

**BEFORE THE KENTUCKY PUBLIC SERVICE COMMISSION**

**In Re: AN INVESTIGATION INTO THE INTRASTATE)  
SWITCHED ACCESS RATES OF FALL ) ADMINISTRATIVE  
KENTUCKY INCUMBENT AND COMPETITIVE) CASE NO.  
LOCAL EXCHANGE CARRIERS ) 2010-00398**

**Rebuttal Testimony of Emmanuel Staurulakis**

**On Behalf Of**

**The Kentucky Rural Incumbent Local Exchange Carriers**

**September 30, 2011**

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2                   **REBUTTAL TESTIMONY OF EMMANUEL STAURULAKIS**

3                   **BEFORE THE KENTUCKY PUBLIC SERVICE COMMISSION**

4                   **CASE NO. 2010-00398**

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6 **Q1. Please state your name and business address.**

7 A1. My name is Emmanuel Staurulakis. My business address is 7852 Walker Drive, Suite  
8 200, Greenbelt, Maryland 20770.

9

10 **Q2. By whom and in what capacity are you employed?**

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

14

15 **Q3. Are you the same Emmanuel Staurulakis that filed direct testimony in this**  
16 **proceeding?**

17

18

19 A3. Yes, I filed direct testimony on behalf of the Kentucky Incumbent Rural Local Exchange  
20 Carriers (collectively referred to as the RLECs) with the Commission on July 8, 2011.

21

22 **Q4. What is the purpose of your rebuttal testimony?**

23 A4. The purpose of my rebuttal testimony is to address several issues raised in the testimony  
24 of Verizon's witness Mr. Don Price. Specifically, I address inconsistencies between Mr.

1 Price's position rejecting the creation of a KYUSF and Verizon's position supporting a  
2 restructure mechanism at the federal level to allow for the recovery of lost switched  
3 access revenue due to access restructure. In addition, I rebut Mr. Price's testimony  
4 suggesting that the RLECs reduce their intrastate switched access rates to the rate levels  
5 of AT&T. Finally, my testimony rebuts Mr. Price's claim that the tariffed states switched  
6 access rates of the RLECs are some of the highest in the nation and are otherwise  
7 "excessive" and "outrageous".

8  
9 **Q5. Does Verizon support the America's Broadband Connectivity Plan (ABC Plan)**  
10 **recently filed with the Federal Communications Commission that calls for creation**  
11 **of an access replacement mechanism (ARM) for the recovery of lost switched access**  
12 **revenue by both price cap and rate of return local exchange carriers due to**  
13 **mandated access reform?**

14  
15 A5. Yes, Verizon is one of six price cap carriers that developed and filed the ABC Plan with  
16 the FCC that includes creation of an ARM for the recovery of lost switched access  
17 revenue associated with federally mandated switched access reform. In justifying  
18 creation of the ARM, the ABC Plan signatories point out that "Without meaningful  
19 access recovery, the intercarrier compensation reforms proposed today, like those  
20 previously enacted, "could result in a substantial decrease in revenue for incumbent  
21 LECs, which could prove highly disruptive to business operations."<sup>1</sup> In a recent Ex Parte  
22 meeting with the FCC, Verizon expressed its support for the ABC Plan and urged the  
23 FCC to adopt the Plan as soon as possible. <sup>2</sup>The ARM created by the ABC Plan would  
24 allow price cap carriers, including Verizon and AT&T, and rate-of-return carriers

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<sup>1</sup> See Joint Reply Comments of AT&T, Centurylink, Fairpoint, Frontier, Verizon, and Windstream, GNDocketNo. 09-51, September 6, 2011, page 17.

<sup>2</sup> See Verizon Ex Parte, GNDocketNo. 09-51, September 12, 2011.

1 including the RLECs to recover lost switched access revenue due to federally mandated  
2 phase-down of both state and interstate switched access rates. The ARM envisioned in  
3 the ABC Plan and supported by Verizon is similar to creation of a KYUSF mechanism  
4 supported by the RLECs yet rejected outright by Mr. Price (see page 58, lines 1-2).  
5 Verizon's opposition to the creation of a KYUSF may be due in part to the fact that under  
6 a federally mandated ARM that reflects both state and interstate switched access revenue  
7 deficiencies, Verizon would qualify for ARM support whereas a KYUSF would most  
8 likely preclude recovery of lost access revenue by Verizon and other large price cap  
9 carriers for whom the loss of access revenues would not impose nearly the imminent and  
10 significant harm that it would upon the RLECs.

11  
12  
13 **Q6. Are the intrastate switched access rates of AT&T a reasonable benchmark for the**  
14 **RLECs as Mr. Price discusses on pages 43-46 of his testimony?**

15  
16 A6. No, AT&T's tariff intrastate switched access rates do not serve as a rational or reasonable  
17 benchmark for the RLECs to mirror or transition towards and the Commission should  
18 reject Verizon's proposal. Even AT&T's plan, which the RLECs do not support, does  
19 not propose that RLECs mirror AT&T's tariff intrastate switched access rates in  
20 Kentucky. In advancing Verizon's position, Mr. Price maintains that AT&T's rates are  
21 much closer to the cost of providing switched access service yet the Commission provides no definition  
22 of the cost standard he utilizes or proof of what AT&T's switched access costs are and  
23 how such costs relate to the costs incurred by the RLECs in providing switched access  
24 service. In making his claim, Mr. Price infers that the underlying cost structure of the  
25 RLECs is comparable to AT&T's cost structure. Such a position is inconsistent with both

1 state and interstate regulatory policies that historically have recognized the fundamental  
2 differences between the underlying cost structure of price cap carriers such as Verizon  
3 and AT&T and rate-of-return carriers such as the RLECs. Reducing switched access  
4 rates of the RLECs to AT&T's rate levels and not creating a KYUSF for the recovery of  
5 any resulting shortfall as recommended by Mr. Price would be catastrophic to the  
6 financial viability of the RLECs and their ability to maintain existing levels of service to  
7 their customers.

8  
9 **Q7. Does Mr. Price offer any evidence or proof in his testimony on page 28, lines 11-14,**  
10 **that the intrastate switched access rates charged by the RLECs are excessively high,**  
11 **such that they do not meet the statutory "fair, just and reasonable" requirement?**

12  
13 A7. No, Mr. Price offers no substantive support for his claim that the tariff switched access  
14 rates of the RLECs, filed with and approved by the Commission, are excessively high and  
15 as such, fail to meet the statutory requirements established in Kentucky. While his  
16 testimony contains terms such as "outrageous" (see page 4, line 18) and "excessive" (see  
17 page 5, line 4) in describing the RLEC's intrastate switched access rates, no evidence or  
18 proof is provided to support his statements other than the RLEC rates exceed those of  
19 AT&T. In my direct testimony, I described how the intrastate switched access rates of the  
20 RLECs are an important component of each RLEC's regulated cost structure. I also  
21 described how the tariff interstate switched access rates of the RLECs, calculated  
22 annually by NECA and based on the FCC's fully distributed costing methodology  
23 compare favorably to the tariff intrastate switched access rates once the interstate explicit  
24 high-cost universal service support mechanisms are included in the per minute of use

1 rates. Accordingly, the intrastate switched access rates of the RLECs reflect the  
2 underlying costs of providing switched access service in rural areas of Kentucky. Mr.  
3 Price's testimony on page 31, lines 8-9, that the RLECs rates when compared to the rates  
4 of AT&T make them some of the highest in the country is meaningless. Even when using  
5 a forward-looking cost methodology, the FCC's own data support the fact that Kentucky  
6 is a high-cost state. A review of the website of the Universal Service Administrative  
7 Company demonstrates how high-cost Kentucky is when compared to other states and  
8 territories. In Exhibit ES1 attached to my testimony, the fourth quarter 2011 projected  
9 levels of federal high-cost model (HCM) support, by state, is shown.<sup>3</sup> The data shows  
10 that Kentucky is one of only ten states in which price cap and other non-rural carriers  
11 qualify for support. Of the ten qualifying states, Kentucky is fourth in terms of the  
12 amount of annual HCM projected in 2011. The data also shows that Kentucky's average  
13 cost per line of \$29.11 in 2011 is more than two standard deviations above the nationwide  
14 average of \$21.43. Despite Mr. Price's claims to the contrary, the cost of providing  
15 switched access service in rural Kentucky is high and the tariff rates of the RLECs reflect  
16 that reality.

17  
18 **Q8. Does this conclude your rebuttal testimony?**

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20 A8. Yes.

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<sup>3</sup> See Universal Service Administrative Company High Cost Model Support Projected by State Fourth Quarter 2011, Appendix HC16, 4Q2011, page 1 of 1. **High Cost Model (HCM)** is support for non-rural carriers based on a forward-looking economic cost model. The model generates the statewide average cost per line, which is then compared to the national average cost per line to determine eligibility for forward-looking support.

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