

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

**IN THE MATTER OF CARBON/EMERY)
TELCOM, INC. APPLICATION FOR AN) DOCKET NO. 15-2302-01
INCREASE IN UTAH UNIVERSAL)
SERVICE FUND SUPPORT)**

SURREBUTTAL TESTIMONY OF DOUGLAS DUNCAN MEREDITH

ON BEHALF OF

CARBON/EMERY TELCOM, INC.

September 18, 2015

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1 **RATE OF RETURN FOR INTERSTATE SERVICES**

2 **Q. Please state your full name for the record.**

3 A. Douglas Duncan Meredith.

4
5 **Q. Are you the same Douglas Meredith that filed Rebuttal Testimony in this Docket?**

6 A. Yes.

7
8 **Q: In Mr. Brevitz' Rebuttal Testimony (Lines 16-102), he propounds the idea that the**
9 **interstate rate used for Carbon/Emery from NECA's FCC Forms 492 should be 9.4**
10 **percent. What observations do you have regarding this proposal?**

11 A: I recommend the Commission reject this proposal. My recommendation is based on
12 several facts. First, Public Service Commission rule R746-360-8(A)(1)(a)(i) requires the
13 Commission to use the prior year return reported by NECA to the FCC on FCC Form 492
14 for incumbent telephone corporations. The relevant rate of return for Carbon/Emery is
15 11.45 percent. The NECA Form 492 reported to the FCC and to be used in this
16 proceeding is attached to a NECA transmittal letter received by the FCC on September
17 30, 2014. (Surrebuttal Testimony of D Meredith Exhibit 1) In the transmittal letter, Ms.
18 Patricia Chirico, explains that "NECA has provided two Form 492 reports. The first
19 applies to companies that participate in NECA's Common Line pool. The second applies
20 to the smaller subset of companies that participate in both NECA's Common Line and
21 Traffic Sensitive pools." It is incumbent on the Commission to select the Form 492 that
22 applies to Carbon/Emery. Carbon/Emery does not participate in NECA's Traffic
23 Sensitive pool and consequently the Form 492 that applies to Carbon/Emery reports a

24 rate of return of 11.45 percent. The Form 492 that Mr. Brevitz references does not apply
25 to Carbon/Emery because it is used for carriers that participate in both NECA pools.

26

27 **Q: What about the concept of a blended interstate rate and using the second Form 492**
28 **as a proxy for Carbon/Emery?**

29 A: The PSC rules don't suggest using another interstate rate as a proxy. Furthermore, the
30 proxy idea fails due to the fact that Carbon/Emery left the Traffic Sensitive pool in part
31 because it felt the pool wasn't properly representing its interests. Consider the Special
32 Access component of the Traffic Sensitive pool. The 2013 NECA rate of return for this
33 component of interstate service is 6.05 percent. The authorized rate or return for this
34 component is 11.25 percent but due to a number of factors, NECA incorrectly set its tariff
35 prices too low or incorrectly predicted a higher level of demand and the realized rate of
36 return was almost half of what it is authorized to yield. Because Carbon/Emery left the
37 pool and arranges its prices to yield a rate that is closer to the FCC authorized 11.25
38 percent for interstate services, the proxy is not appropriate. There isn't any sound
39 rationale to force a *de facto* incorrect proxy onto Carbon/Emery in this proceeding.

40

41 **Q: If the Commission were to use a proxy rate—contrary to its own rule—what should**
42 **the proxy rate be for interstate services?**

43 A: The prescribed authorized rate of return for interstate services is 11.25 percent. I have
44 already described the fact that while the FCC has had ample opportunity to change this
45 rate, it has chosen not to change it. Thus, if the Commission wanted to modify its rule I

46 would recommend it apply the FCC prescribed rate of return. However, this change
47 shouldn't happen in this proceeding.

48

49 **Q: When did the FCC last review the 11.25 percent rate of return?**

50 A: The FCC confirmed continued use of the 11.25 percent rate of return in the MAG Order
51 released in 2001. (*FCC 01-304: Multi-Association Group (MAG) Plan for Regulation of*
52 *Interstate Services of Non-Price Cap Incumbent Local Exchange Carriers and*
53 *Interexchange Carriers Federal-State Joint Board on Universal Service Access Charge*
54 *Reform for Incumbent Local Exchange Carriers Subject to Rate-of-Return Regulation*
55 *Prescribing the Authorized Rate of Return for Interstate Services of Local Exchange*
56 *Carriers -- Issued: 11/08/2001*) Mr. Brevitz stated that this rate was established in 1984
57 (Line 98), leaving the reader to infer the FCC hasn't examined this issue for over 30
58 years. Moreover, as I previously discussed in my rebuttal testimony, the FCC created a
59 record in 2013 regarding its authorized rate and has not revised the 11.25 percentage.

60

61 **Q: Does this conclude your surrebuttal testimony?**

62 A: Yes.