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
Griggs County Telephone Co.
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SRT Communications, Inc.
Turtle Mountain Telephone Company
United Telephone Mutual Aid Corporation
West River Telecommunications Cooperative
Wolverton Telephone Company

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Exhibit 1
(e-file only - for paper copy see PU-12-160)
Northwest Communications Cooperative, a Cooperative Association

I. Introduction

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

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

Q: PLEASE DESCRIBE YOUR PROFESSIONAL EXPERIENCE AND EDUCATIONAL BACKGROUND.

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

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

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

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

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

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

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

Q: ON WHOSE BEHALF ARE YOU TESTIFYING?

A: I am testifying 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, Griggs County Telephone Co., Inter-Community Telephone Company, L.L.C., Missouri Valley Communications, Inc., Moore and Liberty Telephone Company, Nemont Telephone Cooperative, Inc., North Dakota Telephone Company, Northwest Communications Cooperative, Polar Communications Mutual Aid Corporation, Red River Rural Telephone Association, Reservation Telephone Cooperative, SRT Communications, Inc., Turtle Mountain Telephone Company, United Telephone Mutual Aid Corporation, West River Telecommunications Cooperative, and Wolverton Telephone Company ("Rural Local Exchange Telephone Companies" or "RLECs").

Q: WHAT IS THE PURPOSE OF YOUR TESTIMONY?

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

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

A: The FCC's November Order is called its "Transformation Order" due to the fact that the FCC has fundamentally transformed both the federal universal service programs supporting the RLECs and the intercarrier compensation access regime. With respect to intercarrier compensation, the subject of this proceeding, the FCC's actions reformed all terminating switched access services by mandating a phase-out of these access rates over a period of time. Moreover, the FCC is seeking comments on how to phase-out all originating switched access services in the Further Notice of Proposed Rulemaking accompanying the Transformation Order.

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

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

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

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

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

Q: WHAT IS "TRANSITIONAL INTRASTATE ACCESS SERVICE"?

A: The FCC defines this term as follows:

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

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

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

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

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

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

> (b) Step 1. Beginning July 1, 2012, notwithstanding any other provision of the Commission's rules:
>
> (1) Each Rate-of-Return Carrier shall file intrastate access tariff provisions, in accordance with §[51.505(b)(2)] 51.505(b)(2), that set forth the rates applicable to Transitional Intrastate Access Service in each state in which it provides Transitional Intrastate Access Service.
>
> (2) Each Rate-of-Return Carrier shall establish the rates for Transitional Intrastate Access Service using the following methodology:
>
> (i) Calculate total revenue from Transitional Intrastate Access Service at the carrier's interstate access rates in effect on December 29, 2011, using Fiscal Year 2011 intrastate switched access demand for each rate element.
>
> (ii) Calculate total revenue from Transitional Intrastate Access Service at the carrier's intrastate access rates in effect on December 29, 2011, using Fiscal Year 2011 intrastate switched access demand for each rate element.
>
> (iii) Calculate the Step 1 Access Revenue Reduction. The Step 1 Access Revenue Reduction is equal to one-half of the difference between the amount calculated in (b)(2)(i) of this section and the amount calculated in (b)(2)(ii) of this section.
>
> (iv) A Rate-of-Return Carrier may elect to establish rates for Transitional Intrastate Access Service using its intrastate access

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

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

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

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

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

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

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

> (b) * * *
> (2) * * *
>
> (v) A Rate-of–Return Carrier may elect to apply its interstate access rate structure and interstate rates to Transitional Intrastate Access Service. In addition to applicable interstate access rates, the carrier may, between July 1, 2012 and July 1, 2013, assess a transitional per-minute charge on Transitional Intrastate Access Service end office switching minutes (previously billed as intrastate access). The transitional per-minute charge shall be no greater than the Step 1 Access Revenue Reduction divided by Fiscal Year 2011 Transitional Intrastate Access Service end office switching minutes. Carriers electing to establish rates for Transitional Intrastate Access Service in this manner shall notify the appropriate state regulatory authority of their election in the filing required by § 51.907(b)(1).
>
> (3) Except as provided in paragraph (b)(4), nothing in this section obligates or allows a Rate-of-Return carrier that has intrastate rates lower than its functionally equivalent interstate rates to make any intrastate tariff filing or intrastate tariff revisions raising such rates.
>
> (4) If a Rate-of-Return Carrier must make an intrastate switched access rate reduction pursuant to paragraph (b)(2) of this section, and that Rate-of-Return Carrier has an intrastate rate for a rate element that is below the comparable interstate rate for that element, the Rate-of-Return Carrier shall:
>
> (i) Increase the rate for any intrastate rate element that is below the comparable interstate rate for that element to the interstate rate no later than July 1, 2013;
>
> (ii) Include any increases made pursuant to paragraph (b)(4)(i) in the calculation of its eligible recovery for 2012.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

A: Yes.