

Exhibit No.: \_\_\_\_\_  
Issue: Revenue Requirement, Rate Design  
Witness: Robert C. Schoonmaker  
Type of Exhibit: Rebuttal Testimony  
Sponsoring Party: BPS Telephone Company  
Case No.: TC-2002-1076  
Date: January 12, 2005

**Before the Public Service Commission  
of the State of Missouri**

**BPS Telephone Company  
Case No. TC-2002-1076**

**Rebuttal Testimony**

**of**

**Robert C. Schoonmaker**

**January 12, 2005**

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BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI

Staff of the Missouri Public	)	
Service Commission,	)	
	)	
Complainant,	)	
	)	
v.	)	Case No. TC-2002-1076
	)	
BPS Telephone Company,	)	
	)	
Respondent.	)	

AFFIDAVIT OF ROBERT C. SCHOONMAKER

Robert C. Schoonmaker, of lawful age, being duly sworn, deposes and states as follows:

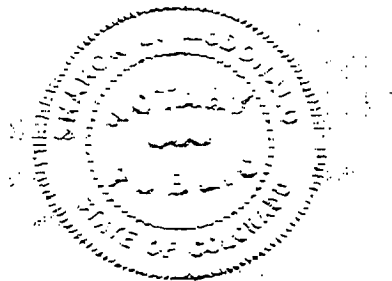
1. My name is Robert C. Schoonmaker. I am employed by GVNW Consulting, Inc. as President and Chief Executive Officer.
2. Attached hereto and made a part hereof for all purposes is my rebuttal testimony with accompanying schedules.
3. I hereby affirm that my answers contained in the attached testimony 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.

Robert C. Schoonmaker  
Robert C. Schoonmaker

Subscribed and sworn to before me this 12th day of January, 2005.

Sharon L. McDonald Notary Public

My Commission expires: 8-28-2006



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1 REBUTTAL TESTIMONY OF ROBERT C. SCHOONMAKER

2  
3 Q. Would you please state your name and address.

4 A. My name is Robert C. Schoonmaker. My business address is 2270 La Montana  
5 Way, Colorado Springs, Colorado 80918.

6  
7 Q. By whom are you employed and in what capacity?

8 A. I am President and CEO of GVNW Consulting, Inc., a consulting firm  
9 specializing in working with small telephone companies.

10  
11 **BACKGROUND AND EXPERIENCE**

12  
13 Q. Would you please outline your educational background and business experience?

14 A. I obtained my Masters of Accountancy degree from Brigham Young University in  
15 1973 and joined GTE Corporation in June of that year. After serving in several  
16 positions in the revenue and accounting areas of GTE Service Corporation and  
17 General Telephone Company of Illinois, I was appointed Director of Revenue and  
18 Earnings of General Telephone Company of Illinois in May, 1977 and continued  
19 in that position until March, 1981. In September, 1980, I also assumed the same  
20 responsibilities for General Telephone Company of Wisconsin. In March, 1981, I  
21 was appointed Director of General Telephone Company of Michigan and in  
22 August, 1981 was elected Controller of that company and General Telephone  
23 Company of Indiana, Inc. In May, 1982, I was elected Vice President-Revenue  
24 Requirements of General Telephone Company of the Midwest. In July, 1984, I

1 assumed the position of Regional Manager of GVNW Inc./Management (the  
2 predecessor company to GVNW Consulting, Inc.) and was later promoted to the  
3 position of Vice President. I served in that position until October 1, 2003 except  
4 for the period between December 1988 and November, 1989 when I left GVNW  
5 to serve as Vice President-Finance of Fidelity and Bourbeuse Telephone  
6 Companies. I was elected to the position of President and Chief Executive  
7 Officer effective October 1, 2003. In summary, I have had over 30 years of  
8 experience in the telecommunications industry working with incumbent local  
9 exchange carrier companies.

10  
11 Q. What are your responsibilities in your present position?

12 A. In my current position I have overall responsibility for the management and  
13 direction of GVNW Consulting, Inc. In addition, I consult with independent  
14 telephone companies and provide financial analysis and management advice in  
15 areas of concern to these companies. Specific activities which I perform for client  
16 companies include regulatory analysis, consultation on regulatory policy,  
17 financial analysis, business planning, rate design and tariff matters,  
18 interconnection agreement analysis, and general management consulting.

19  
20 Q. Have you previously testified in regulatory proceedings?

21 A. Yes, I have submitted testimony and/or testified on regulatory policy, local  
22 competition, rate design, accounting, compensation, tariff, rate of return,  
23 interconnection agreements, and separations related issues before the Illinois

1 Commerce Commission, the Public Service Commission of Wisconsin, the  
2 Michigan Public Service Commission, the Iowa Utilities Board, the Tennessee  
3 Public Service Commission, the New Mexico Public Regulation Commission, the  
4 Public Utilities Commission of the state of South Dakota and the Missouri Public  
5 Service Commission. In addition, I have filed written comments on behalf of our  
6 firm on a number of issues with the Federal Communications Commission and  
7 have testified before the Federal-State Joint Board in CC Docket #96-45 on  
8 Universal Service issues.

9  
10 Q. Who are you representing in this proceeding?

11 A. I am testifying on behalf of BPS Telephone Company ("BPS" or "the Company").  
12

13 **PURPOSE OF THE TESTIMONY**

14 Q. What is the purpose of your testimony?

15 A. The purpose of my testimony is to provide BPS' proposed revenue requirement  
16 calculations and to respond to the Staff's testimony and revenue requirement  
17 calculations. In particular, there are calculations and adjustments made by Staff  
18 with which BPS disagrees. There are also known and measurable changes in  
19 operating costs in 2005 that, I believe, necessitate making adjustments to the test  
20 year calculations. I will also offer testimony on the rate design changes that BPS  
21 would propose in this proceeding.  
22

23 Q. How is your testimony organized?

1 A. First, I respond to Staff on a limited number of items and explain why I disagree  
2 with some of their proposals. Then I describe my proposed calculations of  
3 revenue requirement and explain the adjustments I made to expenses, revenues,  
4 and rate base. Lastly, I describe BPS' proposed expanded local calling area that I  
5 propose be used to address any overearnings that would still result should the  
6 Commission accept my proposed revenue requirement calculations along with  
7 other rate design proposals.

8  
9 Q. Are you in agreement with Staff and the Commission that BPS is not a price cap  
10 company?

11 A. No. BPS has made the requisite filings under the statute to elect to be regulated  
12 under the provisions of the price cap statute. Therefore, a review of its earnings  
13 under a rate base/rate of return analysis is neither relevant nor appropriate. While  
14 the Commission has issued orders indicating their belief that BPS doesn't meet  
15 the statutory requirements, those orders are on appeal in Missouri state courts.  
16 The Company believes that ultimately it has met the requirements of the statute  
17 and that ultimately it will be found to be a price cap company and this case will  
18 essentially be moot.

19  
20 Q. Will the Company respond to the testimony of Mr. Voight filed in this case on  
21 August 5, 2002, regarding the price cap issue?

1 A. No. The Company believes that this issue has been addressed in other cases  
2 before the Commission, and is now before the courts, and does not need to be  
3 addressed further in this case.  
4

5 **GENERAL RESPONSE TO STAFF TESTIMONY**

6 Q. Staff has made many calculations and a number of adjustments to arrive at a  
7 proposed gross revenue requirement for BPS. What is your general response to  
8 Staff's approach?

9 A. I am in agreement with the general approach used by the Staff in making its  
10 calculations and do not challenge many of the adjustments made by Staff for a  
11 rate base/rate of return regulated telecommunications company. To the extent that  
12 I do not challenge Staff's calculations and adjustments in development of my  
13 proposed revenue requirements, I have not addressed those items in my  
14 testimony. I will specifically address those items with which I disagree with Staff  
15 and will propose additional adjustments which Staff has not addressed.  
16

17 **REVENUE REQUIREMENT - OVERVIEW**

18 Q. What test period are you proposing be used in this proceeding?

19 A. I am proposing that a test period reflecting income for the 12 month period ending  
20 June 30, 2004 be used as the basis for the revenue requirement analysis.  
21 However, I am also proposing a number of adjustments that are known and  
22 measurable and that have occurred outside the test period, so that the test period



1 will reflect a going-forward level of revenues and expenses that the Company will  
2 experience at the conclusion of this proceeding.

3  
4 Q. Have you prepared a summary of the adjustments that you propose to the BPS'  
5 test year accounts that are different from the Staff's proposed adjustments?

6 A. Yes. Schedule RCS-1 is a schedule identifying the Company's proposed  
7 adjustments from those proposed by the Staff.

8  
9 Q. Based on the adjustments you have proposed, have you calculated a revised  
10 revenue requirement for BPS?

11 A. Yes, I have. Schedule RCS-2 contains the summary calculations that result in  
12 BPS' proposed revenue reduction of \$376,204 which is \$476,214 less than Staff's  
13 proposed revenue reduction. The following Schedules show the detailed  
14 calculations that support this summary schedule:

15 Schedule RCS-3 – Rate Base

16 Schedule RCS-4 – Income Statement

17 Schedule RCS-5 – Income Taxes

18 Schedule RCS-6 – Telephone Plant in Service

19 Schedule RCS-7 – Depreciation Expense

20 Schedule RCS-8 – Depreciation Reserve

21  
22 BPS' revenue requirement calculation is the result of proposed adjustments to  
23 expenses, revenues, rate base, and cost of capital as discussed further below.

1

2 **REVENUE REQUIREMENT - EXPENSE ADJUSTMENTS**

3

4 Q. Please describe the expense adjustment to account for increased employee annual  
5 one-time pay (BPS Adj. #1).

6 A. I have increased the expenses in Account 6710 by \$37,768 to account for the  
7 difference in annual one-time pay levels assumed by Staff and those actually paid  
8 by BPS. Specifically, Staff assumed as part of its calculation of Staff Adjustment  
9 S-22.4 that there was an annual one-time pay of \$216.57 for 15 employees. That  
10 is the amount that BPS paid to its employees in 2001. However, BPS has been  
11 paying a one-time payment of \$3,000 for each of the 15 employees on an annual  
12 basis since that time. The total difference between Staff's assumption and what  
13 BPS actually pays each year, as adjusted to account for capitalization of payroll  
14 expenses, is \$37,768. This amount is addressed separately in the revenue  
15 requirement calculation since it is an addition to the Staff Adjustment S-22.4.

16

17 Q. Please describe the expense adjustments to account for increased medical and  
18 dental premiums (BPS Adj. #2).

19 A. BPS knows that in 2005 medical premiums have increased by 14.43%, dental  
20 premiums have increased by 9.2%, and short term disability premiums have  
21 increased by 7.62%. The total amount of the increased medical, dental, and short  
22 term disability premiums, as adjusted to account for capitalization of payroll  
23 expenses, will be \$26,681 in 2005. This amount was split between plant specific,

1 plant non-specific, customer operations and corporate categories in the same  
2 proportion that Staff used to assign payroll costs to these expense categories. This  
3 represents an additional adjustment that was not considered in the Staff filing.  
4

5 Q. Please explain the expense adjustments to account for increased non-medical  
6 insurance costs (BPS Adj. #3).

7 A. The amount BPS pays in non-medical insurance premiums for property and  
8 liability, directors and officers, workman's compensation, umbrella, and  
9 earthquake is increasing by a total of \$4,926 in 2005. I made an adjustment to  
10 Account 6720 for that amount since it is a known and measurable change over the  
11 test period expenses. This adjustment also represents an adjustment that was not  
12 considered in the Staff filing.  
13

14 Q. Please explain the expense adjustment to account for increased wages (BPS Adj.  
15 #4).

16 A. BPS will be increasing employee wages by 5% in 2005. Union increases will be  
17 effective on April 1, 2005 pursuant to union contracts. Non-union increases will  
18 be effective on March 1, 2005. The full year impact of such wage increases is  
19 \$31,256, as adjusted to account for capitalization of payroll expenses. This  
20 amount was split between plant specific, plant non-specific, customer operations  
21 and corporate categories in the same proportion that Staff used to assign payroll  
22 costs to these expense categories. This adjustment also is an adjustment not  
23 considered in the Staff filing.

1

2 Q. Please explain the expense adjustment to account for actual joint pole use  
3 expenses (BPS Adj. # 5).

4 A. For poles jointly used with AmerenUE, Pemiscot Dunklin Electric, and Ozark  
5 Border Electric, BPS had accrued \$4,500 in Account 6410 during the test period.  
6 However, the actual cost for that period was \$6,151. I have adjusted Account  
7 6410 by the \$1,651 which the actual costs exceeded the accrued expenses in the  
8 test period.

9

10 Q. Please explain your property tax adjustment (BPS Adj. #6).

11 A. At the time of Staff's testimony, it had to estimate the amount of property taxes  
12 that BPS would owe in 2004. However, it is currently known exactly how much  
13 BPS paid in property taxes in 2004. The actual amount paid is \$8,942 higher than  
14 the amount booked on June 30, 2004 and \$1,087 higher than Staff's proposed  
15 adjustment to the books of \$7,855 (Staff Adjustment S-25). Therefore, I  
16 increased Account 7240 by \$1,087.

17

18 Q. Please explain the expense adjustment to account for Nortel switch features (BPS  
19 Adj. #7).

20 A. BPS has been made aware by its switch vendor, Nortel, that as a result of a 2004  
21 audit of switching features used by BPS, Nortel will be charging BPS an  
22 additional \$7,200 to cover the increased number of switch features that BPS is  
23 using. I made a corresponding adjustment to Account 6210 to account for this

1 known and measurable expense increase. This adjustment is not reflected in the  
2 Staff filing.

3  
4 Q. Please explain the expense adjustment to account for Martin Group cost increases  
5 (BPS Adj. #8).

6 A. BPS has been informed by Martin Group that the annual fees for compact disc  
7 archiving, software maintenance support, facility management program  
8 maintenance and support, and access service provider fees for time sharing on  
9 Martin's computer will be increasing by \$3,701 in 2005. I have, therefore,  
10 increased Accounts 6124 and 6627 in total by that amount.

11  
12 Q. Please explain the local number portability (LNP) cost adjustment (BPS Adj. #9).

13 A. The Commission recently granted BPS a waiver from the FCC's intermodal  
14 (wireline to wireless) LNP requirement (Case No. T0-2004-0484). Since that  
15 time, BPS has been negotiating an interconnection agreement with a CLEC. As a  
16 result of the desire by the CLEC to offer competitive services in BPS' exchanges,  
17 BPS anticipates that it will be deploying LNP in the second quarter of 2005. The  
18 total cost of LNP deployment that BPS anticipates incurring in the first year is  
19 \$47,274. That total includes fees that will be paid to Nortel for switch upgrades,  
20 translation services, and training. In addition, it includes fees that will be paid to  
21 the LNP database administrator, NeuStar. The total also includes costs that BPS  
22 would pay to a service order administrator for port transactions and local service  
23 request services when a competitive carrier actually requests to port a number.

1 Further, there are costs anticipated to query databases to ensure proper routing of  
2 calls to ported numbers. Finally, there are legal fees that are anticipated for LNP  
3 contract negotiations and to ensure that BPS fully complies with all LNP rules  
4 and regulations. I have assigned each anticipated LNP cost to one of three  
5 accounts (6530, 6210, and 6720) and increased those accounts by the LNP  
6 adjustment accordingly.

7  
8 Q. Please describe the adjustment made to account for rate case expenses (BPS Adj.  
9 #10).

10 A. Staff did not make any adjustments to reflect the cost of this case in its analysis.  
11 From July, 2004 through the end of December, 2004 BPS has accumulated legal  
12 and consulting fees related to this case of \$57,866. The cost associated with the  
13 case will continue to accumulate through the writing and filing of this testimony,  
14 the prehearing conference, and through the hearing and briefing process. Based  
15 on the expenditures to date and experience in other cases, I estimate that the cost  
16 of this case will reach at least \$120,000. I am therefore proposing that an  
17 adjustment be made to the Company's Account 6720 expenses to recover one-  
18 third of that cost, or \$40,000, in the revenue requirement, thus essentially  
19 recognizing an amortization of the cost of the case over a three-year period.

20  
21 Q. Staff has also excluded membership dues in various organizations including the  
22 United States Telecommunications Association (USTA) and the National

1 Telephone Cooperative Association (NTCA) (Staff Adj. S-22.1) Do you agree  
2 with these disallowances?

3 A. I do not. Membership fees in these Associations are legitimate business expenses  
4 and provide the Company with a wide variety of services at the national level that  
5 would be far more expensive for the Company to provide on its own. The  
6 services provided by those telecommunications associations are invaluable to  
7 BPS's operations. Services provided by NTCA and USTA include keeping the  
8 Company informed of both regulatory issues occurring at the federal level,  
9 particularly at the FCC, and legislative issues that may impact the Company.  
10 Both organizations provide comments on FCC proceedings that provide the  
11 Company representation on issues that are of significance to it and its revenue  
12 streams that are provided from the interstate jurisdiction. Both provide  
13 educational forums, technical bulletins, and other material so that the Company  
14 can comply with federal regulatory and reporting requirements. Both provide  
15 technical assistance with regulatory issues such as LNP and CALEA. In addition,  
16 BPS's membership in NTCA allows it to participate in the NTCA sponsored  
17 medical insurance and retirement plans providing participation in much larger  
18 groups than if BPS purchased such services as an individual company. Without  
19 the services provided by these associations, BPS would likely have difficulty  
20 keeping informed as to changing regulatory and legislative requirements, would  
21 often be underrepresented in such proceedings, or would have to individually  
22 provide or procure those services from other organizations at a much higher cost.  
23 As it is, BPS can have most of its federal regulatory and legislative services

1 provided at the \$11,585 combined annual fees for these two Associations along  
2 with the other educational, technical, and benefits services that they provide.  
3 Participation in these Associations is a necessary cost of doing business for BPS.  
4

5 Q. Staff's adjustment for membership dues also included elimination of membership  
6 in the Lion's Club and the Bootheel Youth Museum. Please describe these  
7 organizations and the benefit derived from participating in these associations.

8 A. Participation in the Lion's Club not only provides the Company an opportunity to  
9 provide service to the community, but also provides an informal setting where the  
10 Company can, and does, get feedback on the services it provides in the  
11 community. The very minimal amount deducted by the Staff (less than \$70) is  
12 inappropriate. The Bootheel Youth Museum is an organization that provides an  
13 educational museum with hands-on exhibits for young people to visit to learn  
14 about science, business, etc. in a friendly environment. The Company's  
15 participation in this organization provides a service to its customers by supporting  
16 this important educational facility and by again providing an informal  
17 environment where Company employees can receive feedback from community  
18 members on the quality of service being provided. For these reasons I have  
19 reversed the downward adjustment made by Staff in Accounts 6710 for the  
20 membership dues for both the national telephone associations and these service  
21 organizations (BPS Adj. #11).  
22



1 Q. Do you agree with Staff's adjustment (S21.1 and S22.6) to disallow all of the  
2 Company's advertising expenses?

3 A. No. I disagree with Staff's exclusion of all the Company's advertising expenses  
4 because they are legitimate costs of doing business for a small rural telephone  
5 company, especially one in an increasingly competitive environment. The  
6 advertising expense disallowed (\$9,551.99) amounts to approximately 2.5% of  
7 basic local revenues and .25% of total revenues. This is a very minimal amount  
8 of advertising needed to keep the Company and its products in front of the local  
9 communities which it serves. Staff Witness McMellen includes as Schedule 2 to  
10 her Supplemental Direct Testimony a listing of each of the advertisements that  
11 she disallows and examples of many of the ads. Most are small insertions in local  
12 programs of various types. Ms. McMellen cites the Kansas City Power and Light  
13 case as her rationale for disallowing many of these expenditures since they are  
14 "institutional" in nature. This rationale may be appropriate for a large urban  
15 based company such as Kansas City Power and Light, but is inappropriate for a  
16 small rural company such as BPS. One of BPS's primary selling points to its  
17 customers is its local affiliation and local status in the community. The  
18 Company's ability to compete with larger regional and national communications  
19 firms is significantly based on that local presence. People in small communities  
20 like to do business with local companies and companies that provide support to  
21 their communities. BPS's minimal advertising is primarily focused in that  
22 direction. The cost of the ads are small, but they are constant reminders in school  
23 programs, local athletic leagues, churches, local election coverage, etc. that the

1 Company is a local company and supports the communities which it serves.  
2 Giveaway items such as pens, calendars, bookmarks, and letter openers also  
3 provide reminders to customers to come to the Company for their  
4 telecommunications needs. These are legitimate and appropriate expenditures to  
5 attract customers to use the Company's services. For example, Staff excluded  
6 advertising costs for ads that BPS purchased for inclusion in school yearbooks,  
7 sports programs, community events, and church pages. The customers in the  
8 communities served by BPS expect, welcome, and receive direct benefit from  
9 such advertising because it supports activities in which they and/or their children  
10 are directly involved. This type of advertising is critical to a small company such  
11 as BPS that serves a few rural communities. I believe the community would also  
12 believe it is appropriate for BPS to account for such advertising as part of its  
13 legitimate cost of doing business (BPS Adj. #12).

14  
15 Q. Do you agree with Staff's exclusion of donations from the Company's authorized  
16 expenses? (Staff Adjustment 22.2)

17 A. No. The Company has a responsibility to be a good corporate citizen and to  
18 provide a reasonable measure of support for charitable causes. The Company  
19 further believes that its customers expect it to support such causes. Staff's  
20 adjustment is for \$9,176.99 which represents donations and contributions that  
21 amount to 0.24% of the Company's total revenues. Schedule RCS-9 attached to  
22 my testimony details the contributions made. While some are to national  
23 organizations, most are to local organizations including youth sports leagues,

1 local charitable organizations, local youth service organizations, and local  
2 scholarship funds. These contributions provide direct benefit to the Company's  
3 subscribers and to its communities and should be treated as legitimate costs of  
4 providing service. Therefore, I have reversed the downward adjustments made by  
5 Staff in Account 6710 for donations (BPS Adj. #13).

6  
7 Q. Are you in agreement with how Staff proposes to handle net salvage costs?

8 A. No. Staff's approach to depreciation accrual for an account calculates a  
9 depreciation rate by dividing one by the average service life (ASL) of the plant in  
10 that account. This provides for distribution of the original plant investment, but  
11 does not take into account the estimated net salvage. This approach is not  
12 consistent with the Commission's rules. Specifically, the Commission's rules (4  
13 CSR 240.30.040) have adopted the uniform system of accounts and rules of the  
14 FCC (contained in Part 32 of the FCC's rules). The FCC's rule in regard to  
15 depreciation rates in Section 32.200(g)(2)(ii) states:

16 Companies, upon receiving prior approval from this Commission, or upon  
17 prescription by this Commission, shall apply such depreciation rate, except  
18 where provisions of paragraph (g)(2)(iv) of this section apply, as will ratably  
19 distribute on a straight line basis the difference between the net book cost of  
20 a class or subclass of plant **and its estimated net salvage** during the known  
21 or estimated remaining service life of the plant. [emphasis added]  
22

23 In addition, Staff is treating the net salvage as an annual expense, which is also  
24 inconsistent with the Commission's accounting rules. The FCC rule in regard to  
25 depreciation accounts, as adopted by this Commission, in Section 32.3100(c)  
26 (regarding Account 32.3100-Accumulated Depreciation) states:

1 (c) At the time of retirement of depreciable operating telecommunications  
2 plant, this account shall be charged with the original cost of the property  
3 retired **plus the cost of removal and credited with the salvage value** and  
4 any insurance proceeds recovered. [emphasis added]  
5

6 Staff's proposal to charge cost of removal and salvage to expense directly violates  
7 the Commission's own accounting rules regarding such transactions.  
8

9 Q. Can you briefly describe why the Commission's accounting rules include cost of  
10 removal and net salvage in the determination of depreciation rates and accounting  
11 for these costs, as incurred, in the depreciation reserve account?

12 A. Yes. In simple terms this is done to recognize and recover the net cost of the  
13 plant over the life of the asset rather than in a single accounting period. This  
14 provides that the customers who benefit from the use of the plant bear the cost of  
15 the plant including its cost of removal, net of salvage, rather than charging it to  
16 customers who are being served when the plant is taken out of service.  
17

18 Q. Can you give some examples from typical telephone assets of the impacts of this  
19 accounting treatment?

20 A. Yes. An example where the cost of removal is a significant cost in relationship to  
21 the cost of the asset is investment in pole lines and aerial cable. When this plant  
22 is retired and removed from service, the telephone company is responsible for  
23 physically dismantling and removing the plant so that it is not a safety hazard and  
24 visually unattractive. There is considerable expense associated with taking down  
25 the aerial plant and dismantling the pole lines. The FCC, for example, in its  
26 approved depreciation rates, estimates the cost of removal for pole lines to be

1 between 50% and 75% of the original cost of the plant. For aerial fiber cable the  
2 cost of removal is estimated at 10% to 25% of the original cost of the plant. The  
3 customers who benefit from the use of this plant are the customers who receive  
4 service provided by that plant over the time the plant is in service. It is therefore  
5 appropriate that they bear the cost of such plant, including net salvage (or cost of  
6 removal less salvage), through charges to depreciation expense over the life of the  
7 plant.

8  
9 Q. Can you provide another example?

10 A. A second example may be appropriate as well to address situations where the  
11 salvage value from disposal of an asset is positive. Investments in vehicles are an  
12 excellent example of this type of asset. When vehicles are retired from service,  
13 they typically have a substantial salvage value. This value should also be spread  
14 over the life of the plant to reduce the cost to customers for the use of the asset  
15 during the time it is in use.

16  
17 Q. How have you proposed the salvage costs be handled in the revenue requirement  
18 calculation?

19 A. I have proposed that net salvage costs be included in the development of  
20 depreciation rates, as described further below. In doing so, I specifically oppose  
21 the adoption of Staff Adjustment S-24 proposed by Staff witness Amanda  
22 McMellen. (BPS Adj. #14)