Dinsmore&Shohl LLP
ATTORNEYS

Edward T. Depp
502-540-2347
tip.depp@dinslaw.com

RECEIVED
JUL 06 2009
PUBLIC SERVICE
COMMISSION

July 2, 2009

VIA FEDERAL EXPRESS
Jeff Derouen, Executive Director
Kentucky Public Service Commission
211 Sower Blvd
P.O. Box 615
Frankfort, KY 40602-0615

Re: ***In the Matter of: Brandenburg Telephone Company, et al. v. Windstream Kentucky East, Inc.,*** **Case No. 2007-0004**

Dear Mr. Derouen:

I have enclosed for filing in the above-styled case the original and eleven (11) copies of the following:

(1) Supplemental Testimony of William W. Magruder; and

(2) Supplemental Testimony of Douglas D. Meredith.

Please return a file-stamped copy in the enclosed self-addressed stamped envelope.

Thank you, and if you have any questions, please call me.

Sincerely,

Edward T. Depp

ETD/lb
Enclosures
cc: All parties of record *(w/encl.)*

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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JUL 06 2009
PUBLIC SERVICE COMMISSION

Brandenburg Telephone Company; Duo County Telephone Cooperative Corporation, Inc.; Highland Telephone Cooperative, Inc.; Mountain Rural Telephone Cooperative Corporation, Inc.; North Central Telephone Cooperative Corporation; South Central Rural Telephone Cooperative Corporation, Inc. and West Kentucky Rural Telephone Cooperative Corporation, Inc.	)	
Complainants	)	
v.	)	**Case No. 2007-00004**
Windstream Kentucky East, Inc.	)	
Defendant	)	

SUPPLEMENTAL PREFILED DIRECT TESTIMONY OF WILLIAM W. MAGRUDER

ON BEHALF OF THE

<u>RURAL TELEPHONE COMPANY COMPLAINANTS</u>

July 3, 2009

Counsel to Petitioners:

John E. Selent
Edward T. Depp
Holly C. Wallace
DINSMORE & SHOHL LLP
1400 PNC Plaza
500 West Jefferson Street
Louisville, KY 40202
(502) 540-2300 (telephone)
(502) 585-2207 (fax)

SUPPLEMENTAL PREFILED DIRECT TESTIMONY OF WILLIAM W. MAGRUDER

Q. PLEASE STATE YOUR NAME, TITLE, AND ADDRESS.

A. My name is William W. Magruder. I am Executive Vice President and Chief Executive Officer for Duo County Telephone Cooperative. Our company's address is P.O. Box 80, 2150 North Main Street, Jamestown, Kentucky 42629.

Q. HAVE YOU PREVIOUSLY CAUSED TESTIMONY TO BE PREFILED IN THIS CASE?

A. Yes, I have. That testimony was filed on April 21, 2009, in this matter. I am now supplementing my prior testimony as the Commission has provided for in its June 15, 2009, order.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY TODAY?

A. The purpose of my supplemental testimony is to emphasize the main concerns that the rural local exchange carriers (the "RLECs") have with Windstream's transit traffic tariff and its efforts to impose the terms and conditions of that tariff upon the RLECs.

Q. WHAT ARE THOSE CONCERNS AND ISSUES WITH WINDSTREAM'S TARIFF?

A. There are at least three concerns or issues.

1. Foremost, Windstream's tariff on its face would require the RLECs to pay the costs of interconnection services provided outside of their respective networks. In doing so, the tariff seeks to obtain what no carrier has any right to obtain: RLEC payment for traffic exchange costs incurred outside the RLEC network as a result of networking decisions forced upon them by Windstream and/or certain third-party carriers. It is my understanding that the Commission has previously recognized that the Telecommunications Act of 1996 does not require the RLECs to provide interconnection arrangements for the benefit of, or at the request of, other carriers that are more than equal to what the ILEC does for itself or with other carriers. In other words, the RLECs do not have

to provision superior arrangements. In fact, this Commission has ordered that the large ILECs (including Windstream) could require CLECs to interconnect at a single point on the large ILEC's network in interconnection agreements.

2. Second, Windstream should not begin to terminate third-party traffic on our network without our authorization or agreement, especially pursuant to the unilateral terms of Windstream's own tariff that does not provide the RLECs with an adequate way of identifying the originating third-party carriers for billing purposes. In fact, the transit arrangement addressed by Windstream's tariff forces the RLECs to rely solely upon Windstream, a completely disincentivized party, for the accurate identification and measurement of the traffic that Windstream delivers to our networks. Moreover, the Windstream's tariff omits terms and conditions about Windstream's responsibilities to the RLECs for traffic that Windstream delivers to our networks and denies all liability with respect to traffic for which Windstream does <u>not</u> provide billing records.

We have no way to assure completeness or accuracy in Windstream's identification and measurement methods, no way of auditing or verifying Windstream's records, and Windstream has no accountability for errors or missing data. Regardless, the RLECs have not authorized Windstream to terminate such traffic over any of our connecting trunk groups. These trunk groups are established pursuant to agreements between carriers or in response to orders for tariffed services. Neither condition exists with Windstream's tariff.

Instead, other local carriers must be required to negotiate interconnection agreements with the RLECs just as they have with Windstream. These agreements would allow the parties to properly set forth their rights and responsibilities with respect to traffic that may or may not be delivered by an intermediary transit provider like Windstream. Without such an agreement, the

RLECs are effectively robbed of their rights and ability to properly address the traffic that is destined for our networks, as would happen under Windstream's tariff.

3. Third, there is no logical justification whatsoever for local traffic transit arrangements and services to be unilaterally dictated pursuant to the terms of an "end-user tariff," as Windstream has attempted here. Carrier-to-carrier services are simply not provided pursuant to the terms of an end-user tariff. Rather, traffic and trunking arrangements are almost always provided for by way of either an access tariff (in the case of 1+ traffic) or a negotiated interconnection agreement between connecting carriers. The issues presented by this case are a perfect example of the reasons why this has been the case historically. In any event, the RLECs have not requested an end-user service, have not ordered an end-user service and do not want Windstream's end-user tariffed service.

Instead of permitting competitive market conditions to prevail by allowing the RLECs to meaningfully negotiate the terms of local traffic services with Windstream (where necessary) and/or other third-party carriers, Windstream's tariff unilaterally dictates to the RLECs what terms and conditions for such traffic and costs of local transit services will be. Windstream's approach is anti-competitive. It attempts to deny the RLECs of their rights and to force the RLECs into terms that are the result of bilateral arrangements between Windstream and third party carriers. This imposes upon the RLECs obligations as a result of network choices of other carriers about which the RLECs were not involved.

Even setting aside the very real question of whether the RLECs have a need to negotiate an agreement with Windstream for traffic exchanged outside of our networks, the terms by which this traffic is exchanged (to the extent such terms are desired or required) should at the very least remain within the exclusive province of intercarrier negotiations, and not unilaterally imposed by tariff for which we were not even given notice.

Thus the practical effect of Windstream's tariff would be that it requires the RLECs to pay for traffic exchange services provided outside of our networks, while at the same time providing us inadequate records or no records to properly identify third parties, bill third parties, or otherwise address our rights and concerns for traffic Windstream is terminating on the RLEC's network. The unilateral terms of Windstream's tariff would squeeze the RLECs on both ends.

Q. WHY IS THE RIGHT AND ABILITY TO PROPERLY ADDRESS TRAFFIC DESTINED FOR YOUR NETWORK IMPORTANT?

A. In my experience over the last 30 years, the generally smaller and more rural local exchange carriers like the RLECs have experienced many instances of inaccurate measurement, unidentified traffic, missing settlements, and other less than acceptable results of traffic delivered by the generally larger LECs like Windstream. As a result, the RLECs have been exposed to lost revenues and uncertainty. In response, over the last several decades, most small and rural LECs, including many of the RLECs, have reconfigured their networks and end office switching hierarchy with the express purpose of removing themselves from any dependence on other carriers for these functions. The actions of Windstream and other carriers should not be permitted to negate these objectives.

Q. WHAT ARE SOME OF THE ISSUES THAT WOULD NEED TO BE ADDRESSED REGARDING THIRD PARTY TRAFFIC?

A. There are many terms that would need to be addressed. I will identify a couple of the most important.

Foremost, third party traffic arrangements between Windstream and an RLEC must be limited to low volumes of traffic as a means to address and minimize the concerns about potential revenue effects, proper compensation, and harm to the RLECs. For volumes of traffic below an appropriate threshold, the terms and conditions of such arrangements would need to address the rights and responsibilities related to assurance of complete and accurate information between and among all parties, the transition to arrangements when traffic volumes grow, and the resolution of disputes between and among all the affected parties.

Q. WHY DO THE RLECS NOT WANT TO BE FORCED TO RELY UPON WINDSTREAM OR OTHER CARRIERS FOR TRAFFIC INDENTIFICATION AND MEASUREMENT?

A. In a competitive world, no carrier, including the RLECs, should be required involuntarily to rely on its competitor or potential competitor. There will be a chilling effect on fair competition if one set of carriers is allowed to dictate network design and terms on another group of carriers. In addition, large carriers cannot be allowed to bypass or negate the ability of the RLECs to use their own networks as designed for the recording and accounting for all terminating traffic on our networks.

Q. IN LIGHT OF THESE CONCERNS, HOW DO YOU BELIEVE THE COMMISSION SHOULD RESOLVE THIS MATTER?

A. As I stated in my previously filed testimony, I believe the Commission should reject and cancel Windstream's tariff and order that local transit arrangements should not be tariffed, but should be addressed through the customary intercarrier negotiation process. Windstream, as a potential intermediary for that traffic exchange, should never be permitted to dictate the terms by which we exchange local traffic with those third-party carriers. Until Windstream's tariff is rejected or cancelled, it will have absolutely no incentive to negotiate an acceptable transit agreement. Moreover, third party carriers will have no incentive to negotiate proper interconnection agreements.

Q. DOES THIS CONCLUDE YOUR SUPPLEMENTAL DIRECT TESTIMONY?

A. Yes, it does. Thank you.

VERIFICATION

I hereby verify that the foregoing testimony is true and accurate to the best of my knowledge and belief.

William W. Magruder

COMMONWEALTH OF KENTUCKY)
) SS
COUNTY OF Russell)

SUBSCRIBED, SWORN TO AND ACKNOWLEDGED before me by WILLIAM W. MAGRUDER, to me known, this 9th day of June, 2009.

My commission expires: Jan. 12, 2011.

Susan P. Emerson
Notary Public

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing was served by first class United States mail, postage prepaid on this 3rd day of July, 2009, on the following individual(s):

Mark R. Overstreet
Stites & Harbison PLLC
421 West Main Street
PO Box 634
Frankfort, Kentucky 40602
moverstreet@stites.com

Douglas F. Brent
Kendrick R. Riggs
C. Kent Hatfield
Stoll, Keenon & Ogden PLLC
2000 PNC Plaza
500 West Jefferson Street
Louisville, KY 40202
Douglas.Brent@skofirm.com

Dennis G. Howard, II, Esq.
Kentucky Attorney General's Office
Suite 200
1024 Capital Center Drive
Frankfort, KY 40601
dennis.howard@ag.ky.gov

John N. Hughes
124 W Todd Street
Frankfort, KY 40601
jnhughes@fewpb.net

Counsel to Complainants

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COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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JUL 06 2009

PUBLIC SERVICE
COMMISSION

In the Matter of:

Brandenburg Telephone Company; Duo County Telephone Cooperative Corporation, Inc.; Highland Telephone Cooperative, Inc.; Mountain Rural Telephone Cooperative Corporation, Inc.; North Central Telephone Cooperative Corporation; South Central Rural Telephone Cooperative Corporation, Inc. and West Kentucky Rural Telephone Cooperative Corporation, Inc.	)	
Complainants	)	
v.	)	**Case No. 2007-00004**
Windstream Kentucky East, Inc.	)	
Defendant	)	

CONFIDENTIAL

PREFILED SUPPLEMENTAL TESTIMONY OF DOUGLAS DUNCAN MEREDITH

ON BEHALF OF THE

RURAL TELEPHONE COMPANY COMPLAINANTS

July 3, 2009

Counsel to Petitioners:

John E. Selent
Edward T. Depp
Holly C. Wallace
DINSMORE & SHOHL LLP
1400 PNC Plaza
500 West Jefferson Street
Louisville, KY 40202
(502) 540-2300 (telephone)
(502) 585-2207 (fax)

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Q: ARE YOU THE SAME MR. MEREDITH THAT PREVIOUSLY PREPARED PREFILED DIRECT TESTIMONY IN THIS PROCEEDING?

A: Yes.

Q: PLEASE REMIND US ON WHOSE BEHALF YOU ARE TESTIFYING.

A: I am testifying on behalf of Brandenburg Telephone Company, Duo County Telephone Cooperative Corporation, Inc., Highland Telephone Cooperative, Inc., Mountain Rural Telephone Cooperative Corporation, Inc., North Central Telephone Cooperative Corporation, South Central Rural Telephone Cooperative Corporation, Inc. and West Kentucky Rural Telephone Cooperative Corporation, Inc. ("RLECs")

Q: WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL TESTIMONY?

A: My purpose in providing supplemental testimony to the Public Service Commission of the Commonwealth of Kentucky ("Commission") is to provide my assessment of the source data and the mechanics of the cost study filed by Windstream Kentucky East, Inc. ("Windstream") that I was able to review after the filing deadline for my prefiled direct testimony.

Q: PLEASE EXPLAIN WHAT EFFORTS YOU UNDERTOOK TO ANALYZE THE SOURCE DATA AND MECAHNICS OF THE WINDSTREAM COST MODEL.

A: First, I helped prepare a set of interrogatories and request for documents submitted to Windstream that would facilitate my examination of the cost

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study and its supporting workpapers. In several of its responses, Windstream objected to producing these supporting workpapers. Instead, it indicated these documents would be "available for review by the RLECs during normal business hours at Windstream's East corporate headquarters in Little Rock Arkansas and upon reasonable advance notice to Windstream East."[1]

I judged that the data Windstream had in Little Rock was necessary to determine the validity of the cost study source data and the computations used by Windstream. This judgment was based in part on the fact that the Excel workbook provided by Windstream in support of it tariff rates did not contain essential cost information and documentation necessary to judge whether the study was in fact a TELRIC study, nor whether the study was reasonable in the sense that it produced a reasonable rate for transit service. Windstream alleges its study complies with the FCC's regulations;[2] however, without a careful examination of the source documentation and the mechanics of the workpapers used to produce the tariff rates, it was not possible to make this determination.

RLEC Counsel made arrangements with Windstream to allow me to visit Little Rock and review the source data used in the study. I visited Windstream' East corporate headquarters in Little Rock on June 3, 2009. During my visit I was able to examine certain components of the source data used by Windstream. There were, however, other items that Windstream representatives could not produce. This failure at the time was due to the travel schedule of a key individual involved with the initial cost study and the

[1] *See e.g., Windstream Kentucky East, LCC's Responses to Supplemental RLEC Data Requests*, No. 21.

[2] *See Windstream Kentucky East, LCC's Responses to Supplemental RLEC Data Requests*, No. 2.

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subsequent cost study revision used to produce the rates Windstream proposed in its tariff.

Q: DID WINDSTREAM PRODUCE ADDITIONAL DATA AFTER YOUR VISIT?

A: Yes. We discussed having a conference call to review several outstanding items when the key individual returned from travel. Instead of having a conference call to discuss these items, Windstream produced a written response and provided some additional workpapers.

Q: PLEASE DESCRIBE THE STUDY USED BY WINDSTREAM TO PRODUCE ITS TARIFFED TRANSIT RATES.

A: The study used by Windstream to produce its tariffed transit rates was first developed in 2004 for other purposes. My understanding, obtained during my visit to Little Rock, is that Windstream prepared the study for a number of unbundled network element (UNE) rates. In 2006-2007, Windstream modified its 2004 study to produce the proposed transit rates.

Q: AFTER REVIEW OF THE SOURCE DOCUMENTATION AND THE MECHANICS OF THE STUDY PRODUCED BY WINDSTREAM, DO YOU HAVE ANY CONCERNS REGARDING WINDSTREAM'S STUDY?

A: Yes. My review of the supporting documents and the mechanics of the study workpapers leads me to the conclusion that the Windstream study does not comply with FCC regulations regarding TELRIC-based cost studies in two areas of concern. I understand that Windstream has asserted that its transit rates are not subject to TELRIC requirements. Nevertheless, in at least two other key areas the study is not reasonable regardless of the cost methodology used by Windstream. Those four major areas where I judge the study to be unreasonably deficient are: (1) tandem switch investment; (2) lack of operational efficiencies; (3) failure to update all costs; (4) inappropriate forecasting and assignment of termination costs.

Q: PLEASE DESCRIBE THE PROBLEMS YOU DISCOVERED WITH RESPECT TO WINDSTREAM'S SWITCH INVESTMENT.

A: I found several problems with how Windstream modeled its switch and calculated its switch investment used to develop transit rates. To put this item in perspective, [redacted]

My first problem with the Windstream model is that it uses outdated switch technology. The model uses a technology that is not "forward-looking least cost," which is required by FCC regulation.[4] The Windstream model uses Nortel DMS 100/200 switch technology that does not reflect the conversion to Softswitch technology for new projects. For many years now, Softswitch technology has been available and is widely deployed as an efficient least cost technology.[5] I judge this failure to use Softswitch technology to be rooted in Windstream's use of its 2004 base model. When it revised the model in 2006-2007, Windstream elected not to use a Softswitch that would have end office and tandem capability. This election becomes a major failure of the study because the study is not using least-cost forward-looking technology available in 2006 and certainly not using least-cost forward-

[3] [redacted]

[4] 47 CFR § 51.505(b)(1).

[5] In performing transport and termination cost studies for rural carriers, I require the use of Softswitch technology at the least cost most efficient switching technology available.

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looking technology in 2009. It is necessary to use Softswitch technology in order to satisfy FCC TELRIC regulation. The cost savings realized when installing a Softswitch platform that has the functional equivalence with the older [redacted] is significant: I understand that a soft-switch platform can be approximately one-half the cost of the older technology. Therefore, my first concern with Windstream's rate development is that its model over-prices the switch technology used in the model. This practice is contrary to FCC regulation directing the use of forward-looking least cost technology.

Second, Windstream revised its allocation of joint/shared and common switching costs in 2006-2007, thereby greatly increasing the assignment of those costs to tandem functionality. This revision is highly suspect because it has the effect of increasing transit service rates without reducing other TELRIC rates offered by Windstream that were not revised in the 2006-2007 study[6]— thus suggesting to me that the rates from the 2004 study and 2006-2007 study produce a double-recovery of allowable costs. Without examining the allocation of joint/shared and common costs across all services or network elements in a comprehensive study, it is impossible to confirm that Windstream's 2006-2007 modifications do not lead to a double-recovery of costs. Windstream's January 16, 2004 UNE cost study reported a total of [redacted] for tandem equipment investment. On January 19, 2007, however, Windstream changed the Joint Equipment allocation to [redacted] percent from [redacted] percent. This raised the tandem equipment to [redacted]—an increase of [redacted] percent resulting solely from this one allocation adjustment.

6 On my visit to Little Rock, I understood from my conversation with Windstream representatives that the 2006-2007 revised study was streamlined to produce only the transit rate. No other UNE rates were updated.

The [redacted] percent allocation is based on dividing an embedded Cat 2 allocation of [redacted] percent by [redacted] percent. The [redacted] percent value is based on embedded historic accounting rules that have no foundation in forward-looking economic cost.[7] The [redacted] percent is Windstream's estimate of the percent of tandem equipment investment to total equipment investment. None of this is factor manipulation is even necessary; however, because Windstream has detailed investment data by switch location. This data can be used to determine the amount of joint and common costs that should be assigned to end-office switch functionality or to tandem switch functionality using a direct cost allocation method.[8]

The third problem I have with the Windstream study is with the incorrect joint assignments used by Windstream. Some of the joint assignments should actually be assigned to end-office switch usage and not assigned to tandem switching. Windstream assigned Line Module equipment, NDLC equipment, and TR08 equipment to be jointly allocated among end-office switch usage and tandem usage. The problem with this assignment is that the tandem functionality does not include line equipment, DLC equipment or TR08 interface equipment. All three of these assignments should be to EO Switch Usage. The approach suggested by Windstream is unfair, unreasonable, and simply wrong in that it assigns investment cost related to end-user connections to the tandem switching function. The tandem switch does not have end-user lines, DLC lines, or DLC TR-08 interface capability;

[7] This proposed use of embedded cost is suspect. FCC regulations prohibit use of embedded cost in a TELRIC study. See 47 CFR § 51.505(d)(1). The embedded accounting cost information used here is highly dependent on the categorization of costs according to specific embedded cost standards. I do not recommend that this information be allowed in this study when other primary cost data is available.

[8] The standard approach for joint cost allocation relies on assigning as much of the total investment directly to specific activities. The costs not assigned to specific activities are then spread across the specific activities based on the percentage of costs directly assigned. This method allocates joint or common costs based on the direct investment assignments.

accordingly the tandem functionality at issue in this matter should not bear those added costs.

Q: ARE YOU ABLE TO ADJUST THE WINDSTREAM STUDY TO CORRECT THE PROBLEMS YOU HAVE IDENTIFIED?

A: Not completely. To the extent possible, however, I will try to quantify the magnitude of the error these flaws impose upon Windstream's cost study. The three central problems with Windstream's flawed tandem switch investment methodology are: forward-looking switch investment, joint cost allocation, and joint cost assignment.

First, the failure to use a Softswitch platform is significant. Had Windstream modeled its costs on the use of a Softswitch—as is required to satisfy the FCC regulation requiring use of the least cost most efficient technology available—total switching costs associated with the transit rates would be reduced by approximately fifty percent. By itself, this failure is enough to warrant a determination that Windstream's transit rate is neither TELRIC compliant nor fair and reasonable.

The assignment and allocation of joint costs are both straightforward adjustments. In Confidential Supplemental Exhibit DDM-01, I show the Switching cost worksheet unadjusted and adjusted to reflect the correction to line module, DLC and TR08 assignments for the Ashland tandem office used by Windstream and the corrected joint cost allocation I discussed above. These adjustments do not reflect the Softswitch adjustment I also recommend be incorporated. Windstream suggests that the Ashland tandem investment is [redacted]

Step one corrects the assignment of line equipment, DLC equipment to tandem service. Performing only this assignment correction leads to an investment total of [redacted]; however, this should not be the final investment number because Windstream's allocation of joint costs is at best a hodgepodge allocation that is not rooted in the actual data from the study.[9]

Step two corrects the joint cost allocation percentage. Using the corrected direct assignments obtained in step one, I calculate that the joint cost allocator for tandem functionality should be 4.5 percent (this does not include power and common that is assigned independently in Windstream's worksheet). Replacing Windstream's embedded joint cost allocator of 47.9 percent with the 4.5 percent value—a value that is calculated using the same investment data used in the study—the total tandem investment for this office amounts to $206,215.[10]

This significant reduction in tandem investment is based on Windstream's supporting workpapers used to develop switching investment. The reduction of 87 percent of reported tandem investment shows that the module assigning tandem switching investment is significantly flawed because it does not reflect forward-looking least cost principles or standard modeling algorithms used to calculate appropriate joint cost allocations. Moreover, even without FCC regulations governing this process, the assignment of investment proposed by Windstream is unfair and unreasonable because line-side switching costs are not involved in the tandem function and therefore, should not be assigned to the tandem function.

9 Recall, Windstream uses a factor from an embedded cost accounting method and computes a joint allocation factor from this embedded historic cost method.

10 Even if the joint cost allocator was returned to the 2004 value of [redacted] percent, total tandem investment would be [redacted]

REDACTED

Q: IN THE COURSE OF YOUR EXAMINATION OF THE WINDSTREAM STUDY HAVE YOU FOUND A SECOND PROBLEM THAT YOU WOULD LIKE TO HIGHLIGHT?

A: Yes. The study uses embedded cost factors that have not been adjusted to account for operational efficiencies. Even though the model provides for these types of expense reductions, Windstream's inputs in this area are full of zeros—meaning Windstream does not recognize any operational efficiencies.

Q: IS IT USUAL OR CUSTOMARY TO RECOGNIZE OPERATIONAL EFFICIENCIES IN A FORWARD-LOOKING COST MODEL?

A: Absolutely. Because the investment in a forward-looking model is state of the art forward-looking equipment, it is widely recognized that there will be a reduction in operational costs associated with this new equipment. Since operational expenses are usually derived using a ratio of expenses to investment from historic and embedded equipment, the reduction of operational expenses is a reasonable approach to account for new equipment.

This reduction in operating expenses is material. For example, in the forward-looking studies I have performed in Michigan, that commission required its forward-looking economic cost studies to include a reduction of non-labor operational expenses of at least 15 percent. Windstream, conversely, proposes no operational efficiencies whatsoever. Windstream's failure to recognize these operational efficiencies unfairly, unreasonably, and artificially inflates its tandem rate.

Q: PLEASE DESCRIBE THE THIRD PROBLEM WITH WINDSTREAM'S COST STUDY THAT YOU WOULD LIKE TO BRING TO THE COMMISSION'S ATTENTION.

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A: The third problem deals with updating costs from the 2004 Windstream study to the 2006 Windstream study. During my visit to Little Rock, I was led to understand that the 2006 revised study did not update all costs and prices from the 2004 study. The cost book used for the revised 2006 study was developed in 2004. Certain other costs and/or prices were updated to 2006 levels. This inconsistency should not be permitted because it leaves the decision about whether to update a price to Windstream, who is free to pick and choose which costs – and, hence, service prices – get updated. All costs and prices affecting the newly tariffed rate(s) should be updated when performing a revision to a prior study. Windstream apparently did not take the effort required to update all prices/costs when revising its old study to develop the transit rate. This approach is unfair and unreasonable because it is not clear why certain costs were adjusted and other costs were not adjusted. Moreover, to selectively pick and choose which costs are adjusted is simply not reasonable in determining a transit rate.

Q: SO, ARE YOU SAYING THAT IT IS NOT POSSIBLE TO QUANTIFY THE IMPACT OF WINDSTREAM'S ERRORS BECAUSE YOU DO NOT HAVE UPDATED DATA FROM WINDSTREAM?

A: Yes. It was the responsibility of Windstream to ensure its 2006 study used up-to-date prices and costs. Because Windstream did not do so, however, I cannot completely quantify the effects of this error, except to say that it results in a rate that is – as a direct result of that failure – unfair and unreasonable.

Q: LASTLY, PLEASE DESCRIBE THE PROBLEMS YOU FOUND WITH THE TERMINATION COMPONENT OF THE STUDY.

REDACTED

A: Windstream estimates that all interexchange fiber facilities will increase by approximately [redacted] percent over a five year period.[11] This factor is applied to currently-sized interexchange fiber facilities. This approach does not account for the possible switch to higher-capacity facilities based upon that forecast increase in demand. (As the size of the facility increases, the cost per minute decreases since more traffic can be transported over a larger facility—accounting for the distribution of fixed costs over more units transmitted.)[12] By fixing the demand by each type of equipment and not accounting for changes to optimally-sized facilities and pricing accordingly, Windstream's approach artificially and unreasonably inflates the termination rate.

Second, the model identifies the number of "IX fiber facilities" in the network. The term "facilities" is typically used to identify the equipment over which transmission occurs. Used in this manner, it would identity the number of "circuits" over which interexchange traffic is transmitted. However, there is no documentation in the model indicating the number of "IX terminations"—there are two terminations per circuit: one on each end of the facility.

If the model does not properly account for the number of "terminations" then the cost per minute for "transport termination" functionality derived from the model is inflated by a factor of two. Windstream's proposed transport termination cost is suspect because it is unclear whether it reflects only one termination per IX facility route when transmitting transit traffic from an RLEC.

[11] See Windstream Demand worksheet.

[12] The Windstream Material Factor worksheet IX port costs divided by DS-0 channel equivalency shows this relationship.

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Q: PLEASE SUMMARIZE YOUR CONCLUSIONS REGARDING THE WINDSTREAM STUDY.

First, I have discussed four significant errors that suggest that the Commission should reject Windstream's proposed transit rates because the cost study underlying those proposed rates is unreasonable

The switching investment problem and the efficiency factor problem further illustrate that the model is unreasonable and outside the customary bounds of a FCC TELRIC study. The switching assignment problem and the failure to update prices in a revised study are also errors that make the study unfair and unreasonable. The remaining questions showing Windstream's development of the termination rate, as well as Windstream's lack of documentation showing that termination numbers were correctly developed, further underscores the unreasonableness of Windstream's proposed transit rate(s). In total, the proposed rate is unfair and unreasonable, and it fails to conform to standard FCC TELRIC principles.

Q: DOES THIS CONCLUDE YOUR PREFILED SUPPLEMENTAL TESTIMONY?

A: Yes.

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REDACTED

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing was served by first class United States mail, postage prepaid on this 2nd day of July, 2009, on the following individual(s):

Mark R. Overstreet
Stites & Harbison PLLC
421 West Main Street
PO Box 634
Frankfort, Kentucky 40602
moverstreet@stites.com

Douglas F. Brent
Kendrick R. Riggs
C. Kent Hatfield
Stoll, Keenon & Ogden PLLC
2000 PNC Plaza
500 West Jefferson Street
Louisville, KY 40202
Douglas.Brent@skofirm.com

Dennis G. Howard, II, Esq.
Kentucky Attorney General's Office
Suite 200
1024 Capital Center Drive
Frankfort, KY 40601
dennis.howard@ag.ky.gov

John N. Hughes
124 W Todd Street
Frankfort, KY 40601
jnhughes@fewpb.net

Counsel to Complainants

REDACTED

Supplemental Exhibit DDM-01, Page 1

REDACTED

REDACTED

Supplemental Exhibit DDM-01, Page 3