

EXHIBIT NO.: _____
ISSUE: Company Policy
WITNESS: John E. Colbert
TYPE OF EXHIBIT: Direct Testimony
SPONSORING PARTY: Fidelity Telephone Company
CASE NO.: _____
DATE: December 30, 2003

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

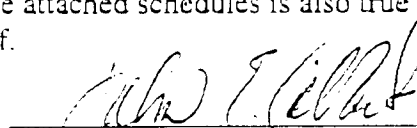
In the Matter of the Application)
of Fidelity Telephone Company)
for authority to file, establish,)
and put into effect new, increased,) Case No. _____
or revised rates and charges for)
telephone service.)

AFFIDAVIT OF JOHN E. COLBERT

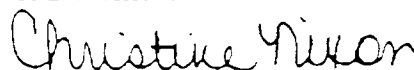
STATE OF MISSOURI)
) SS
CITY OF SULLIVAN)

John E. Colbert, of lawful age, being duly sworn, deposes and states as follows:

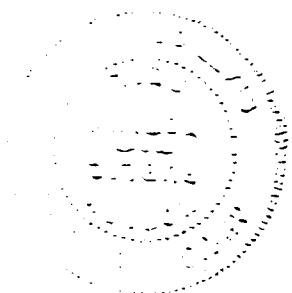
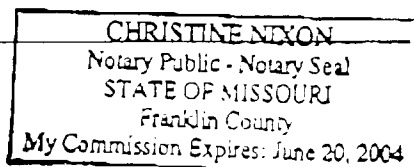
1. My name is John E. Colbert. I am employed by Fidelity Communications Co. as Senior Vice President.
2. Attached hereto and made a part of hereof for all purposes is my direct testimony consisting of Pages 1 through 11.
3. I hereby affirm that my answers contained in the attached testimony to the questions therein propounded are true and correct to the best of my knowledge and belief and that the information contained in the attached schedules is also true and correct to the best of my knowledge and belief.


John E. Colbert

Subscribed and sworn to before me this 30th day of December 2003.


Notary Public

My Commission expires: _____



Direct Testimony of John E. Colbert

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Direct Testimony of John E. Colbert

INTRODUCTION

Q. Would you please state your name and address?

A. My name is John E. Colbert and my business address is 64 N. Clark, Sullivan, MO 63080.

Q. By whom are you employed and in what capacity?

A. I am employed as a Senior Vice President with Fidelity Communications Co. and all subsidiaries, including Fidelity Telephone Company ("Fidelity" or the "Company").

Q. Would you please outline your educational background and any professional licenses you hold?

A. In 1985, I received a Bachelor of Accountancy from the University of Missouri-Columbia. I currently hold a permit to practice as a Certified Public Accountant in the State of Missouri.

In addition to the above, I have completed numerous courses and seminars in telecommunications, accounting, management and other areas.

Q. Would you please outline your business experience?

A. From 1985 through 1991, I was employed as a staff accountant in numerous professional accounting firms. As a staff accountant, I performed audits, reviews,

1 compilations and tax related work for various types of clients, including regulated
2 utilities.

3 From September 1991 to 1993, I was employed as Accounting Manager for
4 Fidelity Communications Co. I was responsible for all accounting related
5 functions for all the Fidelity subsidiaries.

6 In 1993, I was promoted to Controller of Fidelity Communications Co., and my
7 responsibilities increased to include all finance matters as well.

8 In 1995, I was promoted to Vice President of Finance for Fidelity
9 Communications Co. My responsibilities included Regulatory, Information
10 Systems and Accounting and Finance. I also assisted the President with many
11 management functions, possible new investments and new business development
12 during this time.

13 In 1998, I was promoted to Senior Vice President for Fidelity Communications
14 Co. My role at this time included all of the above in addition to a more strategic
15 interest in new business activities.

16 In July of 2000, I joined OutReach Communications, LLC as Chief Operating
17 Officer.

18 In September 2001, I rejoined Fidelity Communications Co. as Senior Vice
19 President where I remain today.

20
21 Q. Have you previously testified in regulatory proceedings?

22 A. No, I have not.

1 PURPOSE

2 Q. Would you please describe the purpose of your testimony?

3 A. The purpose of my testimony is to provide an overview of the Company and its
4 operations and the reasons for this filing.

5

6 Q. Why is the Company seeking a general rate increase at this time?

7 A. As more fully described in the testimony of the Company's Revenue Requirement
8 witness, Mr. Robert C. Schoonmaker of GVNW Consulting, Inc., the Company
9 has a deficiency in revenue requirement of \$2,359,972 and needs to increase
10 revenues accordingly.

11

12 Q. What is the major cause of the revenue requirement deficiency?

13 A. The biggest cause of the deficiency is an 83% decline in intralata toll revenue
14 over the last six years. Revenue from intralata toll declined from approximately
15 \$3,500,000 annually in 1997 to approximately \$600,000 in our test period (12
16 months ended August 31, 2003) due to the implementation of intralata dialing
17 parity in 1999. The Company has lost the majority of its intralata toll business as
18 customers have chosen to presubscribe to interexchange carriers (IXC's). The
19 deficiency has been minimized by the fact that the Company's Total Operating
20 Expenses (including Depreciation) have only increased by approximately
21 \$300,000, or 2.7%, from 1997 to the test period.

22

23 Q. Why is a rate increase necessary?

1 A. We have a history of holding rates in line as evidenced by the fact that Fidelity
2 has not had a general rate increase in at least 16 years. Although, in 1998, the
3 former Bourbeuse Telephone Company was merged with Fidelity and the rates
4 for its Gerald exchange were adjusted to the same level as all other Fidelity
5 exchanges. For Gerald customers within the city limits, rates changed from \$4.00
6 to \$7.55 and for customers outside the city limits, rates changes from \$7.50 to
7 \$7.55. At the same time, those customers and all other Fidelity customers
8 received an expanded calling scope, which includes toll free calling between all
9 nine Fidelity exchanges, eliminating approximately \$331,000 per year in long
10 distance charges for all customers.

11 In fact, for most customers, our phone line rates are currently lower than in 1987.
12 However, in order for us to continue to meet level of service requirements and
13 provide a reasonable financial base for deploying further infrastructure and
14 enhanced technologies, we need to have an increase. As more fully described in
15 the testimony of our Rate Design witness, Mr. Robert C. Schoonmaker of GVNW
16 Consulting, Inc., we have tried to reasonably allocate the increase amongst all
17 customers so as not to place too much of the burden on any one class of customer.
18 Also, as more fully described in the testimony of our Cost of Capital witness, Mr.
19 Terence D. Robinson of GVNW Consulting Inc., the Company could justify a
20 cost of equity as high as 14.8%, or higher, but in order to minimize the effect on
21 ratepayers, the Company has chosen to only include a 12% cost of equity in its
22 revenue requirement calculations.

1 OVERVIEW OF COMPANY

2 Q. Please describe the service area of the Company.

3 A. The Company is an incumbent local exchange company (ILEC), serving an area
4 encompassing approximately 680 square miles in East Central Missouri covering
5 portions of Franklin, Crawford, Gasconade, Washington and Osage counties. The
6 Company serves the exchanges of Sullivan, Gerald, Owensville, New Haven,
7 Spring Bluff, Japan, Stanton, Berger and Lyon. The Company has toll-free
8 extended area calling between all access lines in all of these exchanges.

9

10 Q. How many access lines does the Company serve?

11 A. The Company serves approximately 16,700 lines, of which 12,600 are residential
12 and 4,100 are business lines.

13

14 Q. Please describe the Company's ownership.

15 A. The Company is 100% owned by a holding company, Fidelity Communications
16 Co., which in turn is owned 100% by John T. Davis and his family. The holding
17 Company also owns other subsidiaries, including Fidelity Communication
18 Services I, Inc., Fidelity Long Distance, Inc., Fidelity Networks, Inc., Fidelity
19 Natural Gas, Inc. and Fidelity Cablevision, Inc.

20

21 Q. How are costs separated amongst the various subsidiaries?

22 A. Fidelity Communications Co. and each subsidiary maintain their own accounting
23 general ledger and, where practicable, all costs are directly assigned to the

1 appropriate company. The books of Fidelity Telephone Company contain only
2 regulated revenues and expenses.

3 The Fidelity companies use a sophisticated, computerized, windows-driven time
4 reporting system utilizing Solomon software. It allows all management and
5 hourly employees to enter their time by company, department and workorder (if
6 applicable) on a weekly basis. An employee doesn't get paid if he/she hasn't
7 completed his/her timesheet. In addition, the Solomon system uses an Allocator
8 module to automatically assign employee benefits and company vehicle expenses
9 to the appropriate company and department based upon labor dollars or hours.

10 Thus, the vast majority of the company's costs (labor, benefits and vehicle) are
11 assigned to all companies and departments by an efficient, accurate time reporting
12 system. This same system was in place during the Company's last earnings
13 investigation in Case No. TR-98-344.

14 Furthermore, the Fidelity companies use a computerized workorder system to
15 assign capital expenditures to the applicable company. Labor, benefits and
16 vehicle expenses attributable to workorders are automatically transferred to the
17 workorder system. Materials and supplies are initially entered into inventory and
18 then transferred to the workorder system via a material usage report. Other costs
19 such as contract labor are transferred into the workorder system via coding from
20 the accounts payable system. Once all work is completed on a project and all
21 costs are accumulated in the workorder system, a plant accountant closes each
22 workorder to the correct company and plant account. All Construction Work In
23 Progress (CWIP) and Materials and Supplies (M&S) accounts are maintained on

1 the books of Fidelity Telephone Company, but they are broken out and identified
2 by subsidiary on the annual report filed with the Commission and also not
3 included in net rate base for Fidelity Telephone Company.

4 Costs other than labor, benefits, vehicle and capital expenditures are specifically
5 identified and directly assigned, where practicable, to the applicable subsidiary
6 through the accounts payable system or journal entry. For example, the following
7 cost categories are identified and assigned by company: Depreciation,
8 Professional Fees, Contract Labor, Industry Dues, Bad Debts, Taxes, Travel &
9 Entertainment, Regulatory Fees, Advertising, Interest Expense, Donations and
10 Equipment Rent. For other cost categories, Fidelity does the following:

- 11 a) Building Rents (including Maintenance and Utilities) are allocated to the
12 applicable affiliates based upon total labor dollars per Company to total
13 square footage of shared facilities. Then each Company's portion of square
14 footage is multiplied by a cost per square foot and allocated to the applicable
15 affiliates.
- 16 b) Billing and Collection is charged to the affiliated long distance company
17 based upon tariffs and contractual arrangements. Also, Billing, Collection and
18 Postage is charged to other affiliates, where applicable, based upon number of
19 bills rendered.
- 20 c) Circuits are billed to the affiliated Internet Service Provider at tariffed rates.
- 21 d) While most switching and transport costs are directly assigned to the proper
22 company, there are some host switching and IXC transport costs allocated
23 based upon minutes of use.

1 e) Corporate Insurance is allocated based upon net book value of assets or
2 vehicle counts, except that Fidelity Natural Gas has separate policies, which it
3 pays directly.

4
5 DESCRIPTION OF OPERATIONS AND SERVICES

6 Q. Please describe Fidelity's network, the types of telecommunication services
7 provided and the efforts Fidelity has taken to provide quality services.

8 A. Although based in rural Missouri, large and small businesses, as well as
9 residential customers, are able to take advantage of the same services as those
10 offered in any metropolitan area. A Lucent 5ESS host/remote switching platform
11 was installed in 1996. Services available to Fidelity Telephone subscribers
12 include local internet access, ISDN, centrex, CLASS services, custom calling
13 services, voice mail and broadband distribution. Fidelity provides 100% one
14 party touchtone service and is one of the few local exchange companies in the
15 state of Missouri that provides intralata toll services.

16 Fidelity utilizes SS7 signaling and its exchanges are interconnected via a SONET
17 based fiber optic network to the Sullivan tandem switch. The Sullivan tandem
18 5ESS host/remote switch has three remote switch modules in Gerald, Owensville,
19 and New Haven. Also served by the Sullivan host switch are five Lucent SL2000
20 digital concentrators in Berger, Lyon, Spring Bluff, Japan and Stanton. This
21 combination of digital switching and fiber optic cable gives Fidelity subscribers
22 the latest in telephone technology.

1 Also, in an effort to get more broadband services to its customers, Fidelity has
2 installed more than 50 digital loop carrier (DLC) cabinets to its more rural
3 subscribers. Fidelity has chosen Advanced Fibre Communications (AFC) to
4 provide these remote cabinets and now has broadband services available to more
5 than 70% of Fidelity's subscribers. Fidelity has made a continued effort to push
6 fiber optic cables deeper into the network.

7 Fidelity has continued to provide capital dollars to upgrade its outside plant; not
8 only to the DLC's and fiber optic cable mentioned but also to its copper plant.

9 Fidelity also realizes that the copper plant still plays a critical part in providing
10 superior service to its subscribers. The Company takes every opportunity to
11 replace any service affecting air-core buried and aerial cables, replacing them
12 with 22 gauge gel-filled cables, which facilitates the deployment of broadband
13 services and helps prevent water damage to cables. Copper is still the facility that
14 takes these digital and broadband services to the customer's home.

15 911 service is another commitment Fidelity has undertaken for all customers. The
16 Company provides 911 services throughout all of its service areas, providing
17 automatic number identification (ANI) and data base updates to the public safety
18 answering points (PSAP) in several towns throughout the nine exchanges.

19 Providing services to our schools and the education of our children has become a
20 part of the Fidelity commitment to its customers. Fidelity has worked with two of
21 the largest school districts in our service areas to network buildings together. In
22 the Sullivan school district and the Gasconade County school district in
23 Owensville, Fidelity installed fiber optic networks to tie all buildings in both

1 districts together. This allowed the schools to set up local area networks so
2 school lunch counts, grades, administrative functions, distance learning,
3 surveillance, etc., could be done from any building and seen in all facilities, thus
4 saving the schools both valuable time and dollars.

5 Furthermore, Fidelity provides 24-hour on-call service. By hiring employees
6 within each of our service areas and having local business offices, Fidelity
7 technicians are available to assist customers in an emergency and provide fast,
8 quality service. Fidelity technicians are trained in the most up-to-date standards
9 and techniques.

10 In addition, within the last few years Fidelity has installed an internally developed
11 end-user and Carrier Access Billing (CABS) billing system along with an
12 operational support system. These new systems allow for more accurate billings,
13 faster response time to customer inquiries, more efficient service order
14 processing, more detailed live information on customer accounts, better
15 management reporting and many other enhancements.

16 Fidelity also makes an investment in the communities it serves. As a local
17 company, Fidelity supports many civic organizations, schools, and charities in its
18 service areas by donating not only money, but time and resources as well.

19 Employees live in the areas they serve, and therefore, they take great pride in each
20 community's events. Many enjoy taking an active role in their community's
21 organizations, clubs, churches, and activities.

1 All of the above-referenced items are evidence of a continuing commitment by
2 Fidelity to provide its customers and communities with leading edge
3 telecommunications technology and the most quality service possible.
4

5 Q. What support do you have for the Company's quality of service?

6 A. For the past three years the Company has met or exceeded all Commission
7 required surveillance levels on the quarterly service reports, except for the
8 Operator Assisted answering times, which is handled by a third party vendor.
9 For the past six years, an average of 93.8% of customers responding to a survey
10 conducted by an outside agency have rated the Company's service to be either
11 "Good" or "Excellent".
12

13 Q. Does this conclude your testimony?

14 A. Yes, it does.
15