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Arizona Corporation Commission
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RESIDENTS OF PRESCOTT VALLEY, TRACY AND TROY DENTON, ET. AL.,

Complainants,

vs.

QWEST CORPORATION,

Respondent.

Docket No. T-01051B-02-0535

QWEST CORPORATION'S NOTICE OF FILING STAFF'S REPORT RECOMMENDING APPROVAL OF MIDVALE TELEPHONE EXCHANGE INC.'S APPLICATION TO PROVIDE SERVICE TO CURRENTLY UNSERVED AREAS IN POQUITO VALLEY

Qwest Corporation ("Qwest") hereby submits the August 1, 2003 Arizona Corporation Commission Utilities Division Staff ("Staff") Report recommending approval of Midvale Telephone Exchange, Inc., Application for Authorization to Provide Facilities-Based, Basic Local Exchange Service and Toll Access Telephone Service to Currently Unserved Residential Developments Known as Crossroads Ranch, Poquito Valley and Breezy Pine in Docket No. T-02532A-0300017. In its Report, Staff recommends approval of Midvale's application to serve those areas, including Complainants' properties in T-15-N, R-1-W, Section 11.

RESPECTFULLY SUBMITTED this 11th day of August, 2003.

FENNEMORE CRAIG, P.C.

By Darcy Renfro

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MEMORANDUM

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TO: Docket Control

FROM: Ernest G. Johnson
Director
Utilities Division

DATE: August 1, 2003

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

Attached is the Staff Report for the Midvale Telephone Exchange, Inc. Application For Authorization To Provide Facilities-Based, Basic Local Exchange Service And Toll Access Telephone Service To Currently Unserved Residential Developments Known As Crossroads Ranch, Poquito Valley And Breezy Pine. Staff recommends that the Application be approved.

EGJ:RLB:WMS:rdp

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

Attachment: Original and thirteen copies

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

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STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION

MIDVALE TELEPHONE EXCHANGE, INC.

DOCKET NO. T-02532A-03-0017

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

AUGUST 2003

STAFF ACKNOWLEDGMENT

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

Richard L. Boyles
Utilities Engineer

Wilfred Shand, Jr.
Public Utility Manager

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

In this Application, Midvale Telephone Exchange, Inc. ("Midvale") proposes to add two non-contiguous areas ("new service area") to the Millsite Exchange. The larger of the two areas (44 sections) is located to the northwest of Qwest's Prescott Exchange and west of Qwest's Chino Valley Exchange. A portion of this area is also adjacent to the Inscription Canyon Ranch service area of Table Top Telephone ("Table Top").

The smaller of the two areas (3 sections) is located adjacent to a portion of Qwest's Prescott Exchange near the northeast corner of the exchange. One of the sections in this area (T-15-N, R-1-W, Section 11) is the subject of a complaint proceeding to which Qwest is a Party. The outcome of that proceeding may impact the extent to which Section 11 could be added to Midvale's CC&N.

The Company plans on providing basic local exchange service to customers in the new service area utilizing a combination of: 1) copper distribution cable, 2) digital loop carrier ("DLCs") systems, 3) fiber optic cable and 4) digital microwave radio. The copper distribution plant will be capable of supporting broadband data services, such as DSL, should the company determine there is sufficient demand and it is economic to do so. The fiber optic cable and microwave systems will provide the transport from the DLCs back to their host switch located in the Millsite Exchange. This transport should be capable of supporting voice grade services and any data services the Company may offer. Thus, the new service area would be a non-contiguous addition to the Company's Millsite Exchange. The Millsite Exchange has sufficient number resources available to meet the requirements of the new service area.

Staff recommends that:

1. The new service area be added to Midvale's Millsite Exchange.
2. Approval of Midvale's CC&N extension be conditioned upon the Company filing an update to its franchise with Yavapai County which includes the extension area within 365 days of the effective date of the Decision.
3. Approval of Midvale's CC&N extension be conditioned upon the Company filing within 365 days of the effective date of a Decision regarding this matter a certification that it has obtained all of the required tower and right-of-way permits with the Director of the Commission's Utilities Division.
4. Midvale's Millsite exchange be added to the Prescott local calling area and two-way EAS established between Midvale and Qwest.
5. Midvale establish two-way EAS with Table Top's Inscription Canyon Ranch service area.
6. If an Order is issued in the Complaint Proceeding prior to the Commission reaching a decision regarding Midvale's CC&N extension, it be made part of the record in this matter.

7. If Midvale's CC&N extension is granted and includes T-15-N, R-1-W, Section 11, upon a discontinuation of Qwest service at a service address in the Section or upon a change in ownership of the property, any future service at the address be provided by Midvale.

TABLE OF CONTENTS

PAGE

INTRODUCTION 1

BACKGROUND 1

EXAMINATION OF EXTENDED AREA SERVICE 2

COMMUNITY OF INTEREST 2

NETWORK DESIGN 3

FRANCHISES AND PERMITS 4

LOCAL CALLING AREA 5

PROHIBITION ON NUMBER PORTABILITY BETWEEN ILEC RATE CENTERS 7

RELATED PROCEEDING (DOCKET NO. T-01051B-02-0535, ET. AL.) 7

STAFF RECOMMENDATIONS 8

CONCLUSION 8

ATTACHMENT

ATTACHMENT ..... A

Introduction

On January 10, 2003, Midvale Telephone Exchange, Inc. ("Midvale") filed an Application For Authorization To Provide Facilities-Based, Basic Local Exchange Service And Toll Access Telephone Service To Currently Unserved Residential Developments Known As Crossroads Ranch, Poquito Valley And Breezy Pine. In its Application, Midvale indicated that it has received petitions for service from the Crossroads Ranch Property Owner's Association and individual residents in the affected area. Midvale proposes to provide basic local exchange service, high speed data services, access to toll services, access to emergency services (911), and Lifeline and Link-Up services for low income customers.

On April 15, 2003, Midvale filed an Amended Application which contained information that was intended to eliminate deficiencies that were identified in Staff's Letter of Deficiency dated February 14, 2003. Midvale provided additional information related to such items as the area to be included in Midvale's service territory, financing, franchises, and estimated revenues and expenses. In its Amended Application, Midvale asserted that public interest considerations support the establishment of EAS between the unserved areas and the Prescott exchange. Midvale asks that the Commission approve the CC&N extension and require the provision of two-way EAS between Midvale's Millsite Exchange and Qwest's Prescott Exchange. Midvale also indicted that as a practical matter, if EAS is granted for the unserved areas, EAS would also have to be implemented for all of Midvale's existing Millsite Exchange Area. In response to Staff Data Request RLB 1.12, Midvale indicated that it has no objection to providing EAS with no change in its tariff rates. Therefore, customers would not be assessed additional charges for EAS calling privileges. However, Midvale indicated that implementation of EAS will ultimately result in it having to file a rate case.

Background

Midvale's Millsite exchange currently is comprised of two non-contiguous areas which are located to the south and the east of Qwest Corporation's ("Qwest") Prescott Exchange (the southern area comprises 3 sections; the eastern area 4). See map, attached hereto as Attachment A.

In this Application, Midvale proposes to add two non-contiguous areas[1] ("new service area") to the Millsite Exchange. The larger of the two areas (44 sections) is located to the northwest of Qwest's Prescott Exchange and west of Qwest's Chino Valley Exchange. A portion of this area is also adjacent to the Inscription Canyon Ranch service area of Table Top Telephone ("Table Top").

The smaller of the two areas (3 sections) is located adjacent to a portion of Qwest's Prescott Exchange near the northeast corner of the exchange. One of the sections in this area

[1] Included collectively are the residential subdivisions Crossroads I and II, Long Meadow, Poquito Valley and Antelope Meadows.

(T-15-N, R-1-W, Section 11) is the subject of a complaint proceeding[2] to which Qwest is a Party. The outcome of that proceeding may impact the extent to which Section 11 could be added to Midvale's CC&N.

Table Top's Inscription Canyon Ranch exchange customers do not currently pay toll charges to call into areas served by Qwest, but do pay toll charges for calls to areas served by Midvale Millsite Exchange. The Qwest areas include the Prescott Exchange, the Humboldt Exchange, the Chino Valley Exchange. Staff believes that if EAS is granted for Midvale's expansion of its Millsite Exchange, it will probably not be long before Table Top's customers request EAS into the Midvale exchanges.

Examination of Extended Area Service

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

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

Community of Interest

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

In its amended application, Midvale provided a map of the area containing the Millsite Exchange as Exhibit D. The map shows that the larger of the proposed CC&N extension areas, Crossroads Ranch, is approximately 14.5 miles northwest of Prescott at the

[2] *Residents of Prescott Valley, Tracy and Troy Denton, et. al., Complainants, vs. Qwest Corporation, Respondent,* Docket No. T-01051B-02-0535, et. al.

nearest boundary and approximately 23.5 miles northwest of Prescott at the farthest. This CC&N extension area is about 7 miles from Chino Valley and is contiguous to the Prescott Exchange and the Chino Valley Exchange (which has EAS calling into Prescott). The smaller of the proposed CC&N extension areas, Poquito Valley, is about 13.5 Miles to the northeast of Prescott and is contiguous to the Prescott exchange.

Staff has determined the following:

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

Based on the findings above, Staff recommends that the area be granted two-way EAS and included in the Prescott Local Calling Area.

Although Midvale has indicated that it would not seek to immediately change the rates for customers served in the area to be added to the Millsite Exchange, it did provide projected five-year operating statements assuming that EAS would be implemented and assuming that EAS would not be implemented. Midvale projects that it would "realize a positive contribution" in 2006 (the first full year operations), of $43,584, if EAS is not implemented versus a contribution of $15,142, if EAS is implemented. The annual difference in revenue is $28,442.

Network Design

The Company plans on providing basic local exchange service to customers in the new service area utilizing a combination of: 1) copper distribution cable, 2) digital loop carrier ("DLCs") systems, 3) fiber optic cable and 4) digital microwave radio. The copper distribution plant will be capable of supporting broadband data services, such as DSL, should the company determine there is sufficient demand and it is economic to do so. The fiber optic cable and microwave systems will provide the transport from the DLCs back to their host switch located in the Millsite Exchange. This transport should be capable of supporting voice grade services and any data services the Company may offer. Thus, the new service area would be a non-contiguous addition to the Company's Millsite Exchange. The Millsite Exchange has sufficient number resources available to meet the requirements of the new service area.

A fiber alternative to the digital microwave systems was evaluated by the Company but was determined to be more costly. The systems can be augmented to provide additional capacity should it become necessary; either to accommodate unanticipated growth or for new service offerings that might be made in the future.

Included with the Amended Application were a five-year (2004-2008) customer forecast and an estimate of the plant investment required to provide service to the new service area. The Company estimates that the required investment to serve the 239 forecasted customers (2008) will be approximately $1.9 million (roughly $8,000 per customer).

Staff has reviewed the proposed network design and believes that it is consistent with engineering practices currently utilized by local exchange carriers. Further Staff believes the estimated costs are within a range of reasonableness for the architecture being deployed.

Franchises and Permits

The Company includes a discussion of the permits that would be required prior to construction of plant in the new service area in its Amended Application[3]. Upon review of the Franchise issued by Yavapai County, it is Staff's belief that the franchise is not inclusive of two areas; the Henderson Valley area which is included in the Company's current CC&N and the Poquito Valley area which is part of the new service area. Therefore Staff would recommend that the Company should be required to update its franchise with Yavapai County in the final Order in this proceeding. Staff further recommends that Commission approval be conditioned upon the Company filing within 365 days of the effective date of a Decision regarding this matter a copy of its Yavapai County Franchise with the Director of the Commission's Utilities Division.

Midvale has use permits for three of the microwave tower locations. In regards to the two remaining microwave tower use permits, the Company is in the process of filing for them and does not anticipate any difficulty since the locations will be utilized to provide service to unserved areas of the County. A right-of-way permit may be required for access to Long Meadow from Crossroads Ranch but a final determination cannot be made until engineering of the route is complete. Staff believes that the Company is adequately addressing the acquisition of these permits. However, Staff would recommend that Commission approval be conditioned upon the Company filing within 365 days of the effective date of a Decision regarding this matter a certification that it has obtained all of the required tower and right-of-way permits with the Director of the Commission's Utilities Division.

[3] See *Amended Application*, Section VII, Page 4.

Local Calling Area

In its Amended Application, Midvale states "that public interest considerations support the establishment of two way EAS between the Unserved Areas and Prescott"[4]. A discussion of the degree to which the ability to originate a local call ("extended area service" or "EAS") varies for customers of the ILECs providing service in the area illustrates why this might be the case.

Both Table Top and Midvale currently have service areas that are contiguous to Qwest's Prescott Exchange. As previously stated, the new service area being requested by Midvale is also contiguous to portions of the Prescott exchange. Further, in some instances, the service areas of the companies are located between a non-contiguous portion of Qwest's Prescott Exchange and the main body of the Prescott Exchange. However the local calling area for customers of the three companies varies significantly as determined from data responses from the companies. For customers of Qwest, the local calling area includes the communities of Prescott, Chino Valley and Humboldt. Included are not only the prefixes ("NXXs") that are assigned to Qwest offices, but also prefixes assigned to approximately 15 wireless carriers and CLECs. Table Top customers have one-way EAS to Qwest prefixes only (although the Company has indicated that occasionally Qwest customers can call Table Top's prefix as a local call). Midvale customers have no EAS. Table A illustrates the differences in capability to originate a local call for the Prescott area customers of each company.

Table A

To => From	Prescott	Chino Valley	Humboldt	Wireless NXXs	CLEC NXXs	Midvale	Table Top
Prescott		QW - Local	QW - Local	QW - Local	QW - Local	QW - Toll	QW - Toll
Chino Valley	QW - Local		QW - Local	QW - Local	QW - Local	QW - Toll	QW - Toll
Humboldt	QW - Local	QW - Local		QW - Local	QW - Local	QW - Toll	QW - Toll
Wireless NXXs	Local	Local	Local		Local	Toll	Toll
CLEC NXXs	Local	Local	Local	Local		Toll	Toll
Midvale	MV - Toll	MV - Toll	MV - Toll	MV - Toll	MV - Toll		MV - Toll
Table Top	TT - EAS	TT - EAS	TT - EAS	TT - Toll	TT - Toll	TT - Toll	

Had Qwest applied to extend service to the new service area, customers would have received the same local calling area privileges as afforded to customers that currently reside within Qwest's Prescott Exchange. This same calling scope could be provided by Midvale interconnecting to the local tandem functionality of Qwest's Prescott switch. Thus, in Staff's opinion, given the geographic relationship of the new service area to Qwest's service area, this same local calling area scope (communities and NXXs) should be provided by Midvale should the Commission approve Midvale's CC&N extension. Further, since two-way EAS between the

[4] See *Amended Application*, Section X, page 5.

new service area and Qwest's Prescott local calling service area cannot be efficiently provided without including the entirety of Midvale's Millsite exchange, Staff recommends the two-way EAS requirement be applicable to all of Midvale's Millsite exchange. Midvale has indicated that it believes two-way EAS can be offered from its Millsite Exchange to the Prescott local calling area within six (6) months of a Commission Order.[5]

In its response to a data request, Qwest indicated that it believed that calling area issues associated with unserved areas should be addressed industry wide in the EAS rulemaking proceeding.[6] However, if the Commission were to Order that Midvale's Millsite Exchange be added to the local calling area, Qwest would require Midvale to provision a local trunk group to the Prescott local tandem and to enter into an EAS agreement. Each company would pay its respective facility costs to implement the EAS. Qwest indicated there might be additional costs that would be appropriate for Midvale to pay to Qwest. Should this be the case, Staff believes they can best be addressed through normal inter-company negotiations.

Should the Commission order that the new service area be included in the Prescott local calling area, Staff believes that the geographic relationship between the majority of the new service area and Table Top's Inscription Canyon Ranch service area should also be considered. The new service area surrounds Table Top's service area on two sides. Further, Table Top's service area is located between two non-contiguous segments of Qwest's Prescott Exchange (refer to Attachment A). For reasons similar to those stated in the preceding paragraph, Staff would recommend that Midvale establish two-way EAS with Table Top's Inscription Canyon Ranch service area should the Commission approve the Company's CC&N extension. Table B illustrates the differences in capability to originate a local call for the Prescott area customers of each company should Staff's recommendations be adopted by the Commission. An "X" indicates that calls between the two areas would be local calls.

Table B

	Prescott	Chino Valley	Humboldt	Wireless NXXs	CLEC NXXs	Midvale	Table Top
Midvale	X	X	X	X	X	X	X
Qwest	X	X	X	X	X	X	
Table Top[7]	X	X	X			X	X

In its response to a data request, Table Top indicated that philosophically it supports the concept of EAS within the Prescott community. Table Top raised as possible concerns loss of access revenue, a revenue requirement associated with construction and maintenance of a EAS

[5] Id., page 6.
[6] T-00000J-02-0251.
[7] 1-way calling from Table Top to Qwest.

network and an uncertainty about implementation cost. For the EAS interconnection between Midvale and Table Top, Staff believes these issues can be resolved through normal inter-company negotiations and entering into an Interconnection Agreement.

Making a determination regarding the remaining differences in local calling area for customers of Table Top is outside the scope of this docket. However, Staff believes it would be appropriate to address this issue in the next rate case filing, or other appropriate filing, made by Midvale.

Prohibition on Number Portability Between ILEC Rate Centers

Federal Communication Commission ("FCC") rules[8] do not allow for numbers to be ported between ILEC rate centers. Therefore, in the event it is determined that customers of Midvale, Table Top and Qwest should have the same local calling area, customers who move between service areas of the three respective ILECs (Midvale, Qwest and Table Top) will not be able to retain their telephone number(s).

Related Proceeding (Docket No. T-01051B-02-0535, et. al.)

On July 9, and July 11, 2002, Troy and Tracy Denton, April and Bryant Peters, John H. and Patricia J. Martin, Susan Bernstein, Tommy L. White, Sandra Rodr, Kirk and Bobbi Limburg, Arnold and Tamara Fatheree, and Ernie and Sherry Thompson ("Complainants") filed various Complaints[9] ("Complaint Proceeding") against Qwest Corporation, Inc. ("Qwest") stating that the Complainants desired phone service and Qwest refused to provide service since the properties were not located within Qwest's service territory

The Complainants' properties are all located within T-15-N, R-1-W, Section 11 which is contiguous to a portion of the northeast boundary of Qwest's Prescott Exchange. The Complainants assert that since Qwest is already providing service to at least two properties in the Section, they should be entitled to Qwest service also and not discriminated against. Qwest states that the two properties were provided service in error and that Qwest should not be compelled to provide telecommunication services beyond its service territory boundaries. A hearing on this matter was held on July 14, 2003.

Section 11 is one of the sections that comprise the new service area Midvale is requesting. Therefore any final Order in the Complaint Proceeding may have an impact on this proceeding. For example, should Qwest be ordered to serve Section 11, in its entirety or only the Complainants, Midvale may choose to revise the number of sections it is requesting be added to its CC&N because of a change in the economics of providing service. Alternatively, it might be determined that Qwest is not required to extend service to the Complainants. If this were to be the outcome, Staff would recommend that the two addresses Qwest is currently serving be

[8] *In the Matter of Telephone Number Portability*, Docket No. 95-116, Report and Order, (Rel. August 18, 1997) ("Second Report and Order").
[9] All of the Complaints were consolidated into one case by Procedural Order on August 21, 2002.

grandfathered until such time that service is discontinued for any reason or there is a change in ownership of the property. Should Midvale's CC&N extension be granted, Staff would recommend that upon a discontinuation of Qwest service, any future service at the two addresses be provided by Midvale.

In summary, Staff recommends that, should an Order be issued in the Complaint Proceeding prior to the Commission reaching a decision regarding Midvale's CC&N extension, it be made part of the record in this matter.

Staff Recommendations

Should the Commission determine that the new service area be added to the Millsite Exchange of Midvale and the Company's CC&N extended, Staff recommends that:

1. The new service area be added to Midvale's Millsite Exchange.
2. Approval of Midvale's CC&N extension be conditioned upon the Company filing, with the Director of the Commission's Utilities Division, an update to its franchise with Yavapai County which includes the extension area within 365 days of the effective date of the Decision.
3. Approval of Midvale's CC&N extension be conditioned upon the Company filing within 365 days of the effective date of a Decision regarding this matter a certification that it has obtained all of the required tower and right-of-way permits with the Director of the Commission's Utilities Division.
4. Midvale's Millsite exchange be added to the Prescott local calling area and two-way EAS established between Midvale and Qwest.
5. Midvale establish two-way EAS with Table Top's Inscription Canyon Ranch service area.
6. If an Order be issued in the Complaint Proceeding prior to the Commission reaching a decision regarding Midvale's CC&N extension, it be made part of the record in this matter.
7. If Midvale's CC&N extension be granted and include T-15-N, R-1-W, Section 11, upon a discontinuation of Qwest service at a service address in the Section or there is a change in ownership of the property, any future service at the address be provided by Midvale.

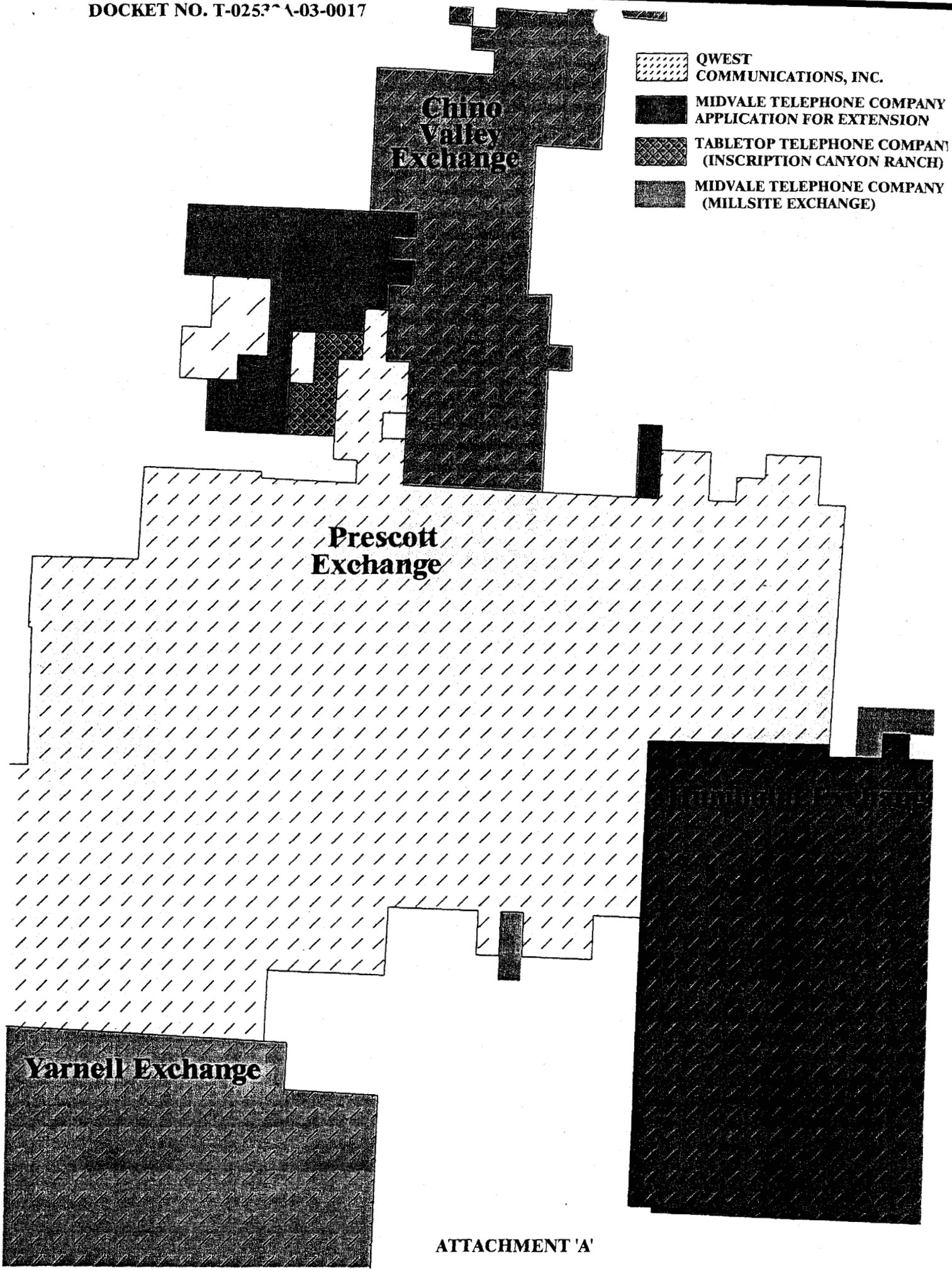
Staff further recommends that items 1-5 and 7 be incorporated into the Commission Decision approving this Application.

Conclusion

Staff has reviewed the proposed network design and believes that it is consistent with engineering practices currently utilized by local exchange carriers. Further Staff believes the estimated costs are within a range of reasonableness for the architecture being deployed. Finally, Staff believes the recommendations listed above should be adopted.

Making a determination regarding differences in local calling area for customers of Table Top is outside the scope of this docket. However, Staff believes it would be appropriate to address this issue in the next rate case filing, or other appropriate filing, made by the Company.

DOCKET NO. T-0253^A-03-0017



ATTACHMENT 'A'