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**WASHINGTON UTILITIES AND TRANSPORTATION
COMMISSION,

COMPLAINANT,

V.

INLAND TELEPHONE COMPANY,

RESPONDENT.**



DOCKET NO. UT-050606

**DIRECT TESTIMONY
OF JOHN P. COONAN
ON BEHALF OF INLAND TELEPHONE COMPANY**

October 21, 2005

1 **Q: PLEASE STATE YOUR NAME AND GIVE YOUR BUSINESS**
2 **ADDRESS FOR THE RECORD.**

3 A. John P. Coonan. My business address is 103 South Second Street, Roslyn, WA
4 98941.

5 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

6 A. I am the Treasurer of Inland Telephone Company (“Inland”).

7 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

8 A. The purpose of my testimony is to explain the reasons that Inland filed to
9 remove that portion of Inland’s service territory that encompasses the Suncadia Resort
10 property (“Resort”) from Inland’s designated service area as defined on the service area
11 map contained in the tariff.

12 **Q. PLEASE DESCRIBE WHY INLAND MADE THE TARIFF FILING**
13 **THAT HAS BEEN SUSPENDED IN THIS DOCKET.**

14 A. Inland made the filing to better define the area in which Inland can reasonably
15 provide service to those customers that request Inland’s service. Inland prides itself on
16 being responsive to customer needs and providing excellent quality of service to its
17 customers. In order to provide excellent quality service, Inland needs to have access to
18 customers and each customer’s premises in order to install service, repair any problems
19 with the service and so on. This past year, it became obvious to Inland that the owners
20 of the Resort were not going to allow Inland to have the type of access to customers
21 that Inland needs to provide high-quality service to customers. In fact, it appeared that
22 Inland would not have any access to the customer premises, making it impossible to
23 provide service.

1 **Q. WHAT LED INLAND TO THE CONCLUSION THAT IT WOULD NOT**
2 **BE ABLE TO GET ACCESS TO THE SUNCADIA RESORT AREA IN A WAY**
3 **THAT WOULD ALLOW IT TO PROVIDE THE TYPE OF SERVICE THAT**
4 **YOU DESCRIBE?**

5 A. We had been discussing and negotiating the provision of service within the
6 Resort with Suncadia Resort LLC (“Suncadia”) and its predecessor entity(ies) for more
7 than six years. During the course of those discussions, there were a number of ways in
8 which Inland tried to accommodate the business plan for Suncadia and its predecessors.
9 Essentially, what it boiled down to is that unless Inland agreed to some form of revenue
10 sharing for telecommunications services, Suncadia was not going to allow Inland to
11 serve the Resort.

12 **Q. WHAT DO YOU MEAN BY REVENUE SHARING?**

13 A. Suncadia wanted to be paid a portion of the revenues received by Inland from
14 telecommunications service within the Resort as a condition of allowing Inland to have
15 access to the customers. While much of this discussion was verbal, I am attaching as
16 Exhibit No. ____ (JPC-2), a letter of August 27, 2004 from Suncadia concerning
17 revenue sharing and utility issues. I am also attaching as Exhibit No. ____ (JPC-3), a
18 form of Memorandum of Understanding that outlines revenue sharing concepts.
19 Suncadia was clearly tying the two concepts -- revenue sharing and a service easement
20 -- together.

21 **Q. WHY WOULDN’T INLAND AGREE TO REVENUE SHARING?**

22 A. We viewed the sharing of revenue from regulated services as an impermissible
23 activity under the statutes that control our activities. We must charge tariffed rates.

1 There is no provision that we know of that would allow Inland to share revenues it
2 receives under its tariff with third parties.

3 We continued to discuss ways in which Inland might provide service to the
4 Resort. However, it became clear to those of us at Inland that we would not be able to
5 accommodate the desires and objectives of Suncadia. This became very clear to us
6 when a potential customer asked for service and we were not able to provide that
7 service. Suncadia employees or representatives told the prospective customer that
8 Inland was not willing to provide the service, when in fact, all that we could obtain
9 from Suncadia at the time would be a six month, temporary easement. Using a six
10 month temporary easement to provide long-term service does not make good business
11 sense nor is it in the public interest.

12 **Q. YOU MENTIONED SUNCADIA RESORT LLC'S BUSINESS PLAN,**
13 **HAVE YOU REVIEWED THEIR BUSINESS PLAN?**

14 A. No. We only know what they told us. In that sense, it became clear to Inland
15 that Suncadia viewed telecommunications service as a profit center for their operation.
16 I want to stress that there is nothing wrong with that viewpoint. However, it was not a
17 viewpoint that Inland could accommodate through revenue sharing of regulated
18 revenues. That meant if Suncadia wanted to move in another direction, Inland believed
19 it was time to step away and let Suncadia pursue their business plan.

1 **Q. WHY NOT KEEP THE SUNCADIA RESORT AREA WITHIN THE**
2 **TARIFFED SERVICE AREA AS DESCRIBED ON INLAND’S SERVICE AREA**
3 **MAP?**

4 A. It became clear to us that customers might expect that Inland is the responsible
5 entity for providing service and contact Inland for service. This had happened on a
6 couple of occasions, once on a referral from Qwest telling the potential customer that
7 the area was within Inland’s service territory. This then requires our employees to
8 explain that we cannot reach the customer to have access to that customer and have to
9 refer that customer to Suncadia for information on obtaining service. To the extent that
10 either the customer believes Inland is stringing them along or Suncadia describes Inland
11 as being unreasonable, then Inland’s image is tarnished. Part of our overall offering of
12 quality service to our customers is offering an image of a company that is cooperative
13 and willing to help its customers. If that image is going to be tarnished, then the overall
14 customer base may not have the same view of Inland as it holds today. This is a very
15 important issue to Inland.

16 **Q. WHY DO YOU NEED A PERPETUAL EASEMENT TO PROVIDE**
17 **SERVICE IN THE SUNCADIA RESORT AREA?**

18 A. We need an easement for a very long period of time in order to be able to be
19 there and provide service to customers. We access our customers physically in one of
20 two ways. We either access them through public rights-of-way where we have a
21 franchise that entitles us to put our equipment in the public rights-of-way or we access
22 them through standard utility easements over private property, which are perpetual in
23 nature.

1 The Resort has no public rights-of-way within it. All of the roads are private
2 roads. Without an easement, Inland is physically unable to provide service. Suncadia
3 has provided perpetual utility easements to other utilities. Attached as Exhibit No.
4 _____ (JPC-4) is an easement granted to Puget Sound Energy by Suncadia's
5 predecessor.

6 Further, Inland's facilities have depreciation lives which are controlled by
7 maximum depreciation rates allowed by the Washington Utilities and Transportation
8 Commission. Telecommunications plant is normally depreciated over a fairly lengthy
9 period of time. Just from an economic perspective, in order to provide service to the
10 Resort would mean that Inland would need to be able to provide the service through the
11 life of the facilities it installs in the area. A six month or other short-term easement
12 does not make good business sense. To illustrate, assume that under a short-term
13 easement Inland installed facilities. Those facilities would generally be buried or in
14 conduit. At the end of a six month or other short-term lease, Inland could be forced to
15 leave its facilities in place without recovering the cost of the facilities or go through a
16 very costly removal process. Either way the costs for service within the Resort are then
17 borne by Inland's other customers. This is not fair to other customers that Inland serves
18 in other portions of its service territories.

19 Another possibility is that at the end of the term of the easement, Suncadia
20 could demand unacceptable terms for renewal of the easement, such as sharing of
21 regulated revenue. Would the Commission require Inland to continue to serve the
22 customer as carrier of last resort under conditions that (1) are illegal, as Inland
23 understands the concept of sharing revenues from regulated services, and (2) require

1 Inland’s other customers to subsidize a revenue stream to Suncadia? Is that in the
2 public interest?

3 **Q. WHY CAN’T INLAND SIMPLY INSTALL ITS UTILITY FACILITIES**
4 **WITHIN THE PRIVATE ROADS?**

5 A. To do so would be trespass. Inland has no right to be on private roads unless
6 the property owner grants us an easement.

7 We do have the statutory option to condemn an easement. However, that
8 appears to us to be an expensive, time-consuming option. It is adversarial in nature and
9 we do not believe that approach is a viable option at the present time.

10 **Q. WOULD INLAND LIKE TO SERVE THE SUNCADIA RESORT AREA?**

11 A. Yes, if Inland could have access on reasonable terms and conditions. The
12 Resort, once it is built out, will have approximately 2,800 residential connections, three
13 golf courses, and a number of businesses according to Suncadia. Given the densities in
14 the area, it is intuitive to Inland that the average cost of service in the Resort should be
15 less than Inland’s average cost of service in the current Roslyn exchange.

16 In addition, Inland is in the business of providing telecommunications service.
17 If it could do so in the Resort, Inland would be very willing to provide
18 telecommunications service. However, it does not seem appropriate to be forced to be
19 the carrier of last resort in an area that Inland cannot access.

20 **Q. HAVE YOU DONE AN ANALYSIS OF THE COST OF SERVICE FOR**
21 **THE SUNCADIA RESORT AREA?**

22 A. No. We have not done a full cost of service analysis which would take into
23 account full engineering, design of facilities, locations where the facilities might be

1 installed and so on. We have had preliminary reviews by CHR Solutions in 2000 and
2 by the Martin Group in 2002, to obtain preliminary estimates. However, those
3 estimates were not true cost of service studies by any means.

4 **Q. WHAT DO YOU THINK OF THE CONCERN THAT HAS BEEN**
5 **EXPRESSED THAT INLAND SHOULD BE REQUIRED TO KEEP THE AREA**
6 **WITHIN ITS SERVICE TERRITORY ON THE CHANCE THAT THE**
7 **TELECOMMUNICATIONS VENDOR SELECTED BY SUNCADIA RESORT**
8 **LLC FAILS, DECLARES BANKRUPTCY OR OTHERWISE GOES OUT OF**
9 **BUSINESS?**

10 A. Why should Inland be required to keep an area in its service territory that it is
11 not being allowed to serve just in case someone else may go out of business? It does
12 not make sense to me. In addition, in order to evaluate the likelihood of such a claim,
13 information concerning the financial arrangement between Suncadia and the vendor, in
14 this case Intelligent Community Services (“ICS”), is needed. The extent of the
15 investment that ICS is making, the type of investment and the nature of the service
16 arrangement would all help evaluate whether the claim is a mere theoretical possibility
17 or one that has some merit. Inland has tried to obtain that information, but has been
18 unable to get the information it needs from ICS or Suncadia. Without that information,
19 coupled with my understanding that Suncadia will own the fiber, I must assume that the
20 odds of ICS failing to continue to provide service to the Resort for the foreseeable
21 future is highly remote or speculative, at best. This assumption is supported by the fact
22 that the Commission has approved ICS’ request for registration with a finding that ICS
23 is financially responsible. Thus, there is no basis to assume financial failure. A mere

1 theoretical possibility should not require Inland to be held in indentured servitude for
2 an area that it cannot serve. In addition, if ICS does happen to fail, Inland will still not
3 have access to the area and will be physically unable to provide service. There are
4 other designated ETCs in this area that may not need easements since they are wireless
5 carriers. Do their obligations to serve include carrier of last resort responsibilities? If
6 so, why should Inland be forced to serve this area under untenable conditions?

7 **Q. DOES THAT CONCLUDE YOUR DIRECT TESTIMONY?**

8 A. For the present, it does.