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BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

Petition for Designation as an Eligible Telecommunications Carrier in the State of Utah for the Limited Purpose of Offering Lifeline Service to Qualified Households	<b>Docket No. 10-2526-01</b>
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**DIRECT TESTIMONY OF**  
**DOUGLAS DUNCAN MEREDITH**  
**ON BEHALF OF THE**  
**UTAH RURAL TELECOM ASSOCIATION**

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

3 A: My full name is Douglas Duncan Meredith. I am employed by John Staurulakis, Inc.  
4 (“JSI”) as Director – Economics and Policy. JSI is a telecommunications consulting firm  
5 headquartered in Greenbelt Maryland. My office is located at 547 Oakview Lane,  
6 Bountiful, Utah 84010. JSI has provided telecommunications consulting services to rural  
7 local exchange carriers since 1963.

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

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

15  
16 In my employment at JSI, I have participated in numerous proceedings for rural and  
17 non-rural telephone companies. These activities include, but are not limited to, the  
18 creation of forward-looking economic cost studies, the development of policy  
19 related to the application of the rural safeguards for qualified local exchange  
20 carriers, the determination of Eligible Telecommunications Carriers, and the  
21 sustainability and application of universal service policy for telecommunications  
22 carriers.

23

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

31  
32 I am participating or have participated in numerous national incumbent local  
33 exchange carrier and telecommunications groups, including those headed by NTCA,  
34 OPASTCO, USTA, and the Rural Policy Research Institute. My participation in  
35 these groups focuses on the development of policy recommendations for advancing  
36 universal service and telecommunications capabilities in rural communities and  
37 other policy matters.

38  
39 I have testified or filed pre-filed regulatory testimony in various states including  
40 Utah, South Carolina, New Hampshire, New York, Michigan, Wisconsin, North  
41 Dakota, South Dakota, Vermont, Texas, Kentucky, Maine and Tennessee. I have  
42 also participated in regulatory proceedings in many other states that did not require  
43 formal testimony, including Florida, Louisiana, Mississippi, North Carolina, Puerto  
44 Rico and Virginia. In addition to participation in state regulatory proceedings, I  
45 have participated in federal regulatory proceedings through filing of formal

46 comments in various proceedings and submission of economic reports in an  
47 enforcement proceeding.

48  
49 I have a Bachelor of Arts degree in economics from the University of Utah, and a  
50 Masters degree in economics from the University of Maryland – College Park.  
51 While attending the University of Maryland – College Park, I was also a Ph.D.  
52 candidate in Economics. This means that I completed all coursework,  
53 comprehensive and field examinations for a Doctorate of Economics without  
54 completing my dissertation.

55 **Q: ON WHOSE BEHALF ARE YOU TESTIFYING?**

56 A: I am testifying in this docket on behalf of the Utah Rural Telecom Association  
57 (“URTA”). URTA is comprised of fourteen independent telephone companies  
58 serving customers throughout rural Utah.

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

60 A: My purpose in providing this testimony to the Public Service Commission of Utah  
61 (“Commission”) is to respond to the testimony of Patrick McDonough filed on  
62 behalf of i-wireless, LLC (“i-wireless”) as well as its Petition in this proceeding. I  
63 make specific policy recommendations and urge the Commission to adopt my  
64 recommendations in this proceeding.

65 **Q: ARE URTA’S CONCERNS SIMILAR TO THE CONCERNS IT EXPRESSED**  
66 **IN THE OTHER ETC CASES?**

67 A: Yes, but they are not identical. Moreover, recent activity at the Federal  
68 Communications Commission (“FCC”) give guidance that public interest

69 considerations must be fully weighed in light of a national constituency. In light of  
70 these new considerations the case for i-wireless meeting the public interest is less  
71 clear and has not been made by i-wireless for areas served by URTA members.  
72 Thus, statements made by i-wireless concerning the receipt of federal universal  
73 service need to be placed in context of the FCC's new policy objectives.

74 **Q: BEFORE YOU ADDRESS THESE FEDERAL POLICY MATTERS, PLEASE**  
75 **PROVIDE ONE ASPECT WHERE I-WIRELESS DIFFERS FROM OTHER**  
76 **PREPAID WIRELESS PROVIDERS IN THE STATE?**

77 A: It does not appear that i-wireless intends to ask for any support from the state  
78 universal service fund. (McDonough testimony at 17, lines 17-18.)

79 **Q: DOES THAT MEAN I-WIRELESS WILL HAVE TO FILE A SEPARATE**  
80 **APPLICATION IF IT CHANGES ITS POSITION AND SEEKS SUPPORT**  
81 **FROM THE STATE UNIVERSAL SERVICE FUND?**

82 A: Yes. That is my understanding of what i-wireless will have to do.

83 **Q: ARE THERE OTHER DIFFERENCES BETWEEN THIS PROCEEDING**  
84 **AND THE OTHER ETC CASES?**

85 A: Yes. Mr. McDonough states that i-wireless already collects and remits the  
86 surcharge for the 911 program and the state USF charge. (McDonough testimony at  
87 3, lines 15-21.)

88 **Q: DOES THAT MEAN THAT I-WIRELESS'S PETITION IS**  
89 **AUTOMATICALLY IN THE PUBLIC INTEREST?**

90 A: No.

91 **Q: WHY NOT?**

92 A: 47 U.S.C. Sec. 214(e)(2) requires the Commission to find that granting ETC status  
93 in areas served by rural telephone companies is consistent with the public interest,  
94 convenience and necessity. A public interest finding is a prerequisite to designating  
95 a provider as an ETC in rural Utah. i-wireless has identified the specific exchanges  
96 where it seeks designation (Petition Exhibit 5). Not all of the exchanges in Utah are  
97 listed, thus, i-wireless seeks to become an ETC in only select exchanges.

98  
99 47 U.S.C. Sec. 214(e)(5) states that for areas served by a rural carrier, the rural  
100 carrier's study area is the service area unless and until the FCC and the states  
101 establish a different definition.

102  
103 Recently the FCC expressed its intent that ETC voice service be provided  
104 throughout a service area and seeks comment on the requirement that ETCs partner  
105 with other voice providers, including satellite providers, to provide ubiquitous  
106 coverage throughout a service area. (*Notice of Proposed Rulemaking*, Feb. 9, 2011,  
107 FCC 11-13, WC Docket No. 10-90 at 98.) With this new guidance from the FCC, it  
108 isn't certain that designation of an ETC in selected exchanges within a rural carrier's  
109 study area is allowed or automatically in the public interest.

110 **Q: IS THERE A SECOND REASON WHY YOU THINK THAT THE I-**  
111 **WIRELESS DESIGNATION DOES NOT SATISFY THE PUBLIC**  
112 **INTEREST?**

113 A: Yes. This second matter has to do with the intent of the FCC to restrain the size of  
114 all federal universal service programs to 2010 levels. (National Broadband Plan

115 Recommendation 8.12 at pages 149-150.) These programs include high-cost  
116 support as well as low income support for providers of voice services. i-wireless  
117 reports in its Petition that lifeline support was \$700 million in 2006. This does not  
118 reflect the reality of lifeline support in 2011 and the alarming increase in low  
119 income support that is driven by prepaid wireless providers such as i-wireless.  
120 According to the Universal Service Administrative Company 2Q2011 Fund Size  
121 Projection Report filed at the FCC, the lifeline support for 2011 is estimated to  
122 exceed \$1.4 billion. Compared to 2007 data, we have seen nearly a doubling of  
123 lifeline support. (2008 4Q2008 projection for lifeline support \$786 million,  
124 comparable to the 2006-2007 values.) This increased federal support has been  
125 received, in large part, by wireless prepaid service providers collecting federal  
126 support and offering free or nearly free service to end-user customers.

127  
128 The problem I see with the i-wireless Petition is that it is seeking to follow this same  
129 model that increases lifeline support at the same time the FCC is seeking to limit the  
130 size of federal universal service to 2010 levels. Since lifeline support comes from  
131 the federal universal service budget that the FCC seeks to limit, and increases in low  
132 income support must come from somewhere, the high-cost programs will likely  
133 experience a decline in support or, if the FCC relaxes its goal of limiting the size of  
134 the overall universal service fund, the contribution factor paid by end-user  
135 customers will go up.

136 **Q: BUT ISN'T I-WIRELESS SUPPORT IN UTAH DE MINIMUS IN**  
137 **RELATION TO THE SIZE OF FEDERAL SUPPORT?**

138 A: The FCC has recently given guidance on this issue as well. Based on this guidance,  
139 the answer to your question is no. On Feb. 25, 2011 the FCC issued a Memorandum  
140 Opinion and Order in WC Docket No. 05-337. In this docket a carrier was seeking  
141 forbearance from certain FCC universal service rules. The FCC ruled the Petition  
142 wasn't in the public interest. It stated in pertinent part that "it is necessary to protect  
143 consumers of other carriers that would receive less support if we grant this Petition  
144 .... Similarly, we also find it is necessary to protect consumers that pay to support  
145 universal service from undue growth in the Fund." Lastly, the FCC stated that it  
146 was mindful that "granting a series of the types of requests could have a material  
147 effect on the size of the fund." (FCC 11-26 at 12 and 14.) While the matter  
148 discussed in the FCC docket differs from that addressed in this proceeding, the  
149 determination of the FCC gives guidance that the era of fund increases are over and  
150 that petitions that lead to declines in support to other carriers or increases in  
151 contributions need to be balanced within the public interest evaluation.  
152 Furthermore, no matter how small individually, these incremental decisions can lead  
153 to dramatic increases in overall support—seemingly *de minimus* decisions must  
154 account for the cumulative impact on the public interest. The experience of the  
155 lifeline program with prepaid wireless support is a clear example, small decisions  
156 have led to dramatic increases in prepaid wireless providers receiving low income  
157 support. The Commission should reject the palliative public interest claims of i-  
158 wireless and closely examine the soundness of the proposed business model in  
159 relation to overall universal service policy. I recommend the Commission not find  
160 the i-wireless petition in the public interest for areas served by URTA members. By



161 not recognizing the guidance of the FCC in the past year, i-wireless simply has not  
162 made the case that its Petition is in the public interest in 2011.

163 **Q: WHAT OTHER CONSIDERATIONS ARE REQUIRED FOR THE**  
164 **COMMISSION TO DETERMINE A PETITION FOR ETC STATUS IS IN**  
165 **THE PUBLIC INTEREST IN RURAL AREAS?**

166 A: While I don't have a comprehensive standard, part of the consideration must be the  
167 impact granting ETC status will have on the existing rural carrier and its customers.  
168 In addition to protecting customers' end-user rates and universal service  
169 contributions, if the existing provider is left with stranded investment, that is not in  
170 the public interest. This last consideration can have an indirect impact on the state  
171 universal service fund.

172 **Q: WHAT DO YOU MEAN?**

173 A. If the rural provider is left with stranded investment, the state universal service fund  
174 will have to make up that difference. That will negatively affect every telephone  
175 customer throughout the state and is not in the public interest. The Commission  
176 may have to increase the universal service fund surcharge in order to keep rural  
177 carriers whole.

178 **Q: DID THE JOINT BOARD ON UNIVERSAL SERVICE EXPRESS SIMILAR**  
179 **CONCERNS ABOUT THE EFFECT PREPAID WIRELESS PROVIDERS**  
180 **ARE HAVING ON THE FEDERAL UNIVERSAL SERVICE FUND?**

181 A. Yes. In a Recommended Decision released November 4, 2010 in CC Docket No.  
182 96-45 where the Joint Board studied the Lifeline and Link Up programs, the Board  
183 expressed serious concerns about the growth of federal fund, stating, "The most

184 recent statistics for Lifeline funding show rapid Lifeline funding growth from  
185 approximately \$1.0 billion in 2009 to a projected \$1.4 billion in 2010. Our concerns  
186 include the implications of demand for a service or product that is essentially free.<sup>1</sup>”

187 **Q: WHAT DO YOU INFER FROM THE JOINT BOARD’S STATEMENT?**

188 A. That the Board members have misgivings about the free Lifeline program Virgin  
189 Mobile, TracFone and i-wireless are offering. These misgivings are a result of a  
190 business model that gives a free service to end-users. No matter what their income  
191 level, providing free service appears to distort the supply and demand of the service  
192 and has an impact on federal universal service policy.

193 **Q: DOES THE RELATIONSHIP I-WIRELESS HAS WITH KROGER POSE  
194 PROBLEMS IN YOUR VIEW?**

195 A: Yes. While there are 48 Kroger stores in Utah and apparently all have a deal with i-  
196 wireless, in rural Utah, the availability of a Kroger/Smith’s market isn’t certain.  
197 Since i-wireless relies heavily, if not nearly exclusively, on Kroger as a distribution  
198 avenue, the availability of phones and customer services for customers in areas  
199 where i-wireless seeks designation is not certain.

200 **Q: WHAT DO YOU RECOMMEND?**

201 The public interest consideration has offsetting interests in this proceeding. Based  
202 on the facts and policies I have reviewed, I recommend that the Commission not  
203 designate i-wireless an ETC unless the Commission can find that i-wireless’s  
204 Petition will not have the impacts I have just enumerated and is therefore in the  
205 public interest. On balance, the i-wireless Petition in the state of Utah is not in the  
206 public interest.

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<sup>1</sup> Order FCC 10J-3 ¶79.

207

208 I also note that i-wireless states it will abide by all lawful rules and regulations  
209 imposed by the Commission. (McDonough testimony at 18.) In the event the  
210 Commission determines i-wireless should be designated an ETC, the conditions  
211 imposed on i-wireless should be specifically enumerated so as to avoid potential  
212 confusion on what regulatory obligations i-wireless has in Utah.

213 **Q: DOES THIS CONCLUDE YOUR PRE-FILED TESTIMONY?**

214 A. Yes.

## CERTIFICATE OF SERVICE

I certify that on March 3, 2011, I caused to be served the Prefiled Testimony of Douglas D. Meredith filed on behalf of the Utah Rural Telecom Association in Docket 10-2526-01 by electronic mail on the following:

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