

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:)
)
)
AN INVESTIGATION INTO THE) ADMINISTRATIVE CASE
INTRASTATE SWITCHED ACCESS) NO. 2010-00398
RATES OF ALL KENTUCKY)
INCUMBENT AND COMPETITIVE)
LOCAL EXCHANGE CARRIERS)
)
)

DIRECT TESTIMONY

OF

CAREY ROESEL

On Behalf of
SE Acquisitions LLC d/b/a SouthEast Telephone

**COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION**

In the Matter of:

AN INVESTIGATION INTO THE
INTRASTATE SWITCHED ACCESS
RATES OF ALL KENTUCKY INCUMBENT
AND COMPETITIVE LOCAL EXCHANGE
CARRIERS

ADMINISTRATIVE CASE NO. 2010-00398

**DIRECT TESTIMONY OF
CAREY ROESEL**

1 SE Acquisitions, LLC d/b/a SouthEast Telephone (“SouthEast”) submits the following
2 direct testimony of Carey Roesel.

3 Carey Roesel, after first being duly sworn on oath, testified as follows:

4 Question: Could you state your name and occupation?

5 **Answer:** I am Carey Roesel and I am Vice President and Consultant with
6 Technologies Management, Inc. ("TMI"), 2600 Maitland Center Parkway, Suite 300, Maitland,
7 Florida 32751.

8 Question: What is the business of TMI?

9 **Answer:** TMI offers consulting services primarily to companies operating within
10 the telecommunications industry. We consult with regard to a variety of matters, including
11 market entry certification, tariff development and ongoing maintenance, inter-carrier
12 compensation issues, interconnection agreements, and compliance reporting.

13 Question: Is TMI a consultant to SouthEast?

14 **Answer:** Yes.

15 Question: How long has TMI consulted for SouthEast?

16 **Answer:** TMI was initially retained by SouthEast’s predecessor company,
17 SouthEast Telephone, Inc., in 2003.

18 **Question:** Could you describe your educational background and your experience in
19 the telecommunications industry?

20 **Answer:** Since 1996 I have been a consultant working with competitive
21 telecommunications companies. In that capacity I have provided assistance in market planning,
22 rate research, certification, and tariffs. Prior to joining Technologies Management I worked in
23 the local division of Sprint. I have received a Bachelor of Arts in Economics at the University of
24 Florida and a Master of Arts in Applied Economics from the University of Central Florida.

25 **Question:** Has TMI assisted SouthEast and its predecessor company in the
26 preparation of and filing of its tariffs?

27 **Answer:** TMI has assisted SouthEast and its predecessor company in the
28 preparation of its FCC and Kentucky switched access tariffs.

29 **Question:** In your opinion, is there anything that makes SouthEast’s position in this
30 proceeding different than many of the other participants?

31 **Answer:** Yes. SouthEast is a *rural* CLEC in Kentucky as that term is defined under
32 47 CFR 61.26 (6). When the Commission established this administrative case it made the
33 following comment regarding CLEC participants:

34 **The Commission also estimates that a number of other CLECs**
35 **may charge access rates, but those rates are not a significant**
36 **source of income for them and, therefore, those carriers could**
37 **readily adapt to a decision by the Commission to change the**

38 **way access rates are structured in Kentucky without a**
39 **dramatic change to their intrastate revenue structures.**

40 While that may be true for many CLECs, it is certainly not true for SouthEast. Intrastate
41 switched access is a critical source of intrastate revenue for a rural CLEC like SouthEast in the
42 same way it is a critical revenue source for rural ILECs. The FCC summed up the situation for
43 rural CLECs well on the 7th Report and Order:

44 **Limiting CLECs to the higher of the benchmark rate or the**
45 **access rate of its ILEC competitor could prove rather harsh for**
46 **some of the small number of CLECs that operate in rural**
47 **areas. The difficulty would likely arise for those CLECs that**
48 **operate in a rural area served by a price-cap incumbent with**
49 **state-wide operations. Our rules require such ILECs to**
50 **geographically average their access rates. This regulatory**
51 **requirement causes these “non-rural ILECs” effectively to use**
52 **their low-cost, urban and suburban operations to subsidize**
53 **their higher cost, rural operations, with the effect that their**
54 **state-wide averaged access rates recover only a portion**
55 **of the ILEC’s regulated costs for providing access service to**
56 **the rural portions of its study area. During the course of this**
57 **proceeding, we became concerned that tying the access rates of**
58 **rural CLECs to those of such non-rural ILECs could unfairly**
59 **disadvantage CLECs that lacked urban operations with which**
60 **they could similarly subsidize their service to rural areas.**

61 The underlying rationale of the FCC's rural exemption is as valid today as it was over ten
62 years ago. SouthEast incurs high costs to operate in rural Kentucky – high costs that are largely
63 the result of AT&T's rural UNE pricing. SouthEast is competing with AT&T retail local rates,
64 however, that are somewhat *inversely* related to the urban/rural character of the markets, i.e., the
65 retail rates are lower where the UNE rates are higher. A rural exemption on switched access
66 charges helps remedy this otherwise unworkable cost/price dilemma.

67 Question: Is it your opinion that SouthEast's intrastate switched access rates are in
68 the public interest?

69 Answer: Yes. Were it not for the NECA-based, rural exempt rates for interstate
70 switched access, and a similar pricing approach for intrastate switched access rates, the
71 competitive benefits SouthEast has spread across the most rural areas of Eastern Kentucky
72 simply would not exist. These rates have helped to offset the extraordinarily high costs of serving
73 rural areas and, since they are limited to just rural areas of Kentucky, any economic distortions
74 that may be attributable to them are minimal.

75 Question: Are SouthEast's intrastate switched access rates sustainable?

76 Answer: While switched access continues to be an important source of revenue to
77 offset the high costs associated with serving rural areas, SouthEast recognizes that there is
78 increasing pressure on minute-based intercarrier compensation (ICC). The eventual migration to
79 an all-broadband Internet Protocol (IP) world and the expansion of local calling areas as traffic
80 shifts from wireline to wireless networks mean that per minute access charges will not likely be
81 able bear the rural cost recovery burden forever. SouthEast, however, would not be seeking
82 short-term preservation of its intrastate access rates if they anticipated it would not ultimately
83 yield the required revenue.

84 Question: How long, then, will switched access charges be a viable means of cost
85 recovery?

86 **Answer:** While carriers in non-rural markets have often seen dramatic declines in
87 switched access traffic volumes in recent years, SouthEast's, and its predecessor company's,
88 volumes have remained steady. Because of the rural markets SouthEast serves, switched access
89 should remain viable for the foreseeable future. In other words, there is little risk that any
90 proposed switched access transitional plans for rural carriers will be outpaced by market forces.

91 Question: Does SouthEast oppose *any* effort by the Commission to reduce intrastate
92 access rates in some manner and shift cost recovery to local rates or perhaps some new recovery
93 fund?

94 **Answer:** SouthEast is not opposed to some form of rational rate rebalancing and/or
95 the formation of a new recovery fund. But it is essential that such efforts consider the special
96 circumstances of a rural CLEC competing with the large incumbent. Rate rebalancing efforts
97 must consider the UNE rate/retail price mismatch in rural areas, for example. Any moves to
98 mirror interstate rates should not tie a rural CLEC to RBOC rates, but rather allow it to mirror its
99 NECA, rural exempt interstate rates. Any new recovery fund must also be available to support
100 rural CLECs as well as rural ILECs. SouthEast also favors transition periods that allow market
101 participants to adjust gradually. As we have seen in other state proceedings, transition periods
102 can extend out to ten years.

103 Question: How does the FCC's NPRM impact this proceeding?

104 **Answer:** One of the primary issues under consideration by the FCC in its NPRM is
105 the role of the state PUCs in addressing ICC issues:

106 ***Federal/State Role:* We seek comment on two possible overall**
107 **approaches for working with states to reform intercarrier**
108 **compensation. The first approach relies on the Commission**
109 **and states to act within their existing roles in regulating**
110 **intercarrier compensation, such that states would remain**
111 **responsible for reforming intrastate access charges. Under a**
112 **possible variation, states would remain responsible for**
113 **reforming wireline intrastate charges, but we also seek**
114 **comment on whether we should set a glide path to reform**
115 **wireless termination charges, possibly including intrastate**
116 **access charges paid by or to wireless providers. The second**
117 **approach relies on the Commission using the tools provided by**
118 **sections 251 and 252 in the 1996 Act to unify all intercarrier**
119 **rates, including those for intrastate calls, under the reciprocal**
120 **compensation framework. Under this framework, the**
121 **Commission would establish a methodology, which states**
122 **would then work with the Commission to implement.**

123 This is certainly not the first time the FCC has attempted ICC reform, and the Commission
124 should not simply suspend all reform activity in deference to what the FCC may or may not do in
125 this current effort. In this case, however, it appears that the FCC is moving more aggressively
126 than it has previously. The expectation is that broad ICC reform decisions – including how the
127 FCC views the role of the state PUCs -- will be announced by the FCC as early as August. It
128 seems reasonable, then, that the Commission take this into consideration as it moves forward.