

- BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH -

IN THE MATTER OF THE)	DOCKET NO.05-053-01
APPLICATION FOR INCREASE IN USE)	
ELIGIBILITY FOR UINTAH BASIN)	DPU Exhibit No. 4.0
TELECOMMUNICATIONS		
ASSOCIATION, INC., AND UBET		
TELECOM, INC.		

DIRECT TESTIMONY

OF

PEGGY N. EGBERT

CONFIDENTIAL PUBLIC VERSION

**DIVISION OF PUBLIC UTILITIES
DEPARTMENT OF COMMERCE
STATE OF UTAH**

September 9, 2005

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1 **I. IDENTIFICATION OF WITNESS**

2 **Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND POSITION**
3 **WITH THE DIVISION OF PUBLIC UTILITIES.**

4 A. My name is Peggy Egbert. My business address is Heber M. Wells Building, 160
5 East 300 South, 4th Floor, Salt Lake City, Utah. I am employed as a Technical
6 Consultant for the Division of Public Utilities. My general responsibilities
7 include regulated service and operations evaluations, regulated rate base analysis,
8 cost and rate studies, competitive entry and related issues, Extended Area Service
9 (EAS) application analysis and development and analysis of Total Element Long
10 Range Incremental Cost (TELRIC) models and studies. I am testifying on behalf
11 of the Division of Public Utilities.

12 **Q. PLEASE EXPLAIN YOUR EDUCATIONAL BACKGROUND,**
13 **QUALIFICATIONS AND EMPLOYMENT EXPERIENCE.**

14 A. My qualifications are summarized on the attached Exhibit 4.1.

15 **II. PURPOSE OF TESTIMONY**

16 **Q. PLEASE STATE THE PURPOSE OF YOUR TESTIMONY.**

17 A. The purpose of my testimony is to present the Division's analysis pertaining to the
18 Company's request to recover costs associated with a planned redundant route from
19 UBTA to the POI (Point Of Presence) in Salt Lake. I will outline the Division's
20 concerns about policy issues and the reasonableness of projected costs associated
21 with the redundant route. Moreover, the Division will discuss alternative diverse
22 routing methodologies and industry standards.

1 My testimony will also discuss the need for EAS rate rebalancing in Vernal due to a
2 significant increase in EAS traffic in the Vernal Exchange.

3 **III – REDUNDANT ROUTE**

4 **Q. DOES THE DIVISION SUPPORT INCORPORATING THE PROPOSED**
5 **REDUNDANT ROUTE IN THE UBTA-UBET RATE BASE?**

6 A. No, the Division has reviewed the Company’s proposal to recover costs
7 associated with a redundant route between UBTA-UBET’s service territory and its
8 POI in Salt Lake. The Division believes that it is imprudent to use universal service
9 funds to subsidize a proposed project that is uneconomical and does not appear to
10 be a well thought out investment. I will discuss the Division’s findings in this
11 testimony.

12 **Q. PLEASE RESTATE THE DESIGN OF THE REDUNDANT ROUTE AS**
13 **UNDERSTOOD BY THE DIVISION AND PROPOSED BY UBTA**
14 **REPRESENTATIVE RAY HENDERSHOT AND GENERAL MANAGER,**
15 **BRUCE TODD.**

16 A. *****
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4 **Q. DID UBTA-UBET CONDUCT A COST STUDY COMPARING**
5 **ALTERNATIVE METHODS OF PROVIDING A REDUNDANT ROUTE?**

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4 **Q. DOES THE COST STUDY PROVIDED BY UBTA-UBET REFLECT ALL**
5 **COSTS FOR EACH ALTERNATIVE?**

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10 **Q. DOES THE DIVISION BELIEVE THAT THE PROPOSED ATERNATIVE**
11 **FOR A REDUNDANT ROUTE, WHICH IS DESIGNED TO PASS ALL OF**
12 **UBTA-UBET TRAFFIC TO NCT, IS A VIABLE LONG-TERM OPTION?**

13 A. As discussed in the Division’s witness, Wesley Huntsman’s testimony, and
14 according to NCT’s Independent Auditors report (2002 & 2003),

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14 **Q. IN THE DIVISION’S OPINION IS THE REDUNDANT ROUTE**
 15 **PROPOSED BY THE COMPANY THE MOST ECONOMICAL SOLUTION**
 16 **THAT WAS STUDIED?**

17 A. No, staff does not believe that Alternative 3, as proposed by the Company, is the
 18 most economical redundant route. In fact the Division does not believe, based on the
 19 financial condition of the Company, that the redundant routes that were studied are
 20 economical and prudent expenses.

21 As has been discussed above, the Division has many concerns and thus does not
 22 support the construction of the redundant route. It appears that the routes have not

1 been well thought out, leases have not been solidified and at the end of the day the
 2 proposed route may cost the company more than has been estimated, rendering it
 3 uneconomical and an imprudent use of utility funds. Moreover, the Division does not
 4 believe that the Company’s proposal for a redundant route justifies its request for
 5 USF support.

6 **Q. HAS THE DIVISION STAFF IDENTIFIED OTHER MITIGATING FACTS**
 7 **THAT CONTRIBUTE TO ITS DECISION TO ELIMINATE THE PROPOSED**
 8 **REDUNDENT ROUTE FROM RATE BASE?**

9 A. Yes. The Company has stated in testimony and in response to DPU Data Request
 10 #1, that it is desirable to have a redundant route since it has experienced outages that
 11 have stranded its customers with no access to the outside world.

12 To question number 1.40 of the Division’s request, the Company responded,*****
 13 *****
 14 *****
 15 *****

16 **Q. HAVE UBTA-UBET CUSTOMER COMPLAINED TO THE**
 17 **COMMISSION REGARDING THESE OUTAGES?**

18 A. In reviewing the Commission’s customer complaints, taken for any outages that
 19 occurred during the time frame extending from January 2003 to August 2005, the
 20 Division could only find one complaint taken in 2003, and that complaint was not
 21 related to a cable-cut outage.

1 It has been the Division’s experience that when major facilities have been cut
 2 anywhere in Utah, customer complaints increase significantly. Generally, the
 3 Company will report an outage which is followed by numerous customer complaints.
 4 Since there have been no customer reports recorded, the Division assumes that the
 5 interruption of service did not have a material impact on customer service.

6 Admittedly, it is an inconvenience for consumers when they do not have access to
 7 telecommunications services twenty four hours a day, seven days a week. However,
 8 the Division believes that growth in the cellular market has allowed most consumers
 9 to generally have access outside of their immediate calling area in an emergency,
 10 even though it is not a substitutable service.

11 Moreover, limited access to 911 services can be a problem as discussed in Bruce
 12 Todd’s testimony. *****

13 *****

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18 ***** The Division does
 19 not have information either way.

20 In summary, based on our investigation, the Division believes that over the last three
 21 years the UBTA-UBET subscribers have not been inconvenienced to the magnitude
 22 that would justify a USF expenditure for construction of a redundant route.

1 **Q. ARE THERE ANY OTHER TELECOMMUNICATIONS COMPANIES IN**
2 **UTAH THAT HAVE CONSTRUCTED REDUNDANT ROUTES?**

3 A. I believe that there is one telecommunications corporation that has constructed a
4 redundant route, but over time technicians who are not informed of the ring structure
5 have probably reconfigured the routes electronics. I would question if the fiber ring
6 that was initially provisioned for redundancy, continues to have the capacity that will
7 allow continuous service for one hundred percent of the traffic in the event of a cable
8 cut, without some modification. However, I do believe that those business customers
9 who pay for diversity have probably been provisioned on the ring. As far as rural
10 companies go, I am not aware of any redundant routes that have been configured that
11 extend out of the companies general service area. Redundancy is a very expensive
12 “insurance policy” to provision in any type of network.

13 **Q. DOES UBTA-UBET HAVE SOME FORM OF DIVERSITY IN THE**
14 **EVENT THAT THERE IS A FAILURE IN THEIR NETWORK?**

15 A.

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3 Both of the diverse facilities discussed above can be used to provide some relief to
4 subscribers in the event of a cable cut within the UBTA-UBET service area, but do
5 not provide relief if a cable is cut outside of their service territory.

6 However, due to the extended length of the proposed redundant route, it is not
7 guaranteed that the proposed diverse facility would be operational in the event of a
8 disaster or emergency situation. UBTA-UBET subscribers may still be experience
9 telephone service outage.

10 **Q. SHOULD THE UTAH USF BE USED TO OFFSET THE COSTS**
11 **INCURRED TO CONSTRUCT AND PROVISION A REDUNDENT ROUTE?**

12 A. The Division believes that is imprudent for regulators to approve USF monies paid
13 by Utah rate payers, to fund an uneconomical redundant route for UBTA-UBET
14 subscribers.

15 In support of the Division’s belief, the Joint Board and the FCC were assigned by
16 Congress to define the services that would be supported by the federal support
17 mechanisms. Congress outlined four factors in section 254(a) (1) of the 1996
18 Telecommunications Act to consider in the definition. They are

- 19 1) Is the service essential to education, public health or public safety?
- 20 2) Has the service, through the operation of market forces, been subscribed to
- 21 by a majority of residential customers?

1 3) Is the service being deployed in public telecommunications networks by
2 telecommunications carriers?

3 4) Would the inclusion of this particular service be consistent with the public
4 interest, convenience, and necessity?

5 The Commission and the Joint Board concluded that the universal support
6 mechanisms will now subsidize “single party service; voice grade access to the
7 public switched network; DTMF (Dual Tone Multifrequency) signaling, or its
8 functional equivalent; access to emergency services; access to operator services;
9 and toll limitation service for qualifying low-income consumers. There is no
10 mention of a “redundant route” as being a service that should be funded using
11 universal support mechanisms.

12 The Division has continually used the federal guidelines in its administration of
13 the Utah Universal Fund. Thus, I am recommending that the Commission deny
14 UBTA-UBET’s quest to recover the costs for an uneconomical redundant route.
15 The Division believes that redundancy does not meet the test outlined by the Joint
16 Board and the FCC for a service that serves the public interest.

17 **Q. WHAT IS YOUR INTERPRETATION OF THE RECENT RULES SET**
18 **BY THE FCC FOR ELIGIBLE TELECOMMUNICATIONS CARRIERS**
19 **(ETC).**

20 A. Report and Order CC Docket No. 96-45, released March 17, 2005, Section
21 IV,A, 2 discusses the FCC’s intent. In Paragraph 25, the FCC requires an ETC to
22 demonstrate that it has a reasonable amount of power back-up and is able to

1 reroute traffic around damaged facilities. Paragraph 26 states that the FCC
2 disagree with commenters, that the Commission should adopt specific
3 benchmarks for back-up power and the ability to reroute traffic in emergencies.
4 Like the Division, the FCC realizes that due to extreme or unprecedented nature
5 of the emergency the carrier might be rendered inoperable despite any precautions
6 taken.

7 In the future, an ETC, or in this case UBTA-UBET, will have to demonstrate that
8 it has reasonable back-up power supply to cover an outage, which is generally
9 eight hours. Likewise, the ETC will have to demonstrate that they have a way to
10 reroute traffic, when a cable is disabled. The Division believes that UBTA-UBET
11 has probably met the criteria with their updated switch network and the
12 construction of ring configurations that could be utilized to reroute traffic in an
13 emergency situation.

14 **Q. DOES THE DIVISION BELIEVE THAT UBTA-UBET SHOULD BE**
15 **RESTRICTED FROM PETITIONING FOR A REDUNDANT ROUTE IN**
16 **THE FUTURE?**

17 A. No. The Act contemplates that the FCC will periodically evaluate the services
18 that constitute universal service. In the future, if the FCC reevaluates USF
19 services to be funded and UBTA-UBET can economically justify a redundant
20 route, then it has the right to submit a request for Utah USF support to recover
21 costs.

22 **IV EAS (EXTENDED AREA SERVICE) RATE REBALANCING**

1 **Q. DOES THE DIVISION BELIEVE THAT THE EAS RATES THAT**
 2 **WERE SET BY THE COMMISSION FOR UBTA-UBET IN 2004**
 3 **NECESSITATE REBALANCING?**

4 A. Yes, in light of the Company’s petition to increase the USF contribution to
 5 support the recovery of operational costs, the Division recommends that the EAS
 6 rates for Vernal subscribers be increased, as a first step, by \$1.00.

7 **Q. PLEASE EXPLAIN THE JOINT STUDY THAT IS IN PROGRESS.**

8 A. UBTA-UBET and the Division have been monitoring EAS calling patterns
 9 from September 2003 to June 2005 (Refer to Confidential Exhibit 4.3). The
 10 purpose of this study is to establish an accurate stimulation factor based on an
 11 increase in Minutes of Use (MOU). The stimulation factor is used to size the
 12 number of EAS trunks that may be needed to provide EAS. It is anticipated that
 13 at the conclusion of the study the information gathered could be used, not only for
 14 UBTA-UBET, but could also be applied to other rural companies similar in size
 15 and topology.

16 **Q. THUS FAR WHAT HAS THE EAS STUDY DEMONSTRATED?**

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8 **Q. HAS THE DIVISION BEEN ABLE TO SET A STIMULATION**

9 **FACTOR FOR UBTA-UBET?**

10 A. Not at this time. The study is continuing due to the continued increase in

11 MOU's. Participants determined that the study should continue until such time

12 that the MOU's for all exchanges level out so that an accurate stimulation factor

13 can be calculated.

14 **Q. PLEASE EXPLAIN WHY THE DIVISION BELIEVES THAT**

15 **VERNAL'S EAS RATE JUSTIFIES AN INCREASE.**

16 A. Based on the data that the Division has been provided, it believes that it would

17 be prudent to allow the Company to recover capital costs associated with the

18 provisioning of EAS trunks to accommodate the extreme calling to areas outside

19 of Vernal, by its subscribers.

20 Due to the time limitations associated with this docket, costs associated with the

21 Vernal growth would be difficult to identify. Therefore, the Division is

22 recommending that the Commission allow UBTA-UBET to increase its EAS rate

1 to Vernal subscribers by \$1.00, as a first step toward rebalancing EAS rates. If
2 approved, the EAS rate would be \$ 1.80, for an annual revenue increase to test
3 year *****

4 **Q. HOW DID THE DIVISION DETERMINE THAT IT WAS**
5 **APPRORiate TO RAISE THE EAS RATE FOR VERNAL BY \$1.00?**

6 A. The Division calculated a stimulation factor based on the data that has been
7 provided thus far and determined that Vernal's growth is approximately triple that
8 of the other exchanges. Staff believes that to avoid rate shock it would be prudent
9 to limit recovery to \$1.00, rather than assess an EAS rate to \$2.40 in conjunction
10 with a recommended increase in the affordable rate (refer to Division witness,
11 Casey Colman's testimony).

12 It is anticipated that when further data is gathered, based on past growth, the rate
13 may even have to go higher. Moreover, when total company EAS rates are
14 rebalanced there may be other mitigating data that would readjust the Vernal rate
15 either higher or lower.

16 The Division anticipates that it will be at least a year before the EAS study is
17 complete and believes that it is prudent for the Company to recover a portion of
18 its operating costs for providing EAS.

19 **Q. WHY DOES THE DIVISION REFER TO THE EAS RATE INCREASE**
20 **FOR VERNAL AS A "FIRST STEP" IN REBALANCING EAS RATES?**

21 A. The Division anticipates that before EAS rates are rebalanced for UBTA-
22 UBET, the MOU's for all exchanges will have to level out. At the current growth

1 rate it would be virtually impossible to set an accurate stimulation factor for each
2 exchange. Without an accurate stimulation factor it would be impossible to
3 identify accurate EAS costs.

4 Allowing UBTA-UBET to raise its EAS rate in Vernal to recover a portion of its
5 cost for the extreme EAS growth is in the public interest. Rebalancing the EAS
6 rate for Vernal will increase revenue and lessen the overall draw from the Utah
7 USE.

8 V. CONCLUSION

9 In conclusion the Division is recommending that the Commission deny UBTA-
10 UBET's petition to recover costs associated with an uneconomical redundant route.

11 On the other hand, the Division is recommending that the Commission allow UBTA-
12 UBET to raise its EAS rate \$1.00 for the Vernal exchange.

13 **Q. DOES THIS COMPLETE YOUR TESTIMONY?**

14 A. Yes it does. Thank you.