

NORTH DAKOTA
PUBLIC SERVICE COMMISSION

BEK Communications Cooperative Switched Access	Case No. PU-12-160
Consolidated Telcom Switched Access	Case No. PU-12-199
Dakota Central Telecom I, Inc. Switched Access	Case No. PU-12-201
Dakota Central Telecommunications Cooperative Switched Access	Case No. PU-12-200
Dickey Rural Access, Inc. Switched Access	Case No. PU-12-233
Dickey Rural Communications, Inc. Switched Access	Case No. PU-12-203
Dickey Rural Telephone Cooperative Switched Access	Case No. PU-12-202
Griggs County Telephone Co. Switched Access	Case No. PU-12-204
Inter-Community Telephone Company, L.L.C. Switched Access	Case No. PU-12-205
Missouri Valley Communications, Inc. Switched Access	Case No. PU-12-206
Moore and Liberty Telephone Company Switched Access	Case No. PU-12-207
Nemont Telephone Cooperative, Inc. Switched Access	Case No. PU-12-208
North Dakota Telephone Company Switched Access	Case No. PU-12-209
Northwest Communications Cooperative Switched Access	Case No. PU-12-210
Polar Communications Mutual Aid Corporation Switched Access	Case No. PU-12-211
Red River Rural Telephone Association Switched Access	Case No. PU-12-212
Reservation Telephone Cooperative Switched Access	Case No. PU-12-213
SRT Communications, Inc.	Case No. PU-12-286
Turtle Mountain Telephone Company Switched Access	Case No. PU-12-214
United Telephone Mutual Aid Corporation Switched Access	Case No. PU-12-215
West River Telecommunications Cooperative Switched Access	Case No. PU-12-216
Wolverton Telephone Company Switched Access	Case No. PU-12-217

PRE-FILED DIRECT TESTIMONY OF
DOUGLAS DUNCAN MEREDITH
ON BEHALF OF

BEK Communications Cooperative
Consolidated Telcom
Dakota Central Telecom I, Inc.
Dakota Central Telecommunications
Cooperative
Dickey Rural Access, Inc.
Dickey Rural Communications, Inc.
Dickey Rural Telephone Cooperative
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L.L.C.
Missouri Valley Communications, Inc.
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SRT Communications, Inc.
Turtle Mountain Telephone Company
United Telephone Mutual Aid
Corporation
West River Telecommunications
Cooperative
Wolverton Telephone Company

I. Introduction

1

2 **Q: PLEASE STATE YOUR FULL NAME, PLACE OF EMPLOYMENT AND**
3 **POSITION.**

4 **A:** My full name is Douglas Duncan Meredith. I am employed by John Staurulakis, Inc.
5 (“JSI”) as Director – Economics and Policy. JSI is a telecommunications consulting
6 firm headquartered in Greenbelt, Maryland. My office is located at 547 Oakview
7 Lane, Bountiful, Utah 84010. JSI has provided telecommunications consulting
8 services to rural local exchange carriers since 1963.

9 **Q: PLEASE DESCRIBE YOUR PROFESSIONAL EXPERIENCE AND**
10 **EDUCATIONAL BACKGROUND.**

11 **A:** As the Director of Economics and Policy at JSI, I assist clients with the development
12 of policy pertaining to economics, pricing and regulatory affairs. I have been
13 employed by JSI since 1995. Prior to my work at JSI, I was an independent research
14 economist in the District of Columbia and a graduate student at the University of
15 Maryland – College Park.

16

17 In my employment at JSI, I have participated in numerous proceedings for rural and
18 non-rural telephone companies. These activities include, but are not limited to, the
19 creation of forward-looking economic cost studies, the development of policy
20 related to the application of the rural safeguards for qualified local exchange
21 carriers, the determination of Eligible Telecommunications Carriers, the
22 sustainability and application of universal service policy for telecommunications
23 carriers, as well as supporting rural carriers in arbitration proceedings and rural
24 exemption and suspension and/or modification proceedings.

25

26 In addition to assisting telecommunications carrier clients, I have served as the
27 economic advisor for the Telecommunications Regulatory Board of Puerto Rico
28 since 1997. In this capacity, I provide economic and policy advice to the Board

1 Commissioners on all telecommunications issues that have either a financial or
2 economic impact. I have participated in a number of Arbitration panels established
3 by the Board to arbitrate interconnection issues under Section 252 of the
4 Telecommunications Act of 1996 (the "Act").

5
6 I am participating or have participated in numerous national incumbent local
7 exchange carrier and telecommunications groups, including those headed by NTCA,
8 OPASTCO, USTA, and the Rural Policy Research Institute. My participation in
9 these groups focuses on the development of policy recommendations for advancing
10 universal service and telecommunications capabilities in rural communities and
11 other policy matters.

12
13 I have testified or filed pre-filed regulatory testimony in various states including
14 North Dakota, South Dakota, Maine, Vermont, New Hampshire, New York,
15 Michigan, Wisconsin, South Carolina, Texas, Kentucky, Utah, and Tennessee. I
16 have also participated in regulatory proceedings in many other states that did not
17 require formal testimony, including Florida, Louisiana, Mississippi, North Carolina,
18 Puerto Rico and Virginia. In addition to participation in state regulatory
19 proceedings, I have participated in federal regulatory proceedings through filing of
20 formal comments in various proceedings and submission of economic reports in an
21 enforcement proceeding.

22
23 I have a Bachelor of Arts degree in economics from the University of Utah, and a
24 Masters degree in economics from the University of Maryland – College Park.
25 While attending the University of Maryland – College Park, I was also a Ph.D.
26 candidate in Economics. This means that I completed all coursework,
27 comprehensive and field examinations for a Doctorate of Economics without
28 completing my dissertation.

1

2 **Q: ON WHOSE BEHALF ARE YOU TESTIFYING?**

3 A: I am testifying on behalf of BEK Communications Cooperative,
4 Consolidated Telcom, Dakota Central Telecom I, Inc., Dakota Central
5 Telecommunications Cooperative, Dickey Rural Access, Inc., Dickey Rural
6 Communications, Inc., Dickey Rural Telephone Cooperative, Griggs County
7 Telephone Co., Inter-Community Telephone Company, L.L.C., Missouri Valley
8 Communications, Inc., Moore and Liberty Telephone Company, Nemont Telephone
9 Cooperative, Inc., North Dakota Telephone Company, Northwest Communications
10 Cooperative, Polar Communications Mutual Aid Corporation, Red River Rural
11 Telephone Association, Reservation Telephone Cooperative, SRT Communications,
12 Inc., Turtle Mountain Telephone Company, United Telephone Mutual Aid
13 Corporation, West River Telecommunications Cooperative, and Wolverton
14 Telephone Company ("Rural Local Exchange Telephone Companies" or "RLECs").

15 **Q: WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

16 A: My purpose in providing this testimony to the North Dakota Public Service
17 Commission ("Commission" or "PUC") is to support the recent intrastate switched
18 access tariff revisions of the RLECs filed in response to the Federal
19 Communications Commission ("FCC") Report and Order and Further Notice of
20 Proposed Rulemaking released November 18, 2011 (FCC 11-161, "Transformation
21 Order"). I also will discuss the impact of the FCC's Order released June 5, 2012
22 that directly impacts the substance of this proceeding (DA 12-870, "June 5th
23 Order").

24 **Q: PLEASE SUMMARIZE THE ACTIONS TAKEN BY THE FCC THAT**
25 **REQUIRED THE RLECS TO FILE REVISIONS TO THEIR INTRASTATE**
26 **SWITCHED ACCESS SERVICES.**

27 A: The FCC's November Order is called its "Transformation Order" due to the fact that
28 the FCC has fundamentally transformed both the federal universal service programs

1 supporting the RLECs and the intercarrier compensation access regime. With
2 respect to intercarrier compensation, the subject of this proceeding, the FCC's
3 actions reformed all terminating switched access services by mandating a phase-out
4 of these access rates over a period of time. Moreover, the FCC is seeking comments
5 on how to phase-out all originating switched access services in the Further Notice of
6 Proposed Rulemaking accompanying the Transformation Order.

7
8 The FCC's rules mandate that the first steps of intrastate switched access service
9 reform occur in July 2012. Subsequent to this first step, there are a series of
10 additional steps that will occur in later years—and these steps differ based on
11 whether a carrier is rate-of-return regulated or price-cap regulated for its interstate
12 services. I will only address the immediate 2012 reforms in this testimony. These
13 immediate reforms are the same for rate-of-return and price-cap carriers.

14 **Q: PLEASE IDENTIFY THE FCC RULE THAT REQUIRES THE RLECS TO**
15 **REVISE THEIR INTRASTATE SWITCHED ACCESS SERVICE TARIFFS.**

16 A: The applicable rule for rate-of-return carriers is 47 CFR § 51.909. This rule applies
17 for all RLECs except for SRT Communications, Inc. ("SRT"). SRT is a price cap
18 carrier and its rule is 47 CFR § 51.907. The subpart (b) for each rule outlines the
19 step for 2012 and these subparts and there is no meaningful difference between §
20 51.907(b) and § 51.909(b).

21 **Q: DID THE FCC PREEMPT THE COMMISSION IN MANDATING CHANGES TO**
22 **INTRASTATE SWITCHED ACCESS SERVICES?**

23 A: Yes. The FCC rules requires the RLECs to follow federal rules that now govern
24 Transitional Intrastate Access Service, as that term is defined in 47 CFR §51.903(j).

25 **Q: WHAT IS "TRANSITIONAL INTRASTATE ACCESS SERVICE"?**

26 A: The FCC defines this term as follows:

27 Transitional Intrastate Access Service means terminating End
28 Office Access Service that was subject to intrastate access rates

1 as of December 31, 2011; terminating Tandem-Switched
2 Transport Access Service that was subject to intrastate access
3 rates as of December 31, 2011; and originating and terminating
4 Dedicated Transport Access Service that was subject to
5 intrastate access rates as of December 31, 2011.

6 **Q: WHAT ACTIONS DOES THE FCC REQUIRE FROM RATE-OF-RETURN**
7 **CARRIERS IN ITS RULE 51.909?**

8 A: FCC rules § 51.909 establishes, *inter alia*, the transition of interstate and intrastate
9 terminating End Office Access Service, as this term is defined in 47 CFR §
10 51.903(d), to a bill-and-keep regime in nine (9) steps. The purpose of the RLEC
11 filing is to revise intrastate switched access tariffs to conform to step one (1) of the
12 FCC's rule.

13 **Q: PLEASE DESCRIBE STEP ONE OF THE FCC'S RULE.**

14 A: The rule as adopted in the Transformation Order states:

15 (b) Step 1. Beginning July 1, 2012, notwithstanding any other
16 provision of the Commission's rules:

17 (1) Each Rate-of-Return Carrier shall file intrastate access tariff
18 provisions, in accordance with §[51.505(b)(2)] 51.505(b)(2),
19 that set forth the rates applicable to Transitional Intrastate
20 Access Service in each state in which it provides Transitional
21 Intrastate Access Service.

22 (2) Each Rate-of-Return Carrier shall establish the rates for
23 Transitional Intrastate Access Service using the following
24 methodology:

25 (i) Calculate total revenue from Transitional Intrastate Access Service
26 at the carrier's interstate access rates in effect on December 29,
27 2011, using Fiscal Year 2011 intrastate switched access
28 demand for each rate element.

29 (ii) Calculate total revenue from Transitional Intrastate Access
30 Service at the carrier's intrastate access rates in effect on
31 December 29, 2011, using Fiscal Year 2011 intrastate switched
32 access demand for each rate element.

33 (iii) Calculate the Step 1 Access Revenue Reduction. The Step 1
34 Access Revenue Reduction is equal to one-half of the
35 difference between the amount calculated in (b)(2)(i) of this
36 section and the amount calculated in (b)(2)(ii) of this section.

37 (iv) A Rate-of-Return Carrier may elect to establish rates for
38 Transitional Intrastate Access Service using its intrastate access

1 rate structure. Carriers using this option shall establish rates for
2 Transitional Intrastate Access Service such that Transitional
3 Intrastate Access Service revenue at the proposed rates is no
4 greater than Transitional Intrastate Access Service revenue at
5 the intrastate rates in effect as of December 29, 2011 less the
6 Step 1 Access Revenue Reduction, using Fiscal Year 2011
7 intrastate switched access demand. Carriers electing to
8 establish rates for Transitional Intrastate Access Service in this
9 manner shall notify the appropriate state regulatory authority of
10 their election in the filing required by §[51.907(b)(1)]
11 51.907(b)(1).

12 (v) In the alternative, a Rate-of-Return Carrier may elect to apply its
13 interstate access rate structure and interstate rates to
14 Transitional Intrastate Access Service. In addition to applicable
15 interstate access rates, the carrier may, between July 1, 2012
16 and July 1, 2013, assess a transitional per-minute charge on
17 Transitional Intrastate Access Service end office switching
18 minutes (previously billed as intrastate access). The transitional
19 per-minute charge shall be no greater than the Step 1 Access
20 Revenue Reduction divided by Fiscal Year 2011 Transitional
21 Intrastate Access Service end office switching minutes.
22 Carriers electing to establish rates for Transitional Intrastate
23 Access Service in this manner shall notify the appropriate state
24 regulatory authority of their election in the filing required by
25 §[51.907(b)(1)] 51.907(b)(1).

26 (3) Nothing in this section obligates or allows a Rate-of-Return
27 carrier that has intrastate rates lower than its functionally
28 equivalent interstate rates to make any intrastate tariff filing or
29 intrastate tariff revisions raising such rates.
30

31 The FCC explained this method in its June 5th Order stating:

32 5. Under the methodology adopted in the transition rules,
33 the reduction in a carrier's intrastate rates on July 1, 2012, is
34 equal to one-half of the difference between the compared
35 revenue levels. On July 1, 2013, the specified intrastate
36 switched access rates move to parity with interstate switched
37 access rate levels employing the carrier's interstate rate
38 structure. This movement to interstate rates and rate structure
39 was designed to reduce the potential for arbitrage between
40 interstate and intrastate rates and deliver the benefits of a
41 uniform intercarrier compensation system. The Commission
42 also prohibited carriers from raising any intrastate rates that are
43 lower than their functionally equivalent interstate rates in
44 making this transition. (June 5th Order at paragraph 5,
45 footnotes omitted)

1 Q: DID THE FCC REVISE OR MODIFY THIS RULE IN ITS JUNE 5TH ORDER?

2 A: Yes. Step one of this rule was changed in the June 5th Order. The portions of the
3 rule that was changed are as follows:

4 (b) * * *

5 (2) * * *

6
7 (v) A Rate-of-Return Carrier may elect to apply its interstate access
8 rate structure and interstate rates to Transitional Intrastate
9 Access Service. In addition to applicable interstate access
10 rates, the carrier may, between July 1, 2012 and July 1, 2013,
11 assess a transitional per-minute charge on Transitional
12 Intrastate Access Service end office switching minutes
13 (previously billed as intrastate access). The transitional per-
14 minute charge shall be no greater than the Step 1 Access
15 Revenue Reduction divided by Fiscal Year 2011 Transitional
16 Intrastate Access Service end office switching minutes.
17 Carriers electing to establish rates for Transitional Intrastate
18 Access Service in this manner shall notify the appropriate state
19 regulatory authority of their election in the filing required by §
20 51.907(b)(1).

21 (3) Except as provided in paragraph (b)(4), nothing in this section
22 obligates or allows a Rate-of-Return carrier that has intrastate
23 rates lower than its functionally equivalent interstate rates to
24 make any intrastate tariff filing or intrastate tariff revisions
25 raising such rates.

26
27 (4) If a Rate-of-Return Carrier must make an intrastate switched
28 access rate reduction pursuant to paragraph (b)(2) of this
29 section, and that Rate-of-Return Carrier has an intrastate rate
30 for a rate element that is below the comparable interstate rate
31 for that element, the Rate-of-Return Carrier shall:

32 (i) Increase the rate for any intrastate rate element that is below the
33 comparable interstate rate for that element to the interstate rate
34 no later than July 1, 2013;

35 (ii) Include any increases made pursuant to paragraph (b)(4)(i) in the
36 calculation of its eligible recovery for 2012.
37

38 The FCC explained that its new rules are governed by the overall principle of
39 revenue reduction—for 2012 this equals a reduction of one-half of the difference
40 between interstate and intrastate revenues.

41 In considering alternative rate and rate structure approaches to
42 reducing intrastate switched access rates, **the overarching**
43 **principle is compliance with the requirement that a carrier**

1 **reduce its overall intrastate switched access rates** by the
2 amount calculated in section 51.907(b)(2) (for price cap
3 carriers) or 51.909(b)(2) (for rate-of-return carriers) of the
4 Commission's rules. Thus, we now clarify that a carrier
5 required to make intrastate rate reductions in 2012 may
6 increase individual intrastate switched access rate element
7 levels to levels above comparable interstate rate element levels
8 in 2012 without violating the prohibition on raising intrastate
9 switched access rates as long as the **overall reduction**
10 **principle is satisfied.** (June 5th Order at paragraph 8, emphasis
11 supplied)

12 **Q: DID THE FCC ADOPT AND MODIFY THE RULE FOR PRICE CAP CARRIERS**
13 **IN A SIMILAR MANNER?**

14 A: Yes. The step one (1) rule for price cap carriers is similar to the rule I provided
15 above.

16 **Q: PLEASE SUMMARIZE THE EFFECT OF THE JUNE 5TH ORDER ON THE**
17 **RLEC TARIFF FILING.**

18 A: The FCC's June 5th Order establishes a process whereby the RLECs have
19 considerable unilateral flexibility in meeting the (b)(2)(iii) step one access revenue
20 reduction. The FCC discusses that as long as a carrier satisfies its (b)(2)(iii)
21 reduction in the first year, which is one-half the difference between Transitional
22 Intrastate Access Service revenues computed at interstate rates and the revenues for
23 functionally equivalent services computed at intrastate rates, the carrier can modify
24 an individual rate, group of rates or all rates—it can even increase intrastate rates
25 that are lower than their functionally equivalent counterpart. The FCC June 5th
26 Order states:

27 Consistent with the above clarification, the required reductions
28 to intrastate switched access rates may be made to any
29 intrastate switched access rate as long as the lowered rates
30 produce a reduction in revenues equal to the reduction required
31 in 2012. (June 5th Order at paragraph 11)

32 **Q: ARE THE RLECS IN COMPLIANCE WITH ALL FCC RULES REGARDING**
33 **STEP ONE OF INTRASTATE ACCESS SERVICES?**

1 A: Yes. Attachment DDM-1 shows that for every RLEC except Wolverton the
2 reduction in rates filed with the Commission results in meeting the one-half revenue
3 difference requirement specified in (b)(2) of rule § 51.909. Wolverton's state
4 revenue is less than its interstate revenue so no reduction is required.

5 **Q: PLEASE IDENTIFY HOW YOU MAKE THIS DETERMINATION USING**
6 **ATTACHMENT DDM-1.**

7 A: Each RLEC is reported on a separate page. For most, but not all, of the RLECs
8 there are separate pages for intraLATA and interLATA rates for switched access
9 services. On the page is a calculation of the one-half revenue difference
10 (highlighted in yellow) as indicated by the FCC regulation. Also on the page is a
11 revenue calculation using the recently filed rates for each RLEC. The revenue
12 reduction due to the new 2012 rates is calculated and reported (highlighted in blue).
13 When the highlighted values match, the (b)(2)(iii) revenue reduction requirement is
14 satisfied.

15 **Q: ARE THE RATES LISTED FOR 2012 IN ATTACHMENT DDM-1 THE RATES**
16 **THAT HAVE BEEN FILED WITH THE COMMISSION?**

17 A: Yes. Attachment DDM-2 is a copy of the filing's relevant pages for each RLEC. A
18 comparison of the rates reported in DDM-2 with those listed in the second-to-last
19 column of DDM-1 reveal that the rates in DDM-1 are used in the recent tariff
20 revision filed by the RLECs.

21
22 There are five (5) required revisions to the tariff rates that I have highlighted in
23 Exhibit DDM-2. These revisions are for BEK, Dakota Central Telephone
24 Cooperative, Dickey Rural Access, and North Dakota Telephone. These tariff
25 changes are the result of scriveners' errors. I understand that revisions to these
26 tariffs are being prepared to be filed with the Commission.

27 **Q: ARE THERE ANY OTHER ISSUES FOR 2012 THAT REQUIRE THE**
28 **COMMISSION'S ATTENTION IN THIS PROCEEDING?**

1 A: No. Since each RLEC satisfies the FCC's rule as amended by its June 5th Order,
2 there is no other issue related to the 2012 tariff revision for 2012 rates.

3 **Q: HOW ABOUT YEAR 2013 AND BEYOND, ARE THERE ISSUES THAT NEED**
4 **TO BE ADDRESSED IN THIS PROCEEDING?**

5 A: No. The FCC's June 5th Order also modifies the Transformation Order rules for the
6 year 2013. The RLECs will make the necessary changes in their tariff for 2013 and
7 beyond before the July 2013 effective date for those rates. However, making any
8 changes now for 2013 would be inefficient given the possibility of additional FCC
9 changes that may occur as it works through its transformation of intercarrier
10 compensation.

11 **Q: DOES THIS END YOUR PRE-FILED DIRECT TESTIMONY?**

12 A: Yes.