

DIRECT TESTIMONY
OF
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TELECOMMUNICATIONS DIVISION
ILLINOIS COMMERCE COMMISSION

Yates City Telephone Company
and
Mid-Century Telephone Cooperative, Inc.

Joint Application for Approval of Proposed Reorganization

DOCKET NO. 07-0237

MAY 30, 2007

1 **Introduction**

2

3 **Q. Please state your name and business address.**

4 A. My name is Jeffrey H. Hoagg. My business address is 527 East Capitol
5 Avenue, Springfield, Illinois 62701.

6

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

8 A. I am employed as the Principal Policy Advisor in the Telecommunications
9 Division of the Illinois Commerce Commission

10

11 **Q. Please briefly describe your educational background and work
12 experience.**

13 A. I have been employed by the Illinois Commerce Commission in the
14 Telecommunications Division from 2000 to the present. During this time,
15 I have conducted analyses and provided policy recommendations on a
16 wide range of telecommunications issues, and have provided testimony on
17 behalf of Staff of the Illinois Commerce Commission in various docketed
18 proceedings. Prior to this, I held the positions of Telecommunications
19 Tariffs and Rates Analyst, Telecommunications Policy Analyst, and
20 Special Assistant to the Deputy Chair of the New York Public Service
21 Commission. In 1993-94 I served as Special Advisor (Common Carrier
22 Issues) to Commissioner Barrett of the Federal Communications
23 Commission. I provided analyses and policy recommendations on a wide

24 range of telecommunications issues. Among other activities, I prepared
25 testimony, speeches and presentations for delivery to Congress and
26 various regulatory and industry groups, and drafted informal and formal
27 documents for issuance.

28

29 I hold a Master of Arts degree in Economics from Cornell University, and
30 completed all requirements for the Ph.D. in Economics from Cornell other
31 than the dissertation. My major field of graduate study was Industrial
32 Organization and Regulation.

33

34 **Q. What is the purpose of your testimony?**

35 A. Yates City Telephone Company (“Yates City”) and Mid-Century Telephone
36 Cooperative, Inc. (“Mid-Century”) (together, the “Joint Applicants”) have
37 filed a Joint Application for approval of the sale to Mid-Century of all of the
38 assets that Yates City currently uses to operate the Yates City Exchange
39 (and other related relief), pursuant to Sections 7-203 and 7-204 of the
40 Illinois Public Utilities Act (“PUA”). This testimony presents my evaluation
41 of the proposed reorganization for consistency with the requirements set
42 forth in Illinois PUA Sections 7-204(b)(5) through 7-204(b)(7).

43 **Section 7-204(b)(5) of the Illinois PUA**

44

45 **Q. Please provide the requirements set forth in Section 7-204(b)(5) of**
46 **the Illinois PUA.**

47 A. PUA Section 7-204(b)(5) provides that:

48 No reorganization shall take place without prior Commission
49 approval. The Commission shall not approve any proposed
50 reorganization if the Commission finds, after notice and
51 hearing, that the reorganization will adversely affect the
52 utility's ability to perform its duties under this Act. In
53 reviewing any proposed reorganization, the Commission
54 must find that:...

55 (5) the utility will remain subject to all applicable laws,
56 regulations, rules, decisions and policies governing the
57 regulation of Illinois public utilities¹
58

59

60 **Q. Have the Joint Applicants addressed the requirements of PUA**
61 **Section 7-204(b)(5)?**

62 A. Yes. Mr. Schrodt testified that all the applicable laws, regulations, rules,
63 decisions and policies currently governing Mid-Century (as a telephone
64 cooperative) will continue to govern the Yates City exchange operations
65 subsequent to the proposed reorganization.²
66

67 **Q. Do you agree with Mr. Schrodt's analysis of this issue?**

68 A. Not entirely. Mr. Schrodt focuses on the laws, regulations, rules,
69 decisions and policies currently governing Mid-Century as a telephone
70 cooperative. This analysis ignores the question of whether the statute's
71 requirement that the "utility remain subject to all applicable laws,
72 regulations, rules, decisions and policies governing the regulation of
73 Illinois public utilities" mandates that the Commission find the utility (here

¹ 220 ILCS 5/7-204(b)(5) (2007)

² Direct Testimony of Russell D. Schrodt, Joint Applicants' Exhibit 1.0, lines 226-234.

74 Yates City) will remain subject to the same body of laws and regulations to
75 which it is now subject.

76

77 In contrast, I believe it is appropriate to focus on the Yates City utility itself,
78 and determine whether all applicable laws, regulations, rules, decisions
79 and policies currently governing that utility will continue to govern it
80 subsequent to the proposed reorganization.

81

82 **Q. In your opinion, is the proposed reorganization consistent with the**
83 **requirements of Section 7-204(b)(5) of the Illinois PUA?**

84 A. Yes. While I am not an attorney, I believe the proposed reorganization is
85 consistent with these requirements. Currently, the Yates City exchange is
86 subject to Commission oversight applicable to local exchange
87 telecommunications carriers with no more than 35,000 subscriber access
88 lines. Subsequent to the proposed transaction, Commission oversight of
89 the Yates City exchange would change to that applicable to telephone
90 cooperatives. The most significant impact of this change is the application
91 of PUA Section 13-701, which provides:

92 Notwithstanding any other provision of this Act to the
93 contrary, the Commission has no power to supervise or
94 control any telephone cooperative as respects assessment
95 schedules or local service rates made or charged by such a
96 cooperative on a nondiscriminatory basis. In addition, the
97 Commission has no power to inquire into, or require the
98 submission of, the terms, conditions or agreements by or
99 under which telephone cooperatives are financed. A
100 telephone cooperative shall file with the Commission either a
101 copy of the annual financial report required by the Rural

102 Electrification Administration, or the annual financial report
103 required of other public utilities.³
104

105 Section 13-701 exempts telephone cooperatives from Commission
106 oversight of local service rates and telephone cooperatives financing.

107
108 If the Commission approves the proposed reorganization, the degree and
109 nature of Commission oversight in the Yates City exchange will be limited
110 by the Section 13-701 exemption. Despite this change, I believe the
111 proposed transaction remains consistent with Section 7-204(b)(5)
112 requirements. In my view, the current Yates City utility operations will
113 remain subject to all applicable laws, regulations, rules, decisions and
114 policies. If the proposed reorganization is approved, the applicable laws,
115 regulations, rules, decisions and policies would be those governing
116 telephone cooperatives.

117
118 I note that in addition to being subject to the applicable laws, regulations,
119 rules, decisions and polices that govern a telephone cooperative, the
120 Yates City entity and its customers also would become subject to the
121 same policy considerations that I believe underlie the Section 13-701
122 exemption. Among these are a presumption that, owing to its structure, a
123 telephone cooperative has inherent consumer protections related to its
124 rates and finances. As Mr. Schrodts emphasizes, each Yates City
125 customer will be offered the opportunity to become a cooperative member

³ 220 ILCS 5/13-701 (2007)

126 following reorganization, and “each Yates City customer will have the
127 same voting privileges as the existing Mid-Century members. That vote
128 can be cast at Mid-Century’s annual meeting on any topic that comes
129 before the membership, including a vote for an area representative who
130 will sit on the Cooperative Board.”⁴

131

132 **Section 7-204(b)(6) of the Illinois PUA**

133

134 **Q. Please provide the requirements set forth in Section 7-204(b)(6) of**
135 **the Illinois PUA.**

136 A. PUA Section 7-204(b)(6) provides that:

137 No reorganization shall take place without prior Commission
138 approval. The Commission shall not approve any proposed
139 reorganization if the Commission finds, after notice and
140 hearing, that the reorganization will adversely affect the
141 utility's ability to perform its duties under this Act. In
142 reviewing any proposed reorganization, the Commission
143 must find that: . . .

144 (6) the proposed reorganization is not likely to have a
145 significant adverse effect on competition in those markets
146 over which the Commission has jurisdiction;

147

148

149 **Q. Have the Joint Applicants addressed the requirements of PUA**
150 **Section 7-204(b)(6)?**

151 A. Yes. Mr. Schrodt testified that he believes nothing in the proposed
152 reorganization would result in significant adverse impact on competition in
153 the areas served by Mid-Century. With respect to Yates City’s current

⁴ Joint Applicants’ Exhibit 1.0, lines 83-90.

154 interconnection agreements with other carriers, Mr. Schrodts testifies that
155 Mid-Century will either extend its own interconnection agreements to
156 those carriers, or accept assignment of Yates City's current
157 interconnection obligations to Mid-Century.⁵

158

159 **Q. In your opinion, is the proposed reorganization consistent with the**
160 **requirements contained in Section 7-204(b)(6) of the Illinois PUA?**

161 A. Yes. In light of Mid-Century's commitment to, if necessary, accept
162 assignment of Yates City's existing interconnection obligations, I am
163 aware of nothing in the proposed transaction that would adversely impact
164 competition in the pertinent telecommunications markets.

165

166 **Section 7-204(b)(7) of the Illinois PUA**

167

168 **Q. Please provide the requirements set forth in Section 7-204(b)(7) of**
169 **the Illinois PUA.**

170 A. PUA Section 7-204(b)(7) provides that:

171 No reorganization shall take place without prior Commission
172 approval. The Commission shall not approve any proposed
173 reorganization if the Commission finds, after notice and
174 hearing, that the reorganization will adversely affect the
175 utility's ability to perform its duties under this Act. In
176 reviewing any proposed reorganization, the Commission
177 must find that: . . .

178 (7) the proposed reorganization is not likely to result in any
179 adverse rate impacts on retail customers.⁶

180

⁵ Direct Testimony of Russell D. Schrodts, Joint Applicants' Exhibit 1.0, lines 240-252.
⁶ 220 ILCS 5/7-204(b)(7).

181

182 **Q. Have the Joint Applicants addressed the requirements contained in**
183 **PUA Section 7-204(b)(7)?**

184 A. Yes. In direct testimony, Mr. Schrodt asserts that, on average, the
185 proposed reorganization will not result in any significant adverse impacts
186 upon retail customers. Mr. Schrodt testified that retail business customers
187 would experience a reduction in their monthly service rates. Retail
188 residential customers who pay their monthly bills within 20 days of
189 issuance also would experience a reduction in monthly service rates.
190 Only retail residence customers who pay their bills after 20 days of
191 issuance would experience an increase in monthly service rates – from
192 the current \$10 per month to \$12.50 per month (a 12.5% increase).⁷

193

194 According to Mr. Schrodt, two factors would offset this potential rate
195 increase for some residential customers. First, all customers will have
196 access to the following vertical services at no charge: Call Forwarding,
197 Call Waiting, Three-Way Calling and 8 or 30 Number Speed Calling. Each
198 of these currently cost Yates City customers \$1.00 monthly (except 30
199 Number Speed calling, which costs \$3.00 monthly). Second, Yates City
200 customers would be provided free extended area service between the
201 Yates City and Maquon exchanges. Yates City customers currently pay
202 toll rates for such calling.⁸

⁷ Direct Testimony of Russell D. Schrodt, Joint Applicants' Exhibit 1.0, lines 255-265.

⁸ Direct Testimony of Russell D. Schrodt, Joint Applicants' Exhibit 1.0, lines 266-277.

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Q. In your opinion, is the proposed reorganization consistent with the requirements of Section 7-204(b)(7) of the Illinois PUA?

A. Yes. The majority of Yates City retail customers would experience rate reductions subsequent to the reorganization. A minority (residence customers who do not pay monthly bills within 20 days of issuance) would experience a rate increase. However, I agree with Mr. Schrodt in this regard; enhancements to the service provided would offset the increase experienced by a relatively small minority of residence customers who do not take advantage of the incentive to pay their bills within 20 days of issuance.

Rates and rate impacts cannot be evaluated in isolation from the service provided. As a general matter and all else equal, enhancements to service provided result in a lower effective rate. While not amenable to precise quantitative analysis, I believe the service enhancements all Yates City customers would experience from the proposed reorganization are sufficient for the Commission to conclude the transaction would not result in adverse rate impacts to retail customers.

227 **Eligible Telecommunications Carrier (“ETC”) Designation**

228

229 **Q. Please summarize your understanding of the Joint Applicants’**
230 **requests with respect to their status as eligible telecommunications**
231 **carriers (“ETCs”).**

232 A. Yates City seeks, upon approval and close of the proposed transaction,
233 withdrawal of its current designation as an ETC for the Yates City
234 exchange serving area. In support of this request, Yates City submits that
235 upon close of the proposed transaction, it would no longer have assets
236 necessary to provide service in the Yates City exchange.⁹

237

238 Mid-Century seeks, upon approval and close of the proposed transaction,
239 designation as an ETC for the Yates City exchange. In support of this
240 request, Mid-Century submits that it effectively meets all requirements for,
241 and will comply with all obligations incumbent upon, a rural incumbent
242 ETC in the Yates City service area.¹⁰ In addition, Joint Applicants state
243 that Mid-Century was designated an ETC by this Commission in Docket
244 97- 0435.

245

246 **Q. What is your recommendation regarding the Joint Applicant’s**
247 **requests regarding eligible telecommunications carrier (“ETC”)**
248 **status?**

⁹ Direct Testimony of Patrick L. Morse, Joint Applicants’ Exhibit 2.0, lines 188-194.

¹⁰ Direct Testimony of Russell D. Schrodt, Joint Applicants’ Exhibit 1.0, lines 345-385.

249 A. I recommend that if the Commission approves the proposed
250 reorganization, Yates City be permitted to withdraw its current designation
251 as an ETC for the Yates City exchange serving area (upon closure of the
252 transaction).

253

254 I further recommend that if approved, the Commission expand Mid-
255 Century's ETC service area¹¹ by designating Mid-Century as a rural
256 incumbent ETC for the Yates City Exchange serving area upon closure of
257 the proposed transaction. Such action could be taken pursuant to the
258 Commission's authority under Section 214(e) of the federal
259 Telecommunications Act of 1996, and consistent with provisions of
260 Section 54.305 of FCC rules pertaining to Universal Service Support for
261 High Cost Areas. Section 54.305 of FCC rules relates to universal service
262 support when exchanges are sold or transferred by unaffiliated carriers,
263 and would govern this aspect of the proposed transaction. It reads in part:

264 (a) A carrier that acquires telephone exchanges from an
265 unaffiliated carrier shall receive universal service support for
266 the acquired exchanges at the same per-line support levels
267 for which those exchanges were eligible prior to the transfer
268 of the exchanges. A carrier that has entered into a binding
269 commitment to buy exchanges prior to May 7, 1997 will
270 receive support for the newly acquired lines based upon the
271 average cost of all of its lines, both those newly acquired and
272 those it had prior to execution of the sales agreement.¹²
273

¹¹ In Docket 97-0435, the Commission designated Mid-Century as an eligible telecommunications carrier for its service area consisting of the Altona, Bishop Hill, Ellisville, Fairview, Gilson, LaFayette, Maquon, Marietta, Smithfield, Summum, Table Grove, Victoria, and Williamsfield exchanges. The Yates City exchange is contiguous with Mid-Century's current ETC service area.

¹² 47 CFR 54.305

274 **Certificate of Exchange Service Authority**

275

276 **Q. Please summarize your understanding of Joint Applicants' requests**
277 **concerning authority to provide local exchange service under**
278 **Section 13-405 of the Illinois PUA.**

279 A. Yates City seeks, upon approval and close of the proposed transaction,
280 cancellation of its current Section 13-405 certificate of authority to provide
281 local exchange service in the Yates City exchange. In support of this
282 request, Yates City states that upon close of the proposed transaction, it
283 would no longer provide local exchange service anywhere within the state
284 of Illinois.¹³

285

286 Mid-Century seeks a Section 13-405 certificate of authority to provide local
287 exchange service in the Yates City exchange. In support of this request,
288 Mid-Century states that it currently does not have such authority, and that
289 it possesses the requisite technical, financial and managerial resources
290 and abilities to provide local exchange service in the Yates City exchange
291 serving area.¹⁴

292

293 **Q. What is your recommendation with respect to the Joint Applicant's**
294 **requests concerning authority to provide local exchange service**
295 **under Section 13-405 of the Illinois PUA?**

¹³ Direct Testimony of Patrick L. Morse, Joint Applicants' Exhibit 2.0, lines 85-91.

¹⁴ Direct Testimony of Russell D. Schrodt, Joint Applicants' Exhibit 1.0, lines 292-329.

296 A. I recommend that if the Commission approves the proposed
297 reorganization, upon closure of the transaction, Yates City's current
298 Section 13-405 certificate of authority to provide local exchange service be
299 cancelled.

300

301 I further recommend that if the Commission approves the proposed
302 reorganization, Mid-Century's request for Section 13-405 certificate of
303 authority to provide local exchange service in the Yates City exchange
304 serving area be granted. Section 13-405 of the Illinois PUA provides as
305 follows:

306 The Commission shall approve an application for a
307 Certificate of Exchange Service Authority only upon a
308 showing by the applicant, and a finding by the Commission,
309 after notice and hearing, that the applicant possesses
310 sufficient technical, financial, and managerial resources and
311 abilities to provide local exchange telecommunications
312 service.¹⁵
313

314 Mid-Century states that the extension of its existing technical, financial
315 and managerial resources and abilities (currently employed in providing
316 local exchange service to 13 exchanges and 4,600 access lines) to the
317 Yates City exchange is fully within its technical capabilities.¹⁶ In support of
318 this contention, Mid-Century notes that its 32 employees and 9 technicians
319 currently provide service to 13 exchanges and 4,600 access lines, and are
320 fully capable of adding the Yates City exchange's 470 access lines to their

¹⁵ 220 ILCS 5/13-405.

¹⁶ Direct Testimony of Russell D. Schrod, Joint Applicants' Exhibit 1.0, lines 310-329.

321 duties.¹⁷ In my opinion, Mid-Century's submission is sufficient to support a
322 Commission grant of Certificate of Exchange Service Authority to Mid-
323 Century for the Yates City exchange.

324

325 **PUA Section 13-406 Authorization to Discontinue Service**

326

327 **Q. Please summarize your understanding of Yates City's requests to**
328 **discontinue providing services pursuant to Section 13-406 of the**
329 **Illinois PUA.**

330 A. Yates City seeks authority, under Section 13-406 of the PUA, and upon
331 approval and closure of the proposed transaction, to discontinue providing
332 both non-competitive and competitive telecommunications services in
333 Illinois. In support of this request, Yates City submits that granting this
334 request would not result in any interruption of service, and would not
335 deprive customers "of any necessary or essential telecommunications
336 service, or access thereto, and is not otherwise contrary to the public
337 interest."¹⁸

338

339 **Q. What is your recommendation concerning Yates City's requests to**
340 **discontinue providing services pursuant to Section 13-406 of the**
341 **Illinois PUA?**

342 A. I recommend that if the Commission approves the proposed transaction, it

¹⁷ *Id.*

¹⁸ Direct Testimony of Patrick L. Morse, Joint Applicants' Exhibit 2.0, lines 121-128.

343 grant Yates City's request to discontinue provision of service to customers
344 in the Yates City exchange. Section 13-406 of the PUA provides as
345 follows:

346 No telecommunications carrier offering or providing
347 noncompetitive telecommunications service pursuant to a
348 valid Certificate of Service Authority or certificate of public
349 convenience and necessity shall discontinue or abandon
350 such service once initiated until and unless it shall
351 demonstrate, and the Commission finds, after notice and
352 hearing, that such discontinuance or abandonment will not
353 deprive customers of any necessary or essential
354 telecommunications service or access thereto and is not
355 otherwise contrary to the public interest. No
356 telecommunications carrier offering or providing competitive
357 telecommunications service shall discontinue or abandon
358 such service once initiated except upon 30 days notice to the
359 Commission and affected customers. The Commission may,
360 upon its own motion or upon complaint, investigate the
361 proposed discontinuance or abandonment of a competitive
362 telecommunications service and may, after notice and
363 hearing, prohibit such proposed discontinuance or
364 abandonment if the Commission finds that it would be
365 contrary to the public interest.¹⁹
366

367 Upon approval and closure of the proposed reorganization, Mid-Century
368 would provide non-competitive telecommunications services to customers
369 in the Yates City exchange. Thus, I believe all Section 13-406
370 requirements regarding non-competitive services would be satisfied, and
371 granting Yates City's request pursuant to Section 13-406 would not be
372 contrary to the public interest. Moreover, I believe Yates City has
373 adequately demonstrated commitment to provide the necessary
374 notifications as required by PUA Section 13-406 prior to discontinuance of
375 competitive telecommunications services to customers in the Yates City

376 exchange.

377

378 **Q. Does this conclude your testimony?**

379 A. Yes.

380

¹⁹ 220 ILCS 5/13-406.