COMMONWEALTH OF KENTUCKY
BEFORE THE 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

PREFILED DIRECT TESTIMONY OF EMMANUEL STAURULAKIS
FILED ON BEHALF OF
THE RURAL LOCAL EXCHANGE CARRIERS

July 8, 2011

Respectfully submitted,

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July 8, 2011

Q1. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A1. My name is Emmanuel Staurulakis. My business address is 7852 Walker Drive, Suite 200, Greenbelt, Maryland 20770.

Q2. BY WHOM AND IN WHAT CAPACITY ARE YOU EMPLOYED?

A2. I am President of John Staurulakis, Inc. (JSI) a telecommunications consulting firm providing a full range of financial, regulatory and management consulting services to independent telecommunications providers throughout the nation.

Q3. PLEASE BRIEFLY OUTLINE YOUR EDUCATION, TRAINING AND EXPERIENCE IN THE TELEPHONE INDUSTRY.

A3. In 1980, I received a Bachelor of Arts degree in Business Administration from the American University, Washington, D.C. Since beginning my career with JSI in May 1980, I have completed numerous jurisdictional cost separations studies on behalf of rate-of-return ILECs, developed and filed state and interstate access tariffs, participated in the preparation of local rate cases, and have testified before a number of state regulatory authorities on numerous topics including access reform and universal service reform.

Q4. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS CASE?

A4. I have been requested to testify on behalf of the Kentucky Incumbent Rural Local Exchange Carriers (collectively referred to as the RLECs).[1]

Q5. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A5. The purpose of my testimony is to address various shortcomings and deficiencies I have observed in the plan filed by AT&T (AT&T Plan) regarding reform of intrastate switched access rates of the RLECs and the creation of a Kentucky universal service fund (KYUSF) in this proceeding. My testimony will also address universal service and intercarrier compensation (ICC) reform efforts underway at the federal level and how such reforms, if implemented, will impact the RLECs and any reform efforts undertaken by the Public Service Commission of the Commonwealth of Kentucky (Commission). In addition, my testimony addresses reasons for the differences in the RLEC's intrastate and interstate tariff switched access rates and how such rates are a significant part of the RLECs' regulated network cost structure.

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[1] Ballard Rural Telephone Cooperative Corporation, Inc.; Brandenburg Telephone Company; Duo County Telephone Cooperative Corporation, Inc., Foothills Rural Telephone Cooperative, Inc.; Gearhart Communications Co., Inc.; Highland Telephone Cooperative, Inc.; Logan Telephone Cooperative, Inc.; Mountain Rural Telephone Cooperative, Inc.; North Central Telephone Cooperative Corporation; Peoples Rural Telephone Cooperative, Inc.; South Central Rural Telephone Cooperative Corporation, Inc.; Thacker-Grigsby Telephone Company, Inc.; and
West Kentucky Rural Telephone Cooperative Corporation, Inc.

Q6. ARE THE RLECS OPPOSED TO INTRASTATE ACCESS REFORM INCLUDING CREATION OF A KENTUCKY UNIVERSAL SERVICE FUND (KYUSF)?

A6. No. I understand that the RLECs are not opposed to a plan to reform intrastate switched access rates in a manner that continues to allow for continued delivery and maintenance of affordable basic and advanced telecommunications services to end-user customers in rural Kentucky. The RLECs believe that the creation of a state universal service fund is essential to any intrastate switched access reform measures undertaken by the Commission. The creation of a properly sized and sustainable KYUSF is the best way to ensure continued availability of quality broadband and basic local exchange service to all rural Kentucky end users at affordable rates. In addition, I believe any switched access reform measures undertaken in Kentucky must take into consideration pending switched access reform measures currently under consideration by the FCC in accordance with its recent Notice of Proposed Rulemaking (NPRM).[2]

Q7. DO THE RLECS SUPPORT THE ACCESS REFORM PLAN SUBMITTED BY AT&T (AT&T PLAN)?

A7. No. The RLECs do not believe that the AT&T Plan for the reform of intrastate access rates is in the best interests of the RLECs and their rural subscribers. Moreover, implementation of the AT&T Plan could have adverse impacts on the ability of the RLECs to continue providing basic and advanced telecommunications services to their rural subscribers at affordable rates.

[2] *See* Federal Communications Commission Notice of Proposed Rulemaking and Further Notice of Proposed Rulemaking, FCC 11-13, Released February 9, 2011 (FCC NPRM).

Q8. WHAT ASPECTS OF THE AT&T PLAN DO THE RLECS OPPOSE?

A8. The RLECs oppose a number of the mechanisms included in the AT&T Plan. First, the RLECs oppose the mirroring of state switched access rates with current interstate switched access rates at the outset of the AT&T Plan. Second, the RLECs oppose the five-year transition period contained in the Plan. Third, the RLECs oppose use of an access line based revenue shift for determining the level of support to be recovered from a properly sized KYUSF on an annual basis. Fourth, the RLECs oppose the unreasonably high annual increase in basic local rates proposed in the AT&T Plan. Finally, the AT&T Plan is not consistent with access reform measures advocated by AT&T at the federal level.

Q9. DOES AT&T OFFER ANY PROOF THAT THE INTRASTATE SWITCHED ACCESS RATES OF THE RLECS CREATE THE HARMS DESCRIBED ON PAGE 2 OF ITS COMMENTS TO THE COMMISSION IN THIS PROCEEDING?

A9. No. The comments filed by AT&T in this proceeding offer no support or proof of the three primary assertions raised on page 2 regarding the RLEC's intrastate switched access rates.[3] Specifically, AT&T offers no proof that the RLEC's intrastate switched access rates are responsible for keeping long-distance rates in Kentucky too high, or that competition in the state is being impeded or that the majority of Kentucky ratepayers are subsidizing ratepayers of the RLECs. Instead, the assertions of harm raised by AT&T appear to be nothing more than a smokescreen to cover AT&T's apparent intent—which is to abolish all state and federal rules and obligations surrounding the origination and termination of traffic over the public switched telephone network (PSTN) so that AT&T can save money and thereby improve its own competitive and financial standing.[4] While the RLECs believe that reform of the existing intercarrier compensation regime and federal high-cost support mechanisms is necessary, the RLECs do not agree with AT&T's ill-advised proposals as described both in its comments to the Commission and in its comments in response to the FCC's NPRM.

Q10. WHY DO THE RLECS OPPOSE THE MIRRORING OF STATE SWITCHED ACCESS RATES WITH INTERSTATE SWITCHED ACCESS RATES AS PROPOSED IN THE AT&T PLAN?

A10. The RLECs oppose any mirroring of state and interstate switched access rates because of the uncertainty and pace of interstate access reform at the federal level and the potential impact that mirroring will have on the size of a KYUSF. The FCC's NPRM, while addressing reform of state and interstate switched access rates, makes no specific proposals for how such reform will unfold. Nowhere in the NRPM does the FCC endorse a mirroring mechanism for the reform of state and interstate switched access charges. Given the FCC's goals for a gradual transition in the reduction of access charges in order to minimize market disruptions, it would appear that the mirroring mechanism stated in the AT&T Plan would not meet the FCC's goals. Should the FCC move forward and begin reducing interstate switched access rates ahead of any actions undertaken in

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[3] See responses by AT&T Kentucky to RLECs First Data Requests, May 2, 2011: The RLECs sought information from AT&T of its plan, but AT&T's responses were less than forthcoming.

[4] See AT&T Inc. 10-K Report Filed Period 2010, filed on 3/1/2011, page 14 (AT&T 10-K Report): "However, since the Telecom Act was passed, the Federal Communications Commission (FCC) and some state regulatory commissions have maintained certain regulatory requirements that were imposed decades ago on our traditional wireline subsidiaries when they operated as legal monopolies. Where appropriate, we are pursuing additional

Kentucky, then the financial impact associated with the mirroring of rates could be even more severe than the numbers submitted by the RLECs in response to the Commission's data request.[5] For these reasons, the Commission should reject any reform mechanism that includes the ongoing mirroring of intrastate access rate levels with corresponding interstate access rate levels.

Q11. WHAT IS AN APPROPRIATE AND REASONABLE TRANSITION PERIOD OVER WHICH INTRASTATE SWITCHED ACCESS RATES SHOULD BE BROUGHT INTO PARITY WITH CORRESPONDING INTERSTATE SWITCHED ACCESS RATES?

A11. I believe an appropriate transition period for any reduction in switched access rates and recovery of associated lost access revenue from a KYUSF should be longer than the five-year period stated in the AT&T Plan. At a minimum, the RLECs believe a transition period of at least ten years is appropriate. While the FCC makes reference to a longer "glide path" for rate of return carriers in its NPRM, it does not mention any specific period of time, in terms of years, over which switched access rates are to be reduced.[6] With regard to the voluntary reform of state access rates, the FCC proposes a four-year period for states to voluntarily begin reform of state access rates before the FCC would

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legislative and regulatory measures to reduce regulatory burdens that inhibit our ability to compete more effectively and offer services wanted and needed by our customers."

[5] See response of RLECs to Kentucky PSC data request . The collective reduction in intrastate switched access revenues for the RLECs associated with the mirroring of state access rates and interstate rates is approximately [redacted].

[6] See FCC NPRM at paragraphs. 533 and 542: "We also believe it is important for any transition to be gradual enough to enable the private sector to react and plan accordingly." and "Rate-of-return carriers' interstate access rates are higher than price cap carriers' interstate access rates, and continue to increase every year. Should the Commission consider giving rate-of-return carriers additional time?"

take action.[7] It would appear that if states are to be given up to four years to undertake access reform efforts, then the FCC is contemplating a transition period well in excess of four years to bring state rates into parity with interstate rates. Even if the Commission orders a shorter transition period for any reduction in switched access rates, recovery of the associated lost access revenue from a KYUSF should continue for a minimum of at least ten years. In its NPRM, the FCC states that any transition plan to reform interstate access charges must be done so in a manner that will minimize market disruptions.[8] At the federal level, precedent exists for transition periods in excess of five years for matters involving access charges and universal service reform. In the National Broadband Plan, the FCC discusses a ten-year transition period for the elimination of per-minute of use switched access rates and legacy high-cost support mechanisms.[9] In its order establishing the twenty-five percent (25%) Gross Allocator, the FCC established an eight-year transition period for carriers to phase-up or phase-down their subscriber plant factor (SPF) to the 25% level.[10]

One state that recently undertook access reform and creation of state universal service fund instituted a transition period in excess of five years for the recovery of lost access revenue. The state of Georgia completed an access reform and state Universal Access Fund proceeding in 2010 that resulted in the five-year transition of state switched

[7] See FCC NPRM at para. 534: "We also propose a backstop mechanism through which, after a specified period of time such as four years, the Commission would take action if states have not done so".

[8] See FCC NPRM at para. 521: "As the D.C. Circuit has recognized, avoiding market disruption pending broader reforms is, of course, a standard and accepted justification for a temporary rule."

[9] See <u>Federal Communications Commission Connecting America: The National Broadband Plan</u>, released March 16, 2010, page 148 (NBP).

[10] The Subscriber Plant Factor is defined in section 36.154(e) of the Commission's rules. 47 C.F.R. § 36.154(e). It was frozen in 1981 and then transitioned to 25% between 1985 and 1993, subject to the limitations in section 36.154(f) of the Commission's rules. 47 C.F.R. § 36.154(f).

access rates to targeted interstate switched access rate levels (rates in effect on July 1, 2010) in equal annual increments. For Georgia ILECs, recovery of the resulting state switched access revenue shortfall comes from a state universal access fund for a period of ten years.[11]

Given the level of displaced access revenue that will result from any meaningful access reform efforts undertaken in Kentucky and the potential impact on rural end users, the importance of a significant transition period, longer than the five years in the opinion of the RLECs, cannot be understated. I submit that a significant transition period is in the public interest and will provide needed stability for the RLECs to plan for and deploy the infrastructure necessary to provide critical services to customers in rural Kentucky.

Q12. WOULD THE PER LINE ACCESS SHIFT MECHANISM DESCRIBED IN SECTION 4 OF THE AT&T PLAN PROVIDE FOR ADEQUATE RECOVERY OF LOST INTRASTATE ACCESS REVENUE RESULTING FROM MIRRORING OF INTRASTATE AND INTERSTATE SWITCHED ACCESS RATES?

A12. No. The per-line access shift mechanism described in the AT&T Plan will result in the inability of the RLECs to fully recover their underlying intrastate access costs due to the RLECs' year-over-year decreases in access lines similar to what the entire rural ILEC industry is experiencing. Given the potential shift in cost recovery to end user customers being considered by the FCC, the RLECs believe that the pace of basic local service disconnection will accelerate. Assuming a KYUSF of approximately [redacted] based

[11] See Georgia Public Service Commission Order Implementing House Bill 168, Docket No. 32235, November 23, 2010.

on responses to the Commission data requests and an average decrease in billable retail local exchange lines of [redacted], the RLECs would face a collective annual decrease in KYUSF support of over [redacted]. Since the RLECs will continue to have carrier of last resort (COLR) obligations that call for the provision of service to customers residing throughout their service territories, there is no basis for placing KYUSF support on a per-line basis as called for in the AT&T Plan. Even at the federal level, high-cost support payments are based on the overall cost of the RLECs' network at an authorized rate-of-return, not on a per-line basis. Similarly, a KYUSF should be adequately sized in order to recognize the costs associated with maintaining critical RLEC networks rather than the number of lines served.

Q13. SHOULD THE COMMISSION CONSIDER ESTABLISHING A REASONABLE BENCHMARK FOR BASIC LOCAL EXCHANGE RATES IN CONJUNCTION WITH THE ESTABLISHMENT OF A KYUSF?

A13. Yes. While the RLECs support establishment of a reasonable and affordable basic local service benchmark in conjunction with the creation of a KYUSF, I recommend the Commission strike a balance between the benchmark level established and the potential for harm to rural end users and the RLECs that serve them. Even though the AT&T Plan is silent with respect to an actual monthly basic local service benchmark, AT&T's comments in the FCC's NPRM support a monthly benchmark of between $27 and $30 per line.[12] According to AT&T, even if a carrier chooses not to increase basic local

[12] See Comments of AT&T Inc. in FCC NPRM, April 18, 2011, page 33 (AT&T Comments): "Specifically, the Commission could set a benchmark rate that it believes is reasonable for intrastate end-user rates. This benchmark could initially be set at a low level, such as $27, and rise gradually to a higher level, such as $30. Before turning to

service rates to the benchmark established, it would be required to impute or deduct the amount not charged to the end user from any interstate cost recovery mechanism. A review of the monthly residential basic local service rates of the RLECs indicates an average rate that appears to be well below the $27 to $30 benchmark supported by AT&T. Using a five-year transition period as called for in the AT&T Plan, a yearly increase of $3 or more may very well be required to get tariff residential basic local service rates of the RLECs up to the benchmark level prescribed by AT&T in its comments to the FCC. The RLECs believe that a yearly increase of $3 in residential basic local service rates is excessive and could result in rate shock to the rural subscribers of the RLECs. The RLECs believe that any yearly increase in residential basic local service rates prescribed by the Commission should not be at the levels prescribed by AT&T. The RLECs recognize that a suitable Kentucky benchmark may be a reasonable policy adopted by the Commission. In making this determination, the RLECs are hopeful the Commission will undertake a fact-based investigation into what benchmark is appropriate for Kentucky.

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federal sources of revenue recovery, a provider would be expected to exercise whatever regulatory flexibility it has at the state level to raise its intrastate end-user charges to the benchmark level."

Q14. PLEASE DESCRIBE THE FCC'S RECENT RECOMMENDATIONS REGARDING REFORM OF THE LEGACY HIGH-COST FEDERAL USF MECHANISMS AND HOW SUCH REFORM MEASURES, IF ULTIMATELY APPROVED, WILL IMPACT FUTURE FEDERAL HIGH-COST SUPPORT TO THE RLECS?

A14. On February 9, 2011, the FCC released a Notice of Proposed Rulemaking ("NPRM") seeking comment on numerous issues including reform of the federal high-cost universal service funding mechanisms.[13] The legacy high-cost funding mechanisms cited for reform in the NPRM include High-Cost Loop Support ("HCLS"), Local Switching Support ("LSS"), Interstate Common Line Support ("ICLS") and Safety-Net Additive Support ("SNA"). All of the RLECs are recipients of most or all of the legacy support mechanisms listed above. As a result, any actions undertaken by the FCC to decrease HCLS and SNA payments will place upward financial pressure on intrastate earnings of the RLECs and increase the amount of support needed from a KYUSF. In the NPRM, the FCC recommends changes to the algorithm utilized to calculate HCLS including the elimination of corporate operations expense. In addition, the NPRM recommends complete elimination of SNA over a three-year period. The changes to HCLS and phase-out of SNA would begin in January, 2012 according to the NPRM. Utilizing 2009 data, JSI has calculated a collective decrease of approximately [redacted] in HCLS and SNA payments to several of the RLECs equating to a [redacted] percent reduction in legacy HCLS and SNA payments.[14] Extrapolating the [redacted] percent reduction to the [redacted]

[13] See FCC NPRM.
[14] The five JSI cost companies include: Duo County, Foothills, Peoples Rural, South Central and West Kentucky.

[redacted] in 2010 federal high-cost support payments paid to the RLECs results in a collective decrease of approximately [redacted] in HCLS and SNA, loop-based support that is used to offset intrastate costs and would need to be recovered from a KYUSF.

Q15. WHAT OTHER LEGACY HIGH-COST SUPPORT PROGRAM IN THE FCC'S NPRM THAT, IF ENACTED, WOULD IMPACT THE RLECS?

A15. In addition to the HCLS and SNA near-term reform measures being considered by the FCC, the NPRM also discusses the elimination of LSS over a three-year period. In 2010, the RLECs received approximately [redacted] in LSS. While LSS is considered to be an explicit interstate high-cost funding mechanism, elimination of LSS will place additional burden on the financial viability of the RLECs if the FCC does not allow carriers to recover the revenue shortfall from other federal cost recovery mechanisms including the interstate local switching rate, federal subscriber line charges and or the proposed Connect America Fund (CAF). If the FCC were to allow recovery of lost LSS support via increases in the tariff interstate local switching rate, the collective interstate local switching rate of the RLECs would increase by approximately [redacted]. Given that the composite per-minute interstate switched access rate of the RLECs is approximately [redacted], elimination of LSS would result in a [redacted] increase in the RLEC's composite interstate switched access rate. Such uncertainty with respect to what the FCC may do to the LSS mechanism further complicates any state access and USF reform that the Commission must consider and that the AT&T Plan fails to address.

Q16. IS THE AT&T PLAN CONSISTENT WITH AT&T'S COMMENTS IN THE FCC'S PROCEEDING TO REFORM THE LEGACY HIGH-COST FEDERAL UNIVERSAL SERVICE AND INTERCARRIER COMPENSATION (ICC) MECHANISMS?

A16. No. I have examined AT&T's filed comments in response to the FCC's NPRM. AT&T proposes an aggressive phase-down in the intrastate and interstate switched access rates of all carriers. Specifically, AT&T proposes a reduction in all per-minute rates to $0.0007 beginning in 2012 and concluding in 2016. Beginning in 2017, AT&T proposes a bill-and-keep regime for the exchange of all time division multiplexing (TDM) traffic.[15] AT&T also proposes elimination of all COLR, interconnection and tariffing obligations for TDM traffic. I believe the comments filed by AT&T in response to the FCC's NPRM demonstrate AT&T's true position and intent with respect to existing switched access rates. In its plan for Kentucky, AT&T makes no mention of total elimination of intrastate switched access rates. The AT&T plan makes no mention of a measured phase-down in intrastate switched access rates in equal increments as it proposes in its comments to the FCC. The AT&T Plan also makes no mention of eliminating COLR, interconnection and

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[15] See AT&T Comments, pages 31-32. "Specifically:

• On January 1, 2012, intrastate access charges will be reduced to the level of interstate access charges. If a carrier's reciprocal compensation charges exceed its interstate access charges, the former will be reduced to the level of the latter at this step, and both will be phased down in accordance with the access-charge schedule outlined immediately below.55

• On January 1 of the succeeding four years (that is, 2013, 2014, 2015, and 2016), access charges will be reduced in equal steps until, in 2016, they are harmonized with all other intercarrier compensation charges and reduced to a rate of $0.0007. During this transition, when a carrier's access charges reach the level of its reciprocal compensation charges, the two charges will be unified and reduced together in accordance with the schedule outlined above.

• On January 1, 2017, access rates will be fully detariffed, and all government mandated intercarrier compensation obligations will be eliminated (*i.e.*, the default rule for intercarrier compensation on the PSTN will be bill and keep).56 Providers will, however, remain free to negotiate interprovider payments as they do on the Internet today.57

tariffing requirements that are currently the domain of this Commission. In fact, AT&T's comments in the FCC proceeding underscore AT&T's true position with respect to what regulatory body has ultimate authority over all switched access traffic, state and interstate. It is AT&T's position that the FCC has the authority to preempt the Commission with respect to jurisdiction over intrastate switched access charges. The RLECs do not believe that the FCC has the statutory authority to preempt the Commission with regard to intrastate access reform but even if it did, the RLECs believe that the Commission better understands what is in the best interests of all Kentucky ratepayers. Finally, in its comments to the FCC, AT&T states that the size of any increase in rates to end-users could be as much as $3.00 per year.[16] In its plan filed with the Commission, AT&T proposes a maximum rate increase of $2.00 per year. I believe that annual increases of $2.00 or more to residential basic local service rates is excessive and unreasonable.

Q17. WHAT IS THE TOTAL AMOUNT OF ANNUAL INTRASTATE AND INTERSTATE SWITCHED ACCESS REVENUE THAT THE RLECS WOULD NEED TO RECOVER IF THE FCC WERE TO ADOPT A BILL-AND-KEEP INTERCARRIER COMPENSATION MECHANISM AS SUPPORTED BY AT&T'S COMMENTS?

A17. Based on calendar year 2010 originating and terminating switched access minutes of use for the RLECs, adoption of a bill & keep mechanism would create an annual revenue shortfall of approximately [redacted] in the intrastate jurisdiction and a shortfall of approximately [redacted] in the interstate jurisdiction. In AT&T's comments in the

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• On January 1, 2017, the regulatory superstructure applied to legacy *TDM* based telecommunications services—including interconnection obligations, service obligations, tariffing, and unbundling—will also be eliminated.

FCC's NPRM, the access revenue shortfall would be recovered first by increases in basic local service rates and federal subscriber line charges before it could be recovered from a federal funding mechanism. Such a scenario assumes that a federal recovery mechanism would support lost intrastate access revenue not recoverable through a KYUSF mechanism. At this time, it is far from certain if the CAF mechanism envisioned by the FCC will be large enough to accommodate lost access revenue associated with reductions in intrastate switched access rates.

Q18. WHO WOULD BENEFIT MOST IF SWITCHED ACCESS RATES WERE REDUCED TO $0.0007 PER MINUTE OR TO ZERO IN ACCORDANCE WITH A BILL-AND-KEEP MECHANISM AS PROPOSED IN AT&T'S COMMENTS TO THE FCC?

A18. The interexchange carriers (IXCs), wireless carriers, and AT&T, would be the primary beneficiaries of any reduction in switched access rates that are well below the RLECs' costs of providing end-office access services. Given the fact that access charges are a significant expense for AT&T, any decrease in access charges will flow directly to AT&T's bottom line. In 2010, AT&T's wireline segment had net income of $7.8 billion on revenue of $61.2 billion.[17] Any decrease in switched access charge expense would increase AT&T's robust wireline net income even more.

[16] See AT&T Comments, page 34.
[17] See AT&T 10-K Report, page 9.

Q19. ARE THE TARIFFED INTRASTATE SWITCHED ACCESS RATES ASSESSED BY THE RLECS AN IMPORTANT SOURCE OF NETWORK COST RECOVERY AND PART OF THE RLECS' INTRASTATE REGULATED RATE DESIGN?

A19. Yes, the intrastate switched and special access rates reflected in section 17 of the PSC KY No. 2A tariff is intended to generate a level of intrastate access revenue that, when combined with regulated basic local service revenue, the non-traffic sensitive revenue requirement and federal universal service support, generates the requisite amount of regulated intrastate revenue so that each RLEC can meet its authorized intrastate rate-of-return and carry out its COLR responsibilities as established by the Commission.

Q20. ARE THE NETWORK COSTS UNDERLYING THE RLEC'S TARIFF INTRASTATE AND INTERSTATE SWITCHED ACCESS RATES INHERENTLY DIFFERENT?

A20. No. The tariff intrastate and interstate switched access rates of each RLEC are based on the regulated network costs of the RLEC in accordance with the FCC's Uniform System of Accounts for Telecommunications Companies. As rate of return carriers, each RLEC is required to follow the FCC's Part 32 Accounting rules for the appropriate classification of regulated telecommunications investment and expense. The FCC's Part 36 Jurisdictional Separations rules are utilized to allocate regulated investment and expenses between the intrastate and interstate jurisdictions. The FCC's Part 69 Access Charges rules are then utilized to apportion jurisdictionalized interstate investment and expenses to the appropriate access categories. The interstate switched access rates of each RLEC are then calculated by dividing the appropriate Part 69 access category by the appropriate demand units, originating and terminating minutes of use. Since each RLEC participates in the NECA Common Line Pool and most of the RLECs participate in the NECA Traffic Sensitive Pool, interstate switched access rates change every year as NECA is required to re-file tariff rates annually.[18] In the intrastate jurisdiction, the state switched access rates of each RLEC are reflected in section 17 of Tariff PSC KY No. 2A effective November 1, 1999 and reflect the interstate switched access rates contained in NECA Tariff FCC No. 5 effective on November 1, 1999. The intrastate non-traffic sensitive revenue requirement charge reflected in the RLEC's access tariff is assessed on a per access line, per month basis. Aside from the difference in frequency of the required re-filing of state and interstate rates, each RLEC's switched access rates reflect its regulated network costs at an authorized rate of return prescribed by the Commission and the FCC.

Q21. WHAT ACCOUNTS FOR THE SIGNIFICANT DIFFERENCE BETWEEN THE RLECS TARIFF INTRASTATE AND INTERSTATE SWITCHED ACCESS RATES?

A21. The fundamental reason for the difference between the RLEC's intrastate and interstate switched access rates is due to actions taken some time ago by the FCC to remove and convert cost recovery reflected in the per-minute of use rates and make the cost recovery explicit.[19] As a result of the FCC's reform efforts, the per-minute interstate carrier

[18] Gearheart-Coalfields and South Central Rural are issuing carriers in JSI Tariff F.C.C. No. 1 for traffic sensitive rates and are required by the FCC to re-file rates biannually.

[19] See Multi-Association Group (MAG) Plan for Regulation of Interstate Services of Non-Price Cap Incumbent Local Exchange Carriers and Interexchange Carriers, Federal-State Joint Board on Universal Service, Access Charge Reform for Incumbent Local Exchange Carriers Subject to Rate-of-Return Regulation, Prescribing the Authorized Rate of Return for Interstate Services of Local Exchange Carriers, Second Report and Order and Further Notice of

common line rate was eliminated and the associated cost recovery was moved to the ICLS mechanism. At the same time, the FCC reduced the portion of the per-minute interstate local switching rate associated with the Dial Equipment Weighting Factor and moved the associated cost recovery to the LSS mechanism. The ICLS and LSS mechanisms are components of the federal high-cost universal service program. All of the RLECs are recipients of ICLS and LSS. So while the FCC's previous reform measures resulted in a decrease in the per-minute rates of the RLECs, recovery of the underlying network costs were shifted to the ICLS and LSS mechanisms.

Q22. HAVE YOU CALCULATED THE TRUE DIFFERENCE BETWEEN THE COMPOSITE STATE AND INTERSTATE SWITCHED ACCESS RATES FOR THE RLECS?

A22. Yes. I have calculated this for the RLECs. The average composite intrastate switched access rate in 2010 is approximately $0.095 per minute (including the non-traffic sensitive revenue requirement element) versus approximately $0.02 per minute in the interstate jurisdiction per the rates in NECA Tariff F.C.C. No. 5. In order to truly compare the difference in intrastate and interstate composite switched access rates of the RLECs, I divided the amount of annual ICLS and LSS received by the RLECs by the total amount of billed originating and terminating access minutes and added the amount to the existing composite interstate rate. Dividing 2010 ICLS and LSS support paid to the RLECs by 2010 interstate minutes of use yields a composite rate per minute of $0.0699 that, when added to the existing average composite rate of $0.02 results in a true

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Proposed Rulemaking in CC Docket No. 00-256, Fifteenth Report and Order in CC Docket No. 96-45, and Report and Order in CC Docket Nos. 98-77 and 98-166, 16 FCC Rcd 19613 (2001).

interstate composite switched access rate per minute of $0.0899 or approximately nine cents.[20] The true composite interstate switched access rate of $0.09 is actually very close to the composite intrastate switched access rate of $0.095 per minute. While the RLEC switched access composite rates calculated above are not actually being assessed on IXC originated and terminated traffic on a per-minute of use basis, these rates nevertheless are representative of the RLEC's costs of providing access services.

Q23. DOES THIS CONCLUDE YOUR PRE-FILED DIRECT TESTIMONY?

A23. Yes.

[20] According to the disbursements section of the Universal Service Administrative Company (USAC) website, the RLECs received approximately [redacted] in ICLS and [redacted] in LSS for a total of [redacted] in calendar year 2010. Calendar year 2010 originating and terminating interstate minutes of use reported to NECA by the RLECs was approximately [redacted].

CERTIFICATE OF SERVICE

In accordance with Ordering Paragraph No. 5 of the Commission's March 10, 2011 Order, this is to certify that the RLECs' July 8, 2011 electronic filing is a true and accurate copy of the documents to be filed in paper medium; that the electronic filing has been transmitted to the Commission on July 8, 2011; that an original and one copy of the filing will be delivered to the Commission on July 8, 2011; and that, on July 8, 2011, electronic mail notification of the electronic filing will be provided through the Commission's electronic filing system.

Counsel to the RLECs

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