

- BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH -

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In the Matter of the Application for Increase in	)	
USF Eligibility for Uintah Basin	)	DOCKET NO. 05-053-01
Telecommunications Association, Inc. and	)	DPU Exhibit 3.0
UBET Telecom, Inc.	)	
	)	Direct Testimony of
	)	Casey J. Coleman
	)	

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DIVISION OF PUBLIC UTILITIES  
DEPARTMENT OF COMMERCE

**CONFIDENTIAL PUBLIC VERSION**

September 9, 2005

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1 **I. IDENTIFICATION OF WITNESS**

2 **Q. PLEASE STATE YOUR NAME, EMPLOYER, AND BUSINESS ADDRESS.**

3 A. My name is Casey J. Coleman. I am employed by the Division of Public Utilities for the  
4 State of Utah. My business address is 160 East 300 South Salt Lake City, UT 84114.

5 **Q. BRIEFLY OUTLINE YOUR EMPLOYMENT BACKGROUND.**

6 A. Before working for the Division of Public Utilities for the State of Utah, I was employed  
7 by a telecommunications consulting firm as a Financial Analyst. For approximately the  
8 last five years I have worked for the Division of Public Utilities as a Utility Analyst.

9 **Q. WHAT IS YOUR EDUCATIONAL BACKGROUND?**

10 A. I received a Bachelor of Science degree from Weber State University in 1996 and a  
11 Masters of Business Administration from Utah State University in 2001.

12 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE UTAH PUBLIC SERVICE**  
13 **COMMISSION?**

14 A. Yes. I testified before the Commission as an expert witness in Docket Nos. 01-2383-01,  
15 02-2266-02, 02-049-82, 03-049-49, and 03-049-50.

16 **II. SUMMARY**

17 **Q. PLEASE SUMMARIZE AND DESCRIBE THE PURPOSE OF YOUR**  
18 **TESTIMONY.**

19 A. On April 27, 2005 Uintah Basin Telecommunications Association (“UBTA”) and UBET  
20 Telecom, Inc. (“UBET”), (jointly referred to as UBTA-UBET), pursuant to Utah Admin.  
21 Code R746-360 filed an application for an increase in the amount of Universal Service

1 Fund (“USF”) support. In Utah Code Annotated § 54-8b-15.6 the State Legislature  
2 indicated the fund would be designed to:

3 a. promote equitable cost recovery of basic telephone service through the imposition  
4 of just and reasonable rates for telecommunications access and usage; and

5 b. preserve and promote universal service within the state by ensuring that customers  
6 have access to affordable basic telephone service.

7 In R746-360 the Public Service Commission (“Commission”) established rules to  
8 achieve the direction given by the Legislature. One element of the USF is the  
9 determination of an Affordable Base Rate (“ABR”). My testimony will discuss the  
10 purpose and goals of the USF, the current ABR in Utah, and the need to increase the  
11 ABR. In addition I will discuss some policy considerations with the USF that the  
12 Commission needs to consider.

13 **III. TESTIMONY**

14 **Q. WHAT IS THE PURPOSE AND GOALS OF THE USF?**

15 A. In 1997 the State Legislature passed legislation indicating that a fund would be established  
16 to “promote equitable cost recovery of basic telephone service through the imposition of  
17 just and reasonable rates for telecommunications access and usage; and preserve and  
18 promote universal service within the state by ensuring that customers have access to  
19 affordable basic telephone service.”

20 On the Federal Level Universal Service has been a concept that has been implemented by  
21 the Federal Communications Commission (“FCC”) since 1934. With the passing of the  
22 1996 Telecommunications Act, Congress prescribed general principles on which the FCC

1 were “to base policies for the preservation and advancement of universal service.”<sup>1</sup>

- 2 • Quality services should be available at just, reasonable, and affordable rates;
- 3 • All regions of the nation should have access to advanced telecommunications and  
4 information services;
- 5 • Consumers throughout the nation, including low-income consumers and those in  
6 rural, insular, and high cost areas, should have access to telecommunications  
7 services that are reasonably comparable to those offered in urban areas at rates  
8 that are reasonably comparable to the rates charged in urban areas;

9 On both the Federal and State levels the goals of the USF are similar. The fund is to help  
10 establish a mechanism to equitably adjust the cost of service for high cost areas and provide  
11 affordable phone services in those high cost areas.

12 **Q. WHAT IS THE CURRENT AFFORDABLE BASE RATE IN UTAH?**

13 A. The current ABR for residential customers is \$13.50 and \$23.50 for business  
14 customers.

15 **Q. HOW IS THE AFFORDABLE BASE RATE DEFINED AND USED IN THE**  
16 **STATE OF UTAH?**

17 A. Rule R746-360-2(A) defines the Affordable Base Rate as:

18 [T]he monthly per line retail rates, charges or fees for basic telecommunications  
19 service which the Commission determines to be just, reasonable, and affordable for a  
20 designated support area. The Affordable Base Rate shall be established by the

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<sup>1</sup> 47 U.S.C. §254(b)(1)-(3).

1 Commission. The Affordable Base Rate does not include the applicable USF retail  
2 surcharge, municipal franchise fees, taxes, and other incidental surcharges.

3 The ABR is used in determining the maximum price customers will pay for phone service.  
4 Telecommunication companies are not allowed to charge more than the ABR to customers,  
5 with any shortfall of prudent costs of a high cost area covered by the State USF.

6 **Q. IS UBTA-UBET USING THIS AFFORDABLE RATE IN THIS DOCKET?**

7 A. Yes. UBTA-UBET has both items as tariff charges filed with the Commission.

8 **Q. WHEN WAS THE AFFORDABLE RATE USED BY UBTA-UBET IN THIS**  
9 **DOCKET ESTABLISHED BY THE COMMISSION?**

10 A. On April 30, 1999 in Docket No. 99-046-01 In the Matter of the Increase of Rates and  
11 Charges by Manti Telephone Co. and on July 3, 2000 in Docket No. 00-043-01 In the  
12 Matter of the Increase of Rates and Charges by Gunnison Telephone Company the  
13 Commission raised each company's rates to the \$13.50 and \$23.00 level for residential  
14 customers and business customers respectively. In the Manti Case the Commission  
15 approved rate increases of \$2.50 for residential customers and \$7.20 for business  
16 customers, while Gunnison was granted increases of \$2.50 for basic residential phone  
17 service and \$5.00 for basic business service.

18 **Q. SINCE 1999 HAS THE COMMISSION INCREASED THE AFFORDABLE RATE?**

19 A. Over the last five or six years when other rural carriers have asked for USF increases, the  
20 Division has recommended that the companies' affordable rates be increased to the \$13.50  
21 and \$23.00. To the Division's knowledge the Commission has not increased any  
22 company's rates higher than the current affordable rate.

1 **Q. IS THE DIVISION RECOMMENDING RAISING THE AFFORDABLE RATE IN**  
2 **THIS CASE?**

3 A. Yes. The Division is recommending raising the affordable rate in this case for basic  
4 residential service to \$16.50 and for basic business service to \$26.00, or a \$3 increase for  
5 each class of customers from the current tariff rates.

6 **Q. WHAT IS THE IMPACT TO THE REVENUES OF UBTA-UBET IF THE**  
7 **AFFORDABLE LEVELS ARE RAISED TO THE LEVELS RECOMMENDED BY**  
8 **THE DIVISION?**

9 In the Testimony filed by UBTA-UBET they indicated that they had local service revenues  
10 of \*\*\*\*\* for the year ended 2004. With the increase in the affordable rate and EAS rate  
11 as discussed in Ms. Egbert's testimony the local service revenues of UBTA-UBET would  
12 rise to approximately \*\*\*\*\* with an adjustment of \*\*\*\*\* because of differences  
13 between what was booked for EAS and the calculated total.

14 **Q. HOW DID THE DIVISION CALCULATE THE ADDITIONAL REVENUES?**

15 A. To begin, the Division used the 2004 line counts provided by UBTA-UBET in their annual  
16 report and calculated the actual revenues they received from 2004.<sup>2</sup> To get to the \*\*\*\*\*  
17 number provided by UBTA-UBET the Division took the number of access lines for  
18 business and residential and multiplied those lines by \$13.50 and \$23.00 respectively. By  
19 doing this exercise the Division was able to get close enough with the actual booked  
20 numbers that the Division was comfortable with the number of lines provided. To calculate  
21 the additional revenues the Division simply increased the affordable rates to the levels  
22 recommended and re-calculated the revenues.

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<sup>2</sup> See attachment 3.1 – 3.6 for spreadsheet calculations.

1 **Q. DID THE DIVISION LOOK AT ANY OTHER SCENARIOS WITH THE**  
2 **AFFORDABLE RATE?**

3 A. The Division looked at another scenario where the affordable rate would be set at \$18.50  
4 and \$28.00 for residential and business rates respectively. When raising the rates to this  
5 level the amount of local service revenues increases to \*\*\*\*\*.

6 **Q. WHAT IS THE BASIS FOR THE DIVISION'S RECOMMENDING AN INCREASE**  
7 **IN THE AFFORDABLE RATE TO \$16.50 AND \$26.00?**

8 A. Because the term "affordable" is a very subjective term it is difficult to have an iron clad  
9 definition of what would be an acceptable level for the affordable rate. The Division feels  
10 the best way to determine the affordable rate would be to look at national and regional  
11 benchmarks and what other states have determined to be an acceptable affordable rate.  
12 Using this information the Division can compare Utah with other parts of the nation. With  
13 this comparison, the Commission will be able to see that the affordable rate recommended  
14 is reasonable compared to other states and reasonable for UBTA-UBET.

15 **Q. WHAT IS THE AVERAGE RATE FOR LOCAL SERVICE ON THE FEDERAL**  
16 **LEVEL?**

17 A. Every year the FCC publishes a study on telephone trends. On June 21, 2005 the FCC  
18 released the report showing the average rate for local service for residential service at  
19 \$14.53 and for business service \$32.81 as of October 15, 2004.

20 **Q. HOW ARE THE AVERAGE RATES CALCULATED BY THE FCC?**

21 A. For years the Bureau of Labor Statistics ("BLS") has collected a variety of information on  
22 telephone service as part of three separate programs the Consumer Price Index ("CPI"), the

1 Producer PriceIndex (“PPI”), and the Consumer Expenditure Survey.<sup>3</sup> The price indices  
2 maintained by the BLS indicate percentage changes in the price of telephone services. BLS  
3 does not publish actual rate levels. Calculations of average rates are based on surveys by  
4 FCC staff. These surveys use the same sampling areas and weights used by BLS in  
5 constructing the CPI. Using the information from the FCC surveys and the BLS  
6 information the average rates are calculated.

7 **Q. THE RATES PUBLISHED BY THE FCC ARE FOR URBAN AREAS. WHY DOES**  
8 **THE DIVISION FEEL THAT THESE RATES ARE APPLICABLE IN THIS CASE**  
9 **WHEN UBTA-UBET IS A RURAL CARRIER?**

10 A. The Division feels there are at least two major points that can be drawn from the  
11 information provided on a national level from the FCC. The first bit of information is the  
12 ability to see general trends that is happening in the industry. The Division feels it is a  
13 plausible theory that phone rates in the Uintah Basin would probably be following the  
14 general trends in the industry, without government regulation. As attachment 3.7 shows,  
15 the trendline for residential rates has generally been upward, especially if you look at the  
16 years from 1999 to 2004. From the year 2000 to 2001 there was a significant increase in  
17 residential rates. Because the affordable rates in Utah have not changed in the last five or  
18 six years, prices have not been adjusted to reflect that spike in rates that happened on the  
19 federal level.

20 Other information that can be gleaned from the data is what consumers generally feel is an  
21 “affordable” rate for phone service. Inherent in an average is the concept that there are  
22 rates that will be both higher and lower than the average. Because of this principle, the  
23 Division is able to determine that in urban areas consumers are paying rates that would be

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<sup>3</sup> The BLS Indices can be found at [www.bls.gov](http://www.bls.gov).

1 comparable to the proposed increases for this case; therefore if consumers in Urban areas  
2 are choosing to purchase services, they are voting with their dollars that the rates must be  
3 affordable.

4 **Q. THE FEDERAL AVERAGE RATE FOR PHONE SERVICE IS \$14.53 AND \$32.81.**  
5 **WHY IS THE DIVISION RECOMMENDING AN INCREASE TO \$16.50 AND**  
6 **\$26.00?**

7 A. The reason the Division is recommending rates at the above mentioned levels comes back  
8 to the purpose of the Fund as stated by the Legislature. The Fund is to “promote equitable  
9 cost recovery of basic telephone service through the imposition of just and reasonable rates  
10 for telecommunications access and usage; and preserve and promote universal service  
11 within the state by ensuring that customers have access to affordable basic telephone  
12 service.” With UBTA-UBET requesting a substantial increase in revenues the Division  
13 feels that having all consumers, both UBTA-UBET customers as well as the other phone  
14 customers in the State of Utah, bearing the obligation for the increased revenues would be  
15 the most equitable way to recover the costs of UBTA-UBET. As stated before the federal  
16 rate is an average for urban customers. It is general knowledge in the telecommunications  
17 industry that rural customers rates are higher then urban customers rates. With this  
18 understanding that rural rates are generally higher than urban rates and customers in urban  
19 areas across the country are paying on average \$14.53, an increase in rates to \$16.50 for  
20 UBTA-UBET would be affordable. The Division also believes the increase to \$16.50 is  
21 justified, because of the revenue requirements of UBTA-UBET, as an equitable method to  
22 spread the revenue requirements among all customers of the state.

23 **Q. WHAT HAVE OTHER STATES SET AS THEIR AFFORDABLE RATE?**

24 A. The Division researched a variety of other states to see what was being done by those

1 Commissions with a state USF program. The Division found that North Dakota's state  
2 legislature has set the affordable rate at \$17.82, excluding surcharges and other additives,  
3 for residential customers. Oregon reports that its state commission established \$21.00 as  
4 affordable. In Colorado the average rate for rural customers is \$16.45. Wyoming uses a  
5 support benchmark that changes every year. For 2005 the Wyoming benchmark amount  
6 was established at \$31.80.

7 **Q. OF ALL THE STATES LISTED ABOVE DO YOU THINK ONE IS A BETTER**  
8 **REPRESENTATION OF UTAH THEN THE OTHERS?**

9 A. Yes. The Division feels that Colorado is probably the state that would be most comparable  
10 to Utah. Colorado has a similar situation in that Qwest is the major phone company with a  
11 number of rural phone carriers serving in the state as well. It is reasonable to believe that  
12 rural Colorado would not differ much from rural Utah. The Division contacted Colorado to  
13 determine how their state handles rural carriers. Staff from Colorado provided a  
14 spreadsheet<sup>4</sup> that tracked the rural rate charged in Colorado from 1983 to 2003. The  
15 information shows that the rates proposed by the Division are similar to the average rate  
16 calculated by the Colorado Commission. Another interesting point with the data provided  
17 is that the trend in Colorado for basic phone service is similar to the trend on the Federal  
18 Level. Over the past 20 years or so rates have followed an upward trend on both residential  
19 and business services.

20 **Q. ARE THERE OTHER POLICY ISSUES YOU THINK THE COMMISSION**  
21 **SHOULD CONSIDER WITH USF AND UBTA-UBET'S APPLICATION?**

22 A. Yes. There are some general policy considerations that the Commission should consider

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<sup>4</sup> See Attachment 3.9 for Business rates and 3.10 for Business rates.

1 with USF. One of those items is the apparent disconnect between the revenues of a  
2 company and the underlying costs of a regulated entity when USF can be used. Any basic  
3 accounting or finance textbook would include the simple equation that Revenues –  
4 Expenses = Net Income (or Net Loss).

5 In a normal competitive market any business must look at the price they are going to  
6 charge its customers against the costs of providing that service. Because of market forces  
7 and competitive pressures, generally a company will either look for ways to increase  
8 revenues through a higher selling price of the goods or developing a way to offer the  
9 service at a lower cost. If McDonalds wants to make more money selling Big Mac  
10 hamburgers, assuming constant volumes, then they either have to convince consumers that  
11 their Big Mac is worth paying a higher amount for, or another alternative would be to  
12 develop a way to control the costs of producing the Big Mac.

13 In a regulatory environment the market constraints that would force either cost reductions  
14 or allow for higher prices are restrained. In Utah, rate of return regulated companies are  
15 allowed to get a certain level of revenues from a combination of the prices charged  
16 customers and revenues from the USF. Looking at the basic equation given above, because  
17 of the regulatory regime in place in Utah, there is no practical restraint on the revenue. If  
18 prices charged by a company that is rate of return regulated do not cover the costs of the  
19 company then the USF would be required to make up the difference.

20 The Division recognizes that the “price” a rate or return regulated company can charge is  
21 not in the control of that company, but something that definitely is in the control of any rate  
22 or return regulated company is its costs. The Division understands that the purpose of the  
23 USF is to help prudently managed companies in high cost areas provide affordable phone  
24 service to the individuals living in that area and wholeheartedly supports use of USF funds

1 to further this purpose. At a fundamental level though, the Division recognizes that  
2 underlying costs of a company define price. The Commission may have considerable  
3 power to spread those costs across both services and consumers, but ultimately the cost of  
4 service will define the price or revenues needed by the company under the legislature's  
5 stated USF policy.

6 Recently, it appears, the Commission has followed a general policy of charging the same  
7 affordable rate for all of the rural companies in the State. The uneasiness of the Division  
8 with using the same affordable rate for every company is that there is no incentive for a  
9 company to really look at costs and to be as efficient as possible. Using the same rate for  
10 all companies means that customers of an efficient high cost company and an inefficient  
11 high cost provider would be paying the same rate. To overcome this disconnect between  
12 revenues and costs the Division would recommend looking at using a range of affordable  
13 rates specific to the situation and needs of the requesting company. Customers of an  
14 inefficient company may end up with a marginally higher rate than an efficient high cost  
15 company because the costs or service are vastly different.

16 The Division firmly believes that the best way the Commission can provide an incentive  
17 for utility management to be efficient is to have some of the "costs" of the company trickle  
18 back to the company's customers. If any telecommunications company, barber shop,  
19 information technology company, etc. knew that it was going to have to ask customers to  
20 pay a little more for its service, I believe those companies would make sure they have done  
21 everything in their power to reduce unnecessary expenses or hopefully even eliminate  
22 spurious costs. The Division feels the position of UBTA-UBET is a bit disconcerting  
23 where they are asking the Commission to increase their intrastate revenues approximately  
24 seventy percent, but never once do they suggest having some of their customers pay a  
25 higher rate.

1 **Q. WHAT IS THE DIVISION'S UNDERSTANDING OF THE RULES REGARDING**  
2 **USING USF FUNDS FOR NON-REGULATED AFFILIATES?**

3 A. The Division feels the rules regarding USF are very clear on what the funds should be used  
4 for. Carriers are required to use the universal service funds they receive to provide,  
5 maintain, and upgrade the facilities and services for which support is received.<sup>5</sup> Carriers  
6 are prohibited from using noncompetitive services to subsidize competitive services.<sup>6</sup> The  
7 Division believes that UBTA-UBET has been using revenues from regulated companies  
8 and services to subsidize unregulated services. Mr. Huntsman's and Ms. Cleveland's  
9 testimony will discuss in greater detail specific instances of where this has happened with  
10 UBTA-UBET.

11 **IV. CONCLUSION**

12 **Q. WHAT IS THE DIVISIONS RECOMMENDATION WITH THIS PETITION?**

13 A. The Division recommends raising UBTA-UBET's Affordable rate to \$16.50 for residential  
14 customers and \$26.00 for business customers. The Division also recommends the  
15 Commission consider using a range for the affordable rate according to the specific  
16 circumstances of the company.

17 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

18 A. Yes it does.

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<sup>5</sup> 47 U.S.C. §254(e).

<sup>6</sup> 47 U.S.C. §254(k).