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September 11, 2002

FILED⁴

SEP 12 2002

Secretary of PSC
Missouri Public Service Commission
P. O. Box 360
Jefferson City, MO 65102

Missouri Public
Service Commission

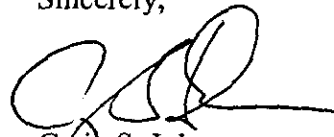
**Re: Joint Application of Northeast Missouri Rural Telephone Company and
Modern Telecommunications Company
Case No. TM-2002-465**

Dear Secretary Roberts:

Enclosed please find for filing an original and five (5) copies of the Surrebuttal
Testimony of Gary Godfrey.

Thank you for seeing this filed.

Sincerely,



Craig S. Johnson

CSJ:tr

Enc.

cc: Ray Ford/Gary Godfrey
Rebecca D. DeCook
J. Steve Weber
Dan Joyce
Michael Dandino
Leo Bub

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

**In the Matter of the Joint Application)
of Northeast Missouri Rural Telephone)
Company and Modern Telecom-)
munications Company for Approval)
to Merge Modern Telecommunications)
Company and Northeast Missouri)
Rural Telephone Company.)**

Case No. TM-2002-465

FILED⁴
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Service Commission

SURREBUTTAL TESTIMONY

OF

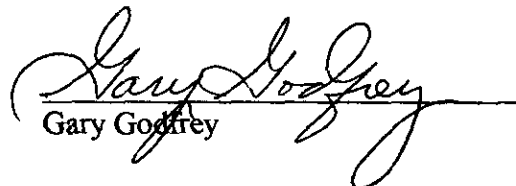
GARY GODFREY

Jefferson City, Missouri
September 12, 2002

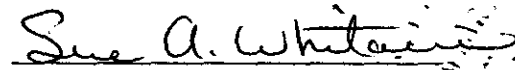
AFFIDAVIT OF GARY GODFREY

STATE OF MISSOURI)
) ss.
COUNTY OF Sullivan)

Gary Godfrey, of lawful age, on my oath states, that I have participated in the preparation of the foregoing testimony in question and answer form, consisting of _____ pages, to be presented in this case; that the answers in the foregoing testimony were given by me; that I have knowledge of the matters set forth in such answers; and that such matters are true to the best of my knowledge and belief.


Gary Godfrey

Subscribed and sworn to before me this 9th day of
September, 2002.


Notary Public
Sue A. Whitacre

My Commission Expires:
June 19, 2003

1 **Q. Please state your name, capacity, and business address.**

2 A. My name is Gary Godfrey. I am office manager for both Northeast Missouri
3 Rural Telephone Company (Northeast) and Modern Telecommunications Company
4 (Modern), joint Applicants in this merger proceeding. My business address is P.O. Box
5 98, 718 South West Street, Green City, MO 63545. .

6 **Q. Have you previously filed direct testimony in this case on behalf of Northeast**
7 **and Modern?**

8 A. Yes.

9 **Q. What topics will this testimony address?**

10 A. In my direct testimony, I attempted to set forth the reasons for the proposed
11 merger, the prior work that had been done preparing for the application for approval of
12 the proposed merger, the local and access rate design of the proposed merger, the local
13 customer benefits of the proposed merger, the lack of local customer detriment caused by
14 the proposed merger, the lack of access customer detriment caused by the proposed
15 merger, possible issues and solutions regarding access rate design, and my suggestion
16 that any earnings reviews be conducted separately from this proceeding.

17 Since the filing of my direct testimony, rebuttal testimony was filed by Staff
18 witnesses David Winter, Rosella Schad, and Arthur Kuss, and also by Southwestern Bell
19 Telephone Company witness Jason Olson. Public Counsel and AT&T have not filed
20 rebuttal testimony.

21 Since filing of my direct testimony, further work has been done with Public
22 Counsel regarding notifications to Modern local customers. Also Northeast has modified
23 its proposed access tariffs implementing the merger rate design to eliminate the

1 possibility that access rate design disputes between Southwestern Bell and AT&T would
2 disrupt the merger schedule.

3 Subject to new issues being raised in surrebuttal testimony, I believe it is accurate
4 to testify here that no contested issues currently exist with respect to approval of the
5 proposed merger. Therefore, this surrebuttal testimony will focus on the evolution of
6 potentially contested issues to the status of non-contested issues. I have arranged these
7 topics as follows:

- 8 1. Staff Recommended Conditions of Approval
- 9 2. Lack of Local Rate Structure Issues
- 10 3. Local Customer Notification
- 11 4. Lack of Access Rate Structure Issues
- 12 5. TM-94-142 Depreciation, Record Commitments
- 13 6. Lack of Contested Issues, Relief Requested

14 **Staff Recommended Conditions of Approval**

15 **Q. In Staff witness David Winter's rebuttal testimony, Staff makes the following**
16 **recommendations to the Commission as conditions of approval of the merger:**

17 **a. that Northeast continue to honor the commitment of Modern to**
18 **forego recovery in future rate cases of any acquisition premium or incremental**
19 **acquisition costs.**

20 **b. that Northeast track all merger transaction costs so they may be**
21 **excluded in future rate cases.**

22 **c. that Northeast continue to honor the commitment of Modern to**
23 **continue to use an additional income tax offset to the rate base of Modern.**

1 **d. that Northeast forego recovery in future rate cases the membership**
2 **fee contribution of Modern to current Modern customers at the effective date of the**
3 **merger.**

4 **Is Northeast willing to make these commitments?**

5 A. Yes. Northeast is willing for these items to be conditions of approval of the
6 proposed merger.

7 **Lack of Local Rate Structure Issues**

8 **Q. Please review the status of the local rate structure proposed to exist for**
9 **Northeast as survivor of an approved Merger effective January 1, 2003?**

10 A. First of all, let me remind the reader that this docket addresses approval of the
11 merger. Northeast has separately filed the tariffs proposing to effectuate the merger rate
12 design in tariff proceeding No. 20020152. On June 10 and June 12, 2002, Northeast filed
13 tariff sheets including local exchange maps, the proposed local rate structure, and also
14 access tariffs with the then proposed single “blended” revenue neutral access rate design.
15 The proposed local rate structure has not been changed. Specifically with respect to the
16 proposed local rate structure, as set forth at pages 5 through 8 of my direct testimony,
17 neither customers of Modern nor Northeast will see any increase in their local service
18 rates as a result of the merger.

19 When it became apparent that SWBT would oppose the “blended” revenue
20 neutral access rate design, Northeast on July 25, 2002, filed substitute tariff sheets which
21 proposed to continue the existing access rates for all exchanges concerned in the
22 proposed merger. This was done for the reasons set forth at pages 12 and 13 of my direct
23 testimony in this docket.

1

2 **Q. Has either Staff or the Office of Public Counsel opposed the proposed local**
3 **rate structure?**

4 A. OPC did not file testimony. Based upon my conversations with OPC, I believe it
5 is accurate to say that the proposed local rate structure is acceptable to OPC. As best as I
6 can interpret the testimony of Staff witness Art Kuss at pages 3-4 of his rebuttal, I don't
7 believe Staff is objecting to the proposed local rate structure. Although SWBT is not
8 opposed to the merger, SWBT witness Olson was critical of the balance of Northeast's
9 local and access rates. The Commission decided that issue recently in TR-2001-344,
10 Northeast's last rate case. I don't believe this testimony creates an issue for purposes of
11 considering approval of this merger. This is not a new concern. IXC's such as SWBT
12 prefer access rate reductions that saves them money, even if it costs our local customers
13 rate increases. Small rural companies prefer to keep local service rates at lower levels to
14 reflect reasonable parity with urban rates, recognizing that calling scopes in rural
15 exchanges are usually much smaller than calling scopes in urban exchanges.

16 **Local Customer Notification**

17 **Q. What has transpired with respect to notifying Modern local customers**
18 **regarding the proposed merger?**

19 A. Northeast and OPC engaged in discussions regarding notifying these customers of
20 the possible impact of the merger upon them. After Northeast and OPC agreed on the
21 wording of such a notice, on August 8, 2002 Modern sent this notice, attached hereto as
22 Schedule 1, to all Modern customers. Customers with concerns were asked to contact

1 OPC by August 26 with concerns, so OPC would have an opportunity to pursue local
2 public hearings, if necessary.

3 **Q. Has OPC informed Modern or Northeast of the results of any customer**
4 **communications or the need to schedule local public hearings?**

5 A. OPC reported that there were two Modern customers that expressed some type of
6 concern regarding the proposed merger. According to the information reported to me,
7 these two customers did not want service to be diminished, or local rates to be increased,
8 as a result of the merger. It is my understanding that no local public hearings will be
9 conducted.

10 **Lack of Access Rate Structure Issues**

11 **Q. Please review the status of the access rate structure proposed to exist for**
12 **Northeast as survivor of an approved Merger effective January 1, 2003?**

13 A. As I testified at pages 5-6, 8-10, and 12-13 in my direct testimony,
14 Northeast/Modern originally proposed a blending of the existing access rates of Modern
15 and Northeast into a single rate for the merged entity which would, based upon test year
16 volumes, produce the same amount of revenues after the merger as had been produced for
17 both companies before the merger. Although AT&T indicated it would not oppose this
18 rate design, SWBT would not agree to it. Therefore, in an effort to keep such rate design
19 issues separate from merger considerations, on July 25, 2002 in tariff proceeding No.
20 20020152 Northeast filed substitute tariff sheets which proposed to continue the existing
21 access rates for all exchanges concerned in the proposed merger. This was done for the
22 reasons set forth at pages 12 and 13 of my direct testimony in this docket.

1 **Q. What response has Northeast received regarding its current access rate**
2 **proposal?**

3 A. SWBT did file rebuttal testimony of Jason Olson. At pages 2-3 of Mr. Olson's
4 testimony, SWBT indicates that they do not oppose the merger of these companies. Mr.
5 Olson further indicated that SWBT intervened out of concern the merged entity's access
6 rates would change. However, since Northeast now proposes to merely continue the
7 current access rates, with no changes, this will not have an immediate impact on SWBT's
8 access expenses. SWBT does not oppose the merger.

9 AT&T did not file rebuttal testimony opposing the continuation of the current
10 access rates, or opposing approval of the merger.

11 **Q. Are you saying that you believe AT&T and SWBT are satisfied with the**
12 **existing access rates?**

13 A. Not at all. What I am saying is that, for purposes of this merger approval,
14 Northeast has attempted to eliminate access rate changes as an issue in the merger
15 proceeding. If subsequent earnings or rate cases materialize, both AT&T and SWBT will
16 be entitled to pursue their interests as access customers in those proceedings. As
17 currently structured, this merger proposal will not generate any issues having to do with
18 access rate changes.

19 **Q. At pages 2, 3, and 4 of Staff witness Arthur Kuss' rebuttal testimony, Mr.**
20 **Kuss states a preference for a single access rate for the merged entity, but also**
21 **indicates Staff is willing to accept the different rates on a temporary basis after the**
22 **merger is effected. What is Northeast's response to this testimony?**

1 A. As I interpret Mr. Kuss' testimony, I believe Northeast is in substantial agreement
2 with Staff. Northeast too prefers that the benefits of merger to Modern customers be the
3 driving consideration of this proceeding. We prefer that revenue and rate issues be left to
4 separate proceedings where their resolution will not delay the merger.

5 In my direct testimony, Northeast expressed preferences for a single access rate
6 structure similar to that preferred by Mr. Kuss. I would repeat that aspect of my direct
7 testimony wherein I disagree that a single access rate is *required* of all LECs. Prior to
8 acquisition of the Modern exchanges, GTE had different access rates for these 3
9 exchanges. For the past several years Modern has not had such a single access rate, and
10 Staff was a party to the stipulation which has resulted in those different access rates
11 continuing to the present. By Commission Order CLECs can have different access rates,
12 as in different exchanges their access rates are capped at the rate level of the ILEC
13 operating the exchange in which the CLEC competes. A CLEC competing with SWB,
14 Verizon, and Sprint, will have three different access rate caps.

15 Nevertheless, I agree with Mr. Kuss that it is acceptable to temporarily continue
16 the current access rate structure, with differing rates, until resolution of any Staff earnings
17 investigations, whereupon we can revisit the access rate design topic. If the access rate
18 design concern is not resolved in an earnings review before January 1, 2004, Northeast
19 would be willing to then initiate a revenue neutral access *rate design* proceeding.

20 **Q. Based upon the rebuttal testimonies, do you believe there is any present issue**
21 **with respect to access rate proposals?**

1 A. No. Unless the Commission on its own motion wants to visit this issue in this
2 proceeding, I believe the parties are in agreement that any such issues are not necessary
3 to be considered here, and can be taken up in earnings or rate cases.

4 **TM-94-142 Depreciation, Record Commitments**

5 **Q. At page 3 of her rebuttal testimony, Staff witness Rosella Schad takes issue**
6 **with your direct testimony indicating that Modern had complied with the terms of**
7 **the Order and Stipulation authorizing acquisition of the GTE exchanges by Modern**
8 **in TM-95-142. What is your response?**

9 A. Ms. Schad is technically correct in that there has been a failure by Modern to
10 strictly comply with Subparagraphs 12.a through 12.f of the Stipulation adopted in TM-
11 95-142 by Order dated July 11, 1995. Modern attempted to comply, but ran into
12 complications which precluded compliance. In hindsight, Modern should have requested
13 waiver of these requirements previously. Since the filing of Ms. Schad's testimony,
14 Modern and Staff have agreed to a request to remedy this defect. On August 26, 2002 in
15 docket IE-2003-0069, Modern requested a waiver of the requirement to file a
16 depreciation study within three years of the original Order.

17 **Q. Can you explain what transpired since the original Order that is the basis for**
18 **the delay and the waiver request?**

19 A. Yes. The Stipulation approved in the acquisition case obligated Modern to utilize
20 certain plant accounts for depreciation rates, to transfer accumulated reserve for plant
21 acquired pursuant to those plant accounts, to maintain continuing property records
22 (CPRs), to submit copies thereof to the Staff Depreciation Department Manager of the
23 Commission Staff within one year of the effective date of the Commission's Order, and

1 to file a comprehensive depreciation study to the Depreciation Department Manager of
2 the Commission Staff within three years of the effective date of the Commission's order
3 approving the stipulation, or together with the filing of any rate case.

4 After closing the acquisition, the following developments precluded compliance
5 with the requirements of subparagraphs 12.a through 12.f of the Stipulation within the
6 time frame originally contemplated:

- 7 a. After closing of the acquisition of the GTE properties, Modern discovered
8 from the records transferred from GTE that there were insufficient
9 continuing property records, and that the records of account were
10 insufficient upon which to complete a comprehensive study of the
11 mortality and remaining lives of the assets purchased.
12
13 b. Modern installed new classes of assets and switches, replacing the
14 equipment obtained from GTE, which caused Modern to own classes of
15 equipment not included in the equipment categories of the depreciation
16 accounts transferred from GTE. Modern replaced three mechanical
17 switches with three digital switches. Modern replaced copper
18 interexchange toll facilities with fiber optic cable. Fiber loop plant and
19 digital carrier equipment was installed to eliminate party lines and
20 accommodate future line growth. Analog circuit equipment was replaced
21 with digital circuit equipment.
22

23 Since July 21, 1995, Modern has maintained communications with Staff regarding
24 Modern's facilities improvements, continuing property records, and depreciation rates.
25 Modern does now maintain adequate continuing property records.

26 In discussing depreciation rates with Staff, Modern was advised that Staff
27 preferred standardized depreciation rates for small Missouri ILECs. If standardized
28 depreciation rates are to be utilized, there would be no need for a comprehensive
29 depreciation study. In TA-2002-199 Modern applied for, and was granted, authority to
30 book higher depreciation rates than those fixed in Case No. TM-95-142. In that
31 proceeding the Commission Staff recommended that the Commission waive the

1 requirement that Modern submit a depreciation study. Although the rates were adopted,
2 the Order did not address the recommendation to release Modern from the requirement of
3 filing a comprehensive depreciation study. At that time I should have filed another such
4 request on behalf of Modern.

5 This failure on my part has now been corrected by the August 26, 2002 waiver
6 request filed in docket IE-2003-0069. I believe that Ms. Schad is in agreement that that
7 request should be granted, thereby eliminating this potential issue.

8 **Lack of Contested Issues, Relief Requested**

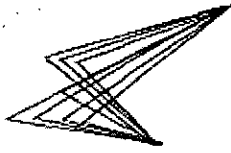
9 **Q. If you are correct that no party is currently asserting any issue or opposition**
10 **to the simple question of whether the proposed merger is detrimental to the public**
11 **interest, what relief are you requesting?**

12 A. First of all I am assuming that neither the Commission nor another party will raise
13 any issue that will have to be resolved in order for the merger to be considered. It may be
14 that the Commission or a party will raise such an issue. Assuming they do not, I would
15 request that the Commission and all parties consider accepting receipt of the prefiled
16 testimony into evidence, without formal hearing or cross examination, and submit that
17 record to the Commission upon which to base its Order in this case. If the Commission
18 has any questions based upon the prefiled testimony it would like to consider, I would be
19 glad to appear personally on the record and answer these questions if that would facilitate
20 the process.

21 **Q. Does that conclude your surrebuttal testimony?**

22 A. Yes.

23



Modern Telecommunications Company

718 South West St. P.O. Box 98
Green City, Missouri 63545-0098

Phone (660)874-4111
Fax (660)874-4100
Email admin@nemr.net

1 August 8, 2002
2

3 **Notice of Proposed Merger of Modern Telecommunications Company with and into**
4 **Northeast Missouri Rural Telephone Company**
5

6 Dear Modern Telecommunications Company Customer:
7

8 An Agreement and Plan of Merger has been entered into and submitted to the Missouri
9 Public Service Commission for approval, docketed by the Commission as Case No. TM-
10 2002-465. The purpose of this notice is to advise you, as a Modern Telecommunications
11 Company customer of this proceeding.
12

13 Under the terms of this Agreement, Modern Telecommunications, which currently is a
14 wholly-owned subsidiary of Northeast Missouri Rural, will become merged into
15 Northeast, effective January 1st, 2003. If the agreement is approved by the Public Service
16 Commission, Modern's separate corporate existence would then end. **Customers of**
17 **Modern will be made members of Northeast, a cooperative, at no charge to them.**
18 As members of Northeast, customers will be entitled to participate in governance of the
19 cooperative. As members of Northeast, customers will be entitled to participate in the
20 allocation and refund of profits or operating margins that Northeast realizes.
21

22 If the Agreement is approved, current local customers of Modern would see no change in
23 their local rates, except that local customers who fail to pay their telephone bill on time
24 would become subject to a \$5.00 late fee that they are not currently subject to as Modern
25 customers. Northeast sends local bills before the first of a month, and payment is late if
26 not paid by the 21st day of that month. As a cooperative, Northeast's local rates are not
27 set by the Commission but are currently lower than the level the Commission has allowed
28 for in setting other regulated rates. Future local rate changes would be at the discretion of
29 the Northeast membership and do not require Commission approval.
30

31 The Missouri Office of the Public Counsel is a state agency that represents utility
32 customers. They have requested that you contact them if you have any comments,
33 questions or concerns regarding this transaction. You may write or call Michael
34 Dandino, Office of the Public Counsel, Post Office Box 7800, Jefferson City, MO 65102,
35 telephone number 573-751-5559. In order to express any concerns you may have by the
36 deadline established by the Commission, please make sure that you contact the Public
37 Counsel no later than August 26, 2002.
38

39 Thank you,
40 Modern Telecommunications Company

Schedule 1