

AUG 01 2008

BEFORE THE WYOMING PUBLIC SERVICE COMMISSION

IN THE MATTER OF THE APPLICATION)
OF CHUGWATER TELEPHONE COMPANY) DOCKET NO. 70005-24-TR-08
FOR AUTHORITY TO INCREASE) (RECORD NO. 11605)
BUSINESS AND RESIDENTIAL)
TELECOMMUNICATIONS RATES BY)
\$128,000 PER ANNUM AND TO CHANGE)
THE RATE FOR INTRASTATE SWITCHED)
ACCESS CHARGES)

PRE-FILED DIRECT TESTIMONY OF

Bryce J. Freeman

On behalf of the Wyoming Office of Consumer Advocate

(Public Version)

Filed August 1, 2008
Hearing August 21, 2008

1 **Q. PLEASE STATE YOUR NAME, ADDRESS AND OCCUPATION.**

2

3 A. My name is Bryce J. Freeman. My business address is 2515 Warren Avenue, Suite 304,
4 Cheyenne, WY, 82002. I am the Administrator of the Wyoming Office of Consumer
5 Advocate (OCA). The OCA is an independent consumer advocacy agency that was
6 created by an act of the legislature in the 2003 general session.

7

8 **Q. WHAT IS THE FUNCTION OF THE OCA?**

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10 A. Pursuant to W.S. § 37-2-401,

11

12 The office of consumer advocate shall represent the interests of Wyoming
13 citizens and all classes of utility customers in matters involving public
14 utilities. In the exercise of its powers the office of the consumer advocate
15 shall consider all relevant factors, including, but not limited to, the
16 provision of safe, efficient and reliable utility services at just and
17 reasonable prices.

18

19

20 **Q. ARE THE ANALYSES AND RECOMMENDATIONS OF THE OCA, IN THIS OR**
21 **ANY OTHER CASE BEFORE THE COMMISSION, INFLUENCED OR**
22 **DIRECTED BY THE COMMISSION?**

23

24 A. No. Although the OCA is a division within the Commission according to W.S. § 37-2-
25 401, it is a separate division with no reporting or supervisory links to the Commission.
26 The OCA has the right under W.S. § 37-2-402(ii) to appeal decisions of the Commission
27 that it does not find in the public interest. The only link between the OCA and the Public
28 Service Commission is the source of common funding provided by the assessment on
29 gross utility operating revenues; this assessment funds both the Commission and the
30 OCA. Additionally, as Administrator of the OCA, I report directly to the Governor of
31 Wyoming.

32

33 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND**
34 **OCCUPATIONAL EXPERIENCE.**

35

1 A. I received a Bachelor of Science degree in business administration from the University of
2 Wyoming in 1982. The area of concentration in my undergraduate work was statistics.
3 After graduating from the University of Wyoming, I was employed for three years by the
4 Laramie County Treasurer as Deputy Treasurer, and then for six years by the Wyoming
5 Department of Revenue as a Principal Appraiser dealing primarily with utility valuation
6 and capital cost issues. I came to the Wyoming Public Service Commission in April of
7 1994, in the capacity of Senior Economist, serving in that position for approximately two
8 years. In 1996 I accepted a position as Lead Rate Analyst in the rates and pricing section
9 on the Commission Staff, and in May of 2003 I was appointed Administrator of the OCA.

10 In July of 2004, I was appointed to a two-year term of service on the board of the
11 Wyoming Infrastructure Authority (WIA). In July of 2006, I was reappointed to a four
12 year term. I currently serve as secretary of the WIA Board of Directors. Also in 2004, I
13 was elected to the position of Secretary of the National Association of State Utility
14 Consumer Advocates or NASUCA, which is a national trade association composed
15 primarily of state chartered consumer advocate offices throughout the country. My
16 participation in both of these organizations provides me with unique knowledge and
17 experience upon which I can draw in formulating advocacy positions on behalf of
18 Wyoming utility consumers.

19 **Q. HAVE YOU TESTIFIED BEFORE THIS COMMISSION IN PREVIOUS**
20 **PROCEEDINGS?**

21
22 A. Yes. I have detailed the cases in which I have testified before this Commission in
23 Appendix A, attached to my testimony. I have also offered testimony before the Federal
24 Communications Commission, the Federal Energy Regulatory Commission and the
25 United States Congress.

26
27 **Q. ON WHOSE BEHALF DO YOU APPEAR HERE TODAY?**

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29 A. I appear here today on behalf of the OCA. As I indicated previously, the OCA is an
30 independent party in this proceeding, separate and apart from the Commission or its
31 advisory staff.

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Q. AS A MEMBER OF THE OCA, DO YOU ADVOCATE THE INTERESTS OF CERTAIN GROUPS OF CONSUMERS OVER OTHERS?

A. No. As a member of the OCA, it is my statutory obligation to advocate the best interest of all citizens in the state. Specifically, W.S. § 37-2-401 states that the OCA “shall represent the interests of Wyoming citizens and all classes of utility customers in matters involving public utilities.” This public interest standard requires the OCA to represent the broadest possible utility consumer constituency, even though some of those consumers may also be represented independently as parties in this case. The OCA is responsible for balancing the positions and recommendations of the Company, and of other parties, to arrive at a set of recommendations that serve the overall long term public interest.

Q. ARE YOU SPONSORING ANY EXHIBITS IN THIS PROCEEDING?

A. Yes. I am sponsoring exhibits OCA BJT 1 through BJT 5. These exhibits support the adjustments that I will recommend in this proceeding, and I will refer to them throughout my testimony.

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

A. The purpose of my testimony in this proceeding is to present my review and analysis of the general revenue increase requested by Chugwater Telephone. My review considers all of the various components of the requested increase, the underlying drivers of the increase, and the various sources of revenue available to the Company to meet both its total and intrastate revenue requirements. I will also offer several recommended adjustments that are necessary in order to properly match revenues and expenses.

Q. WHAT IS CHUGWATER ASKING FOR IN ITS APPLICATION IN THIS CASE?

A. Very simply stated, the Company is requesting authority to increase its annual revenues by \$128,135 per annum. The specific details that underlie that request will be the subject of the remainder of my testimony. I would note, however, that the entire amount of the increase will be borne by increased disbursements from the Wyoming Universal Service

1 Fund (WUSF) since the rates currently in effect for Chugwater's retail customers already
2 exceed 130% of the statewide average rate that is the benchmark for WUSF support.
3 Chugwater's current tariff rate for local exchange service is \$38.20 per line, per month
4 (net of federal USF support). The rate proposed by the Company in this proceeding is
5 \$84.69 per line, per month and the benchmark rate was \$32.47 per month at the time the
6 Company filed its application. The Company has revised its local monthly service rate
7 downward as I will describe later in my testimony. Even considering the revised rate, the
8 only change in net bills that will be realized by Chugwater customers, if the proposed rate
9 change is adopted, will be a very slight, perhaps even unnoticeable, increase in the state
10 USF assessment.

11 **Q. WHAT IS DRIVING CHUGWATER'S REQUEST IN THIS PROCEEDING?**

12 A. There are a number of factors driving the Company's request in this proceeding.
13 Certainly the new telecommunications law that took effect in July of last year, which
14 requires those carriers with switched access rates above \$0.03 per minute as of July 1,
15 2007, to reduce those rates to \$0.03 or less by January 1, 2010, is one of the factors
16 driving the Company's request in this proceeding. In Chugwater's case, its current
17 switched access rate averages \$0.04635 per minute. Reducing its average switched
18 access rate to \$0.03 per minute reduces total access revenues by \$8,208 annually based on
19 current annual total access minutes. However, that is only about 6.4% of the total
20 increased revenue that the Company seeks in this proceeding, and is therefore, not the
21 primary driver of the revenue increase the Company is requesting.

22 **Q. WHAT IS THE PRIMARY DRIVER OF THE INCREASE THE COMPANY**
23 **SEEKS IN THIS CASE?**

24 A. That is the same question I asked the Company when I initiated my investigation in this
25 proceeding. At first blush, one might believe that the major driver of the increase is an
26 increase in expenses. While that may be one factor, the Company argues that the need for
27 the increase is being driven not so much by an increase in expenses, but by a loss of
28 revenue directly correlated with the loss of local access lines that the Company has been
29 experiencing over the past several years.

1 To test that hypothesis, I examined the Commission Annual Reports of several local
2 exchange carriers operating in Wyoming as a benchmark for Chugwater's operating
3 ratios. Such a comparison can be very useful in determining the overall reasonableness of
4 the operating revenues, expenses and investments of any given company operating in
5 Wyoming. In comparing Chugwater to other companies operating in Wyoming, I chose
6 four of the smallest companies because on a per line basis, those companies provide the
7 most direct and meaningful comparison to Chugwater. However, it should be noted that
8 even the smallest of these companies reports over 1,000 access lines for the most recent
9 reporting year while Chugwater reports only 196. Chugwater is the smallest local
10 exchange company that operates entirely within the state. I also included Qwest in this
11 comparison as a point of reference, although it reported a total of nearly 200,000 local
12 access lines in the most recent reporting year.

13 **Q. WHAT DOES THIS COMPARISON SHOW?**

14 A. As can be seen in Exhibit OCA BJJ 1, this comparison is very revealing. The first part of
15 this exhibit is the tabular information that I collected, by year, for each of the companies I
16 examined. The second part of the exhibit contains graphical representations for selected
17 operating ratios.

18 As can be seen on page one of the exhibit, Chugwater has indeed experienced a loss of
19 sixty eight local access lines or 25.76% of its total access lines since 2003. On a
20 percentage basis, none of the other local exchange carriers exhibited a loss in local access
21 lines close to this level. Although Qwest exhibited an access line loss of nearly 16%, the
22 other carriers in the analysis saw access line reductions under 10%. Dubois Telephone
23 Exchange (DTE) actually showed a slight increase in its access line count. Chugwater's
24 access line loss appears to be substantial as indicated by the Company. The line count
25 information is shown graphically on OCA Exhibit BJJ 1, page 13.

26 As can be seen on the first twelve pages of this exhibit, I compared and contrasted the
27 companies based on the ratios of a number of expense categories over the period from
28 2003 to 2007 to determine if those ratios were comparable to Chugwater's ratios. In

1 general, I determined that Chugwater's expense ratios fell into a reasonable range based
2 on comparisons with the other companies.

3 However, I was surprised that the total increase in total operating expenses for Chugwater
4 over the five year period, measured at 30%, was among the lowest increase in operating
5 expenses for the four smaller companies. DTE, Range and TCT West all showed much
6 greater increases in operating expenses than Chugwater with Tri-County's increase being
7 essentially the same as Chugwater's. Qwest, on the other hand, showed a significant
8 reduction in total operating expenses over the five-year period. Operating expense trends
9 for each of the companies is shown in the chart on OCA Exhibit BJJ 1, pages 14 through
10 16.

11 **Q. WHY WERE YOU SURPRISED BY THIS?**

12 A. I expected the total increase in operating expenses to be a much larger factor in the
13 Company's requested increase. As can be seen in OCA Exhibit BJJ 1, Chugwater's
14 increase in operating expenses is smaller than most of its counterparts, yet none of those
15 companies have requested a revenue increase for local exchange service since prices were
16 last revised under the Wyoming Telecommunications Act of 1995, at least to the best of
17 my knowledge.

18 To the contrary, if one views the operating expenses on a per line basis, rather than in the
19 aggregate, a decided upward trend can be observed for Chugwater. While the other
20 companies demonstrate increasing costs per line, they are increasing at a much slower
21 rate than Chugwater, which experienced the largest percentage line loss. The exception is
22 Qwest, which exhibits a general decline in costs per line over the five-year period. OCA
23 Exhibit BJJ 1, page 16 shows the operating expense per line for each of the companies.

24 **Q. WHY DOES QWEST FAIL TO EXHIBIT AN INCREASE IN EXPENSE PER**
25 **LINE IN VIEW OF ITS SUBSTANTIAL LINE LOSSES SINCE 2003?**

26 A. The decreasing expense per line trend for Qwest is likely a combination of factors. First,
27 Qwest's plant investment has been relatively flat since 2004 (up only 3.8% over the four
28 year period) while depreciation expense has declined by about 50% over that period.

1 This indicates that Qwest is not investing in its Wyoming network at the rate that its
2 depreciation expense would allow.

3 Second, with approximately 200,000 lines in Wyoming many of the expenses of
4 providing local service in Wyoming are truly variable in nature. For instance, as demand
5 for local exchange service declines many of the expenses associated with providing that
6 service, including customer service, billing, maintenance and others, can be scaled down
7 as well.

8 In contrast, for the smallest of the small carriers, like Chugwater with only 196 lines, at
9 some point, these costs become relatively fixed and cannot be reduced in response to
10 decreasing demand. For example, a full time maintenance technician might be able to
11 service 1,000 lines. If there are more than 1,000 lines in service, another maintenance
12 technician would be required to service the increment above 1,000. However, if there are
13 fewer than 1,000 lines, a maintenance technician is still required but that expense would
14 be spread over fewer lines. Many of the other expenses of operating a small company are
15 similar in nature. Essentially, for these very small companies, as line counts erode, the
16 same costs are spread over a decreasing pool of lines resulting in an increase in the
17 expense per line.

18 **Q. WHAT DO YOU CONCLUDE FROM THE COMPARATIVE ANALYSIS YOU**
19 **HAVE CONDUCTED?**

20 A. My conclusion is that the line losses experienced by Chugwater over the last five years
21 have had a substantial impact on the financial viability of the Company and are a
22 significant driver in the Company's request to increase its revenues. There are, of course,
23 other factors driving the Company's request that I will examine later in my testimony,
24 but, it is important for the Commission to maintain the perspective of how line losses
25 bear on the overall requested revenue increase.

26 **Q. IS CHUGWATER'S REQUEST IN THIS CASE UNIQUE?**

27 A. Perhaps unusual is a better word. Unusual from the perspective that Chugwater has
28 presented its case based on traditional rate base, rate of return principles, which I have not

1 seen since before the Wyoming Telecommunications Act of 1995 was enacted. Pursuant
2 to that Act, the Commission heard many cases to increase prices in compliance with the
3 Act. However, these price changes were predicated on the Total Service Long Run
4 Incremental Cost (TSLRIC) standard contained in the law. TSLRIC is a forward looking
5 cost standard that has only a coincidental relationship to the underlying historical costs of
6 a telecommunications company. This is the first traditional rate case filed by a Wyoming
7 telecommunications company in many years.

8 **Q. GIVEN THAT, HOW HAVE YOU APPROACHED YOUR ANALYSIS OF THE**
9 **COMPANY'S REQUESTED REVENUE INCREASE?**

10 A. I have approached my analysis based on the familiar principles of rate base, rate of return
11 regulation that the Commission is accustomed to reviewing on a regular basis for gas and
12 electric utilities. A traditional rate case analysis incorporates a review of rate base
13 investments, expense levels, rate of return and present revenues to determine the
14 prudence and necessity of the proposed revenue increase. In this case, for reasons I will
15 explain in a moment, I began my analysis with a review of the Company's current
16 revenues.

17 **Q. WHY DID YOU BEGIN WITH A REVIEW OF CURRENT REVENUES?**

18 A. There are two reasons for this. First, because telecommunications companies typically
19 provide both intrastate and interstate services using common facilities, the cost of those
20 facilities is "separated" between the intrastate and interstate jurisdictions as prescribed by
21 the FCC. These cost separation studies are well defined and have been in use since the
22 consent decree was issued that broke up the original AT&T system back in the 1980's.
23 Once the costs have been separated into their respective components, then rates can be
24 applied in both the intrastate and interstate jurisdictions to recover those costs.

25 Secondly, unlike electric and gas distribution utilities whose costs are recovered through
26 usage billed to customers, there are a number of revenue sources available to recover the
27 cost of common telecommunications facilities in both the intrastate and interstate
28 jurisdictions, in addition to the rates that are paid by individual telephone customers.

1 These include both state and federal universal service funds, federal subscriber line
2 charges, switched access revenue, and others. It is critical to understand the nuances of
3 how these costs are separated and what revenues are available to recover them in order
4 to determine whether or not a revenue increase for local service is necessary.

5 **Q. WHAT INFORMATION HAS THE COMPANY PROVIDED IN THIS REGARD?**

6 A. In its filing the Company provided an exhibit marked as Exhibit #1 attached to the
7 testimony of Jason Hendricks on behalf of Chugwater. This exhibit is a summary of the
8 calculation of the intrastate revenue requirement for the Company. The top portion of
9 this exhibit reflects intrastate revenues and expenses, beginning with booked amounts to
10 the left and detailing in subsequent columns the Company's proposed adjustments to
11 revenues and expenses that it believes are necessary to provide an adequate return on
12 investment. The most important thing to recognize about this exhibit is that it reflects
13 revenues and expenses that have already been separated from total Company amounts. In
14 other words, the amounts shown on this exhibit reflect only revenues and expenses
15 associated with the intrastate jurisdiction.

16 **Q. WHY IS THAT IMPORTANT?**

17 A. It is important because many of the revenues and expenses associated with the services
18 the Company provides are not shown on this exhibit. Rather, the interstate portion of
19 revenues and expenses has been previously allocated to the interstate jurisdiction pursuant
20 to the separations rules of the Federal Communications Commission, and those amounts
21 are not shown on this schedule. While the calculations shown on this exhibit are required
22 to develop the intrastate revenue requirement it is necessary to first determine that the
23 total Company revenues, expenses and rate base investments have been properly
24 allocated. For example, line four of Exhibit #1 shows the 2006 booked amount of
25 interstate USF receipts as \$32,779. Yet, according to the Universal Service
26 Administrative Company (USAC), the Company received \$383,796 in federal USF
27 support for calendar year 2006.

28 **Q. HOW CAN THESE DISPARATE AMOUNTS BE RECONCILED?**

1 A. There are two alternatives that can be used in matching revenues and expenses. One
2 approach would be to look at all of the Company's revenues and expenses on an
3 aggregated basis. Under this approach revenues and costs from both the interstate and
4 intrastate jurisdictions would be examined together to determine an appropriate uniform
5 revenue requirement. While this might seem like the most objective and transparent way
6 to determine the revenue requirement, it is almost never used for that purpose because the
7 Commission does not have the authority to set rates in the interstate jurisdiction.
8 Moreover, if the Commission were to consider total company costs in determining the
9 revenue requirement and setting rates for the intrastate jurisdiction, invariably one or the
10 other would be over or under earning. Without the authority to set cost based rates
11 simultaneously in both the intrastate and interstate jurisdictions, a subsidy from one to the
12 other would result by definition.

13 Some have argued that federal USF support should be used only to recover costs in the
14 intrastate jurisdiction. However, attributing federal USF receipts solely to the intrastate
15 jurisdiction, while at the same time allocating a portion of the costs to the interstate
16 jurisdiction, would result in a mismatch of revenues and expenses. For this reason, it is
17 best to attribute USF receipts to the proper costs in both the intrastate and interstate
18 jurisdictions on a separated basis. However, it is still necessary to ensure that costs and
19 revenues in each jurisdiction are properly allocated and therefore properly matched.

20 **Q. DID THE COMPANY PROVIDE INFORMATION DEMONSTRATING THE**
21 **PROPER MATCHING OF REVENUES AND EXPENSES?**

22 A. In its initial application, as I indicated earlier, the Company provided only separated
23 results for the intrastate jurisdiction. However, it did subsequently provide separations
24 studies showing the total amount of revenues, expenses and plant investment and how
25 those amounts were allocated between the jurisdictions.

26 **Q. PLEASE EXPLAIN HOW THESE AMOUNTS WERE ALLOCATED.**

27 A. These amounts are allocated and recovered in a two step process. First the total revenue
28 requirement of the Company is calculated and separated into its respective intrastate and

1 interstate components based on allocation factors prescribe by the FCC in its Part 36
2 separations rules. According to the Part 36 separation study completed by the Company
3 in July of 2007, the total company revenue requirement for the calendar year 2006 is
4 \$ of which \$, or %, is allocated for recovery in the intrastate
5 jurisdiction and \$, or %, is allocated for recovery in the interstate
6 jurisdiction. The interstate revenue requirement is further allocated to the functional
7 categories of common line, USF and switching based on the Company's Part 69 cost
8 allocation study also performed in July of 2007. The interstate revenue requirement is
9 then recovered through three distinct interstate revenue mechanisms, which I will discuss
10 in more detail in a moment.

11 **Q. WHAT IS INTERSTATE COMMON LINE AND HOW IS THE INTERSTATE**
12 **COMMON LINE REVENUE REQUIREMENT RECOVERED?**

13 A. Common line refers to the fact that for basic local exchange service, there is a single
14 telecommunications line entering each residential or business premise which provides
15 customer access to both the local exchange network and the inter-exchange network.
16 This line extends from the local central switching office to the customer's premise and is
17 often referred to as the "local loop." The local loop is common to both local and inter-
18 exchange services. The interstate common line portion of the local loop is the portion
19 that is presumed, pursuant to the FCC separations rules I described earlier, to be the
20 portion that is attributable to the interstate jurisdiction.

21 This interstate common line investment and the expenses associated therewith are
22 recovered through a pooling revenue arrangement administered by the National Exchange
23 Carrier Association or NECA. This pooling mechanism is referred to as Interstate
24 Common Line Support or ICLS. For Chugwater, the Common Line revenue requirement
25 derived from the Part 69 cost separations study that I described earlier is \$. This
26 revenue requirement is recovered from revenue received from the NECA pool minus the
27 revenue that Chugwater receives from the imposition of the Federal Subscriber Line
28 Charge (SLC). These calculations are shown on OCA Exhibit BJJ 2. As can be seen on
29 this exhibit, the revenue received from NECA together with the SLC revenue matches the

1 common line costs that were allocated to the interstate jurisdiction in the Part 69 cost
2 allocation study.

3 **Q. HOW ARE INTERSTATE SWITCHING COSTS RECOVERED?**

4 A. Like the local loop, the Part 69 separations rules presume that some portion of the local
5 switch is used to provide inter-exchange access and some portion is used to provide local
6 switching service, although both services are provided by a common switch. For
7 Chugwater, the portion of switching investment and expense that is allocated to the
8 interstate jurisdiction is \$. This is the interstate switching revenue requirement.

9 The interstate switching revenue requirement is recovered by means of a federal support
10 mechanism called “Local Switching Support,” or LSS. Similar to ICLS, LSS support is
11 provided through revenue pooling arrangements administered by NECA and is used to
12 offset the interstate switching revenue requirement after deducting any interstate access
13 revenues received by the local exchange carrier. As shown on Exhibit OCA BJT 3,
14 Chugwater received \$ in interstate access revenues during the test year and
15 \$ in LSS support, which indicates that the Company failed to recover all of the
16 switching costs that were allocated to the interstate jurisdiction in the Part 69 allocation
17 process.

18 **Q. WHAT IS USF AND HOW IS IT RECOVERED?**

19 A. Unlike the common line and switching costs that are allocated for recovery in the
20 interstate jurisdiction and recovered through the specific mechanisms that I have
21 described, Universal Service Funds, or USF, are an explicit subsidy provided to high cost
22 local exchange carriers to help offset the high cost of providing local exchange service in
23 rural, high cost and insular areas of the country. Federal USF support is often referred to
24 as “high cost loop” support. USF payments are not related to the allocation of the
25 common costs of equipment and facilities. ICLS and LSS revenues are generated by
26 pooling the access charge revenues from all of the interexchange companies that pay
27 interstate access charges. USF revenues are provided by assessing all
28 telecommunications customers in the country a surcharge on their monthly bills. During

1 the test year, Chugwater received \$32,779 in federal USF support. USF support for rural
2 carriers is based on the actual costs of providing local exchange service in high cost areas
3 and, as with ICLS and LSS support, it is subject to true-up on a prospective basis.

4 **Q. WHAT IS THE OBJECTIVE OF YOUR REVIEW OF CHUGWATER'S**
5 **INTERSTATE COST ALLOCATIONS?**

6 A. The objective of my review is to ensure that Chugwater's legitimately incurred interstate
7 costs are appropriately assigned to the interstate jurisdiction, pursuant to FCC rules, and
8 that the interstate revenues designated to recover those costs do not exceed the allocated
9 costs. If the Company were to assign fewer costs to the interstate jurisdiction than is
10 appropriate, it would be able to retain the excess support revenue and, at the same time,
11 be able to recover those costs from the intrastate jurisdiction resulting in a double
12 recovery of costs. However, as I have demonstrated in my analysis, such is not the case.
13 The common line costs allocated to the interstate jurisdiction match almost exactly the
14 revenues recovered from the ICLS mechanism. The switching costs allocated to the
15 interstate jurisdiction are not fully recovered from LSS revenue. Based on this analysis,
16 the Commission can be confident that costs and revenues are properly matched in the
17 interstate jurisdiction.

18 **Q. WHAT IS THE NEXT STEP IN YOUR ANALYSIS?**

19 A. Having satisfied myself that Chugwater's interstate revenue requirement is appropriate
20 and that it is properly matched with interstate recovery of revenues, the next step is to
21 examine the Company's intrastate revenue requirement. The intrastate revenue
22 requirement is recovered using revenues derived from the sale of services and support
23 mechanisms that are within the jurisdiction of this Commission. The adjusted intrastate
24 revenue requirement proposed by Chugwater in its application is \$279,173. After
25 adjusted expenses of \$251,799 the Company's proposed weighted average return on rate
26 base is proposed to be 9.93%. However, as I will explain later in my testimony, the
27 proposed revenue requirement has been revised downward to \$265,701.

1 **Q. HOW DID THE COMPANY ARRIVE AT ITS PROPOSED REVENUE**
2 **REQUIREMENT?**

3 A. According the testimony of Mr. Jason Hendricks, the Company based its proposal on a
4 year-end 2006 test year that originally showed a net operating loss of \$72,112. Mr.
5 Hendricks made several adjustments to the test year numbers, which I will discuss later in
6 my testimony, resulting in an adjusted intrastate net operating loss of \$65,495. Based on
7 a 9.93% rate of return on rate base, the Company originally proposed a revenue increase
8 of \$128,135 as shown in Exhibit #1 attached to Mr. Hendricks' testimony.

9 **Q. WHY HAS THE COMPANY REVISED ITS REVENUE REQUIREMENT?**

10 A. During the course of my investigation of the Company's original application and exhibits
11 we discovered an error in allocating switching expenses. In the analysis submitted with
12 its original application, the Company used an average allocation factor to allocate the cost
13 of the switch between the intrastate and interstate jurisdictions resulting in an over
14 allocation of costs to the intrastate jurisdiction. According to the Part 34 rules, the
15 interstate allocation factor prescribed by the FCC for switching is approximately 85%
16 interstate and 15% intrastate.

17 Mr. Hendricks based his original analysis on an average allocation factor of
18 approximately 60% interstate and 40% intrastate, thus over-allocating expenses to the
19 intrastate jurisdiction. The average allocation factor used by Mr. Hendricks was derived
20 from the sum of the allocation factors for all of the categories of common plant which
21 vary widely but result in an average intrastate allocation factor of 40%. Upon further
22 review, I determined that the other categories of common plant had been allocated
23 correctly based on the prescribed allocation factor. The Company agreed to revise its
24 revenue requirement calculation to reflect the error in switching cost allocation.

25 **Q. DOES THIS ERROR IMPACT THE CALCUALTION OF THE INTERSTATE**
26 **REVENUE REQUIREMENT THAT YOU DISCUSSED EARLIER?**

1 A. No. The interstate revenue requirement is unaffected by this error. Had this error
2 remained undetected, the Company would have collected appropriate revenues in the
3 interstate jurisdiction but would have over recovered its intrastate revenue requirement.

4 **Q. WHAT IS THE RESULT OF THIS CORRECTION?**

5 A. This correction results in a reduction of the Company's proposed intrastate revenue
6 increase of \$13,761 yielding a revised Company proposed revenue increase of \$114,374.

7 **Q. ARE YOU CONFIDENT THAT THE COMPANY'S REVISED EXHIBIT #1**
8 **PROVIDES A VALID STARTING POINT FOR DETERMINING AN**
9 **APPROPRIATE INTRASTATE REVENUE REQUIREMENT?**

10 A. Yes. Although I am proposing some additional adjustments to the Company's proposed
11 revised intrastate revenue requirement, I am comfortable that the revised test year
12 numbers provide a reasonable starting point for my analysis. OCA Exhibit BJB 4
13 summarizes the Company's revised revenue requirement calculation. The column headed
14 "Company Unadjusted" reflects the year-end 2006 booked amounts followed by the
15 Company's proposed adjustments, Company adjusted amounts and Company proposed
16 revenue increase. The last two columns in this exhibit reflect my recommended
17 adjustments as well as my recommended revenue increase.

18 **Q. PLEASE DESCRIBE THE COMPANY'S PROPOSED ADJUSTMENTS.**

19 A. The Company is proposing eight adjustments to the 2006 book numbers to reflect
20 normalized operations, each of which I will discuss in turn. The Company first proposes
21 to adjust the ongoing level of uncollectible revenues to reflect the fact that the 2006
22 booked amount of \$173 is not reasonably reflective of ongoing operations. During my
23 analysis, the Company advised me that due to the fact that some uncollectible amounts
24 from prior periods had been collected in 2006, the booked amount actually reflects a
25 positive amount for uncollectible revenues, which the Company does not expect to persist
26 in the future. Accordingly, the Company proposes to use a four-year average of its
27 uncollectible amounts which results in \$469 of annual uncollectible revenues. The
28 adjustment to the Company's 2006 booked amount is therefore a negative \$642; \$469 of

1 ongoing expense plus the \$173 positive amount recorded on the 2006 books. This is a
2 reasonable adjustment, and I recommend that it be adopted.

3 The second adjustment proposed by the Company reflects its expectation that interstate
4 High Cost Loop (HCL) support and Wyoming Universal Service Fund (WUSF) support
5 will both increase in 2007. The adjustment reflects the proforma amount of these
6 increases. The incremental increase in both HCL and WUSF are the 2007 booked
7 amounts from the Company's books and reflect known and measurable increases that
8 occurred after the end of the test year; although, as described earlier in my testimony,
9 HCL support is subject to future true-up. The incremental amount booked for HCL
10 support in 2007 was \$2,656 and incremental WUSF support was \$5,811.

11 Increasing the amount of support revenues to reflect actual receipts better matches
12 revenues and expenses to provide a more accurate reflection of the ongoing operations of
13 the Company. While it could be argued that support receipts should be further projected
14 out to the period when rates will be in effect, typically the first year following the
15 effective date of the new rates, there are at least two reasons not to do that in this case.

16 First, projecting universal fund support receipts with any degree of accuracy is very
17 difficult because we don't know, for example, what the state wide average rate and
18 associated benchmark for funding will be for WUSF. It is especially difficult regarding
19 the HCL support because the projected amounts often differ dramatically from the
20 amounts actually received due to repeated future true-ups. Secondly, if we were to
21 project support payments into the future, it would also be necessary, in order to comply
22 with the regulatory matching principle, to project proforma investment and expense levels
23 so that a proper matching of revenues and expenses could be made. This would
24 effectively convert a standard historic test year proceeding into a future test year
25 proceeding. In light of the foregoing, I am comfortable with the Company's approach to
26 normalizing support revenues and recommend that this adjustment be adopted.

27 The third adjustment adds \$432 of revenue associated with a new custom calling feature
28 that the new switch enabled the Company to offer which is not reflected in the test year
29 revenue amounts. Specifically, the Company now offers Caller-ID number only and

1 expects that twelve of its customers will take the service at \$3.00 per customer per month.
2 These are revenues that are not reflected in the test year revenues but should be. I
3 recommend that the adjustment be adopted.

4 The Company's fourth proposed adjustment reduces the revenue that the Company will
5 realize from the provision of switched access services. The new telecommunications law
6 that became effective on July 1, 2007, requires that local exchange providers whose
7 switched access rates exceed three cents per minute reduce those rates to three cents per
8 minute or below, with limited exceptions, by January 1, 2010. While the statute
9 contemplates a transition to the lower access rates over a three-year period, it does not
10 prohibit a shorter transition period, or even a flash cut as Chugwater has proposed in this
11 proceeding. The Company is proposing, in conjunction with its rate case filing, to reduce
12 its switched access rate from slightly over four and half cents per minute to three cents
13 per minute with no transition period.

14 I do not oppose this adjustment and I do not recommend that the Commission require a
15 transition period for a couple of important reasons. First, the proposed access revenue
16 reduction accounts for only a small fraction of the Company's proposed total revenue
17 increase. Requiring the Company to phase down its access charge revenue would have
18 only a small effect on the total revenue requirement and, since the entire amount of the
19 increase will be borne by the WUSF, phasing down the switched access rate will have no
20 impact on customer bills. Secondly, although Chugwater's billed switched access
21 minutes of use (MOU) have increased over the last two years due to a change in billing
22 methodology, prior to that, its MOU had been declining. Because of the line loss being
23 experienced by Chugwater, it is reasonable to expect that MOU will resume their
24 downward trend. A downward trend in MOU would accelerate the actual access revenue
25 loss and make a transition period much less meaningful. In short, state law requires the
26 Company to reduce its switched access rates, which it is allowed to do on a revenue
27 neutral basis. I find the Company's proposal in this regard to be acceptable.

28 The adjustments I have described thus far are adjustments to the Company's expected
29 revenue while the remainder of the Company's proposed adjustments normalize or

1 annualize ongoing operating expenses. The Company's proposed adjustment number five
2 reflects an increase in the cost of employee health care costs of \$13,087, an out-of-period
3 adjustment of \$17,860 to reflect 2006 retirement benefits that were paid in 2007, an out-
4 of-period adjustment to reflect \$862 of 2006 property taxes that were paid in 2007, and an
5 adjustment to reflect a \$ reduction in fees paid to the directors of the Company.

6 Starting with the increase in health care costs during 2007, the Company incurred
7 \$ in health insurance costs. This amount includes an increase of \$ and is
8 approximately % of the gross payroll in 2007. The National Coalition on Health
9 Care (NCHC) reports that in 2007, the average annual employer paid health insurance
10 premium for coverage of a family of four was \$12,100, an increase of 6.1% over the
11 previous year.¹ For small employers, the increase was 6.8%. Although Chugwater's
12 health care costs increased more than three times as fast over the same period at 23.42%,
13 the Company's average per employee annual health care premium of \$ is still less
14 than the average premium reported by NCHC. Moreover, in the context of the
15 Company's overall wage and benefit structure, of which health care costs constitute
16 approximately 22.5%, the cost of company provided health care seems reasonable. As a
17 benchmark reference, the State of Wyoming, my employer, assumes that non-salary
18 benefits, including health care and retirement benefits, constitute 22% of total
19 compensation to employees.

20 Regarding the out-of-period adjustments for employee retirement benefits and property
21 taxes, this is a simple adjustment that recognizes those expenses in the period in which
22 they were incurred instead of the period in which they were paid. This is a typical rate
23 case adjustment and I have no problem with it.

24 Finally, with regard to the reduction in director fees, there are two reasons for this
25 reduction. First, according to the board of directors' minutes for 2007, the Company
26 reduced the directors fee from its previous level of \$ per year to \$ per year, a
27 % reduction. Secondly, the Company reduced the number of directors on its board

¹ Health Insurance Costs, The National Coalition on Health Care 1120 G Street, NW, Suite 810 Washington, DC 20005, <http://www.nchc.org/facts/cost.shtml>.

1 from seven in 2006 to four in 2007. The result is a reduction in directors fees of \$
2 annually.

3 Chugwater has made obvious progress in reducing the corporate overhead expenses it
4 charges to customers. The larger question is whether or not the remaining expenses that
5 the Company has included in its revenue requirement are reasonable. The short answer is
6 I am not sure, although I can offer some perspective on the Company's overall
7 compensation strategy that may be helpful to the Commission in making its determination
8 on this issue.

9 According to information provided by the Company in response to data requests that I
10 posed, the Company compensates its employees on an hourly basis and does pay over
11 time to some of its employees. However, according to the board minutes for the 2007
12 meeting, the Company is contemplating converting its employees to salaried positions,
13 perhaps in 2008. Currently two of the Company's full time employees are also directors
14 and would receive hourly wage compensation and benefits in addition to the director's
15 fee. The president of the Company is paid \$ per hour or annual estimated wage
16 compensation of \$, before taxes, plus health care and retirement benefits.
17 Additionally, employees typically receive a year-end bonus of \$ bringing the
18 presidents total wage and benefit compensation to \$. In addition to wage
19 compensation the president would also receive the \$ annual director's fee bringing
20 total compensation, to \$. The Company asserts that employees that are also
21 directors, including the president, devote forty hours per week to oversight of Company
22 operations. However, the Company provided no information regarding the amount of
23 time devoted by directors who are not also employees. In a recent rate case involving
24 Pinedale Natural Gas, the Commission determined that compensation levels in excess of
25 \$100,000 per year were reasonable for the owners of that Company even though the
26 evidence showed that they devoted less than forty hours per week to the operation of the
27 gas utility.

28 Mr. Hendricks suggested that on a total basis, this level of compensation is not
29 unwarranted for the president of a telecommunications company in today's complicated

1 telecommunications industry as the board sets compensation levels to attract and retain
2 talented individuals to operate the Company. It is difficult to square that argument with
3 the fact that Chugwater is a family owned business, and in fact, the directors set the
4 salaries for employees who are also directors. However, compensation is an area where
5 relevant comparisons are hard to find, particularly for companies as small as Chugwater.
6 In the end, I elected not to reduce compensation expenses below the adjusted levels
7 proposed by the Company, but I don't believe that it met its burden of proof in showing
8 that the compensation of its directors and employees is prudent and reasonable.
9 Therefore, I defer this matter to the sound discretion of the Commission when making its
10 determination on this issue.

11 The sixth adjustment, is actually a two part adjustment which relates to the Company's
12 acquisition of a new central office switch and retirement of the old switch. In 2006, the
13 board of directors began discussing the need for a switch upgrade to enable the offering
14 of advanced services and to assist in compliance with regulatory requirements,
15 specifically local number portability requirements. In 2007, Chugwater installed a new
16 soft switch identified as a Metaswitch VP2510. The Company indicates that this switch
17 is cutting edge technology that will be cheaper, more functional and easier to upgrade
18 than the switch it replaces. The expense adjustment reduces annual depreciation expense
19 by \$15,760 in recognition of the fact that the original investment in the new switch is less
20 than the original value of the old switch. The corresponding rate base adjustment
21 increases rate base investment by the amount of undepreciated investment in the new
22 switch. The result of the switch replacement is a reduction in annual depreciation
23 expense and an increase in rate base investment. This is a significant benefit to
24 customers, and I recommend that it be adopted by the Commission.

25 The seventh adjustment relates to expenses incurred to comply with the federal
26 Communications Assistance for Law Enforcement Act (CALEA). Under this act,
27 communications companies are required to make their networks capable of intercepting
28 calls pursuant to lawfully authorized electronic surveillance requests received from the
29 FCC or the Department of Justice. Compliance can be either internal or a
30 communications provider may contract with a trusted third party to provide CALEA

1 compliance. Chugwater has chosen to comply using a trusted third party provider. The
2 Company expects the ongoing cost of compliance with CALEA and with new Customer
3 Proprietary Network Information (CPNI) requirements of the FCC to be \$6,471 annually.
4 I take no exception to this expense adjustment.

5 The eighth and final adjustment proposed by the Company reflects amortization of the
6 costs associated with prosecuting this rate case. The Company projects that the costs it
7 will incur in processing this case will be \$40,000 and proposes to amortize those costs
8 over a three year period; thus yielding an annual amortization expense of \$13,333. Using
9 the recent Pinedale Natural Gas (Pinedale) rate case for example, the Commission
10 determined in its final order, based on recommendations provided by the OCA, that a
11 reasonable level of rate case expense was \$49,875 and that amortizing that amount of
12 expense over a three year period, or \$16,625 per year, was also reasonable. While one
13 might argue that Chugwater is a much smaller company and therefore, the cost of
14 preparing and litigating a rate case should be comparatively less, although Pindale is an
15 exceedingly small company in its own right, many of the costs associated with filing and
16 prosecuting a rate case do not depend on the size of the Company and are more or less
17 fixed regardless of size. In my judgment, the \$40,000 of rate case expense projected to be
18 incurred by Chugwater is reasonable and, by extension, it is reasonable to include
19 \$13,333 in annual rate case expense amortization in the Company's revenue requirement.
20 Therefore, I recommend its adoption by the Commission.

21 **Q. WHAT ARE THE RESULTS OF ADOPTING THE COMPANY'S PROPOSED**
22 **ADJUSTMENTS AS YOU RECOMMEND?**

23 A. The results are shown on OCA Exhibit BJJ 4 under the column heading "Total
24 Company." Based on a year-end 2006 test year, and incorporating the Company's
25 proposed adjustments as I have recommended, including the proposed rate base revision
26 discussed earlier in my testimony, results in a total revenue requirement of \$265,702 and
27 revenue deficiency of \$114,374.

28 **Q. ARE YOU PROPOSING ANY ADJUSTMENTS IN ADDITION TO THE**
29 **COMPANY ADJUSTMENTS YOU HAVE ACCEPTED?**

1 A. Yes, I am proposing two additional adjustments, one which eliminates the Christmas or
2 year-end bonus payments to employees and directors and another which eliminates
3 charitable donations made by the Company.

4 **Q. WHY ARE YOU RECOMMENDING ELIMINATION OF THE BONUSES?**

5 A. As I discussed earlier in my testimony, finding comparative benchmarks for measuring
6 the reasonableness of compensation, particularly for a company the size of Chugwater, is
7 challenging. That task is complicated further by Chugwater's family ownership structure
8 and lack of oversight by a board of independent directors. Ideally, a compensation policy
9 will exactly balance the need to attract and retain talented human resources with a
10 company's ability to pay for those resources. In an environment where employees are
11 essentially able to set their own compensation levels and pass the cost on to customers,
12 the Commission should take great care to insure that compensation levels are justified
13 and designed to achieve the goal of attracting and retaining valuable human capital.

14 The year-end or Christmas bonuses paid by the Company and included in its revenue
15 requirement serve no useful purpose to that end. They are simply discretionary payments
16 that have historically been made to employees and directors at customers' expense. If the
17 Company wishes to continue making these bonus payments it should do so from
18 shareholder proceeds rather than including them as an expense. I strongly recommend
19 that the bonus payments be excluded from the Company's approved revenue requirement.

20 Based on information provided in response to a data request, the Company has included
21 \$ in annual bonus payments in its revenue requirement calculation. As shown on
22 Exhibit OCA BJB 4, I removed that amount in my calculation of the revenue requirement.

23 **Q. WHY ARE YOU ADVOCATING REMOVAL OF CHARITABLE**
24 **CALCULATIONS FROM THE REVENUE REQUIREMENT CALCULATION?**

25 A. The OCA has long advocated removal of discretionary charitable contributions from
26 expenses included in the revenue requirement. Such contributions are obviously not
27 necessary in the provision of safe, adequate and reliable service to customers. While it
28 might be argued that such expenses are necessary to maintain the community standing of

1 the utility, that standing is far less important to consumers than it is to the utility. I am
2 not recommending, nor do I believe that the Commission has the authority to prohibit
3 utilities from making these types of contributions. I am simply suggesting that charitable
4 contributions should be made by shareholders and not rate payers.

5 In a recent decision in a High Plains Power rate case Denise Parrish of the OCA testified
6 as follows regarding charitable contributions:

7 ...they simply are not an expense that is necessary to the reasonable
8 provision of service by a monopoly provider. While many customers
9 would be disappointed if a large corporate citizen, such as High Plains, did
10 not make some corporate donations to accentuate their community
11 presence, those customers are unlikely to all agree on the specific causes to
12 which the donations should be made. I may prefer charitable organization
13 X while my neighbor prefers Y. Other customers are economically
14 challenged, and prefer to keep rates as low as reasonably possible, so that
15 they can make their own choice of charities – if they are not already
16 deciding between food and medicine for the month. Thus, it is better to
17 keep charitable donations out of the ratemaking process, as I recommend
18 here. (OCA Ex. #1, Docket No. 10020-32-CR-06).

19 The points raised by Ms. Parrish in the above cited testimony are as pertinent in
20 this case as they were in that case and deserve serious consideration by the
21 Commission.

22 **Q. TAKING INTO ACCOUNT YOUR RECOMMENDED ADJUSTMENTS,**
23 **INCLUDING THOSE PROPOSED BY THE COMPANY, WHAT IS THE TOTAL**
24 **REVENUE REQUIREMENT YOU ARE RECOMMENDING?**

25 A. The total annual revenue requirement that I am recommending for the Company in this
26 case is \$258,502, as shown in the OCA Recommended column of OCA Exhibit BJB 4.
27 This is slightly less than the Company's revised proposed revenue requirement of
28 \$265,702 also shown on that exhibit, and approximately 7.6% lower than the revenue

1 requirement proposed by the Company in its original application. If this revenue
2 requirement is approved, Chugwater's receipts from the WUSF will increase by \$107,174
3 annually. My final revenue calculation makes a slight tax adjustment that I will explain
4 in a moment.

5 **Q. DO YOU WISH TO MAKE ANY OTHER OBSERVATIONS ABOUT YOUR**
6 **ANALYSIS?**

7 A. Before I conclude my testimony, I'd like to briefly touch on three other areas of the
8 Company's filing: depreciation rates, rate of return and the determination of the local rate.

9 **Q. WHAT ARE YOUR OBSERVATIONS REGARDING THE DEPRECIATION**
10 **RATES USED BY THE COMPANY IN THIS CASE?**

11 A. It is customary to review the depreciation rates used to derive annual depreciation rates
12 during a rate case proceeding to ensure that asset lives are reasonable and the resulting
13 annual depreciation expense results in just and reasonable rates for customers. The
14 Company did not provide a depreciation study with its filing, and I did not conduct an
15 independent in-depth depreciation study. Frankly, for a Company of Chugwater's size,
16 barring some extremely unusual circumstance, the expense of a stand alone depreciation
17 study is probably not in the best interest of customers.

18 I did, however, conduct a cursory review of the annual depreciation rates for other local
19 exchange companies operating in Wyoming using the annual reports filed with the
20 Commission. My review of this information indicates that the asset lives and
21 corresponding depreciation expense used by the Company in developing its proposed
22 revenue requirement in this case are reasonable. Specifically, for those companies that
23 reported depreciation rates, the average composite annual depreciation rate ranged
24 between approximately 7% and 8%. Chugwater's composite annual depreciation rate is
25 8.07%. Therefore, I did not make any adjustment to the Company's proposed
26 depreciation expense beyond that reflected in the Company's adjustment to account for
27 the switch replacement and other miscellaneous plant investments.

1 **Q. DID YOU CONDUCT AN INDEPENDENT ANALYSIS OF THE COMPANY'S**
2 **COST OF CAPITAL?**

3 A. No, I did not. In its filing the Company proposes to use its existing rate of return in
4 establishing its revenue requirement. The Company is currently authorized to earn an
5 overall weighted average return of 9.93% on its investment, which was established in the
6 Company's last general rate case filing in 2002. The weighted average return is
7 composed of a return on equity of 11.89% and a cost of debt of 7%. Notably, even
8 though Chugwater is financed with 100% equity the previously established weighted
9 return was established using a capital structure of 40% debt and 60% equity which is
10 generally accepted as an appropriate capital allocation in the regulatory and financial
11 literature. It would not be appropriate to use the Company's existing capital structure of
12 100% equity as equity financing is more expensive than debt financing. Using a balanced
13 imputed capital structure as a surrogate for the actual capital structure of a company
14 whose capital ratio falls outside of industry norms is a procedure that has been used by
15 this Commission many times in the past.

16 Overall, I do not quarrel with the Company's use of its existing cost of capital in this
17 case. Based on my experience, the existing cost of equity is consistent with current
18 capital market expectations, particularly given Chugwater's size and the fact that it is
19 experiencing demonstrable competition in its local market as evidenced by the line losses
20 that I described earlier in my testimony. Likewise, the assumed cost of debt appears to be
21 within a reasonable range, if not on the low end, of lending rates that would be available
22 to a Company like Chugwater.

23 However, a slight adjustment is necessary to account for the assumed debt in the capital
24 structure. Because interest expenses are not taxable, it is necessary to deduct those
25 expenses from operating income prior to calculating federal income taxes. This
26 adjustment is shown on OCA Exhibit BJB 4.

27 **Q. HAVE YOU DEVELOPED A LOCAL RATE FOR CHUGWATER'S LOCAL**
28 **EXCHANGE SERVICE?**

1 A. OCA Exhibit BJB 5 shows the rate for Chugwater's monthly local exchange service based
2 on the revenue requirement that I recommend the Commission adopt in this case. In
3 order to determine the local rate, I first determine the total revenue requirement of
4 \$105.08 on a per line basis. Next, I subtract the per line amount of \$14.40 for federal
5 high cost loop support and deduct monthly per line revenue of \$11.20 derived from the
6 sale of retail services other than local service. The remaining \$79.48 is the per line
7 amount of the total revenue requirement assigned to local service that is recovered
8 through a combination of customer payments and WUSF support. This is the local
9 monthly per line rate. The difference between the local rate and customer revenues,
10 \$47.01, per line, per month is the amount of WUSF support that is necessary to ensure
11 that customers do not pay more than 130% of the statewide average rate.

12 **Q. DOES THAT CONCLUDE YOUR DIRECT PREFILED TESTIMONY IN THIS**
13 **PROCEEDING?**

14 A. Yes, it does.

APPENDIX A

CASES IN WHICH BRYCE FREEMAN HAS PRESENTED TESTIMONY BEFORE THE WYOMING PUBLIC SERVICE COMMISSION AS OF 8/21/08

<u>Docket Number</u>	<u>Company</u>	<u>Date</u>	<u>Subject Of Testimony</u>
30016-GR-94-8	Pinedale Natural Gas Company	10/26/1994	ROR
70006-TR-94-14	Silver Star Telephone Company, Inc.	12/6/1994	ROR
20002-ER-95-48	Black Hills Power & Light	8/14/1995	ROR, IRP, DSM, AFOR
70000-TR-95-238	U S WEST Communications, Inc.	10/2/1995	TSLRIC
General Order No. 73	Commission Rule Making	4/11/1996	TSLRIC
20000-ER-95-99	PacifiCorp, Inc.	6/17/1996	ROR, AFOR, PBR
70007-TR-95-15	Dubois Telephone Company	8/5/1996	ROR, TSLRIC
30012-GR-96-33	Wyoming Industrial Gas Company	10/16/1996	ROR
70007-TR-95-15	Pacific Telecommunications, Inc.	12/10/1996	TSLRIC
70000-TT-96-301	U S West Communications, Inc.	1/10/1997	AFOR, Jurisdiction
70007-TR-95-15	U S West Communications, Inc.	1/28/1997	TSLRIC, RATE DESIGN
70000-TR-96-323	U S West Communications, Inc.	5/26/1997	TSLRIC, Imputation
30005-GR-97-51	Cheyenne Light, Fuel & Power, Inc.	8/25/1997	ROR
70011-TR-97-15	Tri-County Telephone Association, Inc.	3/31/1998	TSLRIC
70014-TR-97-7	TCT West, Inc.	3/31/1998	TSLRIC
80007-WR-98-6	Vista West Water Company	8/31/1998	Cost of Service
20000-EA-98-141	PacifiCorp, Inc.	7/6/1999	Merger
30010-GR-99-47	Questar Gas Company	10/28/1999	ROR, Revenue Requirement
20003-ER-99-54	Cheyenne Light, Fuel & Power, Inc.	1/18/2000	ROR, Rate Design
30005-GR-99-53	Cheyenne Light, Fuel & Power, Inc.	1/18/2000	ROR, Rate Design
20000-ER-99-145	PacifiCorp, Inc.	1/26/2000	ROR, Rate Design
80007-WR-99-8	Vista West Water Company	3/22/2000	Rate Design
30010-GA-01-56	Questar Gas Company/Wyoming Industrial Gas	6/12/2001	Merger/Acquisition
30012-GA-01-43			
20000-ER-0-162	PacifiCorp, Inc.	7/9/2001	Rate Design
70000-TA-99-482	Qwest Communications	9/6/2001	TSLRIC
70000-TA-01-700	Qwest Communications	3/15/2002	TELRIC
70013-TR-02-17	All West Communications, Inc.	10/28/2002	TSLRIC
70006-TT-00-43	Silver Star Telephone Company, Inc., Teton Telecom	12/17/2002	TSLRIC
70016-TA-02-21			
20000-ER-02-184	PacifiCorp, Inc.	1/7/2003	Power Cost
30022-GI-02-3	Kinder Morgan, Inc.	2/3/2003	Choice Gas
20000-ER-02-198	PacifiCorp, Inc.	1/16/2004	Power Cost
20000-EA-05-226	MEHC/PacifiCorp	12/15/2005	Merger/Acquisition
30022-73-GR-06	Kinder Morgan, Inc.	9/18/2006	ROR
20000-250-EA-06	Rocky Mountain Power	1/10/2007	Avoided Costs
30022-84-GA-06	Source Gas/Kinder Morgan/KMRUH; Knight HoldCo LLC, Knight Acquisition Co.	2/18/2007	Sale/Acquisition/Reorganization
30085-85-GA-06			
30016-41-GR-06	Pinedale Natural Gas Company	3/21/2007	General Rate Case/ROR
10016-47-CR-06	WYRULEC	7/2/2007	General Rate Case
20003-90-ER-07	Cheyenne Light, Fuel & Power, Inc.	10/22/2007	General Rate Case/WYGEN II Prudence
30005-112-GR-07			
70009-294-TT-07	Embarq Communications	11/2/2007	Access Charges/USF
10016-47-CR-06	WYRULEC	12/10/2007	Amended General Rate Case
20000-277-ER-07	Rocky Mountain Power	3/3/2008	General Rate Case/ROR
20000-264-EA-06	Rocky Mountain Power	5/27/2008	Amended DSM Application
70005-24-TR-08	Chugwater Telephone Company	8/21/2008	General Rate Case

ROR = RATE OF RETURN; IRP = INTEGRATED RESOURCE PLANNING;
 DSM = DEMAND SIDE MANAGEMENT; AFOR = ALTERNATIVE FORM OF REGULATION;
 TSLRIC = TOTAL SERVICE LONG RUN INCREMENTAL COST;
 PBR = PERFORMANCE BASED RATE MAKING
 AFOR = ALTERNATIVE FORM OF REGULATION

Chugwater

Year	Ratio CO Trans. to Total	Information Orig/Term	Ratio Information Orig/Term to Total	Cable and Wire Facilities	Ratio C&W Facilities to Total	Other Plant and Equipment	Ratio Other Plant and Equipment to Total	Network Operations	Ratio Network Operations to Total	Access	Ratio Access to Total
2003	10.86%	\$1,439	0.31%	\$6,632	1.42%	\$0	0.00%	\$4,442	0.95%	\$0	0.00%
2004	13.71%	\$1,631	0.32%	\$60	0.01%	\$0	0.00%	\$4,280	0.85%	\$0	0.00%
2005	15.29%	\$1,529	0.31%	\$1,260	0.25%	\$0	0.00%	\$4,926	0.99%	\$0	0.00%
2006	0.00%	\$1,378	0.23%	\$42,477	7.11%	\$0	0.00%	\$27,306	4.57%	\$0	0.00%
2007	9.79%	\$1,413	0.23%	\$23,938	3.95%	\$0	0.00%	\$20,300	3.35%	\$0	0.00%

Dubois

Year	Ratio CO Trans. to Total	Information Orig/Term	Ratio Information Orig/Term to Total	Cable and Wire Facilities	Ratio C&W Facilities to Total	Other Plant and Equipment	Ratio Other Plant and Equipment to Total	Network Operations	Ratio Network Operations to Total	Access	Ratio Access to Total
2003	3.90%	\$0	0.00%	\$305,946	10.73%	\$0	0.00%	\$57,633	2.02%	\$23,376	0.82%
2004	4.13%	\$0	0.00%	\$311,818	9.80%	\$0	0.00%	\$78,713	2.47%	\$29,160	0.92%
2005	4.81%	\$0	0.00%	\$448,145	12.91%	\$0	0.00%	\$97,028	2.80%	\$42,927	1.24%
2006	4.26%	\$0	0.00%	\$450,258	11.78%	\$0	0.00%	\$145,415	3.80%	\$37,036	0.97%
2007	8.97%	\$0	0.00%	\$466,726	10.96%	\$0	0.00%	\$137,897	3.24%	\$36,676	0.86%

Range

Year	Ratio CO Trans. to Total	Information Orig/Term to Total	Ratio Information Orig/Term to Total	Cable and Wire Facilities	Ratio C&W Facilities to Total	Other Plant and Equipment	Ratio Other Plant and Equipment to Total	Network Operations to Total	Ratio Network Operations to Total	Access	Ratio Access to Total
2003	3.32%	\$5,539	0.27%	\$300,983	14.64%	\$0	0.00%	\$29,324	1.43%	\$18,388	0.89%
2004	4.56%	\$0	0.00%	\$399,508	17.09%	\$0	0.00%	\$39,919	1.71%	\$26,928	1.15%
2005	3.94%	\$0	0.00%	\$366,094	15.26%	\$0	0.00%	\$50,319	2.10%	\$41,207	1.72%
2006	6.37%	\$0	0.00%	\$386,399	13.89%	\$0	0.00%	\$62,061	2.23%	\$46,109	1.66%
2007	9.81%	\$0	0.00%	\$397,956	13.36%	\$0	0.00%	\$32,798	1.10%	\$49,341	1.66%

Tri-County

Year	Ratio CO Trans. to Total	Information Orig/Term to Total	Ratio Information Orig/Term to Total	Cable and Wire Facilities	Ratio C&W Facilities to Total	Other Plant and Equipment	Ratio Other Plant and Equipment to Total	Network Operations to Total	Ratio Network Operations to Total	Access	Ratio Access to Total
2003	2.75%	\$3,083	0.21%	\$104,186	7.24%	\$14,292	0.99%	\$66,714	4.63%	\$12,356	0.86%
2004	3.06%	\$3,925	0.26%	\$72,626	4.77%	\$0	0.00%	\$57,941	3.80%	\$11,103	0.73%
2005	3.68%	\$0	0.00%	\$136,052	9.50%	\$0	0.00%	\$68,051	4.75%	\$13,150	0.92%
2006	3.60%	\$11,723	0.72%	\$136,306	8.43%	\$0	0.00%	\$81,844	5.06%	\$24,505	1.51%
2007	5.75%	\$273	0.01%	\$145,966	7.85%	\$0	0.00%	\$106,884	5.75%	\$25,970	1.40%

TCT West

Year	Ratio CO Trans. to Total	Information Orig/Term	Cable and Wire Facilities	Ratio C&W Facilities to Total	Other Plant and Equipment	Ratio Other Plant and Equipment to Total	Network Operations	Ratio Network Operations to Total	Access	Ratio Access to Total
2003	3.22%	\$38,698	\$439,348	8.31%	\$0	0.00%	\$214,559	4.06%	\$23,594	0.45%
2004	3.71%	\$35,529	\$503,344	8.70%	\$0	0.00%	\$264,989	4.58%	\$44,194	0.76%
2005	3.54%	\$0	\$639,079	9.65%	\$0	0.00%	\$297,261	4.49%	\$153,091	2.31%
2006	3.67%	\$157,264	\$714,483	9.77%	\$0	0.00%	\$348,194	4.76%	\$96,164	1.31%
2007	4.49%	\$133,315	\$698,869	9.19%	\$84,525	1.11%	\$366,750	4.82%	\$137,119	1.80%

Qwest

Year	Ratio CO Trans. to Total	Information Orig/Term	Cable and Wire Facilities	Ratio C&W Facilities to Total	Other Plant and Equipment	Ratio Other Plant and Equipment to Total	Network Operations	Ratio Network Operations to Total	Access	Ratio Access to Total
2003	1.84%	\$163,703	\$10,493,317	10.61%	-\$20,817	-0.02%	\$7,048,545	7.12%	\$431,594	0.44%
2004	1.60%	\$170,653	\$11,173,445	12.68%	\$70,255	0.08%	\$6,364,082	7.22%	\$217,200	0.25%
2005	1.90%	\$159,229	\$11,486,241	12.42%	\$330,486	0.36%	\$5,721,262	6.19%	\$254,268	0.28%
2006	2.87%	\$119,306	\$11,753,358	17.72%	\$21,337	0.03%	\$5,742,865	8.66%	\$224,669	0.34%
2007	2.83%	\$160,286	\$9,816,139	14.61%	\$19,704	0.03%	\$6,166,444	9.17%	\$52,542	0.08%

Chugwater

Year	Ratio Depreciation and Amortization to Total		Ratio Marketing to Total		Ratio Customer Operations to Total		Ratio Executive Planning to Total		Ratio General Administrative to Total	
	Depreciation and Amortization	Ratio	Marketing	Ratio	Customer Operations	Ratio	Executive Planning	Ratio	General Administrative	Ratio
2003	\$52,644	11.29%	\$0	0.00%	\$32,712	7.01%	\$168,195	36.07%	\$101,311	21.73%
2004	\$78,362	15.59%	\$0	0.00%	\$30,972	6.16%	\$185,971	37.01%	\$88,531	17.62%
2005	\$71,872	14.41%	\$31,668	6.35%	\$31,668	6.35%	\$189,859	38.07%	\$24,823	4.98%
2006	\$64,448	10.79%	\$0	0.00%	\$22,289	3.73%	\$194,762	32.60%	\$162,230	27.15%
2007	\$63,861	10.53%	\$0	0.00%	\$56,313	9.29%	\$130,673	21.55%	\$209,218	34.51%

Dubois

Year	Ratio Depreciation and Amortization to Total		Ratio Marketing to Total		Ratio Customer Operations to Total		Ratio Executive Planning to Total		Ratio General Administrative to Total	
	Depreciation and Amortization	Ratio	Marketing	Ratio	Customer Operations	Ratio	Executive Planning	Ratio	General Administrative	Ratio
2003	\$970,658	34.05%	\$0	0.00%	\$165,954	5.82%	\$263,792	9.25%	\$512,048	17.96%
2004	\$983,326	30.90%	\$0	0.00%	\$179,684	5.65%	\$300,432	9.44%	\$594,063	18.67%
2005	\$1,173,270	33.81%	\$0	0.00%	\$204,911	5.90%	\$324,815	9.36%	\$637,186	18.36%
2006	\$1,336,399	34.97%	\$0	0.00%	\$244,478	6.40%	\$359,425	9.40%	\$642,356	16.81%
2007	\$1,341,750	31.51%	\$0	0.00%	\$249,566	5.86%	\$418,256	9.82%	\$692,139	16.25%

Range

Year	Depreciation and Amortization	Ratio Depreciation and Amortization to Total	Marketing	Ratio Marketing to Total	Customer Operations	Ratio Customer Operations to Total	Executive Planning	Ratio Executive Planning to Total	General Administrative	Ratio General Administrative to Total
2003	\$872,229	42.43%	\$0	0.00%	\$95,589	4.65%	\$88,340	4.30%	\$261,180	12.70%
2004	\$900,771	38.54%	\$0	0.00%	\$113,821	4.87%	\$110,990	4.75%	\$336,101	14.38%
2005	\$949,152	39.55%	\$0	0.00%	\$111,921	4.66%	\$116,912	4.87%	\$293,035	12.21%
2006	\$1,005,445	36.15%	\$48,747	1.75%	\$120,443	4.33%	\$166,011	5.97%	\$299,567	10.77%
2007	\$1,060,067	35.58%	\$2,502	0.08%	\$132,467	4.45%	\$204,460	6.86%	\$358,155	12.02%

Tri-County

Year	Depreciation and Amortization	Ratio Depreciation and Amortization to Total	Marketing	Ratio Marketing to Total	Customer Operations	Ratio Customer Operations to Total	Executive Planning	Ratio Executive Planning to Total	General Administrative	Ratio General Administrative to Total
2003	\$665,590	46.24%	\$2,867	0.20%	\$142,240	9.88%	-\$6,967	-0.48%	\$236,910	16.46%
2004	\$697,081	45.76%	\$16,496	1.08%	\$172,327	11.31%	\$66,301	4.35%	\$271,227	17.80%
2005	\$587,475	41.01%	\$22,830	1.59%	\$142,433	9.94%	\$46,487	3.25%	\$235,664	16.45%
2006	\$646,010	39.94%	\$32,867	2.03%	\$148,185	9.16%	\$52,167	3.23%	\$232,301	14.36%
2007	\$805,961	43.34%	\$37,315	2.01%	\$148,093	7.96%	\$53,844	2.90%	\$246,161	13.24%

TCT West

Year	Ratio Depreciation and Amortization to Total		Ratio Marketing to Total		Ratio Customer Operations to Total		Ratio Executive Planning to Total		Ratio General Administrative to Total	
	Depreciation and Amortization	to Total	Marketing	to Total	Customer Operations	to Total	Executive Planning	to Total	General Administrative	to Total
2003	\$2,203,882	41.69%	\$33,033	0.62%	\$482,901	9.13%	\$200,354	3.79%	\$586,540	11.09%
2004	\$2,297,018	39.71%	\$57,882	1.00%	\$586,467	10.14%	\$336,805	5.82%	\$741,046	12.81%
2005	\$2,662,110	40.20%	\$116,283	1.76%	\$565,985	8.55%	\$235,295	3.55%	\$1,006,923	15.20%
2006	\$2,754,929	37.66%	\$151,093	2.07%	\$609,555	8.33%	\$255,020	3.49%	\$1,022,009	13.97%
2007	\$2,793,147	36.72%	\$190,796	2.51%	\$563,868	7.41%	\$285,081	3.75%	\$1,100,182	14.46%

Qwest

Year	Ratio Depreciation and Amortization to Total		Ratio Marketing to Total		Ratio Customer Operations to Total		Ratio Executive Planning to Total		Ratio General Administrative to Total	
	Depreciation and Amortization	to Total	Marketing	to Total	Customer Operations	to Total	Executive Planning	to Total	General Administrative	to Total
2003	\$43,430,724	43.89%	\$4,819,826	4.87%	\$9,121,123	9.22%	\$406,243	0.41%	\$16,916,628	17.10%
2004	\$57,184,367	64.88%	\$5,304,227	6.02%	\$8,191,838	9.29%	\$473,596	0.54%	-\$8,594,110	-9.75%
2005	\$42,158,470	45.60%	\$5,873,912	6.35%	\$8,273,253	8.95%	\$492,149	0.53%	\$8,820,219	9.54%
2006	\$18,102,377	27.29%	\$4,725,389	7.12%	\$8,028,129	12.10%	\$540,649	0.81%	\$9,603,268	14.48%
2007	\$22,267,190	33.13%	\$5,286,314	7.87%	\$6,734,817	10.02%	\$268,789	0.40%	\$9,183,945	13.66%

Chugwater

Year	Total Operating Expenses	Percent Increase	Operating Expense Per Line	Percent Increase
2003	\$466,334		\$1,766.42	
2004	\$502,549	7.77%	\$2,026.41	14.72%
2005	\$498,646	-0.78%	\$2,216.20	9.37%
2006	\$597,501	19.82%	\$2,972.64	34.13%
2007	\$606,232	1.46%	\$3,093.02	4.05%
		30.00%		75.10%

Dubois

Year	Total Operating Expenses	Percent Increase	Operating Expense Per Line	Percent Increase
2003	\$2,850,809		\$1,181.44	
2004	\$3,182,159	11.62%	\$1,338.17	13.27%
2005	\$3,470,683	9.07%	\$1,424.16	6.43%
2006	\$3,821,820	10.12%	\$1,535.48	7.82%
2007	\$4,258,451	11.42%	\$1,691.20	10.14%
		49.38%		43.15%

Range

Year	Total Operating Expenses	Percent Increase	Operating Expense Per Line	Percent Increase
2003	\$2,055,870		\$889.22	
2004	\$2,337,019	13.68%	\$1,107.59	24.56%
2005	\$2,399,800	2.69%	\$1,076.63	-2.80%
2006	\$2,781,612	15.91%	\$1,294.38	20.23%
2007	\$2,979,459	7.11%	\$1,400.12	8.17%
		44.92%		57.46%

Iri-County

Year	Total Operating Expenses	Percent Increase	Operating Expense Per Line	Percent Increase
2003	\$1,439,461		\$1,301.50	
2004	\$1,523,378	5.83%	\$1,493.51	14.75%
2005	\$1,432,526	-5.96%	\$1,365.61	-8.56%
2006	\$1,617,576	12.92%	\$1,539.08	12.70%
2007	\$1,859,738	14.97%	\$1,715.63	11.47%
		29.20%		31.82%

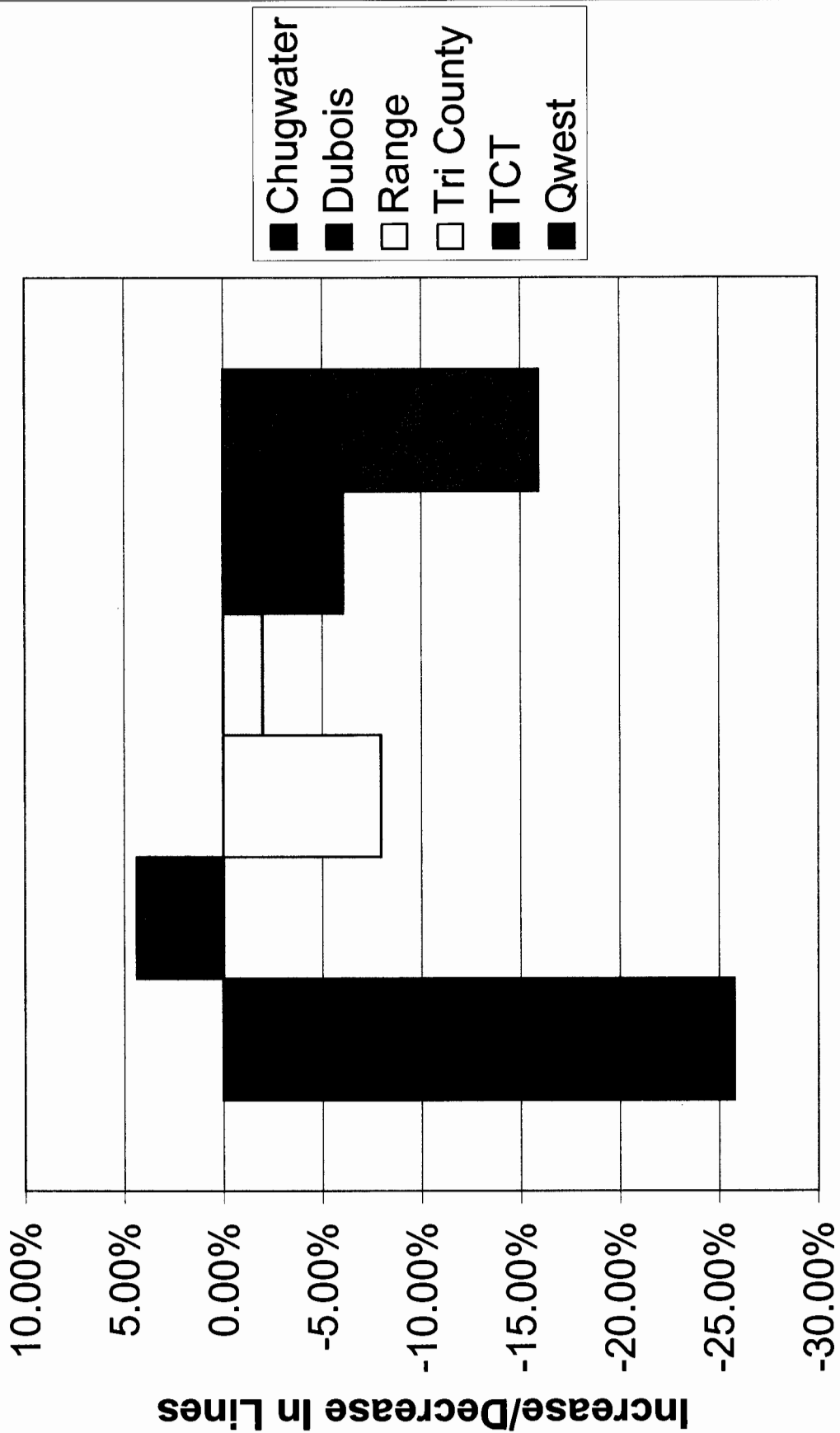
TCT West

Year	Total Operating Expenses	Percent Increase	Operating Expense Per Line	Percent Increase
2003	\$5,286,938		\$968.30	
2004	\$5,784,418	9.41%	\$1,083.83	11.93%
2005	\$6,622,764	14.49%	\$1,284.73	18.54%
2006	\$7,315,318	10.46%	\$1,400.87	9.04%
2007	\$7,607,211	3.99%	\$1,482.89	5.86%
		43.89%		53.14%

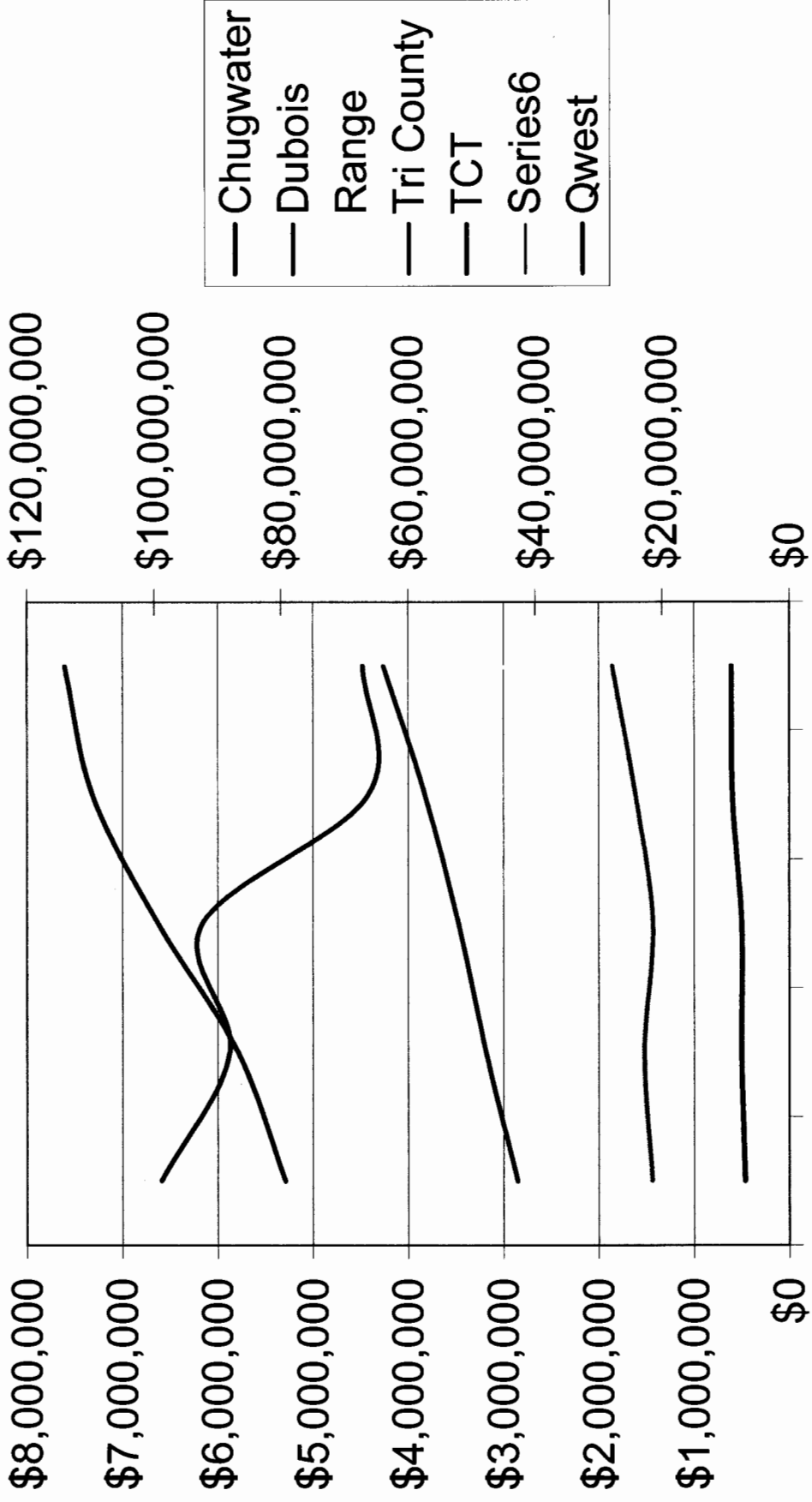
Qwest

Year	Total Operating Expenses	Percent Increase	Operating Expense Per Line	Percent Increase
2003	\$98,838,816		\$415.82	
2004	\$88,141,218	-10.82%	\$379.18	-8.81%
2005	\$92,459,336	4.90%	\$392.88	3.61%
2006	\$66,340,246	-28.25%	\$307.34	-21.77%
2007	\$67,209,391	1.31%	\$336.27	9.41%
		-32.00%		-19.13%

Line Count Increase/Decrease

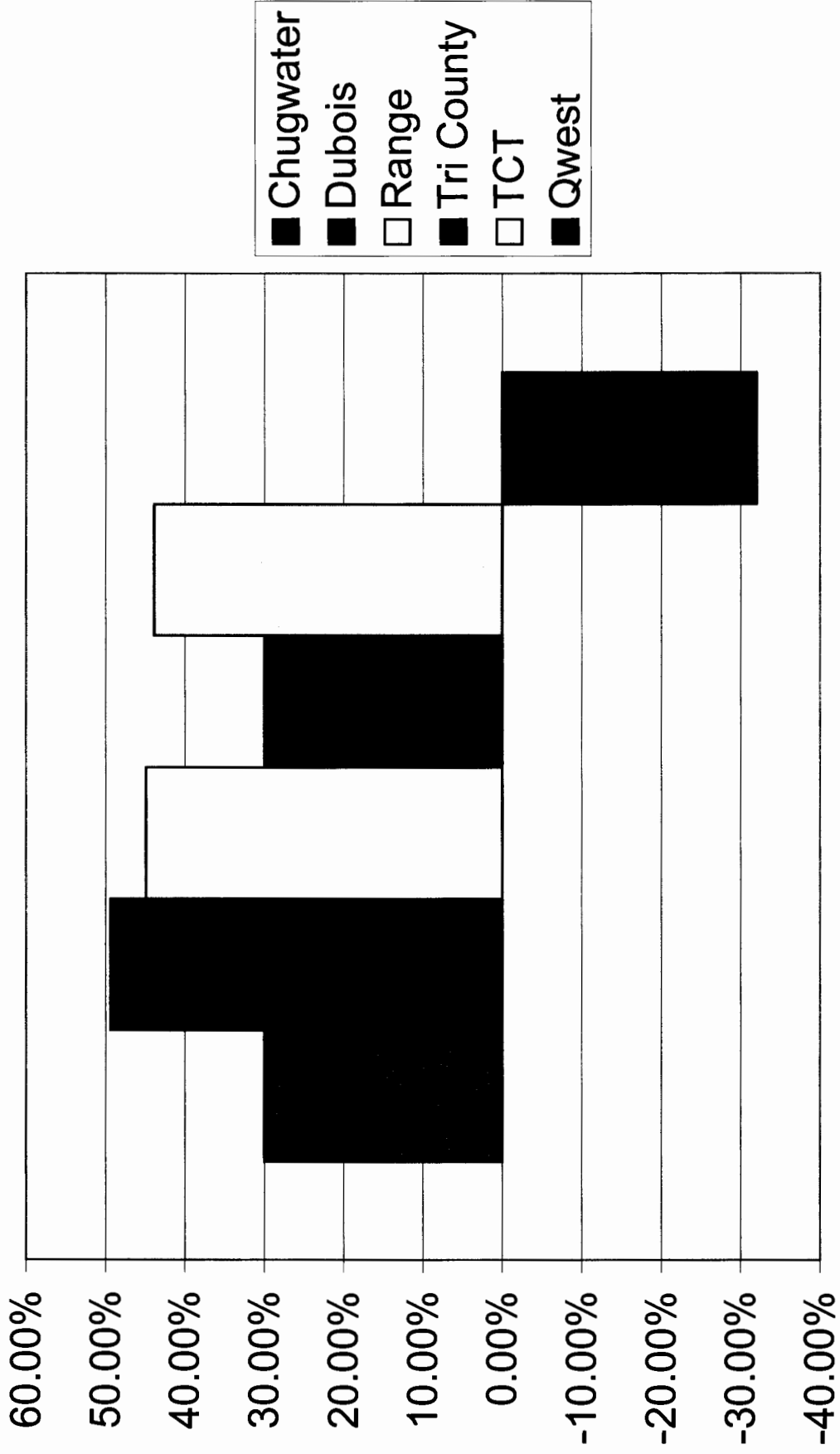


Total Operating Expenses

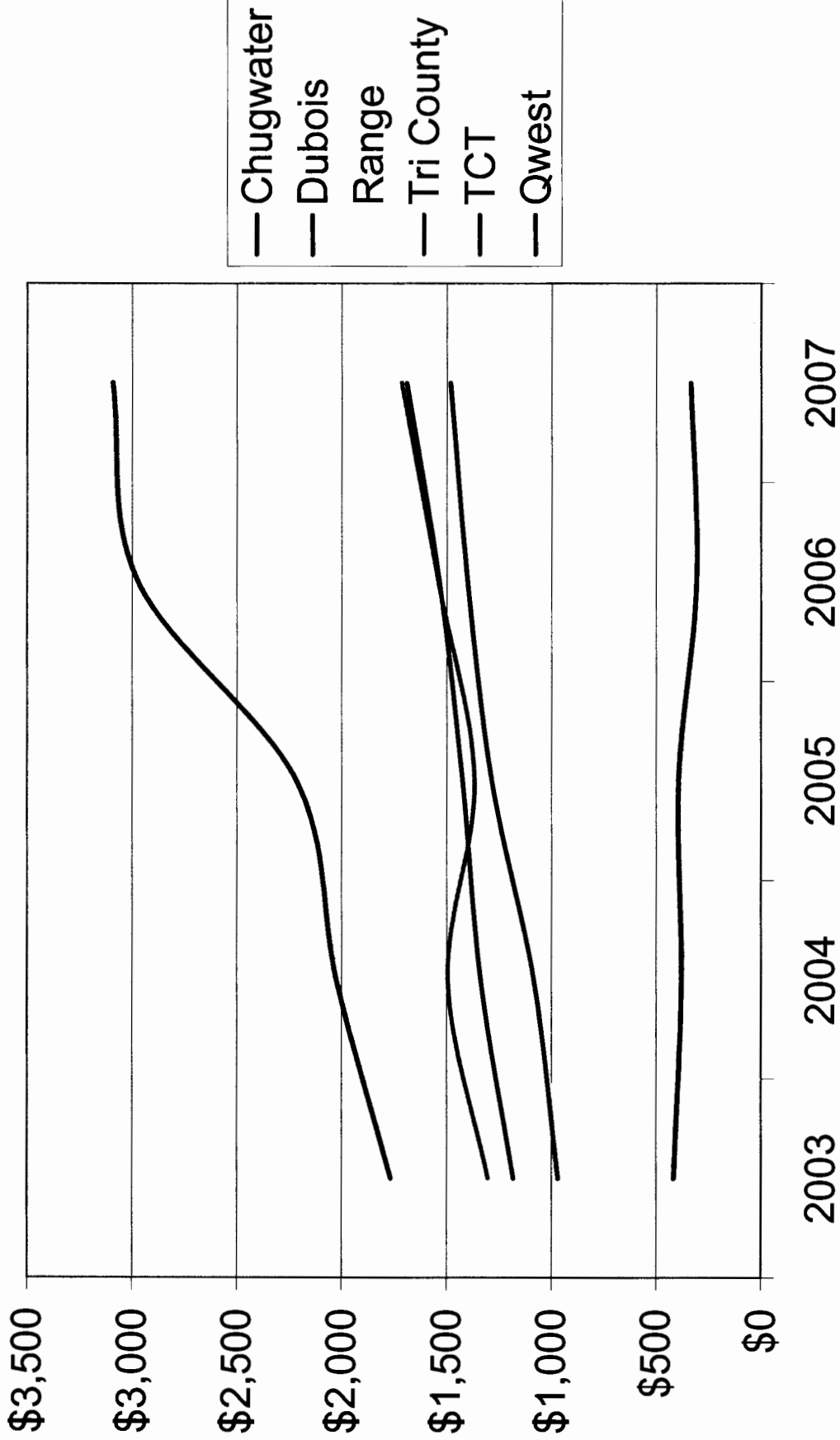


*Qwest Displays Right

Operating Expense Increases/Decrease



Operating Expense Per Line



ICLS Revenue and Expense Reconciliation

Interstate Common Line Revenue Requirement (Part 69)¹

Less Subscriber Line Revenue:
Single Line Flat Rate Business/Residential
Multi-Line

Balance recovered from ICLS²

Amount Shown for ICLS (2006) per USAC

¹NECA True-up 1/11/08

²ibid

LSS Revenue and Expense Reconciliation

Interstate Switching Revenue Requirement (Part 69)

Less Interstate Access Revenue:
2006 Interstate Switching Revenues Billed to
IXCs

Balance Allocated to LSS Revenue

Amount Actually Recovered in LSS Revenues¹

Net Shortfall In Switching Cost Recovery

Amount Shown for LSS (2006) per USAC (subject to true-up)

¹NECA True-up 5/08

<u>Taxable Income</u>						11,992
<u>Operating Income Tax</u>	(38,830)	4,644	(34,186)	5,845	(1,648)	4,197
<u>Net Operating Income</u>	(72,111)		(63,487)	10,856		10,856
<u>Rate Base</u>						
Plant In Service	499,249	(19,700)	479,549	479,549		479,549
Construction Work In Progress	0	0	0	0		0
Depreciation Reserve	(437,052)	62,218	(374,834)	(374,834)		(374,834)
Deferred Income Taxes	(4,054)	0	(4,054)	(4,054)		(4,054)
Customer Deposits	(446)	0	(446)	(446)		(446)
Prepayments	0	0	0	0		0
Materials	0	0	0	0		0
RTB/CoBank Capital Credits	0	0	0	0		0
Working Cash	9,534	(416)	9,118	9,118		8,871
Total	67,231	42,102	109,333	0	0	109,333
Intrastate Rate of Return	-107.26%		-58.07%	9.93%		9.93%

Local Service Rate Development

<u>Revenue Requirement</u>	\$105.08
<u>Minus</u>	
FUSF	\$14.40
Other Intrastate Revenue	\$11.20
<u>Rate Per Line</u>	\$79.48
Local Service Revenues	\$32.47
Difference/WUSF Support	\$47.01
<u>Total WUSF Support</u>	\$115,644.60