current rate for account 2212, is appropriate given the age of the digital technology deployed in the Cascabel exchange. In addition, Staff believes the Cascabel switch may be more limited its capabilities when compared to newer generation switching technologies.

For the remaining accounts Staff recommends the depreciation rates approved for Table Top Telephone in Decision No. 62840, dated August 24, 2000. These rates were found to be reasonable for a small rural telephone carrier and Midvale is similarly situated.

Q. Can you explain why the depreciation expense shown for Midvale on Schedule RLB-2 may be different that the depreciation expense used by other Staff witnesses to calculate the Company's revenue requirement?

A. Yes. The purpose of Schedule RLB-2 is to provide a comparison of the depreciation expense that would result from my recommended depreciation rates and the depreciation rates currently authorized for other telephone companies when applied to Midvale's plant. The comparison is presented to show a reasonable order of magnitude of relative depreciation expense for the various companies; not specific amounts. I used the Company's unadjusted test-year-end plant balances in my analysis. For purposes of calculating the revenue requirement, other Staff witnesses may have used different plant balances and historical depreciation rates to calculate depreciation expense.

CONCLUSIONS

Q. What are your conclusions regarding Midvale's service quality and the adequacy of its network?

A. Service quality in these exchanges, based upon Consumer Services and Company data, appears to be good. Midvale is offering many of the latest services and calling features to its customers. Midvale plant additions provide sufficient capacity to accommodate reasonable growth and the seasonability of its customer base.

Q. Would you please summarize Staff's depreciation recommendation?

A. Staff recommends that the rates in Schedule 1, under column K, be adopted. These rates would result in a composite depreciation rate of 7.75 percent and an annual depreciation accrual of $237,334. Staff believes these rates are reasonable because they are comparable to rates used by other rural exchange carriers in Arizona.

Q. Is Midvale in compliance with previous Commission Orders?

A. Yes.

Q. Does that conclude your direct testimony?

A. Yes, it does.

MIDVALE :PHONE
DEPRECIATION RA TE COMPARISON

	A	B	C	D	E	F	G	H	I	K
Note #	Midvale Account	Description	Arizona Telephone	Midvale Telephone	Table Top 8/2000	Citizens Rural	Citizens White Mtns.	Qwest 5/2000	Southwestern Telephone	Staff Proposed
	2111	Land	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	2112	Vehicles	18.00	20.00	14.00	21.20	25.50	4.90	8.55	14.00
	2116	Work Equip.	10.00	20.00	5.90	1.78	13.70	15.90	8.55	10.00
	2111	Buildings	2.60	3.33	2.50	3.88	6.70	3.00	2.45	2.50
	2122	Office Equip./Furn.	4.75	14.29	9.30	4.22	11.50	20.10	5.10	9.30
2	2123	Commun. Equip.	14.29	20.00	11.20	1.93	6.70	6.10	8.57	11.20
	2124	Gen. Purp. Comp.	20.00	20.00	20.00	24.60	22.10	9.40	13.01	20.00
	2212	Digital Switching	8.25	10.00	9.00	5.47	7.80	11.00	10.59	10.00
3,4	2230	Circuit. Equip.	10.25	8.33	10.00	5.02	14.80	9.80	10.59	10.00
5	2351	Public Tel. Equip.	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	2423	Buried Cable	5.25	4.17	5.65	5.10	6.40	12.00	4.31	5.65
1		Composite Rate	7.41	6.71	7.56	5.41	9.40	10.96	7.20	7.75

Notes:
1. Based upon Midvale test year plant balances.
2. Column F, G and H, used 2123.20 - Communications Equipment.
3. Column F, used 2232.40 - Circuit Equipment.
4. Column H, used Circuit Equipment - Digital.
5. Account 2351 is fully depreciated.

MIDVALE PHONE
DEPRECIATION EXPENSE COMPARISON

Midvale Account	Comparative Account	Description	12/31/99 Plant In Service	SWT Current Rate	SWT Current Expense	Qwest 1991 Rate	Qwest 1991 Expense	Qwest 5/2000 Rate	Qwest 5/2000 Expense	Citizens Rural Rate	Citizens Rural Expense
2111.54	2111.XX	Land	20,207	0.0000	0	0.0000	0	0.0000	0	0.0000	0
2112.XX	2112.XX	Vehicles	54,545	0.0855	4,664	0.1050	5,727	0.0490	2,673	0.2120	11,564
2116.XX	2116.XX	Work Equipment	21,980	0.0855	1,879	0.0590	1,297	0.1590	3,495	0.0178	391
2111.XX	2121.XX	Buildings	14,347	0.0245	352	0.0340	488	0.0300	430	0.0388	557
2122.XX	2122.XX	Furniture	500	0.0510	26	0.0760	38	0.2010	101	0.0422	21
2123.XX	2123.XX	Communication Equip	0	0.0857	0	0.1120	0	0.0610	0	0.0193	0
2124.XX	2124.XX	Gen Purpose Comp.	8,943	0.1301	1,163	0.1740	1,556	0.0940	841	0.2460	2,200
2212.XX	2212.XX	Digital COE	497,160	0.1059	52,649	0.0780	38,778	0.1100	54,688	0.0547	27,195
2230.XX	2232.XX	Ckt Equip - Toll	870,783	0.1059	92,216	0.0880	76,629	0.0980	85,337	0.0502	43,713
2351.XX	2351.XX	Public Telephone Equip	5,619	0.0000	0	0.0000	0	0.0000	0	0.0000	0
2423.XX	2423.XX	Buried Cable - Metallic	1,566,579	0.0431	67,520	0.0520	81,462	0.1200	187,989	0.0510	79,896
		Composite	3,060,663	**0.0720**	220,468	**0.0673**	205,975	**0.1096**	335,553	**0.0541**	165,536

MIDVALE TELEPHONE
DEPRECIATION EXPENSE COMPARISON

Midvale Account	Comparative Account	Description	Citizens White Mtn Rate	Citizens White Mtn Expense	Arizona Telephone Rate	Arizona Telephone Expense	Midvale Telephone Rate	Midvale Telephone Expense	Table Top 8/2000 Rate	Table Top 8/2000 Expense	Staff Proposed Rate	Staff Proposed Expense
2111.54	2111.XX	Land	0.0000	0	0.0000	0	0.0000	0	0.0000	0	0.0000	0
2112.XX	2112.XX	Vehicles	0.2550	13,909	0.1800	9,818	0.2000	10,909	0.1400	7,636	0.1400	7,636
2116.XX	2116.XX	Work Equipment	0.1370	3,011	0.1000	2,198	0.2000	4,396	0.0590	1,297	0.1000	2,198
2111.XX	2121.XX	Buildings	0.0670	961	0.0260	373	0.0333	478	0.0250	359	0.0250	359
2122.XX	2122.XX	Furniture	0.1150	58	0.0475	24	0.1429	71	0.0930	47	0.0930	47
2123.XX	2123.XX	Communication Equip	0.0670	0	0.1429	0	0.2000	0	0.1120	0	0.1120	0
2124.XX	2124.XX	Gen Purpose Comp.	0.2210	1,976	0.2000	1,789	0.2000	1,789	0.2000	1,789	0.2000	1,789
2212.XX	2212.XX	Digital COE	0.0780	38,778	0.0825	41,016	0.1000	49,716	0.0900	44,744	0.1000	49,716
2230.XX	2232.XX	Ckt Equip - Toll	0.1480	128,876	0.1025	89,255	0.0833	72,536	0.1000	87,078	0.1000	87,078
2351.XX	2351.XX	Public Telephone Equip	0.0000	0	0.0000	0	0.0000	0	0.0000	0	0.0000	0
2423.XX	2423.XX	Buried Cable - Metallic	0.0640	100,261	0.0525	82,245	0.0417	65,326	0.0565	88,512	0.0565	88,512
		Composite	**0.0940**	287,831	**0.0741**	226,718	**0.0671**	205,221	**0.0756**	231,461	**0.0775**	237,334

BEFORE THE ARIZONA CORPORATION COMMISSION

WILLIAM A. MUNDELL
Chairman
JIM IRVIN
Commissioner
MARC SPITZER
Commissioner

IN THE MATTER OF THE APPLICATION OF MIDVALE TELEPHONE EXCHANGE FOR A HEARING TO DETERMINE THE EARNINGS OF THE COMPANY, THE FAIR MARKET VALUE OF THE COMPANY FOR RATE MAKING PURPOSES, TO FIX A JUST AND REASONABLE RATE OF RETURN THEREON, TO APPROVE RATE SCHEDULES DESIGNED TO DEVELOP SUCH A RETURN AND TO CONSIDER THE REQUEST TO EXTEND THE COMPANY'S CERTIFICATE OF CONVENIENCE AND NECESSITY TO INCLUDE NEW SERVICE AREAS	)	DOCKET NO. T-02532A-00-0512

SURREBUTTAL

TESTIMONY

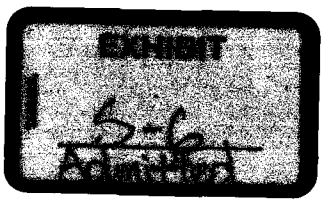
OF

DARRON W. CARLSON

SENIOR RATE ANALYST

UTILITIES DIVISION

MAY 3, 2001



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OF
STAFF WITNESS
DARRON W. CARLSON
REGARDING
MIDVALE TELEPHONE EXCHANGE
DOCKET NO. T-02532A-00-0512

The surrebuttal testimony of Staff witness, Darron W. Carlson, addresses the following issues in the rebuttal testimonies of the Company's witnesses:

- Miscellaneous Interest Expense
- Staff's application of the known and measurable standard and
- Rate Case Expense.

Miscellaneous Interest Expense – Staff recommends excluding all interest expense from operating expenses because interest expense is a non-operating (below-the-line) expense. Pro forma interest expense relating to projected debt for funds to be used in the unserved areas is not known and measurable and should not be included in the calculation of the revenue requirement. Staff witness, Mr. Joel Reiker, is providing testimony regarding the effects of interest expense on the cost of capital.

Known and Measurable Standard – For purposes of determining the Company's revenue requirement in the rate case, pro forma adjustments should be limited to known and measurable changes to the historical test year amounts for revenues, expenses, and rate base. On the contrary, by necessity, rates for areas covered by a new Certificate of Convenience and Necessity ("CC&N") must be established based on projected information since no historical information exists.

Rate Case Expense – The Company has not refuted Staff's position that a major portion of the costs included in Company's claimed rate case expense are costs related to the CC&N extension that should be capitalized. The Company's proposed rate case expense is much greater than the amount the Commission typically recognizes for recovery in similar cases. Staff recommends that the Commission allow a more typical amount ($60,000 to be amortized over three years at $20,000 per year).

Staff continues to recommend the same intrastate operating revenue as reflected in Staff's direct testimony and schedules.

INTRODUCTION

Q. Please state your name and business address.

A. My name is Darron W. Carlson. My business address is 1200 West Washington, Phoenix, Arizona 85007.

Q. Are you the same Darron W. Carlson who previously filed direct testimony in this case?

A. Yes, I am. I filed my direct testimony on March 15, 2001.

Q. What is the purpose of your surrebuttal testimony?

A. The purpose of my surrebuttal testimony is to provide a portion of Staff's response to the rebuttal testimony filed by Midvale Telephone Exchange ("Midvale" or "Company") witnesses, Dr. Don C. Reading and Mr. Lane Williams, on April 12, 2001. The Company's rebuttal testimony is in response to Staff's direct testimony filed on March 15, 2001. I am only addressing the issues that pertain to my direct testimony. Staff witnesses, Mr. Allen G. Buckalew and Mr. Joel Reiker, are addressing rebuttal comments pertaining to issues in their direct testimonies.

Q. How is your surrebuttal testimony organized?

A. My surrebuttal testimony follows the same sequence as that of the Company's rebuttal testimony. My surrebuttal testimony begins by addressing the issues of miscellaneous interest expense and the "known and measurable" standard raised by Company witness, Dr. Don C. Reading. My surrebuttal testimony then addresses the issue of rate case expense raised by Company witness, Mr. Lane Williams.

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Q. Is Staff accepting the Company's position on any issues not addressed in surrebuttal testimony?

A. No. Staff's lack of response to any issue in this surrebuttal testimony should not be construed as agreement with the Company's rebuttal testimony, rather, where there is no response, Staff relies on its original direct testimony.

MISCELLANEOUS INTEREST EXPENSE

Q. Have you reviewed the Company's rebuttal testimony regarding the miscellaneous interest expense?

A. Yes, I have.

Q. What is the Company's position?

A. The Company's position is that the calculation of the weighted average cost of capital and the capital structure should be consistent with Staff's disallowance of interest expense as an operating expense.

Q. What else did you find in your review?

A. The Company claims that recalculating the weighted cost of capital to reflect the disallowance of Test Year and pro forma interest expense increases the weighted cost of capital from 11.2 percent to 11.3 percent.

Q. Do you agree with the Company's conclusion?

R. No. As explained in the surrebuttal testimony of Staff witness, Mr. Joel Reiker, Staff's calculation of the weighted average cost of capital correctly reflects existing loans and interest expense and excluded pro forma amounts related to the unserved areas.

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KNOWN AND MEASURABLE STANDARD

Q. Please respond to the rebuttal testimony of the Company's witness, Dr. Don C. Reading (Page 8, Line 10), that you and Mr. Buckalew have inconsistently applied the known and measurable standard for recognizing items for ratemaking purposes.

A. Mr. Buckalew and I have treated the known and measurable standard in a manner that is appropriate to the different circumstances. I have applied the known and measurable standard to the existing service area. Mr. Buckalew's testimony pertains to a new unserved service area where there are no known and measurable revenues, expenses, or rate base. By necessity, revenues and costs for the new service area must be projected. Mr. Buckalew's treatment is consistent with the Arizona Corporation Commission's ("Commission") normal recognition of estimates as the basis for establishing initial rates for a utility.

Q. Then the recommendations of Mr. Buckalew and you are the same as they would have been had the Company filed the rate case and request for an extension of its Certificate of Convenience and Necessity ("CC&N") separately, is that correct?

A. Yes. For purposes of the rate case, I have applied the known and measurable standard for recognizing revenue, expenses, and rate base components in the same manner as if the rate case had been filed separately from the CC&N application. Mr. Buckalew recognized projected costs in his analysis of the new service area in the same manner that CC&N applications are normally evaluated. Had the Company not filed a combined rate case and CC&N application the apparent confusion regarding consistency in the application of the known and measurable standard would have been avoided.

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Q. Why did the Company file a combined three-part permanent rate, Extended Area Service ("EAS") and CC&N extension case?

A. The Commission's rules require that any EAS consideration must be done under the auspices of a rate case filing. Therefore, the Company was required to file its EAS request as part of this rate case.

However, the rules are not the same for CC&N extensions. Staff asked the Company to separate the CC&N extension from the rest of the rate case to simplify both filings. The Company refused to separate or allow bifurcation of any of the components of this case.

Q. Why would the Company refuse to remove the CC&N extension from the rest of the rate case filing?

A. The Commission's current rules only allow consideration for Arizona Universal Service Funds ("AUSF") under the auspices of a rate case filing. The Company believes that AUSF funding is necessary prior to serving customers to make the CC&N extension viable. However, these same current rules also indicate that a utility must provide embedded costs for the potential support area and since there are no embedded costs in the unserved areas, Staff believes the rules do not allow any AUSF funding for the new unserved areas.

In conclusion, Staff has properly applied the known and measurable standard in each of the different aspects of this filing.

RATE CASE EXPENSE

Q. Have you reviewed the Company's rebuttal testimony regarding the rate case expense?

A. Yes, I have.

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Q. What did you find in your review?

A. The Company objects to Staff's reductions out of hand because the Company has estimated that it will expend in excess of $150,000 on this entire proceeding. In Staff's direct testimony, Staff noted that $41,610 of the rate case expense was for engineering costs directly related to the CC&N extension – not the rate case. Staff recommended that this amount be capitalized in the plant costs for the new unserved areas, if and when, any funds are expended for plant. Additionally, a large portion of the remaining $108,390 is also attributable to the CC&N extension. The Company has not refuted Staff classification of these costs.

The typical level for rate case expense approved by this Commission for small telephone utility rate cases has been in the $60,000 range and amortized over three years. Staff believes that this amount fairly represents the Company's approximate costs, excluding all the costs attributable to the CC&N extension, that will be expended in the rate case portion of this proceeding.

The Company also complained that this proceeding was far more expensive than it anticipated and complained that Staff caused a great deal of the excess expenditure. Staff cooperated with the Company's efforts to reduce rate case expense, including sending a Staff auditor to the Company's office in Idaho for a week.

The Company also complained that the largest cost was suffered from responding to Staff's discovery requests. The Company states that it responded to more than 115 questions. The number of data requests by Staff is typical and does not justify the amount of rate case expense proposed by the Company.

Q. Does this conclude your surrebuttal testimony?

A. Yes, it does.

BEFORE THE ARIZONA CORPORATION COMMISSION

WILLIAM A. MUNDELL
Chairman
JIM IRVIN
Commissioner
MARC SPITZER
Commissioner

IN THE MATTER OF THE APPLICATION OF MIDVALE TELEPHONE EXCHANGE, INC., FOR AUTHORITY TO INCREASE RATES AND FOR DISBURSEMENTS FROM THE ARIZONA USF	)	DOCKET NO. T-02532A-00-0512

SURREBUTTAL

TESTIMONY

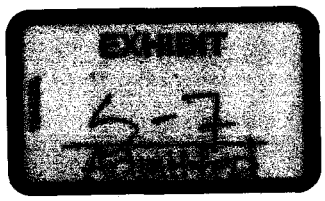
OF

JOEL M. REIKER

SENIOR RATE ANALYST

UTILITIES DIVISION

MAY 3, 2001



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OF
STAFF WITNESS
JOEL M. REIKER
REGARDING
MIDVALE TELEPHONE EXCHANGE, INC.
DOCKET NO. T-02532A-00-0512 ET AL

The surrebuttal testimony of Staff witness, Joel M. Reiker, addresses the following issues in the rebuttal testimony of the Company's witness, Don C. Reading, Ph.D:

Miscellaneous Interest Expense – Staff rejects the Company's claim that an adjustment needs to be made to the capital structure if interest expense is excluded from operating expenses. The capital structure recommended by Staff already includes the appropriate amount of debt and interest expense.

Comparable Earnings Analysis – The comparable earnings analysis was not used to derive Staff's recommended cost of equity because the analysis produced results that were unreasonable, and a significant portion of the revenues of the comparable companies comes from competitive operations.

Capital Asset Pricing Model ("CAPM") – The beta reported by Value Line for the comparable companies reflects the entirety of their operations, which includes unregulated competitive sectors currently in the growth stage of the business life cycle. Accordingly, Staff has adjusted the beta used in its CAPM calculation to more accurately reflect the risks associated with regulated operations.

Discounted Cash Flow ("DCF") Method – The basis of Staff's recommended 11.50 percent cost of equity recommendation is the DCF earnings growth result of 11.80 percent. The 11.80 percent was adjusted downward to account for the Company's equity-rich capital structure and the business make-up of the comparable companies.

Risk Adjustment – The Company's capital structure, cost of debt, and concentration in the local telephone industry contributes to a lower cost of equity than the comparable companies.

Unregulated Services – The rate of return set by the Commission should reflect the risk associated with the Company's regulated local telephone operations, not its unregulated subsidiaries.

Interpretation of Analyses – Staff's analyses and the analyses of the Company's witness both support Staff's recommended cost of equity of 11.50 percent.

Staff continues to recommend the same cost of capital as reflected in Staff's direct testimony and schedules.

1 **INTRODUCTION**

2 Q. Please state your name and business address.

3 A. My name is Joel M. Reiker. My business address is 1200 West Washington,
4 Phoenix, Arizona 85007.

5

6 Q. Are you the same Joel M. Reiker who previously filed direct testimony in this
7 proceeding?

8 A. Yes.

9

10 Q. Are there any changes or corrections to your Direct Testimony that you wish to
11 make at this time?

12 A. No.

13

14 Q. Have you reviewed the rebuttal testimony of the Company's witness, Don C.
15 Reading, Ph.D., concerning your direct testimony?

16 A. Yes, I have.

17

18 Q. What is the purpose of your surrebuttal testimony?

19 A. I am responding to criticisms of my direct testimony contained in the rebuttal
20 testimony of Dr. Reading. I will also address the issue of miscellaneous interest
21 expense.

22

23 **Miscellaneous Interest Expense**

24 Q. What is the Company's rebuttal position regarding the treatment of interest
25 expense?

26 A. According to Dr. Reading's rebuttal testimony (Page 6, Lines 12 through 20), the
27 Company will accept the adjustment made by Staff witness, Mr. Darron Carlson, to
28 exclude interest expense from operating expenses providing that a corresponding

adjustment is made to the capital structure. The Company claims that a corresponding change to the capital structure would result in an increase in the weighted cost of capital from 11.2 percent to 11.3 percent.

Q. Does a change in interest expense change the capital structure?

A. No. The capital structure is composed of equity and debt obligations, not interest expense.

Q. Did Dr. Reading provide supporting calculations to show how he derived an increase in the proposed cost of capital?

A. No.

Q. What would cause the cost of capital to increase as suggested by Dr. Reading?

A. Including additional interest expense without recognizing the corresponding debt would cause a calculation of the cost of capital to increase.

Q. Is it appropriate to recognize interest expense without recognizing the corresponding debt in a cost of capital calculation?

A. No. Recognizing interest expense without also recognizing the corresponding debt creates a mismatch that results in an incorrect calculation of the cost of capital.

Q. What amounts of interest should be included in the calculation of the cost of capital?

A. As shown in the Company's response to Staff data request JMR-6-105, the Company's total proposed interest expense for the year ending December 31, 1999, was $25,107. The $25,107 pertains to the existing loans and is known and measurable. Therefore, only interest expense of $25,107 should be included in the cost of capital calculation.

Q. What amount of debt obligations should be included in the calculation of the cost of capital?

A. As discussed previously in this testimony, the amount of debt included in the calculation should be consistent with the amount of interest recognized. Thus, only the existing debt should be included in the cost of capital calculation.

Q. What amounts of interest and debt are included in your recommended cost of capital?

A. According to the Company's application, the stated interest rates on the Company's RUS and RTFC loans are 5.00 percent and 6.10 percent, respectively. Using these interest rates, I calculated the Company's weighted-average cost of debt of 5.47 percent. The effective cost of debt, calculated by dividing test year interest expense by the principal amount outstanding ($25,107 ÷ $469,217), was 5.40 percent. My recommended cost of debt correctly includes only the $25,107 in interest expense related to existing loans. Therefore, the cost of capital as stated in my direct testimony is correct.

Comparable Earnings Analysis

Q. Please summarize Dr. Reading's rebuttal to your comparable earnings analysis.

A. By using selective quotations from my direct testimony, Dr. Reading implies that I disregarded the results of the comparable earnings analysis because the results are skewed by U S WEST's reported return on equity ("ROE") of 199.7 percent and 130.8 percent in 1998 and 1999, respectively. Dr. Reading further states that my comparable earnings analysis would still have produced results in excess of the 13 percent requested by Midvale had U S. WEST been eliminated from the analysis.

Q. Does Dr. Reading's rebuttal accurately reflect your reasons for not relying upon your comparable earnings analysis?

A. No. I have disregarded the results of my comparable earnings analysis because I believe they are unreasonably high for use in determining the cost of equity for regulated telephone operations, not because the results are skewed by U S WEST's reported ROE.

Q. Is Dr. Reading's assertion correct that your comparable earnings analysis would have produced results in excess of 13 percent even if U S WEST had been eliminated from the analysis?

A. Yes, however, he failed to recognize that a significant portion of the revenues of the comparable companies came from competitive operations. It is a dubious assumption that the 20 to 30 percent equity returns reported in Value Line for the comparable companies are entirely attributable to regulated local telephone operations. Historically, regulated utilities have not shown the ability to sustain long-term 20 to 30 percent equity returns.

Capital Asset Pricing Model ("CAPM")

Q. Is Dr. Reading's statement that you have simply disregarded the objective results of your comparable earnings and CAPM analyses, and substituted your own judgement correct?

A. No. I have disregarded the results of my comparable earnings analysis for the appropriate reasons stated above. All of the sample companies used in my analysis are involved to some degree in data, Internet, and wireless operations. These sectors are currently in the growth stage of their life cycle. High earnings and increased risk are a characteristic of an industry in the growth stage. To the contrary, regulated local telephone service is a mature industry. Earnings and risk in mature industries are normally less than those for growth industries. Because the sample companies report financial information on a consolidated basis, Value Line's beta reflects the entirety of their operations, not just their regulated local

telephone operations. To account for the reduced risk of regulated local telephone companies, I have adjusted the beta used in my CAPM analysis.

Q. How have you adjusted the beta used in your CAPM study to account for this risk differential?

A. Rather than simply adjusting the beta downward to account for decreased risk, I employed a beta that is representative of regulated operations. Of all the industries followed by Value Line, the water utility industry most closely fits this profile. As of November 3, 2000, Value Line's beta for water utility companies ranged from .45 to .60, with an average of .55. I used a beta of .60, which is at the upper limit of that range. Value Line has since revised its beta estimate for the water utility companies it tracks. Value Line's revised beta estimates now range from .55 to .65, with an average of .61. Thus, my beta of .60 closely represents the midpoint for regulated utilities.

Discounted Cash Flow Method ("DCF")

Q. Have you simply disregarded the results of your Discounted Cash Flow ("DCF") analysis and relied on your own judgment, as Dr. Reading claims?

A. No. The basis of my 11.50 percent cost of equity recommendation is the DCF result of 11.80 percent based on earnings growth. The 11.80 percent result was adjusted downward to account for Midvale's equity-rich capital structure and the business make-up of the sample companies.

Q. Dr. Reading characterizes your recommended ROE as an adjustment downward from the results of your DCF analyses using sustainable earnings on average and spot stock prices. Is his characterization accurate?

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. . .

A. No. My recommended ROE of 11.50 percent is no more a downward adjustment from the results of my sustainable earnings analyses than it is an upward adjustment from the 4.6 percent results of my dividend growth analyses.

The results of my DCF analysis using sustainable earnings with the average and spot stock price were both 16.5 percent. As Dr. Reading acknowledged, these results are unreasonably high due to U S WEST's reported ROE of 199.7 percent and 130.8 percent in 1998 and 1999, respectively. However, even if U S WEST were removed from the study, these results would be unreasonable expectations for sustainable earnings. Because sustainable earnings growth is the product of the retention ratio and ROE (sustainable growth = retention ratio x ROE), a ROE that is not truly reflective of regulated local telephone operations is problematic in its determination. Therefore, I would dismiss these results for the same reasons I have dismissed the results of my comparable earnings analysis.

The results of my DCF analysis using dividend growth with the average and spot stock price were both 4.6 percent. As I stated in my direct testimony, this is well below the Company's cost of debt, as well as the current prime rate. I ignored these results when estimating Midvale's cost of equity because large diversified telecommunications companies, like the ones used in my sample, have been foregoing dividend increases consistent with rises in earnings in order to invest in high-growth competitive operations.

Risk Adjustment

Q. Please respond to Dr. Reading's assertions that Midvale should receive a higher return on equity than the comparable companies, and that companies like BellSouth are less risky than Midvale.

. . .

A. Midvale's capital structure, cost of debt, and concentration in the local telephone industry contribute to a lower cost of equity than the comparable companies.

Q. How is Midvale's relative cost of equity affected by its capital structure?

A. Midvale's rate making capital structure for this proceeding is over 75 percent equity. The average capital structure of the sample companies used in my analysis is only 51 percent equity. A difference of this magnitude warrants an adjustment for financial risk.

Q. How does the amount of equity in a company's capital structure affect financial risk?

A. Financial risk is the risk to shareholders resulting from the use of debt. As I stated in my direct testimony, equity financing is generally more expensive than debt financing. Therefore, a firm that carries a large amount of equity in its capital structure will have a higher overall cost of capital, but lower financial risk. Increasing the amount of debt in the capital structure increases financial risk. In turn, equity investors will demand a higher rate of return on their investment to account for the increased financial risk.

As I mentioned above, Midvale's ratemaking capital structure in this proceeding consists of over 75 percent equity. The capital structures of each of the comparable companies used in my analysis contain substantially less equity and more debt than that used by Midvale in this proceeding, thus exhibiting greater financial risk. Greater financial risk for the comparable companies versus Midvale places an upward influence on equity investors' earnings expectations for those companies.

. . .

. . .

. . .

Q. Have you examined Midvale's cost of debt compared to the comparable companies used in your analysis?

A. Yes. Midvale's cost of debt in this proceeding is 5.47 percent, compared to a debt cost of approximately 7 percent for the companies in my analysis. In his direct testimony, Dr. Reading claims that:

> Small, closely held firms like Midvale must obtain the equity portion of new investment solely from profits, and the debt portion from loans that may carry above-average interest rates.

Midvale isn't borrowing at above-average interest rates. In fact, I have analyzed several financing applications of small, closely held utilities like Midvale, and found their cost of debt is generally below average. Midvale's low cost of debt reduces its financial risk and cost of equity.

Q. How is Midvale's relative cost of equity affected by operating characteristics?

A. As Dr. Reading has acknowledged, a significant portion of the comparable companies' earnings are derived from unregulated, competitive operations. Dr. Reading cites BellSouth as having revenues of $26,200,000. However, only $11,200,000 of BellSouth's revenues are from local service. The remaining revenues come from unregulated, competitive operations that are more risky than regulated local telephone operations. BellSouth for example, has interests in wireless operations in 10 Latin American countries; this type of operation surely bares greater risk than Midvale's regulated local telephone service.

The larger comparable companies are also experiencing competition in local telephone service lines. For example, Qwest is currently facing limited competition in some parts of the Phoenix metropolitan area. Cox Communications is currently offering basic local service in several residential areas in direct competition with Qwest. In downtown Phoenix and Tucson, there are several telecommunications

services providers who are seeking to provide service to business customers. Midvale experiences none of this competition. Thus, Dr. Reading's claim that Midvale not only has its own unique problems but also experiences the same problems as larger carriers is inaccurate. Midvale benefits significantly from the absence of existing direct competition.

Unregulated Services

Q. Dr. Reading has implied that Midvale's risk is similar to the comparable companies in your analysis because Midvale is attempting to develop unregulated, competitive subsidiaries, just as the comparable companies have established. Are the risks related to unregulated, competitive services directly relevant to the determination of Midvale's cost of capital?

A. No. The purpose of this proceeding is to set rates for Midvale's regulated local telephone operations. The rate of return set by the Commission should reflect the risk associated with Midvale's regulated local telephone operations, not its unregulated services or subsidiaries. The risks and costs of unregulated activities should not be reflected in regulated rates.

Interpretation of Analyses

Q. Do you agree with Dr. Reading's assertion that your own studies confirm that a 13.00 percent ROE is reasonable for Midvale?

A. No. After eliminating my comparable earnings results, which ranged from 20 to 30 percent, the average of all of my historical DCF and unadjusted CAPM analyses is exactly 11.80 percent. In fact, Dr. Reading's studies suggest a cost of equity very close to what I have recommended. In his direct testimony, Dr. Reading recommends that the Commission concentrate on the mid-range of his estimates; 10.9 percent to 12.25 percent for the DCF method, 11.0 percent to 12.25 percent for his risk premium calculation, and 12.0 to 14.0 percent for the comparable earnings approach. As I stated in my direct testimony, I believe Dr. Reading's comparable

earnings analysis is flawed and results in excessive cost of equity results for Midvale because it relies solely on unregulated industrial and manufacturing firms. The mid-range of his DCF and risk premium approaches is 11.58 percent and 11.63 percent, respectively.

The Company's request for a 13.00 percent cost of equity is excessive. This Commission has consistently accepted the results of the DCF methodology as used by Staff. As my own DCF analysis and the DCF analysis of the Company's witness show an 11.50 percent cost of equity is fair and reasonable for Midvale.

Q. Does this conclude your testimony?

A. Yes, it does.

BEFORE THE
ARIZONA CORPORATION COMMISSION

In the Matter of the Midvale Telephone Exchange, Inc.'s Application for Authority To Increase Rates and for Disbursements from the Arizona USF.	)))))	DOCKET NO. T-02532A-00-0512

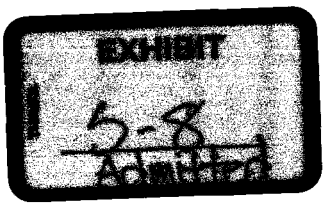
SURREBUTTAL TESTIMONY OF

ALLEN G. BUCKALEW

ON BEHALF OF

THE ARIZONA CORPORATION COMMISSION

MAY 3, 2001



Executive Summary
of the Surrebuttal Testimony
of Allen G. Buckalew

Under the current Commission's rules, drawing from the AUSF is not allowed without plant in service and a cost study for the support area. I have suggested that the Company seek Federal high cost support to bring service to Millsite and Silver Bell. I have proposed an initial exchange rate of $24.00 per month for customers in these unserved areas. This rate was developed based on Midvale's current revenue experience and its estimated cost of serving these new customers.

My analysis has assumed that the Company received less support per line from the Federal USF than it currently does. In calculating my hypothetical initial rate of $24.00 per month for the 278 expected customers, I included an annual support in the amount of $71,651. This amount, which represents one-half the current level of Interstate USF revenue, more than likely understates future revenues.

1 **Q. ARE YOU THE SAME ALLEN G. BUCKALEW THAT FILED DIRECT**
2 **TESTIMONY IN THIS PROCEEDING?**
3 A. Yes.
4
5 **Q. WHAT IS THE PURPOSE OF THIS TESTIMONY?**
6 A. This testimony corrects the interpretation made by the Company of my analysis
7 filed in this case about Midvale's intentions to provide service to the unserved
8 areas of Millsite and Silver Bell. In addition, there a couple of areas related to
9 Midvale's certificate of convenience and necessity expansion that need some
10 further clarification.
11
12 **Q. WHAT NEEDS TO BE CLARIFIED ON MIDVALE'S REQUEST FOR**
13 **EXPANSION OF ITS CERTIFICATE?**
14 A. In its testimony Staff recommends that Midvale's certificate of convenience and
15 necessity to include the unserved areas of Millsite and Silver Bell be approved.
16 Since then it has been brought to my attention that the Company's request for
17 service in Section 33 (see Sheet 2 of 2 of the Company's application of the
18 proposed Henderson Valley Service Boundaries) is already included in Qwest's
19 service area. Therefore, it should be removed from the Company's request. I
20 would also like to point out that Qwest exchanges surround, or are near, many of
21 the areas requested by Midvale. For example, the Rio Verde area, an area that

Midvale is requesting to serve, is surrounded on three sides by Qwest service areas. Therefore, although Staff is recommending approval, we would like to alert the Commission to some potential future problems. For example, once Midvale serves the Rio Verde area, customers will have a different area code and local calling area than the surrounding customers. In effect, Rio Verde is a hole (no service area) in Qwest's service area that Staff agrees must be served. However, the Commission may want to consider further analysis of areas like Rio Verde to determine whether Midvale or Qwest is the best provider of service. Midvale does not propose including Rio Verde in the Phoenix calling area, therefore, not only will neighbors have different area codes, but toll calls will also be necessary to call across the street. The Staff expects that as soon as Midvale provides service, it will, and should, request some form of EAS for these customers with appropriate supporting cost and demand data.

Q. COULD YOU BRIEFLY RESTATE YOUR ANALYSIS OF THE UNSERVED AREAS?

A. Yes. My analysis starts from the fact that the Commission's rules do not allow drawing from AUSF without actual plant in service and a cost study for the support area. Therefore, other alternatives need to be examined. For example, I suggested that the Company seek Federal high cost support to bring service to

these unserved areas (Direct Testimony, page 14, lines 9-17). I also constructed a hypothetical cost and revenue analysis using the Company's own analysis. The purpose of that analysis was to provide the Company with an initial local exchange rate that Staff would support to initiate service.

In that analysis I assumed that the Company received less support from the Federal USF than it currently receives for its existing customers. I used 50% of the existing level of Federal USF support revenues and assumed that toll and access revenues would be similar to the Company's existing customers' revenues. My analysis suggested a local exchange rate of $24 per month for Millsite and Silver Bell. This rate exceeded what I had determined as the average residential local exchange rate for existing customers, but reflected the higher cost of servicing these new customers.

Q. HOW DID MIDVALE INTERPRETE YOUR ANALYSIS?

A. The main concern of Midvale's Witness, Dr. Reading, is based on his claim that I included $164,437 as Federal support for Millsite and Silver Bell. I did not include $164,437 as Federal USF support for Millsite and Silver Bell. I did use $164,437, which is one-half of the existing level of support for existing customers, to calculate an average non-local exchange revenue for existing customers. The average non-local exchange revenue for existing customers was used to estimate

non-local exchange revenue for new customers in the unserved areas and to develop a local exchange rate of $24 per month per customer in the unserved areas.

Q. HOW DID YOU CALCULATE A RESIDENTIAL RATE OF $24.00 FOR THE UNSERVED AREAS?

As I was quoted in Mr. Reading's rebuttal testimony, I assumed that "if the Millsite and Silver Bell customers have about the same toll, other service usage, access charges and Federal Revenues as Midvale's existing exchanges, the local exchange rate would have to be about $24 per month in order to cover all expenses for providing services to these areas" (Reading Rebuttal Testimony, page 7, lines 20-26).

In my estimated residential rate of $24 for Millsite and Silver Bell, I used the Company's existing level of revenues from services other than local exchange to estimate the level that is likely to exist in Millsite and Silver Bell once plant is built. As shown in Exhibit AGB-1 in footnote no. 2, I used the Company's existing Network Access Service Revenue of $206,624, plus one-half the Interstate USF Revenue of $328,874, which is $164,437, plus Directory Revenue of $1,759, plus Miscellaneous Revenue of $22,081, plus Uncollectible Revenue of ($1,279). This results in Total Revenue (without exchange revenues) of $393,622. I then divided that total revenue by the number of existing lines, 638, to get an average

1 non-exchange revenue per line of $617 per year for existing customers. I used the
2 $617 per year per line to determine the total other revenue (excluding local
3 exchange service) for the unserved areas. In other words, I assumed the same
4 revenue patterns of Midvale's 638 current customers, however, I included only
5 50% of the current Federal USF revenue.

6 The average revenue from Interstate USF assuming 50% of the existing level is:
7 $164,437 divided by the number of existing customers of 638, or $257.74 per
8 customer. I used this level to estimate Interstate USF for the unserved areas. That
9 is, 278 expected customers in the unserved areas times $257.74 for a total of
10 $71,651. The annual USF support I included for Millsite and Silver Bell was only
11 $71,651.

12 Once these other revenues were estimated as described above, they were
13 subtracted from the costs and the difference was used to estimate the local
14 exchange rate of $24 per month in the unserved areas. Of course, this estimate is
15 hypothetical because the plant has not been built and costs have not been incurred.
16 My thought here was to provide Midvale with an initial rate.

17 **Q. THE COMPANY'S CLAIM THAT YOU ASSUMED $164,437 OF**
18 **FEDERAL SUPPORT IS WRONG, CORRECT?**

19 A. Yes. Dr. Reading states in his rebuttal that my estimated Federal USF amount is

1 $164,437, and that Midvale would lose more than $328,874 during the first 2 years
2 of providing service. This is simply wrong. First, Dr. Reading assumed no
3 support for two years. Midvale can seek a waiver of the FCC rules as it has done
4 in the past. The FCC's primary directive is universal service. Second, if Midvale
5 received no Interstate USF, then the two-year loss would be $143,302 (or two
6 times $71,651), not $328,874. Remember that I assumed only one-half the
7 existing level of support per customer. Assuming half the current level of Federal
8 USF for these high cost unserved areas is extremely conservative.

9 **Q. COULD YOU SUMMARIZE YOUR REBUTTAL TESTIMONY?**

10 A. Under the current Commission's rules, drawing from the AUSF is not allowed
11 without plant in service and a cost study. I have proposed an initial exchange rate
12 of $24.00 per month for customers in Millsite and Silver Bell. This rate was
13 developed based on Midvale's current revenue experience and its estimated cost of
14 serving these new customers. The use of one-half the current level of Interstate
15 USF revenue more than likely understates future revenues.

16

17 **Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?**

18 A. Yes; it does.