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PUBLIC UTILITY COMMISSION OF TEXAS
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December 4, 2020

Via Electronic Filing

Ms. Deven Reeves
Filing Clerk
Public Utility Commission of Texas
Central Records
1701 N. Congress Avenue
Austin, Texas 78701

Re: Project No. 51433; *Review of Telecommunications Providers Receiving Texas Universal Service Fund Support Under The Texas High Cost Universal Service Plan and Small and Rural Incumbent Local Exchange Company Universal Service Plan*

Dear Ms. Reeves:

On behalf of Peoples Telephone Cooperative, Inc. ("Peoples"), we are timely filing its response to the extensive requests for information ("RFIs") sent on October 21, 2020.

Peoples's small staff has worked tirelessly to gather the requested information and incurred significant costs to provide the responses herein. In an effort to provide the requested information in a form that is most usable to the Commission Staff, Peoples is hereby providing:

- 84 pages of narrative responses; and
- 1,148 pages of supporting documents and attachments.

Given the nature of the questions, as you might expect, some of the information provided is confidential. To this end, and to ensure the responses are as complete and timely as possible, Peoples's counsel has diligently discussed and conferred with Commission Staff and reached an agreement with Commission staff: all materials submitted as confidential will be treated as such by the Commission. We sincerely appreciate the Staff assisting in this matter because, without such an agreement and/or a Protective Order, the responses herein would be abbreviated.

We hope and trust the enclosed information is responsive and useful to what has been requested. This is especially true because the solvency of the Texas Universal Service Fund is of utmost importance to Peoples, which is obliged to serve rural Texans. Peoples remains willing to answer any further questions the Commission may have.

Doc# 67N3843

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Should you have any questions or concerns with regards to the enclosed, please do not hesitate to contact our office.

Thank you for your time and attention to this matter. Both are sincerely appreciated.

Very truly yours,

NAMAN HOWELL SMITH & LEE, PLLC

By: D. W. D. Jr.
Dennis W. Donley, Jr.

Enclosures

Cc: Megan Chalifoux, Commission Staff

PROJECT NO. 51433

REVIEW OF TELECOMMUNICATIONS PROVIDERS RECEIVING TEXAS UNIVERSAL SERVICE FUND SUPPORT UNDER THE TEXAS HIGH COST UNIVERSAL SERVICE PLAN AND SMALL AND RURAL INCUMBENT LOCAL EXCHANGE COMPANY UNIVERSAL SERVICE PLAN	§ § § § § § § § §	**PUBLIC UTILITY COMMISSION** **OF TEXAS**

PEOPLES TELEPHONE COOPERATIVE, INC.'S RESPONSE TO COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION

Peoples Telephone Cooperative, Inc. ("Peoples") files this Response to Commission Staff's ("Staff") First Set of Requests for Information and would respectfully show as follows:

I. INTRODUCTION

On October 19, 2020, the Public Utility Commission of Texas (the "Commission" or the "PUCT") filed these Requests for Information (the "RFIs") directed to companies and cooperatives that receive certain Texas Universal Service Fund ("TUSF") support. Pursuant to the request that responses be filed within 45 days of the date of letter notification of the RFIs, Peoples's responses are timely filed.

II. WRITTEN RESPONSES

Attached hereto and incorporated herein by reference are Peoples's written responses to the aforementioned RFIs. Each such response is set forth separately beneath a restatement of the question. Such responses are made without waiver of Peoples's right to contest the admissibility of any such matters upon hearing. Peoples hereby stipulates that its responses may be treated by all parties exactly as if they were filed under oath.

Respectfully submitted,

By: ______________________

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Stephanie S. Potter
State Bar No. 24065923
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Attorneys for Peoples Telephone Cooperative, Inc.

CERTIFICATE OF SERVICE

It is hereby certified that a copy of the foregoing has been served by email on all parties of record who have provided an email address, on this the 4th day of December, 2020, in accordance with the Commission's Order Suspending Rules issued on March 16, 2020, in Project No. 50664.

____

AFFIDAVIT

STATE OF TEXAS §
§
COUNTY OF TRAVIS §

BEFORE ME, the undersigned notary public, this day personally appeared Scott Thompson, the Chief Financial Officer of Peoples Telephone Cooperative, Inc., to me known, who being duly sworn according to law, deposes and says:

"My name is Scott Thompson. I am of legal age and a resident of the State of Texas. I certify that the foregoing testimony and exhibits are true and correct to the best of my knowledge and belief."

Scott Thompson

Scott Thompson
Chief Financial Officer
Peoples Telephone Cooperative, Inc.

Subscribed and sworn to before me, notary public, on this the 3rd day of December, 2020. This notarial act was an online notarization.

NOTARY PUBLIC STATE OF TEXAS
ANGELA MONTALVO
Notary ID
12976781-2
My Commission Expires
4/1/2022

Angela Montalvo

Notary Public in and for the State of Texas

My Commission expires: 4/1/2022

PEOPLES TELEPHONE COOPERATIVE, INC.'S
RESPONSE TO STAFF'S FIRST REQUESTS FOR INFORMATION

Introduction

Peoples Telephone Cooperative, Inc. ("Peoples") is an Incumbent Local Exchange Carrier ("ILEC") that holds Certificate of Convenience and Necessity ("CCN") No. 40067.

Peoples Telephone Cooperative, Inc. ("Peoples") is a small and rural ILEC headquartered in Quitman, TX that has been in business since 1950. As of December 31, 2019, Peoples provided regulated voice telecommunications services to 7,472 access lines in North East Texas. Peoples's service territory covers 852 square miles of sparsely populated timber and ranch land in Camp, Delta, Fannin, Franklin, Hopkins, Hunt, Lamar, Titus, Upshur, and Wood counties. Peoples provides service to some of the most remote and highest cost to serve areas in Texas, and absent support from the Texas Universal Service Fund, Peoples would be unable to provide basic local exchange service to its customers at rates that are affordable and comparable to those in urban areas.

The primary sources of employment in Peoples's service territory are agriculture and services based. In addition to providing service to residential customers, Peoples provides service to a small number of community-based businesses, as well as a variety of anchor institutions such as school districts, medical facilities, first responders and local government entities. A map of Peoples's service territory is available at https://www.fcc.gov/maps/study-area-boundaries/ by entering the Operating Company Number ("OCN") 2130.

Peoples's network is comprised of more than 2,724 miles of aerial, buried copper and fiber cable. In order to ensure the highest level of reliable service for its customers, Peoples provides redundant fiber routes for the transmission and completion of customer calls. Additionally, Peoples is currently in the process of upgrading its network by replacing the outdated copper network to a modern fiber network. The upgrades that Peoples is making to its network will reduce maintenance costs and provide customers access to the same reliable technology that is available to urban customers. Having the ability to provide its customers access to the same technology as what is available in urban areas is paramount to the survival of these rural areas. The cost that Peoples incurs to upgrade its network includes not only the cost of engineering, construction, fiber, miscellaneous costs such as cabinets, pedestals, and splicing materials, but it also includes a significant amount of costly electronic equipment. Without support from the Texas Universal Service Fund, Peoples would not be able to continue to do these upgrades and provide services to its customers.

Peoples relies on Texas Universal Service Fund ("TUSF") support administered by the Public Utility Commission of Texas ("PUCT" or "Commission") in order to serve its high-cost, rural service territory. This rural area would not be economic to serve without support. The Texas Legislature decided decades ago to make sure that there was "universal service" across the state—including in sparsely-populated, high-cost rural areas where local rates alone could never sustain the costs of providing telephone service—by providing support to providers who were required to serve all customers in their service territories. Under this regulatory compact, incumbent local exchange carriers like Peoples agree to fulfill certain obligations across its service territory—such as provider-of-last resort obligations—in exchange for TUSF that is decided through proceedings with notice and a hearing. Peoples is happy to answer any Commission questions and intends to provide continued regulatory transparency. These numerous requests for information ("RFI") generally request data that is already on file with the Commission in other proceedings, so we are providing copies of that information (under seal, if information is confidential) attached to this filing for ease of the Commission's use wherever possible.

In particular, Peoples opted into the Small and Rural Incumbent Local Exchange Carrier Universal Service Plan support mechanism as contemplated by 16 Tex. Admin. Code ("TAC") § 26.407(d) in Project No. 49005. This mechanism was created by Senate Bill 586 in 2017, with the explicit purpose of allowing for TUSF support retention/adjustments without the need for a full base-rate case:

- The purpose of this reporting and review mechanism is to provide "long-term, regulatory-efficient, and 'needs-based' support" and avoid the imminent need for many "traditional regulatory 'rate cases' at the [PUCT]." *See* Senate Research Ctr, Bill Analysis, Tex. S.B. 586, 85th Leg., R.S. (May 24, 2017).
- The Commission accepted that when it implemented the bill, noting that 16 TAC § 26.407 "establishes criteria by which a small ILEC may request that the commission determine the amount of Small and Rural Incumbent Local Exchange Company Universal Service Plan support it receives, so that the support, combined with regulated revenues provides the small ILEC an opportunity to earn a reasonable rate of return under this rule, as required by Senate Bill 586." *See* Project No. 47669 (Oct. 16, 2018 order).

Given this stated purpose, annual reports required under 16 TAC § 26.407 are extensive: they track every dollar Peoples spends on any capital investment or expense and every dollar Peoples earns in order to ensure compliance with state and federal accounting rules and regulations. The PUCT's report forms and instructions were developed over months of effort and dozens of meetings and workshops among small ILECs like Peoples, other interested parties in the industry, and Commission Staff before being approved by the three current Commissioners in Project No. 47669. Small ILECs like Peoples met with Staff repeatedly during the development of this report and since, and Peoples remains willing to meet with Staff or the Commissioners again to discuss any additional issues or questions.

Specifically, the annual report form requires:

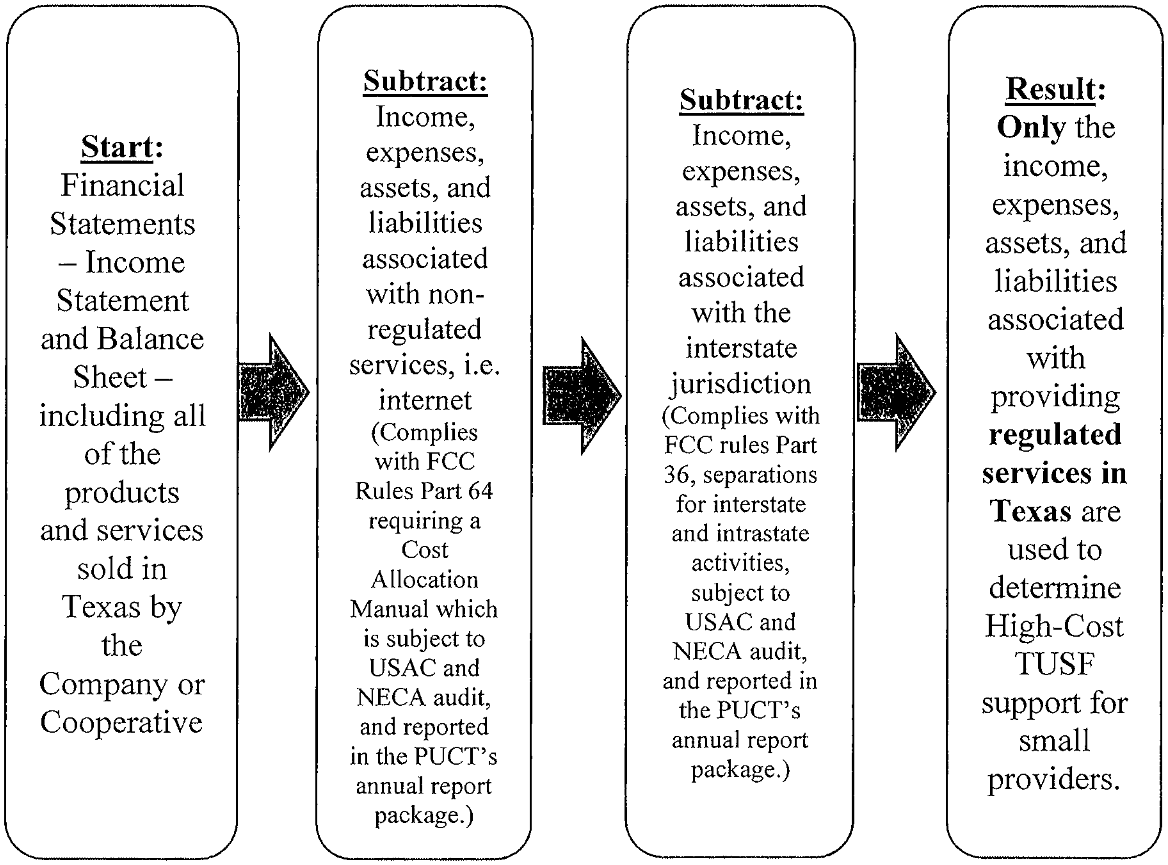
- schedules and workpapers regarding Peoples's summary of revenues and expenses;
- revenues, expenses, and capital accounts;
- invested capital;
- intrastate federal income taxes calculated at the applicable tax rate;
- network access service revenue;
- weighted average cost of capital (for investor-owned utilities);

- historical financial statistics;
- proposed company adjustments;
- the name, title, and compensation of each officer, director, owner/former owner (for investor-owned utilities), or other highly compensated employee, and their family members;
- the amount and nature of each affiliate transaction, including transactions with family members of officers, directors, or owners/former owners (for investor-owned utilities);
- the Cost Allocation Manuals ("CAM"), and
- all supporting documentation necessary to support these items.

See 16 TAC § 26.407(e)(2)(A-J) and (3) and Commission instructions to form schedules. With all of this information, these reports are hundreds of pages long and prepared at great expense over countless man-hours each year. They are the longest, most extensive annual reports the Commission receives from utilities in any of the three industries it regulates, despite Peoples's small size as compared to some electric and other utilities within the Commission's jurisdiction.

The CAM, in particular, provides great insight into Peoples's accounting procedures, walking through how dollars flow through the Federal Communications Commission's ("FCC") Part 64 allocation process (allocating non-regulated services out from regulated services) and into the Part 36 separations process (separating interstate services out from intrastate services), which in combination illustrate how total amounts flow down to the reported intrastate, regulated amounts that affect a company's return and/or support. Peoples's company-specific CAM and Part 36 cost separations study are the definitive authorities on its compliance with applicable accounting and regulatory rules:

- Cost allocation procedures, which are documented in CAMs, are required by FCC rules and have been in place since at least the 1980s. Peoples devotes great time and expense to developing its company-specific CAM to ensure compliance.
- Cost allocation procedures, including CAMs, are subject to audit by the USAC and NECA.
- CAMs are subject to Commission review annually, as they are provided to the Commission each year and attested to in Peoples's annual report under 16 TAC § 26.407, contained in Attachment C, Section 2.1. For example, Peoples's CAM for 2019 is currently being reviewed by Commission Staff in Project No. 51316.
- Since cost allocation procedures, including CAMs, and Part 36 cost separations studies are company-specific, a general overview of the long-standing cost allocation and separations process is summarized below:



This flow chart illustrates how small ILECs like Peoples use a long-standing, well-vetted, mandatory regulated process to ensure that only regulated, intrastate telecommunications revenues, expenses, and investments can have any impact on their state returns or TUSF support.

Once filed, Commission Staff reviews the annual reports for 90 days every year to determine in part whether reported returns are "based on expenses that the commission staff determines are reasonable and necessary." 16 TAC § 26.407(f). Staff has the authority to adjust the annual reports for unreasonable or unnecessary expenses, inappropriate affiliate transactions, inappropriate allocations, or "any other adjustments that commission staff may find appropriate." 16 TAC § 26.407(f)(2). Peoples has timely filed these annual reports for Staff's review each year and received no adjustments. *See* Project Nos. 49005, 49986, and 51316.

If, after Staff's review and adjustment, a small ILEC is over-earning, the Commission has the authority to bring it in for an adjustment proceeding to adjust either its TUSF high-cost support and/or its local rates. 16 TAC § 26.407(g)(3). Or if a company is under-earning, it can apply for an adjustment to its TUSF high-cost support, and in that contested case, again, the Commission can adjust its local rates along with TUSF support. 16 TAC § 26.407(g)(1). Contested case filings are even more extensive than the lengthy annual reports, including direct testimony and workpapers as well as all the information described above. 16 TAC § 26.407(h)(1)(B-D). Peoples has recently undergone such rate and support review in Docket

No. 50208, approved on March 5, 2020. Thus, the Commission has had an especially recent review—through one contested case and three recent projects—of Peoples's operations, returns, and local rates.

On top of all of this, the Commission still has the jurisdiction to bring any rate-regulated provider like Peoples in for a traditional rate case, although the Commission has not chosen to initiate such rate cases for telephone providers in decades. *See* PURA § 56.032(l).

And finally, Peoples certifies every year that it complies with PURA and Commission rules "regarding the use of money from ... TUSF programs" and that it uses federal USF "only for the provision, maintenance, and upgrading of facilities and services for which support is intended." *See* Project No. 32567 and Project No. 24481.

Peoples's extensive annual reports and attestations to the Commission combined with the answers to these voluminous RFIs (which were costly to prepare) should provide more than sufficient information to satisfy the Commission's inquiries related to TUSF. Regardless, Peoples stands by its continuous commitment to be open and transparent, and remains happy to address any reasonable follow-up questions the Commission may have, either in writing or by meeting in person or virtually.

STAFF 1-1

Please provide a list of all entities that use any of the Company's telecommunications plant in service for which the Company seeks Texas Universal Service Fund (TUSF) monies.

Response:

Peoples uses TUSF monies only for its own regulated, local voice service customers, not for other entities' use of its plant in service.

TUSF monies are not provided directly for discrete plant items. Instead, Peoples is regulated under PURA § 56.032, meaning its TUSF support is based on its regulated intrastate rate of return. Regulated intrastate telecommunications plant in service represents eligible investments and so it is one component of calculating Peoples's total intrastate rate of return. These plant assets include, but are not limited to, loop plant, switching, transmission, and transport assets. There are longstanding regulatory accounting rules, described below, that ensure that—while there is a single telecommunications network that is simultaneously used for intrastate services as well as interstate or non-regulated services—no TUSF monies go to support interstate or nonregulated plant.

Peoples is a common carrier obligated to make services available to the public for the provision of telecommunications service. Thus, Peoples does not and cannot maintain a list of all entities that might be purchasing tariffed or contracted services that utilize any of its telecommunications plant at any one time, as such a list is unknowable, under constant change, and frequently protected by privacy laws. The classes of entities that purchase tariffed or contracted services that utilize some of Peoples's total plant in service for intrastate functions include Peoples's end user residential and business customers (specifically, local exchange service customers, intrastate toll customers, intrastate private line and/or special access customers, and intrastate switched access service customers) as well as every other telecommunications provider in the state (like interexchange carriers, wireless providers, other local exchange carriers) to provide service to their end user customers. All entities connected to the public switched telecommunications network are potential entities that might purchase tariffed or contracted services that utilize Peoples's plant in service on any given day. But third parties' purchase of these services for use in conjunction with their own intrastate services does not affect Peoples's intrastate regulated returns or support, for the reasons explained below.

In addition, the telecommunications network is a hybrid network capable of providing both regulated intrastate and interstate voice service as well as interstate data services (which is the entire reason for the cost allocation/separations process), as has been acknowledged by regulators:

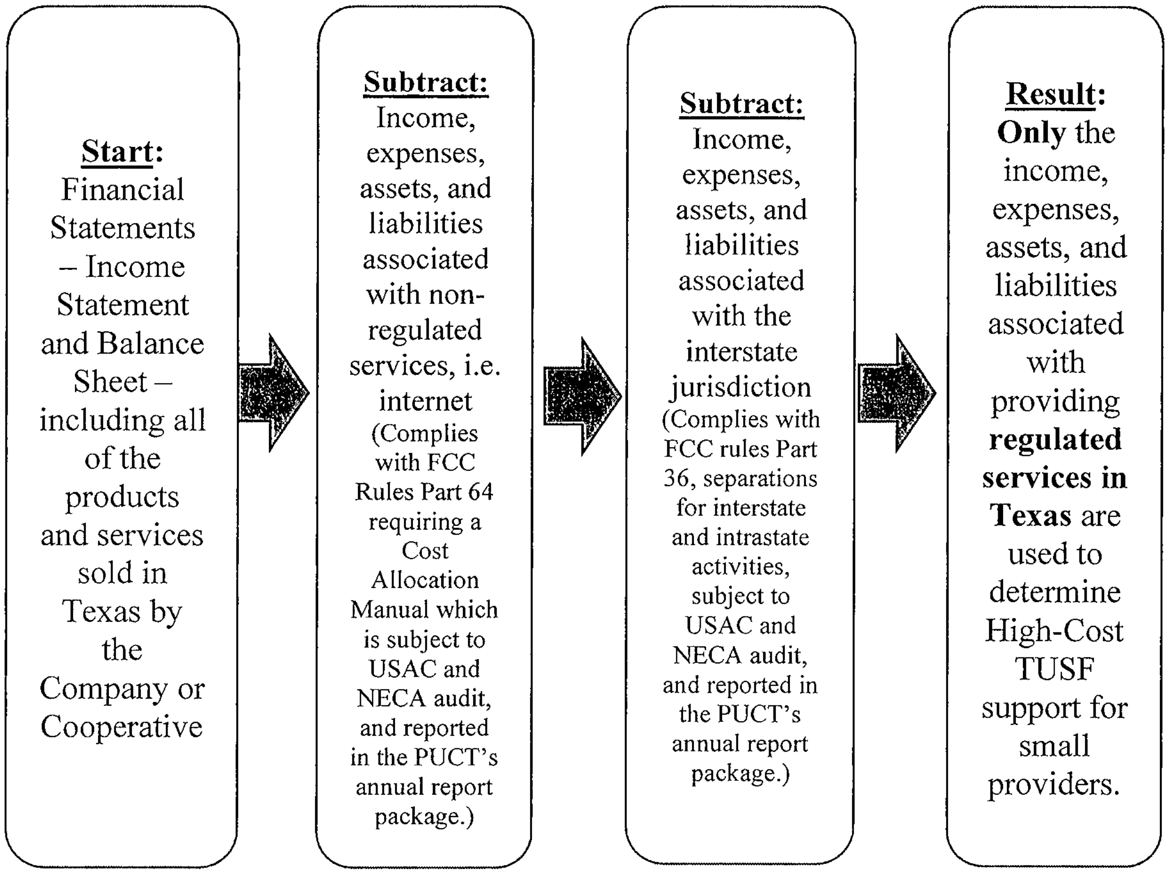
- The FCC has explained, "The federal universal service high-cost program ... is designed to ensure that consumers in rural, insular, and high-cost areas have access to modern communications networks capable of providing voice and broadband service..." *See* https://www.fcc.gov/general/universal-service-high-cost-areas-connect-america-fund.

- The PUCT recently recognized that with technology such as VoIP, "voice and data can share the same communication channel simultaneously." *See* "Scope of Competition in Telecommunication Markets in Texas: Report to the 86th Legislature" (Jan. 14, 2019).

Given the hybrid network, every entity that is connected to the Internet might also use some of Peoples's total plant in service for interstate functions on any given day, such as Internet Service Providers ("ISPs") or edge content providers including entities like Netflix, Amazon, Google, and Microsoft. But these third parties' use of the network for their own interstate or non-regulated services does not affect Peoples's intrastate regulated returns or support, either, for the reasons explained below.

The process by which Peoples identifies what portion of its total plant in service constitutes its regulated, intrastate plant in service is described in great detail in its CAM and Part 36 separations process. Peoples's company-specific CAM and Part 36 cost separation study are the definitive authorities on its compliance with applicable accounting and regulatory rules:

- Cost allocation procedures, which are documented in CAMs, are required by FCC rules and have been in place since at least the 1980s. Peoples devotes great time and expense to developing its company-specific CAM to ensure compliance.
- Cost allocation procedures, including CAMs, are subject to audit by the USAC and NECA.
- CAMs are subject to Commission review annually, as they are provided to the Commission each year in Peoples's annual report under 16 TAC § 26.407, contained in Attachment C, Section 2.1. For example, Peoples's CAM for 2019 is currently being reviewed by Commission Staff in Project No. 51316, and it is also attached hereto as Attachment to Staff's 1-1 for ease of reference.
- Since cost allocation procedures, including CAMs, and Part 36 cost separations studies are company-specific, a general overview of the long-standing cost allocation and separations process is summarized below:



This flow chart illustrates how small ILECs like Peoples use a long-standing, well-vetted, mandatory regulated process to ensure that only their own regulated, intrastate telecommunications plant in service can have any impact on their state returns or TUSF support.

All of this information is provided to the Commission every year in Peoples's annual report. 16 TAC § 26.407 is the Commission's rule implementing Senate Bill 586 (2017), whose explicit purpose was to allow small providers to retain/adjust TUSF support without the need for a full base-rate case:

- The purpose of this reporting and review mechanism is to provide "long-term, regulatory-efficient, and 'needs-based' support" and avoid the imminent need for many "traditional regulatory 'rate cases' at the [PUCT]." *See* Senate Research Ctr, Bill Analysis, Tex. S.B. 586, 85th Leg., R.S. (May 24, 2017).
- The Commission accepted that when it implemented the bill, noting that 16 TAC § 26.407 "establishes criteria by which a small ILEC may request that the commission determine the amount of Small and Rural Incumbent Local Exchange Company Universal Service Plan support it receives, so that the support, combined with regulated revenues provides the small ILEC an opportunity to earn a reasonable rate of return under this rule, as required by Senate Bill 586." *See* Project No. 47669 (Oct. 16, 2018 order).

Given this stated purpose, annual reports are extensive: they track every dollar Peoples spends on any capital investment or expense and every dollar Peoples earns in order to ensure compliance with state and federal accounting rules and regulations. The PUCT's report forms and instructions were developed over months of effort and dozens of meetings and workshops among small ILECs like Peoples, other interested parties in the industry, and Commission Staff before being approved by the three current Commissioners in Project No. 47669. Small ILECs like Peoples met with Staff repeatedly during the development of this report and since, and Peoples remains willing to meet with Staff or the Commissioners again to discuss any issues or questions about these reports.

Specifically, the PUCT's annual report form requires:

- schedules and workpapers regarding Peoples's summary of revenues and expenses;
- revenues, expenses, and capital accounts;
- invested capital;
- intrastate federal income taxes calculated at the applicable tax rate;
- network access service revenue;
- weighted average cost of capital (for investor-owned utilities);
- historical financial statistics;
- proposed company adjustments;
- the name, title, and compensation of each officer, director, owner/former owner (for investor-owned utilities), or other highly compensated employee, and their family members;
- the amount and nature of each affiliate transaction, including transactions with family members of officers, directors, or owners/former owners (for investor-owned utilities);
- the CAM, and
- all supporting documentation necessary to support these items.

See 16 TAC § 26.407(e)(2)(A-J) and (3) and Commission instructions to form schedules. With all of this information, these reports are hundreds of pages long and prepared at great expense over countless man-hours each year. They are the longest, most extensive annual reports the Commission receives for utilities in any of the three industries it regulates, despite Peoples's small size as compared to some electric and other utilities within the Commission's jurisdiction.

Once filed, Commission Staff reviews the reports for 90 days every year to determine in part whether reported returns are "based on expenses that the commission staff determines are reasonable and necessary." 16 TAC § 26.407(f). Staff has the authority to adjust annual reports for unreasonable or unnecessary expenses, inappropriate affiliate transactions, inappropriate allocations, or "any other adjustments that commission staff may find appropriate." 16 TAC § 26.407(f)(2). Peoples has timely filed these reports for Staff's review each year and received no adjustments. In fact, its 2019 annual report was just filed on September 15, 2020. *See* Project Nos. 49005, 49986, and 51316.

If, after Staff's review and adjustment, a small ILEC is over-earning, the Commission has the authority to bring it in for an adjustment proceeding to adjust either its TUSF high-cost support and/or its local rates. 16 TAC § 26.407(g)(3). Or if a company is under-earning, it can apply for an adjustment to its TUSF high-cost support, and in that contested case, again, the Commission can adjust its local rates along with its TUSF support. 16 TAC § 26.407(g)(1). Contested case filings are even more extensive than the lengthy annual reports, including direct testimony and workpapers as well as all the information described above. 16 TAC § 26.407(h)(1)(B-D). Peoples has recently undergone such rate and support review in Docket No. 50208, approved on March 5, 2020. Thus, the Commission has had an especially recent review, through one contested case and three recent projects, of Peoples's operations, returns, and local rates. In addition, the Commission could initiate a rate case if it is unsatisfied with the information in one of Peoples's annual reports. *See* PURA §§ 56.032(l), 53.001, 53.151.

Prepared/Sponsored by: Sharon Minor, Moss Adams

STAFF 1-2

For each entity listed in Staff 1-1 above:

- identify the entity by name;
- designate the entity as regulated or non-regulated;
- designate the entity as affiliate or non-affiliate;
- identify the plant assets used by the entity;
- list the services provided by the entity; and
- provide the amount of 2017, 2018, and 2019 reported revenues by entity.

Response:

Peoples does not receive TUSF support based upon any particular entity's use of its plant, but rather for its own intrastate, regulated services.

Peoples is a common carrier obligated to make services available to the public for the provision of telecommunications service. Thus, Peoples does not and cannot maintain a list of all entities that might or are purchasing tariffed or contracted service that utilize any of its telecommunications plant at any one time, as such a list is unknowable, under constant change, and frequently protected by privacy laws. Peoples would not have the requested information regarding unaffiliated third-party entities in any event.

The classes of entities that purchase tariffed or contracted services that utilize some of Peoples's total plant in service for intrastate functions include Peoples's end user residential and business customers (specifically, local exchange service customers, intrastate toll customers, intrastate private line and/or special access customers, and intrastate switched access service customers) as well as every other telecommunications provider in the state (like interexchange carriers, wireless providers, other local exchange carriers) and their end user customers. The classes of entities that purchase tariffed or contracted services that utilize some of Peoples's total plant in service for interstate functions include ISPs or edge content providers including entities like Netflix, Amazon, Google, and Microsoft. To Peoples's knowledge, none of these entities is regulated by the Commission, as the term "regulated" is commonly used. Other local exchange carriers might be considered regulated under PURA Chapter 52, 58, 59, and 65 and other entities providing telecommunications services and information services such as Voice over Internet Protocol ("VoIP") services might be subject to some form or regulation by the FCC. The overwhelming majority of Peoples's regulated intrastate services are purchased by non-affiliated entities.

The affiliates that utilize Peoples's services are Peoples Communication, LLC (which operates many of Peoples's non-regulated business including Peoples's competitive local exchange carrier ("CLEC")) and Texas RSA 7B3, LLC (which provides fixed wireless broadband in Peoples's CLEC areas). These entities are non-regulated, so their independent plant and revenues are not reportable to the Commission, but their transactions with Peoples are exhaustively reported as required by 16 TAC § 26.407(e)(2)(J) and (K). *See* Peoples's annual reports, Schedule IX and in the supporting Attachment C, Section 5.9, which are on file with the Commission for the requested years but also attached hereto as Attachments to Staff

1-2 (A-C). Peoples's organizational chart (Attachment C, Section 5.9) and description of its relationships with affiliates are further explained in its CAM, Section VI. In addition, Peoples's total revenues by various classes of customers are included on Schedule I of Peoples's attached annual reports. Detailed reports related to Peoples's revenues are further outlined by Part 32 account in the supporting Attachment C, Section 5.1 to the annual reports.

For a complete list of intrastate services provided by Peoples, please see Peoples's tariffs. These are on file with the Commission, and for ease of reference a copy is attached as Attachment to Staff 1-2(D).

Prepared/Sponsored by: Sharon Minor, Moss Adams

STAFF 1-3

For each entity listed in Staff 1-1 above, please provide the amounts incurred by major expense category, including, but not limited to, operations and maintenance (O&M) expenses, taxes by type, and depreciation expense. Provide the amounts for 2017, 2018, and 2019.

Response:

Peoples does not receive TUSF monies based upon any particular entity that purchases tariffed or contracted services that utilize its telecommunications plant in service, but based upon its Commission-approved intrastate rate of return. Peoples's major expense categories—including O&M, taxes by type, and depreciation—are set forth in Peoples's annual reports for the requested years, in Schedules I and III, and associated workpapers in supporting Attachment C. These expenses are recorded in accordance with the FCC's Part 32 Uniform System of Accounts, which does not require that, nor would it be practical for, Peoples to separately account for expenses for each entity to which it provides services. These reports are on file with the Commission for the requested years, and attached hereto as Attachments to Staff 1-2 (A-C). These attached, comprehensive reports are hundreds of pages long and compiled each year at great expense over many man-hours. They are the most extensive annual reports that the Commission reviews for any utility in any of the three industries it regulates, regardless of size. Peoples timely filed these reports for Staff's review of each of the requested years and received no adjustments.

Prepared/Sponsored by: Sharon Minor, Moss Adams

STAFF 1-4

Please provide the amount of TUSF disbursements made to the Company for use of its telecommunications plant in service for 2017, 2018, and 2019

Response:

Peoples's TUSF disbursements are based upon its reported rate of return as set out by PURA § 56.032, not directly tied to specific plant in service.

That said, its specific TUSF disbursements by program and by company are publicly disclosed by the TUSF administrator, Solix, on a quarterly basis. Solix's quarterly reports are filed publicly with the Commission, available here: https://www.puc.texas.gov/agency/resources/reports/. For ease of Commission use, Solix's quarterly reports for the requested years are attached hereto as Attachment to Staff 1-4(A). Peoples's TUSF disbursements for each of the requested years are also contained in its 16 TAC § 26.407 annual reports in Schedule I, Line 6, which are on file with the Commission for the requested years. These reports are also attached hereto for ease of reference; *see* Attachment to Staff 1-2(A-C). Peoples also reports these disbursements to the Commission quarterly in Project No. 41120. These reports for the requested years are attached hereto as Attachment to Staff 1-4(B).

Prepared/Sponsored by: Sharon Minor, Moss Adams

STAFF 1-5

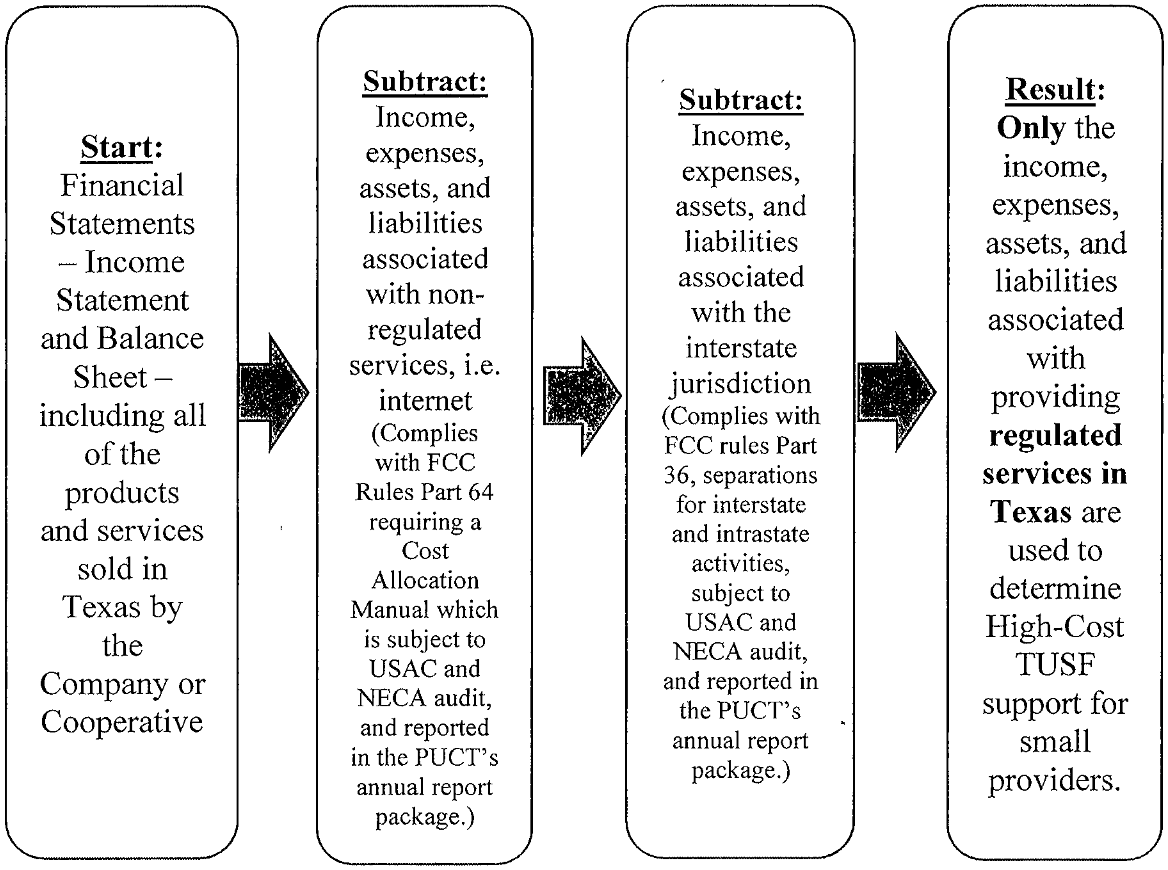
For each incidental activity that does not constitute a line of business for the Company, please provide a listing of the activity and the amount of revenues and expenses associated with the individual incidental activity for 2017, 2018, and 2019.

Response:

Peoples considers activities incidental when they are an outgrowth of regulated operations, do not constitute a separate line of business, have been traditionally treated as regulated for accounting purposes, and the total of all incidental activities' revenue does not exceed 1% of its total revenues. These activities consist primarily of damage reimbursements, sales tax and 911 collection fees, directory sales, pole attachments, and others. *Please see* Section V of Peoples's CAM for the requested years, part of Attachment to Staff 1-2(A-C).

Peoples's company-specific CAM and Part 36 cost separations study are the definitive authorities on its compliance with applicable accounting and regulatory rules:

- Cost allocation procedures, which are documented in CAMs, are required by FCC rules and have been in place since at least the 1980s. Peoples devotes great time and expense to developing its company-specific CAM to ensure compliance.
- Cost allocation procedures, including CAMs, are subject to audit by the USAC and NECA.
- CAMs are subject to Commission review annually, as they are provided to the Commission each year in Peoples's annual report under 16 TAC § 26.407, contained in Attachment C, Section 2.1. For example, Peoples's CAM for 2019 is currently being reviewed by Commission Staff in Project No. 51316.
- Since cost allocation procedures, including CAMs, and Part 36 cost separations studies are company-specific, a general overview of the long-standing cost allocation and separations process is summarized below:



This flow chart illustrates how small ILECs like Peoples use a long-standing, well-vetted, mandatory process to ensure that only regulated, intrastate telecommunications plant in service can have any impact on their state returns or TUSF support.

Peoples's revenues and expenses are also included in its annual reports, Schedule I, for the requested years. The Company also provides detailed supporting documentation related to revenues and expenses in Attachment C, Schedule 5.1.1 and 5.1.2 of its annual reports.

Prepared/Sponsored by: Sharon Minor, Moss Adams

STAFF 1-6

Please provide the Company's current calendar year revenues and expenses, as of June 30, 2020, related to providing basic local telecommunications service.

Response:

Peoples has not yet calculated revenues and expenses related to providing basic local telecommunications service for calendar year 2020, as that calculation will occur at the end of the calendar year. This information will be disclosed to the Commission in Peoples's 2020 annual report, which is due to be filed with the Commission on September 15, 2021. Providing data any earlier would result in less accurate information, because cost study jurisdictional percentages are developed and reported to NECA by July each year for the previous fiscal year. Filing annual reports in September of the following year allows use of current year cost study jurisdictional percentages and "ensure[s] the proper matching of cost study separations and financial results of operation." *See* Project No. 47669 (Final Order at 5).

Peoples's 2019 revenues and expenses were just filed with the Commission on September 15, 2020, and are currently being reviewed by Commission Staff as required by 16 TAC § 26.407(f) in Project No. 51316. This report is attached hereto as Attachment to Staff 1-2(C).

Prepared/Sponsored by: Scott Thompson, CFO, Peoples

STAFF 1-7

Please identify any changes in the Company's accounting treatment of revenues and expenses related to providing basic local telecommunications service since the reporting period of its most recent 16 TAC § 26.407 filing.

Response:

None. Peoples's accounting treatment of revenues and expenses are as required by Part 32 of the FCC's rules, with the FCC's associated Part 64 cost accounting concepts and cost allocation outlined in Peoples's CAM. Peoples's company-specific cost allocation procedures, including the CAM, and Part 36 cost separations study are the definitive authorities on its compliance with applicable accounting and regulatory rules. Cost allocation procedures, which are documented in CAMs, are required by FCC rules and have been in place since at least the 1980s. Peoples devotes great time and expense to developing its company-specific CAM to ensure compliance. Cost allocation procedures, including CAMs, are subject to audit by the USAC and NECA, and are attested to and subject to Commission review annually as part of annual reports. Peoples's CAM for 2019 is currently being reviewed by Commission Staff in Project No. 51316, and attached here as Attachment to Staff 1-1. There have been no changes since this filing.

Prepared/Sponsored by: Scott Thompson, CFO, Peoples

STAFF 1-8

Please provide the amount of TUSF monies received by the Company since the inception of the TUSF.

Response:

Peoples does not keep data cumulative year over year in this manner. However, Peoples receives TUSF monies as set out in Texas law and applicable Commission rules at amounts set in prior Commission orders. Its current disbursements were recently set in a contested case at the Commission, and the final order which dictates its current, precise TUSF high-cost support by year is attached hereto as Attachment to Staff 1-8. Data on its historical receipts are available from several sources. Peoples's annual TUSF receipts for the last three years are reflected in its annual reports, Schedule I, Line 6, since 2017. *See* Attachment to Staff 1-2(A-C). Before that, its annual TUSF receipts were reflected in its annual earnings monitoring reports then required under 16 TAC § 26.73. *See, e.g.,* Project Nos. 46911 (2016), 45637 (2015), 44549 (2014), and 42289 (2013). Peoples also reports its TUSF receipts to the Commission quarterly. *See* Project No. 41120. TUSF disbursements by company are further confirmed in the quarterly reports of the TUSF administrator, Solix, filed quarterly here https://www.puc.texas.gov/agency/resources/reports and provided as Attachment to Staff 1-4(A) for ease of reference.

Prepared/Sponsored by: Scott Thompson, CFO, Peoples

STAFF 1-9

Please provide the amount of TUSF monies received per customer for 2017, 2018, and 2019.

Response:

Peoples did not receive TUSF monies on a per customer basis for the requested years. Peoples's TUSF receipts have been based upon a fixed monthly payment since 2011 when the 82nd Legislature passed of House Bill 2603. Those fixed monthly payments are subject to adjustment based upon regulated returns since 2017 when the 84th Legislature passed Senate Bill 586.

In an effort to be as responsive as possible, if this question intends to ask for support on a per-line basis, that data is included in Peoples's annual reports:

- As noted in response to Staff 1-4, Peoples's fixed TUSF disbursements were set in prior Commission orders, are reported annually in Peoples's annual reports (see Schedule I, Line 6), and publicly available on a quarterly basis in Solix reports. For ease of reference, the annual reports for the referenced years are attached hereto as Attachment to Staff 1-2(A-C) and the Solix reports for the referenced years, which are attached hereto as Attachment to Staff 1-4.
- Peoples's access lines served are disclosed publicly for the requested years in the "General Questions" section of the part of its attached annual reports. As of the year end 2019, Peoples served 7,472 access lines.

We presume the Commission already performs this calculation, as it is required to determine other ETP support under 16 TAC § 26.407(j)(3).

Prepared/Sponsored by: Scott Thompson, CFO, Peoples

STAFF 1-10

Please provide copies of monthly customer bills for basic local telecommunications service for ten different customers for the period July 2019 through June 2020.

Response:

See attached confidential response to Staff 1-10. The requested customer bills contain sensitive personal information and have been expressly designated by the FCC as Customer Proprietary Network Information ("CPNI") and are therefore protected from disclosure under federal law and provided confidentially with customer-specific identifying information redacted. *See* 47 U.S. Code § 222(h)(1)(B). Please note that under 16 TAC § 26.25(f), certified telecommunications utilities already provide any revised bill formats for the Commission's review.

Prepared/Sponsored by: Gena von Reyn, Director of Regulatory Affairs, Peoples

STAFF 1-11

For the previous 12 months, please provide copies of any advertisements used by the Company or its affiliates that include an offer of basic local telecommunications services.

Response:

Peoples may not have retained every advertisement that has been used in every format or type of media for the past 12 months. Regardless, please see attached response to Staff 1-11 for copies of available advertisements.

In addition to the attached, Peoples also maintains a website where customers can obtain information about Peoples's basic local telecommunications services, which can be found at https://peoplescom.net/.

Peoples's advertising costs are properly allocated between regulated and non-regulated activities and separated between intrastate and interstate activities as explained in Peoples's CAM and identified in Peoples's Part 36 cost separations study to ensure that only costs associated with intrastate, regulated service are included in Peoples's intrastate, regulated cost of service. *See, e.g.,* Attachment 1-1 for Company's 2019 CAM. Peoples's company-specific CAM is the definitive authority on its compliance with applicable cost allocation rules. Cost allocation procedures, which are documented in CAMs, are required by FCC rules and have been in place since at least the 1980s. Peoples devotes great time and expense to developing its company-specific CAM to ensure compliance. Cost allocation procedures, including CAMs, are subject to audit by the USAC and NECA, and are attested to and subject to Commission review annually as part of its annual reports.

Prepared/Sponsored by: Lisa Webber, Director of Marketing, Peoples

STAFF 1-12

Please provide the contact information available to customers receiving basic local telecommunications service for questions about billing, service, or reporting loss of service.

Response:

In accordance with 16 TAC § 26, Subchapter B, related to customer protection, Peoples provides contact information for questions about billing, service, or reporting loss of service on each customer bill. Examples are provided in the Attachment to Staff 1-10. Please see also https://peoplescom.net/, which lists Peoples contact information. Complaint contact information is also available through the Commission's website, available here https://www.puc.texas.gov/industry/communications/directories/ilec/report_ilec.aspx?ID=ILSQL01DB1245201000045.

Peoples's billing and service labor costs are properly allocated between regulated and non-regulated activities and separated between intrastate and interstate activities as explained in Peoples's CAM and identified in Peoples's Part 36 cost separations study to ensure that only costs associated with intrastate, regulated service are included in Peoples's intrastate, regulated cost of service. *See, e.g.,* Attachment 1-1 for Company's 2019 CAM. Peoples's company-specific CAM is the definitive authority on its compliance with applicable cost allocation rules. Cost allocation procedures, which are documented in CAMs, are required by FCC rules and have been in place since at least the 1980s. Peoples devotes great time and expense to developing its company-specific CAM to ensure compliance. Cost allocation procedures, including CAMs, are subject to audit by the USAC and NECA, and are attested to and subject to Commission review annually as part of the annual reports.

Prepared/Sponsored by: Scott Thompson, CFO, Peoples

STAFF 1-13

Please provide the contact information available to customers receiving non-regulated services for questions about billing, service, or reporting loss of service.

Response:

Please see https://peoplescom.net/, which lists Peoples contact information. Complaint contact information is also available through the Commission's website, available here https://www.puc.texas.gov/industry/communications/directories/ilec/report_ilec.aspx?ID=ILSQL01DB1245201000045.

Peoples's billing and service labor costs are properly allocated between regulated and non-regulated activities and separated between intrastate and interstate activities as explained in Peoples's CAM and identified in Peoples's Part 36 cost separations study to ensure that any costs associated with non-regulated services are excluded from Peoples's intrastate, regulated cost of service. Peoples's company-specific CAM is the definitive authority on its compliance with applicable cost allocation rules. Cost allocation procedures, which are documented in CAMs, are required by FCC rules and have been in place since at least the 1980s. Peoples devotes great time and expense to developing its company-specific CAM to ensure compliance. Cost allocation procedures, including CAMs, are subject to audit by the USAC and NECA, and are attested to and subject to Commission review annually as part of its 16 TAC § 26.407 annual reports.

Prepared/Sponsored by: Scott Thompson, CFO, Peoples

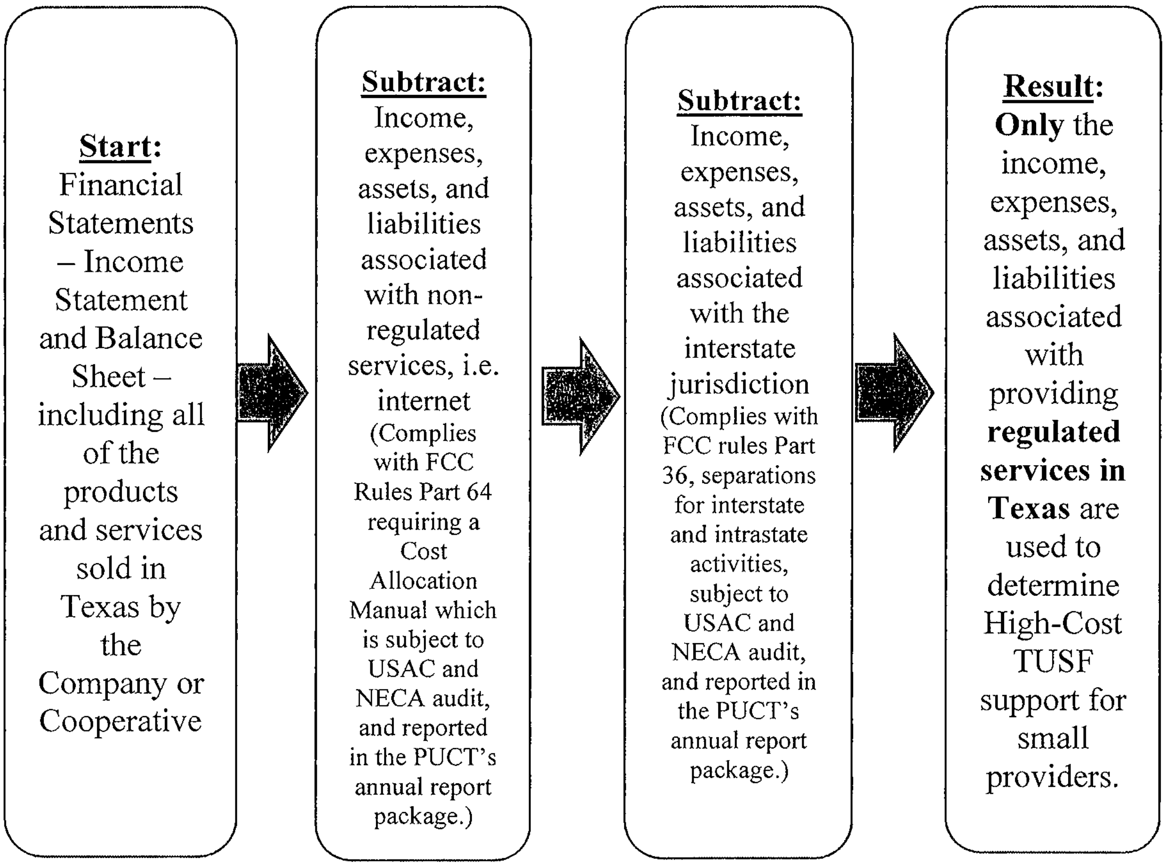
STAFF 1-14

Please provide the methodology used by the Company to allocate expenses and revenues, along with examples and percentages, between basic local telecommunications services and non-regulated services.

Response:

Peoples directly assigns expenses and revenues to regulated and non-regulated activities. To the extent that expenses and revenues cannot be directly assigned, Peoples allocates expenses and revenues. All allocations and separations are performed in accordance with the FCC's Part 32 Uniform System of Accounting, Part 64 Cost Allocation procedures, and Part 36 Jurisdictional Cost Separations rules. Peoples's company-specific CAM and Part 36 cost separations study are the definitive authorities on its compliance with applicable accounting and regulatory rules:

- Cost allocation procedures, which are documented in CAMs, are required by FCC rules and have been in place since at least the 1980s. Peoples devotes great time and expense to developing its company-specific CAM to ensure compliance.
- Cost allocation procedures, including CAMs, are subject to audit by the USAC and NECA.
- CAMs are subject to Commission review annually, as they are provided to the Commission each year in Peoples's annual report under 16 TAC § 26.407, contained in Attachment C, Section 2.1. For example, Peoples's CAM for 2019 is currently being reviewed by Commission Staff in Project No. 51316.
- Since CAMs and Part 36 cost separations studies are company-specific, a general overview of the long-standing cost allocation and separations process is summarized below:



This flow chart illustrates how small ILECs like Peoples use a long-standing, well-vetted, mandatory process to ensure that only regulated, intrastate telecommunications plant in service can have any impact on their state returns or TUSF support.

Included within Peoples's CAM is the Cost Apportionment Table, which identifies each Part 32 account and discloses whether the account is directly assigned or allocated. If an account is allocated, the Cost Apportionment Table provides an allocation code that explains the basis of the allocation. Additional supporting documentation related to the CAM is contained in Attachment C, Schedule 2.2 of the annual report which includes the Part 64 study supporting each cost allocation methodology. This complies with the cost apportionment standards outlined in 47 C.F.R. § 64.901:

1. Tariffed services provided to a nonregulated activity are charged to the nonregulated activity at tariffed rates and credited to the regulated revenue account for that service.
2. Network investment is apportioned between regulated and nonregulated based on projected utilization of the investment. Network investment is considered applicable to regulated services until it is used for nonregulated activities.
3. Attribution measures that are representative of the use of the assets or resources by regulated services or nonregulated activities are used in attributing costs between regulated and nonregulated cost objectives.

Prepared/Sponsored by: Sharon Minor, Moss Adams

STAFF 1-15

Please explain how the Company allocates labor between basic local telecommunications services and non-regulated services.

Response:

Peoples allocates labor between regulated and non-regulated services via a positive time reporting methodology. Employees track their time through entries which are entered/updated throughout the day as employees work on different tasks and duties. Then their labor costs are either direct assigned or allocated as may be appropriate based on the employees' job duties and/or specific tasks performed. This allocation process is set out in Peoples's CAM. Peoples's company-specific CAM is the definitive authority on its compliance with applicable cost allocation rules. Cost allocation procedures, which are documented in CAMs, are required by FCC rules and have been in place since at least the 1980s. Peoples devotes great time and expense to developing its company-specific CAM to ensure compliance. Cost allocation procedures, including CAMs, are subject to audit by the USAC and NECA, and are attested to and subject to Commission review annually as part of the annual reports. The CAM lays out Peoples's cost apportionment process, including as applicable to labor, which complies with 47 C.F.R. § 64.901, as explained above in Staff 1-14. Although already on file with the Commission in Peoples's annual reports for the past three years, Peoples's current CAM is also provided here as Attachment to Staff 1-1 in an effort to be transparent.

Prepared/Sponsored by: Scott Thompson, CFO, Peoples

STAFF 1-16

Please explain how the Company allocates overhead between basic local telecommunications services and non-regulated services.

Response:

As described in Peoples's CAM, which is included in Attachment C, Section 2.1 of the annual reports Peoples files with the Commission each year and attached here as Attachments to Staff 1-2(A-C), Peoples allocates overhead by using Peoples's accounting software, which allocates overhead in proportion to labor dollars allocated to each account. Peoples's company-specific CAM is the definitive authority on its compliance with applicable cost allocation rules. Cost allocation procedures, which are documented in CAMs, are required by FCC rules and have been in place since at least the 1980s. Peoples devotes great time and expense to developing its company-specific CAM to ensure compliance. Cost allocation procedures, including CAMs, are subject to audit by the USAC and NECA, and are attested to and subject to Commission review annually as part of the annual reports. The CAM lays out Peoples's cost apportionment process—including as applicable to overheard—which complies with 47 C.F.R. § 64.901, as explained above in Staff 1-14.

Prepared/Sponsored by: Scott Thompson, CFO, Peoples

STAFF 1-17

Please provide a copy of the Company's most recent vehicle study used to develop a separation of cost.

Response:

As described in Peoples's CAM, which is included in Attachment C, Section 2.1 of the annual reports Peoples files with the Commission each year and attached here as Attachments to Staff 1-2(A-C), Peoples allocates vehicles in accordance with the identified cost allocation code related to Part 32 accounts for motor vehicles, by motor vehicle type, contained on the Cost Apportionment Table. For Peoples, cost allocations for vehicles that are jointly used for regulated and non-regulated purposes are allocated based on the labor dollars of the employees that utilize those vehicles as described in the provided CAM. Peoples's company-specific CAM is the definitive authority on its compliance with applicable cost allocation rules. Cost allocation procedures, which are documented in CAMs, are required by FCC rules. Peoples devotes great time and expense to developing its company-specific CAM to ensure compliance. Cost allocation procedures, including CAMs, are subject to audit by the USAC and NECA, and are attested to and subject to Commission review annually as part of the annual reports. The CAM lays out Peoples's cost apportionment process—including as applicable to assets such as vehicles—which complies with 47 C.F.R. § 64.901, as explained above in Staff 1-14.

Prepared/Sponsored by: Sharon Minor, Moss Adams

STAFF 1-18

Please provide a copy of the Company's most recent building study used to develop a separation of cost.

Response:

As described in Peoples's CAM, which is included in Attachment C, Section 2.1 of the annual reports Peoples files with the Commission each year, Peoples allocates buildings in accordance with the identified cost allocation code related to Part 32 accounts for different types of buildings which are identified with the Cost Apportionment Table. For Peoples, cost allocations for buildings that are jointly used for regulated and non-regulated purposes are allocated based on the labor dollars of the employees that utilize those buildings, as described in the provided CAM. Peoples's company-specific CAM is the definitive authority on its compliance with applicable cost allocation rules. Cost allocation procedures, which are documented in CAMs, are required by FCC rules and have been in place since at least the 1980s. Peoples devotes great time and expense to developing its company-specific CAM to ensure compliance. Cost allocation procedures, including CAMs, are subject to audit by the USAC and NECA, and are attested to and subject to Commission review annually as part of the annual reports. The CAM lays out Peoples's cost apportionment process—including as applicable to overhead such as buildings/office space—which complies with 47 C.F.R. § 64.901, as explained above in Staff 1-14.

Prepared/Sponsored by: Sharon Minor, Moss Adams

STAFF 1-19

If the Company provides both basic local telecommunications services and non-regulated services over the same plant assets and a customer loses functionality of any or all services provided, please describe the process for determining the cause of the loss of function and the process for allocating costs to restore functionality of lost services.

Response:

When a customer notifies Peoples that they are experiencing a disruption in service, Peoples dispatches an outside plant technician to identify and repair the affected plant. In typical scenarios, the technician will test Peoples's regulated facilities on Peoples's side of the demarcation point. In the case of a cable cut, typical costs involved in repairing such a cut would include internal labor, contract labor, materials, and in some cases a loss in revenue. If the trouble is within Peoples's regulated network, cost associated with repairing the facilities are assigned in accordance with FCC Part 32 rules to regulated operations. If the trouble is on the customer's side of the demarcation point, costs associated with the repair are assigned to non-regulated operations. As provided for under FCC Part 32, time spent repairing assets are assigned to the maintenance account related to the asset. Once those costs are recorded in the appropriate Part 32 accounts, they follow Peoples's CAM. Peoples's company-specific CAM is the definitive authority on its compliance with applicable cost allocation rules. Cost allocation procedures, which are documented in CAMs, are required by FCC rules and have been in place since at least the 1980s. Peoples devotes great time and expense to developing its company-specific CAM to ensure compliance. Cost allocation procedures, including CAMs, are subject to audit by the USAC and NECA, and are attested to and subject to Commission review annually as part of the annual reports. *See* Attachment to Staff 1-1.

Prepared/Sponsored by: Scott Thompson, CFO, Peoples

STAFF 1-20

Please describe the process used by the Company for differentiating traffic over shared plant assets as either basic local telecommunication services or other, non-regulated services.

Response:

Many different types of traffic flow through Peoples's network including regulated intrastate services, regulated interstate services, and non-regulated services. When Peoples' network is used to provide non-regulated services, the associated cost is either identified in the CAM or in the Part 36 cost separations study, based on non-regulated utilization, and is assigned to non-regulated activities, ensuring that the cost is not included in regulated cost recovery, including for basic local telecommunication services. Revenues for long distance voice services originated by Peoples's customers are generally jurisdictionalized based upon the originating and terminating end points of the call and are categorized accordingly. Local voice services are as defined in the local calling scopes contained in Peoples's local exchange tariffs, which are on file with the Commission, and are not usage-sensitive, so they are not measured. Tariffs are also provided here for ease of reference, see Attachment to Staff 1-2(D). Likewise, non-regulated traffic is not usage-sensitive and is not measured.

For the purpose of cost recovery, since 2001, all of Peoples's traffic factors have been frozen by the FCC. *See In the Matter of Jurisdictional Separations and Referral to the Federal-State Joint Board*, CC Docket No. 80-286, Report and Order (FCC 01-162), (rel. May 22, 2001). The revenues and expenses flowing from Peoples's shared plant assets are all apportioned according to Peoples's CAM. Peoples's company-specific CAM is the definitive authority on its compliance with applicable cost allocation rules. Cost allocation procedures, which are documented in CAMs, are required by FCC rules and have been in place since at least the 1980s. Peoples devotes great time and expense to developing its company-specific CAM to ensure compliance. Cost allocation procedures, including CAMs, are subject to audit by the USAC and NECA, and are attested to and subject to Commission review annually as part of the annual reports. *See* Attachment to Staff 1-1. As a result of the combination of the Part 32 accounting process, the Part 64 cost allocation process, and the Part 36 cost separations process, only the costs, expenses, and revenues associated with regulated, intrastate services impact Peoples's regulated, intrastate cost of service, returns, or TUSF support.

Prepared/Sponsored by: Sharon Minor, Moss Adams

STAFF 1-21

Does the Company apply an apportionment standard for cost allocation that assumes network investment is either regulated or non-regulated based on utilization of the investment and that network investment is considered to be regulated services until it is used for non-regulated activities? If yes, provide the Company policy for determining that a network investment is considered used for non-regulated activities. Who makes the determination, and can the determination be challenged by the entities? If yes, please explain.

Response:

Peoples's cost allocation process is set out in its CAM. Peoples's company-specific CAM is the definitive authority on its compliance with applicable cost allocation rules. Cost allocation procedures, which are documented in CAMs, are required by FCC rules and have been in place since at least the 1980s. Peoples devotes great time and expense to developing its company-specific CAM to ensure compliance. Cost allocation procedures, including CAMs, are subject to audit by the USAC and NECA, and are attested to and subject to Commission review annually as part of the annual reports. *See* Attachment to Staff 1-1. Peoples's specific cost apportionment methodology is set out in its CAM. Peoples is unsure to whom "the entities" refers in this question, but Peoples's policy for determining which investments are used for regulated or non-regulated activities are set forth in the CAM. Its cost apportionment principles comply with 47 C.F.R. § 64.901, as explained above in Staff 1-14. As a result of the combination of the Part 32 accounting process, the Part 64 cost allocation process, and the Part 36 cost separations process, only the costs, expenses, and revenues associated with regulated, intrastate services impact Peoples's regulated, intrastate cost of service, returns, or TUSF support.

To the extent that there are incidental non-regulated activities that do not constitute a separate line of business, Peoples's takes additional steps after applying the CAM to ensure that non-regulated costs are removed from the regulated rate base. This is accomplished by identifying the non-regulated asset costs through a detailed network study. This process may result in a cost study adjustment to remove non-regulated costs pursuant to FCC Part 36 and is reported to the Commission within Peoples's annual report in Attachment C, Schedule 5.1.2 (related to expenses) and Attachment C, Schedule 5.2.1 (related to investments). These detailed network studies examine the usage of these assets and apportion costs between regulated and non-regulated activities. Peoples's network engineers maintain detailed network usage information within Peoples's records. Those detailed network usage records are subject to audit by the FCC, USAC, and NECA, and review by the Commission.

Prepared/Sponsored by: Sharon Minor, Moss Adams

STAFF 1-22

Does the Company rely solely on the Cost Allocation Manual submitted in its 16 TAC § 26.407 filing for its annual accounting of regulated and non-regulated revenues and expenses? If the Company also relies on any other study or model, please provide a copy of the cost allocation study or model.

Response:

Peoples first relies upon the FCC's Part 32 Uniform System of Accounts for its accounting of regulated and non-regulated revenues and expenses. It then utilizes the FCC's Part 64 Cost Allocation procedures, which are documented in its CAM, for the allocation of joint and common costs between regulated and non-regulated activities. Peoples's company-specific CAM is the definitive authority on its compliance with applicable cost allocation rules. Cost allocation procedures, which are documented in CAMs, are required by FCC rules and have been in place since at least the 1980s. Peoples devotes great time and expense to developing its company-specific CAM to ensure compliance. Cost allocation procedures, including CAMs, are subject to audit by the USAC and NECA, and are attested to and subject to Commission review annually as part of 16 TAC § 26.407 annual reports. *See* Attachment to Staff 1-1. That said, Peoples also performs studies of its Cable and Wire Facilities and Central Office Equipment utilization to allocate costs between regulated and non-regulated activities as part of its Part 36 cost separations study. Please see Attachment to 1-22(A-B), for copies of Peoples's most recent Cable and Wire Facilities and Central Office Equipment studies.

Prepared/Sponsored by: Sharon Minor, Moss Adams

STAFF 1-23

Please provide copies of any internal or external audits performed during which the Company's policies and procedures for allocating expenses were considered.

Response:

The Commission considered Peoples's procedures for allocating expenses when the Commission reviewed Peoples's 2017 and 2018 annual reports in Project Nos. 49005 and 49986, and while it is currently reviewing Peoples's 2019 annual report in Project No. 51316. Each year, Commission Staff is required to review these filings and make a determination as to whether any included expenses are reasonable and necessary. *See* 16 TAC § 26.407(f). Additionally, the Commission reviewed Peoples's expense allocations when it approved Peoples's TUSF increase under 16 TAC § 26.407 approved on March 5, 2020, in Docket No. 50208.

In addition to the Commission's ongoing consideration and approval of these expense allocations every year, Peoples has undergone other external audits such as a NECA review in 2017 and five (5) USAC Payment Quality Assurance ("PQA") Program assessments related to high-cost support (in 2016, 2017, 2018, 2019, and 2020). Please see the confidential Attachment to Staff 1-23 for copies of Peoples's most recent internal or external audits.

Prepared/Sponsored by: Scott Thompson, CFO, Peoples

STAFF 1-24

Reference the Company's Part 64 Study included in its most recent 16 TAC § 26.407 filing. Please provide a listing of all accounts during the previous five calendar years that were originally assigned 100% to the regulated function but that are now assigned less than 100% to the regulated function.

Response:

Please see attached confidential response to Staff 1-24 for a listing of accounts that were assigned 100% to the regulated function five years ago but are now assigned less than 100% to the regulated function. Consistent with its FCC-required, NECA-filed, subject-to-USAC-audit, Commission-reviewed cost allocation procedures, which are documented in its CAM (attached hereto as Attachment to Staff 1-1), Peoples's Part 64 Study updates account over time as consumption of services may change. Updates are reported to the Commission each year when the CAM is provided with Peoples's annual report.

Prepared/Sponsored by: Sharon Minor, Moss Adams

STAFF 1-25

Reference the Company's Part 64 Study included in the most recent 16 TAC § 26.407 filing. Please provide a listing of all accounts during the previous five calendar years that were originally assigned less than 100% to the regulated function but that are now assigned 100% to the regulated function. Indicate the original percentage assigned to the regulated function.

Response:

Please see attached confidential response to Staff 1-25 for a listing of accounts that were assigned less than 100% to the regulated function five years ago but are now assigned 100% to the regulated function. Consistent with its FCC-required, NECA-filed, subject-to-USAC-audit, Commission-reviewed cost allocation procedures, which are documented in its CAM (attached hereto as Attachment to Staff 1-1), Peoples's Part 64 Study updates account over time as consumption of services may change. Updates are reported to the Commission each year when the CAM is provided with Peoples's annual report.

Prepared/Sponsored by: Sharon Minor, Moss Adams

STAFF 1-26

Please explain whether the Company constructs and maintains separate lines for basic local telecommunications services and non-regulated services.

Response:

Generally speaking, no, Peoples does not construct and maintain two separate networks for basic local telecommunications services and non-regulated services. Two separate networks would be duplicative and/or expensive, and would not be beneficial to Texans compared to deploying a single hybrid network and sharing the costs of that network across both regulated state and interstate services, as well as non-regulated services, which the current mechanism provides. As has been recognized by numerous agencies, there is a single modern communications network capable of providing voice, broadband, and non-regulated services.

- The FCC has explained, "The federal universal service high-cost program … is designed to ensure that consumers in rural, insular, and high-cost areas have access to modern communications networks capable of providing voice and broadband service…" *See* https://www.fcc.gov/general/universal-service-high-cost-areas-connect-america-fund. To this end, although the FCC took action to explicitly support advanced telecommunications like broadband years ago, *it continues to support voice services in rural and high-cost areas.*
- The PUCT recently recognized that with technology such as VoIP, "voice and data can share the same communication channel simultaneously." *See* "Scope of Competition in Telecommunication Markets in Texas: Report to the 86th Legislature" (Jan. 14, 2019).

Since the physical network is shared among voice and other services, any improvements to the network accomplished with TUSF for the purposes of voice service can indirectly benefit any and all services on the network and all Texans who use the network for any purpose.

Although the physical network is shared, accounting for the network is painstakingly separated as set forth in each incumbent provider's CAM and Part 36 cost separations study pursuant to longstanding federal and state regulatory accounting rules. By following the process in Peoples's CAM and the FCC's Part 36 jurisdictional cost separations rules, Peoples ensures that TUSF support is restricted to regulated, intrastate revenues, expenses, and investments. Peoples's company-specific CAM and Part 36 cost separations study are the definitive authorities on its compliance with applicable accounting and regulatory rules. Cost allocation procedures, which are documented in CAMs, are required by FCC rules and have been in place since at least the 1980s. Peoples devotes great time and expense to developing its company-specific CAM to ensure compliance. Cost allocation procedures, including CAMs, are subject to audit by the USAC and NECA. *See, e.g.,* Peoples's current CAM as Attachment to Staff 1-1.

Although there is one network and Peoples's network facilities are generally used for both voice and other services (some of which are regulated and some of which are not), there may be situations in which Peoples or an affiliate constructs lines that are used for only non-regulated services. Outside plant associated with non-regulated service areas are removed from Peoples's regulated rate base in accordance with applicable regulatory rules.

Prepared/Sponsored by: Sharon Minor, Moss Adams

STAFF 1-27

Please explain the type of line (e.g., copper, fiber) the Company uses to provide basic local telecommunications services and non-regulated services.

Response:

Peoples maintains both copper and fiber cable plant within its network, whose mileage is very specifically disclosed to the Commission every year in its 16 TAC § 26.407 annual reports. *See* Attachment to Staff 1-2(A-C), Supplemental Schedule X. Either type of plant can support basic local telecommunications services and/or non-regulated services and are therefore treated similarly under FCC Part 32 accounting rules.

Much of the legacy cable network is copper. Fiber is the industry standard for new plant being installed today. As was explained by Eastex Telephone Cooperative, Inc., in a Commission filing just last year that fiber is the "industry standard for new construction of telecommunications plant," due to its "proven ability to provide better and more reliable service with lower maintenance costs over the life of the plant." *Application of Eastex Telephone Cooperative, Inc. to Adjust High Cost Support Under 16 TAC § 26.407(h)*, Docket No. 50026, Direct Testimony of Mayburn Greening at 15-16 (Sep. 18, 2019).

Since both copper and fiber can provide basic local or non-regulated services, their costs—and the costs of all Peoples's plant—are apportioned in accordance with Peoples's CAM and Part 36 cost separations study. Peoples's company-specific CAM and Part 36 cost separations study are the definitive authorities on its compliance with applicable accounting and regulatory rules. Cost allocation procedures, which are documented in CAMs, are required by FCC rules and have been in place since at least the 1980s. Peoples devotes great time and expense to developing its company-specific CAM to ensure compliance. Cost allocation procedures, including CAMs, are subject to audit by the USAC and NECA, and are attested to and subject to Commission review annually as part of the annual reports. *See* Attachment to Staff 1-2(A-C), Attachment C, Section 2.1.

Prepared/Sponsored by: Scott Thompson, CFO, Peoples

STAFF 1-28

Please provide the total length (in miles) of basic local telecommunications service lines the Company operates.

Response:

Please see supplemental Schedule X to Peoples's 2019 annual report for the miles of cable Peoples operates. *See* Attachment to Staff 1-2(A-C).

As has been recognized by numerous agencies including the FCC and the PUCT, there is a single modern communications network capable of providing voice and broadband service. For example, the FCC simultaneously supports broadband and voice services, noting "The federal universal service high-cost program ... is designed to ensure that consumers in rural, insular, and high-cost areas have access to modern communications networks capable of providing voice and broadband service..." *See* https://www.fcc.gov/general/universal-service-high-cost-areas-connect-america-fund. Similarly, the PUCT recently recognized that with technology such as VoIP, "voice and data can share the same communication channel simultaneously. *See* "Scope of Competition in Telecommunication Markets in Texas: Report to the 86th Legislature" (Jan. 14, 2019). As such, there are not necessarily physically separate "basic local telecommunications service lines" and "other" lines: there is one network which includes loop plant (which one might think of as "lines") as well as central office switches (utilized to switch calls from one end user to another) and interoffice transport (which is utilized to carry calls between switches).

Prepared/Sponsored by: Scott Thompson, CFO, Peoples

STAFF 1-29

Please provide the replacement schedule for the Company's basic local telecommunications service lines.

Response:

As plant nears the end of its useful life, it has to be replaced in order to ensure adequate and reliable service to the customers and to limit costly ongoing maintenance expense. The useful life of each facility varies depending upon type of plant and time installed. For example, most fiber has a 20-year+ useful life. All plant is depreciated and scheduled accordingly, and replaced when it is no longer useful.

As has been recognized by numerous agencies including the FCC and the PUCT, there is a single modern communications network capable of providing voice and broadband service. For example, the FCC simultaneously supports broadband and voice services, noting "The federal universal service high-cost program ... is designed to ensure that consumers in rural, insular, and high-cost areas have access to modern communications networks capable of providing voice and broadband service..." *See* https://www.fcc.gov/general/universal-service-high-cost-areas-connect-america-fund. Similarly, the PUCT recently recognized that with technology such as VoIP, "voice and data can share the same communication channel simultaneously. *See* "Scope of Competition in Telecommunication Markets in Texas: Report to the 86th Legislature" (Jan. 14, 2019). Since there is a single, modern network that is capable of providing both basic local telecommunications services and other services, there are not specific, physical lines dedicated exclusively to non-regulated services operated by Peoples, and there are not different replacement schedules for basic local telephone or non-regulated lines. Instead, replacement costs of lines or of any other assets are allocated and separated consistent with Peoples's CAM and Part 36 cost separations study. This company-specific CAM and Part 36 cost separations study are the definitive authorities on its compliance with applicable accounting and regulatory rules. Cost allocation procedures, which are documented in CAMs, are required by FCC rules and have been in place since at least the 1980s. Peoples devotes great time and expense to developing its company-specific CAM to ensure compliance. Cost allocation procedures, including CAMs, are subject to audit by the USAC and NECA, and are attested to and subject to Commission review annually as part of the annual reports. *See* Attachment to Staff 1-2(A-C), Attachment C, Section 2.1.

However, Peoples's asset replacement schedule has no impact on its TUSF high-cost support. Instead, Peoples's TUSF high-cost support is based upon its Commission-approved intrastate rate of return. Peoples's capital investment and expense are set forth in Peoples's annual reports for the requested years, in Schedules I and II, and associated workpapers in supporting Attachment C. These reports are on file with the Commission for the requested years, and included as Confidential Attachments to Staff 1-2 (A-C). These comprehensive reports are hundreds of pages long and compiled each year at great expense over many man-hours. They are the most extensive annual reports that the Commission reviews for any utility in any of the three industries it regulates, regardless of size. Peoples timely filed these reports for Staff's review of each of the requested years and received no adjustments.

Prepared/Sponsored by: Steven Steele, General Manager, Peoples

STAFF 1-30

Please provide the total length (in miles) of non-regulated service lines the Company operates.

Response:

As has been recognized by numerous agencies including the FCC and the PUCT, there is a single modern communications network capable of providing voice and broadband service. For example, the FCC simultaneously supports broadband and voice services, noting "The federal universal service high-cost program … is designed to ensure that consumers in rural, insular, and high-cost areas have access to modern communications networks capable of providing voice and broadband service…" *See* https://www.fcc.gov/general/universal-service-high-cost-areas-connect-america-fund. Similarly, the PUCT recently recognized that with technology such as VoIP, "voice and data can share the same communication channel simultaneously. *See* "Scope of Competition in Telecommunication Markets in Texas: Report to the 86th Legislature" (Jan. 14, 2019). Since there is a single, modern network that is capable of providing both basic local telecommunications services and other advanced services, Peoples does not physically separate "non-regulated service lines." Its total miles of line used for basic local telephone services have been provided to the Commission previously (*see* Attachments to Staff 1-2(A-C), Supplemental Schedule 10), but there are no "non-regulated service lines" included there.

Prepared/Sponsored by: Steven Steele, General Manager, Peoples

STAFF 1-31

Please provide the replacement schedule for the Company's non-regulated service lines.

Response:

As plant nears the end of its useful life, it has to be replaced in order to ensure adequate and reliable service to the customers and to limit costly ongoing maintenance expense. The useful life varies depending upon type of plant and time installed. For example, most fiber has an over 20-year useful life. All plant is depreciated accordingly and replaced when necessary.

As has been recognized by numerous agencies including the FCC and the PUCT, there is a single modern communications network capable of providing voice and broadband service. For example, the FCC simultaneously supports broadband and voice services, noting "The federal universal service high-cost program ... is designed to ensure that consumers in rural, insular, and high-cost areas have access to modern communications networks capable of providing voice and broadband service..." *See* https://www.fcc.gov/general/universal-service-high-cost-areas-connect-america-fund. Similarly, the PUCT recently recognized that with technology such as VoIP, "voice and data can share the same communication channel simultaneously. *See* "Scope of Competition in Telecommunication Markets in Texas: Report to the 86th Legislature" (Jan. 14, 2019). Since there is a single, modern network that is capable of providing both basic local telecommunications services and other advanced services, there are not specific, physical lines dedicated exclusively to non-regulated services operated by Peoples, and there are not different replacement schedules for basic local telephone or non-regulated lines. Instead, replacement costs of lines or of any other assets are allocated and separated consistent with Peoples's CAM and Part 36 cost separations study. Peoples's company-specific CAM and Part 36 cost separations study are the definitive authorities on its compliance with applicable accounting and regulatory rules. Cost allocation procedures, which are documented in CAMs, are required by FCC rules and have been in place since at least the 1980s. Peoples devotes great time and expense to developing its company-specific CAM to ensure compliance. Cost allocation procedures, including CAMs, are subject to audit by the USAC and NECA, and are attested to and subject to Commission review annually as part of the annual reports. *See* Attachment to Staff 1-2(A-C), Attachment C, Section 2.1.

Prepared/Sponsored by: Steven Steele, General Manager, Peoples

STAFF 1-32

Please explain what facilities are used by the Company to run basic local telecommunication service lines and non-regulated service lines.

Response:

As has been recognized by numerous agencies, there is a single modern communications network capable of providing voice and broadband service.

- The FCC has explained, "The federal universal service high-cost program ... is designed to ensure that consumers in rural, insular, and high-cost areas have access to modern communications networks capable of providing voice and broadband service..." *See* https://www.fcc.gov/general/universal-service-high-cost-areas-connect-america-fund. To this end, although the FCC took action to explicitly support advanced telecommunications like broadband years ago, *the FCC continues to support voice services in rural and high-cost areas.*
- The PUCT recently recognized that with technology such as VoIP, "voice and data can share the same communication channel simultaneously." *See* "Scope of Competition in Telecommunication Markets in Texas: Report to the 86th Legislature" (Jan. 14, 2019).

Separate physical facilities are not used to run basic local telecommunication service lines and non-regulated service lines. Much of the legacy cable network is copper. Fiber is the industry standard for new cable plant being installed today. Eastex Telephone Cooperative, Inc., explained in a Commission filing just last year that fiber is now the "industry standard for new construction of telecommunications plant," due to its "proven ability to provide better and more reliable service with lower maintenance costs over the life of the plant." *Application of Eastex Telephone Cooperative, Inc. to Adjust High Cost Support Under 16 TAC § 26.407(h)*, Docket No. 50026, Direct Testimony of Mayburn Greening at 15-16 (Sep. 18, 2019). However, both copper and fiber can provide basic local or non-regulated services.

Although there is a single physical network, accounting for this network is painstakingly separated. The costs for both copper and fiber—and the costs of all Peoples's plant—are apportioned in accordance with Peoples's CAM and Part 36 cost separations study. Peoples's company-specific CAM and Part 36 cost separations study are the definitive authorities on its compliance with applicable accounting and regulatory rules. Cost allocation procedures, which are documented in CAMs, are required by FCC rules and have been in place since at least the 1980s. Peoples devotes great time and expense to developing its company-specific CAM to ensure compliance. Cost allocation procedures, including CAMs, are subject to audit by the USAC and NECA, and are attested to and subject to Commission review annually as part of the annual reports. *See* Attachment to Staff 1-2(A-C), Attachment C, Section 2.1. This ensures TUSF support is not used for non-regulated or interstate services even within the one interconnected network.

Prepared/Sponsored by: Sharon Minor, Moss Adams

STAFF 1-33

Please explain the Company's cost allocation for running or trenching lines. Please explain the Company's cost allocation for maintaining its lines.

Response:

Where trenching initially occurs, costs are recorded in accounts to reflect plant under construction, which are identified in Schedule II of the 16 TAC § 26.407 annual report. Once construction is completed and the plant is put into service, labor and materials are identified and booked into the appropriate Part 32 accounts. Once those costs are booked in the appropriate accounts, those costs are allocated in accordance with Peoples's CAM or in the Part 36 cost separations study. Where trenching is required solely for non-regulated operations such as a CLEC operation, such costs are capitalized and directly assigned to non-regulated operations.

Similarly, labor costs associated with maintaining Peoples's facilities are allocated in accordance with Peoples's CAM or in the Part 36 cost separations study. Peoples's company-specific CAM and Part 36 cost separations study are the definitive authorities on its compliance with applicable accounting and regulatory rules. Cost allocation procedures, which are documented in CAMs, are required by FCC rules and have been in place since at least the 1980s. Peoples devotes great time and expense to developing its company-specific CAM to ensure compliance. Cost allocation procedures, including CAMs, are subject to audit by the USAC and NECA, and are attested to and subject to Commission review annually as part of the annual reports. *See* Attachment to Staff 1-2(A-C), Attachment C, Section 2.1. This ensures TUSF support is not used for running or trenching lines for nonregulated or interstate purposes.

Prepared/Sponsored by: Scott Thompson, CFO, Peoples

STAFF 1-34

Please provide copies of any materials used by the Company for purposes of employee training related to labor distribution and timekeeping.

Response:

Employees receive in-person training both at time of onboarding and on an ongoing basis to address the specifics of timekeeping necessary for their unique job duties. Typically, employees are required to complete electronic time entry in the portal daily, and to update their entries throughout the day as tasks change. Time entry varies in complexity and format from department to department, as some labor is direct-assigned based on tasks performed and other labor is allocated, consistent with Peoples's CAM. In every instance, employee training is designed to ensure accuracy in the reporting of hours worked and materials used and adherence to the CAM. Peoples's company-specific CAM is the definitive authority on its compliance with applicable cost allocation rules. Cost allocation procedures, which are documented in CAMs, are required by FCC rules and have been in place since at least the 1980s. Peoples devotes great time and expense to developing its company-specific CAM to ensure compliance. Cost allocation procedures, including CAMs, are subject to audit by the USAC and NECA, and are attested to and subject to Commission review annually as part of the annual reports. *See* Attachment to Staff 1-2(A-C), Attachment C, Section 2.1. This ensures employee labor is distributed correctly.

For written materials related to this training, please see attached confidential response to Staff 1-34.

Prepared/Sponsored by: Scott Thompson, CFO, Peoples

STAFF 1-35

Please explain how TUSF disbursement monies are used and accounted for in maintaining existing infrastructure.

Response:

TUSF receipts are not grants specifically earmarked for certain activities or projects; they are incorporated into general accounts with other intrastate revenues. Revenues, including TUSF, are then used to deploy new infrastructure throughout Peoples's regulated service territory, maintain existing infrastructure throughout Peoples's regulated service territory, or pay employees or other expenses, all the investments and expenses necessary to serve Peoples's rural Texas customers, many of whom would not have access to basic local telephone but for Peoples and the TUSF support company requires to meet its Provider of Last Resort and other obligations across is rural, high-cost service area.

These investments and expenses are allocated in accordance with Peoples's CAM and Part 36 cost separations study to ensure that TUSF funds are kept in Peoples's intrastate, regulated cost of service and not applied to non-regulated functions. Peoples's company-specific CAM and Part 36 cost separations study are the definitive authorities on its compliance with applicable accounting and regulatory rules. Cost allocation procedures, which are documented in CAMs, are required by FCC rules and have been used since at least the 1980s. Peoples devotes great time and expense to developing its company-specific CAM to ensure compliance. Cost allocation procedures, including CAMs, are subject to audit by the USAC and NECA, and are attested to and subject to Commission review annually as part of the annual reports. *See* Attachment to Staff 1-2(A-C), Attachment C, Section 2.1. The CAM and the Part 36 cost separations study are thus long-standing, thorough documents that are well-vetted at a number of levels that ensure state support is applied to construct or maintain the telecommunications infrastructure necessary to bring reliable basic local telephone services to high-cost, rural Texas at prices comparable to urban areas.

In addition to following the CAM and Part 36 jurisdictional cost separations rules, Peoples has to attest annually that Peoples complies with PURA and Commission rules "regarding the use of money from ... TUSF programs." *See* Project No. 32567. To supplement Peoples's ongoing annual certifications, Peoples provides incredibly detailed, extensive reports that not only provide its CAM and Part 36 cost separations factors but also provide a summary of revenues and expenses; revenues, expenses, investments, invested capital; intrastate federal income taxes calculated at the applicable tax rate; network access service revenue; weighted average cost of capital (for investor-owned utilities); historical financial statistics; proposed company adjustments; the name, title, and compensation of each officer, director, owner/former owner (for investor-owned utilities), or other highly compensated employee, and their family members; the amount and nature of each affiliate transaction, including transactions with family members of officers, directors, or owners/former owners (for investor-owned utilities); and all supporting documentation necessary to support these items. *See* 16 TAC § 26.407 and Commission instructions to form schedules. Commission Staff reviews these reports for 90 days every year, and has the authority to adjust data if it disagrees with the reports. If Peoples is over-earning, the Commission can bring it in to adjust local rates or TUSF support as often as every three years. And if the Commission has any doubts about Peoples's adherence to its CAM, its annual TUSF certification, or any aspect of its operations revealed in its reports, the Commission retains full authority under PURA to call small providers like Peoples in for a rate case. *See* PURA § 56.032(l).

Prepared/Sponsored by: Sharon Minor, Moss Adams

STAFF 1-36

Please provide a list of all work order numbers related to new construction projects that were created since the Company's last plant in service prudence determination by the Commission. Include a detailed description of the work order's purpose, itemized costs charged to the work order, and method for determining costs to charge to the work order.

Response:

All of Peoples's plant investments—including any related to new construction projects and work orders—are addressed in its annual report in painstaking detail with supporting workpapers, and these are reviewed by Commission Staff every year. As outlined by the Legislature, the exact purpose of disclosing all this information in a one-of-a kind filing is:

> … to provide "long-term, regulatory-efficient, and 'needs-based' support" and *avoid the imminent need for many "traditional regulatory 'rate cases' at the [PUCT].*" *See* Senate Research Ctr, Bill Analysis, Tex. S.B. 586, 85th Leg., R.S. (May 24, 2017).

Understanding this legislative intent, the Commission passed a rule to set out "criteria by which a small ILEC may request that the commission determine the amount of Small and Rural Incumbent Local Exchange Company Universal Service Plan support it receives, so that the support, combined with regulated revenues provides the small ILEC an opportunity to earn a reasonable rate of return under this rule, as required by Senate Bill 586." *See* Project No. 47669 (Oct. 16, 2018 order). The Commission further acknowledged "that there currently are no base-rate proceedings, and there has not been a comprehensive base-rate case in many years" — but there is an ongoing annual review of Peoples's investments and all other aspects of its operations in which the Commission could raise any prudence issues, and adjust its TUSF support or its local rates accordingly, as intended by the Legislature. *See* Project No. 47669 (order adopting 16 TAC § 26.407, signed by the current commissioners on Oct. 16, 2018). Simply put, the purpose of this mechanism was to avoid telephone rate cases and their drain on both Commission and Peoples's resources.

Given the above, Peoples opted into 16 TAC § 26.407 regulation in lieu of filing ongoing rate cases – and it has faithfully followed this process. Staff's last review of a Peoples 16 TAC § 26.407 annual report was complete on January 27, 2020, in Project No. 49986 (confirming review of Peoples's 2018 report), and review of its most recent report through the end of 2019 is currently pending in Project No. 51316, filed on September 15, 2020. This review includes explicit authority to adjust reports for unreasonable or unnecessary expenses, inappropriate affiliate transactions, inappropriate allocations, or "any other adjustments that commission staff may find appropriate." 16 TAC § 26.407(f)(2). Since this review, Peoples has had hundreds of work orders. Costs associated with those work orders will be accounted for in Peoples's next annual report, due on September 15, 2021, and thus fully disclosed to the Commission. In Peoples's prior 16 TAC § 26.407 proceedings, it received no complaints related to work orders or other plant investments. Peoples has also provided a list of certain work orders to the Commission for construction projects open at the end of 2019 that have closed so far in 2020 in discovery in Project No. 51316 (Nov. 30, 2020). However, if the Commission wants more information regarding work orders now, Peoples is happy to continue to discuss.

Notwithstanding the above, the Commission has not had a telephone rate case in decades, long before Senate Bill 586 was passed to reflect an express state policy to avoid the costly rate proceedings for small providers. Peoples of course does not charge the same rates it charged in the 1990s, it has increased its local rates on several occasions under 16 TAC § 26.171, for example, and its earnings are subject to regular and ongoing review by the Commission under 16 TAC § 26.73 or 16 TAC § 26.407 ever since that case as explained above. Peoples has had tens of thousands of work orders during that decades-long time span, and these plant investments are reflected in Peoples's annual reports, Attachment C Schedule II and accompanying workpapers in Section 5.2, as noted above, which are already provided to the Commission and reviewed by Commission Staff annually. *See also* Attachments to Staff 1-2(A-C).

Prepared/Sponsored by: Scott Thompson, CFO, Peoples

STAFF 1-37

Does the Company engage in any tying arrangements when offering basic local telecommunications service? If yes, please describe in full.

Response:

Peoples allows customers to purchase unbundled basic local telecommunications services. As a common carrier and under Peoples's Commission-approved tariffs, which are on file with the Commission and attached here to as Attachment to Staff 1-2(D), Peoples is obligated to offer basic local telecommunications service as a stand-alone product to any customer that wishes to subscribe to such service. Peoples does not require its basic local telecommunications customers to purchase additional, non-regulated services.

Prepared/Sponsored by: Gena von Reyn, Director of Regulatory Affairs, Peoples

STAFF 1-38

Does the Company bundle basic local telecommunications services with non-regulated services? If so, please describe in full. Please explain the process followed by the Company to ensure cost recovery from the TUSF for basic local telecommunications services does not include costs related to the other bundled services.

Response:

Yes, in addition to the option of purchasing stand-alone basic local telecommunications services as described in response to Staff 1-37, Peoples does provide bundles of various telephone, internet, and/or other services. Its available bundles are described on its publicly available website at https://peoplescom.net/. As allowed by Commission rules, basic local telecommunications services may be bundled with regulated services including intrastate long distance calling services, optional calling features, non-published service, etc. Basic local telecommunications services may be bundled with non-regulated services including inside wire maintenance, voicemail, and retail internet service provided by Peoples or its non-regulated ISP affiliate.

Whenever regulated services are bundled with non-regulated services, 16 TAC § 26.228(d) ensures there is no cross subsidization between/among various categories of service. Peoples prices the regulated products or services at the approved, regulated rates. Specifically, this rule requires that an "ILEC shall price each regulated service offered separately or as part of a package at either the service's tariffed rate or at a rate not lower than the service's [long run incremental cost, or] LRIC." In addition to charging tariffed rates for regulated components of a bundle, an "ILEC shall price each service at or above the service's LRIC." 16 TAC § 26.228(d)(2). These pricing rules ensure there is no predatory pricing for any component of a bundle, and that the regulated services are offered at regulated rates, which prevents any potential use of the revenues from bundled regulated services to subsidize bundled non-regulated services. In addition to these pricing rules which control the revenues that might be collected from bundled services, of course the associated investments and expenses incurred by Peoples related to any bundled services are allocated and separated according to its CAM and Part 36 cost separations study, ensuring compliance with regulatory accounting rules and preventing cross-subsidization. Cost allocation procedures, which are documented in CAMs, are required by FCC rules and have been in place since at least the 1980s. Peoples devotes great time and expense to developing its company-specific CAM to ensure compliance. Cost allocation procedures, including CAMs, are subject to audit by the USAC and NECA. Further, CAMs are now attested to and subject to state Commission review annually, as the full CAM is provided to the Commission each year in Peoples's annual report under 16 TAC § 26.407. *See* Attachment to Staff 1-2(A-C), Attachment C, Section 2.1. The CAM and the Part 36 cost separations study are thus long-standing, thorough documents that are well-vetted at a number of levels that ensure state support is applied to construct or maintain the telecommunications infrastructure necessary to bring reliable basic local telephone services to high-cost, rural Texas at prices comparable to urban areas.

Prepared/Sponsored by: Scott Thompson, CFO, Peoples

STAFF 1-39

Please provide the Company's policies for ensuring that an offer of bundled services does not create a tying arrangement.

Response:

Peoples ensures there are no tying arrangements, because as described in response to Staff 1-37, it does not require customers to purchase any additional services as a prerequisite to obtaining basic local telecommunications services. Peoples's services are provided in accordance with its tariffs which are reviewed/approved by the FCC and the PUCT. *See* Attachment to Staff 1-2(D).

When Peoples does offer bundles, for a variety of regulatory and business reasons, basic local telecommunications services may be a necessary element of the bundle in order to acquire other services. This practice is appropriate for both business and regulatory reasons, is not prohibited, and does not constitute a tying arrangement because customers do not have to purchase non-regulated services/products in order to obtain regulated services.

Prepared/Sponsored by: Gena von Reyn, Director of Regulatory Affairs, Peoples

STAFF 1-40

For situations in which a customer requests basic local telecommunications service and, at the same time, requests another non-regulated service, please describe the Company's process for determining whether that request is a request for regulated service or a request for non-regulated service.

Response:

When a customer requests basic local telecommunications service and non-regulated service, the portion of the request related to regulated services is considered a request for regulated service and the portion of the request for non-regulated service is considered a request for non-regulated services. Labor costs associated with fulfilling a request for non-regulated services are directly assigned to non-regulated activity on the employees' timesheet under Peoples's time reporting procedures. These expenses are allocated in accordance with Peoples's CAM to ensure that regulated and non-regulated expenses are accounted for correctly. Peoples's company-specific CAM is the definitive authority on its compliance with applicable cost allocation rules. Cost allocation procedures, which are documented in CAMs, are required by FCC rules and have been used since at least the 1980s. Peoples devotes great time and expense to developing its company-specific CAM to ensure compliance. Cost allocation procedures, including CAMs, are subject to audit by the USAC and NECA, and are attested to and subject to Commission review annually as part of the annual reports. *See* Attachment to Staff 1-2(A-C), Attachment C, Section 2.1. The CAM, which documents Peoples's cost allocation procedures, is thus a long-standing, thorough document that is well-vetted at a number of levels that ensures state support is applied to construct or maintain the telecommunications infrastructure necessary to bring reliable basic local telephone services to high-cost, rural Texas at prices comparable to urban areas.

Prepared/Sponsored by: Scott Thompson, CFO, Peoples

STAFF 1-41

Reference Schedule VIII of the Company's 2017, 2018 and 2019 Annual Reports for Small ILECs. For each officer and director listed, please identify any other affiliated or non-regulated entity for which the individual serves as an officer or director. Please include the individual's gross compensation for 2017, 2018, and 2019 before assignment of compensation to non-Texas activities, affiliates, or non-regulated accounts and activities.

Response:

Please see Schedule VIII of Peoples's annual report showing the annual executive compensation related to regulated intrastate operations. The reported compensation on the aforementioned schedule is the only portion of compensation that is included in Peoples's regulated intrastate cost of service. The instructions to Schedule VIII specify that only the amount of compensation "allocated to intrastate regulated operations of the small ILEC" be reported. *See* Project No. 47669 (instructions posted Oct. 18, 2018). These compensation figures are developed through strict adherence to Peoples's CAM, which excludes any non-regulated or interstate functions through the FCC's Part 64 allocations and Part 36 separations rules. Peoples's company-specific CAM and Part 36 cost separations study are the definitive authority on its compliance with applicable accounting and regulatory rules. Cost allocation procedures, which are documented in CAMs, are required by FCC rules and have been used since at least the 1980s. Peoples devotes great time and expense to developing its company-specific CAM to ensure compliance. Cost allocation procedures, including CAMs, are subject to audit by the USAC and NECA, and are attested to and subject to Commission review annually as part of the annual reports. *See* Attachment to Staff 1-2(A-C), Attachment C, Section 2.1. The CAM and the Part 36 cost separations study are thus long-standing, thorough documents that are well-vetted at a number of levels that ensure that no compensation for any employee related to affiliated or non-regulated entities affects Peoples's intrastate cost of service.

Prepared/Sponsored by: Scott Thompson, CFO, Peoples

STAFF 1-42

Has the Company ever participated in a Federal Communications Commission (FCC) audit? If yes, please provide a copy of all audit reports issued.

Response:

No, Peoples does not have any audits directly by the FCC within its possession/control, but it is periodically audited by USAC at the direction of the FCC. Please see attached response to Staff 1-23.

Prepared/Sponsored by: Scott Thompson, CFO, Peoples

STAFF 1-43

Does the Company participate in an annual external audit of its regulated book and records? If yes, please provide a copy of the most recent audit report.

Response:

No. Peoples does not participate in any external audits specific to its regulated books and records. However, it undergoes other auditing procedures. Please see response to Staff 1-23 and any attachments thereto.

Prepared/Sponsored by: Scott Thompson, CFO, Peoples

STAFF 1-44

Please provide the date and docket number of the final order in the Company's most recent comprehensive base rate case before the Commission.

Response:

The Commission has not chosen to initiate any telecommunications comprehensive base rate proceedings in decades—the last fully contested telecommunications rate cases before the Commission were Docket Nos. 9981 and 9983 in the early 1990s.

In 2017, the 84th Legislature passed a mechanism in Senate Bill 586 that permits support and/or rate adjustments for small ILECs like Peoples without having to undergo the expense of a comprehensive base rate case. *See* PURA § 56.032(h) and (i). The purpose of the law was to provide "long-term, regulatory-efficient, and 'needs-based' support" and *avoid the imminent need for many "traditional regulatory 'rate cases' at the [PUCT]." See* Senate Research Ctr, Bill Analysis, Tex. S.B. 586, 85th Leg., R.S. (May 24, 2017).

Understanding this legislative intent, the Commission passed a rule to set out "criteria by which a small ILEC may request that the commission determine the amount of Small and Rural Incumbent Local Exchange Company Universal Service Plan support it receives, so that the support, combined with regulated revenues provides the small ILEC an opportunity to earn a reasonable rate of return under this rule, as required by Senate Bill 586." *See* Project No. 47669 (Oct. 16, 2018 order). The Commission further acknowledged "that there currently are no base-rate proceedings, and there has not been a comprehensive base-rate case in many years" — but there is an ongoing annual review of Peoples's investments and all other aspects of its operations in which the Commission could raise any prudence issues, and adjust its TUSF support or its local rates accordingly, as intended by the Legislature. *See* Project No. 47669 (order adopting 16 TAC § 26.407, signed by the current commissioners on Oct. 16, 2018). The purpose of this mechanism was to avoid telephone rate cases.

Given the above, Peoples opted into 16 TAC § 26.407 regulation in lieu of filing ongoing rate cases – and it has faithfully followed this process. In lieu of traditional base rate cases, Peoples's earnings are now reviewed by Commission Staff every year under 16 TAC § 26.407(e). This means that every year, the Commission reviews Peoples's rate base, new investments, expenses, allocations and separations, owner/director compensation, returns, supporting materials and other aspects of its operations in a report that is hundreds of pages long – more extensive and detailed than the annual reports that the Commission reviews for any other industry. This review includes explicit authority to adjust reports for unreasonable or unnecessary expenses, inappropriate affiliate transactions, inappropriate allocations, or "any other adjustments that commission staff may find appropriate." 16 TAC § 26.407(f)(2). Staff's last review of a Peoples annual report was complete on January 27, 2020, in Project No. 49986 (confirming review of Peoples's 2018 report), and review of its most recent report through the end of 2019 is currently pending in Project No. 51316, filed on September 15,

2020. In Peoples's prior 16 TAC § 26.407 proceedings, it received no adjustments. However, if the Commission wants more information now, Peoples is happy to continue to discuss.

Notwithstanding this process, the Commission retains full authority under PURA to call small providers like Peoples in for a rate case should it ever not be satisfied with a provider's filings or operations. *See* PURA § 56.032(l).

In addition to the annual reports, Peoples's support was also adjusted by the Commission in Docket No. 50208 on March 5, 2020, under the adjustment mechanism set forth in 16 TAC § 26.407(h). The Commission had explicit authority to adjust Peoples's local rates in that proceeding, but did not do so, merely increasing its support to get Peoples closer to (but still well short of) a reasonable rate of return as defined by the Legislature. *See* PURA § 56.032(h); *see also* Attachment to 1-8.

In addition, Peoples has had multiple minor rate adjustments under 16 TAC § 26.171 since its last comprehensive base rate case. See, e.g., Docket Nos. 21209, 39749, 40414, 41374, 43756, 45830, 47149, and 48953.

Prepared/Sponsored by: Gena von Reyn, Director of Regulatory Affairs, Peoples

STAFF 1-45

Please provide the amount of plant in service deemed prudent by the Commission in the Company's most recent comprehensive base rate case. Please provide the net book value of the prudent plant in service as of December 31, 2019.

Response:

The net book value of Peoples's current plant in service is disclosed to the Commission every single year on September 15 in its annual reports, see Schedule II. *See* Attachments to Staff 1-2(A-C). Peoples maintains that all its plant in service is prudent.

The Commission has not chosen to initiate any telecommunications comprehensive base rate proceedings in decades—the last fully contested telecommunications rate cases before the Commission were Docket Nos. 9981 and 9983 in the early 1990s. Instead, in 2017, the 84th Legislature passed a mechanism in Senate Bill 586 that permits support and/or rate adjustments for small ILECs like Peoples without having to undergo the expense of a comprehensive base rate case. *See* PURA § 56.032(h) and (i). The purpose of the law was to provide "long-term, regulatory-efficient, and 'needs-based' support" and *avoid the imminent need for many "traditional regulatory 'rate cases' at the [PUCT].*" *See* Senate Research Ctr, Bill Analysis, Tex. S.B. 586, 85th Leg., R.S. (May 24, 2017).

Understanding this legislative intent, the Commission passed a rule to set out "criteria by which a small ILEC may request that the commission determine the amount of Small and Rural Incumbent Local Exchange Company Universal Service Plan support it receives, so that the support, combined with regulated revenues provides the small ILEC an opportunity to earn a reasonable rate of return under this rule, as required by Senate Bill 586." *See* Project No. 47669 (Oct. 16, 2018 order). The Commission further acknowledged "that there currently are no base-rate proceedings, and there has not been a comprehensive base-rate case in many years" — but there is an ongoing annual review of Peoples's investments and all other aspects of its operations in which the Commission could raise any prudence issues, and adjust its TUSF support or its local rates accordingly, as intended by the Legislature. *See* Project No. 47669 (order adopting 16 TAC § 26.407, signed by the current commissioners on Oct. 16, 2018). The purpose of this mechanism was to avoid telephone rate cases.

Given the above, Peoples opted into 16 TAC § 26.407 regulation in lieu of filing ongoing rate cases – and it has faithfully followed this process. In lieu of traditional base rate cases, Peoples's earnings are now reviewed by Commission Staff every year under 16 TAC § 26.407(e). This means that every year, the Commission reviews Peoples's rate base, new investments, expenses, allocations and separations, owner/director compensation, returns, supporting materials and other aspects of its operations in a report that is hundreds of pages long – more extensive and detailed than the annual reports that the Commission reviews for any other industry. This review includes explicit authority to adjust reports for unreasonable or unnecessary expenses, inappropriate affiliate transactions, inappropriate allocations, or "any other adjustments that commission staff may find appropriate." 16 TAC § 26.407(f)(2). Staff's last review of a Peoples annual report was complete on January 27, 2020, in Project

No. 49986 (confirming review of Peoples's 2018 report), and review of its most recent report that would reflect its plant in service through the end of 2019 is currently pending in Project No. 51316, filed on September 15, 2020. In Peoples's prior 16 TAC § 26.407 proceedings, it received no complaints related to its plant in service. However, if the Commission wants more information now, Peoples is happy to continue to discuss. The Commission also retains full authority under PURA to call small providers like Peoples in for a rate case should it ever not be satisfied with a provider's filings or operations. *See* PURA § 56.032(l).

Prepared/Sponsored by: Sharon Minor, Moss Adams

STAFF 1-46

Please provide the amount of the Company's December 31, 2019 plant in service balance for which the Commission has not determined prudence.

Response:

The net book value of Peoples's current plant in service is disclosed to the Commission every single year on September 15 in its annual reports. *See* Attachments to Staff 1-2(C), Schedule II for its most recently reported plant in service.

The Commission has not chosen to initiate any telecommunications comprehensive base rate proceedings in decades—the last fully contested telecommunications rate cases before the Commission were Docket Nos. 9981 and 9983 in the early 1990s. Instead, in 2017, the 84^{th} Legislature passed a mechanism in Senate Bill 586 that permits support and/or rate adjustments for small ILECs like Peoples without having to undergo the expense of a comprehensive base rate case. *See* PURA § 56.032(h) and (i). The purpose of the law was to provide "long-term, regulatory-efficient, and 'needs-based' support" and *avoid the imminent need for many "traditional regulatory 'rate cases' at the [PUCT].*" *See* Senate Research Ctr, Bill Analysis, Tex. S.B. 586, 85th Leg., R.S. (May 24, 2017).

Understanding this legislative intent, the Commission passed a rule to set out "criteria by which a small ILEC may request that the commission determine the amount of Small and Rural Incumbent Local Exchange Company Universal Service Plan support it receives, so that the support, combined with regulated revenues provides the small ILEC an opportunity to earn a reasonable rate of return under this rule, as required by Senate Bill 586." *See* Project No. 47669 (Oct. 16, 2018 order). The Commission further acknowledged "that there currently are no base-rate proceedings, and there has not been a comprehensive base-rate case in many years" — but there is an ongoing annual review of Peoples's investments and all other aspects of its operations in which the Commission could raise any prudence issues and adjust its TUSF support or its local rates accordingly, as intended by the Legislature. *See* Project No. 47669 (order adopting 16 TAC § 26.407, signed by the current commissioners on Oct. 16, 2018). The purpose of this mechanism was to avoid telephone rate cases.

Given the above, Peoples opted into 16 TAC § 26.407 regulation in lieu of filing ongoing rate cases – and it has faithfully followed this process. In lieu of traditional base rate cases, Peoples's earnings are now reviewed by Commission Staff every year under 16 TAC § 26.407(e). This means that every year, the Commission reviews Peoples's rate base, new investments, expenses, allocations and separations, owner/director compensation, returns, supporting materials and other aspects of its operations in a report that is hundreds of pages long – more extensive and detailed than the annual reports that the Commission reviews for any other industry. Staff's last review of a Peoples annual report was complete on January 27, 2020, in Project No. 49986 (confirming review of Peoples's 2018 report), and review of its most recent report that would reflect plant in service through the end of 2019 is currently pending in Project No. 51316, filed on September 15, 2020. In Peoples's prior 16 TAC

§ 26.407 proceedings, it received no complaints related to its plant in service balance. However, if the Commission wants more information now, Peoples is happy to continue to discuss. The Commission also retains full authority under PURA to call small providers like Peoples in for a rate case should it ever not be satisfied with a provider's filings or operations. *See* PURA § 56.032(l).

Peoples's plant in service balance as of December 31, 2019, is currently being reviewed by the Commission Staff in Project No. 51316.

Prepared/Sponsored by: Sharon Minor, Moss Adams

STAFF 1-47

Has the Company replaced any of its plant in service, for which it received a prudence determination in a previous rate case, with new plant in service that the Commission has not yet determined prudence? If yes, please provide the amount of prudent plant in service replaced and the amount of replacement plant in service.

Response:

Peoples's plant in service depreciates over time, as indicated in 16 TAC § 26.407 annual reports filed with the Commission every year. It replaces facilities as they approach the end of their useful life. As any plant nears the end of its useful life, it has to be replaced in order to ensure adequate and reliable service to the customers and to limit costly ongoing maintenance expense. All plant is depreciated accordingly. In addition, Peoples also adds new plant in service as needed to serve its customers, again as indicated in 16 TAC § 26.407 annual reports filed with the Commission every year. Commission Staff reviews this plant in service for three months out of every year. Peoples considers these ongoing reviews to indicate the prudence of its plant in service.

Prepared/Sponsored by: Scott Thompson, CFO, Peoples

STAFF 1-48

Please provide the amount of 2017, 2018, and 2019 TUSF funds collected by the Company related to plant in service for which the Commission has not determined prudence.

Response:

TUSF funds are not associated with specific capital projects or specific plant in service. Regardless, all of Peoples's TUSF funds collected for the requested years are disclosed in Solix quarterly reports to the Commission available here https://www.puc.texas.gov/agency/resources/reports/; its quarterly reports to the Commission available in Project No. 41120, and its annual reports. For ease of reference, each of these reports is attached hereto. *Please see* Attachments to Staff 1-4(A), Attachment to Staff 1-2(A-C), and Attachment to Staff 1-4(B).

The net book value of Peoples's plant in service for the requested years has been disclosed to the Commission in its annual reports. *See* Attachments to Staff 1-2(A-C), Schedule II for its reported plant in service for the requested years. These reports, required by Senate Bill 586 passed in 2017, are the lengthiest and most comprehensive and detailed of any utility's ongoing annual reports before the Commission in any industry, and are prepared annually at great time/expense. Commission Staff has the explicit authority to adjust Peoples's reported information if it identifies errors during the 90 days each year it reviews these reports. *See* 16 TAC § 26.407(f). If the Commission further disagrees with anything in this exhaustive report or finds a provider is over-earning, it has the explicit authority to call Peoples in for a rate case. *See* PURA § 56.032(l). Thus, Peoples maintains that all its plant in service is prudent, since it is thoroughly reviewed on an annual basis, and the Commission has not raised any issues with anything that has been disclosed in its 16 TAC § 26.407 proceedings, which are effectively streamlined rate review proceedings conducted on an annual basis. Although the Commission does still have the authority to call in small providers for traditional rate cases if it wishes (*see* PURA § 56.032(l)), the Legislature's very purpose in establishing this costly mechanism was to avoid the imminent need for many "traditional regulatory 'rate cases' at the [PUCT]." *See* Senate Research Ctr, Bill Analysis, Tex. S.B. 586, 85th Leg., R.S. (May 24, 2017). The Commission effectively acknowledged that adjustment proceedings under Senate Bill 586 are like rate cases, as it directed they be "more abbreviated and streamlined as compared to a typical rate case." *See* Project No. 47669.

Prepared/Sponsored by: Sharon Minor, Moss Adams

STAFF 1-49

Has the Company collected any amounts through the TUSF for services other than basic local telecommunications service? If yes, please provide the amount by type of service for 2017, 2018, and 2019 and explain the Company's method for determining that collection of these amounts through the TUSF was proper.

Response:

Peoples has not received any high-cost support under either program created by PURA § 56.021(1) for any services other than basic local telecommunications service. Other TUSF programs, such as those created by PURA § 56.021(2)-(9) or PURA § 56.025, are not restricted to basic local telecommunications service.

Prepared/Sponsored by: Sharon Minor, Moss Adams

STAFF 1-50

If the Company has received any amounts from the TUSF for recovery of expenses or plant in service related to its non-regulated functions, please provide the amount and the method by which the Company proposes to return such amounts.

Response:

Peoples has not received high-cost support under PURA § 56.021(1) for recovery of expenses or plant in service related to its non-regulated functions.

Prepared/Sponsored by: Sharon Minor, Moss Adams

STAFF 1-51

Has the Company received an ineligibility determination with respect to any Federal Universal Service Funds? If yes, please provide the amounts by year, along with a description of the basis for the ineligibility determination.

Response:

No.

Prepared/Sponsored by: Gena von Reyn, Director of Regulatory Affairs, Peoples

STAFF 1-52

Please indicate whether the Company is a member of an affiliated group eligible to file a consolidated income tax return and whether the Company was included in a consolidated income tax return for 2017, 2018, and 2019.

Response:

Yes.

Prepared/Sponsored by: Scott Thompson, CFO, Peoples

STAFF 1-53

If the answer to STAFF 1-51 above is yes, please provide a copy of the 2017, 2018, and 2019 consolidated federal income tax return that included the Company.

Response:

This proceeding asks questions about eligibility for TUSF and other information related to TUSF. Regulated entities provide this information upon request. Consolidated tax returns, however, include information from non-regulated affiliates. Non-regulated affiliates' sensitive financial and tax information do not implicate or impact TUSF support received, if any, because any TUSF support is not based upon their income, taxable or otherwise. Instead, any TUSF support is calculated either based on reported regulated returns or on a per-line basis depending on the TUSF program, consistent with Commission rules. Sensitive tax information regarding non-regulated activities is not reportable to the Commission.

Prepared/Sponsored by: Scott Thompson, CFO, Peoples

STAFF 1-54

Given the imminent reduction in the TUSF, please provide the Company's plans for continuing basic local telecommunication services to its customers.

Response:

While the Commission has previously alluded to shortages in TUSF funding, it has not yet advised or provided notice to Peoples of any "imminent reduction in TUSF." Peoples is currently uninformed on Commission plans regarding how this reduction will be applied:

- How much support will be cut?
- Will cuts vary depending upon type of provider or size?
- Will support from all programs/services be cut, or just some?
- When will support cuts begin?
- For how long will support be cut?
- Will Peoples have an opportunity to recover lost support in a future proceeding?
- Will there be any notice and/or hearing before the cuts are implemented?

If the contemplated reduction to TUSF is truly imminent, then Peoples would genuinely like to know this critical information about the reductions as soon as possible. Peoples needs to be able to develop a plan to try to keep its doors open and services available to customers, depending upon how much TUSF support is cut and when, and communicate that plan to employees, customers, member/owners, and/or lenders as needed. Like many other providers, Peoples has relied on TUSF support for many years to meet our provider of last resort ("POLR") and other service obligations across our high-cost, rural service territory. The regulatory compact Peoples made was that it would receive TUSF support—set by the Commission after notice and a hearing—and in return it would meet the Commission's quality of service, POLR, and other obligations to the customers in its rural area to further Texas's policy of universal service. This area would not be economic to serve without support. Depending on how much support is cut and for how long, the reductions could impact everything from employees/payroll, to Peoples's ability to replace aging facilities (including those used for basic local telecommunication service), to Peoples's ability to extend service to new customers (including those who would purchase basic local telecommunications service). The reality is Peoples cannot make a plan until it knows the specific details of the "imminent reduction in the TUSF."

Moreover, imminent reductions to funding Peoples has received for years would be a major concern in any economic landscape, but they are especially worrisome during a global pandemic. Due to the pandemic, demand for services are up, operations costs are up, and some customers' abilities to pay bills timely have been impacted. These challenges are difficult to manage even without facing imminent but unknown TUSF funding cuts. With anticipated funding cuts, Peoples may be forced to limit replacement of facilities or construction of new facilities.

Further, Peoples would like to understand the PUCT's reasoning and stated basis for imminently cutting some its TUSF funding. It is Peoples's understanding that this is the first time this has ever happened. In the past, the Commission has always adjusted the TUSF assessment rate by order, rather than reducing disbursements, when needed to ensure there is sufficient/appropriate revenues to make TUSF disbursements., . *See* Project No. 21208 Peoples and its stakeholders are concerned that the Commission's reduction in funding may implicate and violate:

- Laws that require TUSF, such as PURA §§ 51.001, 52.051(1)(a), 53.051, 56.021 (which, in part, requires the PUCT to assist telecommunications providers "in high cost rural areas"), 56.022, 56.023, 56.025, 56.026 (which mandates that TUSF disbursements be made "promptly and efficiently so that a telecommunications provider does not experience an unnecessary cash-flow change as a result of a change in governmental policy"), 56.028, 56.031, or 56.032.

- Regulations that require TUSF, such as 16 TAC §§ 26.401, 26.403, 26.404, 26.405, 26.407, or 26.420.

- Past Commission orders that set out very specific amounts of TUSF specific providers are supposed to receive, such as the 2013 rate rebalancing proceeding (Docket No. 41097), at least six financial needs test proceedings for mid-sized providers, and many reports filed under Senate Bill 583; over 100 elections, reports, and adjustment proceedings for small providers filed under Senate Bill 586; and at least 85 cases filed under Texas PURA § 56.025. In particular, in Docket No. 50208 earlier this year, the Commission ordered that Peoples would "receive an annual increase to its high-cost support that it collects under 16 TAC § 26.404 in the amount of $806,347, or $67,195 per month. The total annual high-cost support amount will be $2,822,215," and the "(TUSF) administrator must distribute to Peoples TUSF funds in accordance with this Notice of Approval promptly and efficiently." *See* Docket No. 50208 (Mar. 5, 2020 Notice of Approval).

A significant reduction in TUSF could be devastating for Peoples. For example, as of the year-end 2019, Peoples receives approximately 42% of its intrastate regulated revenues from TUSF. Even *with* this support, Peoples is under-earning—it publicly reported a -34.23% return for 2019 in pending Project No. 51316. This is well below the 6.75% - 11.75% range deemed reasonable by the Texas legislature. *See* PURA § 56.032(f).

Peoples complies with applicable regulations regarding its telecommunications services—and as apparent in these responses, there are many obligations associated with receiving TUSF—so the inexplicable decision to reduce TUSF funding despite other viable options appears subjective and unnecessary. Thus, any information the Commission could provide on this subject is sincerely appreciated.

Please also keep in mind that Peoples is a member-owned, not-for-profit telephone cooperative. Commission actions which harm Peoples not only harm its customers in that it puts their services at risk, but they also harm its members in that it puts the financial health of *their* cooperative in question.

Prepared/Sponsored by: Scott Thompson, CFO, Peoples

STAFF 1-55

Given the imminent reduction in the TUSF, please provide the Company's plans for continuing to provide non-regulated services that use the same plant assets as basic local telecommunication services.

Response:

Since there is a single, hybrid telecommunications network that provides both intrastate and interstate voice service as well as interstate data services, many of the concerns identified above regarding voice services also apply to non-regulated services. Note the dual functions of the network have been acknowledged by regulators:

- The FCC has explained, "The federal universal service high-cost program ... is designed to ensure that consumers in rural, insular, and high-cost areas have access to modern communications networks capable of providing voice and broadband service..." *See* https://www.fcc.gov/general/universal-service-high-cost-areas-connect-america-fund.
- The PUCT recently recognized that with technology such as VoIP, "voice and data can share the same communication channel simultaneously." *See* "Scope of Competition in Telecommunication Markets in Texas: Report to the 86th Legislature" (Jan. 14, 2019).

Given this hybrid network, Peoples has all the same questions about TUSF with respect to non-regulated services that use its network, even though its TUSF funding only supports its intrastate, regulated services. Critical questions include:

- How much support will be cut?
- Will cuts vary depending upon type of provider or size?
- Will support from all programs/services be cut, or just some?
- When will support cuts begin?
- For how long will support be cut?
- Will Peoples have an opportunity to recover lost support in a future proceeding?
- Will there be any notice and/or hearing before the cuts are implemented?

If the contemplated reduction to TUSF is truly imminent, critical information about the reductions should be shared with all TUSF recipients, including Peoples, as soon as possible. Like many other providers, Peoples has relied on TUSF support for many years to meet its POLR and other service obligations across our high-cost, rural service territory. The regulatory compact Peoples made was that it would receive this TUSF support—set by the Commission after notice and a hearing—and in return it would meet the Commission's quality of service, POLR, and other obligations to the customers in its rural area to further Texas's policy of universal service. This area would not be not economic to serve without support. Depending on how much support is cut and for how long, the reductions could impact everything from employees/payroll, to Peoples's ability to replace aging facilities (including those used for basic local telecommunication service), to Peoples's ability to extend service to new customers (including those who would purchase basic local telecommunications service). If Peoples cannot keep its doors open and its network goes dark, then all services that rely upon this network would suffer, including non-regulated or interstate services. And until Peoples has more information, it cannot develop a plan to continue operations or share that plan with its employees, customers, member/owners, and lenders.

Moreover, imminent reductions to funding Peoples has received for years would be a major concern in any economic landscape, but they are especially worrisome during a global pandemic. Due to the pandemic, demand for services are up, operations costs are up, and some customers' abilities to pay bills timely have been impacted. These challenges are difficult to manage even without facing imminent but unknown TUSF funding cuts. With anticipated funding cuts, Peoples may be forced to limit replacement of facilities or construction of new facilities.

Further, the PUCT's decision to reduce TUSF funding is both perplexing and unprecedented. It is Peoples's understanding that the Commission has always opted to increase the TUSF assessment rate, rather than reducing funding to ensure there is sufficient/appropriate revenues to make TUSF disbursements. *See* Project No. 21208. Peoples and its stakeholders are concerned that the Commission's reduction in funding may implicate and violate:

- Laws that require TUSF, such as PURA §§ 51.001, 52.051(1)(a), 53.051, 56.021 (which, in part, requires the PUCT to assist telecommunications providers "in high cost rural areas"), 56.022, 56.023, 56.025, 56.026 (which mandates that TUSF disbursements be made "promptly and efficiently so that a telecommunications provider does not experience an unnecessary cash-flow change as a result of a change in governmental policy"), 56.028, 56.031, or 56.032.

- Regulations that require TUSF, such as 16 TAC §§ 26.401, 26.403, 26.404, 26.405, 26.407, or 26.420.

- Past Commission orders that set out very specific amounts of TUSF specific providers are supposed to receive, such as the 2013 rate rebalancing proceeding (Docket No. 41097), at least six financial needs test proceedings for mid-sized providers and many reports filed under Senate Bill 583; over 100 elections, reports, and adjustment proceedings for small providers filed under Senate Bill 586; and at least 85 cases filed under Texas PURA § 56.025. In particular, in Docket No. 50208 earlier this year, the Commission ordered that Peoples would "receive an annual increase to its high-cost support that it collects under 16 TAC § 26.404 in the amount of $806,347, or $67,195 per month. The total annual high-cost support amount will be $2,822,215," and the "(TUSF) administrator must distribute to Peoples TUSF funds in accordance with this Notice of Approval promptly and efficiently." *See* Docket No. 50208 (Mar. 5, 2020 Notice of Approval).

Again, a significant reduction in TUSF could be devastating Peoples. For example, as of the year-end 2019, Peoples receives approximately 42% of its intrastate regulated revenues from TUSF. Even *with* this support, Peoples is under-earning—it publicly reported a -34.23%

return for 2019 in pending Project No. 51316. This is well below the 6.75%-11.75% range deemed reasonable by the Texas legislature. *See* PURA § 56.032(f). While this support is not used for interstate or non-regulated services, you can see how significant our reliance on TUSF is and how difficult it would be to stay in business at all without TUSF support.

Peoples complies with applicable regulations regarding its telecommunications services—and as apparent in these responses, there are many obligations associated with receiving TUSF—so the inexplicable decision to reduce TUSF funding despite other viable options appears subjective and unnecessary. Thus, any information the Commission could provide on this subject is sincerely appreciated.

Please also keep in mind that Peoples is a member-owned, not-for-profit telephone cooperative. Commission actions which harm Peoples not only harm its customers in that it puts their services at risk, but they also harm its members in that it puts the financial health of *their* cooperative in question.

Prepared/Sponsored by: Scott Thompson, CFO, Peoples

List of Attachments

Attachment to Staff 1-1: Confidential 2019 CAM

Attachments to Staff 1-2:

- A: Confidential 2017 16 TAC § 26.407 Annual Report (see also Project No. 49005)
- B: Confidential 2018 16 TAC § 26.407 Annual Report (see also Project No. 49986)
- C: Confidential 2019 16 TAC § 26.407 Annual Report (see also pending Project No. 51316, filed Sep. 15, 2020)
- D: Current Tariff

Attachment to Staff 1-4:

- A: Solix Quarterly TUSF Reports 2017-2019
- B: TUSF Quarterly Receipts Reports from Project No. 41120

Attachment to Staff 1-8:
SB 586 Adjustment Proceeding Final Order (see also Docket No. 50208)

Attachment to Staff 1-10: Confidential 10 Sample Customer Bills

Attachment to Staff 1-11: Advertisements for Past 12 Months

Attachment to Staff 1-17: Confidential Vehicle Study

Attachment to Staff 1-18: Confidential Building Study

Attachment to Staff 1-22: Other Cost Studies or Models

- A: Confidential CWF
- B: Confidential COE

Attachment to Staff 1-23: Internal, Federal or Other Audits Re: Allocations

- A: Confidential NECA Review
- B: Confidential USAC PQAs

Attachment to Staff 1-24: Confidential Listing of Part 64 Accounts that were Assigned 100% to the Regulated Function Five Years Ago but Are Now Assigned Less than 100% to the Regulated Function.

Attachment to Staff 1-25: Confidential Listing of Part 64 Accounts that were Assigned Less than 100% to the Regulated Function Five Years Ago but Are Now Assigned 100% to the Regulated Function.

Attachment to Staff 1-34: Confidential Training Materials Re: Employee Timekeeping

STAFF 1-2

PEOPLES TELEPHONE COOPERATIVE, INC.

MEMBER SERVICES TARIFF

A Cooperative Telephone Utility
providing
Telecommunications Services
to its Members

Robbie L. Allen, General Manager
102 North Stephens
Quitman, Texas 75783
903-763-2214

PUBLIC UTILITY COMMISSION OF TEXAS
APPROVED

APR 07 '06 DOCKET 32489

CONTROL #

PEOPLES TELEPHONE COOPERATIVE, INC.

MEMBER SERVICES TARIFF

A Cooperative Telephone Utility
providing
Telecommunications Services
to its Members

Robbie L. Allen, General Manager
102 North Stephens
Quitman, Texas 75783
903-763-2214

MEMBER SERVICES TARIFF

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MEMBER SERVICES TARIFF

Description of Operations

Peoples Telephone Cooperative, Inc. (hereinafter called the Cooperative), with headquarters in Quitman, Texas, is a non-profit telephone cooperative corporation chartered on June 2, 1950 under the Texas Telephone Cooperative Act, and is rendering telecommunications service in the areas certified to the Cooperative by Certificate of Convenience and Necessity No. 40067, as granted by the Public Utility Commission of Texas.

Any person, firm, association, corporation of body politic or subdivision thereof, may become a member of Peoples Telephone Cooperative, Inc. by agreeing to comply with and be bound by the Articles of Incorporation and By-Laws of the Cooperative and the Rules and Regulations adopted by the Board of Directors not inconsistent with law.

The Cooperative provides one party service throughout its service areas in 13 exchanges T
according to an area coverage design approved by and financed with the Rural Utilities Service, T
Washington, D.C.

The Certificate of Convenience and Necessity of Campbell Telephone Cooperative, Inc., No. 40011, was transferred and incorporated with Peoples' Certificate by Order of the Public Utility Commission of Texas on May 12, 1981 in Docket No. 3723.

Service Areas

Exchange (NPA-NNX)	Cities	Counties
Ben Franklin (903-325)	Ben Franklin	Delta, Fannin, Lamar
Campbell (903-862)		Hunt
Cypress Springs (903-860)		Franklin, Hopkins
Dry Creek (903-878)		Wood
Glade Branch (903-588)		Franklin, Hopkins, Titus
Golden (903-768)	Golden	Wood
Jim Hogg (903-967)		Wood
Pecan Gap (903-359)	Pecan Gap	Delta, Fannin, Hunt
Roxton (903-346)	Roxton	Lamar
Sandy Creek (903-629)		Wood
Talco (903-379)	Talco	Franklin, Titus
Wynne (903-365)		Camp, Franklin, Hopkins Upshur, Wood
Yantis (903-383)	Yantis	Hopkins, Wood

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CONTROL #

SYMBOLS FOR CHANGES

SYMBOLS FOR CHANGES

The following symbols are used in the right-hand margin to denote changes or revisions made on each page:

(C) Denotes a changed regulation.

(D) Denotes a discontinued rate or regulation.

(E) Denotes a correction of an error made during a revision that pertained to material contained in the tariff prior to the revision.

(I) Denotes increase in rate.

(M) Denotes text that has been moved elsewhere with no change in rate, regulation or text.

(N) Denotes a new rate or regulation.

(R) Denotes a rate reduction.

(T) Denotes a change in text, but no change in rate or regulation.

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CONTROL #

MEMBER SERVICES TARIFF

LOCAL EXCHANGE SERVICE

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PUBLIC UTILITY COMMISSION OF TEXAS
EFFECTIVE
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MEMBER SERVICES TARIFF

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MEMBER SERVICES TARIFF

LOCAL EXCHANGE SERVICE

I. GENERAL

The rates and charges listed in this Section apply to Local Exchange Services for the Peoples Telephone Cooperative, Inc., herein referred to as the Cooperative, in its exchanges as specified on the Cooperative's exchange service area maps as approved and on file with the Public Utility Commission of Texas.

The telecommunications services listed in this Section are subject to the rates, charges, rules and regulations of the Member Services Tariff as it now exists or as it may be revised, added to or supplemented by superseding issues that are made a part of the Member Services Tariff.

This tariff cancels and supersedes all other Local Exchange Service Tariffs issued and effective prior to the effective date of these tariffs.

A. Provision of Service

The Cooperative provides one party service throughout its service areas, in nine exchanges, according to an area coverage design approved by and financed with the Rural Electrification Administration, Washington, D. C.

B. Application of Rates and Charges

Local exchange service rates and charges as specified in this Section are for basic local exchange service and facilities only. The rates for other ancillary services not specifically shown in this Section are presented in other Sections of this tariff.

Unless otherwise specified, the Rates and Charges quoted in this Section are for periods of one month, payable in advance and provide unlimited flat rate calling within the exchange area. Where Extended Area Service (EAS) and Toll-Free One-Way Local Calling is provided, the monthly local exchange service rate includes all EAS charges and provides unlimited calling within the home exchange and all other exchanged as specified in the Extended Area Service or Toll-Free One-Way Local Calling scope. T T

C. Expanded Local Calling

Expanded Local Calling (ELC) is a two-way mandatory service that permits customers in one exchange to call customers in certain other exchanges without long-distance charges. The rates for the exchanges are not included in the basic local rate and are listed in Section 4, III of this tariff. E

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Dec. 1, 2014 Tariff No. 43756

TARIFF CLERK

MEMBER SERVICES TARIFF

LOCAL EXCHANGE SERVICE

I. GENERAL

D. Toll-Free One-Way Local Calling Scope

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Toll-Free One-Way Local Calling Scope is a non-optional local calling arrangement that permits a Peoples Telephone Cooperative, Inc. incumbent local exchange carrier (PTC ILEC) customer to call other PTC ILEC customers or customers of other telephone companies/cooperatives where an extended calling arrangement has been formed. Both the calling and called parties must be physically located in the exchange area served by the Cooperative or the telephone company/cooperative with which an extended calling arrangement has been formed for the call to be completed as a local call. Further details about the Toll-Free One-Way Local Calling Scope are identified in Section 4, Part IV of this Tariff.

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MEMBER SERVICES TARIFF

LOCAL EXCHANGE SERVICE

II. LOCAL EXCHANGE SERVICE RATES

A. Monthly Local Exchange Access Service Rates

Exchange (NPA-NXX)/ **EAS Exchange(s):**	Bus. Acc. Line	Res. Acc. Line	Bus. Trk (2)
Ben Franklin (903-325)	$28.10	$22.29	$34.70
Honey Grove			
Pecan Gap			
Roxton			
Campbell (903-862)	$28.10	$22.29	$34.70
Greenville			
Cypress Springs (903-860)	$28.10	$22.29	$34.70
Glade Branch			
Mt. Vernon			
Winnsboro			
Wynne			
Dry Creek (903-878)	$28.10	$22.29	$34.70
Golden			
Jim Hogg			
Quitman			
Wynne (1)			
Glade Branch (903-588)	$28.10	$22.29	$34.70
Cypress Springs			
Mt. Vernon			

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(1) NPA/NXX 903-878 is excluded from EAS between the Dry Creek and Wynne Exchanges.

(2) Business Trunk rates apply to Key Systems, PBX Systems, and other services as may be identified throughout this tariff.

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