STATE OF NORTH DAKOTA
PUBLIC SERVICE COMMISSION

MIDCONTINENT COMMUNICATIONS, A SOUTH DAKOTA PARTNERSHIP, COMPLAINANT	)	
VS.	)	Case No. PU-05-451
NORTH DAKOTA TELEPHONE COMPANY, RESPONDENT	)	

DIRECT TESTIMONY OF

WARREN R. FISCHER

On Behalf Of

MIDCONTINENT COMMUNICATIONS

December 21, 2005

TABLE OF CONTENTS

EXHIBITS

I. INTRODUCTION

Q. MR. FISCHER, PLEASE STATE YOUR FULL NAME AND BUSINESS ADDRESS FOR THE RECORD.

A. My name is Warren R. Fischer. My business address is 2500 Cherry Creek Drive South, Suite 319, Denver, Colorado 80209.

Q. BY WHOM ARE YOU EMPLOYED AND WHAT IS YOUR POSITION?

A. I currently serve as Director of Business Services and Research for QSI Consulting, Inc.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND.

A. I have a Bachelor of Science degree in Business Administration with a concentration in Accounting from the University of Colorado in Boulder, Colorado. I am licensed as a Certified Public Accountant in the States of Colorado and California.

Q. WHAT IS YOUR EMPLOYMENT BACKGROUND?

A. After graduating from the University of Colorado, I worked for several years as an accountant with Deloitte & Touche conducting financial audits. Thereafter, I worked for two major corporations as a financial analyst. I joined AT&T Wireless Services in 1995 as a financial analyst, and I managed the preparation of annual revenue forecasts for the company's cellular division. In 1996, I transferred to AT&T Corp. where I became a financial manager and a subject matter expert on pricing and costing issues involving local exchange and exchange access services. In 2000, I joined QSI as a Senior Consultant.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS OR OTHER PUBLIC UTILITY COMMISSIONS?

A. Yes. I testified before the North Dakota Public Service Commission ("Commission") on universal service cost issues in Docket No. PU-314-97-465 in 1998 on behalf of AT&T Communications of the Midwest, Inc. I have also testified at the FCC and before 13 other state commissions on access reform and appropriate cost-based rates under the FCC's Total Element Long-Run Incremental Cost ("TELRIC") methodology. A more detailed description of the cases I have testified in is included in my curriculum vitae as Exhibit WRF-1.

Q. ON WHOSE BEHALF ARE YOU FILING THIS TESTIMONY?

A. This testimony was prepared on behalf of the Midcontinent Communications ("Midcontinent").

II. PURPOSE OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to support Midcontinent's bona fide request under 47 U.S.C. § 251(c) for wholesale resold service for the Devils Lake, North Dakota exchange within North Dakota Telephone Company's ("NDTC's") serving territory.

This testimony, combined with that of my partner, Mr. Timothy Gates, will address reasons why NDTC's exemption under 47 U.S.C. § 251(f) should be terminated. The Commission's July 28, 2005 Notice of Hearing notes that the following must be considered in evaluation a request for terminating the exemption under 47 U.S.C. § 251(f):

1. Whether the request of Midcontinent is unduly economically burdensome.
2. Whether the request of Midcontinent is technically feasible.
3. Whether the request of Midcontinent is consistent with 47 U.S.C. § 254 (other than subsections (b)(7) and (c)(1)(D) thereof).
4. The implementation schedule for compliance with the request should the exemption be terminated.

My testimony focuses on demonstrating that Midcontinent's provisioning of resold services in Devils Lake will not be unduly economically burdensome to NDTC.

III. RESALE REQUIREMENTS

Q. WHAT IS RESALE?

A. Resale is one of three forms of competitive entry into the local exchange market contemplated by the Telecommunications Act of 1996 ("the Act"). The other two are construction of new networks and the use of unbundled network elements of the incumbent's network. 47 U.S.C. § 251(c)(4)(A) requires incumbent LECs to offer for resale at wholesale rates any telecommunications service that the carrier provides at retail to subscribers who are not telecommunications carriers. The incumbent LEC sells its finished services to a CLEC at wholesale rates based upon an interim wholesale discount rate between 17 and 25% or based upon the discount produced by an avoided retail cost study for that LEC that complies with FCC pricing rules.[1] The discount reflects the retail related costs that are considered avoided or avoidable by the incumbent LEC.

Q. HOW DOES THE RESALE FORM OF COMPETITIVE ENTRY COMPARE TO THE OTHER TWO FORMS IN TERMS OF POTENTIAL FINANCIAL IMPACT ON AN INCUMBENT LEC?

A. Of the three forms of competitive entry, resale will have the smallest financial impact on the incumbent LEC while also requiring far less capital investment on the part of the CLEC. In a resale environment, the incumbent LEC will retain the physical connection with its former retail customer since the CLEC will resell an existing service. No costs are incurred to disconnect and reconnect customers, nor are network reconfigurations required. The incumbent LEC will continue to receive revenue for each customer now served by the CLEC, albeit at a lower rate than before. However, its revenue losses will be mitigated by avoiding costs required to serve customers on a retail basis.

Potential financial losses for the incumbent LEC are greater with facilities-based competition as are the risks for the new entrant. When a competitor enters the

[1] See 47 C.F.R. § 51.611.

market with its own network or by leasing the incumbents unbundled network elements on a wholesale basis, the incumbent LEC loses its retail customer entirely. In exchange for investing a significant amount of capital with no guaranteed financial return, a facilities-based carrier has the opportunity to serve the incumbent LEC's retail customers more cost effectively if it builds a more advanced and efficient network and can offer innovative service packages. This translates into a real loss of market share and profitability for the incumbent LEC if the CLEC can retain the customer.

Q. HOW ARE AVOIDED COSTS IDENTIFIED?

A. In ¶ 911of its *Local Competition First Report and Order*, the FCC concluded that, "the avoided costs are those that an incumbent LEC would no longer incur if it were to cease retail operations and instead provide all of its services through resellers."[2] Subsequently, the FCC adopted rules governing the resale of telecommunications services in 47 C.F.R. §§ 51.601 – 51.617. Section 51.609(a) requires that avoided retail costs be determined by a cost study that complies with the requirements of §51.609 which identifies direct and indirect cost accounts within the 47 C.F.R. Part 32 account system used by telecommunications carriers that contain avoided or reasonably avoidable costs. Reasonably avoidable costs include direct retail costs such as marketing, sales, and billing and collection, as well as a portion of indirect or shared costs such as general overhead.

Q. HOW IS THE AVOIDED COST DISCOUNT DETERMINED?

A. Total avoided or avoidable retail costs are divided by total revenue subject to resale for the incumbent LEC. This requires identifying services that are subject to resale under the FCC's rules. As noted previously, 47 U.S.C. § 251(c)(4)(A) requires an incumbent LEC to offer any carrier any telecommunications service that it offers on a retail basis to subscribers that are not telecommunications carriers for resale at wholesale rates. This requirement excludes services such as switched and special access, billing and collection and other miscellaneous service that are not sold to retail customers. The resulting percentage is applied to retail rates charged by the incumbent LEC to determine the wholesale price to be paid by the CLEC for resold services. I discuss how the resale of services using an avoided cost discount might impact NDTC in Section IV of my testimony.

IV. THE ESTIMATED FINANCIAL IMPACT OF RESALE ON NDTC

Q. WERE YOU ABLE TO ESTIMATE THE FINANCIAL IMPACT OF MIDCONTINENT'S ENTRY INTO NDTC'S MARKET IN THE DEVILS LAKE EXCHANGES THROUGH RESALE?

A. Yes. I estimated this impact by using NDTC's revenue data for these exchanges, as well as company-wide accounting data provided in response to discovery. My

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[2] See Implementation of the Local Competition Provisions of the Telecommunications Act of 1996, CC Docket No. 96-98, First Report and Order, 11 FCC Rcd 15499, 15509 ("Local Competition First Report and Order.")

analysis included several scenarios based on different levels of an assumed resale discount rate offered by NDTC, as well as different assumptions about Midcontinent's market penetration. These financial analyses are contained in Exhibits WRF-2, WRF-3 and WRF-4.

Q. WHAT ARE THE MAIN CONCLUSIONS FROM YOUR ANALYSES?

A. I reached two conclusions. First, the financial impact of such entry would be minimal even under optimistic (from the standpoint of my client) assumptions about Midcontinent's penetration into NDTC's Devils Lake market. This conclusion is driven by several factors:

- Only the Devils Lake area would be affected;
- A significant portion of NDTC's revenue in these exchanges, such as from switched and special access and billing & collection services, would not be subject to resale;
- NDTC would continue to receive revenue on resold services; and
- NDTC should be able to realize cost savings on resold services because the retail costs associated with resale-based customers would be borne by Midcontinent.

Second, it is possible that NDTC would experience a net gain, rather than a net loss, from Midcontinent's entry. A net gain would happen if the resale discount governing the resale arrangement between NDTC and Midcontinent is lower than the actual cost saving that NDTC would experience due to the reduction of its retail operations costs associated with resold services. I discuss the loss of revenue NDTC can expect to experience as well as the offsetting cost reductions that should occur in a resale environment below.

Q. HOW DID YOU DETERMINE WHAT PORTION OF NDTC'S REVENUE WOULD BE SUBJECT TO RESALE?

A. I estimated NDTC's revenue that would be subject to resale by subtracting wholesale revenue from NDTC's total operating revenue in the Devils Lake exchanges. NDTC provided Devils Lake-specific revenue information in its November 23, 2005 Response to Request for Disclosure of Information. Midcontinent made its bona fide request under 47 U.S.C. § 251(c), which specifies that the incumbent LECs have a duty "to offer for resale at wholesale rates any telecommunications service that the carrier provides at retail to subscribers who are not telecommunications carriers[.]"[3] Federal rules also specify that exchange access services "shall not be considered to be telecommunications services that incumbent LECs must make available for resale at wholesale rates to requesting telecommunications carriers."[4] In other words, Midcontinent's request concerns only NDTC's services offered to retail customers and only retail revenue constitute revenue that would potentially be subject to resale.

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3 See 47 U.S.C. § 251(c), subsection 4 (A).

4 See 47 CFR § 51.605. In addition, section §51.617 explains that the incumbent LEC should assess end user common line charges on the requesting telecommunications carriers.

Using federal rules on the 47 C.F.R. Part 32 accounts for telecommunications companies, I identified NDTC's revenue groups that are likely to contain non-retail revenue. As I discussed above, one obvious class of non-retail revenue are those classified as Network Access Revenue.[5] Other revenue accounts that likely contain non-retail revenue are Directory and Rent, Carrier Billing and Collection, and a portion of Other Miscellaneous Revenue[6] that relates to intercarrier compensation and services to non-retail customers. All three are collectively grouped under the Miscellaneous Services category on NDTC's financial statements.

Q. DID YOU MAKE ANY ASSUMPTIONS WHEN CALCULATING NDTC'S REVENUES SUBJECT TO RESALE?

A. Yes. In regard to Miscellaneous Services, NDTC's financial data for the Devils Lake exchanges lacked the necessary account-level detail (were not split between Directory, Rent and Other Miscellaneous Revenue[7]) required to identify revenue from specific services that would be subject to resale. Because I assumed that a portion of Other Miscellaneous Revenue might constitute retail revenue, I needed to separate Rent and Directory revenue from Other Miscellaneous Revenue. I apportioned Devils Lake Miscellaneous Service revenue between the three accounts using proportions observed in the company-wide financial data. In addition, I made

[5] Accounts of 508X series.

[6] Account 5260.

[7] Accounts 5230, 5240 and 5260 correspondingly.

an assumption about the portion of Other Miscellaneous Revenue that represents wholesale services.[8]

The following Table 1 compares NDTC's per line total revenue in the Devils Lake exchanges to per line revenue that would be subject to resale. As the table shows, revenue subject to resale constitutes approximately one third of NDTC's total per line revenue in this exchange, and the difference between the two numbers is driven largely by network access revenue.

TABLE 1

NDTC's Revenue in the Devils Lake Exchanges Subject to Resale (Per Line Per Year)

Revenue Account	2004 Revenue Per Line	2004 Revenue Per Line Subject to Resale
Local Network Access	$ 308.71	$ 308.71
Network Access Services	$ 529.09	$ -
Long Distance Network Services	$ 0.75	$ 0.75
Billing and Collection Revenue	$ 18.55	$ -
Miscellaneous Revenue	$ 32.14	$ 9.86
TOTAL DEVILS LAKE PER LINE PER YEAR	**$ 889.24**	**$ 319.32**
% of Total Revenues in Devils Lake		36%

Q. HOW DID YOU ESTIMATE THE POTENTIAL REVENUE LOSS FROM RESALE?

A. In essence, NDTC would lose revenue in the amount equal to the resale discount on each customer acquired by Midcontinent through resale from NDTC. Therefore, the

[8] This is a user-adjustable assumption that in the absence of any specific information I set at 50%.

potential revenue loss would depend on two factors –the resale discount governing the resale arrangement between NDTC and Midcontinent and Midcontinent's market penetration rate.

According to FCC rules, the resale discount should be based on the retail cost that is avoided or is reasonably avoidable through the resale process.[9] The rules state that state commissions may establish (absent of an avoided cost study) an interim wholesale discount in the range between 17 and 25%.[10] Another illustration of the typical level of resale discount is the discount currently offered by Qwest in North Dakota, which is 16.15%.[11] It is reasonable to assume that NDTC's resale discount would be somewhere close to the industry standards. As an illustration, I assumed that NDTC would adopt the Qwest's discount, and calculated the total annual revenue loss per resale-based customer. The following Table 2 depicts the results of this exercise:

9 See 47 CFR § 51.607.

10 See 47 CFR § 51.611.

11 Exhibit A to *Qwest's Statements of Generally Available Terms and Conditions for Interconnection, Unbundled Network Elements, Ancillary Services and Resale of Telecommunications Services in North Dakota*, Section 6.

TABLE 2

NDTC's Annual Per Line Revenue Loss On Resale-Based Customers at 16.15% Resale Discount

Revenue Account	2004 Revenue Per Line	2004 Revenue Per Line Subject to Resale	Potential Revenue Loss via Resale
Local Network Access	$ 308.71	$ 308.71	$ 49.86
Network Access Services	$ 529.09	$ -	$ -
Long Distance Network Services	$ 0.75	$ 0.75	$ 0.12
Billing and Collection Revenue	$ 18.55	$ -	$ -
Miscellaneous Revenue	$ 32.14	$ 9.86	$ 1.59
TOTAL DEVILS LAKE PER LINE PER YEAR	**$ 889.24**	**$ 319.32**	**$ 51.57**
% of Total Revenues in Devils Lake		36%	*5.8%*

As Table 2 demonstrates, if NDTC offers the same resale discount as Qwest's discount in North Dakota, NDTC would lose only 5.8% of its revenue per line on each customer that switches service to Midcontinent.

Q. DOES TABLE 2 ABOVE ACCOUNT FOR THE POTENTIAL MARKET PENETRATION OF MIDCONTINENT?

A. No, it does not. Table 2 depicts the revenue loss on an average customer who switches to Midcontinent. In other words, NDTC's actual loss of revenue in the Devils Lake exchanges would be significantly less than 5.9% (the last row in Table 2) because only a portion of total customers would switch to Midcontinent. Industry experience shows that the market penetration for resale-based CLECs is modest. For example, according to data reported by Qwest on its Form 477 filed with the FCC,[12] the portion of resale lines provided by Qwest in North Dakota constitutes only 1.6%

[12] Form 477 *Local Competition and Broadband Reporting.*

of its total end-user and wholesale lines.[13] On a nationwide basis for all reporting LECs this percentage is even smaller – 0.9%.[14]

Recognizing that Midcontinent may be able to achieve higher resale-based penetration than the industry average through its ability to offer bundled services,[15] I estimated the total revenue loss from resale for a number of scenarios where assumed penetration rates range from 2 to 30%.[16] Table 3 summarizes this analysis.

TABLE 3

Devils Lake Gross Revenue Loss Under Different Penetration Scenarios and 16.15% Resale Discount

Devils Lake Total Annual Operating Revenue (2004)	$ 5,040,579			
NDTC Total Annual Operating Revenue (2004)	$ 16,977,056			
PENETRATION RATE SCENARIOS	**2%**	**10%**	**20%**	**30%**
Lines Lost to Resale	113	567	1,134	1,701
Estimated Annual Gross Revenue Loss	**$ 5,846**	**$ 29,232**	**$ 58,465**	**$ 87,697**
Gross Revenue Loss as % of Devils Lake Total Revenue	**0.116%**	**0.580%**	**1.160%**	**1.740%**
Gross Revenue Loss as % of NDTC Total Revenue	**0.034%**	**0.172%**	**0.344%**	**0.517%**

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13 Based on the most recent FCC data, which is December 2004 available at http://www.fcc.gov/Bureaus/Common_Carrier/Reports/FCC-State_Link/IAD/RBOC_Local_Telephone_Dec_2004.xls.

14 Based on Table 4 of the FCC *Local Telephone Competition: Status as of December 31, 2004* released in July 2005 (ratio of columns "Resold Lines" and "Total Lines" for December 2004).

15 Note that business customers are not a likely target for video and voice bundles. According to NDTC's data, 37% of NDTC's lines in Devils Lake exchange are business lines (Exhibit 3A to May 31, 2005 Tariff Filing).

16 The upper boundary is in line with the publicly available cable companies' penetration rates in the telecommunications market cited in the recent FCC WC Docket No. 04-223 *In the Matter of Petition of Qwest Corporation for Forbearance Pursuant to 47 U.S.C. §160(c) in the Omaha Metropolitan Statistical Area*. Specifically, the FCC *Memorandum Opinion and Order* in this case released on December 2, 2005 reported that Cox's national cable modem subscribership penetration rate was 24.6% (¶30). Qwest's June 21, 2004 *Petition for Forbearance* that initiated this docket reported that Cox's residential telephony market share in the Omaha market was estimated to be 26.5% (footnote 28).

As the last row of Table 3 demonstrates, NDTC's revenue loss from Midcontinent's entry through resale is negligible compared to NDTC's total revenue. It is less than 1% even if we assume an optimistic 30% penetration rate for Midcontinent.

Q. HOW DOES THE LEVEL OF RESALE DISCOUNT AFFECT THE NDTC'S GROSS REVENUE LOSSES FROM RESALE?

A. As the level of the resale discount decreases, so does the NDTC's gross revenue loss from resale. This fact is illustrated in Table 4 below, from Exhibit WRF-3 that compares the scenario depicted in Table 3 above (16.15% resale discount) with another scenario where the resale discount is 10%:

TABLE 4

Devils Lake Gross Revenue Loss Under Different Penetration Scenarios and 16.15% Resale Discount

Devils Lake Total Annual Operating Revenue (2004)	$ 5,040,579			
NDTC Total Annual Operating Revenue (2004)	$ 16,977,056			
PENETRATION RATE SCENARIOS	2%	10%	20%	30%
Lines Lost to Resale	113	567	1,134	1,701
Estimated Annual Gross Revenue Loss:				
At a 10% Resale Discount	**$ 3,620**	**$ 18,101**	**$ 36,201**	**$ 54,302**
At a 16.15 % Resale Discount	**$ 5,846**	**$ 29,232**	**$ 58,465**	**$ 87,697**
Gross Revenue Loss as % of NDTC Total Revenue:				
At a 10% Resale Discount	**0.021%**	**0.107%**	**0.213%**	**0.320%**
At a 16.15 % Resale Discount	**0.034%**	**0.172%**	**0.344%**	**0.517%**

As evident from this table, the gross revenue loss is smaller for the scenario where the resale discount is smaller.

Q. YOU MENTIONED ABOVE THAT ACCORDING TO 47 CFR § 51.607, THE RESALE DISCOUNT SHOULD BE BASED ON THE AVOIDED COSTS.

WHAT ARE THE AVOIDED COSTS?

A. The avoided costs are costs that "reasonably can be avoided when an incumbent LEC provides a telecommunications service for resale at wholesale rates to a requesting carrier."[17] Some costs would be avoided because the retail costs associated with the resold service are borne not by the incumbent, but by a carrier that purchases the services from the incumbent through wholesale. Federal rules[18] list the expense accounts[19] that would likely contain avoided costs. These accounts include product management and sales,[20] product advertising,[21] services (call completion, number services and customer operations),[22] a portion of general support expenses,[23] corporate operations,[24] as well as uncollectible revenue.[25] In addition, the rules specify that plant specific expenses other than general support expenses, as well as plant non-specific expenses, [26] may also be included in the avoided cost calculation to the extent a party proves to the state commission that these costs can reasonably be avoided.

17 See 47 CFR § 51.609(b).

18 See 47 CFR § 51.609.

19 For companies that record information in summary accounts (Class B companies) the rules suggest that the entire summary accounts, rather than specific accounts may be used in the determination of avoided cost (47 CFR § 51.609(e)).

20 Account 6611.

21 Account 6613.

22 Account 6620.

23 Accounts 6121-6124.

24 Account 6720.

25 Account 5300.

26 Accounts 6112-6114 and 6211-6560.

As I discussed above, the federal pricing standard for the provision of telecommunications service for resale at wholesale rates is to set the resale rates equal to retail rates minus the avoided retail costs.[27] In other words, the resale discount on prices reflects the avoided retail costs.

Q. HOW DOES THE FEDERAL REQUIREMENT THAT THE RESALE DISCOUNT BE BASED ON AVOIDED COST AFFECT YOUR ANALYSIS?

A. The pricing standard ensures that the incumbent's loss of revenue is offset by the retail cost savings when providing a service for resale at wholesale rates. In terms of the aforementioned financial analysis, it means that NDTC's expense savings need to also be considered. In other words, we need to calculate the *net* impact of Midcontinent's resale entry as the difference between NDTC's lost revenue and cost savings.

Q. WOULD THE AVOIDED COSTS PERFECTLY OFFSET REVENUE LOST FROM RESALE?

A. It is unlikely that the offset would be perfect (resulting in a zero net impact) because the calculated resale discount captures the average potential cost savings, rather than savings associated with the specific customers who actually migrated to the resale-based competitor. Certain services, such as calling features, typically contain a larger mark up over costs than the average service. Application of the (average)

[27] See 47 CFR § 51.607.

avoided cost discount to these services would result in a greater loss of revenue than the corresponding savings of retail expenses.

To recognize this fact, I separated from NDTC's total revenue in Devils Lake a portion of revenue that corresponds to features[28] and assumed that no cost savings would be realized on this revenue in case of resale. I calculated cost savings on a dollar-for-dollar basis for the remaining services subject to resale by applying the avoided cost discount to the 2004 revenue in each account. Finally, I calculated the net per line impact ("net income") of Midcontinent's resale entry by subtracting NDTC's cost savings from lost revenue. Table 5 below summarizes this analysis from Exhibit WRF-2.

TABLE 5

NDTC's Annual Per Line Net Income Loss On Resale-Based Customers at 16.15% Resale Discount

Revenue Account	2004 Revenue Per Line	2004 Revenue Per Line Subject to Resale	Potential Revenue Loss via Resale	Potential Avoided Cost	Net Loss via Resale
Local Network Access	$ 308.71	$ 308.71	$ 49.86	$ 45.72	$ 4.13
Network Access Services	$ 529.09	$ -	$ -	$ -	$ -
Long Distance Network Services	$ 0.75	$ 0.75	$ 0.12	$ 0.12	$ -
Billing and Collection Revenue	$ 18.55	$ -	$ -	$ -	$ -
Miscellaneous Revenue	$ 32.14	$ 9.86	$ 1.59	$ 1.59	$ -
TOTAL DEVILS LAKE PER LINE PER YEAR	**$ 889.24**	**$ 319.32**	**$ 51.57**	**$ 47.44**	**$ 4.13**

As the last column in Table 5 demonstrates, NDTC's net income loss would be only $4.13 on each customer who migrates to Midcontinent. Table 6 from Exhibit WRF-2

28 Features revenue is available at the company-wide level only. This data was provided in Exhibit 8A to NDTC's May 31, 2005 Tariff Filing. I used the company-wide percentage of feature revenue in total local access revenue to estimate NDTC's features revenue in the Devils Lake exchanges.

below expands this analysis to estimate the NDTC's total net income loss under different market penetration rates:

TABLE 6

Devils Lake Net Income Loss Under Different Penetration Scenarios and 16.15% Resale Discount

NDTC Net Operating Income (2004)	$ 2,736,472			
PENETRATION RATE SCENARIOS	**2%**	**10%**	**20%**	**30%**
Lines Lost to Resale	113	567	1,134	1,701
Estimated Annual Net Income Loss	**$ 469**	**$ 2,344**	**$ 4,688**	**$ 7,031**
Net Income Loss as % of NDTC Net Operating Income	**0.017%**	**0.086%**	**0.171%**	**0.257%**

Table 6 shows that the total annual net income loss is minimal in both absolute and percentage terms compared to NDTC's overall net income under all penetration scenarios. In fact, the relative loss of net income in the last column in Table 6 (0.257% of total NDTC net income) is lower than the relative loss of gross revenue in the last column of Table 3 (0.517% of total NDTC operating revenue).[29]

Q. IS IT POSSIBLE THAT THE NET IMPACT OF MIDCONTINENT'S RESALE-BASED ENTRY INTO NDTC'S DEVILS LAKE MARKET WOULD RESULT IN A NET GAIN (RATHER THAN NET LOSS) TO NDTC?

A. Yes. NDTC may experience a net gain, rather than a net loss in income if the resale discount is set at a level that is lower than the avoided retail costs. Because of the asymmetric nature of information necessary to determine the avoided cost

[29] This table does not report the net income loss relative to Devils Lake net income because the latter information is not available.

(information that concerns NDTC's own operations and is available to NDTC but not Midco), it is possible that a resale discount rate negotiated between parties in a settlement agreement or the discount approved by a commission based upon an interim cost estimate or another carrier's avoided cost discount could be lower than the retail costs actually avoided by NDTC. As an illustration I estimated a scenario where the resale discount is set at 14%, which is only marginally lower than the actual avoided costs (the 16.15% as assumed in the above analysis) experienced by the incumbent LEC. It turns out that even such a small discrepancy between the resale discount and avoided cost may create a net gain for NDTC:

TABLE 7[30]

NDTC's Annual Per Line Net Income Loss (Gain) On Resale-Based Customers:
Resale Discount (at 14%) is Lower than Avoided Costs (at 16.15%)

Revenue	2004 Revenue Per Line	2004 Revenue Per Line Subject to Resale	Potential Revenue Loss via Resale	Potential Avoided Cost	Net Loss (Gain) via Resale
Local Network Access	$ 308.71	$ 308.71	$ 43.22	$ 45.72	$ (2.50)
Network Access Services	$ 529.09	$ -	$ -	$ -	$ -
Long Distance Network Services	$ 0.75	$ 0.75	$ 0.10	$ 0.12	$ (0.02)
Billing and Collection Revenue	$ 18.55	$ -	$ -	$ -	$ -
Miscellaneous Revenue	$ 32.14	$ 9.86	$ 1.38	$ 1.59	$ (0.21)
TOTAL DEVIL'S LAKE PER LINE PER YEAR	**$ 889.24**	**$ 319.32**	**$ 44.71**	**$ 47.44**	**$ (2.73)**

In this table the net loss is negative, indicating a net gain on each customer who migrates from NDTC to Midcontinent's resale-based service. Even if a NDTC-specific discount is used, the differential could also occur if the proportion of avoided costs to revenue subject to resale changes in future years while the effective discount rate remains static.

30 Based on Exhibit WRF-4.

Q. BASED UPON THE VARIOUS ANALYSES YOU HAVE PERFORMED, WHAT IS YOUR CONCLUSION REGARDING THE FINANCIAL IMPACT OF RESALE ON NDTC?

A. The financial impact of resale on NDTC's Devils Lake operation will be *de minimus* and in no way will be unduly economically burdensome. I therefore recommend that the Commission approve Midcontinent's request to terminate NDTC's exemption under 47 U.S.C. § 251(f).

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes, it does.