

RECEIVED

JUL 14 2006

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE SOUTH DAKOTA PUBLIC
STATE OF SOUTH DAKOTA UTILITIES COMMISSION

IN THE MATTER OF THE ESTABLISHMENT OF)	
SWITCHED ACCESS REVENUE REQUIREMENT FOR)	Docket No. TC05-098
TRI-COUNTY TELCOM, INC.)	

DIRECT PRE-FILED TESTIMONY OF
JOANN HOHRMAN

1 INTRODUCTION

2 **Q: What is your name and address?**

3 A: My name is JoAnn E. Hohrman. My business address is 1801 N. Main Street,
4 Mitchell, South Dakota 57301.

5

6 **Q: By whom are you employed and in what capacity?**

7 A: I am a Telco Revenue Consultant with Vantage Point Solutions, Inc. (VPS). VPS is
8 a telecommunications and consulting firm in Mitchell, South Dakota. The client
9 base of VPS is made up of mostly Rural Local Exchange Carriers (RLECs). I focus
10 on assisting the RLECs with cost studies and other regulatory issues. The staff of
11 VPS provides engineering, financial, and regulatory services to many of the South
12 Dakota RLECs, as well as RLECs in many other states.

13

14 **Q: What is your educational and business background?**

15 A: I received a Bachelor of Arts degree in Accounting from Mount Marty College
16 (1991) in Yankton, SD. I have been employed in the telecommunications industry
17 since 1993. During this time, I have completed interstate and intrastate switched
18 access cost studies. I have filed cost studies with the South Dakota Public Utilities
19 Commission (SDPUC), analyzed Carrier Access Billing Systems (CABS) bills, and
20 performed various traffic studies, analyses, and other telco revenue consulting
21 activities with a focus on RLECs.

22

1 **Q: On whose behalf are you testifying in this proceeding?**

2 A: My direct pre-filed testimony is submitted on behalf of Tri-County Telcom, Inc.
3 (Tri-County), headquartered in Salem, South Dakota. Tri-County is a local
4 exchange company with two exchanges, Clayton and Emery, located in
5 southeastern South Dakota and a wholly-owned subsidiary of McCook Cooperative
6 Telephone Company (McCook). Tri-County serves 428 lines within 131 square
7 miles, an average of 3 subscribers per mile¹. McCook purchased the company on
8 January 18, 2005. At the time of the purchase, Tri-County was in need of major
9 network upgrades.

10

11 **Q: What is the purpose of your testimony?**

12 A: I will provide testimony on how Tri-County's 2005 intrastate switched access cost
13 study² was performed and how it complies with current SDPUC Administrative
14 Rules relating to switched access services within the state of South Dakota.

15

16 **Q: What is the goal of the cost study?**

17 A: The goal of the cost study is to determine the intrastate switched access charge that
18 is required to properly recover the portion of the telephone company's intrastate
19 switched access investment and expenses. The process used to determine the
20 intrastate switched access charge is defined by rules established by the SDPUC and

¹ "A Report on Telecommunication Company Operations for the Year 2003", Harlan Best, South Dakota Public Utilities Commission Analyst, July 2004.

² Within this document, references to Tri-County's 2005 cost study are referring to Tri-County's state cost study filed in 2005 under Docket No. TC05-098, which is based on the test year of 2004 with known and measurable adjustments for 2005.

1 includes separations to allocate investment and expenses between local, state, and
2 interstate jurisdictions, as well as regulated and non-regulated operations. The
3 SDPUC rules are applied specifically to Tri-County's unique circumstances and
4 network configuration. This testimony deals with the 2005 Tri-County cost study
5 and the Tri-County network as it existed during the 2004 test year with known and
6 measurable adjustments for 2005.

7

8 **Q: Are you familiar with Tri-County's network?**

9 A: Yes. Tri-County owns two Nortel Networks DMS10 switches, one is located in the
10 Emery Central Office and the other is located in the Clayton Central Office. Tri-
11 County also leases facilities and switching from McCook.

12

13 **Q: Are you familiar with the current SDPUC rules for cost settlements?**

14 A: Yes, I am familiar with the access rules associated with South Dakota intrastate cost
15 settlements. In South Dakota, the applicable access rules are contained in SDPUC
16 Administrative Rules, ARSD 20:10:27 through 20:10:29. These chapters establish
17 rules for the determination of switched access charges for intrastate switched access
18 services provided by each carrier's carrier operating in this state.

19

20 **Q: How is the intrastate switched access charge determined?**

21 A: The intrastate switched access return on net investments and expenses, as defined
22 by the SDPUC rules, are often referred to as the intrastate revenue requirement.

1 The intrastate switched access charge can be found by dividing the company's
2 intrastate revenue requirement by the total intrastate switched access minutes.

3

4 **Q: Did you determine Tri-County's intrastate switched access revenue**
5 **requirement in the 2005 switched access cost study?**

6 A: Yes. All of Tri-County's property costs, revenues, expenses, taxes, and reserves
7 were allocated between intrastate toll and all other.³ The revenue requirement is
8 comprised of the return on net intrastate switched access investments plus expenses.

9

10 **Q: Were Tri-County's investments and expenses allocated according to the**
11 **SDPUC rules in determining the intrastate revenue requirement?**

12 A: Yes. To do this, we first assigned the cost of the plant to categories. The basis for
13 making this assignment is the identification of the plant assignable to each category
14 and the determination of the cost of the plant so identified. The second step is the
15 apportionment of the cost of the plant in each category among the operations by
16 direct assignment where possible. All remaining costs were assigned by the
17 application of allocation factors. For example, in the assignment of property costs
18 to categories and in the apportionment of such costs among the operations, each
19 amount assigned and apportioned was identified as to the account classification in
20 which the property is included. The separated results were identified by property
21 accounts and apportionment bases were provided for those expenses which were

³ SDPUC ARSD 20:10:28:02, Allocation procedures – General.

1 separated on the basis of the apportionment of property costs. Similarly, amounts
2 of revenues and expenses assigned to each of the operations were identified as to
3 account classification.⁴

4
5 **Q: Did Tri-County separate its plant investment into categories in the cost study?**

6 **A:** Yes. Tri-County apportions its costs among categories by actual use or direct
7 assignment⁵. Tri-County records its Central Office Equipment (COE) in Accounts
8 2210-2230s. The total investment in these accounts is classified into the following
9 categories according to SDPUC ARSD 20:10:28:20 through 20:10:28:44.

10 Category 1 – Operator Systems Equipment

11 Category 2 – Tandem Switching Equipment

12 Category 3 – Local Switching Equipment

13 Category 4 – Circuit Equipment

14

15 Tri-County records its Cable and Wire Facilities (CWF) in Accounts 2410-2420s.

16 The total investment in these accounts is classified into the following categories
17 according to ARSD 20:10:28:49 through 20:10:28:64.

18 Category 1 – Exchange Line Excluding Wideband

19 Category 2 – Wideband and Exchange Trunk

20 Category 3 – Interexchange

21 Category 4 – Host/Remote

⁴ SDPUC ARSD 20:10:28:02 Allocation procedures – General. See note in this section.

⁵ SDPUC ARSD 20:10:28:04 Separations procedures – General.

1

2 **Q: Is property rented to another party excluded from Tri-County's**
3 **telecommunications operations in the cost study?**

4 A: Yes. When the COE and CWF categories are reviewed, any known investment
5 identified for solely non-regulated purposes is removed from the cost study. In
6 addition, any joint use investment is removed from the cost study⁶ based on its
7 percentage of circuits (for COE) and circuit miles (for CWF) of the total.

8

9 **Q: Were the remaining investments in the COE and CWF categories recovered as**
10 **part of the switched access charge?**

11 A: No. EAS and private line were not recoverable through the intrastate cost study
12 process. Only the intrastate switched access portions of the remaining investments
13 in the COE and CWF are recoverable.

14

15 **Q: How were the intrastate portions of the remaining COE investments**
16 **determined?**

17 A: The intrastate portion of these investments is determined according to ARSD
18 20:10:28:06, 20:10:28:33, 20:10:28:35, 20:10:28:40, 20:10:28:42, and 20:10:28:44,
19 whereby allocation factors are applied to the category investments.

20 COE Cat. 1 – Operator Systems Equipment is not applicable to Tri-County
21 since Tri-County does not own any operator systems equipment.

⁶ ARSD 20:10:28:07

1 COE Cat. 2 – Since Clayton’s traffic was tandemed at the Emery central
2 office, Tandem Switching Equipment was allocated based on the percentage
3 of intrastate switched access minutes of use, as compared to the total minutes
4 of use, for this equipment⁷.

5 COE Cat. 3 – Local Switching Equipment was allocated based on the
6 percentage of intrastate switched access minutes of use, as compared to the
7 total minutes of use, for this equipment. The intrastate Weighted Dial
8 Equipment Minute (WDEM) was adjusted to ensure that the total of intrastate
9 plus interstate WDEM is less than or equal to 85%⁸.

10 COE Cat. 4 – Circuit Equipment has several subcategories, which are
11 described as follows:

12 Cat. 4.12 – Exchange trunk circuit equipment, wideband and non-
13 wideband (EAS) is not recoverable through the cost study, as previously
14 explained.⁹ Tri-County has EAS between Clayton and Emery; therefore,
15 the circuit equipment associated with this did not get assigned to the
16 intrastate switched access revenue requirement.

17 Cat. 4.13 – Exchange line circuit equipment excluding wideband is
18 allocated based on the 25% intrastate factor.¹⁰

19 Cat. 4.23 – All other interexchange circuit equipment (only the Joint
20 Message portion of this category, not private line, is included) is allocated

⁷ ARSD 20:10:28:33

⁸ ARSD 20:10:28:35

⁹ ARSD 20:10:28:40

¹⁰ ARSD 20:10:28:40

1 based on the relative number of conversation minutes (CM) applicable to
2 such facilities¹¹.

3 Cat. 4.3 – Host/Remote message circuit equipment is not applicable for
4 Tri-County as both of its exchanges are stand-alone switches.

5

6 **Q: How were the intrastate portions of the remaining CWF investments**
7 **determined?**

8 **A:** The intrastate portion of these investments was determined according to ARSD
9 20:10:28:06 and 20:10:28:61-64, whereby allocation factors were applied to the
10 category investments.

11 CWF Category 1 – Exchange Line Excluding Wideband –

12 Cat. 1.1 Intrastate Private Line and state WATS lines are directly assigned to the
13 intrastate private line jurisdiction, which is not recoverable through the
14 intrastate switched access revenue requirement.

15 Cat. 1.3 Subscriber or Common Lines that are jointly used for local exchange
16 service and exchange access for intrastate and interstate interexchange
17 services are allocated based on the 25% intrastate factor¹².

18 CWF Category 2 – Wideband and Exchange Trunk (EAS) is allocated based on
19 relative intrastate minutes of use. EAS is not recoverable through the cost
20 study, as previously explained. Tri-County has EAS between Clayton and

¹¹ ARSD 20:10:28:42

¹² ARSD 20:10:28:61

1 Emery; therefore, the cable and wire facilities associated with this did not get
2 assigned to the intrastate switched access revenue requirement¹³.

3 CWF Category 3 – Interexchange (only the Joint Message portion of this
4 category, not private line, is included) is allocated based on conversation
5 minute miles as applied to toll message circuits or other classes of circuits¹⁴.

6 CWF Category 4 – Host/Remote cable and wire facilities is not applicable for Tri-
7 County as both of its exchanges are stand-alone switches.

8

9 **Q: What are the basic network elements that are to be recovered through the**
10 **intrastate cost study?**

11 A: The basic network elements investments and expenses that are to be recovered
12 through the intrastate cost study are transport, switching, and carrier common line.
13 In addition to the return on net investment, operating expenses and taxes are also
14 recoverable through the intrastate cost study.

15

16 **Q: Which of the above category investments are included in Tri-County's**
17 **intrastate Transport revenue requirement for the 2005 cost study?**

18 A: CWF Category 3 and COE Categories 2 and 4.23 investments. These investments
19 are then netted against the associated accumulated depreciation.

20

¹³ ARSD 20:10:28:62

¹⁴ ARSD 20:10:28:63

1 **Q: Which of the above category investments are included in Tri-County's**
2 **intrastate Carrier Common Line revenue requirement for the 2005 cost study?**

3 A: CWF Category 1 Subscriber Loop Plant and COE Category 4.13 Subscriber Circuit
4 investments. These investments are then netted against the associated accumulated
5 depreciation.

6

7 **Q: Which of the above category investments are included in Tri-County's**
8 **intrastate Local Switching revenue requirement for the 2005 cost study?**

9 A: COE Category 3 investment. These investments are then netted against the
10 associated accumulated depreciation.

11

12 **Q: Were there any other investments included in the revenue requirement for the**
13 **2005 cost study?**

14 A: Yes, general support assets were also included in the revenue requirement for the
15 2005 cost study. The general support assets are contained in account 2110 and
16 include such items as land, buildings, vehicles, work equipment, office equipment,
17 and general purpose computers¹⁵. The apportionment of the general support assets
18 is based on the separation and allocation of the combined cost of central office
19 equipment, and cable and wire facilities. For example, the amount of general
20 support assets allocated to transport would depend on the percentage of central

¹⁵ ARSD 20:10:28:13

1 office equipment and cable and wire facilities assigned to intrastate transport to
2 total intrastate central office equipment and cable and wire facilities¹⁶

3

4 **Q: Was the intrastate net investment determined from the previous steps used to**
5 **determine the revenue requirement for each element?**

6 A: Yes. In addition, the following items were included in the calculation of the net
7 investment: Materials and Supplies, Accumulated Deferred Operating Taxes, and
8 Cash Working Capital. Once the net investment was determined, that amount is
9 multiplied by a 10% rate of return¹⁷.

10

11 **Q: Did Tri-County include expenses related to the plant investment in the revenue**
12 **requirement established in the 2005 Intrastate Cost Study?**

13 A: Yes. Tri-County included expenses related to the plant investment in the revenue
14 requirement established in the 2005 Intrastate Cost Study. Tri-County follows the
15 rules contained in ARSD 20:10:28:92 through ARSD 20:10:28:96 as the basis of
16 allocation of these expenses. The expenses are contained in accounts 6110, 6120,
17 6210, 6230, 6410, and 6530. The expenses are allocated to the intrastate
18 jurisdiction and rate elements in the same manner as the related plant investment.
19 The depreciation expense related to the plant investments is allocated based on the
20 related plant investment. In addition, Tri-County's CWF lease expenses are

¹⁶ ARSD 20:10:28:15

¹⁷ ARSD 20:10:27:06 and SDPUC Docket TC93-086

1 directly assigned to the appropriate jurisdictions, based on the actual access minutes
2 traversing these leased facilities.

3

4 **Q: Did Tri-County include other operating expenses in the revenue requirement**
5 **established in the 2005 Intrastate Cost Study?**

6 A: Yes. Tri-County did include operating expenses in the revenue requirement
7 established in the 2005 Intrastate Cost Study. The Operating Expenses are
8 recovered based on the rules contained in ARSD 20:10:28:88 through
9 20:10:28:123. There are several categories of Operating Expenses and each type of
10 expense is allocated based on its function or an allocation related to its use.

11

12 Expenses related to access charges, contained in account 6540, that are paid for
13 exchange access services, are directly assigned to toll and therefore not included in
14 the intrastate switched access revenue requirement.

15

16 Customer Operations expense is another category of expenses and is contained in
17 the marketing account 6610 and services account 6620. Tri-County did not include
18 any marketing expenses in its cost study. Tri-County based the customer operations
19 expense allocation factors on its parent company's most recent factors since Tri-
20 County has an agreement in place with its parent company to handle the customer
21 operations. Tri-County does not have any employees and has a management
22 agreement with McCook to utilize its employees. To allocate the 6620 expenses,

1 McCook's hours, revenues, and contacts were used. This was done for all of the
2 elements, except for the Relative Users Percent and the Relative Toll/Local
3 Messages Factor, which are referenced in ARSD 20:10:28:117. These factors were
4 based on Tri-County's own statistics. There are several subcategories for the local
5 business office and customer service expenses as defined in ARSD 20:10:28:107
6 through ARSD 20:10:28:121. Many of these expenses are allocated to the
7 appropriate category based on factors such as number of customer contacts,
8 intrastate billed revenues, and number of messages processed. Some expenses,
9 such as end user common line charge billing expense, are assigned directly to the
10 interstate operations since no end user common line charge is assessed for intrastate
11 toll access (ARSD 20:10:28:119).

12
13 Other expenses are related to the corporate operations of Tri-County. They include
14 executive and planning, and general and administrative expenses. These are
15 included in accounts 6710 and 6720, respectively. The allocation of these expenses
16 is based on the separation of the Big Three Expenses; Plant-Specific Expenses,
17 Plant-Nonspecific Expenses, and Customer Operations Expenses. The rules
18 relating to the Corporate Operations Expenses are contained in ARSD
19 20:10:28:123.

20
21 **Q: Did Tri-County include operating taxes in the revenue requirement established**
22 **in the 2005 Intrastate Cost Study?**

1 A: Yes. Tri-County did include operating taxes in the revenue requirement established
2 in the 2005 Intrastate Cost Study. The rules that are the basis for Tri-County
3 including taxes are contained in ARSD 20:10:28:124 through 20:10:28:125. The
4 appropriate tax percentages were entered into the SDPUC Intrastate Access Cost
5 Model and the cost model determined the appropriate taxes to be included in the
6 revenue requirement based on the allocations already completed within the cost
7 model. Any taxes that are directly assignable are, but the remaining taxes are
8 assigned based on the separation of the cost of telecommunications plant in service.

9
10 **Q: As new technologies emerge, how are these rules applied?**

11 A: Since the rules have remained essentially unchanged for approximately 10 years,
12 we apply the principles and intent of the rules to the new technologies and/or
13 services.

14
15 **Q: Which of the above amounts actually determine Tri-County's revenue
16 requirement?**

17 A: As explained in sections above, the return on net investment for each of the network
18 elements (Transport, Carrier Common Line, Local Switching) are a portion of the
19 revenue requirement. In addition, the portion of operating expenses and taxes that
20 was determined to be intrastate and allocated to the three network elements is also
21 included in the revenue requirement.