

DECISION MEMORANDUM

TO: COMMISSIONER KJELLANDER
COMMISSIONER SMITH
COMMISSIONER HANSEN
COMMISSION SECRETARY
COMMISSION STAFF

FROM: DOUG COOLEY

DATE: JANUARY 9, 2004

RE: PETITION FROM RESIDENTS OF THE THREE CREEK AREA
REQUESTING EAS INTO THE MAGIC VALLEY CALLING AREA.
CASE NO. GNR-T-00-41.

BACKGROUND

On November 2, 2000, the Commission received a Petition from approximately twenty-eight residents of the Three Creek area requesting extended area service (EAS) into the Magic Valley Calling Area. Customers in Three Creek have local calling only within the exchange. The Three Creek exchange is served by Rural Telephone Company and consists of approximately forty residential and ten business customers. The exchange borders Nevada and covers areas of southern Owyhee and Twin Falls counties. At the time of the petition, these customers had no local Internet service provider. If approved, EAS into the Magic Valley Calling Area would allow local calling to Twin Falls, Jerome, Richfield, Bliss, Buhl, Castleford, Hollister, Dietrich, Eden, Gooding, Hagerman, Hazelton, Kimberly, Murtaugh, Shoshone, Wendell, and Filer.

In January 2001, the Commission opened Case No. GNR-T-00-41 to investigate local calling into the Magic Valley Calling Area. In 2001, Rural Telephone submitted its estimates to implement the requested EAS. With estimates that exceeded \$600,000, Staff believed the prospect of EAS for approximately 50 customers would be too expensive. The largest portion of Rural Telephone's cost involved replacing 17 miles of cable between the Three Creek central office and the Signal Butte microwave facility that sends and receives all telephone traffic in and out of the exchange. The existing cable was at capacity and could not be expanded to handle increased traffic if EAS were granted or if local internet service were made available.

Staff visited the Three Creek exchange and met with Rural Telephone to explore other alternatives in October 2001. During this time, Staff made Rural Telephone aware of a grant opportunity from the U.S. Department of Agriculture's Rural Utilities Service to install dial-up Internet access facilities in rural areas. Rural Telephone was eventually awarded the maximum amount of \$400,000 in July 2002. Construction to increase capacity along the 17-mile route was completed in late 2003 and Rural Telephone recently began offering local Internet access via dial-up and DSL.

With traffic capacity increased as a result of the RUS grant, Staff has repeatedly asked Rural Telephone since December 2002 to submit a revised cost estimate for providing EAS from Three Creek into the Magic Valley Calling Area. In the absence of a Company estimate, Staff informed both Rural Telephone and its attorney in December 2003 that Staff would recommend the Commission adopt an estimate of \$7,667 to approximate the Company's cost to provide EAS. This estimate is based on the annual lost revenue portion of Rural Telephone's EAS estimate submitted in 2001. Staff presumes that other capital costs and expenditures associated with increasing traffic capacity were covered by the \$400,000 RUS grant. There is not shift in separations due to the FCC's current five-year freeze.

Customers in Three Creek currently pay \$21.63 per month for telephone service. If the EAS were granted and rates were increased to \$24.10 (the rate paid by other rural Idaho customers with EAS), approximately \$1,482 of the annual \$7,667 cost would be recovered. To make Rural Telephone whole, the Company's Idaho Universal Service Fund draw would need to be increased by the remaining \$6,185 per year.

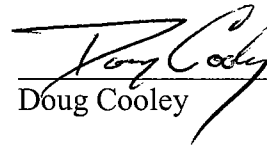
Petitioners principally wanted EAS into the Magic Valley Calling Area because dial-up Internet access was only available to Three Creek customers via a toll call. With local Internet access now available, Staff would like to determine if petitioners from Three Creek are still interested in EAS into the Magic Valley Calling Area and whether or not they are willing to pay a monthly rate of \$24.10. To do so, Staff is considering conducting an informal meeting in Three Creek, a customer survey, or a combination thereof. To proceed, Staff would need to know whether the costs, rates, and USF increase mentioned above are realistic options acceptable to the Commission so that these options can be conveyed to the Three Creek customers. In the alternative, Staff seeks direction on how the Commission wishes this case to proceed.

COMMISSION DECISION

1. Does the Commission accept Staff's estimate of \$7,667 in annual costs to Rural Telephone Company to implement EAS from Three Creek into the Magic Valley Calling Area?

2. In the event that EAS is eventually granted to Three Creek customers, is the estimated \$6,185 annual increase in Idaho Universal Service Fund disbursements to Rural Telephone Company acceptable to the Commission?

3. If so, does the Commission wish to proceed with this case by allowing Staff to conduct an informal inquiry into the willingness of Three Creek customers to go from \$21.63 per month to \$24.10 for EAS into the Magic Valley Calling Area?



Doug Cooley

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