

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.)	

TESTIMONY
OF
DOUGLAS DUNCAN MEREDITH
ON BEHALF OF
NORTH DAKOTA TELEPHONE COMPANY

July 10, 2006

1 **Q: PLEASE STATE YOUR FULL NAME, PLACE OF EMPLOYMENT AND**
2 **BUSINESS ADDRESS.**

3 A: My full name is Douglas Duncan Meredith. I am employed by John Staurulakis,
4 Inc. (JSI). JSI is a telecommunications consulting firm headquartered in
5 Greenbelt, Maryland. My office is located at 547 Oakview Lane, Bountiful, Utah
6 84010.

7
8 **Q: ARE YOU THE SAME MR. MEREDITH THAT TESTIFIED**
9 **PREVIOUSLY IN THIS PROCEEDING?**

10 A: Yes. I previously testified in this matter on January 23, 2006, when the North
11 Dakota Public Service Commission (the “Commission”) examined the rural
12 exemption issue in this matter.

13
14 **Q: ON WHOSE BEHALF ARE YOU PRESENTING THIS PRE-FILED**
15 **DIRECT TESTIMONY?**

16 A: I am testifying on behalf of North Dakota Telephone Company (“NDTC”), a rural
17 telephone company operating in North Dakota.

18
19 **Q: WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

20 A: The purpose of my testimony is to respond to the request by the Commission that
21 information be provided to assist the Commission in determining an appropriate
22 interim discount rate for NDTC to provide wholesale resold service in the Devils

1 Lake, North Dakota, exchange to Midcontinent Communications
2 (“Midcontinent”) pursuant to 47 U.S.C. Section 251(c) of the Act.

3

4 **Q: WHAT IS YOUR UNDERSTANDING OF WHAT NEEDS TO BE DONE**
5 **IN THIS PROCEEDING?**

6 A: My understanding is that this hearing is being conducted to determine an
7 appropriate interim discount rate for retail services subject to being sold at a
8 wholesale discount under Section 251(c)(4) of the Act. This rate would be used
9 for an interim period, subject to true-up, until a final discount rate is approved by
10 the Commission. The Federal Communications Commission (“FCC”) has
11 provided guidance in the form of Federal Regulations which are contained at 47
12 C.F.R. Section 51.607, *et seq.*, and its discussion of these regulations in Section 8
13 of its Local Competition Order, FCC 96-325.

14

15 **Q: HAVE YOU COMPUTED AN APPROPRIATE INTERIM DISCOUNT**
16 **RATE IN ACCORDANCE WITH THESE FCC GUIDELINES?**

17 A: Yes.

18

19 **Q: IS YOUR STUDY ATTACHED TO THIS TESTIMONY AS EXHIBIT**
20 **DDM-01?**

21 A: Yes. Exhibit DDM-01 contains 11 schedules. It provides a summary of the
22 avoidable cost rate and thereafter provides cost details for direct, indirect costs

1 and cost onsets, including specific evidence rebutting certain FCC presumptions
2 that are not appropriate for the NDTC contract with Midcontinent.

3
4 Exhibit DDM-01 is suitable for an interim wholesale rate. I am currently
5 evaluating certain other FCC presumptions and will be prepared to rebut these
6 other presumptions at a later hearing establishing a final wholesale discount for
7 NDTC.

8

9 **Q: BASED ON EXHIBIT DDM-01 WHAT INTERIM WHOLESALE**
10 **DISCOUNT RATE DO YOU RECOMMEND THE COMMISSION ADOPT**
11 **IN THIS PROCEEDING?**

12 A: I recommend the Commission adopt an interim wholesale discount of 9.36
13 percent, subject to true-up to a final discount rate approved by the Commission.
14 This rate is based on NDTC specific costs and the methodology establishing this
15 rate is consistent with FCC regulations and policies pertaining to the
16 establishment of this discount.

17

18 **Q: HOW WOULD YOU PROPOSE THAT THE COMMISSION “TRUE UP”**
19 **ANY DIFFERENCE IN THE INTERIM WHOLESALE DISCOUNT RATE**
20 **VERSUS THE FINAL WHOLESALE DISCOUNT RATE?**

21 A: From my perspective, it could be accomplished using a simple mathematical
22 calculation and payment method. Specifically, one would only need to take the
23 total amount of NDTC wholesale revenues (revenues for services subject to the

1 wholesale discount) received from Midcontinent during the interim period and
2 apply the following equation to calculate the true up payment:

3

4 *True up revenues due NDTC = [Wholesale Revenues Paid/(1-interim*
5 *discount)*(1-final discount)] – Wholesale Revenues Paid.*

6

7 This equation calculates the difference between what is due using the final
8 discount and subtracts the amount that has been paid using the interim discount.

9 If the final wholesale discount is less than 9.36 percent, this equation yields a

10 positive number representing the true up amount Midcontinent owes NDTC. In

11 the unlikely event the final wholesale discount were greater than 9.36 percent this

12 equation will yield a negative number representing the true up amount NDTC

13 owes Midcontinent. Any difference in the amount of money either due NDTC or

14 Midcontinent would be paid to the proper party within 30 days of the

15 establishment of the final wholesale discount rate by the Commission.

16

17 **Q: DOES THIS CONCLUDE YOUR DIRECT TESTIMONY FOR THIS**
18 **HEARING?**

19 **A: Yes**

Exhibit DDM-01

North Dakota Telephone Company

Schedule 1

Avoidable Cost Discount

For Year Ended 12/31/2005

Date: 7/5/2006

#	Item	Source	Amount
1	Direct Avoidable Costs	Schedule 2, Ln 32	\$1,014,734
2	Indirect Avoidable Costs	Schedule 3, Ln 19	\$229,003
3	Total Avoidable Costs	Ln 1 + Ln 2	\$1,243,737
4	Total Expenses	Schedule 6, Ln 65	\$12,048,268
5	Avoidable Cost Percentage	Ln 3 / Ln 4	10.32%
6	Cost Onsets	Schedule 5, Ln 13	\$115,352
7	Total Expenses	Ln 4	\$12,048,268
8	Onset Cost Percentage	Ln 6 / Ln 7	0.96%
9	Net Avoidable Cost Percentage	Ln 5 - Ln 8	9.36%

North Dakota Telephone Company

Schedule 2

Direct Avoided Costs

For Year Ended 12/31/2005

Date: 7/5/2006

#	Item	Account	Per Study 12/31/05	Percent Avoidable ⁽²⁾	Avoided Costs
1	Product Management	6611	\$162,069	90%	\$145,862
2	Sales	6612	\$0	90%	\$0
3	Product Advertising	6613	\$0	90%	\$0
4	Operator - Information	6621	\$0	0%	\$0
5	Operator - ONI	6621	\$0	0%	\$0
6	Operator - Other	6621	\$0	0%	\$0
7	Outside Operator - Information	6621	\$0	0%	\$0
8	Outside Operator - ONI	6621	\$0	0%	\$0
9	Outside Operator - Other	6621	\$0	0%	\$0
10	White Page Directory	6622	\$134,769	0%	\$0
11	Foreign Directories	6622	\$0	0%	\$0
12	Local Order Processing ⁽¹⁾	6623	\$339,859	76%	\$249,620
13	PIC Change Charges	6623	\$68,811	76%	\$52,296
14	Payment & Collection	6623	\$188,246	90%	\$169,421
15	Local Bill Inquiry	6623	\$238,871	100%	\$238,871
16	Toll Bill Inquiry	6623	\$0	90%	\$0
17	Special Service Bill Inquiry	6623	\$0	90%	\$0
18	SLC Bill Inquiry	6623	\$0	90%	\$0
19	IXC Switched Order Processing	6623	\$21,056	0%	\$0
20	IXC Special Order Processing	6623	\$0	0%	\$0
21	IXC B&C Order Processing	6623	\$0	0%	\$0
22	IXC Payment & Collection	6623	\$0	0%	\$0
23	IXC Switched Bill Inquiry	6623	\$0	0%	\$0
24	IXC Special Bill Inquiry	6623	\$0	0%	\$0
25	IXC B&C Bill Inquiry	6623	\$0	0%	\$0
26	Coin Collection & Counting	6623	\$0	90%	\$0
27	Rating	6623	\$42,423	90%	\$38,181
28	Message Processing	6623	\$63,634	0%	\$0
29	Other Billing & Collection	6623	\$133,870	90%	\$120,483
30	CABs Billing Expense	6623	\$283,272	0%	\$0
31	Cost of Avoided Investment				\$0
32	Total Direct Avoided Costs		\$1,676,880		\$1,014,734

Notes:

(1)

Service Orders from resellers will come from Midcontinent in manual format. NDTC will continue to process orders. (See Schedule 2A). Direct assignments are not avoidable (See Sch 9).

(2) North Dakota Telephone Company rebuts certain percentages (represented in italics) presumed avoidable by FCC rule in Local Competition Order at 928. (See Schedule 4).

North Dakota Telephone Company
Account 6623 - Local Order Processing Rebuttal

Schedule 2A

For Year Ended 12/31/2005

Date: 7/5/2006

<i>Current Customer Service Operations Workforce</i>	<i>Number</i>	<i>Loaded Labor Rate</i>
Supervisor	1	\$ 49.66
CSR (Business Office)	10	\$ 30.75
CSR (Marketing)	2	\$ 28.41

<i>Annual Work Hours 2005 Actual Activity)</i>	<i>Hours</i>
Supervisor	1,836
CSR (Business Office)	1,763

<i>Retained 6623 Local Order Processing Activities</i>	<i>2005 Contacts</i>	<i>Est. Time per Contact (Min.)</i>	<i>Est. Retained Activity Percentage</i>	<i>Est. Annual Wholesale Time (Min)</i>
Connects	2,301	12.5	66%	18,983
Reconnects	2,495	12.5	66%	20,584
Disconnects	4,546	5	66%	15,002
General	21,874	10	66%	144,368
Move	170	9	66%	1,010
Number Change	202	5	0%	-
Account Change	24	5	0%	-
Estimated Retained Activity (Minutes)				199,947
Estimated Retained Activity (Hours)				3,332

<i>Retained 6623 - Local Order Processing Expenses</i>	<i>Number</i>	<i>Amount</i>
Supervisor Workforce	1	\$ 91,151
CSR workforce	2	\$ 108,443
Total		\$ 199,594
Percentage of Total Labor in Account 6623		24%
Avoidable Percentage for Local Order Processing		76%

North Dakota Telephone Company

Schedule 3

Indirect Avoided Costs

For Year Ended 12/31/2005

Date: 7/5/2006

#	Item	Source	Amount
1	Direct Avoided Costs	Schedule 2, Ln 32	\$1,014,734
2	Total Expenses	Schedule 6, Ln 65	\$12,048,268
3	Percent Avoided of Total		8.42%

#	Item	Account	Per Study Amount	Percent Avoidable	Avoided Costs
4	Executive	6711	\$552,805	8.42%	\$46,559
5	Planning	6712	\$0	8.42%	\$0
6	Accounting & Finance	6721	\$480,271	8.42%	\$40,450
7	External Affairs	6722	\$268,820	8.42%	\$22,641
8	Human Resources	6723	\$175,310	8.42%	\$14,765
9	Information Management	6724	\$68,671	8.42%	\$5,784
10	Legal	6725	\$43,588	8.42%	\$3,671
11	Procurement	6726	\$0	8.42%	\$0
12	Research & Development	6727	\$0	8.42%	\$0
13	Other General & Admin	6728	\$322,082	8.42%	\$27,127
14	Repair of buildings	6121	\$264,603	8.42%	\$22,285
15	Repair of Furniture	6122	\$1,730	8.42%	\$146
16	Repair of Office Equipment	6123	\$166,254	8.42%	\$14,002
17	Repair of Computers	6124	\$374,875	8.42%	\$31,573
18	Uncollectibles	5301	\$0	8.42%	\$0
19	Indirect Avoidable Costs		\$2,719,009		\$229,003

Notes:

- (1) North Dakota Telephone Company rebuts certain percentages (represented in italics) presumed avoidable by FCC rule in Local Competition Order at 928. (See Schedule 4). More investigation is currently being conducted for these accounts.

North Dakota Telephone Company
Explanation of Avoidable Percentage Rebuttals
For Year Ended 12/31/2005
Da 7/5/2006

Schedule 4

#	Account - Item	FCC Default Avoidable Percentage	NDTC Avoidable Percentage	Description
1	6622 - White Page Directory Expense	90%	0%	This expense account will not be avoidable because according to the resale agreement NDTC will continue to provide white page directories to resold customers.
2	6623 - Local Order Processing	90%	76%	This expense account will not be avoidable at the FCC 90 percent level. Local order processing will continue to be provided by NDTC through a manual ordering process. (See Schedule 2A)
3	6623 - PIC Changes	90%	76%	This function follows local order processing. The same avoidable cost percentage is used.
4	6623 - Local Bill Inquiry	90%	100%	NDTC will avoid all retail local bill inquiry. Wholesale bill inquiry is listed separately as a cost onset.
4	6623 - IXC functions	90%	0%	NDTC will continue to provide IXC interface functionality. Expenses related to IXC activity will not be avoidable.
5	6623 - Message Processing and CABs	90%	0%	NDTC will continue to provide IXC interface functionality. Expenses related to these IXC activities will not be avoidable.

North Dakota Telephone Company

Schedule 5

Cost Onsets

For Year Ended 12/31/2005

Date: 7/5/2006

#	<i>Recurring Onsets</i>	<i>Amount</i>
1	Billing Wholesalers	\$90
2	Wholesaler Bill Inquiry	\$29,859
3	Customer Inquiry Referrals	\$19,906
4	Wholesaler Payment & Collection	\$11
5	Audit of Cross-Class Usage	\$3,500
6	Onset Indirect	\$4,495
7	Total Recurring Onsets	\$57,861

#	<i>Non-Recurring Onsets</i>	<i>Amount</i>
8	Cost of Study	\$5,000
9	Severance Pay	\$84,982
10	Software Billing Development	\$5,000
11	Cost of Tariff and Wholesale Legal	\$20,000
12	Total Non-recurring Onsets	\$114,982
13	Amortization Over 2 Years	\$57,491
14	Total Onsets	\$115,352

Notes: [reserved]

North Dakota Telephone Company

Schedule 6

Expense Summary by Account

For Year Ended 12/31/2005

Date: 7/5/2006

#	Item	Account	Per Ledger 12/31/05	Part 64 Adjustments	Other Adjustments	Per Study 12/31/05
1	Network Support Expense	6110	\$0	\$0	\$0	\$0
2	Repair of Buildings	6121	\$274,712	(\$10,109)	\$0	\$264,603
3	Repair of Furniture	6122	\$1,730	\$0	\$0	\$1,730
4	Repair of Office Equipment	6123	\$166,254	\$0	\$0	\$166,254
5	Repair of Computers	6124	\$374,875	\$0	\$0	\$374,875
6	Central Office Switching	6210	\$1,111,017	(\$149,210)	\$0	\$961,807
7	Operator Expense	6220	\$0	\$0	\$0	\$0
8	Central Office Transmission	6230	\$439,843	(\$4,486)	\$0	\$435,357
9	Info Orig & Term	6310	\$0	\$0	\$0	\$0
10	Cable & Wire	6410	\$983,942	(\$26,173)	\$0	\$957,769
11	Total Plant Specific		\$3,352,373	(\$189,978)	\$0	\$3,162,395
12	Other Prop & Equip	6510	\$44	\$0	\$0	\$44
13	Network Operations	6530	\$1,105,548	\$0	\$0	\$1,105,548
14	Access Expense	6540	\$313,872	\$0	\$0	\$313,872
15	Depreciation	6561	\$3,860,200	(\$54,815)	\$0	\$3,805,385
16	Amortization	6563	\$0	\$0	\$0	\$0
17	Total Plant Non-Specific		\$5,279,664	(\$54,815)	\$0	\$5,224,849
18	Product Management	6611	\$162,069	\$0	\$0	\$162,069
19	Sales	6612	\$0	\$0	\$0	\$0
20	Product Advertising	6613	\$0	\$0	\$0	\$0
21	Operator - Information	6621	\$0	\$0	\$0	\$0
22	Operator - ONI	6621	\$0	\$0	\$0	\$0
23	Operator - Other	6621	\$0	\$0	\$0	\$0
24	Outside Operator - Information	6621	\$0	\$0	\$0	\$0
25	Outside Operator - ONI	6621	\$0	\$0	\$0	\$0
26	Outside Operator - Other	6621	\$0	\$0	\$0	\$0
27	White / Yellow Page Directory	6622	\$134,769	\$0	\$0	\$134,769
28	Foreign Directories	6622	\$0	\$0	\$0	\$0
29	Order Processing	6623	\$339,859			\$339,859
30	PIC Change Charges	6623	\$68,811			\$68,811
31	Payment & Collection	6623	\$188,246			\$188,246
32	Local Bill Inquiry	6623	\$238,871			\$238,871
33	Toll Bill Inquiry	6623	\$0			\$0
34	Special Service Bill Inquiry	6623	\$0			\$0
35	SLC Bill Inquiry	6623	\$0			\$0
36	IXC Switched Order Processing	6623	\$21,056			\$21,056
37	IXC Special Order Processing	6623	\$0			\$0
38	IXC B&C Order Processing	6623	\$0			\$0
39	IXC Payment & Collection	6623	\$0			\$0
40	IXC Switched Bill Inquiry	6623	\$0			\$0
41	IXC Special Bill Inquiry	6623	\$0			\$0
42	IXC B&C Bill Inquiry	6623	\$0			\$0
43	Coin Collection & Counting	6623	\$0			\$0
44	Other Commercial	6623	\$95,616	\$0	(\$95,616)	\$0
45	Rating	6623	\$42,423			\$42,423
46	Message Processing	6623	\$63,634			\$63,634
47	Other Billing & Collection	6623	\$133,870			\$133,870

North Dakota Telephone Company
Expense Summary by Account

Schedule 6

For Year Ended 12/31/2005

Date: 7/5/2006

#	Item	Account	Per Ledger 12/31/05	Part 64 Adjustments	Other Adjustments	Per Study 12/31/05
48	CABs Billing Expense	6623	\$283,272			\$283,272
49	Other Revenue Accounting	6623	\$0	\$0	\$0	\$0
50	Total Customer Services		\$1,772,496	\$0	(\$95,616)	\$1,676,880
51	Executive	6711	\$552,805	\$0	\$0	\$552,805
52	Planning	6712	\$0	\$0	\$0	\$0
53	Accounting & Finance	6721	\$480,271	\$0	\$0	\$480,271
54	External Affairs	6722	\$268,820	\$0	\$0	\$268,820
55	Human Resources	6723	\$175,310	\$0	\$0	\$175,310
56	Information Management	6724	\$68,671	\$0	\$0	\$68,671
57	Legal	6725	\$43,588	\$0	\$0	\$43,588
58	Procurement	6726	\$0	\$0	\$0	\$0
59	Research & Development	6727	\$0	\$0	\$0	\$0
60	Other General & Admin	6728	\$322,082	\$0	\$0	\$322,082
61	Total Corporate		\$1,911,547	\$0	\$0	\$1,911,547
62	Ad Valorem Taxes	7240	\$6,102	\$0	\$0	\$6,102
63	Special Charges	7370	\$66,495	\$0	\$0	\$66,495
64	Uncollectibles	5301	\$0	\$0	\$0	\$0
65	Total Expenses		\$12,388,677	(\$244,793)	(\$95,616)	\$12,048,268

North Dakota Telephone Company

Schedule 7

Severance Calculation

For Year Ended 12/31/2005

Date: 7/5/2006

#	Item	Amount
1	Avoided Expenses	\$1,014,734
2	Avoided Wages	\$862,524
3	Average Commercial Wage Rate	\$32.13
4	Avoided Labor Hours	17,633
5	Annual Pay for Lost Jobs	\$566,548
6	Severance Costs (8 weeks wages)	\$84,982
7	Amortized Over 2 Years	\$42,491

Notes:

(1) [reserved]

North Dakota Telephone Company

Schedule 8

Cost of Avoided Investments

For Year Ended 12/31/2005

Date: 7/5/2006

[Reserved]

North Dakota Telephone Company
Account 6623: Time Study Summary

Schedule 9

For Year Ended 12/31/2005

Date: 7/5/2006

#	Item	Account	Time Study Percent	Direct Allocation	Allocate Labor Per Study	Total
1	Commercial Per Ledger					\$919,992
2	Less Deregulated Expense					\$0
3	Other Adjustments (Removals and Direct Assignments)					(\$95,616)
4	Commercial Labor (Allocated Per Study)					\$824,376
5	Order Processing	6623	39.84%	\$11,411	\$328,448	\$339,859
6	PIC Changes	6623	8.35%		\$68,811	\$68,811
7	Payment & Collection	6623	22.84%		\$188,246	\$188,246
8	Local Bill Inquiry	6623	28.98%		\$238,871	\$238,871
9	Toll Bill Inquiry	6623	0.00%		\$0	\$0
10	Special Service Bill Inquiry	6623	0.00%		\$0	\$0
11	SLC Bill Inquiry	6623	0.00%		\$0	\$0
12	IXC Switched Order Processing	6623	0.00%	\$21,056	\$0	\$21,056
13	IXC Special Order Processing	6623	0.00%		\$0	\$0
14	IXC B&C Order Processing	6623	0.00%		\$0	\$0
15	IXC Payment & Collection	6623	0.00%		\$0	\$0
16	IXC Switched Bill Inquiry	6623	0.00%		\$0	\$0
17	IXC Special Bill Inquiry	6623	0.00%		\$0	\$0
18	IXC B&C Bill Inquiry	6623	0.00%		\$0	\$0
19	Coin Collection & Counting	6623	0.00%		\$0	\$0
20	Total Commercial per Study		100.0%			\$856,843

North Dakota Telephone Company
Account 6627: Time Study Summary

Schedule 10

For Year Ended 12/31/2005

Date: 7/5/2006

#	Item	Account	Time Study Percent	Allocate Per Study
1	Revenue Accounting Per Ledger			\$523,199
2	Less Deregulated Expense			\$0
3	Other Adjustments			\$0
4	Revenue Accounting Per Study			\$523,199
5	Rating	6627	8.1%	\$42,423
6	Message Processing	6627	12.2%	\$63,634
7	Other Billing & Collection	6627	25.6%	\$133,870
8	CABs Billing Expense	6627	54.1%	\$283,272
9	Total Revenue Accounting per Study		100.0%	\$523,199