

Exhibit No.:

Issues: Rate Design

Witness: Tom Solt

Sponsoring Party: Staff

Type of Exhibit: Direct Testimony

Case No.: IR-2004-0272

Date Testimony Prepared: March 15, 2004

**MISSOURI PUBLIC SERVICE COMMISSION**

**UTILITY OPERATIONS DIVISION DIVISION**

**DIRECT TESTIMONY**

**OF**

**TOM SOLT**

**FIDELITY TELEPHONE COMPANY**

**CASE NO. IR-2004-0272**

**Jefferson City, Missouri**

**March 15, 2004**

**\*\*Denotes Highly Confidential Information\*\***

**NP**

**BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI**


In the matter of the request of Fidelity )  
Telephone Company for authority to file, )  
establish, and put into effect new, increased, )  
or revised rates and charges for telephone )  
service )

Case No. IR-2004-0272

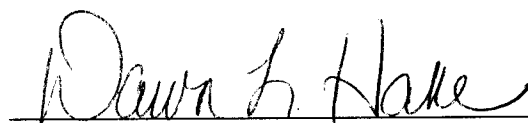
**AFFIDAVIT OF THOMAS A. SOLT**

**STATE OF MISSOURI**     )  
                                      ) ss  
**COUNTY OF COLE**     )

Thomas A. Solt, of lawful age, on his oath states: that he has participated in the preparation of the following testimony in question and answer form, consisting of 9 pages of testimony to be presented in the above case, that the answers in the following testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true to the best of his knowledge and belief.

  
\_\_\_\_\_  
Thomas A. Solt

Subscribed and sworn to before me this 15<sup>th</sup> day of March, 2004.

  
\_\_\_\_\_  
Notary Public

My commission expires \_\_\_\_\_  
**DAWN L. HAKE**  
Notary Public – State of Missouri  
County of Cole  
My Commission Expires Jan 9, 2005

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**DIRECT TESTIMONY**  
**OF**  
**THOMAS A. SOLT**  
**FIDELITY TELEPHONE COMPANY**  
**CASE NO. IR-2004-0272**

Q. Please state your name and business address.

A. Thomas A. Solt, P.O. Box 360, Jefferson City, Missouri 65102.

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

A. I am employed by the Missouri Public Service Commission (MoPSC or Commission) as a Regulatory Auditor in the Telecommunications Department of the Utility Operations Division.

Q. How long have you been employed by the Commission?

A. I have been employed by the Commission from May 1992 to present, with the exception of the period from September 20, 1997, through January 13, 1998.

Q. Please describe your education and professional background.

A. I was graduated from the University of Missouri—Columbia in August 1999, earning a Master of Public Administration degree, and from the University of Missouri—St. Louis in May 1987, after completing the requirements for a Bachelor of Science degree in Business Administration with an accounting emphasis. I am a licensed Certified Public Accountant in the State of Missouri, and hold other professional certifications.

Q. What has been the nature of your duties while in the employ of the Commission?

A. I have, under the direction of the Managers of Accounting, Energy, Natural Gas and Telecommunications Departments, assisted with audits and examinations of books and

1 records of utility companies operating within the state of Missouri under the jurisdiction of the  
2 Commission, and the review of various tariff filings and applications. I have also been  
3 responsible for the tracking and analysis of issues that were pertinent to the ratepayers of  
4 Missouri that were before the Federal Communications Commission and the Federal Energy  
5 Regulatory Commission.

6 Q. Have you previously filed testimony before the Commission?

7 A. Yes, I have. The cases in which I previously have filed testimony are included as  
8 Schedule 1 of my Direct Testimony.

9 Q. What is the purpose of your Direct Testimony in Case Number IR-2004-0272?

10 A. The purpose of my Direct Testimony in this case is to present the  
11 Telecommunications Department Staff's (Staff's) rate design proposal detailed as the highly  
12 confidential (HC) Schedule 2 of my Direct Testimony in this case.

13 **Proposed Rate Design**

14 Q. Please briefly describe your proposed rate design in this proceeding.

15 A. The Commission's Auditing Department Staff conducted an audit of Fidelity  
16 Telephone Company (Fidelity or Company) and determined that the Company required  
17 additional revenue in order for it to have the opportunity to earn a reasonable rate of return. The  
18 amount of the increase recommended by the Auditing Staff totals \$1,419,493. Staff recommends  
19 increases in the Company's local exchange rates by the amounts shown in its HC Schedule 2.  
20 The remainder of the revenue requirement was applied as an increase in Carrier Common Line  
21 (CCL) access rates. Staff's proposed rate design applies substantially all (97.73 percent) of the  
22 increase to local services, with the remainder (2.27 percent) of the increase applied to access.

23 Q. What rates are you proposing to increase?

1           A.     As shown on HC Schedule 2, I am proposing rate increases for the following  
2 categories of service: telephone lines; dedicated services; payphones;  
3 installations/moves/changes, calling features; intraLATA toll calling plans; and,  
4 directory/operator services.

5           Q.     How did Staff choose the amount by which to increase the Company's various  
6 services?

7           A.     Generally, the proposed rate increases are based on a 60 percent rate increase,  
8 however, I limited any proposed increase, where possible, so it would not exceed the maximum  
9 rate charged by other LECs.

10          Q.     Does Staff believe the resultant rates are just and reasonable?

11          A.     Yes.

12          Q.     Why does Staff believe a 60 percent rate increase may be reasonable for most of  
13 Fidelity's services?

14          A.     Company witnesses stated in their testimony that its customers have not been  
15 faced with a rate increase in 16 years. The United States Department of Labor's Bureau of  
16 Labor Statistics (BLS) lists the Consumer Price Index (CPI) inflation index in December 1987 as  
17 115.4. The index as of August 2003, the end of the test year used by the parties, is 184.6. The  
18 resulting percentage change during that time is an approximately 60 percent average rise in  
19 prices. Therefore, based on the time period in question, a 60 percent increase appears  
20 reasonable. Furthermore, nearly all of the charges proposed are less than or equal to currently  
21 effective charges for the same or similar services offered by other Missouri ILECs with similar  
22 or smaller calling scopes.

1 Q. You mentioned the BLS' CPI index changed by 60 percent in the 16 years  
2 Fidelity went without a price increase. What was the change in the CPI for Telephone Services  
3 (CPI-TS) during that same period?

4 A. The BLS only began calculating the CPI-TS in December 1997, so the CPI-TS is  
5 not available for the period under review.

6 Q. Please discuss your proposed rate increases for phone lines.

7 A. For clarity in the following discussions, I will use the same names for the services  
8 that appear in "Service Description" column of Schedule 2. Staff proposes a rate of \$12.08,  
9 \$22.80, and \$34.24 for residential, business, and trunks, respectively. For comparative purposes,  
10 New London's residential rate is \$12.30, Holway's business rate is \$25.00, and Holway's trunk  
11 rate is \$42.00.

12 Q. Please discuss your proposed rate increases for dedicated services.

13 A. Dedicated services include direct inward dial (DID) numbers, ISDN and loop  
14 charges. Staff proposed no increase for DID numbers as Staff found no higher effective rate.  
15 ISDN PRI rates were increased to by 8.7 percent. SBC Missouri has a 12-month ISDN PRI rate  
16 of \$800 per month. Staff chose \$750 as a reasonable monthly rate for a 6-month contract. The  
17 increase from the Company's current rate of \$690 to \$750 is 8.7 percent. Staff then increased  
18 the various ISDN PRI rates by 8.7 percent. The loop charge was not increased.

19 Q. Please discuss your proposed rate increases for payphones.

20 A. The proposed rate for all categories of payphone is \$23.60, an increase of 60  
21 percent. BPS and Cass County have payphone charges of \$26.95.

22 Q. Please discuss your proposed rate increases for Installations/Moves/Changes.

1           A.     I proposed the following rates for Installations/Moves/Changes: I propose a rate  
2 for Installation Res Line of \$40, whereas CenturyTel of NW Arkansas' rate is \$40.50. I propose  
3 a Move Res Service rate of \$24.00, whereas CenturyTel of NW Arkansas' rate is \$30.50. I  
4 propose an Installation Loop charge of \$24.00, whereas CenturyTel of NW Arkansas' rate is  
5 \$30.50. I propose an Installation Smartfeatures charge of \$8.00 whereas Cass County's is  
6 \$13.00. I propose an Installation Business Line charge of \$50.50 equal to CenturyTel of NW  
7 Arkansas' rate of \$50.50. I propose an Installation Business – Additional Lines charge of  
8 \$16.00, whereas CenturyTel of NW Arkansas' rate is \$35.50. I propose a Move Business  
9 Service rate of \$35.50, equal to CenturyTel of NW Arkansas'. I propose a move Business  
10 Service – Additional Lines rate of \$8.00, whereas CenturyTel of NW Arkansas' rate is \$35.50. I  
11 propose a Name or Number Change charge of \$8.00, whereas Alma's is \$9.00. I propose a  
12 Reconnect Charge After Suspension of \$32.00, whereas Sprint Missouri's is \$47.25.

13           Q.     Please discuss your proposed rate increases for Calling Features.

14           A.     I propose a 60 percent increase for EBS-I package of 6 Add-on Features and  
15 EBS-II Package of 6 Add-on Features. Because of the variety of features/services available that  
16 can be packaged, I did not attempt to make comparisons of any packages. I propose a Smart Call  
17 Forwarding rate of \$3.20, whereas Steelville's rate is \$3.50. I propose a Smart Call  
18 Forwarding/Busy Line rate of \$1.20, whereas Cass County's rate is \$1.50. I propose a Smart  
19 Call Waiting rate of \$3.30, whereas Cass County's rate is \$5.00. I propose a Smart Automatic  
20 Call Back rate of \$4.00, whereas Cass County's is \$6.00. I propose a Smart Caller ID Number  
21 Delivery rate of \$6.00, whereas Steelville's is \$6.00. I propose a Smart Caller ID Name &  
22 Number Delivery – Res of \$7.50, equal to New London's. I propose a Smart Caller ID Name &  
23 Number – Bus of \$10.00, equal to Cass County's. I propose a Smart Selective Call Rejection



1 rate of \$3.50, equal to Alltel's. I propose increasing the Smart Economy Package, Smart Family  
2 Package, and Smart The Ultimate Package by 60 percent. Again, I did not attempt to compare  
3 packages.

4 Q. Please discuss your proposed rate increases for IntraLATA Toll Calling Plans.

5 A. I propose an OCA 2 Hour Plan – Bus rate of \$17.28. The resulting per minute  
6 price is \$0.14 per minute, which reverts to the message telecommunications service (MTS) rate  
7 after the 120 minutes are used. The Company's MTS rates, which are mileage banded and time  
8 sensitive, range from a low of \$0.0715 for the initial minute \$0.0585 for subsequent minutes, to a  
9 high of \$0.299 for the initial minute and \$0.182 for subsequent minutes. A rate of \$0.14 is well  
10 within that range and therefore, just and reasonable.

11 I propose an OCA 5 Hour Plan – Bus of \$39.20. The resulting per minute rate is  
12 \$0.131, again, well within the range of reasonableness. Hours in excess of the 300 minutes are  
13 priced at \$0.08 per minute.

14 I propose an OCA 2 Hour Plan – Res of \$15.36, and an OCA 5 Hour Plan – Res  
15 of \$34.96. The per minute rates for the OCA 2 Hour Plan – Res and OCA 5 Hour Plan  
16 Res, respectively, are \$0.128 and \$0.117, reverting to the MTS rate, and \$0.07,  
17 respectively. Staff believes the resulting rates are reasonable.

18 Q. Please discuss your proposed rate increases for Directory/Operator.

19 A. I propose the elimination of DA First 3 Per Month, the three free directory  
20 assistance calls currently allowed, instead charging \$0.50 for each DA First 3 Per Month call. I  
21 further propose a DA Per Call After 3 rate of \$0.50. SBC Missouri has a directory assistance  
22 charge of \$0.63, and offers no free directory assistance calls (unless the requested number is not

1 listed in its directory). Staff did not propose raising the directory assistance beyond \$0.50  
2 because of the elimination of the free DA calls.

3 I propose a Directory Listing – Nonpub rate of \$1.60, equal to that of BPS. I  
4 propose a Directory Listing – Unlisted rate of \$1.60, whereas CenturyTel of NW Arkansas' rate  
5 is \$2.10. I propose Directory Listing – Additional – Vanity and Directory Listing – Additional –  
6 Extra rates of \$1.60, whereas Cass County's extra listing rates are \$1.95 for business and \$1.55  
7 for residential. Staff proposed no changes to Busy Line Status Verification and Busy Line  
8 Interrupt.

9 Q. What about the effect on consumers of such a large rate increase?

10 A. Low income consumers and those on fixed incomes may qualify for help through  
11 the lifeline program.

12 **Increase in Access Rates**

13 Q. How did Staff determine the proposed increase in access rates?

14 A. Staff used the same method the Commission has traditionally used in pricing  
15 access rates. The amount of revenue requirement remaining after setting local rates was applied  
16 to access rates. Staff applied all of the increase to CCL rates. Staff proposes the inclusion of the  
17 directory assistance and line termination elements into the local switching element.  
18

19 Q. What were the results of proposed changes?

20 A. The results were that CCL increased from \$0.038073 to \$0.038775, a 1.84 percent  
21 increase.

22 Q. Why did the Staff place all of the increase on CCL?

1           A.     The resulting CCL rate following Staff's proposed increase is well within the  
2 range of CCL rates for the other incumbent local exchange carriers in Missouri. Therefore, Staff  
3 believes the resulting CCL rates are just and reasonable.

4           Q.     Why didn't Staff propose to increase local rates by a much smaller percentage,  
5 and then apply all remaining revenue requirement to access?

6           A.     There are two main reasons. The first is that the Commission found, in its order  
7 in Case No. TO-99-596 (*In the Matter of the Access Rates to be Charged by Competitive Local*  
8 *Exchange Telecommunications Companies in the State of Missouri*), that "the public interest  
9 would be best served by reductions in exchange access rates rather than by increases."  
10 Therefore, it would logically follow that smaller increases in access rates would better serve the  
11 public interest than larger increases.

12                     Second, Fidelity's access minutes have dropped substantially since 2001.  
13 Assuming the drop in access minutes continues, the more dollars that are shifted to access, the  
14 sooner the Company may experience a reduction of revenues that may require it to again come  
15 before the Commission seeking a rate increase.

16           Q.     Did Staff propose any other access changes?

17           A.     Yes. Staff rate design proposes combining the directory assistance and line  
18 termination rates into the local switching rate. Staff can see no compelling reason to have  
19 separate rate elements when the three elements are applied to the same minutes of use.

20           Q.     How would Fidelity's access rates rank after Staff's proposed increase compared  
21 to the other ILECs in Missouri?

1           A.     Fidelity's intraLATA and interLATA rates after Staff's proposed increase would  
2 rank Fidelity the thirteenth and nineteenth highest in the state, respectively, in the state (out of 43  
3 ranked ILECs).

4           **Summary**

5           Q.     Would you please summarize your Direct Testimony?

6           A.     Yes, I will. Staff proposes to increase many of Fidelity's local rates by the  
7 general inflation rate experienced during the 16-year period over which Fidelity has not  
8 increased its rates. In nearly all cases where a 60 percent increase would have increased the rate  
9 for a service to one higher than any other telephone company in the state, Staff capped the  
10 increase at a rate already in effect elsewhere in the state. The remaining revenue requirement  
11 was applied to CCL access rates. Access line termination and directory assistance rates were  
12 subsumed into local switching.

13          Q.     Does this conclude your Direct Testimony?

14          A.     Yes, it does.

Schedule 1  
COMMISSION PROCEEDING PARTICIPATION  
THOMAS A. SOLT

<u>Company</u>	<u>Case Number</u>
St. Joseph Light and Power Company	GR-93-41
St. Joseph Light and Power Company	GR-93-42
Western Resources, Inc.	GR-93-240
The Empire District Electric Company	ER-94-174
Missouri Gas Energy	GR-95-33
Missouri Gas Energy	GR-98-140
Missouri Universal Service Fund	TO-98-329
Southwestern Bell Telephone Company	TT-2000-258
Southwestern Bell Telephone Company	TO-2000-667
Ozark Telephone Company	TT-2001-117 & TC-2001-402
Relay Missouri Proceeding	TO-2003-0171

Fidelity Telephone Company  
Summary of Rate Changes

Highly Confidential

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	Service Description	Current Rate	New Rate	Rate Change	Monthly Units	Annual Units	Monthly Impact	Annual Increase	% Increase	% of Total Increase
<b>Phone lines</b>	Residential One Party Line	\$7.55	\$12.08	\$4.53					60.00%	
	Business One Party Line	\$14.25	\$22.80	\$8.55					60.00%	
	Trunking Service	\$21.40	\$34.24	\$12.84					60.00%	
<b>Total Phone Lines</b>									\$1,038,737.16	73.18%
<b>Dedicated Services</b>	DID 1st 100 Numbers	235	\$235.00	\$0.00					0.00%	
	DID 2nd 100 Numbers	50	\$50.00	\$0.00					0.00%	
	DID 1st 20 Numbers	60	\$60.00	\$0.00					0.00%	
	ISDN SL Res	40	\$45.50	\$5.50					13.75%	
	ISDN SL Bus	50	\$50.00	\$0.00					0.00%	
	ISDN PRI 5 Yr Contract	575	\$625.03	\$50.03					8.70%	
	ISDN PRI 3 Yr Contract	620	\$673.94	\$53.94					8.70%	
	ISDN PRI 6 Month Contract	690	\$750.00	\$60.00					8.70%	
	Loop Charge	8	\$8.00	\$0.00					0.00%	
<b>Total Dedicated Services</b>									\$4,332.36	0.31%
<b>Payphones</b>	All	14.75	\$23.60	\$8.85					60.00%	
<b>Total Payphones</b>									\$26,656.20	1.88%
<b>Installations/Moves/Changes (NRC)</b>	Installation Res Line	25	\$40.00	\$15.00					60.00%	
	Move Res Service	15	\$24.00	\$9.00					60.00%	
	Installation Loop	15	\$24.00	\$9.00					60.00%	
	Installation Smartfeatures	5	\$8.00	\$3.00					60.00%	
	Installation Business Lin	40	\$50.50	\$10.50					26.25%	
	Installation Business - Additional Lines	10	\$16.00	\$6.00					60.00%	
	Move Business Service	30	\$35.50	\$5.50					18.33%	
	Move Business Service - Additional Lines	5	\$8.00	\$3.00					60.00%	
	Name or Number Change	5	\$8.00	\$3.00					60.00%	
	Reconnect Charge After Suspension	20	\$32.00	\$12.00					60.00%	
<b>Total Installations, Moves, Changes</b>					HC	HC	HC	HC	\$61,086.00	4.30%

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Fidelity Telephone Company  
Summary of Rate Changes

Highly Confidential

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	Service Description	Current Rate	New Rate	Rate Change	Monthly Units	Annual Units	Monthly Impact	Annual Increase	% Increase	% of Total Increase
<b>Calling Features</b>	EBS-I Package of 6 Add-on Features	\$13.00	\$20.80	\$7.80					60.00%	
	EBS-II Package of 6 Add-on Features	\$15.00	\$24.00	\$9.00					60.00%	
	Smart Call Forwarding	\$2.00	\$3.20	\$1.20					60.00%	
	Smart Call Forwarding/Busy Line	\$0.75	\$1.20	\$0.45					60.00%	
	Smart Call Waiting	\$2.75	\$3.30	\$0.55					20.00%	
	Smart Automatic Call Back	\$2.50	\$4.00	\$1.50					60.00%	
	Smart Caller ID Number Delivery	\$3.75	\$6.00	\$2.25					60.00%	
	Smart Caller ID Name & Number Delivery - Res	\$6.00	\$7.50	\$1.50					25.00%	
	Smart Caller ID Name & Number Delivery - Bus.	\$10.00	\$10.00	\$0.00					0.00%	
	Smart Selective Call Rejection	\$2.50	\$3.50	\$1.00					40.00%	
	Smart Economy Package	\$6.00	\$9.60	\$3.60					60.00%	
	Smart Family Package	\$9.00	\$14.40	\$5.40					60.00%	
	Smart The Ultimate Package	\$10.00	\$16.00	\$6.00					60.00%	
<b>Total Calling Features</b>									\$153,864.00	10.84%
<b>IntraLATA Toll Calling Plans</b>	OCA 2 Hour Plan - Bus	\$10.80	\$17.28	\$6.48					60.00%	
	OCA 5 Hour Plan - Bus	\$24.50	\$39.20	\$14.70					60.00%	
	OCA 2 Hour Plan - Res	\$9.60	\$15.36	\$5.76					60.00%	
	OCA 5 Hour Plan - Res	\$21.85	\$34.96	\$13.11					60.00%	
<b>Total IntraLATA Toll Calling Plans</b>									\$32,825.52	2.31%
<b>Directory/Operator</b>	DA First 3 Per Month	\$0.00	\$0.50	\$0.50					#DIV/0!	
	DA Per Call After 3	\$0.45	\$0.50	\$0.05					11.11%	
	Busy Line Status Verification	\$1.00	\$1.00	\$0.00					0.00%	
	Busy Line Interrupt	\$1.25	\$1.25	\$0.00					0.00%	
	Directory Listing - Nonpub	\$1.00	\$1.60	\$0.60					60.00%	
	Directory Listing - Unlisted	\$1.00	\$1.60	\$0.60					60.00%	
	Directory Listing - Additional - Vanity	\$1.00	\$1.60	\$0.60					60.00%	
	Directory Listing - Additional - Extra	\$1.00	\$1.60	\$0.60					60.00%	
<b>Total Directory/Operator</b>									\$69,838.20	4.92%
<b>Other</b>	Late Payment Charge	\$5.00	\$5.00	\$0.00					0.00%	0.00%
<b>Total</b>								\$1,387,339.44	\$1,387,339.44	
<b>Access Services</b>								\$32,153.56	To Access	2.27%
<b>Grand Total Rate Changes</b>								\$1,419,493.00		100.00%
					**	**	**	**		

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HC		Local Transport				Common Line	Local Switching	Directory surcharge	Access line term	8xx queries	Total
	**	Band 1	Band 2	Band 3	Band 4						
Current rates		0.006492	0.024872	0.038679	0.075347	0.038073	0.011083	0.000238	0.005075	0.003100	
Band 1 (0 to 5 miles, Japan, Sullivan, Stanton)											
Band 2 (>12 to 23 miles, Gerald/Owensville)											
Band 3 (>22 to 25 miles, Berger, Lyon, NH ATT)											
Band 4(Over 25 miles, Berger, Lyon, NH)											
Combine switching elements							0.005313	(0.000238)	(0.005075)		
Restructured current rates		0.006492	0.024872	0.038679	0.075347	0.038073	0.016396	0.000000	0.000000	0.003100	
Step 3 - Test year billing units	**										**
Test Year Revenue	**										**
% for prorata rate increase		0.00%	0.00%	0.00%	0.00%	100.0000%	0.00%			0.00%	100.00%
Amount of access rate increase by element	**										**
Add current revenues to revenue increase		\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00			\$0.00	\$0.00
Proposed per minute rate	**	\$0.006492	\$0.024872	\$0.038679	\$0.075347	\$0.038775	\$0.016396			\$0.003100	
HC											

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