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**BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF NORTH DAKOTA**

In the Matter of Midcontinent Communications, a  
South Dakota Partnership, Petitioner, vs. Missouri  
Valley Communications, Inc., Respondent

Case No. PU-11-543

**DIRECT TESTIMONY OF CHAD A. DUVAL  
ON BEHALF OF  
MISSOURI VALLEY COMMUNICATIONS, INC.**

March 26, 2012



1 **Q. What are your name, title, and business address?**

2 A. My name is Chad A. Duval. I am a Principal at Moss Adams LLP (Moss Adams), an  
3 accounting and business consulting firm. My business address is 3121 W. March Lane, Suite  
4 100, Stockton, CA, 95219.

5  
6 **Q. Please describe your educational background and experience.**

7 A. My educational background includes a Bachelor of Science degree in Business  
8 Administration, with an emphasis in Statistics, from the University of Denver, in Denver,  
9 Colorado. In 1995, I was hired by GVNW Inc./Management to serve as a Consulting Analyst  
10 in the Company's Colorado Springs office. In 1998, I was promoted to Management  
11 Consultant. In 1999, I accepted the position of Manager of Strategic Pricing with US WEST  
12 Communications in Denver, Colorado. In January of 2000, I was promoted to Group  
13 Manager of Strategic Pricing. In October of 2000, I accepted the position of Director of  
14 Product Management with Vanion, Inc., a competitive local exchange carrier headquartered in  
15 Colorado Springs, Colorado. In September of 2001, I accepted the position of Senior  
16 Consultant with GVNW in Colorado Springs, Colorado. In October of 2004, I accepted the  
17 position of Senior Manager with Moss Adams in Stockton, California. In October of 2007, I  
18 became a Principal at Moss Adams.

19

20 **Q. Can you please describe your duties and responsibilities as a Principal at Moss Adams?**

21 A. Moss Adams is a regional accounting and consulting firm with offices in the principle cities  
22 of Arizona, California, New Mexico, Oregon, and Washington. I am a Principal in Moss  
23 Adams' Stockton, California office, where one of our market niches is the  
24 telecommunications industry. Moss Adams' Telecommunications Industry Group provides  
25 audit, tax, and financial and management consulting services to the telecommunications  
26 industry, particularly to rural telephone companies. I am the firm-wide leader of our  
27 telecommunications consulting practice. In that role I provide technical and strategic

28

1 guidance to a team of approximately 20 consultants. In addition, I provide consulting services  
2 to companies in several states, including: cost separation studies, business plans, budgets,  
3 depreciation studies, and management analysis on various regulatory and company actions.  
4

5 **Q. For whom are you appearing in this proceeding?**

6 A. I am appearing on behalf of Missouri Valley Communications, Inc. (MVC or the Company).  
7

8 **Q. Have you ever testified before the North Dakota Public Service Commission  
9 (Commission) or any other regulatory agency?**

10 A. I have not previously testified before the North Dakota Public Service Commission.  
11 However, I have testified before the California Public Utilities Commission, the Colorado  
12 Public Utilities Commission, the Public Utilities Commission of Nevada, the Public Service  
13 Commission of Utah, and the Wyoming Public Service Commission.  
14

15 **Q. What is the purpose of your testimony?**

16 A. In this testimony, I will address several of the unresolved issues between MVC and  
17 Midcontinent Communications (Midcontinent) in Midcontinent's Petition for Arbitration  
18 Statement of Issues. Specifically, I will focus on reciprocal compensation rates and the  
19 associated billing methodology, the compensation for non-local traffic, and the transition from  
20 current resale arrangements.  
21

22 **Q. What are the positions of MVC and Midcontinent relative to the billing methodology for  
23 the exchange of local traffic?**

24 A. Midcontinent proposes that the parties adopt bill and keep for reciprocal compensation for  
25 local traffic.<sup>1</sup> MVC has rejected Midcontinent's proposal that a bill-and-keep methodology be  
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27 <sup>1</sup> *Petition for Arbitration of Midcontinent Communications, In the Matter of Midcontinent Communications, a South  
28 Dakota Partnership, Complainant, vs. Missouri Valley Communications, Inc., Respondent, Exhibit 1 (Pages 1-2).*

1 adopted to compensate for the exchange of traffic<sup>2</sup>, and instead is proposing that a reciprocal  
2 compensation arrangement be established in which each company pays the other for the  
3 transport and termination of the others' traffic.  
4

5 **Q. What is the appropriate billing methodology for the exchange of local traffic between**  
6 **MVC and Midcontinent?**

7 A. FCC Rules state that,

8 "A state commission may impose bill-and-keep arrangements if the state commission  
9 determines that the amount of telecommunications traffic from one network to the  
10 other is roughly balanced with the amount of telecommunications traffic flowing in  
11 the opposite direction, and is expected to remain so, and no showing has been made  
12 pursuant to § 51.711(b) [permitting asymmetrical rates based on a cost study]<sup>3</sup>".

13 Given that the two companies do not agree that the exchange of traffic is in balance, I believe  
14 that a reciprocal compensation arrangement is the most appropriate billing methodology  
15 between MVC and Midcontinent. Doing so is the best way to protect either party in the event  
16 that traffic is not in balance, as the carrier that terminates the majority of traffic will be  
17 appropriately compensated for the utilization of its network. In the event that traffic is  
18 roughly balanced, then a reciprocal compensation arrangement will not penalize either  
19 provider; compensation will be approximately equal and both companies will be kept whole.  
20 At this point, no traffic studies have been completed, so it is difficult to determine if traffic is  
21 roughly balanced or not.  
22

23 **Q. What do the FCC rules say about developing a rate for the transport and termination of**  
24 **local traffic under a reciprocal compensation arrangement?**

25 \_\_\_\_\_  
26 <sup>2</sup> *Missouri Valley's Response to Midcontinent's Petition for Arbitration Statement of Issues, In the Matter of Midcontinent*  
27 *Communications, a South Dakota Partnership, Petitioner, vs. Missouri Valley Communications, Inc., Respondent, (Page*  
28 *3).*

<sup>3</sup> 47 C.F.R. § 51.713(b)

1 A. FCC Rules state, “(a) An incumbent LEC’s rates for transport and termination of  
2 telecommunications traffic shall be established, at the election of the state commission, on the  
3 basis of:

4 (1) The forward-looking economic costs of such offerings, using a cost study pursuant  
5 to §§ 51.505 and 51.511;

6 (2) Default proxies, as provided in § 51.707; or

7 (3) A bill-and-keep arrangement, as provided in § 51.713.”<sup>4</sup>

8 Because reciprocal compensation rates are negotiated between the parties and arbitrated by  
9 the Commission, there is latitude to establish a negotiated rate that is acceptable to all parties.

10  
11 **Q. What do you believe is the appropriate rate for the transport and termination of traffic**  
12 **between MVC and Midcontinent under a reciprocal compensation arrangement?**

13 A. Unless and until there is evidence that traffic is roughly balanced, the option to establish a bill  
14 and keep arrangement is not appropriate. Proxy rates can be difficult to determine, given the  
15 language in the FCC’s rules. Local switching proxies range between \$0.002 and \$0.004 per  
16 minute, at the discretion of the State Commission.<sup>5</sup> Transport proxies are established based on  
17 the incumbent LEC’s tariffed interstate charges for comparable entrance facilities or direct-  
18 trunked transport offerings.<sup>6</sup> Entrance facilities and direct-trunked transport charges are flat  
19 rate, monthly charges that would be difficult to apply on a per-minute of use basis and change  
20 at least annually. In order to calculate the appropriate proxy rate for entrance facilities and  
21 direct-trunked transport charges, a traffic study would first need to be prepared at the DS1  
22 level<sup>7</sup> to determine the numerator in the calculation of the per-minute of use rate. Finally,

23  
24 <sup>4</sup> 47 C.F.R. § 51.705

25 <sup>5</sup> 47 C.F.R. § 51.513 (2)(i)

26 <sup>6</sup> 47 C.F.R. § 51.513 (3)

27 <sup>7</sup> Both parties have proposed to interconnect at the DS1 level, so it would be necessary to determine the average monthly  
28 minutes of use per DS1 to calculate an average per-minute of use rate from a flat rate charge per DS1.

1 forward-looking economic cost studies can be very difficult and costly to prepare, and are  
2 often subject to long and costly litigation between the parties.

3 In lieu of a long and costly arbitration and litigation process to establish a forward-  
4 looking economic cost based rate for transport and termination, I believe that a better  
5 approach, and one that is in the best interest of both parties to this proceeding, is to use rates  
6 that have already been approved by the Commission in similar situations. This is also in the  
7 best interest of the public, who eventually bears the cost of such proceedings. MVC has  
8 existing interconnection agreements in place with wireless carriers that have been filed with  
9 and approved by the Commission. These agreements include consistent rates for reciprocal  
10 compensation for the transport and termination of local interconnection traffic of \$0.030249  
11 per terminating minute of use.<sup>8</sup>

12 This rate was initially negotiated with Verizon Wireless and includes an 80% wireline  
13 to 20% wireless terminating traffic factor. This means that Verizon Wireless is responsible  
14 for net reciprocal compensation payments to MVC for 60% of the local interconnection traffic  
15 between the carriers, which is substantially greater than the traffic between MVC and  
16 Midcontinent. ~~It seems appropriate that this rate also be used for the reciprocal compensation~~  
17 ~~between MVC and Midcontinent.~~

18  
19 **Q. Why is reciprocal compensation the proper billing methodology in this situation?**

20 A. As stated previously, MVC and Midcontinent disagree on whether the traffic between them is  
21 roughly balanced. Unless and until Midcontinent can produce a traffic study that shows that  
22 its presumption that traffic is balanced is correct, then reciprocal compensation is the  
23 appropriate billing methodology. MVC's concern that traffic may be imbalanced is enough to  
24 require that reciprocal compensation be paid. If and when MVC and Midcontinent are able to  
25 prepare a study that shows that traffic is roughly balanced, then the agreement could be  
26

27 <sup>8</sup> Case No. PU-08-521, Interconnection Agreement Between Missouri Valley Communications, Inc. and Verizon  
28 Wireless, Inc.

1 modified to a bill and keep methodology.

2  
3 **Q. Do you agree that traffic between MVC and Midcontinent is imbalanced?**

4 A. Neither party has produced a study that proves their position, but based on the customer mix  
5 served by each company, I believe that there is good reason to believe that the traffic is not in  
6 balance. As of February 29, 2012, MVC serves a total of 7,267 lines, made up of 3,353  
7 residential and 3,914 business lines. Midcontinent serves 1,751 residential lines and 334  
8 business lines for a total of 2,085 lines<sup>9</sup>. It is generally understood that business lines  
9 originate and terminate more calling than residential lines. Because MVC serves the majority  
10 of the business lines in the Williston exchange, it can be inferred that MVC would also  
11 terminate more traffic from Midcontinent than Midcontinent would terminate MVC traffic.

12 I have prepared a simple analysis<sup>10</sup> that assumes that calling patterns for all residential  
13 lines are the same and that calling patterns for all business lines are the same in the Williston  
14 exchange. In this analysis I assumed that each residential access line terminates 100 local  
15 minutes of use and that each business line terminates 300 local minutes of use each month.  
16 Because MVC serves 78% of all lines, it is assumed that 78% of all traffic terminates on  
17 MVC's network, including calling from both MVC and Midcontinent lines. As a result, MVC  
18 would terminate 1,172,962 minutes of use from MVC lines and 336,538 minutes of use from  
19 Midcontinent lines. Midcontinent serves approximately 22% of all lines, so it is also assumed  
20 that 22% of all traffic would terminate on Midcontinent's network, including calling from  
21 both MVC and Midcontinent lines. As a result, Midcontinent would terminate 61,377  
22 minutes of use from Midcontinent lines and 213,923 minutes of use from MVC lines. The  
23 minutes of use to which reciprocal compensation applies are the minutes of use terminated  
24 from the other carrier. In this example, MVC would terminate 336,538 minutes of use from  
25 Midcontinent lines, and Midcontinent would terminate 213,923 minutes of use from MVC

26 \_\_\_\_\_  
27 <sup>9</sup> See Attachment 4 to the Direct Testimony of Michael Kilgore.

28 <sup>10</sup> See Attachment 1 to the Direct Testimony of Chad A. Duval.

1 lines. This is a termination ratio of approximately 61% MVC and 39% Midcontinent, or a net  
2 payment of 22% to MVC.

3 In this simple analysis, using the reciprocal compensation rate proposed above,  
4 Midcontinent would owe MVC a net payment of approximately \$3,709 on a monthly basis.  
5 While this is hardly an amount worth arbitrating and potentially litigating a forward looking  
6 economic cost based cost study over, given the revenue losses that MVC is likely to  
7 experience as a result of the direct interconnection with Midcontinent, it is revenue that will  
8 prove important to MVC in continuing to provide service to customers throughout the  
9 Williston exchange. If the disparity of minutes of use between business and residential lines is  
10 varies from the 3 to 1 assumed, then the net payment to MVC would vary as well.

11  
12 **Q. Has anything recently changed in the FCC's rules that requires bill and keep for local**  
13 **interconnection?**

14 A. No. While the FCC recently revised many of its rules relating to the interconnection of  
15 telecommunications networks, including the interconnection of wireline and wireless  
16 networks, it did not make any substantive changes to its rules relating to the interconnection  
17 of two wireline networks. In its recent USF and Inter-carrier Compensation Reform Order<sup>11</sup>,  
18 and a subsequent Order on Reconsideration<sup>12</sup>, the FCC modified its rules to require that local  
19 interconnection between a wireline carrier and a wireless carrier utilizes a bill and keep  
20 methodology effective July 1, 2012. However, the FCC maintained the ability to utilize

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22 <sup>11</sup> *In the Matter of Connect America Fund*, WC Docket No. 10-90, *A National Broadband Plan for Our Future*, GN  
23 Docket No. 09-51, *Establishing Just and Reasonable Rates for Local Exchange Carriers*, WC Docket No. 07-135, *High-*  
24 *Cost Universal Service Support*, WC Docket No. 05-337, *Developing an Unified Inter-carrier Compensation Regime*, CC  
25 Docket No. 01-92, *Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, *Lifeline and Link-Up*, WC  
26 Docket No. 03-109, *Universal Service Reform – Mobility Fund*, WT Docket No. 10-208, Report and Order and Further  
27 Notice of Proposed Rulemaking and Further Notice of Proposed Rulemaking, FCC 11-161 (Released November 18,  
28 2011)

29 <sup>12</sup> *In the Matter of Connect America Fund*, WC Docket No. 10-90, *A National Broadband Plan for Our Future*, GN  
30 Docket No. 09-51, *Establishing Just and Reasonable Rates for Local Exchange Carriers*, WC Docket No. 07-135, *High-*  
31 *Cost Universal Service Support*, WC Docket No. 05-337, *Developing an Unified Inter-carrier Compensation Regime*, CC  
32 Docket No. 01-92, *Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, *Lifeline and Link-Up*, WC  
33 Docket No. 03-109, *Universal Service Reform – Mobility Fund*, WT Docket No. 10-208, Order on Reconsideration, FCC  
34 11-189 (Released December 23, 2011)

1 reciprocal compensation for local interconnection between wireline carriers, such as MVC  
2 and Midcontinent, when the traffic between the two carriers is not in balance. Nothing has  
3 changed that would preclude MVC and Midcontinent from establishing a reciprocal  
4 compensation arrangement for the transport and termination of local traffic.  
5

6 **Q. What are the positions of MVC and Midcontinent relative to the exchange of non-local**  
7 **calling?**

8 A. Midcontinent proposes that arrangements for non-local traffic exchanged by the parties  
9 remain the same as today, to the extent those arrangements are consistent with the  
10 requirements of the FCC and the Commission.<sup>13</sup> MVC rejects Midcontinent's proposed  
11 arrangement for the exchange of non-local traffic and believes that Midcontinent should  
12 transport its own non-local traffic.<sup>14</sup>  
13

14 **Q. What is the current arrangement between MVC and Midcontinent for the exchange of**  
15 **non-local traffic?**

16 A. It is my understanding that, as a reseller of MVC's service, there is no exchange of non-local  
17 (or local) traffic between the two carriers today. All traffic to and from Midcontinent resale  
18 customers stays on MVC's network until it is handed off to or from an interexchange carrier  
19 for the transport of toll calling or another non-Midcontinent interconnecting carrier (i.e. –  
20 wireless carriers or carriers with Extended Area Service (EAS) arrangements with MVC) for  
21 other types of calling. As a result, MVC bills, collects and retains access charges from  
22 interexchange carriers for toll calling to and from both MVC and Midcontinent customers. In  
23 addition, MVC also passes traffic to and from wireless and EAS carriers pursuant to existing  
24

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25 <sup>13</sup> *Petition for Arbitration of Midcontinent Communications, In the Matter of Midcontinent Communications, a South*  
26 *Dakota Partnership, Complainant, vs. Missouri Valley Communications, Inc., Respondent, Exhibit 1 (Page 2).*

27 <sup>14</sup> *Missouri Valley's Response to Midcontinent's Petition for Arbitration Statement of Issues, In the Matter of*  
28 *Midcontinent Communications, a South Dakota Partnership, Petitioner, vs. Missouri Valley Communications, Inc.,*  
*Respondent, (Page 3).*

1 arrangements with those carriers, including the payment and or receipt of compensation in  
2 accordance with those arrangements.

3  
4 **Q. Should Midcontinent be allowed to utilize the existing agreements that MVC has in**  
5 **place with other carriers for wireless and EAS traffic?**

6 A. No. These agreements have costs associated with them that are born by MVC and the  
7 connecting carriers. Midcontinent should not be allowed to piggy back on these agreements  
8 and benefit from the costs that MVC incurs. Not only was MVC required to negotiate  
9 agreements with these carriers, but also it has provisioned trunks for the mutual transport of  
10 traffic and in some cases compensates the other carrier for traffic that MVC passes to it. If  
11 MVC were to carry Midcontinent traffic across these facilities, MVC would bear the  
12 additional costs of doing so, but would not receive compensation from Midcontinent. If  
13 Midcontinent desires to interconnect with these carriers, it can go through the same  
14 negotiation processes and incur the same costs as MVC.

15  
16 **Q. Should EAS calling be considered local traffic or non-local traffic?**

17 A. EAS is calling between neighboring exchanges that was once subject to access charges but,  
18 through the mutual agreement of the ILECs or requirement of the Commission, is no longer  
19 subject to access charges. When EAS arrangements are established, each ILEC determines the  
20 cost of providing this transport and develops either incremental EAS end user charges or  
21 increases the local rate to recover the cost of EAS calling. Incremental EAS charges can  
22 either be flat rate or per-minute of use, but either way are assessed on the end user customer.  
23 Regardless of whether EAS is determined to be local or non-local traffic, MVC should not be  
24 required to carry Midcontinent traffic over its EAS trunks to neighboring ILECs utilizing  
25 existing EAS agreements. There are costs associated with the provision of EAS service that  
26 are currently paid by MVC and MVC's end user customers. Once the Midcontinent  
27 customers migrate off of the existing resale arrangement, they will no longer be paying for the  
28

1 cost of EAS via the resale rate. Therefore, it is not appropriate that Midcontinent and their  
2 customers be allowed to benefit from the EAS agreements arranged for by MVC, and the cost  
3 recovery provided by MVC end user customers.  
4

5 **Q. Is MVC required to transit traffic from Midcontinent to wireless carriers, pursuant to**  
6 **its interconnection agreements with those wireless carriers?**

7 A. No. MVC's interconnection agreements with wireless carriers allow for the transiting of  
8 traffic from third parties, but do not require it. For example, MVC's interconnection  
9 agreement with Verizon Wireless states that,

10 "The Parties acknowledge and agree that this Agreement is intended to govern the  
11 exchange of traffic to and from the Parties' respective networks only. Traffic that is  
12 originated on a network of a non-party Telecommunications Carrier ("Non-Party  
13 Carrier") and routed to a Party may be delivered to the other Party's network...The  
14 Party performing such transiting function will bill the originating carrier (other Party  
15 or a Non-Party Carrier) the transiting charge, as specified in Section 5 below. In order  
16 for the other Party or a non-Party Carrier to bill the originating carrier (a Non-Party or  
17 other Party) for charges it is obligated to pay, the Party performing the transiting  
18 function will provide, subject to availability, total minutes of transiting traffic  
19 terminating to the terminating carrier (Non-Party Carrier or the other Party). VZW  
20 shall not perform a transiting function pursuant to this Agreement."

21 The agreement states that either Party may provide the transiting service to a Non-Party  
22 Carrier. Much like Verizon has, MVC is electing not to provide transiting services.  
23

24 **Q. How should non-local traffic be defined in the context of the interconnection agreement**  
25 **between MVC and Midcontinent?**

26 A. Non-local traffic should be defined as all traffic originated by MVC or Midcontinent  
27 customers that does not terminate to another MVC or Midcontinent customer in the Williston  
28

1 exchange. This will ensure that neither MVC nor Midcontinent inappropriately benefits from  
2 agreements entered into by the other with a third party carrier, especially when doing so  
3 would generate additional costs for the party with the agreement.  
4

5 **Q. What do you propose as the arrangement for the exchange of non-local calling?**

6 A. Midcontinent should switch and transport its own non-local traffic to and from other carriers  
7 using its own facilities, or facilities leased from another provider, pursuant to interconnection  
8 agreements between Midcontinent and those carriers or tariffs filed with the appropriate  
9 regulatory agency. To the extent that Midcontinent utilizes a switch that routes traffic from  
10 customers outside of the Williston exchange, it must route all non-local calling to MVC  
11 customers in accordance with Telcordia's Traffic Routing Administration instructions<sup>15</sup>.  
12 Generally this would require that Midcontinent route non-local calling to an interexchange  
13 carrier and the payment of access charges by that interexchange carrier to terminate traffic on  
14 MVC's network.

15 In addition, it may be necessary to establish a non-local calling factor that is applied to  
16 all traffic terminated to MVC by Midcontinent over the direct interconnection trunks, to  
17 which access charges will apply. This non-local calling factor is designed to ensure that  
18 carriers with a centralized switch, such as Midcontinent, do not utilize the local  
19 interconnection trunks to terminate non-local traffic at reciprocal compensation rates.  
20

21 ~~Q. What are the positions of MVC and Midcontinent relative to the transition from the~~  
22 ~~current resale arrangement?~~

23 ~~A. Midcontinent proposes a one year transition period with a conversion of an equal number of~~  
24 ~~customers each week. Midcontinent would provide transitional financial assistance equal to~~  
25 ~~75% of the access charges attributable to an average MVC customer for six months from the~~  
26 ~~date of the transition. MVC proposed an eighteen month transition period and agrees that~~

27 \_\_\_\_\_  
28 <sup>15</sup> Also referred to as the Local Exchange Routing Guide (LERG).

1 transitional financial assistance should be provided, but has not proposed a rate or amount for  
2 that compensation.<sup>16</sup> It is my understanding that MVC's proposed transition period may have  
3 subsequently changed.

4  
5 **Q. Has Midcontinent estimated the amount of transitional financial assistance that would**  
6 **be provided to MVC under Midcontinent's proposal?**

7 A. Yes. In its response to Interrogatory No. 4 from MVC, and the associated Exhibit A,  
8 Midcontinent estimated that transitional financial assistance would total \$46,845 over 17  
9 months. This analysis assumes that 174 customers are transitioned each month for 12 months  
10 and that transitional financial assistance is provided for 6 months from the transition of each  
11 customer at 75% of the estimated per-line estimated access revenue of \$5.00 per month.  
12 Midcontinent also proposes that this financial assistance would be adjusted to reflect changes  
13 in FCC or Commission rules during the transition period.<sup>17</sup>

14  
15 **Q. Have you reviewed the financial impacts analysis prepared by MVC in the context of**  
16 **this proceeding?**

17 A. I have reviewed the summary results on Attachment 4 to the Direct Testimony of Michael  
18 Kilgore, which I understand to be MVC's estimation of the financial impacts of a direct  
19 interconnection with Midcontinent.

20  
21 **Q. Can you summarize the findings from your review of the MVC financial impacts**  
22 **analysis?**

23 A. Yes. It appears that MVC would lose a relatively small amount of intrastate access revenue,  
24

25 <sup>16</sup> Missouri Valley's Response to Midcontinent's Petition for Arbitration Statement of Issues, In the Matter of  
26 Midcontinent Communications, a South Dakota Partnership, Petitioner, vs. Missouri Valley Communications, Inc.,  
Respondent, (Page 4).

27 <sup>17</sup> Petition for Arbitration of Midcontinent Communications, In the Matter of Midcontinent Communications, a South  
28 Dakota Partnership, Complainant, vs. Missouri Valley Communications, Inc., Respondent, Exhibit 1 (Pages 2-3).

1 but a very significant amount of local revenue as a result of the direct interconnection with  
2 Midcontinent. The estimated impact in MVC's analysis ranges from \$817,300 in 2012 up to  
3 \$1,243,000 in 2016. This reduction in net operating margin would have a significant,  
4 negative impact on MVC's ability to service its existing debt, and could prohibit MVC from  
5 borrowing additional funds to continue investing in its network. As a result, MVC would  
6 have difficulty meeting its obligation as the Carrier of Last Resort in the Williston exchange.  
7 Doing so is clearly not in the public interest, as MVC is the only telecommunications carrier  
8 that provides service in the majority of the Williston exchange.

9  
10 **Q. — What additional financial impacts will the FCC's recent Order and Further Notice of**  
11 **Proposed Rule Making on Universal Service Funding and Intercarrier Compensation**  
12 **Reform (Reform Order and FNPRM)<sup>18</sup> have on MVC?**

13 A. — The FCC's Reform Order will have significant and current, negative financial ramifications  
14 on MVC. In addition, the FNPRM has the potential to produce further and even greater  
15 future, negative financial impacts for MVC. In the Order, the FCC has implemented a 5%  
16 annual reduction in revenues associated with all interstate switched access, originating  
17 intrastate switched access services and reciprocal compensation from a 2011 base. This  
18 reduction alone results in annual revenue losses of more than \$60,000 in 2012 and grows to  
19 more than \$400,000 a year by 2019, when compared to 2011<sup>19</sup>. These are amounts that  
20 cannot be recovered through the FCC's newly implemented Access Recovery Charge or the  
21 Intercarrier Compensation (ICC) portion of the Connect America Fund (CAF). These cost

22 <sup>18</sup> *In the Matter of Connect America Fund*, WC Docket No. 10-90, *A National Broadband Plan for Our Future*, GN  
23 Docket No. 09-51, *Establishing Just and Reasonable Rates for Local Exchange Carriers*, WC Docket No. 07-135, *High-*  
24 *Cost Universal Service Support*, WC Docket No. 05-337, *Developing an Unified Intercarrier Compensation Regime*, CC  
25 Docket No. 01-92, *Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, *Lifeline and Link-Up*, WC  
Docket No. 03-109, *Universal Service Reform – Mobility Fund*, WT Docket No. 10-208, Report and Order and Further  
Notice of Proposed Rulemaking and Further Notice of Proposed Rulemaking, FCC 11-161 (Released November 18,  
2011)

26 <sup>19</sup> MVC provided an analysis of the impacts of the FCC's Order and FNPRM on its Nemont North Dakota in response to  
27 Midcontinent's Interrogatory #18. This analysis was prepared at the study area level, which includes the Nemont  
Telephone Cooperative customers in North Dakota, because costs and support are typically calculated at this level. The  
28 vast majority of the costs and revenues generated in the Nemont North Dakota study area are associated with MVC.

1 recovery mechanisms are designed to help recover costs associated with switched access and  
2 reciprocal compensation rate reductions after the 5% annual reduction factor has been applied.

3 The FNPRM includes several proposals that if implemented would also have dire  
4 impacts on MVC's revenue streams. For example, the FCC has proposed regression based  
5 limitations on costs included in the calculation of High Cost Loop Support (HCLS) and  
6 Interstate Common Line Support (ICLS). MVC is not eligible for HCLS, but does receive a  
7 substantial amount of ICLS on an annual basis. While the FCC is still working on these  
8 calculations, the initial proposal provided for significant limitations on Nemont Telephone  
9 Cooperative's North Dakota study area, which includes MVC. Because ICLS support is  
10 calculated at the study area level, it is impossible to calculate the stand alone impacts on  
11 MVC, but it is important to note that the FCC's proposed regression model is estimated to  
12 reduce ICLS in the Nemont North Dakota study area by approximately \$180,000 in the  
13 second half of 2012 and more than \$320,000 for 2013.

14 The FCC's Reform Order also requires that the FCC open a re prescription proceeding  
15 to address the interstate authorized rate of return. The current authorized rate of return is  
16 11.25%, but interested parties in the FCC's reform proceeding have commented that the rate  
17 of return should be as low as 8.00%. I calculated the financial impacts that a 1% reduction in  
18 the authorized rate of return would have on the Nemont North Dakota study area, the vast  
19 majority of which is MVC, at approximately \$79,000 for the full year of 2012. If the rate of  
20 return declines to the 8.00% proposed by some, this impact would increase to more than  
21 \$256,000 for 2012.

22 In addition, there are numerous other proposals or concepts introduced in the FNPRM  
23 that would have negative impacts on MVC's revenues. For example, the FNPRM determines  
24 that originating switched access should also transition to bill and keep over time and asks  
25 whether there should be ongoing cost recovery for originating switched access. The FNPRM  
26 also discusses the long term future of ICLS, Subscriber Line Charges, the newly introduced  
27 ARC, and many other existing cost recovery mechanisms, all of which do or will provide  
28

1 significant revenues for MVC. Finally, the FNPRM discusses increasing the annual revenue  
2 reduction factor that is applied to switched access and reciprocal compensation revenues, as  
3 discussed above, from 5% to 10% or some other greater factor. While the answers to these  
4 proposals remain unknown, it is clear that MVC will face additional, future revenue  
5 reductions beyond those that have been quantified here. The direct interconnection with  
6 Midcontinent will further limit MVC's ability to meet its Carrier of Last Resort obligations.

7  
8 **Q. — Do you believe that the transitional financial assistance should be adjusted to reflect the**  
9 **impacts of the Reform Order and FNPRM?**

10 A. — No. The impacts of a direct interconnection with Midcontinent will have serious financial  
11 implications on MVC on a standalone basis. The rules promulgated in the FCC's Reform  
12 Order and the proposals outlined in the FCC's FNPRM will further impact MVC's financial  
13 results. To reduce the transitional financial assistance from Midcontinent would further  
14 exacerbate these impacts on MVC. The impacts of the direct interconnection with  
15 Midcontinent are immediate and long lasting.

16 While the transitional financial assistance proposed by Midcontinent is calculated as a  
17 percentage of access revenues, it is important to understand that the majority of the financial  
18 impact is associated with end user revenues, such as local rates. Calculating transitional  
19 financial assistance based on access revenues does not appropriately recognize what is driving  
20 the impact on MVC. The FCC's Reform Order and FNPRM include rules that could increase  
21 basic local rates in some situations and definitely will increase end user rates in most  
22 situations. As a result, the direct interconnection with Midcontinent will not only preclude  
23 MVC from recovering lost access revenues for customers that are transitioned to  
24 Midcontinent, it will also significantly impact the local revenues that MVC generates.

25  
26 **Q. — Do you agree that transitional financial assistance should only be provided for 6**  
27 **months?**

1 A. ~~No. While I understand that transitional financial assistance is not required, it is in the public~~  
2 ~~interest. MVC serves as the Carrier of Last Resort throughout the entire Williston exchange,~~  
3 ~~whereas Midcontinent serves only a small portion of the exchange. The financial impacts of~~  
4 ~~the direct interconnection will significantly limit MVC's ability to meet that obligation in the~~  
5 ~~areas not served by Midcontinent. Ensuring that MVC continues to provide service as the~~  
6 ~~Carrier of Last Resort, through sufficient transitional financial assistance, is in the public~~  
7 ~~interest.~~

8 ~~As indicated in Attachment 4 to the Direct Testimony of Michael Kilgore, the~~  
9 ~~financial impacts of the direct interconnection with Midcontinent on MVC are significant and~~  
10 ~~long lasting. The transitional financial assistance proposed by Midcontinent will not have any~~  
11 ~~real impact on MVC's ability to continue to serve as the Carrier of Last Resort in the~~  
12 ~~Williston exchange. For transitional financial assistance to have a meaningful impact, it must~~  
13 ~~be established at a much higher level and remain in place for a longer period of time.~~

14  
15 **Q. ~~Is the transitional financial assistance that Midcontinent has proposed sufficient to allow~~**  
16 **~~MVC to continue serving as the Carrier of Last Resort throughout the entire Williston~~**  
17 **~~exchange?~~**

18 A. ~~Based on the impacts analysis that MVC has prepared, I don't believe so. The transitional~~  
19 ~~financial assistance proposed is based on lost access revenue, but this is only a small~~  
20 ~~component of the lost revenues that MVC will incur as a result of the direct interconnection~~  
21 ~~with Midcontinent. The majority of the lost revenue is related to local service. I believe that~~  
22 ~~the calculation of the transitional financial assistance should include components of both~~  
23 ~~access and local service, and should focus more on cost recovery than revenues.~~

24 ~~As the carrier of last resort in the Williston exchange, MVC is responsible for~~  
25 ~~providing service to all customers in the exchange. As a Competitive Local Exchange~~  
26 ~~Carrier, Midcontinent does not have the same obligation, nor does it have the ability to reach~~  
27 ~~all customers in the exchange utilizing its own facilities. It is my understanding that~~  
28

1 Midcontinent's service territory only includes approximately 7 densely populated square  
2 miles within the heart of Williston, while MVC's study area encompasses approximately 393  
3 square miles, including all of Williston and much of the surrounding, sparsely populated rural  
4 areas that make up the Williston exchange. It is easy for Midcontinent to cast stones at  
5 MVC's efforts to provide service to customers in the heart of Williston when it is not subject  
6 to the same obligations to serve the entire exchange.

7 While MVC has had a difficult time keeping up with the growth in the entire  
8 exchange, it is doing what it can to meet this obligation with limited financial resources. With  
9 the loss of both access and local revenues, as a result of direct interconnection with  
10 Midcontinent, these limited financial resources will be further strained. If MVC is not  
11 compensated with reasonable transitional financial assistance, including both access and local  
12 revenues, it likely will not have the financial resources to continue serving as the Carrier of  
13 Last Resort. This is clearly not in the public interest, especially for those customers that  
14 reside in the 386 square miles outside of Williston that Midcontinent does not serve.

15  
16 **Q.—What are the approaches that could be utilized in the calculation of transitional**  
17 **financial assistance?**

18 A.—There are a multitude of options, but I believe that there are two different approaches that  
19 should be considered in the calculation of transitional financial assistance. The first approach  
20 would be to calculate lost intrastate access and local revenues. The potential problem with a  
21 revenues based approach is that it does not directly correlate with the rate of return regulation  
22 that MVC is subject to from a State and Federal perspective. Under rate of return regulation,  
23 carriers generate revenues that cover their expenses plus a reasonable rate of return. The  
24 calculation of expenses plus a rate of return on net investment is generally referred to as a  
25 "revenue requirement". The second approach would be to calculate the average revenue  
26 requirement associated with the transitioned customers for intrastate access and local services.  
27 Once the impacted revenue or revenue requirement is determined, the transitional financial  
28

1 assistance could be determined as a percentage of the impact for a reasonable period of time.

2  
3 **Q.—Have you calculated the revenue impacts on MVC as a result of the direct**  
4 **interconnection with Midcontinent?**

5 A.—No, but I believe that Attachment 4 to the Direct Testimony of Michael Kilgore could be used  
6 as the starting point in a revenue-based calculation of transitional financial assistance. While I  
7 am not proposing a specific amount of transitional financial assistance at this point in time, I  
8 do believe that Midcontinent's proposal of 75% of intrastate access for six months is  
9 insufficient for MVC to maintain their Carrier of Last Resort obligations and is not in the  
10 public interest. If the Commission were to develop transitional financial assistance based on  
11 revenues, I believe that it should include both intrastate access and local revenue impacts and  
12 be provided for a greater period of time. Doing so will better allow MVC to meet its Carrier  
13 of Last Resort obligation and is in the public interest.

14  
15 **Q.—Have you calculated the revenue requirement impacts on MVC as a result of the direct**  
16 **interconnection with Midcontinent?**

17 A.—Yes. In order to do so, I first had to separate the revenue requirement calculation<sup>20</sup> for MVC  
18 from the remainder of the Nemont North Dakota study area. This was accomplished using  
19 cost and network data provided by MVC. Once I developed the estimated 2012 revenue  
20 requirement for intrastate access and local services, I divided these amounts by the average  
21 number of access lines included in the cost study to come up with a per line revenue  
22 requirement. The estimated 2012 revenue requirement per line is \$149.89 for intrastate access  
23 and \$302.53 for local services. This equates to a monthly amount of \$12.49 for access and  
24 \$25.21 for local. These are the average costs that MVC incurs in the provision of intrastate  
25 access and local service, and will go unrecovered as a result of the direct interconnection with

26  
27 <sup>20</sup> The revenue requirement is calculated in a cost separations study using a model that applies FCC separations and  
28 access charge rules to a company's cost data. The end result is the company's revenue requirement split by jurisdiction  
(interstate and intrastate) and services (access, special access and local).

1 ~~Midcontinent. These costs will not go away, as they are associated with facilities that have~~  
2 ~~already been built by MVC or services that must be provided to MVC's remaining customers,~~  
3 ~~as a result of its Carrier of Last Resort obligation. I believe that it may be appropriate to base~~  
4 ~~the transitional financial assistance on the actual cost of providing service to the transitioned~~  
5 ~~customers, rather than on the revenue that those customers generate today.~~

6  
7 **Q. Does this conclude your testimony?**

8 **A. Yes.**

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Attachment 1 to Direct Testimony of Chad A. Duval

Company	Lines	Percent	MOU	Monthly	MVC MOU	Midco MOU	Total
MVC - Res	3,353	35.85%	100	335,300	260,546	74,754	335,300
MVC - Bus	3,914	41.85%	300	1,174,200	912,416	261,784	1,174,200
Midco - Res	1,751	18.72%	100	175,100	136,062	39,038	175,100
Midco - Bus	334	3.57%	300	100,200	77,861	22,339	100,200
<b>Total</b>	<b>9,352</b>	<b>100.00%</b>		<b>1,784,800</b>	<b>1,386,884</b>	<b>397,916</b>	<b>1,784,800</b>
MVC Terminated						336,538	61.14%
Midco Terminated					213,923		38.86%
Reciprocal Compensation				\$ 0.030249		122,616	\$ 3,709

