

STATE OF NORTH DAKOTA
PUBLIC SERVICE COMMISSION

MIDCONTINENT COMMUNICATIONS,)
A SOUTH DAKOTA PARTNERSHIP,)
COMPLAINANT)

VS.)

MISSOURI VALLEY COMMUNICATIONS)
INC.,)
RESPONDENT)

Case No. PU-08-61
OAH No. 20080079

MISSOURI VALLEY COMMUNICATIONS)
INC.)

APPLICATION FOR SUSPENSION OR)
MODIFICATION PURSUANT TO)
47 U.S.C. § 251(F)(2))

Case No. PU-08-176
OAH No. 20080079

DIRECT TESTIMONY
OF
SCOTT C. LUNDQUIST
ON BEHALF OF MIDCONTINENT COMMUNICATIONS

July 2, 2008

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1 **I. WITNESS INTRODUCTION**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A. My name is Scott C. Lundquist. My business address is QSI Consulting, 53
4 Cottage St., Natick, Massachusetts 01760.

5 **Q. WHAT IS QSI CONSULTING, INC. AND WHAT IS YOUR POSITION**
6 **WITH THE FIRM?**

7 A. QSI Consulting, Inc. ("QSI") is a consulting firm specializing in traditional and
8 non-traditional utility industries, econometric analysis and computer-aided
9 modeling. QSI provides consulting services for regulated utilities, competitive
10 providers, government agencies (including public utility commissions, attorneys
11 general and consumer councils) and industry organizations. I serve as a
12 Consultant to QSI.

13 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND**
14 **WORK EXPERIENCE.**

15 A. I have prepared a summary of my professional experience and education, which is
16 provided in Exhibit SCL-1 attached to this testimony

17 **Q. HAVE YOU PREVIOUSLY SERVED AS AN EXPERT WITNESS IN**
18 **TELECOMMUNICATIONS REGULATORY PROCEEDINGS?**

19 A. Yes, I have offered testimony on telecommunications regulation and policy
20 matters on over thirty occasions over the past fifteen years, on behalf of state
21 regulatory commission staff, competitive service providers, and consumer
22 advocate agencies. Many of these cases have involved issues relating to
23 interconnection between incumbent local exchange carriers ("ILECs") and

1 competitive local exchange carriers (“CLECs”) pursuant to Section 251(c) of the
2 Telecommunications Act of 1996.

3 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE NORTH**
4 **DAKOTA PUBLIC SERVICE COMMISSION (“COMMISSION”)?**

5 A. No, this is my first appearance before the Commission.

6 **Q. ON WHOSE BEHALF ARE YOU FILING THIS DIRECT TESTIMONY?**

7 A. I am filing this testimony on behalf of the petitioner, Midcontinent
8 Communications, LLC (“Midcontinent”).

9

10 **II. SUMMARY OF TESTIMONY**

11 **Q. WHAT ISSUES WILL YOU ADDRESS IN THIS PROCEEDING?**

12 A. I will address MVC’s evidence in support of its claim that interconnection with
13 Midcontinent on a facilities basis, as sought in Midcontinent’s February 8, 2008
14 *bona fide* request, would create an undue economic burden on MVC.

15 **Q. ARE THERE OTHER WITNESSES TESTIFYING ON BEHALF OF**
16 **MIDCONTINENT IN THIS PROCEEDING?**

17 A. Yes. Mr. W. Thomas Simmons of Midcontinent is also filing testimony. Mr.
18 Simmons is the Senior Vice President of Public Policy for Midcontinent. He will
19 provide background on Midcontinent and its operations and also describe what
20 the company is seeking through this arbitration. Mr. Timothy Gates, Senior Vice
21 President of QSI, will also file testimony in this case. His testimony will focus on
22 the rural exemption issue, but also will address number portability and the timing
23 of implementation of the interconnection.

1 **Q. PLEASE SUMMARIZE YOUR TESTIMONY.**

2 A. My testimony today provides an assessment of the economic impact analysis
3 supplied in Exhibit 1 to Mr. Hanson’s June 26, 2008 testimony (hereafter referred
4 to as MVC’s “Impact Analysis”), and offers an alternative quantification of that
5 economic impact, as determined by making several necessary adjustments to
6 correct MVC’s analysis. MVC’s Impact Analysis purports to show that if
7 Midcontinent is able to obtain a facilities-based interconnection agreement with
8 MVC that allows Midcontinent to provide facilities-based local exchange and
9 access services in the Williston exchange, then MVC’s net operating margin (i.e.,
10 total revenues minus operating expenses) would fall by amounts ranging from
11 \$628,600 in year 2009, to \$1.19 million in year 2012. MVC claims that its total
12 net revenue loss for the period 2009-2012 would be \$3.58 million.

13
14 My testimony demonstrates that MVC’s analysis is critically flawed in several
15 respects, which in combination cause its results to greatly exaggerate the potential
16 economic impacts from Midcontinent’s entry into the Williston exchange as a
17 facilities-based service provider. I explain and implement four adjustments to
18 correct MVC’s analysis, in the areas of:

- 19 • Migration Timing
- 20 • Annual Line Growth Factors
- 21 • Special Access Revenues; and
- 22 • USF Revenues.

1 I then show that when MVC's Impact Analysis is corrected by applying all four of
2 these adjustments together, MVC's claimed potential revenue losses from
3 entering into facilities-based interconnection with Midcontinent are reduced by
4 75%, to a cumulative net revenue loss over the 2009-2012 timeframe of \$888,577.

5 **Q. CAN YOU SUMMARIZE YOUR RECOMMENDATION TO THE**
6 **COMMISSION?**

7 A. I recommend that the Commission reject MVC's Impact Analysis as supplied in
8 Mr. Hanson's Exhibit 1, and disregard the economic impact claims that MVC has
9 made based on that analysis. In their place, I recommend that the Commission
10 adopt the corrected Impact Analysis that I present, including the revised economic
11 impact results that it generates.

12
13 **III. IMPACT OF INTERCONNECTION ON MVC**

14 **Q. HAVE YOU REVIEWED THE ECONOMIC IMPACT ANALYSIS THAT**
15 **MVC HAS PREPARED IN SUPPORT OF ITS CLAIM THAT ENTERING**
16 **INTO A FACILITIES-BASED INTERCONNECTION AGREEMENT**
17 **WITH MIDCONTINENT WOULD RESULT IN AN "UNDULY**
18 **ECONOMICALLY BURDENSOME" IMPACT?**

19 A. Yes, I have. MVC originally supplied an Excel® spreadsheet model named
20 "Midco Entry Impact Analysis.xls," which I have reviewed. MVC also presented
21 the "Summary" tab of that model in hardcopy format as Deposition Exhibit No. 3
22 in connection with the April 25, 2008 deposition of Messrs. Hanson and Del
23 Fiacco by Midcontinent. MVC has subsequently developed a revised version of

1 this model, the spreadsheets of which were supplied in Exhibit 1 to Mr. Hanson's
2 testimony. MVC's revised model differs from the original version principally by
3 its disaggregating business from residential resale service in MVC's line growth
4 assumptions and revenue calculations.¹ I shall henceforth refer to the revised
5 version of the model as presented in Mr. Hanson's Exhibit 1 as MVC's "Impact
6 Analysis."

7 **Q. CAN YOU PROVIDE A BRIEF OVERVIEW OF THE DESIGN OF MVC'S**
8 **IMPACT ANALYSIS?**

9 A. Yes. MVC's Impact Analysis focuses on the four years 2009-2012. For each
10 year, it calculates MVC's total revenues, total operating expenses, and net
11 operating margins, under two scenarios.² It then purports to determine the
12 economic impact of Midcontinent's entry into the Williston exchange on a
13 facilities-based service basis, in terms of the difference in MVC's net operating
14 margins between the two scenarios.

15
16 The first scenario, labeled "Resale Model," is a "business as usual" baseline in
17 which MVC takes into account the revenues generated by its retail local exchange
18 service customers, network access services, and the access lines it supplies to
19 Midcontinent on a resale basis. Starting with a "Budgeted 2008" value, MVC
20 calculates year-by-year Local Service revenue, including Resale revenue, under
21 an assumption that those revenues will decline 0.5% per year.³ It similarly

¹ Direct of Hanson at page 19.

² Hanson Exhibit 1, at "Summary" tab.

³ *Id.*, at "Summary" tab, line 5.

1 calculates annual Network Access Revenue, starting from a “Budgeted 2008”
2 value and an annual growth assumption of 4%; and a small amount of
3 “Miscellaneous” revenues, which are kept flat at the “Budgeted 2008” value.⁴
4 MVC then estimates its operating expenses as increasing by 3% annually from
5 2008 levels for all expense categories except Depreciation and Amortization.⁵
6 MVC has assumed a constant Depreciation expense of \$805,000 for each year
7 2009-2012, vs. the \$803,600 value seen for 2008; and has zeroed out the
8 Amortization expense associated with the acquisition adjustment from the
9 purchase of the Citizen’s lines, which was \$1.1 million in 2007 (actual).⁶

10
11 The second scenario, labeled “Interconnect Model,” is intended to model MVC’s
12 revenues and expenses assuming that 100% of Midcontinent’s local exchange
13 service customers in the Williston exchange, including its current resold service
14 base and all subscribers that it subsequently acquires, will be served exclusively
15 by Midcontinent’s own network and facilities. MVC’s analysis implements that
16 assumption by (1) subtracting out from its Local Service revenues (i.e., the same
17 series as applied in the Resale Model scenario) all resold service revenue it would
18 otherwise receive from Midcontinent; and (2) subtracting out from its Network
19 Access service revenues (again, the same series as used in the Resale Model
20 scenario), those intrastate switched access and special access revenues that also
21 would be lost to MVC when Midcontinent migrates lines from resale to its own

⁴ *Id.*, at “Summary” tab.

⁵ *Id.*, at operating expense tab.

⁶ *Id.*, at operating expense tab.

1 facilities-based services.⁷ On the expense side, MVC applies the same Operating
2 Expense year-by-year values as used in the Resale Model scenario, and grows
3 them by 3% annually. As I shall explain later in my testimony, this means that
4 MVC is assuming that there will be no cost savings at all, but rather cost
5 increases, even as it would no longer serve the approximately 3,700 subscribers
6 that it assumes would be entirely migrated off of its network (to Midcontinent's
7 network) by 2012.

8 **Q. WHAT DOES MVC'S IMPACT ANALYSIS PURPORT TO SHOW?**

9 A. MVC's Impact Analysis purports to show that if Midcontinent is able to obtain a
10 facilities-based interconnection agreement with MVC that allows Midcontinent to
11 provide facilities-based local exchange and access services in the Williston
12 exchange, then MVC's net operating margin (i.e., total revenues minus operating
13 expenses) would fall by amounts ranging from \$628,600 in year 2009, to \$1.19
14 million in year 2012.⁸ MVC claims that its total net revenue loss for the period
15 2009-2012 would be \$3.58 million.⁹

16
17 **Q. DOES MVC'S IMPACT ANALYSIS PROVIDE AN ACCURATE**
18 **PORTRAYAL OF THE POTENTIAL ECONOMIC IMPACTS OF**

⁷ *Id.*, at "Summary" tab.

⁸ *Id.*, at "Summary" tab," Line 57 ("Net Operating Margin Impact").

⁹ *Id.*, at Line 54 ("Cumulative Net Operating Margin Impact"). MVC calculates this value as a simple sum of the individual years' impacts, rather than on a net present value ("NPV") basis. Because changing to a NPV basis has minimal impacts on the differences between MVC's cumulative impacts results and my corrected values, I have not changed this aspect of their model.

1 **MIDCONTINENT’S ENTRY INTO THE WILLISTON EXCHANGE AS A**
2 **FACILITIES-BASED SERVICE PROVIDER?**

3 A. No, it does not. As I shall demonstrate, MVC’s analysis is critically flawed in
4 several respects, which in combination cause its results to greatly exaggerate the
5 potential economic impacts from Midcontinent’s entry into the Williston
6 exchange as a facilities-based service provider. Consequently, I have made a
7 series of adjustments to MVC’s Impact Analysis to produce a more realistic
8 estimate of those potential impacts. Exhibit SCL-2 attached to this testimony
9 provides the “Summary” tab of the corrected version of MVC’s Impact Analysis
10 that I have developed. I will explain each of the adjustments that I have made in
11 the next section of my testimony.

12 ***Corrections to MVC Impact Analysis***

13 **Migration Timing**

14
15 **MVC’s Impact Analysis assumes that Midcontinent will migrate 100% of its**
16 **existing customer base in Williston to its own network by January 1, 2009, which is**
17 **plainly unrealistic.**

18
19 **Q. WHAT IS THE FIRST PROBLEM THAT YOU HAVE IDENTIFIED IN**
20 **MVC’S IMPACT ANALYSIS?**

21 A. MVC’s Impact Analysis assumes that 100% of Midcontinent’s existing customer
22 base in Williston, who are currently served using MVC resold service, would be
23 migrated over to Midcontinent’s own network and facilities by January 1, 2009.¹⁰

24 This assumption is plainly unrealistic, given that the current scheduling order in

¹⁰ See Hanson Exhibit 1, at “Summary Tab,” Line 61, which states that “Model assumes 100% cutover of Midco resale customers to interconnect agreement as of 1/1/2009.”

1 this proceeding calls for a Commission order no earlier than August 8, 2008,¹¹
2 and that (assuming Midcontinent prevails) the negotiation of a mutually
3 satisfactory facilities-based interconnection agreement between MVC and
4 Midcontinent would likely take three more months according to Mr. Hanson, only
5 after which actual customer migrations could commence. Moreover, the customer
6 migration process will take substantial additional time, especially since there are
7 some 1,570 customers to be migrated,¹² and MVC has minimal experience with
8 number portability, having only ported “a handful” of numbers (to wireless
9 carriers) using what it describes as a labor-intensive, manual process.¹³
10 Midcontinent has advised me that in similar situations in South Dakota, it has
11 taken five to seven months to migrate its embedded customer bases from resold
12 service to Midcontinent’s own facilities.

13 **Q. HAVE YOU DEVELOPED AN ADJUSTMENT TO MVC’S IMPACT**
14 **ANALYSIS TO REFLECT A MORE REALISTIC TIMEFRAME FOR**
15 **MIGRATION OF MIDCONTINENT’S RESOLD CUSTOMER BASE TO**
16 **FACILITIES-BASED SERVICE?**

17 A. Yes. To reflect the considerations that I have just discussed, I have adjusted
18 MVC’s Impact Analysis model to incorporate an assumption that migration of
19 Midcontinent’s resold customer base would begin on January 1, 2009, and would

¹¹ Prehearing Conference Summary and Scheduling Order, April 14, 2008, at page 3.

¹² According to MVC, as of April 2008 it was providing 1,570 resold lines to Midcontinent. *See*, Hanson Exhibit 1, at “Resale Lines” tab. MVC assumes Midcontinent’s customer base would continue to increase over time in accordance with its resale growth assumptions, *see id.*, at “Summary” tab.

¹³ *See* Deposition of Messrs. Hanson and Del Fiacco at pages 60-61. Mr. Del Fiacco also states that MV has ported “less than ten” numbers to date. *Id.*, at 61.

1 be completed six months later, i.e. by July 1, 2009. I model the migration as
2 being performed in six equal portions, and calculate the revenues that MVC
3 would continue to receive in each month, January through July 2009, from the
4 resold lines that have yet to be migrated. The revenues are calculated separately
5 for the residential and business resold lines' Local Service revenue and the related
6 Intrastate Switched Access revenue, and their totals for that six-month span are
7 then added back into the year 2009 revenue calculation for the Interconnect
8 Model scenario. All other things being equal, this adjustment reduces MVC's
9 claimed net revenue loss for year 2009 from \$628,600 to \$474,300, a difference
10 of \$154,300.

11 **Annual Line Growth Factors**

12
13 **MVC's Impact Analysis applies unreasonably high annual line growth factors for**
14 **Midcontinent's resold local exchange services.**

15
16 **Q. TURNING TO A SECOND ASPECT OF MVC'S IMPACT ANALYSIS,**
17 **WHAT ASSUMPTIONS HAS MVC MADE CONCERNING THE RATE**
18 **AT WHICH MIDCONTINENT COULD TAKE LOCAL EXCHANGE**
19 **SERVICE LINES AND MARKET SHARE AWAY FROM MVC IN THE**
20 **FUTURE?**

21 A. MVC's Impact Analysis as presented in Mr. Hanson's Exhibit 1 now includes
22 separate "Resale Line Growth" factors for residential resale and business resale
23 local exchange services.¹⁴ These are annual growth rate percentages that MVC

¹⁴ See, Hanson Exhibit 1, at "Summary" tab, lines 5-6.

1 applies to “project”¹⁵ (i.e., forecast) Midcontinent’s residential and business resale
2 line counts for each year of the analysis 2009-2012, starting from their 2007
3 actual values.¹⁶ For residential resale, MVC assumes an annual growth rate of
4 15.0%; for business resale, it assumes a 76% annual rate of growth.¹⁷

5
6 The resulting yearly line counts are applied in both scenarios of MVC’s analysis:
7 in the Resale Model scenario, they represent Midcontinent’s total resale lines; in
8 the Interconnect Model, they represent the total number of local exchange lines
9 served by Midcontinent on a full facilities basis, who MVC assumes would
10 otherwise (in the absence of a facilities-based interconnection agreement) have
11 been served by Midcontinent via an MVC resale line. As Mr. Hanson has
12 observed in his testimony (pages 17-18), these line count projections also imply
13 particular forecasted market shares for MVC’s and Midcontinent’s retail local
14 exchange services in the Willison exchange, which are thus also the same under
15 both of the model scenarios.¹⁸

16 **Q. HAS MVC CORRECTLY CALCULATED THE RESALE LINE GROWTH**
17 **RATES THAT ARE USED IN ITS IMPACT ANALYSIS?**

18 A. No. MVC has derived its assumed residential (15%) and business (76%) annual
19 growth rates by examining Midcontinent’s actual resold subscriber line counts by
20 month since January 2006, and taking an average of annualized growth rates for

¹⁵ Testimony of Hanson, at page 17, line 9.

¹⁶ Hanson Exhibit 1, at “Summary” tab, lines 17-18.

¹⁷ *Id.*, at “Summary” tab, lines 5-6.

¹⁸ That being said, MVC’s Impact Analysis does not present any market share figures.

1 three different time-spans: for the full year 2007; for the first four months of
 2 2008; and for the most recent six months of data available at that time, i.e.
 3 October 2007 through April 2008.¹⁹ However, its calculations of growth rates for
 4 each of those periods use faulty, over-simplified formulas, instead of applying the
 5 standard compound average growth rate (“CAGR”) formula appropriate for those
 6 determinations. For example, to calculate the “Annualized Growth % 2008”, i.e.
 7 the growth over the four months January to April 2008, MVC has simply taken
 8 the percentage change between the April and January line counts, and multiplied
 9 that by three. MVC’s formula errors has led to erroneous growth rates,
 10 particularly for business resale, as shown in Table 1 below.

11

Table 1. MVC's Line Growth Rate Calculations are Faulty		
Business Resale Line Growth	MVC Calculation	Calculation Using CAGR Formula
Growth % 2007	45.2%	45.2%
Annualized Growth % 2008	106.7%	149.1%
Annualized Growth Last 6 Months	77.3%	92.2%
Assumed Annual Avg Growth Rate	76.4%	95.5%

12

13

Source: Hanson Exhibit 1, at “Resale Lines” tab.

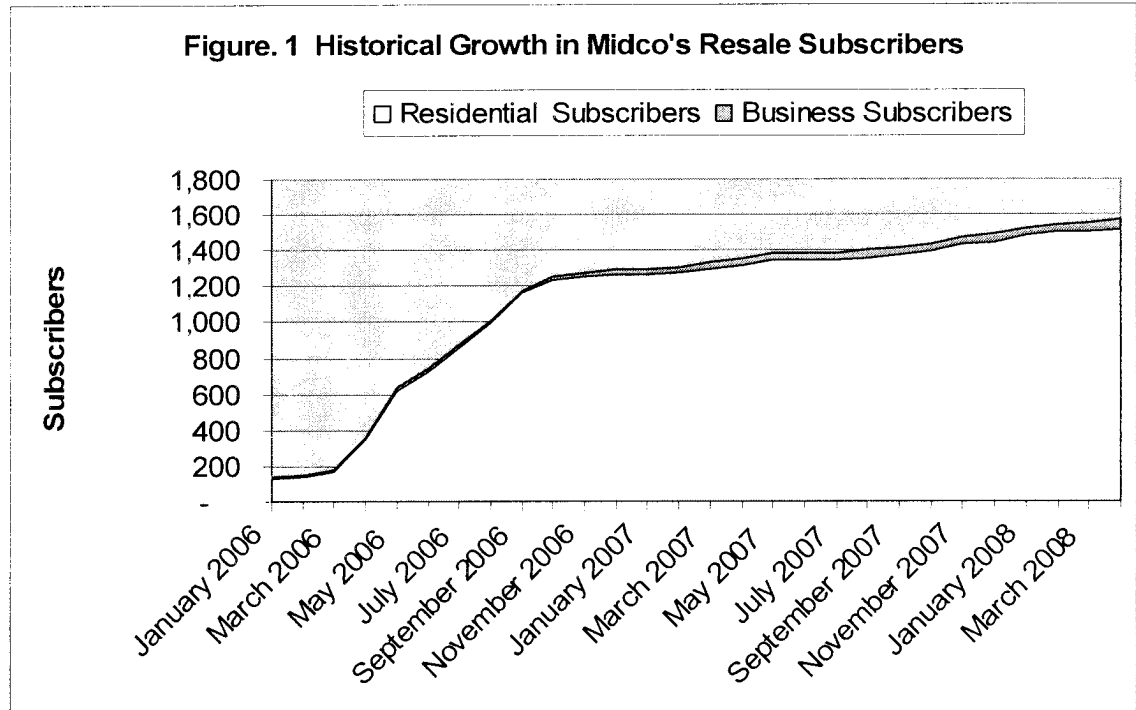
¹⁹ *Id.*, at “Resale Lines” tab, lines 38-44.

1 As I shall now demonstrate, MVC's resale growth assumptions are unrealistically
2 high and unreasonable, even before correction of this obvious calculation error –
3 and even more so after it is corrected.

4 **Q. PLEASE EXPLAIN WHY YOU BELIEVE THAT MVC RESALE**
5 **GROWTH ASSUMPTIONS ARE UNREALISTICALLY HIGH AND**
6 **UNREASONABLE.**

7 A. As I have stated earlier in my testimony, MVC's assumed growth rates, prior to
8 correction of its growth formulas, are 15.0% annually for residential resale and
9 76.4% annually for business resale. In my view, it is unrealistic to assume that
10 Midcontinent could sustain such high levels of access line growth over the next
11 five years. In fact, as illustrated in Figure 1 below, an examination of
12 Midcontinent's actual resale line counts (using MVC resold lines) since January
13 2006 shows an initial "ramp-up" phase of relatively rapid customer acquisition,
14 until a pronounced leveling off started around November 2006. Since that time,
15 Midcontinent has experienced a relatively linear rate of resale customer
16 acquisition, on average acquiring 18 lines (residential and business combined) per
17 month during the period November 2006 through April 2008 (the end of the
18 available data).

1



2

3

Source: Hanson Exhibit 1, at "Resale Lines" tab.

4

5

6

7

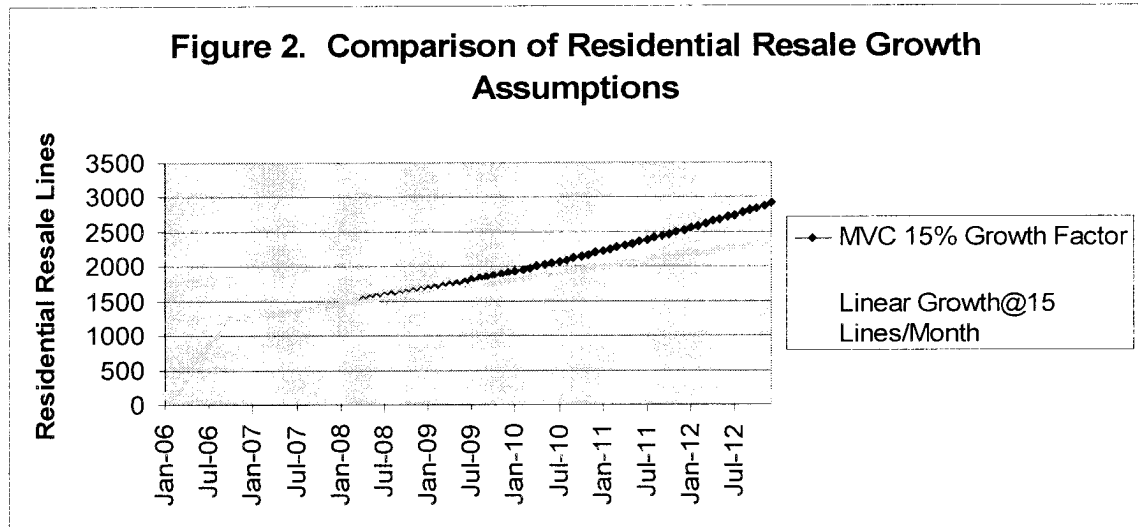
8

9

It is far more reasonable to extrapolate Midcontinent's future rate of customer acquisition from this kind of uncompounded, linear growth trend, rather than assume the rapidly compounding growth rates implied by MVC's 15% and 76.4% annual growth factors. This is made clear by comparing the two resulting resale line forecasts graphically, as I have done in Figure 2 below for residential resale,²⁰ and in Figure 3 for business resale.

²⁰ Note that for residential resale, the overall effect of correcting MVC's calculation errors is small, raising the averaged annual growth rate from 15.0% to 15.4%. Consequently, I have not included the corrected growth rate as a separate series in Figure 2.

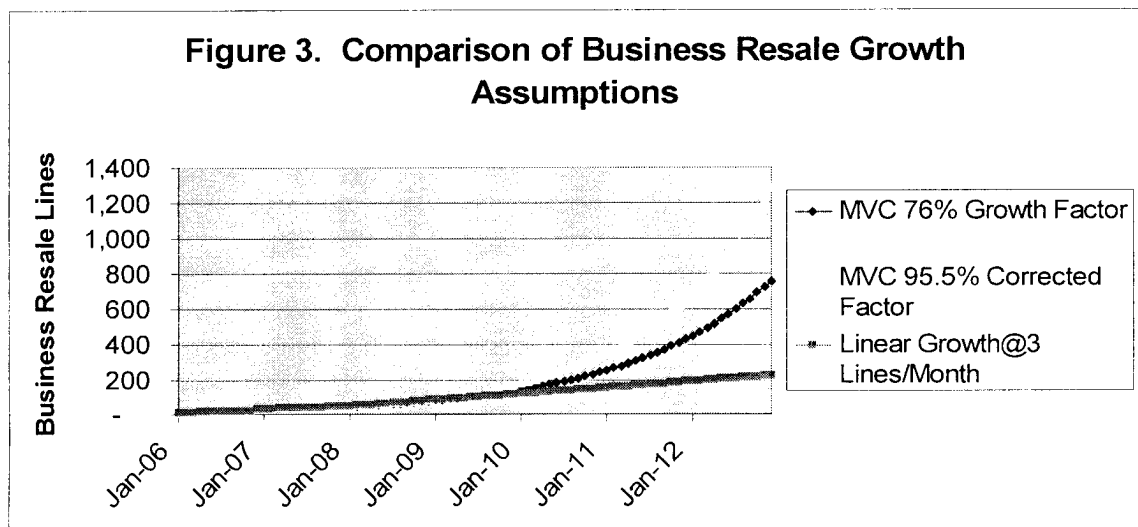
1



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8

9

Q. HAVE YOU MADE AN ADJUSTMENT TO MVC'S IMPACT ANALYSIS TO REPLACE MVC'S ANNUAL GROWTH FACTORS WITH THE

1 LINEAR GROWTH TRENDS FOR RESALE SUBSCRIBERS THAT YOU
2 HAVE JUST PRESENTED?

3 A. Yes. To apply linear growth trends, I have revised MVC’s Impact Analysis by
4 removing the 15% and 76% growth factors and the yearly line count formulas that
5 reference them, and replacing the latter with December line counts that I have
6 generated by applying linear growth trends of 15 new lines per month for
7 residence resale, and 3 new lines per month for business resale.²¹ I derived these
8 values from residence and business resale services’ average monthly line gains
9 from November 2006 through April 2008, i.e. the available historical data after
10 the initial “ramp-up” period that I discussed earlier in my testimony. Table 2
11 below shows MVC’s original Midcontinent resale line counts and my revised
12 values.

Table 2. Midco Resale Line Counts Used in Impact Analysis				
	Residential Resale		Business Resale	
Year	MVC Value	Revised Value	MVC Value	Revised Value
2008	1659	1623	79	81
2009	1908	1803	139	117
2010	2194	1983	245	153
2011	2523	2163	432	189
2012	2901	2343	762	225

13
14 **Q. WHAT IS THE IMPACT OF MAKING THIS ADJUSTMENT?**

15 A. When my revised resale line count values are used, with all other aspects of
16 MVC’s Impact Analysis remaining the same, the total net revenue impact of the
17 model falls \$572,600 or approximately 16%, from \$3.58-million to \$3.01-million.

²¹ The derived result for business resale was 2.44 lines/month, which I rounded up to 3 lines/month.

1 **Special Access Revenues**

2
3 **MVC's Impact Analysis improperly excludes Special Access revenues, which are**
4 **completely irrelevant to whether or not Midcontinent obtains its requested Section**
5 **251(c) interconnection with MVC.**
6

7 **Q. DOES MVC INCLUDE SPECIAL ACCESS LINE AND REVENUE**
8 **LOSSES AS PART OF ITS IMPACT ANALYSIS?**

9 A. Yes, it does. MVC's Impact Analysis assumes that Midcontinent would not take
10 away any special access customers or revenues under the Resale Model scenario,
11 but in the Interconnect Model scenario, it assumes that Midcontinent would begin
12 diverting away MVC's special access customers and revenues starting in year
13 2009. MVC applies a 5% Special Access Take Rate for that first year, and then
14 an 8% Special Access Growth rate for each subsequent year.²² Under these
15 assumptions, MVC calculates yearly special access revenue losses increasing
16 from \$47,400 in 2009, up to \$115,100 in year 2012.²³

17 **Q. SHOULD ANY POTENTIAL CHANGES TO MVC'S SPECIAL ACCESS**
18 **BE CONSIDERED IN AN ECONOMIC ANALYSIS OF THE IMPACT OF**
19 **FACILITIES-BASED INTERCONNECTION WITH MIDCONTINENT?**

20 A. No, certainly not. Special access services have nothing whatsoever to do with a
21 potential facilities-based interconnection agreement between MVC and
22 Midcontinent, because they are by definition dedicated facilities of the particular
23 carrier providing them, and do not rely upon interconnection to another carrier to
24 be provided. Indeed, Midcontinent could choose to offer special access services

²² Hanson Exhibit 1, at "Summary" tab, lines 11-12.

²³ *Id.*, at "Summary" tab, line 44.

1 in competition with MVC today if it desired to, without the facilities-based
2 interconnection agreement that it is seeking. Given their lack of relevance to the
3 economic impacts of Midcontinent's request to obtain facilities-based
4 interconnection with MVC under Section 251(c) of the Act, special access line
5 and revenue losses should be entirely excluded from MVC's Impact Analysis.

6 **Q. HAVE YOU MADE AN ADJUSTMENT TO MVC'S IMPACT ANALYSIS**
7 **TO REMOVE ITS CLAIMED SPECIAL ACCESS REVENUE LOSSES?**

8 A. Yes. When MVC's claimed special access revenue losses are removed from the
9 Impact Analysis, its claimed cumulative net operating revenue loss decreases by
10 \$367,600 or approximately 10%, from \$3.58-million to \$3.22-million.

11 **USF Revenues**

12 **MVC's Impact Analysis fails to take into account potential changes to its Universal**
13 **Service Fund subsidy levels that could occur in the event it incurs significant line**
14 **losses, and when that oversight is corrected, any economic burden on MVC from**
15 **facilities-based interconnection with Midcontinent is substantially mitigated.**
16

17
18 **Q. DOES MVC'S IMPACT ANALYSIS TAKE INTO ACCOUNT**
19 **POTENTIAL CHANGES TO UNIVERSAL SERVICE FUND SUBSIDY**
20 **LEVELS THAT MIGHT BE TRIGGERED BY THE LOSS OF RESOLD**
21 **LOCAL EXCHANGE LINES BY MIGRATION TO MIDCONTINENT'S**
22 **NETWORK?**

23 A. No, it does not. The Impact Analysis does not consider potential changes to
24 MVC's subsidies from the federal Universal Service Fund ("USF") at all.²⁴ This

²⁴ The current level of USF subsidies received by MVC is implicitly included within the Impact Analyses' year-by-year total revenue figures, but those subsidies are neither specifically

1 is a critical omission from MVC's analysis, because, as I show below, its
2 correction has a profound impact on the impact estimates.

3 **Q. PLEASE DESCRIBE THE SUBSIDIES THAT MVC CURRENTLY**
4 **RECEIVES FROM THE FEDERAL UNIVERSAL SERVICE FUND**
5 **PROGRAM.**

6 A. The federal Universal Service Fund ("USF") program offers several types of
7 high-cost subsidies for qualifying incumbent LECs ("ILECs"), including the
8 following three subsidy mechanisms:

- 9 • High Cost Loop support;
- 10 • Local Switching Support; and
- 11 • Interstate Common Line Support.

12 Eligibility for each type of support is determined by calculating the incumbent
13 LECs' relevant costs, on an embedded cost basis, for each category of support.
14 The rules governing calculations of federal high-cost support are contained in the
15 Code of Federal Regulation ("CFR") Parts 36 and 54. Both the disbursements
16 from the federal USF associated with high-cost support, and the cost data
17 underlying the calculations of support are available publicly. Specifically, the
18 federal USF administrator, Universal Service Administrative Company ("USAC")
19 publishes the data on disbursements.²⁵ The National Exchange Carrier
20 Association ("NECA") data submissions with the FCC and the USAC reports are

identified nor changed in any way in the Impact Analysis. *See*, Hanson Exhibit 1, at "Summary" tab.

²⁵ Disbursements from the federal USF associated with high-cost support can be seen on the web site of Universal Service Administrative Company ("USAC") at <http://www.usac.org>.

1 posted on the NECA and FCC web sites. These submissions contain the ILECs'
2 cost and expense adjustment information, as well as the data collection
3 instructions and definitions. NECA's most recent data filing is the 2007 USF
4 Data Submission.²⁶

5
6 One nuance of the USF disbursement and cost data files discussed above is that
7 although MVC's parent, the Nemont Telephone Cooperative, has a single
8 geographic Study Area in North Dakota,²⁷ for USF calculation purposes, that
9 Study Area is segregated into two parts: One part consists of Williston exchange
10 operated by MVC, which was formed from the access lines purchased from
11 Citizens' Telephone Company in 2003; and the second, much smaller part,
12 consists of Nemont Telephone Cooperative access lines served in North Dakota
13 on a cross-border basis from its Montana service territory.²⁸ This is done to
14 recognize the federal rules regarding support in exchanges purchased from other
15 companies (CFR §54.305) – rules that I discuss below. I will refer to this
16 distinction between Nemont's cross-border lines and the MVC lines purchased
17 from Citizen by calling them "cross-border" and "Citizens" lines. It is my

²⁶ NECA, 2007 USF Data Submission, September 28, 2007, http://www.neca.org/source/NECA_Tools_4788.asp.

²⁷ The study area, number 382247, is labeled with the name of MVC's parent company, Nemont Tel Coop. See, e.g., NECA 2007 USF Data Submission, Appendix E (Study Area Detail), at page 32 of 47.

²⁸ See *id.*, Overview and Analysis, at page 5 (Sale of Exchanges), Appendix E (Study Area Detail), at page 32, and Appendix F (Study Areas with Acquired Exchanges), at page 1; see also Deposition of Messrs. Hanson and Del Fiocco, TR. at 118-119 (describing MVC's acquisition of the Citizens lines).

1 understanding that the “Citizens” lines comprise the Williston exchange and are
2 the only lines served by MVC.

3
4 As seen from the USAC disbursement data, as well as MVC’s response to data
5 requests on this issue, MVC currently receives no High Cost Loop or Local
6 Switching Support monies, but does receive substantial and growing Interstate
7 Common Line Support, as shown in Table 3 below:
8

Table 3. MVC’s USF Support Levels	
<u>Interstate Common Line Support</u>	<u>Annualized Support</u>
Year 2006	\$ 590,231
Year 2007	\$ 663,079
Projected 2008	\$ 723,660

9
10 Sources: MVC’s Response to Midcontinent’s Interrogatories Set No. 2, Number 21a (for
11 years 2005-2007); and USAC filing *HC01 (High Cost Support Projected by*
12 *State by Study Area -- 3Q2008)*, [http://www.usac.org/about/governance/fcc-](http://www.usac.org/about/governance/fcc-filings/2008/quarter-3.aspx)
13 [filings/2008/quarter-3.aspx](http://www.usac.org/about/governance/fcc-filings/2008/quarter-3.aspx) (for projected year 2008).
14

15 **Q. WOULD MIDCO’S ENTRY AFFECT THE LEVEL OF FEDERAL USF**
16 **SUPPORT THAT MVC COULD RECEIVE?**

17 A. Yes. Subject to certain caveats that I will explain later in my testimony,²⁹ the
18 High Cost Loop Support and Interstate Common Line Support are the two support
19 mechanisms that would most likely be affected. At a high level, these
20 mechanisms are based on MVC’s embedded per line cost. Midcontinent’s entry

²⁹ See discussion of the “parent trap” rule at pages 23-25 of my testimony.

1 would reduce MVC's *line counts* – the denominator of the per line cost. At the
2 same time *the total costs* – the numerator of the per line cost – would stay
3 relatively stable.³⁰ As a result, the *per line cost* would increase, followed by an
4 increase in the federal USF subsidies.

5
6 To be more specific, the High Cost Loop mechanism provides support if the
7 company's per line cost exceeds the national benchmark by 115%,³¹ with the
8 exact formula depending on the amount by which the company-specific per line
9 cost exceeds the national benchmark. For example, for a company of MVC's
10 size, the portion of company-specific cost in excess of 115% of the national
11 benchmark but under 150% of the national benchmark is supported at 65%, while
12 the portion of cost in excess of 150% is supported at 75%.³² In other words, the
13 federal High Cost Loop Support formula for rural companies is progressive,
14 compensating "very high cost areas" at a rate higher than "moderate high cost
15 areas."

16
17 The Interstate Common Line Support is determined as a difference between the
18 company's "common line revenue requirements" (the embedded costs assigned to
19 the common line) and the company's revenues from the Subscriber Common Line

³⁰In fact, MVC's Impact Analysis assumes that the total cost would go up because MVC has applied a 3% annual growth factor to its non-plant operating expenses. See Hanson Exhibit 1, at operating expense tab. A more realistic scenario would be an assumption that costs would go down, which would further amplify the result that the per line cost increases under the Interconnect Model scenario.

³¹ See CFR §36.631 and Appendix B to NECA, 2007 USF Data Submission.

³² See *id.*

1 charge (“SLC”) and some other adjustments.³³ Again, while the embedded cost
2 assigned to the common line is relatively stable, the company’s revenues from the
3 SLC are expected to go down as MVC’s line count goes down. As a result, the
4 Interstate Common Line Support would go up. In other words, the federal
5 Interstate Common Line Support mechanism compensates rural companies for the
6 loss in revenues associated with the SLC.

7 **Q. PLEASE DISCUSS THE “PARENT TRAP” RULE THAT CURRENTLY**
8 **PREVENTS MVC FROM RECEIVING HIGH COST LOOP SUPPORT**
9 **FROM THE “CITIZENS” LINES.³⁴**

10 A. Mr. Hanson claims that a rule he refers to as the “parent trap” prevents MVC from
11 any High Cost Loop support. This rule, CFR §54.305, relates to the sale of
12 exchanges and prohibits companies from averaging costs across all of its lines –
13 both cross-border and newly acquired. This prohibition means that MVC’s *per*
14 *line USF* cost – the cost used to determine High Cost Loop support – must be
15 calculated separately for its “cross-border” and “Citizens” lines. As an
16 illustration, based on the 2007 NECA USF submission, while the per line cost
17 associated with the “cross-border” lines was \$860, the per line cost associated
18 with the “Citizens” lines was only \$325. At the same time the national
19 benchmark was \$354, meaning that while the “cross-border” lines qualified for
20 the High Cost Loop Support, the “Citizens” lines did not qualify.

21

³³ See CFR §54.901. The other adjustments include the common line charge revenues (to be phased out), the special access surcharge, the line port cost in excess of basic analog ports and the Long-Term Support.

³⁴ See Direct of Hanson at page 32.

1 The apparent reason that Mr. Hanson refers to CFR §54.305 as the “parent trap” is
2 that it prescribes that whenever the seller of an exchange (here, Citizens) did not
3 receive federal High Cost Loop Support, the buyer (here, Nemont Telephone
4 Cooperative) is limited in the amount of support it can receive.³⁵ Specifically,
5 only rural companies like MVC (but not non-rural companies) can receive support
6 for these exchanges, which is accomplished through a mechanism known as the
7 Safety Valve.³⁶ The support that MVC can receive through the Safety Valve is
8 set at up to 50% of the difference between the support received by the seller (zero
9 in our case) and the support that the buyer would qualify for if not for the
10 prohibition set by CFR §54.901(a).³⁷

11
12 To summarize, despite the “parent trap” rule, MVC may be able to receive
13 significant additional USF subsidies for its “Citizens” lines, via the Safety Valve
14 mechanism. This would happen if the per line cost associated with MVC’s
15 “Citizens” lines increase above 115% of the national benchmark, which is likely
16 to happen if MVC loses lines in the case of Midcontinent’s entry. MVC would
17 receive this support under the Safety Valve mechanism, which provides lower
18 support than the support it would receive under the “regular” High Cost Loop

³⁵ CFR §54.305(a) dictates that the buyer can receive only the per line support for which the sold exchanges were eligible prior to the sale. In this case, this amount is zero. CFR §54.305 (b) through (f) address exceptions from this rule.

³⁶ See CFR §54.305 (b) through (e).

³⁷ See CFR §54.305 (b) through (e). As explained in CFR §54.305 (e), the support may be under 50% because of the existence of the national cap on the total amount of safety valve subsidies that all rural carriers nationwide can receive.

1 Support mechanism, but nevertheless could be a significant offset to the revenue
2 losses MVC is claiming in its Interconnect Model scenario.

3 **Q. HAVE YOU BEEN ABLE TO ADJUST MVC'S IMPACT ANALYSIS TO**
4 **TAKE INTO ACCOUNT THE ADDITIONAL FEDERAL USF REVENUES**
5 **THAT MVC COULD RECEIVE UNDER THE CONDITIONS ASSUMED**
6 **IN ITS INTERCONNECT MODEL SCENARIO?**

7 A. Yes. I have used the logic and data sources that I have just described to adjust
8 MVC's Impact Analysis so that it accounts for additional federal USF revenues if
9 MVC experiences the line and revenue losses projected in the Interconnect Model
10 scenario. Specifically, I used MVC's NECA USF 2007 data submission and the
11 USF rules for the derivation of the USF cost per line to calculate MVC's per line
12 USF cost, High Cost Loop Support and the Common Line Support amounts. For
13 consistency, I have utilized the assumptions made in MVC's Impact Analysis,
14 including MVC's projections of resale line counts and its assumed annual growth
15 in operating expenses. Adoption of MVC's 3% annual growth rate for operating
16 expenses (other than depreciation) is a conservative assumption because, as I
17 explained above, a more realistic assumption is that the total expense would go
18 down if MVC experiences significant line losses. Another conservative
19 assumption utilized in my calculation of the USF adjustment is that the national
20 benchmark would grow at the same rate as the growth rate in MVC's total cost (as

1 driven by its assumption that most operating expenses would grow 3%
2 annually).³⁸
3

4 On this basis, I have determined that the per line USF cost of the “Citizens” lines
5 would increase significantly, so that the “Citizens” lines would qualify for the
6 High Cost Loop support starting as soon as 2009. This qualitative shift in the
7 MVC’s per line cost would cause a sizable increase in the federal USF subsidies,
8 even when the safety valve’s limitation to 50% of the calculated expense change
9 is accounted for.
10

11 I estimate that the resulting increase in MVC’s annual USF revenues for the
12 “Citizens” lines would range from approximately \$335,000 in 2009, to \$832,000
13 in 2012, which would constitute from a 47% to a 116% increase over the current
14 levels. I have adjusted the Impact Analysis to reflect these additional revenues,
15 by including them as a new line item (“Changes in USF Subsidies”) within the
16 revenue calculations of the Interconnect Model scenario. These offsetting
17 revenues greatly reduce the cumulative net revenue impact claimed by MVC,
18 from \$3.58-million down to \$1.35-million, a change of –62.4%.

³⁸ I assumed no other inflationary impacts to be consistent with MVC’s Impact Analysis assumptions, and also because the federal High Cost Loop formula is essentially neutral to inflation because it compares the company per line cost to the national per line benchmark (and because both would grow at approximately the same rate in case of inflation). Also, while the federal mechanisms include certain caps such as the cap on the total safety valve support across all rural carries in the nation (CFR §54.305(e)), it is reasonable to assume that an increase in MVC’s support would have a negligible effect on the caps because of the MVC’s size.

1 **Summary of Adjustments to MVC's Impact Analysis**
2

3 **When MVC's Impact Analysis is corrected by applying all four adjustments**
4 **together, its claimed potential revenue losses from entering into facilities-based**
5 **interconnection with Midcontinent are reduced by 75%, to a cumulative net revenue**
6 **loss over the 2009-2012 timeframe of \$888,577.**

7
8 **Q. MR. LUNDQUIST, CAN YOU PLEASE SUMMARIZE THE EFFECTS OF**
9 **THE ADJUSTMENTS THAT YOU HAVE MADE TO MVC'S IMPACT**
10 **ANALYSIS?**

11 A. Yes. Table 4 below is a summary of the effects of the four adjustments that I
12 have made to MVC's Impact Analysis. The table first presents each adjustment's
13 effect when it is performed in isolations, with all other aspects of MVC's Impact
14 Analysis unchanged from the calculations supplied in Mr. Hanson's Exhibit 1.
15 The last portion of the table presents the combined effects of all four adjustments.
16 Their combined effect is not equal to a simple summation of their individual
17 effects because certain adjustments interact: for example, the revenue effect of
18 the Migration Timing adjustment is changed slightly when the Resale Line
19 Growth Factors adjustment is made, because the latter alters the line counts
20 applied in the Migration Timing adjustment.
21

1
2

Table 4. Effects of Adjustments to MVC's Impact Analysis					
	2009	2010	2011	2012	Cumulative Impact
Adjustment 1: Migration Timing					
MVC's Original Result	(628,600)	(797,200)	(963,100)	(1,194,100)	(3,583,000)
Results When Adjustment Is Applied	(474,300)	(797,200)	(963,100)	(1,194,100)	(3,428,700)
Difference:	(154,300)	-	-	-	(154,300)
Percentage Change:	-24.5%	0.0%	0.0%	0.0%	-4.3%
Adjustment 2: Resale Line Growth Factors					
MVC's Original Result	(628,600)	(797,200)	(963,100)	(1,194,100)	(3,583,000)
Results When Adjustment Is Applied	(603,200)	(724,300)	(802,200)	(880,700)	(3,010,400)
Difference:	(25,400)	(72,900)	(160,900)	(313,400)	(572,600)
Percentage Change:	-4.0%	-9.1%	-16.7%	-26.2%	-16.0%
Adjustment 3: USF Revenues					
MVC's Original Result	(628,600)	(797,200)	(963,100)	(1,194,100)	(3,583,000)
Results When Adjustment Is Applied	(293,587)	(342,446)	(350,622)	(362,096)	(1,348,750)
Difference:	(335,013)	(454,754)	(612,478)	(832,004)	(2,234,250)
Percentage Change:	-53.3%	-57.0%	-63.6%	-69.7%	-62.4%
Adjustment 4: Special Access Revenues					
MVC's Original Result	(628,600)	(797,200)	(963,100)	(1,194,100)	(3,583,000)
Results When Adjustment Is Applied	(581,200)	(698,600)	(856,600)	(1,079,000)	(3,215,400)
Difference:	(47,400)	(98,600)	(106,500)	(115,100)	(367,600)
Percentage Change:	-7.5%	-12.4%	-11.1%	-9.6%	-10.3%
Combined Effects of Adjustments 1-4					
MVC's Original Result	(628,600)	(797,200)	(963,100)	(1,194,100)	(3,583,000)
Results When Adjustment Is Applied	(112,769)	(267,481)	(259,040)	(249,288)	(888,577)
Difference:	(515,831)	(529,719)	(704,060)	(944,812)	(2,694,423)
Percentage Change:	-82.1%	-66.4%	-73.1%	-79.1%	-75.2%

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4
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9

Q. WHAT IS THE TOTAL IMPACT OF YOUR RECOMMENDED ADJUSTMENTS WHEN THEY ARE APPLIED IN COMBINATION TO MVC'S IMPACT ANALYSIS?

A. As shown in the last portion of Table 4 above, the combined effects of applying the adjustments that I have made to MVC's Impact Analysis is to reduce the

1 cumulative net loss in operating revenues from MVC's claimed value of -\$3.58-
2 million, down to -\$888,577. This represents a 75% decrease from the revenue
3 loss claimed by MVC.
4

5 **IV. CONCLUSION AND RECOMMENDATIONS**

6 **Q. MR. LUNDQUIST, CAN YOU PLEASE PROVIDE YOUR**
7 **RECOMMENDATIONS TO THE COMMISSION?**

8 A. Yes. Based on the testimony that I have just presented, I recommend that the
9 Commission reject MVC's Impact Analysis as supplied in Mr. Hanson's Exhibit
10 1, and disregard the economic impact claims that MVC has made based on that
11 analysis. In their place, I recommend that the Commission adopt the corrected
12 Impact Analysis that I have presented, including the revised economic impacts set
13 forth in my Table 3 above. Finally, the Commission should conclude that the
14 likely economic impact on MVC of Midcontinent's requested interconnection
15 would be, in cumulative terms for the period 2009-2012, the -\$888,577 value
16 shown in my Table 3.

17 **Q. DOES THAT CONCLUDE YOUR TESTIMONY AT THIS TIME?**

18 A. Yes, thank you.
19
20
21

Exhibit SCL-1:
Statement of Qualifications

Exhibit SCL-1 – Statement of Qualifications

SCOTT C. LUNDQUIST

Mr. Lundquist is a Consultant to QSI Consulting, where he performs strategic and regulatory analysis, project management, and client support services for consulting projects in telecommunications regulation and economics. Mr. Lundquist has worked as an independent consultant since January 2005, prior to which he was a Vice President and Partner at Economics and Technology, Inc. (ETI), a Boston, Massachusetts research and consulting firm specializing in telecommunications economics, regulation and public policy matters. Over the course of his twenty-one year career in the field, Mr. Lundquist has developed a specialized expertise in the key areas of modern telecommunications regulation and policy, including service costs and pricing, network interconnection and unbundling, implementation of competition policies, incentive regulation, network modernization and productivity, and tariff design. Mr. Lundquist frequently serves as an expert witness on these issues before state public utility commissions and contributes to studies and comment filings submitted to the FCC. He has also advised regulatory agencies and ministries in developing nations on modern regulatory practices, and has developed and undertaken on-site training programs for their regulatory staff. Mr. Lundquist regularly serves as the lead consultant and manager for these projects.

Mr. Lundquist has provided expert witness testimony on over thirty occasions over the past fifteen years, on behalf of state regulatory commission staff, competitive service providers, and consumer advocate agencies. He has worked extensively with computerized cost models for telecommunications networks and services, including many of the major cost models introduced in state regulatory proceedings (including the Hatfield Model, Benchmark Cost Model, ICM, FCC's Synthesis Model, and Bell Operating Company proprietary models). Mr. Lundquist has frequently testified concerning the appropriate costs and rates for interconnection and unbundled network elements, and his recommendations have been adopted by state public utility commissions. He also has conducted seminars and training sessions for both U.S. and international clients on these topics. Mr. Lundquist has co-authored a comprehensive report on inter-carrier compensation arrangements for interconnecting local telephone companies in a competitive environment, titled "*Efficient Inter-Carrier Compensation Mechanisms for the Emerging Competitive Environment.*"

Mr. Lundquist has participated in the development of "price caps" and other incentive regulation frameworks applied to U.S. telecommunications carriers since their advent in 1989, when he contributed to comments filed in the first price caps investigations conducted by the FCC. Mr. Lundquist possesses in-depth knowledge of all aspects of incentive regulation, including measurement of carrier productivity gains and the specification of productivity offsets, monitoring of service quality, indexing and pricing rules, and impacts on investment and innovation. He has testified before U.S. state regulatory commissions on these matters on several occasions and has co-authored two major reports in this area: "*A Study of Total Factor Productivity in the Wisconsin Local Exchange Carrier Industry;*" and "*Price Cap Plan for USWC: Establishing Appropriate Price and Service Quality Incentives in Utah.*" Mr. Lundquist also has extensive knowledge of tariff policies and mechanisms, grounded in several years of direct analysis of tariff changes, and subsequent participation in numerous regulatory proceedings and consulting assignments addressing tariff design, cost of service, tariff rebalancing, and tariff flexibility.

Exhibit SCL-1 – Statement of Qualifications

Mr. Lundquist has substantial experience in assisting telecommunications officials in foreign governments to improve their regulatory practices. In 1994, Mr. Lundquist spent nine weeks in Beijing working closely with officials of the Ministry of Posts and Telecommunications (“MPT”) of the People’s Republic of China, as part of a technical assistance project sponsored by the Asian Development Bank. Mr. Lundquist developed and conducted several seminars for senior MPT officials on interconnection, tariffing and rate design for non-basic services, and regulatory restructuring issues. Mr. Lundquist was also the Project Manager for ETI’s 1993-1994 engagement by the National Telecommunications Commission (“NTC”) of the Philippines (overseen by the World Bank). Mr. Lundquist spent six months on-site in Manila conducting institutional strengthening activities, including a review and assessment of existing regulatory procedures, staff training in modern regulatory methods and computerized tools, and assistance in implementing new competition and interconnection policies.

Mr. Lundquist received his Bachelor of Arts degree in Psychology and Social Relations from Harvard College, Cambridge, Massachusetts, in 1985.

Following are lists of Mr. Lundquist’s expert witness appearances before state public utility commissions and reports and publications:

Expert Witness Testimony Before State PUCs:

Maryland Public Service Commission, in Re: In the Matter of the Commission’s Inquiry Into Verizon Maryland Inc.’s Provision of Local Exchange Telephone Service Over Fiber Optic Facilities, Case No. 9123, on behalf of the Maryland Office of People’s Counsel, Direct Testimony filed June 19, 2008 (cross-examination pending).

Public Utilities Commission of South Dakota, Re: In the Matter of the Petition of Brookings Municipal Utilities d/b/a Swiftel Communications for Suspension or Modification of Dialing Parity, Number Portability, and Reciprocal Compensation Obligations, Case No. TC07-007, Direct Testimony filed June 6, 2007 (no cross-examination).

Washington Utilities and Transportation Commission, Re: In the Matter of the Review of: Unbundled Loop and Switching Rates; the Deaveraged Zone Rate Structure; and Unbundled Network Elements, Transport, and Termination (Recurring Costs), Docket No. UT-023003, on behalf of AT&T Communications of the Pacific Northwest, Inc., Responsive Testimony filed April 20, 200, cross-examination May 28, 2004.

Vermont Public Service Board, in Re: Investigation Into The Acquisition and Use of Central Office Codes by Local Exchange Carriers in Vermont, Docket No 6209, filed on behalf of Global NAPs, Inc., Affidavit filed October 17, 2002.

District of Columbia Public Service Commission, in Re: In the Matter of Review by the Commission Into Verizon DC’s Compliance with the Conditions of 47 U.S.C. §271(c), Formal Case No. 1011, on behalf of the Office of People’s Counsel of the District of Columbia, Affidavit filed September 30, 2002, cross-examination waived.

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Delaware Public Service Commission, in Re: Global NAPs, Inc. Petition for Arbitration Pursuant to Section 252(b) of the Telecommunications Act of 1996 to Establish an Interconnection Agreement with Verizon Delaware Inc. f/k/a Bell Atlantic-Delaware, Inc., Docket No. 02-235, on behalf of Global NAPs, Inc., Direct Testimony filed on September 18, 2002, Rebuttal Testimony filed October 2, 2002, cross-examination November 4, 2002.

Vermont Public Service Board, in Re: Global NAPs, Inc. Petition For Arbitration Pursuant to Section 252(b) of the Telecommunications Act of 1996 to Establish an Interconnection Agreement with Verizon New England, Inc. d/b/a Verizon Vermont, Inc. f/k/a New England Telephone & Telegraph Co. d/b/a Bell Atlantic - Vermont, Docket No. 6742 on behalf of Global NAPs, Inc., Direct Testimony filed September 11, 2002, Rebuttal Testimony filed October 7, 2002, cross-examination October 25, 2002.

Rhode Island and Providence Plantations Public Utilities Commission, in Re: Global NAPs, Inc. Petition for Arbitration Pursuant to Section 252(b) of the Telecommunications Act of 1996 to Establish and Interconnection Agreement with Verizon New England, Inc. d/b/a Verizon Rhode Island, Inc. f/k/a New England Telephone & Telegraph Co. d/b/a Bell Atlantic - Rhode Island, Docket No. 3437 on behalf of Global NAPs, Inc., Direct Testimony filed August 28, 2002, Rebuttal Testimony filed September 6, 2002, cross-examination September 26, 2002.

Minnesota Public Utilities Commission, Office of Administrative Hearings, in Re: In the Matter of a Commission Investigation into Qwest's Compliance with Section 271(c)(2)(B) of the Telecommunications Act of 1996: Checklist Items 1, 2, 4, 5, 6, 11, 13, and 14, PUC Docket No. P-421/CI-01-1371, on behalf of the Minnesota Department of Commerce, Affidavit filed June 10, 2002, cross-examination September 9, 2002.

Wisconsin Public Service Commission, in Re: Application of CenturyTel of Central Wisconsin, LLC, as a Telecommunications Utility, for Authority to Establish Permanent Telephone Rates, Docket No. 2055-TR-102; Application of Telephone USA of Wisconsin, LLC, as a Telecommunications Utility, for Authority to Establish Permanent Telephone Rates, Docket No. 5846-TR-102. on behalf of AT&T Communications of Wisconsin, L.P., Direct Testimony filed May 31, 2002, Rebuttal Testimony filed June 21, 2002, cross-examination June 26, 2002.

Ohio Public Utilities Commission, in Re: In the Matter of Global NAPs, Inc. Petition for Arbitration Pursuant to 47 U.S.C. §252(b) of Interconnection Rates, Terms and Conditions with Verizon North Inc. f/k/a GTE North, Case No. 02-876-TP-ARB, Direct Testimony filed May 30, 2002, cross-examination June 6, 2002.

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Illinois Commerce Commission, in Re: Global NAPs Illinois, Inc. Petition for Arbitration Pursuant to Section 252(b) of the Telecommunications Act of 1996 to Establish an Interconnection Agreement with Verizon North Inc. f/ka/ GTE North Incorporated and Verizon South Inc. f/k/a GTE South Incorporated, Docket No. 02-0253, on behalf of Global NAPs, Inc., Direct Testimony filed May 16, 2002, Rebuttal Testimony filed June 4, 2002, cross-examination June 11, 2002.

North Carolina Utilities Commission, in Re: Global NAPs North Carolina, Inc. Petition for Arbitration Pursuant to Section 252(b) of the Telecommunications Act of 1996 to Establish an Interconnection Agreement with Verizon South, Inc. f/ka/ GTE South Incorporated, Docket No. P-1141 Sub1, on behalf of Global NAPs, Inc., Direct Testimony filed April 19, 2002, Rebuttal filed May 24, 2002, cross-examination July 23, 2002.

Ohio Public Utilities Commission, in Re: Global NAPs, Inc. Petition for Arbitration Pursuant to 47 U.S.C. § 252(b) of Interconnection Rates, Terms and Conditions with Ohio Bell Telephone Company d/b/a Ameritech Ohio, Case No. 01-3096-TP-ARB; Global NAPs, Inc. Petition for Arbitration Pursuant to 47 U.S.C. § 252(b) of Interconnection Rates, Terms and Conditions with United Telephone Company of Ohio d/b/a Sprint, Case No. 01-2811-TP-ARB, on behalf of Global NAPs, Inc., Direct Testimony filed February 12, 2002, cross-examination February 19, 2002.

Minnesota State Office of Administrative Hearings for the Minnesota Public Utilities Commission, in Re: Commission Investigation into Qwest's Compliance with Section 271(c)(2)(B) of the Telecommunications Act of 1996: Checklist Items 3, 7, 8, 9, 10 and 12, PUC Docket No. P-421/CI-01-1370, OAH Docket No. X-2500-14485-2, on behalf of the Minnesota Department of Commerce, Affidavit filed January 28, 2002, cross-examination March 6, 2002.

Illinois Commerce Commission, in Re: Petition of Global NAPs, Inc. for Arbitration Pursuant to Section 252(b) of The Telecommunications Act of 1996 to Establish an Interconnection Agreement with Illinois Bell Telephone Company d/b/a Ameritech Illinois, Docket No. 01-0786, on behalf of Global NAPs, Inc., Direct Testimony filed December 28, 2001, cross-examination waived.

California Public Utilities Commission in Re: Global NAPs, Inc. Petition for Arbitration of an Interconnection Agreement with Verizon California Inc. F/K/A GTE California, Inc. (U-6449-C) Pursuant to Section 252(b) of the Telecommunications Act of 1996, Application 01-12-026, on behalf of Global NAPs, Inc., Direct Testimony filed December 20, 2001, cross-examination, February 11, 2002.

Nevada Public Utilities Commission, in Re: Petition of Global NAPs, Inc. for the Arbitration of an Interconnection Agreement with Central Telephone Company - Nevada, d/b/a Sprint of Nevada, Pursuant to Section 252 of the Telecommunications Act of 1996, Docket No. 01-10018, on behalf of Global NAPs, Inc., Direct Testimony filed December 4, 2001, cross-examination waived.

Exhibit SCL-1 – Statement of Qualifications

California Public Utilities Commission in Re: Petition by GNAPS, Inc. for Arbitration of an Interconnection Agreement with Pacific Bell Telephone Company Pursuant to Section 252(b) of the Telecommunications Act of 1996, Application 01-11-045, on behalf of Global NAPs, Inc., Direct Testimony filed November 30, 2001, cross-examination February 11, 2002.

Massachusetts Department of Telecommunications and Energy, in Re: Complaint of Fiber Technologies Networks, LLC Pursuant to G.L.c.166 § 45.00 et seq. Regarding access to poles owned or controlled by Shrewsbury's Electric Light Plant, DTE 01-70, on behalf of Fiber Technologies Networks, LLC, Direct Testimony filed November 9, 2001, no cross-examination conducted.

Maryland Public Service Commission, in Re: Investigation into Rates for Unbundled Network Elements Pursuant to the Telecommunications Act of 1996, Case No. 8879, on behalf of the Maryland Office of People's Counsel, Rebuttal Testimony filed September 5, 2001, Surrebuttal Testimony filed October 15, 2001, cross-examination December 7, 2001.

Wisconsin Public Service Commission, in Re: Application of CenturyTel of the Midwest-Kendall, Inc. for Rate Increase and Petition for Emergency Order for Rate Increase, Docket No. 2815-TR-103, on behalf of AT&T Communications of Wisconsin, L.P., Direct Testimony filed June 19, 2001, Rebuttal Testimony filed July 3, 2001, cross-examination waived.

New Jersey Board of Public Utilities, in Re: Review of Unbundled Network Elements Rates, Terms and Conditions of Bell Atlantic-New Jersey, Inc., Docket No. TO00060356, on behalf of the State of New Jersey, Division of the Ratepayer Advocate, Direct Testimony filed October 12, 2000, cross-examination January 26, 2001.

New Jersey Board of Public Utilities, in Re: Application of Bell Atlantic-New Jersey, Inc. for Approval of a Modified Plan for an Alternative Form of Regulation and to Reclassify All Rate Regulated Services as Competitive Services, Docket No. TO99120934, on behalf of the State of New Jersey, Division of the Ratepayer Advocate, Direct Testimony filed September 8, 2000, cross-examination waived.

Alabama Public Service Commission, in Re: Generic Proceeding: Costs and Rates of BellSouth's Operations Support System (OSS), Docket No. 27178, on behalf of National ALEC Association/Prepaid Communications Association, Direct Testimony filed May 20, 2000, cross-examination June 13, 2000.

California Public Utilities Commission, in Re: Petition by Pacific Bell (U 1001 C) for Arbitration of an Interconnection Agreement with Pac-West Telecom, Inc. (U 5266 C) Pursuant to Section 252(b) of the Telecommunications Act of 1996, Docket No. 98-11-024, on behalf of Pac West Telecom, Inc., Direct Testimony filed February 8, 1999, cross-examination February 24, 1999.

Exhibit SCL-1 – Statement of Qualifications

Texas Public Utilities Commission, in Re: Public Utility Commission, Application of Southwestern Bell Telephone Company for Rate Group Re-Classification Pursuant to Section 58.058 of the Texas Utility Code, Docket No. 18509, on behalf of the Office of Public Utility Counsel, Direct Testimony filed August 18, 1998, cross-examination September 9, 1998.

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Connecticut Public Utilities Commission, in Re: Application of SNET for Approval to Offer Unbundled Loops, Ports, and the Associated Interconnection Arrangements and Application of SNET for Approval to Offer Wholesale Local Basic Service and Certain Related Features and to Implement a Universal Service Fund, Docket No. 95-06-17, on behalf of New England Cable Television Association, Inc., Direct Testimony filed September 8, 1995.

Washington Utilities and Transportation Commission, in Re: In the Matter of the Request of US West Communications, Inc. for the Increase in its Rates and Charges, Docket No. UT-950200, on behalf of Washington Utilities and Transportation Commission Staff, Direct Testimony filed August 11, 1995, cross-examination January 15, 1996.

Exhibit SCL-1 – Statement of Qualifications

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Reports and Publications:

“Getting Connected: Availability of Internet Access via Advanced Communications Services in Colorado” (with Timothy Gates and Warren Fisher), June 2007. Prepared for the Colorado Public Utilities Commission.

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“A Study of Total Factor Productivity in the Wisconsin Local Exchange Carrier Industry” (with Lee L. Selwyn, Sarah C. Bosley), January 2003. Prepared for the Public Service Commission of Wisconsin.

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“Bringing Broadband to Rural America: Investment and Innovation in the Wake of the Telecom Act” (with Lee L. Selwyn and Scott A. Coleman). Prepared for AT&T, September 1999.

“Promises and Realities: An Examination of the Post-Merger Performance of the SBC/Pacific Telesis and Bell Atlantic/NYNEX Companies” (with Scott A. Coleman). Prepared for the AARP Public Policy Institute, July 1999.

Exhibit SCL-1 – Statement of Qualifications

“Manual of Procedures for the Rates Regulation Division” (with Paul S. Keller). Prepared for the Philippines National Telecommunications Commission, August 1994.

“Review of Annual Reporting Requirements for Telecommunications Common Carriers.” Prepared for the Philippines National Telecommunications Commission, October 1993.

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“New Connections for the 1990s: Managing the Changing Relationship Between Corporate Telecommunications Needs and the Local Telephone Company” (with W. Page Montgomery). Prepared for the International Communications Association, April 1990.

“Adapting Telecom Regulation to Industry Change” (with Dr. Lee L. Selwyn). Prepared for the International Communications Association and published in IEEE Communications Magazine, January 1989.

“A Study of Rate of Return Regulation and Alternatives - An Examination of Applicability to regulation of Telephone Companies by the Canadian Radio-Television and Telecommunications Commission” (with W. Page Montgomery and Lee L. Selwyn). Prepared for the Canadian Radio-Television and Telecommunications Commission, March 1989.

“Telecommunications Competition in Michigan and Regulatory Alternatives: Market Structure and Competition in the Michigan Telecommunications Industry” (with Lee L. Selwyn, David N. Townsend, Patricia D. Kravtin). Prepared for the Michigan Divestiture Research Fund Board, April 1988.

Exhibit SCL-2:
Midcontinent's Correction to MVC's Impact
Analysis – Summary tab

Midcontinent's Correction to Missouri Valley Communications' Impact Analysis
Midco Interconnect Impact – As Adjusted Per Lundquist Direct Testimony (July 2, 2008)

(NOTE: BLUE INDICATES REVISIONS FROM MVC'S ANALYSIS; PEPER HANSON EXHIBIT 1)

Assumptions:

MVC Local Service Rev Forecast	-0.50%
MVC Network Acq. Rev Forecast	4%
MVC Misc Revenue Forecast	0%
MVC Operating Expense Forecast	-1.58%
MVC Access Lines Forecast	

Midco Subscriber

MVC Residential Resale Line Growth	15.0%
MVC Business Resale Line Growth	75%
MVC Residential Resale Line Revenue	\$277.73
MVC Business Resale Line Revenue	452.40
MVC Long Distance Access Revenue	\$20.55
MVC Special Access Revenue	\$95.87
Midco Initial Special Access Take Rate	5.0%
Midco Special Access Growth	8.0%

	ACTUAL	2007	BUDGETED	2008	2009	2010	2011	2012
Residential Resale Lines (Under revised growth assumptions)	1443	1623	1983	1803	1983	1983	2163	2343
Business Resale Lines (Under revised growth assumptions)	45	81	117	117	153	153	189	225
Midco Ckt Equiv	0	0	988	988	1068	1154	1247	1247
MVC Access Lines – Incl. Resale	3753	8620	8484	8484	8350	8350	9218	8088
MVC Access Lines Net of Resale			6,564	6,564	5,214	5,214	5,866	5,520
RESALE MODEL								
MVC Revenues	2,815,389	2,801,300	2,801,300	2,787,300	2,773,400	2,773,400	2,759,500	2,745,700
Local-Including Resale	3,346,154	3,736,600	3,886,100	3,886,100	4,041,500	4,041,500	4,203,200	4,371,300
Network Access	1,29,231	122,600	122,600	122,600	122,600	122,600	122,600	122,600
Miscellaneous		6,660,500	6,660,500	6,796,000	6,937,500	7,085,300	7,233,600	7,338,600
Total Revenues	6,298,774	4,833,148	4,833,148	4,749,457	4,867,791	4,867,791	4,989,675	5,115,215
Less: Operating Expenses	1,946,780	2,027,352	2,046,543	2,069,709	2,095,625	2,124,335	2,151,098	2,178,098
MVC Net Operating Margins								

INTERCONNECT MODEL

Local	2,815,389	2,801,300	2,787,300	2,773,400	2,759,500	2,745,700
Less: Residential Resale (With Migration Timing adjustment)	(344,500)	(525,700)	(525,700)	(525,700)	(573,700)	(625,700)
Less: Business Resale (With Migration Timing adjustment)	(34,400)	(61,100)	(61,100)	(61,100)	(77,400)	(93,600)
Network Access	3,346,154	3,736,600	3,886,100	4,041,500	4,203,200	4,371,300
Less: IntraState Switch Access (With Migration Timing adjustment)	(14,800)	(38,900)	(38,900)	(38,900)	(42,600)	(46,300)
Less: Special Access (Deleted per Special Access adjustment)						
Miscellaneous	129,231	122,600	122,600	122,600	122,600	122,600
Change in USF Subsidies (Per USF adjustment)	280,931	358,219	358,219	358,219	436,960	516,312
Total Revenues	6,298,774	6,660,500	6,663,231	6,670,019	6,826,260	6,990,312
Less: Operating Expenses	4,749,457	4,867,791	4,867,791	4,867,791	4,989,675	5,115,215
MVC Net Operating Margins	1,549,317	1,792,709	1,805,440	1,802,228	1,836,585	1,875,097

MVC FINANCIAL IMPACT FROM INTERCONNECTION WITH MIDCO

TOTAL REVENUE IMPACT	(112,769)	(267,481)	(259,040)	(249,288)
NET REVENUE IMPACT	(112,769)	(267,481)	(259,040)	(249,288)
CUMULATIVE NET REVENUE IMPACT				(888,577)
				(3,583,000)

Model assumes a six-month cutover of Midco resale customers to interconnect agreement starting January 1, 2009. Excludes amortization expense, taxes, interest on funded debt, and nonoperating income and expenses