

ORIGINAL



30

0000066304

MEMORANDUM  
RECEIVED

2004 MAR -9 P 12: 59

AZ CORP COMMISSION  
DOCUMENT CONTROL

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

DATE: March 9, 2004

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

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

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

EGJ:RLB:WMS:hml

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

Arizona Corporation Commission  
DOCKETED

MAR - 9 2004

DOCKETED BY *CAJ*

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

Mr. Lane R. Williams  
Midvale Telephone Exchange  
Post Office Box 7  
Midvale, Idaho 83645

Ms. Ann Hobart  
Brown & Bain PA  
Post Office Box 400  
Phoenix, Arizona 85011-0400

Mr. Conley E. Ward  
Ms. Cynthia A. Melillo  
GIVENS PURSLAY, LLP  
277 North 6<sup>th</sup> Street, Ste. 200  
P.O. Box 2720  
Boise, Idaho 83701

Mr. Joe F. Tarver  
2960 N. Swan Road, Ste 300  
Tucson, Arizona 85712-1292

Mr. John Hayes, General Manager  
Table Top Telephone Company  
600 North Second Avenue  
Ajo, Arizona 85321

Mr. Timothy Berg  
Ms. Theresa Dwyer  
Darcy Renfro  
FENNEMORE CRAIG  
3003 North Central Avenue, Ste 2600  
Phoenix, Arizona 85012

Mr. Christopher C. Kempley  
Chief, Legal Division  
Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, Arizona 85007

Mr. Ernest G. Johnson  
Director, Utilities Division  
Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, Arizona 85007

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

**STAFF REPORT  
UTILITIES DIVISION  
ARIZONA CORPORATION COMMISSION**

**MIDVALE TELEPHONE EXCHANGE, INC.**

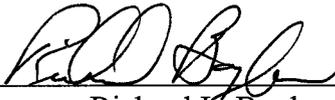
**DOCKET NO. T-02532A-03-0017**

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

**MARCH 2004**

## STAFF ACKNOWLEDGMENT

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



---

Richard L. Boyles  
Utilities Engineer



---

Wilfred Shand, Jr.  
Public Utility Manager

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

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

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

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

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

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

**TABLE OF CONTENTS**

|   | <b><u>PAGE</u></b> |
|---|--------------------|
| <b>INTRODUCTION.....</b>  | <b>1</b>           |
| <b>THE COMMUNITY OF INTEREST BETWEEN MIDVALE, TABLE TOP AND QWEST'S PRESCOTT LOCAL CALLING AREA .....</b>   | <b>2</b>           |
| <b>EXAMINATION OF EXTENDED AREA SERVICE.....</b>  | <b>3</b>           |
| <b>THE COSTS ASSOCIATED WITH PROVIDING TWO-WAY EAS BETWEEN QWEST AND MIDVALE, QWEST AND TABLE TOP, AND MIDVALE AND TABLE TOP.....</b>   | <b>3</b>           |
| <b>FACILITY COST RECOVERY .....</b>   | <b>3</b>           |
| <b>REDUCTION IN ACCESS CHARGE REVENUES .....</b>  | <b>4</b>           |
| <b>THE FINANCIAL IMPACT ON THE CUSTOMERS OF MIDVALE, TABLE TOP AND QWEST IF TWO-WAY EAS IS ORDERED .....</b>  | <b>4</b>           |
| <b>WHETHER A SUBSTANTIAL MAJORITY OF THE PRESENT AND FUTURE CUSTOMERS OF MIDVALE, AND THE CUSTOMERS OF TABLE TOP, UNDERSTAND THE POTENTIAL IMPACT OF ESTABLISHING TWO-WAY EAS AND SUPPORT IT.....</b> | <b>5</b>           |
| <b>STAFF RECOMMENDATION .....</b>   | <b>5</b>           |

## Introduction

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

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

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

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

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

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

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

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

During its research on the area, Staff determined that:

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

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

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

### **Examination of Extended Area Service**

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

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

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

#### **Facility Cost Recovery**

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

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

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

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

### **Reduction in Access Charge Revenues**

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

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

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

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

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

**Staff Recommendation**

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