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BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application of Bresnan Broadband of Utah, LLC for a Certificate of Public Convenience and Necessity to Operate as a Competitive Local Exchange Carrier in Utah	DOCKET NO. 07-2476-01
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TESTIMONY OF
DOUGLAS MEREDITH
ON BEHALF OF THE
UTAH RURAL TELECOM ASSOCIATION

PUBLIC VERSION

1 **Q: PLEASE STATE YOUR FULL NAME, PLACE OF EMPLOYMENT,**
2 **POSITION.**

3 A: My full name is Douglas Duncan Meredith. I am employed by John Staurulakis,
4 Inc. (JSI) as Director – Economics and Policy. JSI is a telecommunications
5 consulting firm headquartered in Greenbelt, Maryland. My office is located at 547
6 Oakview Lane, Bountiful, Utah 84010. JSI provides telecommunications
7 consulting services to the Utah Rural Telecom Association (“URTA”) who is an
8 intervenor in this proceeding.

9 **Q: PLEASE DESCRIBE YOUR PROFESSIONAL EXPERIENCE AND**
10 **EDUCATIONAL BACKGROUND.**

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

16
17 In my employment at JSI, I have participated in numerous proceedings for rural
18 and non-rural telephone companies. These activities include, but are not limited
19 to, the creation of forward-looking economic cost studies, the development of
20 policy related to the application of the rural safeguards for qualified local
21 exchange carriers, the determination of Eligible Telecommunications Carriers,

22 and the sustainability and application of universal service policy for
23 telecommunications carriers. I have participated in and have assisted a number of
24 telephone companies in negotiation of interconnection agreements.

25
26 In addition to assisting telecommunications carrier clients, I have served as the
27 economic advisor for the Telecommunications Regulatory Board of Puerto Rico
28 since 1997. In this capacity, I provide economic and policy advice to the Board
29 Commissioners on all telecommunications issues that have either a financial or
30 economic impact. I have participated in a number of arbitration panels established
31 by the Board to arbitrate interconnection issues under Section 252 of the
32 Telecommunications Act of 1996 (the "Act").

33
34 I am participating or have participated in numerous national incumbent local
35 exchange carrier and telecommunications groups, including those headed by
36 NTCA, OPASTCO, USTA, and the Rural Policy Research Institute. My
37 participation in these groups focuses on the development of policy
38 recommendations for advancing universal service and telecommunications
39 capabilities in rural communities and other policy matters.

40
41 I have testified or filed pre-filed regulatory testimony in various states including
42 Utah, Kentucky, South Carolina, Vermont, New Hampshire, New York,
43 Michigan, Texas, North Dakota, South Dakota and Wisconsin. I have also

44 participated in regulatory proceedings in many other states that did not require
45 formal testimony, including Florida, Louisiana, Mississippi, North Carolina,
46 Puerto Rico and Virginia. In addition to participation in state regulatory
47 proceedings, I have participated in federal regulatory proceedings through filing
48 of formal comments in various proceedings and submission of economic reports
49 in an enforcement proceeding.

50

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

57 **Q: ON WHOSE BEHALF ARE YOU PRESENTING THIS PRE-FILED**
58 **DIRECT TESTIMONY?**

59 A: I am testifying on behalf of URTA. The URTA is an association comprised of 14
60 independent rural local exchange carriers operating in the state of Utah. The 14
61 companies are All West Communications, Beehive Telephone Company, Central
62 Utah Telephone, Skyline Telecom, Bear Lake Communications, Emery Telcom,
63 Carbon/Emery Telcom, Hanksville Telcom, Direct Communications, Gunnison

64 Telephone Company, Manti Telephone, South Central Communications, UBTA-
65 UBET Communications, and Union Telephone.

66 **Q: WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

67 A: My testimony is intended to explain why, in my professional opinion, the Utah
68 Public Service Commission (“Utah PSC” or “Commission”) should not grant
69 Bresnan Broadband of Utah, LLC (“Bresnan”) a Certificate of Public
70 Convenience and Necessity (“CPCN”) to operate as a competitive local exchange
71 carrier in the Vernal Utah exchange area.

72
73 This case before the Commission has the potential to create new and significant
74 changes in public policy for the state of Utah that will impact all URTA members.
75 Granting a CPCN to Bresnan will upset the current balance achieved by the
76 Commission between the development of competition and the preservation and
77 advancement of universal service in Utah. It is not in the public interest to grant
78 Bresnan’s request because of the ramifications such an action will have on state
79 universal service policy and the public interest intertwined with this policy.

80 **Q: HAS BRESNAN CONSIDERED THE CONSEQUENCES OF ITS**
81 **REQUEST ON UNIVERSAL SERVICE IN THE STATE OF UTAH?**

82 A: No. Bresnan has indicated that it has not done “any” analysis on the impact its
83 request would have on the Utah universal service fund. (See Exhibit A, Bresnan’s
84 response to URTA Data Request 1.10.) Nor has Bresnan performed “any”

85 analysis on the impact on the USF surcharge customers throughout the state will
86 pay if the PSC grants Bresnan's application. (See Exhibit B, Bresnan's response
87 to URTA Data Request 1.11.)

88 **Q: DOES BRESNAN'S FAILURE TO CONSIDER THE CONSEQUENCES**
89 **OF ITS REQUEST ON THE STATE UNIVERSAL SERVICE FUND**
90 **RAISE QUESTIONS ABOUT THE ABILITY OF BRESNAN TO SATISFY**
91 **THE PUBLIC INTEREST REQUIREMENT FOR ITS CPCN REQUEST?**

92 A: Yes. It is the public policy of the state of Utah to consider the impact any action
93 would have on Utah's State Fund. In order to preserve and advance universal
94 service in rural areas of the state, the Commission has considered possible
95 negative impacts on the fund and has rebuffed efforts to weaken Utah's universal
96 service fund. (See Commission Report and Order, Docket No. 98-2216-01, July
97 21, 2000 ("*Western Wireless*"): "The Commission finds that because of the
98 possible negative impact on Utah's State Fund it is not in the public interest to add
99 a second ETC to the URTA Companies' service areas at this time.")

100 **Q: YOU CITE THE WESTERN WIRELESS ORDER IN YOUR RESPONSE.**
101 **DIDN'T THE WESTERN WIRELESS CASE ADDRESS THE**
102 **DESIGNATION OF WESTERN WIRELESS AS AN ELIGIBLE**
103 **TELECOMMUNICATIONS CARRIER ("ETC")?**

104 A: Yes. In *Western Wireless*, the Commission addressed the designation of Western
105 Wireless as an ETC. However, the Commission clearly recognized that in rural

106 areas of the state where rate-of-return carriers operate it is not in the public
107 interest to have a second provider because of the negative impact on the State
108 Fund. These same circumstances apply equally in this proceeding where the
109 Commission is faced with the petition for a CPCN in a rural area – regardless of
110 whether the entrant is seeking designation as an ETC. The Commission expresses
111 its concerns in the following paragraph:

112 The concerns focus primarily on the potential impact of the
113 designation on the State's Universal Public Telecommunications
114 Service Support Fund (the State Fund). The independent
115 companies are currently regulated under rate of return regulation.
116 In a sense the State Fund is the final revenue that makes these
117 companies' rate of return meet the required levels. After all other
118 sources of funds are considered, the State Fund must make up the
119 difference between reasonable costs and all revenues. If, by
120 designating Western Wireless as an additional ETC in the
121 respective study areas of the URTA Companies, **the effect is to**
122 **reduce the companies' revenue, without an equal reduction in**
123 **costs, the State Fund would be called upon to make up the**
124 **difference. Such a situation would cause a significant increase**
125 **in the burdens placed upon the State Fund (i.e., all Utah**
126 **telecommunications customers) without corresponding public**
127 **benefits.** (*Western Wireless*, emphasis supplied)
128

129 By granting Bresnan's request for a CPCN in the Vernal Exchange the
130 Commission will face the same potential negative impact as end-user and access
131 revenues are siphoned away from a rural rate-of-return carrier. This will result in
132 the same effect on Utah's State Fund as expressed above.

133 **Q: HAVE YOU BEEN ABLE TO QUANTIFY THE POTENTIAL NEGATIVE**
134 **IMPACT GRANTING A CPCN WOULD HAVE ON UTAH'S STATE**
135 **FUND?**

136 A: Not to the level of precision I would prefer. In responding to a UBET data
137 request, Bresnan declined to identify its estimate of how many customers it would
138 serve in the Vernal exchange with its cable telephony product. (See Exhibit C,
139 Bresnan's response to UBTA-UBET Data Request 1.5, and Exhibit D, Bresnan's
140 response to UBTA-UBET Data Request 1.6.) However, based on information I
141 have obtained, UBTA-UBET average monthly revenue per line is
142 *****confidential** \$ and the amount of monthly State Funds it receives per line
143 is \$. **end confidential***** Bresnan currently serves approximately
144 *****confidential** percent of the Vernal exchange or customers. **end**
145 **confidential***** Based on these figures and using a very conservative up sell
146 rate of percent for Bresnan, I estimate that in the Vernal exchange the impact on
147 the State Fund could be in excess of an additional *****confidential** \$ per
148 month, (a 47.6 percent increase in the UBTA-UBET current disbursement). **end**
149 **confidential*****

150

151 I emphasize that this isn't the full impact of Bresnan's request, because as this
152 case is a case of first impression, there will be other cable providers seeking
153 similar CPCNs in other areas served by rural rate-of-return carriers.

154 Consequently, the potential negative impact on the Utah State Fund is significant.

155 If the Commission were to grant a CPCN to other areas served by rural rate-of-
156 return carriers receiving Utah State Funds, I estimate the annual State Fund
157 increase could exceed ***confidential \$ million, or a percent increase in
158 projected annualized 2007 disbursements. **end confidential***** Based on
159 UBTA-UBET's revenue experience this estimate appears conservative because
160 the average per line State Fund disbursement is ***confidential \$ per month
161 compared with UBTA-UBET's per line disbursement of \$ per month **end**
162 **confidential***** and because there may be more rural rate-of-return carriers
163 eligible to receive State Fund support (currently only ***confidential of **end**
164 **confidential***** rural carriers draw from the State Fund). The State Fund would
165 be called upon to make up the siphoned revenues for these rate-of-return carriers.
166 Such a situation would cause a significant increase in the burdens placed upon the
167 State Fund (*i.e.*, all Utah telecommunications customers) without corresponding
168 public benefits. The surcharge applied to customers is currently 0.5 percent. The
169 potential negative impact of establishing the policy of granting a CPCN to cable
170 operators in rural areas would result in an approximately 0.74 percent State Fund
171 surcharge without corresponding public benefits.

172 **Q: DO THE RATE-OF-RETURN CARRIERS' COSTS DECLINE WHEN A**
173 **CUSTOMER LEAVES THEIR NETWORK FOR A CABLE TELEPHONY**
174 **SERVICE?**

175 A: Only certain costs decline. These costs may include certain retail costs such as
176 billing. However, the vast majority of the major infrastructure investments and
177 operational expenses do not decline. The need to recover sizable amounts of cost
178 with a declining revenue base will place significant burdens upon the State Fund.

179 **Q: ARE THESE INCREASED BURDENS ON THE STATE FUND IN THE**
180 **PUBLIC INTEREST?**

181 A: Increased disbursements from the State Fund precipitated by granting a CPCN to
182 cable operators in areas served by rural carriers is not in the public interest. All
183 telecommunications customers in Utah pay for the State Fund. There are no
184 public benefits realized by the vast majority of these customers living along the
185 Wasatch Front. Granting a CPCN to Bresnan does not appear to be in harmony
186 with my plain English reading of the State Law 54-8b-15(7)(b) which codifies the
187 policy of the state regarding public telecom services offered by rate-of-return
188 carriers in Utah. The Commission has already established a well reasoned policy
189 balancing the interests of competition and universal service. Granting a CPCN to
190 a cable operator in areas of Utah currently served by rate-of-return incumbent
191 carriers upsets this balance and is not in the public interest.

192 **Q: ON LINES 160-163 OF MS. KIRCHNER'S DIRECT TESTIMONY,**
193 **BRESNAN SUGGESTS IT SHOULD BE GIVEN A CPCN FOR ONLY A**
194 **PORTION OF THE VERNAL EXCHANGE. DO YOU AGREE WITH**
195 **THIS RECOMMENDATION?**

196 A: No. If the Commission were to grant Bresnan's petition, I do not recommend that
197 this Commission permit a competitive local exchange carrier to receive a CPCN
198 for a portion of a rural rate-of-return carrier exchange. Ms. Kirchner recognizes
199 that Vernal is a "relatively rural area" (Direct Testimony line 187) and as such it
200 is necessary for this Commission to recognize that for a rate-of-return carrier, the
201 most densely populated areas of its rural exchanges are necessary to meet its
202 revenue requirements in order to serve the more outlying areas of the exchange.
203 Granting a CPCN for the "city" area will create a doughnut shaped area leading to
204 even more pressure on the State Fund because city areas generally generate a
205 larger share of revenue for the exchange. Requiring coverage for the entire
206 exchange area for rate-of-return carriers is a better policy than creating doughnut
207 shaped areas within rural exchange areas.

208 **Q: DOES THIS END YOUR DIRECT TESTIMONY?**

209 A: Yes.

Certificate of Service

I hereby certify that on this 16th day of July, 2007, I caused to be emailed a true and correct copy of the foregoing Testimony of Douglas Meredith on behalf of the Utah Rural Telecom Association to the following:

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s/Stephen F. Mecham