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October 2, 2006

VIA HAND DELIVERY

Sharla Dillon, Docket Manager
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, TN 37238

Re: In the Matter of
Petition of the Tennessee Rural Independent Coalition
Petition for Suspension and Modification
Pursuant to 47 USC § 251 (f)(2)
TRA Docket No. 06-00228

Dear Ms. Dillon:

Attached is the Supplemental Statement of the Coalition for filing today in the above-captioned matter. Enclosed please find an original with attachments and affidavits, a pdf-formatted disc containing an electronic version of the original documents, and four hard copies.

As always, thank you for your assistance.

Sincerely,

Bill Ramsey

William T. Ramsey

WTR:smm
Enclosures

cc: All Counsel of Record

BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE

In the Matter of	)	
Petition of the Tennessee Rural Independent Coalition	)	**Docket No. 06-00228**
Petition for Suspension and Modification	)	
Pursuant to 47 USC § 251 (f)(2)	)	

SUPPLEMENTAL STATEMENT

The members[1] of the Tennessee Rural Coalition (collectively, the "Coalition" and, individually, "Petitioner"), by their counsel, respectfully submit this Supplemental Statement with respect to the Petition to the Tennessee Regulatory Authority (the "TRA") pursuant to 47 Section 251(f) (2), for modification of certain aspects of the requirements of 47 USC Section 251 (b) (5) of the Telecommunications Act of 1996 (the "Act") filed in the above-referenced proceeding. For the sake of efficiency and economy, the members of the Coalition filed a single Petition for Suspension (the "Petition"), indicating that each of these companies individually "request suspension of the requirements of Section 251(b) of the Act to the extent that those requirements may be interpreted as requiring them to establish charges for transport and termination of any traffic on the basis of a Total Element Long Range Incremental Cost ("TELRIC") methodology."[2]

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[1] The petitioners, each members of the Tennessee Rural Coalition (the "Coalition"), include the following individual rural local exchange carriers ("RLECs") companies: (1) Ardmore Telephone Company, (2) Ben Lomand Rural Telephone Coop.,Inc. (3) Bledsoe Telephone Cooperative, (4) Century Telephone Enterprises, Inc. Companies in Tennessee consisting of CenturyTel of Adamsville, Inc.; CenturyTel of Claiborne, Inc.; CenturyTel of Ooltewah-Collegedale, (5) Dekalb Telephone Cooperative, (6) Highland Telephone Cooperative, (7) Loretto Telephone Company, (8) Millington Telephone Company, (9) North Central Telephone Cooperative, (9) TDS Telecom Companies in Tennessee consisting of Concord Telephone Exchange, Inc., Humphreys County Telephone Company, Tellico Telephone Company , and Tennessee Telephone Company, (10) Telephone Electronics Corp. ("TEC") companies in Tennessee consisting of Crockett Telephone Company, Inc., Peoples Telephone Company, Inc. and West Tennessee Telephone Company, Inc. , (11) Twin Lakes Telephone Cooperative, (12) United Telephone Company, (13) Yorkville Telephone Cooperative.

[2] Petition, p. 1.

A. Background: Each Petitioning Coalition Member Has Undertaken In An Efficient and Economic Manner To Demonstrate The Undue Economic Burden That Results From The Requirement To Provide A TELRIC Study.

This Supplemental Statement is filed in response to the directive issued by the Hearing Officer and the Panel at the Conference Agenda held on September 11, 2006. It is the intent of each Coalition member to provide the Authority with company-specific information which together with judicially cognizable facts and references to general and technical facts within the Authority's specialized knowledge, will provide the Authority with a basis upon which to determine that the requested modification and suspension is: 1) necessary to avoid imposing a requirement that is unduly economically burdensome on each petitioning company and 2) consistent with public interest, convenience and necessity.[3]

Contrary to the assertions of the CMRS providers, the request by each Petitioner for modification and suspension is not only timely, but it is based in part on factual evidence that has been developed on the record in the arbitration conducted in Docket No. 03-00585. Each Petitioner understands that the Authority determined in the January 12, 2006 *Order of Arbitration Award* that the reciprocal compensation rate would be established on the basis of TELRIC. Notwithstanding the preservation of their individual rights to seek legal appeal of this determination, each Petitioner undertook in good faith to participate in the process established by the Panel with respect to the determination of a TELRIC-based rate.

Each Petitioner expended significant resources to provide a TELRIC pricing model. Each of the models presented was consistent with TELRIC pricing methodology that has either been recognized by the FCC and the Authority or used in establishing rates pursuant to mutual agreement with providers of CMRS service. Nonetheless, the CMRS providers rejected each of

[3] *See*, T.C.A. Sec. 65-2-109(4).

the models submitted by the Coalition members, stating that "none of the six (6) cost models submitted on September 28th, as filed, can be considered TELRIC-compliant."[4]

Confronted by the rejection of each of the TELRIC methodologies they proposed, each Petitioner faced the prospect of incurring the significant external and internal costs of participation in protracted company-specific rate setting hearings. These external and internal costs will undoubtedly include: the defense of their respective proposed TELRIC methodology; the preparation of the studies; the defense of the study itself; and the resulting requirements for recasting studies and a continuous and repetitive set of challenges.

Both the company-specific facts set forth below in Sec. B together with the generally known burdensome characteristics of TELRIC proceedings confirm the expectation that the continuation of a TELRIC proceeding will result in enormous costs in terms of dollars, time and the toll on the internal resources of both the Petitioners and the Authority. This expectation is consistent with the very concerns that the FCC has raised with respect to the question of whether it should continue to require even large incumbent carriers to perform TELRIC studies:

> **State pricing proceedings under the TELRIC regime have been extremely complicated and often last for two or three years at a time. State commissions typically are presented with at least two conflicting cost models, and hundreds of inputs to those models, all supported by the testimony of expert witnesses.**[5]

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[4] "Response of CMRS Providers To Cost Study Methodologies And Model Descriptions Proposed By Rural Coalition," October 18, 2005, page 2, Docket No. 03-00585. The Coalition has addressed this matter in more detail in its August 3, 2006 Brief filed initially in Docket No. 03-00585 and subsequently filed in this proceeding on September 8, 2006.

[5] **In the Matter of Review of the Commission's Rules Regarding the Pricing of Unbundled Network Elements and the Resale of Service by Incumbent Local Exchange Carriers**, WC Docket No. 03-173, Notice of Proposed Rulemaking, adopted September 10, 2003 and released: September 15, 2003 ("*TELRIC NPRM*") at para. 6. The Coalition has addressed this matter in more detail in its August 3, 2006 Brief filed initially in Docket No. 03-00585 and subsequently filed in this proceeding on September 8, 2006. The Coalition respectfully notes that all of the FCC concerns regarding the burden of conducting TELRIC studies are set forth in the *TELRIC NPRM* in the context of the requirement imposed on large carriers. As the Authority is aware, the Coalition respectfully maintains that the FCC did not intend to impose on rural telephone companies the burden of establishing reciprocal compensation rates on the basis of TELRIC.

These cases are extremely complex, as state commissions must make dozens of detailed decisions regarding the calculation of the forward-looking cost of building a local telecommunications network. The drain on resources for the state commissions and interested parties can be tremendous.[6]

Faced with the specter of embarking on a long costly complex TELRIC proceeding, the Coalition Members attempted to offer alternative solutions and processes to resolve the open issues in the Docket No. 03-00585 Arbitration Proceeding.[7] The terse response of the CMRS,[8] however, made clear the intent of the CMRS providers to force the rural companies to choose between moving forward with the complex and costly TELRIC pricing phase of this proceeding or accepting far lower reciprocal compensation rates than those utilized between rural carriers and the CMRS Providers throughout the nation.

Given this choice, together with the knowledge of the costs already incurred in the preparation and presentation of TELRIC cost models and the expectation of the economic burden each Petitioner would incur as a result of a TELRIC rate setting proceeding, each Petitioner determined to file the request for modification and suspension from the requirement to utilize TELRIC. Consistent with the right of each Petitioner to seek suspension and modification pursuant to Sec. 251(f)(2) of the Communications Act, the Petitioners filed their requests. As described on a quantified basis in Sec. B, below, the suspension and modification request is, in fact, based on the knowledge and understanding of the undue economic burden imposed by the TELRIC requirement with which the Petitioners have become all too familiar in the course of

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[6] *Id.*.

[7] *See, e.g.,* "Letter To Directors From Bill Ramsey On Behalf Of The Rural Coalition," May 23, 2006, Docket No. 03-00585.

[8] *See, e.g.,* "Filing Of Verizon Wireless Concerning The Filing Of The Rural Coalition On May 23, 2006," May 26, 2006, Docket No. 03-00585.

their good faith effort to participate in the TELRIC process by submitting cost models to the Authority and requesting proposals from cost study experts to prepare and defend studies on behalf of each Petitioner. Contrary to the assertions of the CMRS providers, the suspension request is most timely.

B. Company-Specific Information Regarding The Need For Suspension From The Requirement To Perform TELRIC Studies In Order To Avoid Undue Economic Burden.

The undue economic burden that would be imposed on each Petitioner in the absence of the grant of the requested suspension is manifested by both: 1) the quantifiable direct costs associated with preparing and defending the studies in the inevitable lengthy company specific hearings held to consider the studies to establish a TELRIC-based rate for reciprocal compensation; and 2) the operational burden that would result by requiring each Petitioner to devote the internal managerial resources necessary to undertake the TELRIC studies and to participate in the resulting hearing and rate-setting process. In the case of some of the smaller Petitioner rural companies, the internal managerial resources are already so very stretched and thin, that additional expenses for further external assistance will likely be required.

In the Petition, the Petitioners requesting suspension and modification identified the extensive preliminary estimate of the cost of preparing a TELRIC study for each Petitioner and noted: "The costs vary because different companies, depending on their current regulatory status, may have more or less cost data required for the studies already assembled. These cost estimates are limited to simply preparing a TELRIC cost study, and do not include the costs of defending or revising the resulting cost study, preparing testimony or appearing to testify before the TRA."[9]

[9] Petition, at para. 10.

The Petitioners have each endeavored to compile individual company-specific information to describe the direct quantifiable undue economic burden that would be imposed on each Petitioner in the absence of the requested suspension as a result of performing a TELRIC study.

In some instances, a Petitioner has also identified the direct costs already expended in participation in the TELRIC rate setting phase of Docket No. 03-00585. Several of the Petitioners, with the internal resources to do so, have additionally expended resources to demonstrate further the burdensome impact of proceeding with the TELRIC rate setting process by calculating the relationship between anticipated annual reciprocal compensation revenue and the costs of preparing a TELRIC study and participating in a TELRIC proceeding.

In many instances, the information compiled by individual Petitioners does not include the additional costs of defending the studies at hearings and recasting studies in accordance with any subsequent determinations. The Petitioners have varying levels of internal resources and company-specific experience in the preparation of cost studies and in rate-setting hearings. Accordingly, some Petitioners are able to make reasonable estimates of the internal cost burden that the TELRIC proceeding would entail, while others do not have the resources or experience upon which to make such estimates. Moreover, as the Authority is aware, several of the Petitioner are "average schedule" companies.[10] Accordingly, those Petitioners have not been required to perform any cost studies in the past. Prior to the performance of the TELRIC study, these Petitioners will accordingly incur additional internal and external costs to compile data necessary for their respective TELRIC studies.

[10] *Id* at para. 12.

On behalf of each Petitioner, as indicated below, the following information was compiled and is submitted:[11]

Ardmore Telephone Company

Cost of TELRIC study: $ 20,000.

None of the estimated costs of the TELRIC study or the additional costs of defending the study and recasting the study in the course of hearings has been included in the establishment of any rates assessed by the company.

Ben Lomand Rural Telephone Coop., Inc.

Cost of TELRIC study: $ 50,000.

Ben Lomand notes that it is an average schedule company. Accordingly, it has not been required to perform any cost studies in the past. Prior to the performance of the TELRIC study, Ben Lomand will accordingly incur additional internal and external costs to compile data necessary for the TELRIC study.

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[11] By its very nature, this proceeding is, of course, one based on the goal of each Petitioner to avoid otherwise unnecessary economic burden. Accordingly, the Petitioners have attempted to provide this information in support of their respective suspension requests in the most economical and expedient manner possible. Each Petitioner has compiled information and submitted it to counsel for inclusion in this Supplemental Statement. The procedural schedule provides the CMRS carriers with the opportunity to reply to this Supplemental Statement. The Petitioner respectfully submit that the irrefutable facts before the Authority warrant the grant of the suspension request by each Petitioner, and further submit that a hearing to consider these facts is unnecessary. Petitioners respectfully submit that the undue burdensome cost of performing TELRIC studies is a fact that falls within the categories of "judicially cognizable facts" and general or technical facts within the Authority's "specialized knowledge." *See*, T.C.A. Sec. 65-2-109(4). While it is the preference of each Petitioner to avoid the additional cost of retaining cost study experts to provide formal testimony to support these well know facts, each Petitioner will, if deemed necessary by the Authority, incur this expense and offer witnesses in further support of the facts presented should the Authority determine that a hearing is necessary. In further support of the factual undue economic burden of the TELRIC requirement, the Petitioners submit Attachment A, the "Rural ILECs' Response To Commission Order Requesting Further Information" which was initially filed before the North Carolina Utilities Commission by similarly situated rural telephone companies that sought and obtained suspension of the TELRIC requirement in North Carolina. In the Matter of Petition of Rural Telephone Companies for Modification Pursuant to 47 USC 251(f)(2), Docket No. P-100, Sub 159, "Order Granting Modification Under Section 251(f)(2)," March 8, 2006 (hereafter referred to as the "North Carolina Suspension Proceeding"). Attachment A sets forth written proposals for the performance of TELRIC cost studies to several North Carolina rural telephone companies from a cost study firm, JSI, which is also utilized by several of the Petitioners. As indicated above, each Petitioner would provide a witness to support the information submitted herein if required by the Authority to do so. The North Carolina Suspension Proceeding submission set forth in Attachment A, however, further demonstrates the general nature of the relevant facts that support grant of the requested suspension by each Petitioner.

None of the estimated costs of the TELRIC study or the additional costs of defending the study and recasting the study in the course of hearings has been included in the establishment of any rates assessed by the company.

Bledsoe Telephone Cooperative

Cost of TELRIC study: $ 30,000.

Estimated cost of defending studies and participation at hearings: $ 30,000

None of the estimated costs of the TELRIC study or the additional costs of defending the study and recasting the study in the course of hearings has been included in the establishment of any rates assessed by the company.

CenturyTel of Adamsville, Inc

Cost of TELRIC study: $ 50,000.

None of the estimated costs of the TELRIC study or the additional costs of defending the study and recasting the study in the course of hearings has been included in the establishment of any rates assessed by the company.

CenturyTel of Claiborne, Inc.

Cost of TELRIC study: $ 50,000.

None of the estimated costs of the TELRIC study or the additional costs of defending the study and recasting the study in the course of hearings has been included in the establishment of any rates assessed by the company.

CenturyTel of Ooltewah-Collegedale

Cost of TELRIC study: $ 50,000.

None of the estimated costs of the TELRIC study or the additional costs of defending the study and recasting the study in the course of hearings has been included in the establishment of any rates assessed by the company.

Concord Telephone Exchange, Inc.

Cost of TELRIC study: $ 18,750.[12]

None of the estimated costs of the TELRIC study or the additional costs of defending the study and recasting the study in the course of hearings has been included in the establishment of any rates assessed by the company.

Crockett Telephone Company, Inc.

Cost of TELRIC study: $ 65,655.

None of the estimated costs of the TELRIC study or the additional costs of defending the study and recasting the study in the course of hearings has been included in the establishment of any rates assessed by the company.

Dekalb Telephone Cooperative

Cost of TELRIC study: $ 30,000.

None of the estimated costs of the TELRIC study or the additional costs of defending the study and recasting the study in the course of hearings has been included in the establishment of any rates assessed by the company.

Highland Telephone Cooperative

Cost of TELRIC study: $ 30,000.

[12] TDS Telecom has an existing model that is used to support negotiation of reciprocal compensation rates and interconnection agreements with the wireless providers. This existing model is used in negotiating interconnection agreements with wireless providers in all 28 TDS Telecom operating states. However the wireless providers involved in the Tennessee arbitration proceeding have rejected the TDS Telecom model as "not TELRIC complaint." As a result TDS Telecom plans to contract with a consulting firm for the preparation and development of a Tennessee specific cost model. The estimated cost of the model preparation for all four of the TDS Telecom companies is $75,000.

None of the estimated costs of the TELRIC study or the additional costs of defending the study and recasting the study in the course of hearings has been included in the establishment of any rates assessed by the company.

Humphreys County Telephone Company

Cost of TELRIC study: $ 18,750.[13]

None of the estimated costs of the TELRIC study or the additional costs of defending the study and recasting the study in the course of hearings has been included in the establishment of any rates assessed by the company.

Loretto Telephone Company

Cost of TELRIC study: $ 42,300.

None of the estimated costs of the TELRIC study or the additional costs of defending the study and recasting the study in the course of hearings has been included in the establishment of any rates assessed by the company.

Millington Telephone Company

Cost of TELRIC study: $ 39,500.

None of the estimated costs of the TELRIC study or the additional costs of defending the study and recasting the study in the course of hearings has been included in the establishment of any rates assessed by the company.

North Central Telephone Cooperative

Cost of TELRIC study: $ 50,000.

[13] *Id.*

None of the estimated costs of the TELRIC study or the additional costs of defending the study and recasting the study in the course of hearings has been included in the establishment of any rates assessed by the company.

Peoples Telephone Company, Inc.

Cost of TELRIC study: $ 66,060.

None of the estimated costs of the TELRIC study or the additional costs of defending the study and recasting the study in the course of hearings has been included in the establishment of any rates assessed by the company.

Tellico Telephone Company

Cost of TELRIC study: $ 18,750.[14]

None of the estimated costs of the TELRIC study or the additional costs of defending the study and recasting the study in the course of hearings has been included in the establishment of any rates assessed by the company.

Tennessee Telephone Company

Cost of TELRIC study: $ 18,750.[15]

None of the estimated costs of the TELRIC study or the additional costs of defending the study and recasting the study in the course of hearings has been included in the establishment of any rates assessed by the company.

Twin Lakes Telephone Cooperative

Cost of TELRIC study: $ 80,000.

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[14] *Id.*

[15] *Id*

None of the estimated costs of the TELRIC study or the additional costs of defending the study and recasting the study in the course of hearings has been included in the establishment of any rates assessed by the company.

United Telephone Company

Cost of TELRIC study: $ 20,000.

None of the estimated costs of the TELRIC study or the additional costs of defending the study and recasting the study in the course of hearings has been included in the establishment of any rates assessed by the company.

West Tennessee Telephone Company, Inc.

Cost of TELRIC study: $ 69,340.

None of the estimated costs of the TELRIC study or the additional costs of defending the study and recasting the study in the course of hearings has been included in the establishment of any rates assessed by the company.

Yorkville Telephone Cooperative

Cost of TELRIC study: $ 30,000.

None of the estimated costs of the TELRIC study or the additional costs of defending the study and recasting the study in the course of hearings has been included in the establishment of any rates assessed by the company.

C. The Facts Presented By Each Petitioner Together With General and Technical Facts Within The Authority's Specialized Knowledge Demonstrate That The Requested Suspension Of The TELRIC Requirement Is Warranted.

When the Telecommunications Act of 1996 was enacted, the Congress recognized that the interconnection requirements that were established in the context of consideration of the facts and circumstances existing in the areas served by the nation's largest incumbent telephone

companies were not applicable to the areas served by smaller and rural telephone companies. Accordingly, the Act exempts rural telephone companies altogether from many of the requirements and further provides the Sec. 251(f)(2) suspension as a tool to be utilized by State regulators in the course of their exercise of discretion. Pursuant to the Act, the Authority:

> shall grant such suspension petition to the extent, that and for such duration as, the State Commission determines that such suspension or modification
>
> (A) is necessary –
>
> (i) to avoid a significant adverse economic impact on users of telecommunications services generally
> (ii) to avoid imposing a requirement that is unduly economically burdensome; or
> (iii) to avoid imposing a requirement that is technically infeasible; and
>
> (B) Is consistent with public interest, convenience and necessity.[16]

The Petitioners each respectfully submit that the requested suspension of the TELRIC requirement is necessary to avoid a requirement that is unduly economically burdensome, and that the grant of the requests will be consistent with the public convenience and necessity.

1. The TELRIC requirement is unduly economically burdensome on each Petitioner.

The Petitioners respectfully submit that there is no black and white line established to determine whether a requirement is "unduly economically burdensome." In its consideration of a similar suspension request, the North Carolina Commission stated, "Notably, Section 251(f)(2) commands no specific methodology to prove that a requirement is unduly burdensome.

[16] 47 USC Sec. 251(f)(2)

Therefore, the Commission has used its best judgment based on the evidence and the totality of the circumstances to arrive at its decision."[17]

The North Carolina Commission granted the rural telephone company request for suspension form the TELRIC requirement based on "evidence and the totality of the circumstances" very similar to the evidence and totality of circumstances in this proceeding.[18] One striking difference exists, however, between this proceeding and the North Carolina proceeding. In this proceeding, the Authority already has before it factual evidence based on the TELRIC rate setting process undertaken in Docket No. 03-00585 which demonstrates that the continued imposition of the TELRIC requirement results in an unduly economically burdensome requirement. It was, in fact, the awareness of the burden imposed by the CMRS providers in the Tennessee arbitration proceeding that led the North Carolina rural companies to seek suspension. The facts related to the Tennessee arbitration proceeding were part of the "totality of the circumstances" noted in support of the suspension request:

> By seeking to have the Rural ICOs perform TELRIC studies, it appears that the CMRS providers are attempting to use economic leverage to demand TELRIC studies so as to force the rural companies to accept lower reciprocal compensation rates rather than incur the cost of the studies. Indeed, experience before the Tennessee Regulatory Authority (TRA) in *Petition of Cellco Partnership d/b/a Verizon Wireless for Arbitration under the Telecommunications Act of 1996,* TRA Consolidated Docket No. 03-00585 illustrates the extravagant detail with which the CMRS desire to have TELRIC studies conducted.[19]

The Petitioners respectfully submit that the costs of the TELRIC studies demonstrate that the TELRIC requirement is "unduly economically burdensome." The stand alone expense of

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[17] "Order Granting Modification Under Section 251(f)(2)," North Carolina Suspension Proceeding, p.13.

[18] *Id. See, also,* Attachment A.

[19] "Order Granting Modification Under Section 251(f)(2)," North Carolina Suspension Proceeding, pp. 4-5.

preparing and defending the TELRIC study for each company, as set forth in Sec. B, *supra*, ranges from $ 20,000 to $ 80,000. Requiring each Petitioner to incur this expense is clearly wasteful and contrary to the public interest given the totality of the circumstances.[20] Moreover, this range of expense does not in all cases include estimates of internal costs; none of the estimates include the cost of establishing the cost of capital, as described below; nor does the range include the costs associated with legal assistance in the proceeding. The Coalition estimates that, in total, the costs of proceeding with the TELRIC rate setting process will far exceed $ 1,000,000. The Coalition respectfully submits that this $ 1,000,000 and more can be put to far better use to serve rural Tennessee customers.

No Petitioner has yet undertaken to recover the expenses associated with an expensive TELRIC proceeding – expenses which clearly are not limited to the initial cost of the study – from any rates charged either to customers or interconnecting carriers. The expense has to be borne by someone. Whether it is borne by ratepayers, interconnecting carriers, shareholders or, in the case of Tennessee's rural cooperative telephone companies, the Cooperative member users, the expense is unduly burdensome.

The common definition of "unduly" is "in an undue manner; excessively."[21] The requirement on small telephone companies that qualify to seek suspension under the Act to incur extraordinary expenses in the range of $ 20,000 to $ 80,000 is excessive in itself. When further

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[20] The Petitioners anticipate that the CMRS providers may suggest that the question of whether the costs of a TELRIC proceeding are unduly economically burdensome is somehow related to the earnings of each Petitioner. In addition to the fact that many of the Petitioners are Cooperatives that are not subject to regulatory rate-of-return earnings regulation, the Act provides that the rules regarding the rates for reciprocal compensation do not authorize state regulatory bodies to require "any rate regulation proceeding to establish with particularity the additional costs of transporting or terminating calls, or to require carriers to maintain records with respect to the additional costs of such call." 47 USC Sec. 252(d)(2)(B)(ii). Moreover, the Authority should disregard any suggestion that the Authority should require any carrier to utilize its earnings to engage in an expensive proceeding solely for the benefit of the requesting carrier.

[21] *See, e.g.,* Webster's Ninth New Collegiate Dictionary and Webster's New World Dictionary of the American Language.

consideration is given to the totality of the circumstances, the excessive nature of the requirement is underscored.

The cost of the TELRIC study by itself represents an enormous portion of the net revenues that each Petitioner anticipates it would receive from the assessment of a reciprocal compensation rate if the rate was established in the range of rates commonly used throughout the nation. For example, if the rate of 1.5 cents per minute is applied, Crockett estimates that the cost of performing studies represents 71% of its anticipated reciprocal compensation revenue; using the same 1.5 rate, Peoples estimates 26% and West Tennessee estimates 97%. The resulting inverse relationship between the cost of the TELRIC requirement and the anticipated reciprocal compensation rates is more dramatic when rates in the range of those demanded by the CMRS providers are used in lieu of using a rate more in line with those used throughout the nation.

Additional factors further demonstrate that the TELRIC requirement is excessively or unduly economically burdensome on each Petitioner. For example, there is no foreseeable amortization of the cost of the effort over time. When the initial term of an interconnection agreement concludes, the CMRS providers could again demand that each Petitioner perform a new TELRIC study and engage in a new TELRIC rate setting process in the absence of the requested suspension.

Moreover, the costs of the TELRIC requirement are by no means limited to the initial costs of preparing the TELRIC study. The cost of the initial study is only the first step which will undoubtedly be followed by "conflicting cost models, and hundreds of inputs to those models, all supported by the testimony of expert witnesses. . ."[22] In addition to these excessive

[22] *TELRIC NPRM*, para. 6.

costs, the development of studies will require the consideration of forward-looking cost of capital for each Petitioner. The Coalition respectfully submits that this additional cost will add a minimum of $25,000 to the expense of each Petitioner in addition to the network TELRIC cost study estimates that each Petitioner has provided.[23]

No doubt exists that the TELRIC requirement does result in an unduly economically burdensome requirement on each Petitioner. The evidence already on the record in Docket No. 03-00585, as reflected by the wholesale rejection by the CMRS providers of the TELRIC cost models offered by each Petitioner, affirms the FCC's comments:

> **2. The drain on resources for the state commissions and interested parties can be tremendous.[24]**

It should be noted that the FCC's recognition of the undue burden of the TELRIC requirement was made in the context of experiences of large incumbent carriers in TELRIC proceedings, and was set forth in its own pending consideration of whether to change or abandon the requirement. In an interconnection arbitration involving large incumbent carriers which, unlike the Petitioners, do not qualify for the Sec. 251(f)(2) suspension, neither the Authority, nor any state regulatory body or Party can do anything about "the drain on resources for the state commissions and interested parties." In this proceeding, the Sec. 251(f)(2) process affords the Authority a tool to address the excessive drain on resources that has been identified both by the FCC, in general, and by each Petitioner with specificity in this proceeding.

The evidence before the Authority clearly demonstrates that each of the Petitioners is a small local exchange carrier that qualifies for the Sec. 251(f)(2) suspension; each Petitioner has a

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[23] *See*, Attachment B, Letter of September 28, 2006 from Dr. Jeff D. Makholm, Senior Vice President of National Economic Research Associates, Inc. In addition to the minimum $ 25,000 fee, Dr. Makholm identifies additional fees and expenses that may be applicable.

[24] *TELRIC NPRM*, para. 6.

limited subscriber base and limited financial and staff resources to address the TELRIC interconnection requirement. The specific information provided by each Petitioner together with the general and technical facts within the Authority's specialized knowledge demonstrate that suspension of the TELRIC requirement is warranted to avoid an unduly economically burdensome requirement.

3. The grant of the requested suspension by each Petitioner is consistent with public interest, convenience and necessity.

The suspension requested by each Petitioner is consistent with the public interest, convenience and necessity. In contrast to the local number portability suspension request by some rural telephone companies which was referenced by the CMRS providers at the August 29, 2006, hearing in this proceeding, this suspension request neither involves a service provided to consumers, nor does it seek to suspend any requirement to provide a service to an interconnecting carrier. In fact, the suspension request of each Petitioner seeks only a modification of the manner in which the Authority has required each Petitioner to establish the rate for reciprocal compensation.[25]

The Authority has been provided significant evidence in Docket No. 03-00585 which demonstrates that the reciprocal compensation rates utilized by rural telephone companies and CMRS providers throughout the nation and approved by their respective state regulators are not based on TELRIC. While there exists no question that continuation of the imposition of the TELRIC requirement on each Petitioner will serve the interests of the shareholders of each

[25] The Petitioners anticipate that the CMRS providers may argue that TELRIC is not an "interconnection requirement" as a red herring to support their contention that the TELRIC requirement should not be suspended. The CMRS providers in the North Carolina Suspension Proceeding made a similar argument. *See*, "Order Granting Modification Under Section 251(f)(2)," North Carolina Suspension Proceeding, pp. 13-14. In response, the North Carolina Commission properly concluded, "The power to modify a reciprocal compensation obligation necessarily implies a power to suspend a TELRIC rate calculation for good cause shown, give that the relevant statute authorizes both suspension and modification." *Id.*

CMRS provider, there is no evidence that compliance with the TELRIC requirement in rural telephone company areas serves the public interest.

To the contrary, the evidence and generally known facts demonstrate that the public interest will be harmed by the continuation of the TELRIC rate setting process in Docket No. 03-00585. The limited financial and staff resources of each Petitioner will have to be devoted to the individual company TELRIC rate setting processes and resulting hearings if the requested suspension is not granted. The public interest will be better served if both the limited resources of each Petitioner and those of the Authority are devoted to endeavors that improve services to Tennessee customers.

The Petitioners anticipate that the CMRS providers will suggest that the costs of the TELRIC proceeding can be passed on to ratepayers. The Petitioners respectfully submit that any such suggestion begs the relevant question of public interest. Why would it possibly be thought suitable for the otherwise unnecessary costs associated with a TELRIC proceeding to be passed onto telephone company ratepayers? Implicit in the suggestion is the notion that the extensive costs of a TELRIC proceeding to advance the interests of CMRS provider shareholders should be borne by telephone company ratepayers.

Given the evidence and the totality of the circumstances, the continuation of the TELRIC requirement will result in a waste of limited resources that will not serve the public interest. The FCC has, as indicated above, recognized the wastefulness and futility of TELRIC proceedings.[26] Moreover, the FCC has undertaken in its pending Docket No. 01-92 consideration of a comprehensive proposal for interconnection rules and pricing known as the "Missoula Plan." This consensus and compromise effort was encouraged by the FCC and is the product of the

[26] *See, e.g. TELRIC NPRM*, para. 6. and text at footnotes 5, 6, 17 and 19, *supra*.

efforts of the NARUC Intercarrier Compensation Task Force. The FCC's determination regarding the "Missoula Plan" and the resolution of the pending issues in Docket 01-92 will address and resolve many of the issues that were the subject of the Docket No. 03-00585 arbitration between the CMRS providers and the Coalition members.[27]

In all likelihood, this determination will be made prior to the conclusion of a TELRIC rate setting process in Docket No. 03-00585, thereby further rendering the TELRIC process wasteful. Irrespective of when the FCC makes a determination regarding the Missoula Plan, rational alternatives exist to the TELRIC requirement and the "drain on resources"[28] that will inevitably result from proceeding with the TELRIC rate setting process.[29] The public interest, convenience and necessity will be served by the grant of the requested suspensions and the avoidance of this otherwise needless use of resources.

CONCLUSION

Based on the foregoing, the each of the Petitioners and the Coalition respectfully request that the Authority determine that the requirement established in Docket No. 03-00585 for each Petitioner to establish a reciprocal compensation rate pursuant to TELRIC does impose an undue economic burden, and that the grant of each Petitioner's request to modify the reciprocal compensation requirements by suspending the TELRIC requirement is consistent with the public interest, convenience and necessity.

---

[27] Under the proposed "Missoula Plan," the default reciprocal compensation rate charged by the Coalition members would be the interstate access rate capped at a level of 1.71 cents per minute. One of the CMRS providers is a proponent of the "Missoula Plan."

[28] *Id.*

[29] Alternative proposals regarding the establishment of a non-TELRIC based rate have been submitted by the Coalition and the Petitioners in Docket No. 03-00585.

Respectfully submitted this 2nd day of October, 2006.

On Behalf of
The Tennessee Rural Independent Coalition and
Each Individual Petitioner

By William T. Ramsey

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November 4, 2005

FILED
NOV 04 2005

HAND-DELIVERED

Ms. Geneva Thigpen
Chief Clerk
North Carolina Utilities Commission
5th Floor
430 N. Salisbury Street
Raleigh, N.C.

RE: NCUC Docket No. P-100, Sub 159

Dear Ms. Thigpen:

Pursuant to the Commission's prior Orders in this docket, enclosed find the original and 27 copies of the Rural ICOs' Response to Commission Order which I tender for filing on behalf of Citizens Telephone Company, Ellerbe Telephone Company, MebTel, Inc., Pineville Telephone Company and Randolph Telephone Company.

The attachment to the Response at Tab 2 is the Redacted Affidavit on Behalf of Ellerbe Telephone Company and the Rural ICOs. I also enclose the original and 27 copies of confidential version of that Affidavit, which I file under seal in a separate envelope, as it contains confidential and proprietary information.

As always, please call me if you or any member of the Commission has any questions regarding these filings. Otherwise, please return two filed copies of each of these documents via our courier.

With best regards, we remain

Sincerely yours,

BURNS, DAY & PRESNELL, P.A.

Daniel C. Higgins

DCH:jlt
Enclosures

Clerk's Office
AG
Comm.
Bonnick
Long
Hoover
Sessoms
Kirby
Kelly
Paschal
Wigfall
Gruber
Legal
Acctg.
2 EC/Ka
3 Comm.

ATTACHMENT A

STATE OF NORTH CAROLINA
UTILITIES COMMISSION

FILED
NOV 0 4 2005

Docket No. P-100, Sub 159

In the Matter of Petition of Rural Telephone Companies for Modification Pursuant to 47 USC § 251 (f)(2)	)))	**RURAL ILECs' RESPONSE TO COMMISSION ORDER REQUESTING FURTHER INFORMATION**

INTRODUCTION

NOW COME Citizens Telephone Company, Ellerbe Telephone Company, MEBTEL, Inc., the Town of Pineville, doing business as Pineville Telephone Company, and Randolph Telephone Company (collectively hereinafter "Petitioners" or "the Rural ICOs"), in response to the Commission's Order Seeking Comments issued in this docket on October 4, 2005, and the Commission's Order Extending Time issued on October 24, 2005.

In its October 4 Order the Commission directed the Rural ICOs to file "supplemental information concerning undue economic burden" associated with any requirement that the Rural ICOs conduct Total Element Long Run Incremental Cost ("TELRIC") studies. The Rural ICOs hereby provide additional information to the Commission establishing that conducting TELRIC studies would impose an undue economic burden on the Rural ICOs and would not be in the public interest.

As described in their Petition for Modification, the Rural ICOs have been in negotiations with a group of CMRS providers regarding traffic exchange agreements to replace such an agreement which expired on May 31, 2005.[1] In this negotiation the CMRS providers have

[1] The CMRS providers participating in these negotiations include Alltel Communications, Inc., BellSouth Personal Communications LLC d/b/a Cingular Wireless and AT& T Wireless PCS, LLC (collectively "Cingular"), Comscape, Sprint Spectrum L.P. d/b/a Sprint PCS, Suncom, and Cellco Partnership d/b/a Verizon Wireless.

demanded that the Rural ICOs produce TELRIC studies to establish a reciprocal compensation rate for the exchange of land to mobile and mobile to land traffic.

The undue economic burden that would be imposed on the Rural ICOs by conducting TELRIC studies is both financial, in terms of the direct cost these small companies would pay to have outside consultants prepare such studies, and operational, in the sense of the demand on these small companies' personnel and resources imposed by the prospect of conducting such studies. These burdens are further magnified by the fact that the CMRS providers' demand for such studies is likely to be repetitive and cyclical, as the traffic exchange agreements under discussion are limited to two year terms.

THE RURAL ICOs ARE ENTITLED TO RELIEF UNDER THE ACT.

1. Relief under Section 251(f)(2) of the Act.

The Rural ICOs' Petition is based on Section 251(f)(2), which provides, in pertinent part, as follows:

> A local exchange carrier with fewer than 2 percent of the Nation's subscriber lines installed in the aggregate nationwide may petition a State commission for a suspension or modification of the application of a requirement or requirements of subsection (b) or (c) of this section to telephone exchange service facilities specified in such petition. The State commission shall grant such petition to the extent that, and for such duration as, the State commission determines that such suspension or modification -
>
> (A) is necessary –
> (i) to avoid a significant adverse economic impact on users of telecommunications services generally;
> (ii) **to avoid imposing a requirement that is unduly economically burdensome**; or
> (iii) to avoid imposing a requirement that is technically infeasible; and
>
> (B) is **consistent with the public interest**, convenience, and necessity.

(Emphasis added).

This provision reflects the Congressional recognition that duties generally imposed on ILECs by Section 251 are occasionally inappropriate for smaller carriers because of either significant adverse economic impact, undue economic burden or issues of technical feasibility. Based on that realization Section 251(f)(1)(B) provides that Rural Telephone Companies are exempt from many of the duties imposed by Section 251 until a State commission makes certain requisite findings. In addition, Section 251(f)(2) provides that the duties imposed on Rural Telephone Companies are subject to modification.

The Rural ICOs are, unquestionably, Rural Telephone Companies, as that term is defined in the Act. Thus, upon a showing that a modification is necessary "to avoid imposing a requirement that is unduly economically burdensome" the Rural ICOs are entitled to such relief. Webster's *New World Dictionary of the American Language* defines "unduly" as "to an undue degree; excessively." Because the Rural ICOs can establish that the cost of conducting TELRIC studies would unduly and excessively burden them, they are entitled to the requested modification excusing them from any requirement to conduct TELRIC studies.

2. The Economic Burden of Having TELRIC Studies Performed is Undue and Excessive.

As a practical matter, requiring each Rural ICO to conduct a TELRIC study, in order to secure reciprocal compensation from CMRS providers, will impose excessive expense on each Petitioner that is unduly economically burdensome and not in the public interest. The Rural ICOs have contacted consulting firms that perform cost studies for telecommunications carriers in order to ascertain the cost and time required to conduct TELRIC studies. Petitioners received proposals from John Staurulakis, Inc. ("JSI") and those are attached at Tabs 1, 2 and 3.

Pertinent information as to the size of each of the Rural ICOs, and the proposals for preparation of TELRIC studies, are summarized as follows:

Rural ICO	Access Lines	Estimated Cost of TELRIC Study
Citizens	21,200	$28,000
Ellerbe	2,412	$19,000
MebTel	15,271	$40,000
Pineville	1,968	$18,000
Randolph	4,624	$25,000

Another aspect of the cost burden associated with TELRIC studies is that the term of the traffic exchange agreement under discussion between the Rural ICOs and the CMRS providers is two years. Thus, any reciprocal compensation rate established for those parties, either through negotiation or arbitration, will only be in effect for two years. This means the door will be open to the Rural ICOs being subjected to a new demand for TELRIC studies in another two years, and on a cyclical basis thereafter.

The Commission should note that the cost estimates attached hereto are limited to the cost of preparing a TELRIC study, and these estimates do not include the costs of defending the studies, preparing testimony or appearing to testify in an arbitration hearing. Thus, if the smallest Petitioner, Pineville Telephone Company, was required to incur only JSI's estimated cost for a TELRIC cost study, the cost of that study would be $9.14 per access line – and the resulting reciprocal compensation rate would only be in effect for two years.

As a further matter, and as shown by the attached proposal to Pineville from Mid South Consulting Engineers attached at the end of Tab 1, the smaller Rural ICOs, such as Pineville, Ellerbe and Randolph, have such a small number of employees that that in all probability it would be necessary for them to engage an additional consultant just to assemble the information necessary for JSI or other consultants to perform a TELRIC study.

The cost/benefit aspect of the economics associated with the demanded TELRIC studies also shows the undue and excessive economic burden that such studies would impose. Specifically, the relationship between the cost of conducting such a study and arbitrating a reciprocal compensation rate, as compared to the amount of reciprocal compensation that a small ICO can expect to receive annually from CMRS providers for terminating CMRS originated traffic, demonstrates that the cost of a TELRIC study would be an undue and excessive burden.

As shown by the affidavit on behalf of Ellerbe Telephone Company, which is attached at Tab 2, the cost to Ellerbe of having JSI conduct a TELRIC study (estimated to cost $7.87 per access line – not including any expense for having any other consultant assist the company in gathering information required by JSI), together with the cost of arbitrating a reciprocal compensation rate, could approach or exceed the total reciprocal compensation Ellerbe received **from all CMRS providers** in 2004, when it was being compensated by them at a negotiated rate of $0.015 per minute. Even if this could all be completed for some amount less than the total annual reciprocal compensation which a small rural company might receive from **all** CMRS providers, reciprocal compensation is intended to cover a carrier's costs of terminating other carriers' traffic, not the costs of performing studies or arbitrating reciprocal compensation rates.

This further demonstrates that conducting TELRIC studies is not an economically prudent course for the Rural ICOs. It is, nonetheless, the course demanded by the CMRS providers, apparently in an effort to take advantage of the small size and relative lack of personnel and resources that these small rural telephone companies can bring to bear in a dispute with the CMRS providers, some of whom have literally millions of customers.

In seeking to require the Rural ICOs to conduct TELRIC studies, it appears that the CMRS providers seek to use the economic leverage of demanding TELRIC studies in order to

force small rural companies to accept lower reciprocal compensation rates rather than incur the cost of conducting such studies. The extent of the burden that CMRS providers seek to impose on rural telephone companies is vividly illustrated by recent proceedings before the Tennessee Regulatory Authority ("TRA") concerning cost studies for rural ILECs.[2]

In recent filings in that proceeding before the TRA the CMRS providers involved there rejected six different cost study models proposed by or on behalf of various members of a coalition of Tennessee rural telephone companies ('the Rural Coalition"). As part of the CMRS providers' Response criticizing the Rural Coalition's proposed cost study methodologies and models in that TRA proceeding, the CMRS group stated the following:

> The CMRS Providers offer the following as methodological ground rules, which each Rural Coalition cost study should follow in order to be TELRIC-compliant:
>
> 1. Each cost study must contain, either within the model or within the supporting documentation, methods to design an efficient, forward-looking transport and termination network to serve total demand and then compute plant investments and costs consistent with the design. The workings of the methods must be explained, as must the rationale supporting the methods.
>
> 2. Each cost study must contain, either within the model or within the supporting documentation, methods to determine the traffic-sensitive component of switching plant. The workings of the methods must be explained, as must the rationale supporting the methods.
>
> 3. Each cost study must contain, either within the model or within the supporting documentation, methods for calculating unit investments that demonstrate the linkage between plant investment and costs and total demand (per item 1). The workings of the methods must be explained, as must the rationale supporting the methods.

[2] See *Petition of Cellco Partnership d/b/a Verizon Wireless for Arbitration under the Telecommunications Act of 1996*, TRA Consolidated Docket No. 03-00585. The CMRS providers participating in that docket include New Cingular Wireless PCS, LLC d/b/a Cingular Wireless, Sprint Spectrum L.P. d/b/a Sprint PCS, T-Mobile USA, Inc., and Cellco Partnership d/b/a Verizon Wireless.

4. Plant-specific expenses shall be determined so as to be forward-looking and exclude retail costs.

5. Support assets and expenses shall be determined so as to be forward-looking and exclude retail costs.

6. Forward-looking common costs shall be allocated on a basis that attributes reasonable shares to retail and non-retail services, such as on the basis of total ICO capital costs and operating expenses or revenues.

7. Loop costs shall not be included in TELRIC.

(*See* Tab 4; Response of CMRS Providers to Cost Study Methodologies and Model Descriptions Proposed by Rural Coalition, p. 22, filed October 18, 2005.).

Development of cost studies of the type demanded by the CMRS providers involved in this TRA proceeding would, beyond question, impose "a requirement that is unduly economically burdensome." Because the Rural ICOs have established that the cost of conducting TELRIC studies would unduly and excessively burden them, they are entitled under Section 251(f)(2)of the Act to the requested modification excusing them from any requirement to conduct TELRIC studies.

3. There Are Reasonable Alternatives to TELRIC Studies.

The majority of the Rural ICOs are "average schedule" companies, rather than "cost" companies.[3] This means that all of those companies have elected to have their costs determined based on averages, rather than company specific cost information, and that they do not track cost information in the way that cost companies do. Thus, the "average schedule" Rural ICOs would not have access to the kind of cost data that could reasonably be expected to be useful in a TELRIC study.

[3] Citizens is a cost company. MebTel moved from average schedule to cost in March of 2005.

As shown in the affidavit of Michael Skrivan filed on behalf of MebTel, which is attached at Tab 3, MebTel is now a "cost" company, but it was "average schedule" until earlier this year. A "average schedule" company uses formulas, based on average costs for telephone operations, to establish its interstate costs, instead of performing a cost separations study. Those average interstate costs establish a "average schedule" company's interstate settlements from the NECA Common Line and Traffic Sensitive Pools. The interstate settlement revenue includes all form of federal universal service funding, including interstate common lines support, local switching support, and high cost loop funding.

In response to the CMRS providers' demands for cost studies from each of the Petitioners, and because of his background in cost separations studies, Skrivan prepared a transport and termination cost study on behalf of MebTel. Using readily available data from MebTel's costs separations studies, Skrivan was able to prepare a transport and termination cost study for MebTel in one day. This study showed that the appropriate reciprocal compensation rate for MebTel is $0.0180 per minute.

Admittedly, this study was done by a senior MebTel manager with many years of experience in cost separations studies. However, the point is that there are reasonable alternatives for study methodologies available to cost companies, utilizing readily available data, such as cost separations data. There are likewise, reasonable alternative approaches available for average schedule companies, including those described in the Petition, which allow for either direct or surrogate based establishment of an appropriate reciprocal compensation rate.

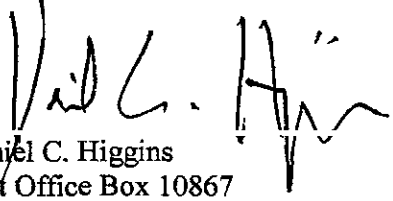
CONCLUSION

Based on the foregoing information, and the attached documents, the Rural ICOs renew the request set forth in their Petition filed September 20, 2005, that the Commission modify any

requirement that the Rural ICOs provide forward-looking TELRIC studies to any requesting carrier, if they are subject to any such requirement, until such time as the FCC has made its final ruling in CC Docket 01-92, and that in the interim, the Commission establish a default reciprocal compensation rate which any CMRS provider or Rural ICO can elect to utilize and approve alternative means or methods by which Rural ICOs can provide acceptable cost data in the event of arbitration of reciprocal compensation rate issues.

Respectfully submitted, this the 4th day of November, 2005.

BURNS, DAY & PRESNELL, P.A.

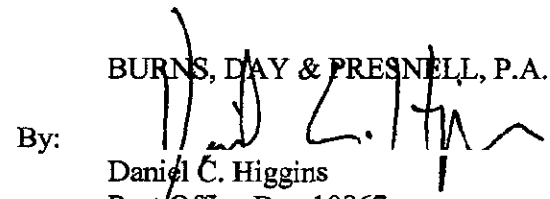
By: 

Daniel C. Higgins
Post Office Box 10867
Raleigh, NC 27605
Telephone: (919) 782-1441
Attorneys for the Rural ICOs

CERTIFICATE OF SERVICE

I hereby certify that a true and exact copy of the foregoing document has been served on all counsel of record by depositing same, postage prepaid, in the U.S. Mail, this the 4th day of November, 2005.

BURNS, DAY & PRESNELL, P.A.

By: 

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APPENDIX

Tab 1 – TELRIC Study Proposals from JSI to Citizens, Randolph and Pineville, and Mid-South Consulting Engineers' proposal to Pineville.

Tab 2 – Affidavit of Herbert Long, Jr., on behalf of Ellerbe Telephone Company with JSI proposal attached.

Tab 3 – Affidavit of Michael Skrivan on behalf of MebTel, Inc., with JSI proposal attached.

Tab 4 – Response of CMRS Providers to Cost Study Methodologies and Model Descriptions Proposed by Rural Coalition, filed October 18, 2005, in TRA Consolidated Docket No. 03-00585, *Petition of Cellco Partnership d/b/a Verizon Wireless for Arbitration under the Telecommunications Act of 1996.*

Citizens Telephone Company

Total Element Long Run Incremental Cost (TELRIC) Study

Proposal

Submitted by
John Staurulakis, Inc.

October 12, 2005

INTRODUCTION

Pursuant to North Carolina Utilities Commission Docket No. P-100, Sub 159, Citizens Telephone Company ("company") may be required to perform a total element long run incremental cost ("TELRIC") study in order to calculate a cost based rate for transport and termination. The company has requested a proposal from John Staurulakis, Inc. ("JSI") for completion of a TELRIC study for the development of a transport and termination rate to be assessed to CMRS providers. The proposal below provides an overview of the methodology underlying a TELRIC study, the procedures for performing the study, and the timeframe and cost for conducting a TELRIC study.

OVERVIEW

Developments within microeconomic theory have led to the use of the *long run incremental cost* (LRIC) study. "Long Run" indicates that all investment in plant can be changed over time, thereby taking into consideration the prospective, or future looking, cost of equipment. This means that future technological developments must be considered in a LRIC cost study. "Incremental" means that costs are studied over a range, or various increments, of demand data, such as switching minutes or subscribers.

A variation on LRIC is a type of study referred to as TSLRIC, or *total service long run incremental cost* (also called LRSIC). "Total service" indicates that the appropriate

"incremental level" of production is from zero units to the total units or capacity of the equipment required for service. The use of TSLRIC is appropriate when pricing out total bundled services, such as one-party residential, or the total cost of switching toll minutes.

The TELRIC methodology that the company has requested utilizes some of the same basic principles of TSLRIC. The FCC has mandated a number of basic network elements: the loop; switching; transport; data bases and SS7; operations support, including billing and provisioning; and other network elements, including operator services and directory assistance. TELRIC is the FCC prescribed foundation for network element prices. As a result, TELRIC studies reflect the direct costs, shared costs, and a reasonable share of common costs associated with the elements being priced. The FCC has also ruled that costs should be directly assigned under TELRIC to the greatest degree possible. As a result, many costs that historically have been thought of as common costs are to be considered as direct costs. Developing such direct assignments will require use of special time studies or reliance on reasonable approximations in order to allocate directly assignable common costs.

JSI TELRIC METHODOLOGY

The FCC does not have a specific TELRIC cost model it uses or proposes that state commissions use to develop rates for transport and termination. Rather than require the use of a specific model, FCC rules permit a carrier to establish forward-looking economic cost or FLEC. FLEC is a specific cost standard that has two components. The first is the total element long-run

incremental cost or TELRIC and the second is a reasonable allocation of common costs. The JSI model calculates both TELRIC and FLEC.

While FLEC models can and, not surprisingly, vary, the guiding principles are required to be met in order to satisfy the FCC rules. These guiding principles are found in 47 CFR § 51.505 and 51.511. These are the rules referenced in 47 CFR § 51.705(a) that state commissions must use to determine the FLEC for transport and termination of the exchange of telecommunications traffic pursuant to 47 U.S.C. § 251(b)(5) when conducting an arbitration under Section 252 of the Act.

TELRIC is a term coined by the FCC to describe certain features or principles of its cost standard. TELRIC has some characteristics of other types of long-run incremental cost. However, certain aspects of TELRIC are unique to the FCC cost standard. For example, under TELRIC, the FCC requires that wire centers be fixed at their current location. 47 CFR 51.505(b)(1). This constraint imposed by the FCC has significant implications for FLEC models. TELRIC represents the reasonable attribution of incremental costs of an element (in this proceeding transport and termination). There are three required properties of TELRIC: efficient network configuration, forward-looking cost of capital, and economic depreciation rates.

Efficient Network Configuration

The efficient network configuration property requires that the network configuration be measured based on the most efficient technology currently available and the lowest cost network configuration given the existing location of company wire centers. This property has two parts:

the use of the most efficient technology currently available and the hypothetical configuration of company plant with the constraint that the existing wire center locations remain fixed.

When developing a transport and termination rate for reciprocal compensation purposes, the constraint that the wire center locations remain fixed greatly reduces the burden of satisfying this property. All switches used by the company reflect the most efficient technology currently available: all switches use digital switch technology. Digital switch technology remains the most efficient technology available because of its widespread use and reliability. While so-called soft switches are being developed and in certain limited circumstances being deployed by ILECs, soft switches are not widely deployed at present. Thus, the JSI study will reflect the continued use of digital switches.

Cost of Capital

According to the FCC, the "cost of capital represents the annual percentage rate of return that a company's debt-holders and equity holders require as compensation for providing the debt and equity capital that a company uses to finance its assets." Federal-State Joint Board on Universal Service; Forward-Looking Mechanism for High Cost Support for Non-Rural LECs, 14 FCC Rcd 20156, FCC 99-304, November 2, 1999, TENTH REPORT AND ORDER, ¶ 433. In its Universal Service Order for non-rural LECs, the FCC concluded that the current federal rate-of-return of 11.25 percent is a reasonable rate of return by which to determine forward-looking costs for non-rural LECs. In this proceeding, JSI will utilize the 11.25 percent rate as the cost of capital in calculating FLEC transport and termination rates for the company.

Economic Depreciation

The FCC has spent a considerable amount of time evaluating depreciation rates. Its experience comes from various proceedings in which depreciation was hotly contested, such as in the X-factor proceedings. The FCC describes depreciation as "the method of recognizing as an expense the cost of a capital investment. Properly calculated economic depreciation is a periodic reduction in the book value of an asset that makes the book value equal to its economic or market value." Economic depreciation rates and their corresponding economic lives are designed to capture the economic life of an asset rather than the life of an asset used for other purposes, such as tax computations.

The FCC has established the economic life of assets by USOA classifications based on the record for non-rural LECs. At the time, the FCC recommended that rural carrier studies for universal service use currently authorized lives because "the assets used to provide universal service in rural, insular, and high cost areas are unlikely to face serious competitive threat in the near term." Federal-State Joint Board On Universal Service, 12 FCC Rcd 8776, FCC 97-157, REPORT AND ORDER, May 8, 1997, ¶ 250. JSI uses the FCC's economic lives for Digital Switching, Circuit Equipment and Cable and Wire Facilities. For the Support Plant category, JSI uses the actual support plant depreciation rate for the company.

JSI uses the company's debt-equity ratio, weighted debt rate, return on equity, and the economic lives of each asset classification to determine "levelized" capital cost factors. The

leveling process determines a single capital cost factor for the entire life of the asset classification employing a present value technique. The leveling process is far superior in developing a capital cost factor than picking the average life of an asset because it incorporates a time-value-of-money component that is used to reflect the value of a dollar today is greater than the value of a dollar in the future.

Common Costs

The FCC has established specific rules for common costs. The FCC describes "forward-looking common costs as economic costs efficiently incurred in providing a group of elements or services (which may include all elements or services provided by the incumbent LEC) that cannot be attributed directly to individual elements or services." 47 CFR § 51.505(c)(1). While forward-looking common costs by rule can be considered generally as costs covering a sub-set of elements or costs covering all elements, JSI prefers to break these two types of common costs into what are typically called "shared costs" and "common costs." Forward-looking shared costs are costs that are efficiently incurred in providing a group of elements or services, but not the entire group of elements or services. This leaves forward-looking common costs as costs that are efficiently incurred in providing all elements or services. While the FCC lumps these two types of costs together in its rule, discussion by the FCC in its Local Competition Order clearly distinguishes between these two types of cost allocations. *See* Local Competition Order ¶¶ 676, 694.

Common costs must also satisfy a reasonable allocation requirement which states that shared and common allocations, plus TELRIC for an element must not be greater than the forward-looking stand alone costs of the element. Additionally, the sum of allocable forward-looking common costs must equal total forward-looking common costs, except retail costs, that are attributed to operating the company's total network.

Forward-looking common costs, as defined by the FCC, are developed typically through a carrying charge factor. This process involves the development of an expense to investment ratio. The ratio is developed using total company regulated and most-recent-year expenses compared to total company investments. This percentage is then applied to most efficient technology and proposed network investment.

Using a carrying charge factor in this manner is consistent with the FLEC standard. (For a discussion and approval of this method by the FCC, See Joint Application by BellSouth Corporation, BellSouth Telecommunications, Inc., and BellSouth Long Distance, Inc for Provision of In-Region, InterLATA Services In Georgia and Louisiana, FCC 02-147, MEMORANDUM OPINION AND ORDER, May 15, 2002, ¶¶ 51-64.)

Demand Projection

FCC rule 47 CFR § 51.511 states:

> §51.511 Forward-looking economic cost per unit.
> (a) The forward-looking economic cost per unit of an element equals the forward-looking economic cost of the element, as defined in §51.505, divided by a reasonable projection of the sum of the total number of units of the element that

> the incumbent LEC is likely to provide to requesting telecommunications carriers and the total number of units of the element that the incumbent LEC is likely to use in offering its own services, during a reasonable measuring period.
>
> (b)(1) With respect to elements that an incumbent LEC offers on a flat-rate basis, the number of units is defined as the discrete number of elements (e.g., local loops or local switch ports) that the incumbent LEC uses or provides.
>
> (2) With respect to elements that an incumbent LEC offers on a usage-sensitive basis, the number of units is defined as the unit of measurement of the usage (e.g., minutes of use or call-related database queries) of the element.

This rule states that the total FLEC of transport and termination must be divided by the number of units the LEC is likely to provide to the requesting carrier and itself. For purposes of transport and termination, the total number of units used to develop FLEC is a reasonable projection of the total number of switch minutes and total number of transmission minutes.

PROCEDURES FOR PERFORMING THE TELRIC STUDY

Company information and joint cooperation with company personnel is vital for the success of the study; this is truly a joint venture and will require significant effort on the part of various company employees. A data request will be prepared and will require the compilation of information on various aspects of your company including:

General Company Information
Franchise Geography
CPR Records (central office and outside plant)
Loop Study (if available)
Interoffice Facilities
Circuit and Special Access Information
Switching
Load and Carrying Charges
Traffic Usage
Current rates and billing units
Various detailed accounting data
Directly assigned costs contained in corporate accounts

Upon receipt of the required data, JSI will analyze the information and develop the inputs to be included in the JSI model. The JSI model fully complies with FCC regulations regarding TELRIC and calculates the forward-looking economic cost of a minute. For the company, the JSI model will develop the forward-looking economic cost of transport and termination on a minute of use basis.

PROJECT COMPLETION DATE

JSI anticipates completion of the TELRIC study within twelve (12) weeks of acceptance of this proposal.

COST OF THE PROJECT

JSI typically provides its services on a *per diem* plus out of pocket expense basis. JSI estimates that the cost to complete a TELRIC study for determination of a transport and termination rate to be approximately $28,000. The cost quoted is for completion of the TELRIC study only and does not reflect costs associated with responding to any interrogatories and providing testimony. In the event that JSI is call upon to provide testimony in support of the transport and termination rate developed for the company, including responding to interrogatories, JSI will provide the company with a cost estimate.

The estimated cost is only for budget purposes and is not to be considered a "not to exceed" price. In the event the cost to complete the TELRIC study is less than the estimated cost above, the company will be charged the lesser amount. In the event that the cost for the TELRIC study may exceed the estimated cost, JSI will notify the company as soon as possible to discuss the matter in order to determine an appropriate course of action.

At this time, no travel related costs are included in the estimated cost of the TELRIC study. In the event a trip is requested by the company, JSI will provide an estimate of the costs involved.

JSI PERSONNEL

The project leader will be Manny Staurulakis, President. Other JSI personnel involved will include Douglas Meredith – Director of Economics & Pricing, Connie Urdal – Senior Consultant, Denise Thoman - Manager of JSI's CPR Department and other JSI consultants as required.

Please do not hesitate to contact Manny Staurulakis with any questions regarding the proposal.

We trust that the foregoing proposal is agreeable to you and request that you sign and return the enclosed copy of the Agreement to JSI.

Sincerely,

Manny Staurulakis
President - JSI

The foregoing has been read, understood and approved, and the undersigned agrees to retain JSI upon the terms and provisions contained herein.

By:

Name:

Title:

Date:

Randolph Telephone Company

Total Element Long Run Incremental Cost (TELRIC) Study

Proposal

Submitted by
John Staurulakis, Inc.

October 11, 2005

INTRODUCTION

Pursuant to North Carolina Utilities Commission Docket No. P-100, Sub 159, Randolph Telephone Company ("company") may be required to perform a total element long range incremental cost ("TELRIC") study in order to calculate a cost based rate for transport and termination. The company has requested a proposal from John Staurulakis, Inc. ("JSI") for completion of a TELRIC study for the development of a transport and termination rate to be assessed to CMRS providers. Due to the fact that the company settles with the National Exchange Carrier Association ("NECA") utilizing the interstate average schedules, the company does not complete any type of cost study on a routine basis. Accordingly, the efforts required to complete a TELRIC study for the company will be extensive. The proposal below provides an overview of the methodology underlying a TELRIC study, the procedures for performing the study, and the timeframe and cost for conducting a TELRIC study.

OVERVIEW

Developments within microeconomic theory have led to the use of the *long run incremental cost* (LRIC) study. "Long Run" indicates that all investment in plant can be changed over time, thereby taking into consideration the prospective, or future looking, cost of equipment. This means that future technological developments must be

considered in a LRIC cost study. "Incremental" means that costs are studied over a range, or various increments, of demand data, such as switching minutes or subscribers.

A variation on LRIC is a type of study referred to as TSLRIC, or *total service long run incremental cost* (also called LRSIC). "Total service" indicates that the appropriate "incremental level" of production is from zero units to the total units or capacity of the equipment required for service. The use of TSLRIC is appropriate when pricing out total bundled services, such as one-party residential, or the total cost of switching toll minutes.

The TELRIC methodology that the company has requested utilizes some of the same basic principles of TSLRIC. The FCC has mandated a number of basic network elements: the loop; switching; transport; data bases and SS7; operations support, including billing and provisioning; and other network elements, including operator services and directory assistance. TELRIC is the FCC prescribed foundation for network element prices. As a result, TELRIC studies reflect the direct costs, shared costs, and a reasonable share of common costs associated with the elements being priced. The FCC has also ruled that costs should be directly assigned under TELRIC to the greatest degree possible. As a result, many costs that historically have been thought of as common costs are to be considered as direct costs. Developing such direct assignments will require use of special time studies or reliance on reasonable approximations in order to allocate directly assignable common costs.

JSI TELRIC METHODOLOGY

The FCC does not have a specific TELRIC cost model it uses or proposes that state commissions use to develop rates for transport and termination. Rather than require the use of a specific model, FCC rules permit a carrier to establish forward-looking economic cost or FLEC. FLEC is a specific cost standard that has two components. The first is the total element long-run incremental cost or TELRIC and the second is a reasonable allocation of common costs. The JSI model calculates both TELRIC and FLEC.

While FLEC models can and, not surprisingly, vary, the guiding principles are required to be met in order to satisfy the FCC rules. These guiding principles are found in 47 CFR § 51.505 and 51.511. These are the rules referenced in 47 CFR § 51.705(a) that state commissions must use to determine the FLEC for transport and termination of the exchange of telecommunications traffic pursuant to 47 U.S.C. § 251(b)(5) when conducting an arbitration under Section 252 of the Act.

TELRIC is a term coined by the FCC to describe certain features or principles of its cost standard. TELRIC has some characteristics of other types of long-run incremental cost. However, certain aspects of TELRIC are unique to the FCC cost standard. For example, under TELRIC, the FCC requires that wire centers be fixed at their current location. 47 CFR 51.505(b)(1). This constraint imposed by the FCC has significant implications for FLEC models. TELRIC represents the reasonable attribution of incremental costs of an element (in this proceeding transport and termination). There are three required properties of TELRIC: efficient network configuration, forward-looking cost of capital, and economic depreciation rates.

Efficient Network Configuration

The efficient network configuration property requires that the network configuration be measured based on the most efficient technology currently available and the lowest cost network configuration given the existing location of company wire centers. This property has two parts: the use of the most efficient technology currently available and the hypothetical configuration of company plant with the constraint that the existing wire center locations remain fixed.

When developing a transport and termination rate for reciprocal compensation purposes, the constraint that the wire center locations remain fixed greatly reduces the burden of satisfying this property. All switches used by the company reflect the most efficient technology currently available: all switches use digital switch technology. Digital switch technology remains the most efficient technology available because of its widespread use and reliability. While so-called soft switches are being developed and in certain limited circumstances being deployed by ILECs, soft switches are not widely deployed at present. Thus, the JSI study will reflect the continued use of digital switches.

Cost of Capital

According to the FCC, the "cost of capital represents the annual percentage rate of return that a company's debt-holders and equity holders require as compensation for providing the debt and equity capital that a company uses to finance its assets." Federal-State Joint Board on Universal Service; Forward-Looking Mechanism for High Cost Support for Non-Rural LECs, 14

FCC Rcd 20156, FCC 99-304, November 2, 1999, TENTH REPORT AND ORDER, ¶ 433. In its Universal Service Order for non-rural LECs, the FCC concluded that the current federal rate-of-return of 11.25 percent is a reasonable rate of return by which to determine forward-looking costs for non-rural LECs. In this proceeding, JSI will utilize the 11.25 percent rate as the cost of capital in calculating FLEC transport and termination rates for the company.

Economic Depreciation

The FCC has spent a considerable amount of time evaluating depreciation rates. Its experience comes from various proceedings in which depreciation was hotly contested, such as in the X-factor proceedings. The FCC describes depreciation as "the method of recognizing as an expense the cost of a capital investment. Properly calculated economic depreciation is a periodic reduction in the book value of an asset that makes the book value equal to its economic or market value." Economic depreciation rates and their corresponding economic lives are designed to capture the economic life of an asset rather than the life of an asset used for other purposes, such as tax computations.

The FCC has established the economic life of assets by USOA classifications based on the record for non-rural LECs. At the time, the FCC recommended that rural carrier studies for universal service use currently authorized lives because "the assets used to provide universal service in rural, insular, and high cost areas are unlikely to face serious competitive threat in the near term." Federal-State Joint Board On Universal Service, 12 FCC Rcd 8776, FCC 97-157, REPORT AND ORDER, May 8, 1997, ¶ 250. JSI uses the FCC's economic lives for Digital

Switching, Circuit Equipment and Cable and Wire Facilities. For the Support Plant category, JSI uses the actual support plant depreciation rate for the company.

JSI uses the company's debt-equity ratio, weighted debt rate, return on equity, and the economic lives of each asset classification to determine "levelized" capital cost factors. The leveling process determines a single capital cost factor for the entire life of the asset classification employing a present value technique. The leveling process is far superior in developing a capital cost factor than picking the average life of an asset because it incorporates a time-value-of-money component that is used to reflect the value of a dollar today is greater than the value of a dollar in the future.

Common Costs

The FCC has established specific rules for common costs. The FCC describes "forward-looking common costs as economic costs efficiently incurred in providing a group of elements or services (which may include all elements or services provided by the incumbent LEC) that cannot be attributed directly to individual elements or services." 47 CFR § 51.505(c)(1). While forward-looking common costs by rule can be considered generally as costs covering a sub-set of elements or costs covering all elements, JSI prefers to break these two types of common costs into what are typically called "shared costs" and "common costs." Forward-looking shared costs are costs that are efficiently incurred in providing a group of elements or services, but not the entire group of elements or services. This leaves forward-looking common costs as costs that are efficiently incurred in providing all elements or services. While the FCC lumps these two types

of costs together in its rule, discussion by the FCC in its Local Competition Order clearly distinguishes between these two types of cost allocations. *See* Local Competition Order ¶¶ 676, 694.

Common costs must also satisfy a reasonable allocation requirement which states that shared and common allocations, plus TELRIC for an element must not be greater than the forward-looking stand alone costs of the element. Additionally, the sum of allocable forward-looking common costs must equal total forward-looking common costs, except retail costs, that are attributed to operating the company's total network.

Forward-looking common costs, as defined by the FCC, are developed typically through a carrying charge factor. This process involves the development of an expense to investment ratio. The ratio is developed using total company regulated and most-recent-year expenses compared to total company investments. This percentage is then applied to most efficient technology and proposed network investment.

Using a carrying charge factor in this manner is consistent with the FLEC standard. (For a discussion and approval of this method by the FCC, See Joint Application by BellSouth Corporation, BellSouth Telecommunications, Inc., and BellSouth Long Distance, Inc for Provision of In-Region, InterLATA Services In Georgia and Louisiana, FCC 02-147, MEMORANDUM OPINION AND ORDER, May 15, 2002, ¶¶ 51-64.)

Demand Projection

FCC rule 47 CFR § 51.511 states:

> §51.511 Forward-looking economic cost per unit.
>
> (a) The forward-looking economic cost per unit of an element equals the forward-looking economic cost of the element, as defined in §51.505, divided by a reasonable projection of the sum of the total number of units of the element that the incumbent LEC is likely to provide to requesting telecommunications carriers and the total number of units of the element that the incumbent LEC is likely to use in offering its own services, during a reasonable measuring period.
>
> (b)(1) With respect to elements that an incumbent LEC offers on a flat-rate basis, the number of units is defined as the discrete number of elements (e.g., local loops or local switch ports) that the incumbent LEC uses or provides.
>
> (2) With respect to elements that an incumbent LEC offers on a usage-sensitive basis, the number of units is defined as the unit of measurement of the usage (e.g., minutes of use or call-related database queries) of the element.

This rule states that the total FLEC of transport and termination must be divided by the number of units the LEC is likely to provide to the requesting carrier and itself. For purposes of transport and termination, the total number of units used to develop FLEC is a reasonable projection of the total number of switch minutes and total number of transmission minutes.

PROCEDURES FOR PERFORMING A TELRIC STUDY

Company information and joint cooperation with company personnel is vital for the success of the study; this is truly a joint venture and will require significant effort on the part of various company employees. A data request will be prepared and will require the compilation of information on various aspects of your company including:

General Company Information
Franchise Geography
CPR Records (central office and outside plant)
Loop Study (if available)

Interoffice Facilities
Circuit and Special Access Information
Switching
Load and Carrying Charges
Traffic Usage
Current rates and billing units
Various detailed accounting data
Directly assigned costs contained in corporate accounts

Upon receipt of the required data, JSI will analyze the information and develop the inputs to be included in the JSI model. The JSI model fully complies with FCC regulations regarding TELRIC and calculates the forward-looking economic cost of a minute. For the company, the JSI model will develop the forward-looking economic cost of transport and termination on a minute of use basis.

PROJECT COMPLETION DATE

JSI anticipates completion of the TELRIC study within twelve (12) weeks of acceptance of this proposal.

COST OF THE PROJECT

JSI typically provides its services on a *per diem* plus out of pocket expense basis. JSI estimates that the cost to complete a TELRIC study for determination of a transport and termination rate to be approximately $25,000. The cost quoted is for completion of the TELRIC study only and does not reflect costs associated with responding to any interrogatories and providing testimony. In the event that JSI is call upon to provide

testimony in support of the transport and termination rate developed for the company, including responding to interrogatories, JSI will provide the company with a cost estimate.

The estimated cost is only for budget purposes and is not to be considered a "not to exceed" price. In the event the cost to complete the TELRIC study is less than the estimated cost above, the company will be charged the lesser amount. In the event that the cost for the TELRIC study may exceed the estimated cost, JSI will notify the company as soon as possible to discuss the matter in order to determine an appropriate course of action.

At this time, no travel related costs are included in the estimated cost of the TELRIC study. In the event a trip is requested by the company, JSI will provide an estimate of the costs involved.

JSI PERSONNEL

The project leader will be Manny Staurulakis, President. Other JSI personnel involved will include Douglas Meredith – Director of Economics & Pricing, Connie Urdal – Senior Consultant, Denise Thoman - Manager of JSI's CPR Department and other JSI consultants as required.

Please do not hesitate to contact Manny Staurulakis with any questions regarding the proposal.

We trust that the foregoing proposal is agreeable to you and request that you sign and return the enclosed copy of the Agreement to JSI.

Sincerely,

Manny Staurulakis
President - JSI

The foregoing has been read, understood and approved, and the undersigned agrees to retain JSI upon the terms and provisions contained herein.

By:

Name:

Title:

Date:

John Staurulakis, Inc.

Pineville Telephone Company

Total Element Long Run Incremental Cost (TELRIC) Study

Proposal

Submitted by
John Staurulakis, Inc.

October 12, 2005

INTRODUCTION

Pursuant to North Carolina Utilities Commission Docket No. P-100, Sub 159, Pineville Telephone Company ("company") may be required to perform a total element long-run incremental cost ("TELRIC") study in order to calculate a cost based rate for transport and termination. The company has requested a proposal from John Staurulakis, Inc. ("JSI") for completion of a TELRIC study for the development of a transport and termination rate to be assessed to CMRS providers. Due to the fact that the company settles with the National Exchange Carrier Association ("NECA") utilizing the interstate average schedules, the company does not complete any type of cost study on a routine basis. Accordingly, the efforts required to complete a TELRIC study for the company will be extensive. The proposal below provides an overview of the methodology underlying a TELRIC study, the procedures for performing the study, and the timeframe and cost for conducting a TELRIC study.

OVERVIEW

Developments within microeconomic theory have led to the use of the *long run incremental cost* (LRIC) study. "Long Run" indicates that all investment in plant can be changed over time, thereby taking into consideration the prospective, or future looking, cost of equipment. This means that future technological developments must be

considered in a LRIC cost study. "Incremental" means that costs are studied over a range, or various increments, of demand data, such as switching minutes or subscribers.

A variation on LRIC is a type of study referred to as TSLRIC, or *total service long run incremental cost* (also called LRSIC). "Total service" indicates that the appropriate "incremental level" of production is from zero units to the total units or capacity of the equipment required for service. The use of TSLRIC is appropriate when pricing out total bundled services, such as one-party residential, or the total cost of switching toll minutes.

The TELRIC methodology that the company has requested utilizes some of the same basic principles of TSLRIC. The FCC has mandated a number of basic network elements: the loop; switching; transport; data bases and SS7; operations support, including billing and provisioning; and other network elements, including operator services and directory assistance. TELRIC is the FCC prescribed foundation for network element prices. As a result, TELRIC studies reflect the direct costs, shared costs, and a reasonable share of common costs associated with the elements being priced. The FCC has also ruled that costs should be directly assigned under TELRIC to the greatest degree possible. As a result, many costs that historically have been thought of as common costs are to be considered as direct costs. Developing such direct assignments will require use of special time studies or reliance on reasonable approximations in order to allocate directly assignable common costs.

JSI TELRIC METHODOLOGY

The FCC does not have a specific TELRIC cost model it uses or proposes that state commissions use to develop rates for transport and termination. Rather than require the use of a specific model, FCC rules permit a carrier to establish forward-looking economic cost or FLEC. FLEC is a specific cost standard that has two components. The first is the total element long-run incremental cost or TELRIC and the second is a reasonable allocation of common costs. The JSI model calculates both TELRIC and FLEC.

While FLEC models can and, not surprisingly, vary, the guiding principles are required to be met in order to satisfy the FCC rules. These guiding principles are found in 47 CFR § 51.505 and 51.511. These are the rules referenced in 47 CFR § 51.705(a) that state commissions must use to determine the FLEC for transport and termination of the exchange of telecommunications traffic pursuant to 47 U.S.C. § 251(b)(5) when conducting an arbitration under Section 252 of the Act.

TELRIC is a term coined by the FCC to describe certain features or principles of its cost standard. TELRIC has some characteristics of other types of long-run incremental cost. However, certain aspects of TELRIC are unique to the FCC cost standard. For example, under TELRIC, the FCC requires that wire centers be fixed at their current location. 47 CFR 51.505(b)(1). This constraint imposed by the FCC has significant implications for FLEC models. TELRIC represents the reasonable attribution of incremental costs of an element (in this proceeding transport and termination). There are three required properties of TELRIC: efficient network configuration, forward-looking cost of capital, and economic depreciation rates.

Efficient Network Configuration

The efficient network configuration property requires that the network configuration be measured based on the most efficient technology currently available and the lowest cost network configuration given the existing location of company wire centers. This property has two parts: the use of the most efficient technology currently available and the hypothetical configuration of company plant with the constraint that the existing wire center locations remain fixed.

When developing a transport and termination rate for reciprocal compensation purposes, the constraint that the wire center locations remain fixed greatly reduces the burden of satisfying this property. All switches used by the company reflect the most efficient technology currently available: all switches use digital switch technology. Digital switch technology remains the most efficient technology available because of its widespread use and reliability. While so-called soft switches are being developed and in certain limited circumstances being deployed by ILECs, soft switches are not widely deployed at present. Thus, the JSI study will reflect the continued use of digital switches.

Cost of Capital

According to the FCC, the "cost of capital represents the annual percentage rate of return that a company's debt-holders and equity holders require as compensation for providing the debt and equity capital that a company uses to finance its assets." Federal-State Joint Board on Universal Service; Forward-Looking Mechanism for High Cost Support for Non-Rural LECs, 14

FCC Rcd 20156, FCC 99-304, November 2, 1999, TENTH REPORT AND ORDER, ¶ 433. In its Universal Service Order for non-rural LECs, the FCC concluded that the current federal rate-of-return of 11.25 percent is a reasonable rate of return by which to determine forward-looking costs for non-rural LECs. In this proceeding, JSI will utilize the 11.25 percent rate as the cost of capital in calculating FLEC transport and termination rates for the company.

Economic Depreciation

The FCC has spent a considerable amount of time evaluating depreciation rates. Its experience comes from various proceedings in which depreciation was hotly contested, such as in the X-factor proceedings. The FCC describes depreciation as "the method of recognizing as an expense the cost of a capital investment. Properly calculated economic depreciation is a periodic reduction in the book value of an asset that makes the book value equal to its economic or market value." Economic depreciation rates and their corresponding economic lives are designed to capture the economic life of an asset rather than the life of an asset used for other purposes, such as tax computations.

The FCC has established the economic life of assets by USOA classifications based on the record for non-rural LECs. At the time, the FCC recommended that rural carrier studies for universal service use currently authorized lives because "the assets used to provide universal service in rural, insular, and high cost areas are unlikely to face serious competitive threat in the near term." Federal-State Joint Board On Universal Service, 12 FCC Rcd 8776, FCC 97-157, REPORT AND ORDER, May 8, 1997, ¶ 250. JSI uses the FCC's economic lives for Digital

Switching, Circuit Equipment and Cable and Wire Facilities. For the Support Plant category, JSI uses the actual support plant depreciation rate for the company.

JSI uses the company's debt-equity ratio, weighted debt rate, return on equity, and the economic lives of each asset classification to determine "levelized" capital cost factors. The leveling process determines a single capital cost factor for the entire life of the asset classification employing a present value technique. The leveling process is far superior in developing a capital cost factor than picking the average life of an asset because it incorporates a time-value-of-money component that is used to reflect the value of a dollar today is greater than the value of a dollar in the future.

Common Costs

The FCC has established specific rules for common costs. The FCC describes "forward-looking common costs as economic costs efficiently incurred in providing a group of elements or services (which may include all elements or services provided by the incumbent LEC) that cannot be attributed directly to individual elements or services." 47 CFR § 51.505(c)(1). While forward-looking common costs by rule can be considered generally as costs covering a sub-set of elements or costs covering all elements, JSI prefers to break these two types of common costs into what are typically called "shared costs" and "common costs." Forward-looking shared costs are costs that are efficiently incurred in providing a group of elements or services, but not the entire group of elements or services. This leaves forward-looking common costs as costs that are efficiently incurred in providing all elements or services. While the FCC lumps these two types

of costs together in its rule, discussion by the FCC in its Local Competition Order clearly distinguishes between these two types of cost allocations. *See* Local Competition Order ¶¶ 676, 694.

Common costs must also satisfy a reasonable allocation requirement which states that shared and common allocations, plus TELRIC for an element must not be greater than the forward-looking stand alone costs of the element. Additionally, the sum of allocable forward-looking common costs must equal total forward-looking common costs, except retail costs, that are attributed to operating the company's total network.

Forward-looking common costs, as defined by the FCC, are developed typically through a carrying charge factor. This process involves the development of an expense to investment ratio. The ratio is developed using total company regulated and most-recent-year expenses compared to total company investments. This percentage is then applied to most efficient technology and proposed network investment.

Using a carrying charge factor in this manner is consistent with the FLEC standard. (For a discussion and approval of this method by the FCC, See Joint Application by BellSouth Corporation, BellSouth Telecommunications, Inc., and BellSouth Long Distance, Inc for Provision of In-Region, InterLATA Services In Georgia and Louisiana, FCC 02-147, MEMORANDUM OPINION AND ORDER, May 15, 2002, ¶¶ 51-64.)

Demand Projection

FCC rule 47 CFR § 51.511 states:

> §51.511 Forward-looking economic cost per unit.
>
> (a) The forward-looking economic cost per unit of an element equals the forward-looking economic cost of the element, as defined in §51.505, divided by a reasonable projection of the sum of the total number of units of the element that the incumbent LEC is likely to provide to requesting telecommunications carriers and the total number of units of the element that the incumbent LEC is likely to use in offering its own services, during a reasonable measuring period.
>
> (b)(1) With respect to elements that an incumbent LEC offers on a flat-rate basis, the number of units is defined as the discrete number of elements (e.g., local loops or local switch ports) that the incumbent LEC uses or provides.
>
> (2) With respect to elements that an incumbent LEC offers on a usage-sensitive basis, the number of units is defined as the unit of measurement of the usage (e.g., minutes of use or call-related database queries) of the element.

This rule states that the total FLEC of transport and termination must be divided by the number of units the LEC is likely to provide to the requesting carrier and itself. For purposes of transport and termination, the total number of units used to develop FLEC is a reasonable projection of the total number of switch minutes and total number of transmission minutes.

PROCEDURES FOR PERFORMING THE TELRIC STUDY

Company information and joint cooperation with company personnel is vital for the success of the study; this is truly a joint venture and will require significant effort on the part of various company employees. A data request will be prepared and will require the compilation of information on various aspects of your company including:

General Company Information
Franchise Geography
CPR Records (central office and outside plant)
Loop Study (if available)

Interoffice Facilities
Circuit and Special Access Information
Switching
Load and Carrying Charges
Traffic Usage
Current rates and billing units
Various detailed accounting data
Directly assigned costs contained in corporate accounts

Upon receipt of the required data, JSI will analyze the information and develop the inputs to be included in the JSI model. The JSI model fully complies with FCC regulations regarding TELRIC and calculates the forward-looking economic cost of a minute. For the company, the JSI model will develop the forward-looking economic cost of transport and termination on a minute of use basis.

PROJECT COMPLETION DATE

JSI anticipates completion of the TELRIC study within twelve (12) weeks of acceptance of this proposal.

COST OF THE PROJECT

JSI typically provides its services on a *per diem* plus out of pocket expense basis. JSI estimates that the cost to complete a TELRIC study for determination of a transport and termination rate to be approximately $18,000. The cost quoted is for completion of the TELRIC study only and does not reflect costs associated with responding to any interrogatories and providing testimony. In the event that JSI is call upon to provide

testimony in support of the transport and termination rate developed for the company, including responding to interrogatories, JSI will provide the company with a cost estimate.

The estimated cost is only for budget purposes and is not to be considered a "not to exceed" price. In the event the cost to complete the TELRIC study is less than the estimated cost above, the company will be charged the lesser amount. In the event that the cost for the TELRIC study may exceed the estimated cost, JSI will notify the company as soon as possible to discuss the matter in order to determine an appropriate course of action.

At this time, no travel related costs are included in the estimated cost of the TELRIC study. In the event a trip is requested by the company, JSI will provide an estimate of the costs involved.

JSI PERSONNEL

The project leader will be Manny Staurulakis, President. Other JSI personnel involved will include Douglas Meredith – Director of Economics & Pricing, Connie Urdal – Senior Consultant, Denise Thoman - Manager of JSI's CPR Department and other JSI consultants as required.

Please do not hesitate to contact Manny Staurulakis with any questions regarding the proposal.

We trust that the foregoing proposal is agreeable to you and request that you sign and return the enclosed copy of the Agreement to JSI.

Sincerely,

Manny Staurulakis
President - JSI

The foregoing has been read, understood and approved, and the undersigned agrees to retain JSI upon the terms and provisions contained herein.

By:

Name:

Title:

Date:

John Staurulakis, Inc.

Mid-South Consulting Engineers, Inc.
3901 Rose Lake Drive, Charlotte, North Carolina 28217

Pineville Telephone Company
Total Element Long Run Incremental Cost (TELRIC) Study

Proposal

Submitted by
Mid-South Consulting Engineers, Inc.

October 14, 2005

1. INTRODUCTION

Pursuant to North Carolina Utilities Commission Docket No. P-100, Sub 159, Pineville Telephone Company ("company") may be required to perform a total element long-run incremental cost ("TELRIC") study in order to calculate a cost based rate for transport and termination. The company has requested a proposal from Mid-South Consulting Engineers, Inc. ("Mid-South") to provide the engineering and interface with John Staurulakis, Inc. ("JSI") to allow JSI to complete the TELRIC study for development of a transport and termination rate to be assessed to CMRS providers.

2. PROCEDURES FOR PERFORMING THE TELRIC STUDY

Mid-South will interface between the company and JSI to make, obtain or produce all the data required by JSI to produce a successful study. Mid-South will be the interface to both JSI and the company for the compilation of information on various aspects of the company including:

General Company Information
Franchise Geography
CPR Records (CO and outside plant)
Loop Study (if available)
Interoffice Facilities
Circuit and Special Access Information
Switching
Load and Carrying Charges
Traffic Usage
Current Rates and Billing Units
Various Detailed Accounting Data
Directly Assigned Costs Contained in Corporate Accounts

3. PROJECTED COMPLETION DATE

Mid-South anticipates completion of its requirements of the TELRIC study within the (12) weeks JSI will require. This will begin with the requirement of the commission to do the study and the acceptance of this proposal.

4. COST OF THE PROJECT

Mid-South estimates that the cost to complete the requirements for its portion of the TELRIC study for determination of a transport and termination rate to be approximately $16,000.

The estimated cost is only for budget purposes and is not to be considered a "not to exceed" price. In the event the cost to complete its portion of the TELRIC study is less than the estimated cost above, the company will be charged the lesser amount. In the event that the cost for Mid-South's portion of the TELERIC study may exceed the

estimated cost, Mid-South will notify the company as soon as possible to discuss the matter.

5. MID-SOUTH PERSONNEL

The project leader for Mid-South will be George H. Sidman, VP Business Solutions. Other Mid-South personnel will be utilized as needed.

6. ACCEPTANCE

This signifies the acceptance of this proposal, its scope, deliverables and timeframe and the undersigned agrees to retain Mid-South upon the terms and provisions contained herein.

BY:

Name:

Title:

Date:

Signature:

STATE OF NORTH CAROLINA
UTILITIES COMMISSION

Docket No. P-100, Sub 159

In the Matter of Petition of Rural Telephone Companies for Modification Pursuant to 47 USC § 251 (f)(2)	)))	**REDACTED** **AFFIDAVIT ON BEHALF OF** **ELLERBE TELEPHONE COMPANY** **AND RURAL ICOs**

Herbert Long, Jr., first being duly sworn, deposes and says:

1. I am employed by Ellerbe Telephone Company (Ellerbe") as Vice President and General Manager.

2. Ellerbe is an incumbent local exchange company providing service in the Ellerbe exchange. As of the end of August 2005, Ellerbe served a total of 2,412 access lines. Ellerbe Telephone Company has a total of 11 employees.

3. Pursuant to the Commission's Order issued October 4, 2005, in this docket, Ellerbe Telephone Company ("Ellerbe") requested a proposal from John Staurulakis, Inc. ("JSI") for preparation of a Total Element Long Run Incremental Cost ("TELRIC") study for Ellerbe. As shown in the attached proposal from JSI to Ellerbe, JSI estimates that its charges for preparing a TELRIC study for Ellerbe would be approximately $19,000.

4. The cost estimate from JSI does not include costs of defending any TELRIC study done for Ellerbe, preparing testimony, or appearing and testifying in connection with an arbitration.

5. The total reciprocal compensation received by Ellerbe in 2004 from CMRS providers was $_____, which was paid at the rate of $0.015 per minute of CMRS originated traffic terminated to Ellerbe.

6. Based on JSI's estimate as to the cost of a TELRIC study for Ellerbe, together with the anticipated legal fees to arbitrate a reciprocal compensation rate with a single CMRS provider, I would expect the total cost of doing such a study and arbitration to approach or exceed the total amount of reciprocal compensation received by Ellerbe from all CMRS providers in 2004. Since there are multiple CMRS providers involved, the prospect of having to arbitrate this issue with more than one CMRS provider would further burden Ellerbe.

7. The resulting economics of the situation presented to Ellerbe are such that Ellerbe, because of the economic disparity between its bargaining power and the bargaining power of the CMRS providers, is required to either accept whatever reciprocal compensation rate the CMRS providers are willing to pay; or, alternatively, go through arbitration seeking a higher reciprocal compensation rate than CMRS providers are voluntarily willing to pay. Given the cost of such an approach, Ellerbe could conceivably find itself having to offset the expense of making such studies and arbitrating such issues through increased local service rates. Neither result seems appropriate, fair or reasonable under the circumstances presented. It is not economically logical for Ellerbe to do a TELRIC study and go through arbitration, given the amount of reciprocal compensation involved.

Ellerbe Telephone Company

Total Element Long Run Incremental Cost (TELRIC) Study

Proposal

Submitted by
John Staurulakis, Inc.

October 28, 2005

INTRODUCTION

Pursuant to North Carolina Utilities Commission Docket No. P-100, Sub 159, Ellerbe Telephone Company ("company") may be required to perform a total element long-run incremental cost ("TELRIC") study in order to calculate a cost based rate for transport and termination. The company has requested a proposal from John Staurulakis, Inc. ("JSI") for completion of a TELRIC study for the development of a transport and termination rate to be assessed to CMRS providers. Due to the fact that the company settles with the National Exchange Carrier Association ("NECA") utilizing the interstate average schedules, the company does not complete any type of cost study on a routine basis. Accordingly, the efforts required to complete a TELRIC study for the company will be extensive. The proposal below provides an overview of the methodology underlying a TELRIC study, the procedures for performing the study, and the timeframe and cost for conducting a TELRIC study.

OVERVIEW

Developments within microeconomic theory have led to the use of the *long run incremental cost* (LRIC) study. "Long Run" indicates that all investment in plant can be changed over time, thereby taking into consideration the prospective, or future looking, cost of equipment. This means that future technological developments must be

considered in a LRIC cost study. "Incremental" means that costs are studied over a range, or various increments, of demand data, such as switching minutes or subscribers.

A variation on LRIC is a type of study referred to as TSLRIC, or *total service long run incremental cost* (also called LRSIC). "Total service" indicates that the appropriate "incremental level" of production is from zero units to the total units or capacity of the equipment required for service. The use of TSLRIC is appropriate when pricing out total bundled services, such as one-party residential, or the total cost of switching toll minutes.

The TELRIC methodology that the company has requested utilizes some of the same basic principles of TSLRIC. The FCC has mandated a number of basic network elements: the loop; switching; transport; data bases and SS7; operations support, including billing and provisioning; and other network elements, including operator services and directory assistance. TELRIC is the FCC prescribed foundation for network element prices. As a result, TELRIC studies reflect the direct costs, shared costs, and a reasonable share of common costs associated with the elements being priced. The FCC has also ruled that costs should be directly assigned under TELRIC to the greatest degree possible. As a result, many costs that historically have been thought of as common costs are to be considered as direct costs. Developing such direct assignments will require use of special time studies or reliance on reasonable approximations in order to allocate directly assignable common costs.

JSI TELRIC METHODOLOGY

The FCC does not have a specific TELRIC cost model it uses or proposes that state commissions use to develop rates for transport and termination. Rather than require the use of a specific model, FCC rules permit a carrier to establish forward-looking economic cost or FLEC. FLEC is a specific cost standard that has two components. The first is the total element long-run incremental cost or TELRIC and the second is a reasonable allocation of common costs. The JSI model calculates both TELRIC and FLEC.

While FLEC models can and, not surprisingly, vary, the guiding principles are required to be met in order to satisfy the FCC rules. These guiding principles are found in 47 CFR § 51.505 and 51.511. These are the rules referenced in 47 CFR § 51.705(a) that state commissions must use to determine the FLEC for transport and termination of the exchange of telecommunications traffic pursuant to 47 U.S.C. § 251(b)(5) when conducting an arbitration under Section 252 of the Act.

TELRIC is a term coined by the FCC to describe certain features or principles of its cost standard. TELRIC has some characteristics of other types of long-run incremental cost. However, certain aspects of TELRIC are unique to the FCC cost standard. For example, under TELRIC, the FCC requires that wire centers be fixed at their current location. 47 CFR 51.505(b)(1). This constraint imposed by the FCC has significant implications for FLEC models. TELRIC represents the reasonable attribution of incremental costs of an element (in this proceeding transport and termination). There are three required properties of TELRIC: efficient network configuration, forward-looking cost of capital, and economic depreciation rates.

Efficient Network Configuration

The efficient network configuration property requires that the network configuration be measured based on the most efficient technology currently available and the lowest cost network configuration given the existing location of company wire centers. This property has two parts: the use of the most efficient technology currently available and the hypothetical configuration of company plant with the constraint that the existing wire center locations remain fixed.

When developing a transport and termination rate for reciprocal compensation purposes, the constraint that the wire center locations remain fixed greatly reduces the burden of satisfying this property. All switches used by the company reflect the most efficient technology currently available: all switches use digital switch technology. Digital switch technology remains the most efficient technology available because of its widespread use and reliability. While so-called soft switches are being developed and in certain limited circumstances being deployed by ILECs, soft switches are not widely deployed at present. Thus, the JSI study will reflect the continued use of digital switches.

Cost of Capital

According to the FCC, the "cost of capital represents the annual percentage rate of return that a company's debt-holders and equity holders require as compensation for providing the debt and equity capital that a company uses to finance its assets." Federal-State Joint Board on Universal Service; Forward-Looking Mechanism for High Cost Support for Non-Rural LECs, 14

FCC Rcd 20156, FCC 99-304, November 2, 1999, TENTH REPORT AND ORDER, ¶ 433. In its Universal Service Order for non-rural LECs, the FCC concluded that the current federal rate-of-return of 11.25 percent is a reasonable rate of return by which to determine forward-looking costs for non-rural LECs. In this proceeding, JSI will utilize the 11.25 percent rate as the cost of capital in calculating FLEC transport and termination rates for the company.

Economic Depreciation

The FCC has spent a considerable amount of time evaluating depreciation rates. Its experience comes from various proceedings in which depreciation was hotly contested, such as in the X-factor proceedings. The FCC describes depreciation as "the method of recognizing as an expense the cost of a capital investment. Properly calculated economic depreciation is a periodic reduction in the book value of an asset that makes the book value equal to its economic or market value." Economic depreciation rates and their corresponding economic lives are designed to capture the economic life of an asset rather than the life of an asset used for other purposes, such as tax computations.

The FCC has established the economic life of assets by USOA classifications based on the record for non-rural LECs. At the time, the FCC recommended that rural carrier studies for universal service use currently authorized lives because "the assets used to provide universal service in rural, insular, and high cost areas are unlikely to face serious competitive threat in the near term." Federal-State Joint Board On Universal Service, 12 FCC Rcd 8776, FCC 97-157, REPORT AND ORDER, May 8, 1997, ¶ 250. JSI uses the FCC's economic lives for Digital

Switching, Circuit Equipment and Cable and Wire Facilities. For the Support Plant category, JSI uses the actual support plant depreciation rate for the company.

JSI uses the company's debt-equity ratio, weighted debt rate, return on equity, and the economic lives of each asset classification to determine "levelized" capital cost factors. The leveling process determines a single capital cost factor for the entire life of the asset classification employing a present value technique. The leveling process is far superior in developing a capital cost factor than picking the average life of an asset because it incorporates a time-value-of-money component that is used to reflect the value of a dollar today is greater than the value of a dollar in the future.

Common Costs

The FCC has established specific rules for common costs. The FCC describes "forward-looking common costs as economic costs efficiently incurred in providing a group of elements or services (which may include all elements or services provided by the incumbent LEC) that cannot be attributed directly to individual elements or services." 47 CFR § 51.505(c)(1). While forward-looking common costs by rule can be considered generally as costs covering a sub-set of elements or costs covering all elements, JSI prefers to break these two types of common costs into what are typically called "shared costs" and "common costs." Forward-looking shared costs are costs that are efficiently incurred in providing a group of elements or services, but not the entire group of elements or services. This leaves forward-looking common costs as costs that are efficiently incurred in providing all elements or services. While the FCC lumps these two types

of costs together in its rule, discussion by the FCC in its Local Competition Order clearly distinguishes between these two types of cost allocations. *See* Local Competition Order ¶¶ 676, 694.

Common costs must also satisfy a reasonable allocation requirement which states that shared and common allocations, plus TELRIC for an element must not be greater than the forward-looking stand alone costs of the element. Additionally, the sum of allocable forward-looking common costs must equal total forward-looking common costs, except retail costs, that are attributed to operating the company's total network.

Forward-looking common costs, as defined by the FCC, are developed typically through a carrying charge factor. This process involves the development of an expense to investment ratio. The ratio is developed using total company regulated and most-recent-year expenses compared to total company investments. This percentage is then applied to most efficient technology and proposed network investment.

Using a carrying charge factor in this manner is consistent with the FLEC standard. (For a discussion and approval of this method by the FCC, See Joint Application by BellSouth Corporation, BellSouth Telecommunications, Inc., and BellSouth Long Distance, Inc for Provision of In-Region, InterLATA Services In Georgia and Louisiana, FCC 02-147, MEMORANDUM OPINION AND ORDER, May 15, 2002, ¶¶ 51-64.)

Demand Projection

FCC rule 47 CFR § 51.511 states:

> §51.511 Forward-looking economic cost per unit.
>
> (a) The forward-looking economic cost per unit of an element equals the forward-looking economic cost of the element, as defined in §51.505, divided by a reasonable projection of the sum of the total number of units of the element that the incumbent LEC is likely to provide to requesting telecommunications carriers and the total number of units of the element that the incumbent LEC is likely to use in offering its own services, during a reasonable measuring period.
>
> (b)(1) With respect to elements that an incumbent LEC offers on a flat-rate basis, the number of units is defined as the discrete number of elements (e.g., local loops or local switch ports) that the incumbent LEC uses or provides.
>
> (2) With respect to elements that an incumbent LEC offers on a usage-sensitive basis, the number of units is defined as the unit of measurement of the usage (e.g., minutes of use or call-related database queries) of the element.

This rule states that the total FLEC of transport and termination must be divided by the number of units the LEC is likely to provide to the requesting carrier and itself. For purposes of transport and termination, the total number of units used to develop FLEC is a reasonable projection of the total number of switch minutes and total number of transmission minutes.

PROCEDURES FOR PERFORMING A TELRIC STUDY

Company information and joint cooperation with company personnel is vital for the success of the study; this is truly a joint venture and will require significant effort on the part of various company employees. A data request will be prepared and will require the compilation of information on various aspects of your company including:

General Company Information
Franchise Geography
CPR Records (central office and outside plant)
Loop Study (if available)

Interoffice Facilities
Circuit and Special Access Information
Switching
Load and Carrying Charges
Traffic Usage
Current rates and billing units
Various detailed accounting data
Directly assigned costs contained in corporate accounts

Upon receipt of the required data, JSI will analyze the information and develop the inputs to be included in the JSI model. The JSI model fully complies with FCC regulations regarding TELRIC and calculates the forward-looking economic cost of a minute. For the company, the JSI model will develop the forward-looking economic cost of transport and termination on a minute of use basis.

PROJECT COMPLETION DATE

JSI anticipates completion of the TELRIC study within twelve (12) weeks of acceptance of this proposal.

COST OF THE PROJECT

JSI typically provides its services on a *per diem* plus out of pocket expense basis. JSI estimates that the cost to complete a TELRIC study for determination of a transport and termination rate to be approximately $19,000. The cost quoted is for completion of the TELRIC study only and does not reflect costs associated with responding to any interrogatories and providing testimony. In the event that JSI is call upon to provide

testimony in support of the transport and termination rate developed for the company, including responding to interrogatories, JSI will provide the company with a cost estimate.

The estimated cost is only for budget purposes and is not to be considered a "not to exceed" price. In the event the cost to complete the TELRIC study is less than the estimated cost above, the company will be charged the lesser amount. In the event that the cost for the TELRIC study may exceed the estimated cost, JSI will notify the company as soon as possible to discuss the matter in order to determine an appropriate course of action.

At this time, no travel related costs are included in the estimated cost of the TELRIC study. In the event a trip is requested by the company, JSI will provide an estimate of the costs involved.

JSI PERSONNEL

The project leader will be Manny Staurulakis, President. Other JSI personnel involved will include Douglas Meredith – Director of Economics & Pricing, Connie Urdal – Senior Consultant, Denise Thoman - Manager of JSI's CPR Department and other JSI consultants as required.

Please do not hesitate to contact Manny Staurulakis with any questions regarding the proposal.

We trust that the foregoing proposal is agreeable to you and request that you sign and return the enclosed copy of the Agreement to JSI.

Sincerely,

Manny Staurulakis
President - JSI

The foregoing has been read, understood and approved, and the undersigned agrees to retain JSI upon the terms and provisions contained herein.

By:

Name:

Title:

Date:

John Staurulakis, Inc.

Further, affiant sayeth not.

Herbert Long Jr.
HERBERT LONG, JR.

Sworn to and subscribed before me
this the 3rd day of November, 2005.

Dara R. Puckett
Notary Public

My commission expires: 10-7-2007

STATE OF NORTH CAROLINA
UTILITIES COMMISSION

Docket No. P-100, Sub 159

In the Matter of	)	**AFFIDAVIT ON BEHALF**
Petition of Rural Telephone Companies for	)	**OF MEBTEL, INC.**
Modification Pursuant to 47 USC § 251 (f)(2)	)	**AND RURAL ICOs**

Michael Skrivan, first being duly sworn, deposes and says:

1. I am employed by MebTel, Inc. as Vice President of Revenues. MebTel is a subsidiary of Madison River Telephone Company, LLC.

2. MebTel is an incumbent local exchange company providing local exchange service in the Mebane, Milton and Gatewood exchanges. As of the end of September, 2005, MebTel served a total of 15,271 access lines in those exchanges.

3. Pursuant to the Commission's Order issued October 4, 2005, in this docket, on behalf of MebTel I solicited proposals from John Staurulakis, Inc. ("JSI") and two other consulting firms for preparation of a TELRIC study for MebTel. As shown in the attached proposal from JSI to MebTel, JSI estimates that its charges for preparing a TELRIC study for MebTel would be approximately $40,000. The other consulting firms have not yet responded to my request for a proposal.

4. The cost estimate from JSI does not include costs of defending any TELRIC study done for MebTel, preparing testimony, or appearing and testifying in connection with an arbitration. Nor does it include internal costs to develop and provide data to JSI for this analysis. The cost estimate also does not include special analysis that may be required to develop forward looking depreciation rates and forward looking cost of capital.

5. I am informed and believe that the majority of the rural telephone companies which petitioned the Commission in this docket are "average schedule" companies, rather than "cost" companies. MebTel is a "cost" company, but it was a "average schedule" company until March of 2005. A "average schedule" company uses formulas, based on average costs for telephone operations, to establish its interstate costs, instead of performing a cost separations study. Those average interstate costs establish a "average schedule" company's interstate settlements from the NECA Common Line and Traffic Sensitive Pools. The interstate settlement revenue includes all form of federal universal service funding, including interstate common lines support, local switching support, and high cost loop funding. "Average schedule" companies have elected to have their costs determined based on averages rather than company specific cost information. "Average schedule" companies do not track cost information in the way that "cost" companies do. Typically, smaller ILECs elect "average schedule" status to avoid the administrative burdens associated with being a cost company. While detailed cost information is available to MebTel, as a "cost" company, the same type of information will not normally be available to average schedule companies.

7. In response to the CMRS providers' demands for cost studies from each of the Petitioners, and because of my background in cost separations studies, I prepared a transport and termination cost study on behalf of MebTel. My background in preparing cost studies goes back to 1977 when I was employed by Ernst & Ernst (now Ernst & Young) in its Tacoma Telecommunications Office. Since that time I have routinely been responsible for preparing cost studies for various companies. During the late 1980s I served as a volunteer instructor in USTA's Cost Separations Schools.

8. Using readily available data from MebTel's costs separations studies, I was able to prepare a transport and termination cost study for MebTel in less than one day. The methodology I used in preparing MebTel's cost study was described as to the CMRS providers as follows:

> The transport and termination cost study provided has its foundation based on MebTel's cost separations studies that are used for jurisdictional cost analysis. Thus, you will see categories of plant and expenses that correspond to FCC cost separations rules. We believe these categories are generally logical and useful for this type of analysis
>
> Instead of separating costs between jurisdictions and then performing a Part 69 cost of service analysis, as would normally be done for a jurisdictional cost study, the cost study includes unseparated costs and then performs a Part 69 cost of service study. This has the effect of identifying unseparated costs associated with Common Line (a.k.a. loop), Local Switching (a.k.a. End Office Switching), Transport, Special Access, Billing/Collection Host/Remote. For purposes of developing an applicable rate for reciprocal compensation, the End Office, Transport and Host/Remote elements were included and loop, special access and billing/collection costs were excluded. I modified MebTel's cost separations study to remove duplicate switching costs and reduced depreciation expense accordingly. I also assumed a 20% Depreciation Reserve on all capital investment.
>
> The transport and termination cost study shows a detailed analysis of rate base and expenses. Column C of the cost study describes the basis of assignment or allocation, referring to other portions of the cost study where relevant. Therefore, the calculations can be determined from the description in Column C.

9. The MebTel cost study indicates that MebTel's cost of terminating a minute of CMRS originated traffic is $0.0180. This cost study was provided to the CMRS provider group in September 2005.

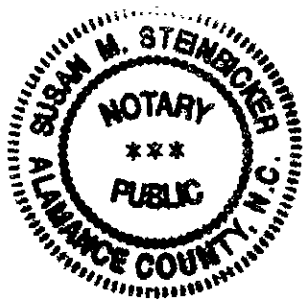
10. Based on my observation of CMRS negotiation tactics and practices in other states where Madison River has ILEC subsidiaries, and particularly based on the stance recently taken by the CMRS providers in the pending proceeding before the Tennessee Regulatory Authority regarding cost studies and reciprocal compensation, I expect that the CMRS providers will reject the cost study I prepared on behalf of MebTel. Based on those same experiences and observations, I would likewise expect the CMRS providers to reject any cost study, whether

purporting to be TELRIC based or otherwise, prepared for any ILEC by any accountant or consultant. In my experience, CMRS providers will reject the cost study model, the study methodology, the inputs, the results, or all of the above, for any study produced by any ILEC, regardless of the size of the company involved, the party conducting the study, the sophistication of the study, or any other aspect of such a study.

Further, affiant sayeth not.

Michael Skrivan
MICHAEL SKRIVAN

Sworn to and subscribed before me
this the 3rd day of November, 2005.



Susan M. Steinbicker
Notary Public

My commission expires: 11-24-2009

MEBTEL, Inc.

Total Element Long Run Incremental Cost (TELRIC) Study

Proposal

Submitted by
John Staurulakis, Inc.

November 3, 2005

INTRODUCTION

In response to the Order of the North Carolina Utilities Commission issued in Docket No. P-100, Sub 159, MEBTEL, Inc. ("company") has requested documentation establishing what the company's cost would be if it was required to perform a total element long-run incremental cost ("TELRIC") study in order to calculate a cost-based rate for transport and termination. The company has requested a proposal from John Staurulakis, Inc. ("JSI") for completion of a TELRIC study for the development of a transport and termination rate to be assessed to CMRS providers and the development of rates for unbundled network elements (UNEs) pursuant to Section 251(c) of the Telecommunications Act. The efforts required to complete a TELRIC study for the company will be extensive. The proposal below provides an overview of the methodology underlying a TELRIC study, the procedures for performing the study, and the timeframe and cost for conducting a TELRIC study.

OVERVIEW

Developments within microeconomic theory have led to the use of the *long run incremental cost* (LRIC) study. "Long Run" indicates that all investment in plant can be changed over time, thereby taking into consideration the prospective, or future looking, cost of equipment. This means that future technological developments must be

considered in a LRIC cost study. "Incremental" means that costs are studied over a range, or various increments, of demand data, such as switching minutes or subscribers.

A variation on LRIC is a type of study referred to as TSLRIC, or *total service long run incremental cost* (also called LRSIC). "Total service" indicates that the appropriate "incremental level" of production is from zero units to the total units or capacity of the equipment required for service. The use of TSLRIC is appropriate when pricing out total bundled services, such as one-party residential, or the total cost of switching toll minutes.

The TELRIC methodology which is the subject of the company's inquiry utilizes some of the same basic principles of TSLRIC. The FCC has mandated a number of basic network elements: the loop; switching; transport; data bases and SS7; operations support, including billing and provisioning; and other network elements, including operator services and directory assistance. TELRIC is the FCC prescribed foundation for network element prices. As a result, TELRIC studies reflect the direct costs, shared costs, and a reasonable share of common costs associated with the elements being priced. The FCC has also indicated that costs should be directly assigned under TELRIC to the greatest degree possible. As a result, many costs that historically have been thought of as common costs are to be considered as direct costs. Developing such direct assignments will require use of special time studies or reliance on reasonable approximations in order to allocate directly assignable common costs.

JSI TELRIC METHODOLOGY

The FCC does not have a specific TELRIC cost model it uses or proposes that state commissions use to develop rates for transport and termination and UNEs. Rather than require the use of a specific model, FCC rules permit a carrier to establish forward-looking economic cost or FLEC. FLEC is a specific cost standard that has two components. The first is the total element long-run incremental cost or TELRIC and the second is a reasonable allocation of common costs. The JSI model calculates both TELRIC and FLEC.

While FLEC models can and, not surprisingly, do vary, certain guiding principles are required to be met in order to satisfy the FCC rules for this type of study. These guiding principles are found in 47 CFR § 51.505 and 51.511. These are the rules referenced in 47 CFR § 51.705(a).

TELRIC is a term coined by the FCC to describe certain features or principles of its cost standard. TELRIC has some characteristics of other types of long-run incremental cost. However, certain aspects of TELRIC are unique to the FCC cost standard. For example, under TELRIC, the FCC requires that wire centers be fixed at their current location. 47 CFR 51.505(b)(1). This constraint imposed by the FCC has significant implications for FLEC models. TELRIC represents the reasonable attribution of incremental costs of an element (in this proceeding transport and termination). There are three required properties of TELRIC: efficient network configuration, forward-looking cost of capital, and economic depreciation rates.

Efficient Network Configuration

John Staurulakis, Inc.

The efficient network configuration property requires that the network configuration be measured based on the most efficient technology currently available and the lowest cost network configuration given the existing location of company wire centers. This property has two parts: the use of the most efficient technology currently available and the hypothetical configuration of company plant with the constraint that the existing wire center locations remain fixed.

When developing a transport and termination rate for reciprocal compensation purposes, the constraint that the wire center locations remain fixed greatly reduces the burden of satisfying this property. All switches used by the company reflect the most efficient technology currently available: all switches use digital switch technology. Digital switch technology remains the most efficient technology available because of its widespread use and reliability. While so-called soft switches are being developed and in certain limited circumstances being deployed by ILECs, soft switches are not widely deployed at present. Thus, the JSI study will reflect the continued use of digital switches.

Cost of Capital

According to the FCC, the "cost of capital represents the annual percentage rate of return that a company's debt-holders and equity holders require as compensation for providing the debt and equity capital that a company uses to finance its assets." Federal-State Joint Board on Universal Service; Forward-Looking Mechanism for High Cost Support for Non-Rural LECs, 14 FCC Rcd 20156, FCC 99-304, November 2, 1999, TENTH REPORT AND ORDER, ¶ 433. In its Universal Service Order for non-rural LECs, the FCC concluded that the current federal rate-

of-return of 11.25 percent is a reasonable rate of return by which to determine forward-looking costs for non-rural LECs. Although FCC TELRIC rules allow for the use of forward-looking cost of capital, in this proceeding, JSI will utilize the 11.25 percent rate as the cost of capital in calculating FLEC rates for the company. Should the company want JSI to develop a forward-looking cost of capital, additional resources would be required resulting in increased fees of $8,000 to $12,000 for this engagement.

Economic Depreciation

The FCC has spent a considerable amount of time evaluating depreciation rates. Its experience comes from various proceedings in which depreciation was hotly contested, such as in the X-factor proceedings. The FCC describes depreciation as "the method of recognizing as an expense the cost of a capital investment. Properly calculated economic depreciation is a periodic reduction in the book value of an asset that makes the book value equal to its economic or market value." Economic depreciation rates and their corresponding economic lives are designed to capture the economic life of an asset rather than the life of an asset used for other purposes, such as tax computations.

The FCC has established the economic life of assets by USOA classifications based on the record for non-rural LECs. At the time, the FCC recommended that rural carrier studies for universal service use currently authorized lives because "the assets used to provide universal service in rural, insular, and high cost areas are unlikely to face serious competitive threat in the near term." Federal-State Joint Board On Universal Service, 12 FCC Rcd 8776, FCC 97-157,

Comment: what does this term mean?

REPORT AND ORDER, May 8, 1997, ¶ 250. Although FCC rules allow use of forward-looking depreciation rates in TELRIC studies, JSI proposes to use the FCC's economic lives for Digital Switching, Circuit Equipment and Cable and Wire Facilities. For the Support Plant category, JSI uses the actual support plant depreciation rate for the company. Should the company elect to have JSI develop forward-looking depreciation rates, additional resources would be required resulting in increased fees of $15,000 to $20,000 for this engagement.,

JSI uses the company's debt-equity ratio, weighted debt rate, return on equity, and the economic lives of each asset classification to determine "levelized" capital cost factors. The leveling process determines a single capital cost factor for the entire life of the asset classification employing a present value technique. The leveling process is far superior in developing a capital cost factor than picking the average life of an asset because it incorporates a time-value-of-money component that is used to reflect the value of a dollar today is greater than the value of a dollar in the future.

Common Costs

The FCC has established specific rules for common costs. The FCC describes "forward-looking common costs as economic costs efficiently incurred in providing a group of elements or services (which may include all elements or services provided by the incumbent LEC) that cannot be attributed directly to individual elements or services." 47 CFR § 51.505(c)(1). While forward-looking common costs by rule can be considered generally as costs covering a sub-set of elements or costs covering all elements, JSI prefers to break these two types of common costs

into what are typically called "shared costs" and "common costs." Forward-looking shared costs are costs that are efficiently incurred in providing a group of elements or services, but not the entire group of elements or services. This leaves forward-looking common costs as costs that are efficiently incurred in providing all elements or services. While the FCC lumps these two types of costs together in its rule, discussion by the FCC in its Local Competition Order clearly distinguishes between these two types of cost allocations. *See* Local Competition Order ¶¶ 676, 694.

Common costs must also satisfy a reasonable allocation requirement which states that shared and common allocations, plus TELRIC for an element must not be greater than the forward-looking stand alone costs of the element. Additionally, the sum of allocable forward-looking common costs must equal total forward-looking common costs, except retail costs, that are attributed to operating the company's total network.

Forward-looking common costs, as defined by the FCC, are developed typically through a carrying charge factor. This process involves the development of an expense to investment ratio. The ratio is developed using total company regulated and most-recent-year expenses compared to total company investments. This percentage is then applied to most efficient technology and proposed network investment.

Using a carrying charge factor in this manner is consistent with the FLEC standard. (For a discussion and approval of this method by the FCC, See Joint Application by BellSouth

Corporation, BellSouth Telecommunications, Inc., and BellSouth Long Distance, Inc for Provision of In-Region, InterLATA Services In Georgia and Louisiana, FCC 02-147, MEMORANDUM OPINION AND ORDER, May 15, 2002, ¶¶ 51-64.)

Demand Projection

FCC rule 47 CFR § 51.511 states:

> §51.511 Forward-looking economic cost per unit.
>
> (a) The forward-looking economic cost per unit of an element equals the forward-looking economic cost of the element, as defined in §51.505, divided by a reasonable projection of the sum of the total number of units of the element that the incumbent LEC is likely to provide to requesting telecommunications carriers and the total number of units of the element that the incumbent LEC is likely to use in offering its own services, during a reasonable measuring period.
>
> (b)(1) With respect to elements that an incumbent LEC offers on a flat-rate basis, the number of units is defined as the discrete number of elements (e.g., local loops or local switch ports) that the incumbent LEC uses or provides.
>
> (2) With respect to elements that an incumbent LEC offers on a usage-sensitive basis, the number of units is defined as the unit of measurement of the usage (e.g., minutes of use or call-related database queries) of the element.

This rule states that the total FLEC of transport and termination must be divided by the number of units the LEC is likely to provide to the requesting carrier and itself. For purposes of transport and termination, the total number of units used to develop FLEC is a reasonable projection of the total number of switch minutes and total number of transmission minutes.

PROCEDURES FOR PERFORMING A TELRIC STUDY

Company information and joint cooperation with company personnel is vital for the success of such a study; this would truly be a joint venture and would require significant effort on

the part of various company employees. A data request would be prepared and require the compilation of information on various aspects of your company including:

General Company Information
Franchise Geography
CPR Records (central office and outside plant)
Loop Study (if available)
Interoffice Facilities
Circuit and Special Access Information
Switching
Load and Carrying Charges
Traffic Usage
Current rates and billing units
Various detailed accounting data
Directly assigned costs contained in corporate accounts

Upon receipt of the required data, JSI will analyze the information and develop the inputs to be included in the JSI model. The JSI model fully complies with FCC regulations regarding TELRIC and calculates the forward-looking economic cost of a minute. For the company, the JSI model will develop the forward-looking economic cost of transport and termination on a minute of use basis and UNEs.

PROJECT COMPLETION DATE

JSI anticipates completion of the TELRIC study within twelve (12) weeks of acceptance of this proposal.

COST OF THE PROJECT

JSI typically provides its services on a *per diem* plus out of pocket expense basis. JSI estimates that the cost to complete a TELRIC study for determination of a transport and termination rate and UNEs to be approximately $40,000. The cost quoted would be for

completion of the TELRIC study only and does not reflect costs associated with responding to any interrogatories or providing testimony. This cost estimate also does not include development of forward-looking cost of capital or depreciation rates. In the event that JSI is called upon to provide testimony in support of the rates developed for the company, including responding to interrogatories, JSI will provide the company with a cost estimate.

The estimated cost is only for budget purposes and is not to be considered a "not to exceed" price. In the event the cost to complete the TELRIC study is less than the estimated cost above, the company will be charged the lesser amount. In the event that the cost for the TELRIC study may exceed the estimated cost, JSI will notify the company as soon as possible to discuss the matter in order to determine an appropriate course of action.

At this time, no travel related costs are included in the estimated cost of the TELRIC study. In the event a trip is requested by the company, JSI will provide an estimate of the costs involved.

JSI Personnel

The project leader will be Manny Staurulakis, President. Other JSI personnel involved will include Douglas Meredith – Director of Economics & Pricing, Connie Urdal – Senior Consultant, Denise Thoman - Manager of JSI's CPR Department and other JSI consultants as required.

Please do not hesitate to contact Manny Staurulakis with any questions regarding the proposal.

John Staurulakis, Inc.

We trust that the foregoing proposal is agreeable to you and request that you sign and return the enclosed copy of the Agreement to JSI if you wish to engage JSI to undertake the work described herein.

Sincerely,

Manny Staurulakis
President - JSI

The foregoing has been read, understood and approved, and the undersigned agrees to retain JSI upon the terms and provisions contained herein.

By:

Name:

Title:

Date:

John Staurulakis, Inc.

BEFORE THE
TENNESSEE REGULATORY AUTHORITY

Petition of:	)	T.R.A. DOCKET ROOM
	)	
Cellco Partnership d/b/a Verizon Wireless For Arbitration Under the Telecommunications Act of 1996	)	**Consolidated Docket No. 03-00585**
	)	
	)	

RESPONSE OF CMRS PROVIDERS TO COST STUDY METHODOLOGIES AND MODEL DESCRIPTIONS PROPOSED BY RURAL COALITION

Pursuant to the September 7, 2005, Hearing before the Tennessee Regulatory Authority ("TRA") in this matter, Cellco Partnership d/b/a Verizon Wireless, New Cingular Wireless PCS, LLC d/b/a Cingular Wireless, Sprint Spectrum L.P. d/b/a Sprint PCS and T-Mobile USA, Inc. (collectively referred to herein as the "CMRS Providers") hereby respectfully submit this response to the Proposed Cost Study Methodology and Model Descriptions Filed on Behalf of the Rural Coalition on September 28, 2005 (the "ICO Filing").

I. Overview

On September 28, 2005, in response to the directives of the TRA, the Rural Coalition filed five (5) different cost models for review to determine whether they are TELRIC-compliant.[1] In addition, three (3) Century Telephone companies are proposing to use the HAI Model, which they did not provide.[2]

[1] *Proposed Cost Study Methodology and Model Descriptions Filed on Behalf of the Rural Coalition*, In Re: Cellco Partnership d/b/a Verizon Wireless for Arbitration Under the Telecommunications Act of 1996, TRA Consolidated Docket No. 03-00585 (Sept. 28, 2005).

[2] *See Oral Argument Transcript of Proceedings*, In Re: Cellco Partnership d/b/a Verizon Wireless for Arbitration Under the Telecommunications Act of 1996, TRA Consolidated Docket No. 03-00585 at 75 (Sept. 7, 2005) ("[E]very model you submit . . . should stand on its own."). *See also Oral Argument Transcript of Proceedings* at 50-53 (TRA directing ICOs to file all models, including the HAI model).

Although all the models submitted provide additional information beyond that provided in the Rural Coalition's August 11th filing, none of the six (6) cost models submitted on September 28th, as filed, can be considered TELRIC-compliant. For example, each of the six (6) models has some, if not all, of certain deficiencies including, but not limited to, the following: (a) no development of TELRIC investment; (b) no identification of non-traffic sensitive portion of the switch; (c) no exclusion of vertical service costs; and (d) a lack of user guides and input definitions. (See Section III.A., supra.) In essence, the Rural Coalition provided the "top half" of the methodology without providing the more critical "bottom half." In addition, each of the models contain unique deficiencies that will be discussed more thoroughly below. (See Section III.B., supra.) Although certain of the models seem to be intrinsically inconsistent with TELRIC principles (e.g., the CHR and HAI models), it is conceivable that others could be made TELRIC-compliant – at least from the vantage point of methodology - if these deficiencies are properly addressed.[3] However, as currently proposed, the Rural Coalition has once again failed to provide cost models that are consistent with TELRIC and has simply not provided sufficient information to provide either the CMRS Providers or the TRA "with the opportunity to evaluate the model."[4]

As a means to clarify what the CMRS Providers expect as part of TELRIC-compliant cost models, a specific list of suggested ground rules is set forth below. In order to be TELRIC-

[3] *See infra* n. 10.

[4] *Oral Arguments Transcript of Proceedings*, In Re: Cellco Partnership d/b/a Verizon Wireless for Arbitration Under the Telecommunications Act of 1996, TRA Consolidated Docket No. 03-00585 at 74 (Sept. 7, 2005) ("[T]he whole idea is to be able to provide us - - the Agency as well as the CMRS Providers - - with the opportunity to evaluate the model.").

compliant, the Rural Coalition's cost models, at a minimum, should follow these seven (7) fundamental procedures[5]:

1. *Efficient Network Design*. Utilize verifiable methods that design an efficient, forward-looking transport and termination network to serve total demand and then compute plant investments and costs consistent with the design;

2. *Traffic-Sensitive Switching*. Utilize verifiable methods to determine the traffic sensitive component of switching plant;

3. *Forward-Looking Unit Investments*. Calculate unit investments for network elements (switching, transport cable, transport transmission equipment, etc.) such that plant investments and costs are directly related to total demand (per item 1);

4. *Forward-Looking Direct Expenses*. Reflect forward-looking costs, rather than embedded costs, and exclude retail costs;

5. *Support Assets and Expenses*. Refine methods for key support assets to reflect forward-looking costs and to exclude retail costs;

6. *Allocation of Common Costs*. Allocate forward-looking common costs on the basis of total ICO capital costs and operating expenses (or revenues) rather than telecommunications plant in service to more reasonably allocate costs to retail and non-retail services; and

7. *Loop Costs*. Loop costs cannot be included in the costs of transport and termination.

II. Background

At its January 12, 2005 arbitration deliberations in this docket, the TRA concluded that the reciprocal compensation termination rates applicable to intraMTA traffic exchanged between an ICO and CMRS Provider must be established pursuant to the TELRIC methodology.[6] A

[5] *See Verizon Communications, Inc. v. FCC*, 533 U.S. 467, 152 L.Ed.2d 701, 744 (2002) ("And what we see from the record suggests that TELRIC rate proceedings are surprisingly smooth-running affairs, with incumbents and competitors typically presenting two conflicting economic models supported by expert testimony, and state commissioners customarily assigning rates based on some predictions from one model and others from its counterpart.") As the Supreme Court recognized, it is theoretically possible that only portions of the models produced are in fact TELRIC-compliant. However, there are certain core characteristics, derived from the FCC's rules, which any TELRIC-compliant model would follow.

[6] *See TRA Transcript of Proceedings*, In Re: Cellco Partnership d/b/a Verizon Wireless for Arbitration Under the Telecommunications Act of 1996, TRA Consolidated Docket No. 03-00585 at 38-40 (Jan. 12, 2005). At the January 12, 2005, deliberations, the Panel concluded that the rates proposed by the ICOs were not TELRIC

Status Conference was subsequently held June 14, 2005, at which a second Status Conference was scheduled to establish a procedural schedule for the cost proceeding phase of this arbitration and, in the interim, the Parties were asked to brief the following issues: (a) whether the rates for reciprocal compensation must be symmetrical; and (b) whether the rate for each ICO must be based upon its particular forward-looking costs (as opposed to one rate for all of the ICOs). The briefs ultimately filed by the CMRS Providers and the ICOs confirmed that there was no dispute between the parties that the rates for reciprocal compensation must be symmetrical and that the rate for each ICO must be based on its particular forward-looking costs.[7]

At the July 21, 2005, Status Conference, contrary to the generally accepted practice utilized in cost proceedings throughout the country that a party simply prepare and file its proposed cost study, the ICOs affirmatively sought an opportunity to obtain some type of pre-cost study preparation approval from the TRA of their proposed "methodologies."[8] Pursuant to the joint procedural schedule developed at the July 21 Status Conference ("Procedural Schedule"), each ICO was to file "a description of its proposed TELRIC cost study methodology,

compliant because the rates offered by the ICOs were derived from their "interstate access studies." Moreover, the Panel determined that the ICOs' proposed rates were "not compliant with the required TELRIC methodology." *Id.* at 39.

[7] *See Post-Status Conference Brief of the Rural Coalition of Small LECs and Cooperatives* and *CMRS Providers' Joint Brief Regarding Statutory Requirements for Symmetrical Rates Based on Each ICO's Forward-Looking Costs*, In Re: Cellco Partnership d/b/a Verizon Wireless for Arbitration Under the Telecommunications Act of 1996, TRA Consolidated Docket No. 03-00585 (June 28, 2005).

At the July 21, 2005, Status Conference, the Hearing Officer ruled "that the rates must be symmetrical, and each ICO's rates must be company-specific." *Status Conference Transcript of Proceedings*, In Re: Cellco Partnership d/b/a Verizon Wireless for Arbitration Under the Telecommunications Act of 1996, TRA Consolidated Docket No. 03-00585 at 4-5 (July 21, 2005). *See also Oral Argument Transcript of Proceedings*, In Re: Cellco Partnership d/b/a Verizon Wireless for Arbitration Under the Telecommunications Act of 1996, TRA Consolidated Docket No. 03-00585 at 30-31 (Sept. 7, 2005).

[8] *Status Conference Transcript of Proceedings*, In Re: Cellco Partnership d/b/a Verizon Wireless for Arbitration Under the Telecommunications Act of 1996, TRA Consolidated Docket No. 03-00585 (July 21, 2005).

specifying in detail how the company proposes to perform the study."[9] The ICOs filed their proposed methodology descriptions on August 11, to which the CMRS Providers filed responses on August 31, 2005.[10]

On September 7, 2005, the TRA heard oral argument regarding the sufficiency of the ICOs' August 11 proposed methodology descriptions. The TRA concluded that the ICOs' August 11 filings were insufficient to make a determination of whether the ICOs' proposed methodology descriptions are TELRIC-compliant, and that the burden is on the ICOs to demonstrate to the TRA that their proposed methodologies are TELRIC-complaint.[11] The ICOs were granted another opportunity to file their proposed cost study methodologies with the specific guidance that their next submissions i) be in hard copy and electronic version, ii) in sufficient detail that another appropriate professional could determine how the calculations in a given model would interact, iii) include whatever type of instructions are necessary with a given model that would be provided internally if someone were to come and do work behind the modeler, and iv) stand on their own so as to provide everything necessary to demonstrate that a given proposed model is TELRIC-compliant.[12]

[9] *Order Establishing Procedural Schedule for Rate Phase of Proceeding*, In Re: Cellco Partnership d/b/a Verizon Wireless for Arbitration Under the Telecommunications Act of 1996, TRA Consolidated Docket No. 03-00585, Attachment 1(Aug. 24, 2005).

[10] The CMRS Providers continue to reserve their rights to raise objections to any cost study ultimately presented that is not based on a forward-looking TELRIC methodology or on appropriate inputs to any such methodology or to otherwise engage in discovery regarding any cost study ultimately submitted by the ICOs.

[11] *See, e.g., Oral Argument Transcript of Proceedings*, In Re: Cellco Partnership d/b/a Verizon Wireless for Arbitration Under the Telecommunications Act of 1996, TRA Consolidated Docket No. 03-00585 at 77.

[12] *Id.* at 68, 74 and 77.

III.

Review of Rural Coalition September 28, 2005 Cost Models

A. Common Deficiencies

The Rural Coalition has now submitted six (6) different cost methodologies for review to determine whether they are TELRIC-compliant.[13] The six (6) cost models are:

- John Staurulakis, Inc. (JSI),
- Parrish, Blessing & Associates (PBA),
- HAI,
- CHR Solutions,
- TDS, and
- Totherow, Haile & Welch and Lee Olch Consulting (THW / LO).

As discussed more thoroughly below, the six (6) models share some common deficiencies. These common deficiencies include the following:

1. No development of TELRIC investment,
2. No identification of the non-traffic sensitive portion of the switch,
3. No exclusion of vertical service costs,
4. Lack of User Guides and Input Definitions, and
5. Miscellaneous issues.

1. No Development of TELRIC Investment

The fatal flaw in all six (6) of the cost models is their failure to include the *derivation* of TELRIC investment.[14] Instead, each of the cost models simply begins with an assumed level of investment, to which various expense factors are applied. The resulting total expense is then

[13] *Proposed Cost Study Methodology and Model Descriptions Filed on Behalf of the Rural Coalition*, TRA Consolidated Docket No. 03-00583 (Sept 28, 2005). As discussed above, the Rural Coalition filed five (5) such models on September 28, 2005. Three (3) Century Telephone companies are proposing to use the HAI Model, which they did not provide.

[14] It is important to emphasize that the CMRS Providers are not discussing the amounts of the investment – that is a subject which will likely be a matter of some dispute at a later stage in this proceeding after actual cost studies are submitted. At this point, the CMRS Providers are focusing on what those costs will be based on since without that information, it is impossible to determine whether any particular methodology is TELRIC-compliant.

divided by total demand to derive a rate per MOU (minute of use). Although this methodology is certainly simple, there is no way to determine whether any of these studies is TELRIC-compliant, since there is no way to determine the methodology – not the input – used to establish the underlying investment. In other words, the cost models, as submitted, are only the second-half of a theoretically complete model, since the most important part of a TELRIC-compliant cost model is missing.

This is not an input issue. TELRIC requires the use of an efficient, lowest cost network configuration. Specifically, 47 CFR § 51.505(b)(1)provides, in part, as follows:

> (1) *Efficient network configuration.* The total element long-run incremental cost of an element should be measured based on the use of the **most efficient telecommunications technology currently available** and the **lowest cost network configuration**, given the existing location of the incumbent LEC's wire centers. (Emphasis added.)

The Rural Coalition's cost models, however, do not indicate whether they are based on those fundamental TELRIC principles. For example, the development of TELRIC investment consistent with the "lowest cost network configuration" is one of the most important functions of any TELRIC-compliant model. In order to determine the TELRIC investment for end office switching, a TELRIC-compliant model should calculate TELRIC switch investment by constructing the most efficient switch possible, office by office, component by component, based upon actual demand and current vendor prices for each switch component. Transport costs should be developed on a ring-by-ring basis, with each transport terminal optimally sized to meet actual demand.

It cannot be determined how any of the Rural Coalition cost models propose to calculate TELRIC investment for either switching or transport. Some appear to begin with embedded investments, which is clearly not TELRIC-compliant. Three of the cost models, TDS, PBA, and

HAI, use a grossly simplistic assumption in which switch investment is a function of some initial cost plus a fixed cost per line. The three other cost models, CHR, JSI, and THW / LO, have only a single input for switch investment. All of these models ignore the true nature of switching investment.

In order to determine whether a model properly calculates TELRIC investment, some level of detail is necessary. Without knowing how TELRIC investments are derived, no model can be deemed TELRIC-compliant. Each cost model must include a detailed breakdown of switch and transport components. The cost of each component must be supported by a vendor price list or vendor configuration/pricing model.

For example, circuit-based switches generally contain the following types of equipment:

- Line termination, such as line cards and the main distribution frame,
- Line-related investment driven by demand,
- Switch matrix
- Truck-related investment driven by demand,
- Central processing,
- SS7-related,
- Power,
- Land and buildings,
- Feature-related hardware, and
- Software (both feature-related and switching-related).

Optical-based transport systems generally consist of the following types of investment:

- Fiber (aerial, buried, or underground),
- Fiber support (poles and conduit),
- Fiber repeaters,
- Fiber optic terminal shelves (typically OC3, OC12, or OC 48 capacities),
- OC12, OC3, and DS3 cards,
- DSX3 Cross Connect shelves and cards,
- Power, and
- Channel Bank shelves and cards (not associated with traffic termination).

The following characteristics must be identified for each type of switching or transport equipment:

- Material unit cost,
- Vendor and company EF&I (Engineered, Furnished and Installed),
- Number of units required,
- Demand capacity,
- Utilization factor,
- Applicable sale taxes, and
- Minutes of use ("MOU") per DS1 (transport only).

Demand for switching and transport must include,

- Originating MOU, and
- Terminating MOU.

It is impossible to determine TELRIC investment levels without the above- identified level of detail. This amount of detail will not be burdensome to the Rural Coalition, since it is impossible to operate their business without this knowledge. This information must reflect a forward-looking network design and current vendor pricing, not the existing physical network or embedded investments.

The ILECs may argue that it is more effective to compute plant investments and other key data outside the model and treat them as input data. However, the models in this case fail to include the *essential elements* of the TELRIC calculations. This has two implications. First, the model methods cannot be fully reviewed or completely verified, and more importantly, enormous reliance is thus placed upon documentation. If the methods of computing key data are not in the model, they must be in the documentation. Failure to submit the required documentation along with the models will preclude, both the TRA and the CMRS Providers, a fair and reasonable evaluation.[15] (*see* 47 C.F.R. §51.505(d)). So, as will be discussed below, the ICOs must be required to incorporate essential methods in their models or submit documentation

[15] *Oral Arguments Transcript of Proceedings*, In Re: Cellco Partnership d/b/a Verizon Wireless for Arbitration Under the Telecommunications Act of 1996, TRA Consolidated Docket No. 03-00585 at 74 (Sept. 7, 2005) ("[T]he whole idea is to be able to provide us - - the Agency as well as the CMRS Providers - - with the opportunity to evaluate the model.").

with the completed cost studies to allow the Authority and the CMRS Providers to verify that methods are TELRIC-compliant.

2. No identification of the non-traffic sensitive portion of the switch

Only three (3) of the cost models, CHR, PBA, and HAI, even attempt to distinguish traffic sensitive investment from non-traffic sensitive investment. But, none of these three cost models attempt to either identify or document which components are non-traffic sensitive. Any model that fails to identify and exclude non-traffic sensitive investment from the cost of traffic termination is not TELRIC-compliant.[16]

3. No Assignment of Costs to Vertical Services

While only three (3) of the Rural Coalition cost models appear to distinguish and exclude non-traffic sensitive investment, none of the cost models attempt to exclude traffic sensitive investment that is not associated with the termination of traffic. For example, investment required to provide vertical services such as Custom Calling Features should not be included in the cost of termination. Examples include feature-related software, hardware, and a portion of shared investments such as the central processor required to activate features.

Unless traffic sensitive costs not associated with traffic termination are identified and excluded from the cost of traffic termination, no model can be deemed TELRIC-compliant.[17]

4. Lack of User Guides and Input Definitions

None of the Rural Coalition provided either a user manual or an input definition guide. A user manual describes the internal logic and calculations included in the model, and how to

[16] *In Re: Implementation of the Local Competition Provisions in the Telecommunications Act of 1996*, 11 FCC Rcd 15499, ¶ 1057 (1996) (*"Local Competition Order"*).

[17] *Id.*

physically operate the model. An input guide describes each individual input and how it is derived. Both must be provided with the December 7, 2005 cost study filing.[18]

5. Miscellaneous Issues

In addition to the common deficiencies noted above, there are several other deficiencies which affect many of the proposed models. For example, the identified cost models:

- Fail to link the development of TELRIC investment and demand. With the exception of the TDS and HAI models, the other cost models develop both switching and transport investment independent of demand. A TELRIC-compliant cost model begins with the total demand to be served (for example, access lines, minutes of use and dedicated circuits) and "designs" the required switches, transport systems, cabling and transmission equipment necessary to serve this demand using currently available technology.[19] Current costs of construction or plant investment then are determined for the efficiently sized plant. There must be a clear relationship or linkage between total demand and forward-looking plant investment and costs.
- Fail to recognize the three types of cable and wire facilities (CWF): aerial, buried, and underground. Two of the cost models, CHR and JSI, have only one category of CWF. One of the cost models, PBA, distinguishes aerial from underground, but does not refer to buried.
- Fail to identify how common cost factors are developed. In order to be TELRIC-compliant, such cost factors must be developed in such a manner that a portion of these costs are assigned to retail operations of the RLEC, and, therefore, removed from the cost of traffic termination. For example, if common costs are expressed as a percent of total company costs, including capital and expenses, then only a portion of common costs will be properly applied to the cost of traffic termination. None of the submitted cost models are clear on this part of their respective methodologies.

[18] *Oral Argument Transcript of Proceedings*, In Re: Cellco Partnership d/b/a Verizon Wireless for Arbitration Under the Telecommunications Act of 1996, TRA Consolidated Docket No. 03-00585 at 74 (Sept. 7, 2005) ("[I]t would be appropriate to put whatever types of instructions or provide those with the model that you would provide internally if someone was to come and do work behind you.").

[19] According to the FCC, "[t]he increment that forms the basis for a TELRIC study shall be the *entire quantity* of the network element provided." First Report and Order, ¶ 690. Emphasis added.

B. Individual Cost Models

In addition to the common deficiencies noted above, each of the cost models proposed has unique deficiencies. The CMRS Providers have identified some of those shortcomings in the following sections.

1. John Staurulakis, Inc. (JSI) Cost Model

Even if the JSI model did not have the common deficiencies noted above, which it does, review of the JSI cost study methodology reveals that it is not TELRIC-compliant since JSI improperly assigns non-traffic sensitive ("NTS") loop costs to the cost of terminating traffic, which by definition includes only traffic sensitive costs.

a. Non-Traffic Sensitive (NTS) Loop Costs

JSI proposes to include a portion of the loop in the costs of termination. This is clearly not TELRIC-compliant, and is contrary to FCC orders. It is interesting to note that none of the other five cost models proposed by the Rural Coalition include any assignment of loop costs to the cost of termination.

First, the *Local Competition Order* very clearly states that loop costs must be recovered through flat-rated charges, not usage-based charges. Specifically, paragraph 744 of the *Local Competition Order* provides:

> First, we require that the charges for dedicated facilities be flat rated, including, but not limited to, charges for unbundled loops, ... We are requiring flat-rated charges for dedicated facilities. Usage-based charges for dedicated facilities would give purchasers of access to network elements an uneconomic incentive to reduce their traffic volumes. ... As stated in the NPRM, a flat-rated charge is most efficient for dedicated facilities, because it will ensure that a customer will pay the full cost of the facility, and no more.[20]

[20] *See also* 47 CFR § 51.507, which provides as follows:

(a) Element rates shall be structured consistently with the manner in which the cost of the elements are incurred.

(b) The costs of dedicated facilities shall be recovered through flat-rated charges

Further, 47 CFR § 51.509 provides:

Second, JSI references paragraph 1057 of the Local Competition Order to support its position that the cost associated with fiber-fed DLC somehow belongs in the rate for termination. Actually, paragraph 1057 explicitly prohibits the recovery of loop costs through usage-sensitive rates for terminating traffic. Specifically, paragraph 1057 provides:

> The costs of local loops and line ports associated with local switches do not vary in proportion to the number of calls terminated over these facilities. We conclude that such non-traffic sensitive costs should not be considered "additional costs" when a LEC terminates a call that originated on the network of a competing carrier. For the purposes of setting rates under section 252(d)(2), only that portion of the forward-looking, economic cost of end-office switching that is recovered on a usage-sensitive basis constitutes an "additional cost" to be recovered through termination charges.

Third, JSI also references the HCPM[21] utilization of digital loop carrier (DLC) to support its position to include the cost of fiber-fed DLC in the rate for termination. In fact, the HCPM treats all fiber-fed DLC investment as NTS loop plant. The FCC's USF Order, for which the HCPM was developed, assigns 100% of the loop cost (including fiber-fed DLC) to basic service. No loop costs are assigned to usage-based services.

b. Use of Surrogate Cost Studies

As noted in their August 11th filing, the JSI cost methodology reveals that some of the ICOs do not intend to comply with the Procedural Schedule proposed jointly by the parties and approved by the TRA. In particular, the Procedural Schedule requires "each Rural Independent Telephone Company to file its own separate cost study, based on each company's specific costs..."[22]

Local Loops. Loop costs shall be recovered through flat-rated charges.

[21] High Cost Study Model.

[22] *See also Status Conference Transcript of Proceedings*, In Re: Cellco Partnership d/b/a Verizon Wireless for Arbitration Under the Telecommunications Act of 1996, TRA Consolidated Docket No. 03-00585 at 4 (July 21, 2005).

Nonetheless, JSI indicated in the August 11th filing that it intended to perform only two (2) company-specific cost studies, for Millington and Loretto. The Millington cost study would apparently be used as a surrogate for two other "large" ICOs, while the Loretto cost study would be used as a surrogate for one other "small" company. At the September 7th Hearing, the ICOs changed their position and maintained that they would only be using "surrogate numbers."[23] This is still in direct conflict with the Procedural Schedule and the FCC requirements in this regard.[24] Differences in key cost drivers among the ICOs, such as minutes of use per access line, distances among switches, interoffice transport system sizes and others, cause significant differences in transport and termination costs that can only be determined by company-specific studies.[25]

c. Other JSI Issues

As noted above, the JSI cost model does not attempt to distinguish between non-traffic sensitive and traffic sensitive costs, simplistically expresses TELRIC switching investment as a single investment value for the entire cost study (see worksheet "Inputs," cell E6).

In addition, JSI also proposes to include the costs incurred to transit ICO-originated traffic via a third party's tandem. To the extent that the originating party is responsible for compensating the transit provider, such costs incurred by the Rural Coalition are not costs of transport and termination of CMRS Provider traffic.

[23] *Oral Argument Transcript of Proceedings*, In Re: Cellco Partnership d/b/a Verizon Wireless for Arbitration Under the Telecommunications Act of 1996, TRA Consolidated Docket No. 03-00585 at 28 (Sept. 7, 2005).

[24] In addition, although the JSI Filing indicates that ten (10) ICOs will use the JSI cost model, the text of the Filing refers to only five (5) ICOs (Ben Lomand, Highland, Loretto, Millington, and Yorkville). It is unclear how JSI intends to address cost studies for the remaining five ICOs (Ardmore, Crockett, Peoples, United, and West Tennessee).

[25] *See, e.g., supra* n. 7 (Hearing Officer ruling that each submission must be company-specific.).

2. Parrish, Blessing & Associates (PBA) Cost Model

Two RLECs, Bledsoe and DeKalb, propose to use the PBA Cost model. As discussed above, the PBA cost model is not TELRIC-compliant because it fails to calculate TELRIC investment. This model contains several logical errors or errors in accounting and tax methods. These include:

- A portion of investment in remote switching is improperly attributed to tandem switching. Remote switches provide no tandem switching functions.
- Buried cable is not reflected in the forward-looking mix of cable, even though buried cable is the predominant interoffice cable type among ILECs.
- Annual cost factors applicable to switching are used for land and buildings.
- Marketing expenses almost entirely related to retail services are included in TELRIC.
- In some instances, costs are double-counted.
- Return on investment and income tax calculations are incorrect and overstate TELRIC.

In addition, it simplistically expresses TELRIC switching investment as a fixed dollar amount per line, without any methodology for how this investment is derived (see worksheet "Input No 5," row 11). Similarly, the TELRIC investment for transport termination is simplistically a fixed investment per terminal, again without any methodology for deriving this investment (see worksheet "Input No 1," rows 87 – 91).

As was also noted above, the PBA cost model allows for the use of only two types of CWF, labeled aerial and underground (see worksheet "WP2 Ring," cells G7 and H7). There is no allowance for the use of buried plant. The use of all three types of outside plant should be allowed in a TELRIC-compliant model. The model also includes a "Marketing Factor" (see worksheet "WS1," row 63), however marketing expenses are generally retail related and should be excluded from the cost of traffic termination.

A very cursory review of the calculations within the PBA model has also found several errors. For example,

- In worksheet "WS3," cell E66 is not linked to the proper cell in worksheet "Input No 2," and
- In worksheet "WP2 Ring," cell H50 is not linked to the proper cell in worksheet "Input No 2, but rather has an incorrect hard-coded value.

It is clear that this model must be carefully scrutinized further for calculation errors.

3. HAI Cost Model

Three Century Telephone-affiliated RLECs, Adamsville, Claiborne, and Ooltewah-Collegedale, propose to use the HAI proxy model with default input values. The CMRS Providers do not believe the HAI Model itself is TELRIC-compliant. The HAI model's internal methods and calculations are not readily apparent. It is very difficult to trace total demand to the design of transport and termination elements, and to the calculation of plant investments and costs. In particular, its internal calculations for switching are overly simplistic and not company-specific. In additional, like any other model, the HAI model results are a function of the quality and appropriateness of the inputs used in the model. To the extent that these companies plan to use default values, they are out-of-date (version 5.0a - referred to as HM 5.0a - was first filed with the FCC on January 28, 1998 and costs of switching and transport have dropped significantly since that time) and not applicable to these specific companies.

Also, in neither the August 11, 2005 "Description of Cost Study Methodology" nor the September 28, 2005 "Proposed Cost Study Methodologies" do the three RLECs state which version of the HAI proxy model they plan to use. At the September 7, 2005 hearing in

Nashville,[26] a Century representative mentioned model version HAI 5.0a. However, the CMRS Providers are aware of at least two more recent versions, HAI 5.2 and HAI 5.3. At a minimum, the three Century-affiliated companies should be required to immediately notify the CMRS Providers which version of the HAI model they propose to use.

In any event, the CMRS Providers note that the HAI model was developed to determine universal service fund (USF) benchmarks. Such models are not appropriate for determining a rate for terminating traffic. USF models are concerned with the cost of basic service. Switching and transport typically account for less than 10% of the total cost of USF basic service. Accordingly, most of the complexity in USF models deals with loop costs. As a result, for usage-sensitive services such as terminating traffic or switched access, USF models do not provide sufficient precision for switching and transport costs.

The FCC has noted this deficiency. In its Fifth Report and Order, CC Docket No. 96-45, dated October 22, 1998, Paragraph 75, the FCC states,

> In our evaluation of the switching modules in this proceeding, we note that for universal service purposes where cost differences caused by differing loop lengths are the most significant cost factor, switching costs are less significant than they would be in, for example, a cost model to determine unbundled network element switching and transport costs.

The Oklahoma Corporation Commission has expressly ruled that HAI 5.0a should not be used by ICOs to compute transport and termination rates.[27] That Commission has ruled that "the HAI Model is suspect given the ability of persons to manipulate the inputs to obtain a desired result." The HAI5.0a should be similarly rejected for use in this proceeding.

[26] *Oral Argument Transcript of Proceedings*, In Re: Cellco Partnership d/b/a Verizon Wireless for Arbitration Under the Telecommunications Act of 1996, TRA Consolidated Docket No. 03-00585 at 34 (Sept. 7, 2005).

[27] Cause Nos. PUD 2002-149 through 153, Oklahoma Corporation Commission, Final Order No. 468960, *et al.*, October 22, 2002.

Finally, the CMRS Providers note that the TRA has already rejected the HAI model in favor of a BellSouth cost model in the Tennessee BellSouth Permanent Prices Proceeding.[28] In that case, the TRA stated:

> While the HAI ("Hatfield") Model filed by AT&T and MCI WorldCom appears to comply with the Authority's previous Orders, it estimates costs for only a small subset of UNEs. Furthermore, AT&T and MCI WorldCom now advocate the outputs of BellSouth's Model with adjustments. BellSouth, on the other hand, attempts to meld the two models to estimate costs for the loop inputs, while using its Model, unadjusted, for the remainder. In short, the juggling of the two models has become unwieldy and necessitates a choice. BellSouth's Model is the only one that can generate cost estimates for all of the UNEs and the only one advocated by any party for the non-loop UNEs.[29]

Apparently, the HAI sponsors in that case did not advocate the use of HAI for switching or transport, which are the two key components of traffic termination.

4. CHR Solutions Cost Model

One RLEC, North Central, proposes to use the CHR cost model. The CHR cost model is not TELRIC-compliant and it is so overly simplistic that it is unclear whether it can be sufficiently modified to be made TELRIC-compliant.

As briefly described in the August 11, 2005 "Description of Cost Study Methodology," the cost model is self-described as a LRIC (Long-Run Incremental Cost) study, not a TELRIC study. TELRIC considers the costs of producing the total amount of output, including fixed costs. In contrast, LRIC studies only consider the costs of producing additional output (but without ignoring existing output), which excludes initial fixed costs. Therefore, since LRIC

[28] *Second Interim Order*, In Re: Petition of BellSouth Telecommunications Inc. to Convene a Contested Case to Establish Permanent Prices for Interconnection and Unbundled Network Elements, TRA Docket No. 9701262 at 11 (Nov. 22, 2000).

[29] *Id.* at 6.

excludes initial fixed costs, LRIC is generally less than TELRIC. However, the CHR cost study methodology is not LRIC because it appears to completely ignore existing output.

The CHR cost methodology concludes with the following:

> Rate Development: ADDITIONAL switching and transport cost divided by ADDITIONAL demand. (Underscore and capitals as in original)

Also, footnote 1 states,

> The additional capacity assumes full additional construction costs, e.g., new cable and electronics will be priced independent of existing capacity.

This is clearly not TELRIC-compliant and is in complete contradiction with the FCC Rules. Specifically, 47 CFR section 51.505(b) states:

> The total element long-run incremental cost of an element is the forward-looking cost over the long run of the total quantity of the facilities and functions directly attributable to, or reasonably identifiable as incremental to, such element, calculated taking as a given the incumbent LEC's provision of other elements.

Also, paragraph 682 of the FCC Local Competition Order states:

> ... the per-unit costs associated with a particular element must be derived by dividing the total cost associated with the element by a reasonable projection of the actual total usage if the element.

The key phrases are "total quantity" and "total usage" and "total cost." The purpose of the TELRIC standard is to assure that the benefits of the economies associated with the total demand on the ILEC's network are reflected in its TELRIC-based rates.

By analyzing "ADDITIONAL demand" and "ADDITIONAL cost", the CHR cost methodology assures that the resulting termination rates will not reflect the economies associated

with total demand on the RLEC's network. Thus the CHR cost study methodology is not TELRIC-compliant by any measure.

The September 28, 2005 Proposed Cost Study Methodology does not provide much additional information. Of the six cost models provided by the Rural Coalition, the CHR cost model is by far the most simplistic. The Excel spreadsheet in its entirety consists of only 132 rows, including all inputs and calculations. Every investment category and expense factor is an input, and provides no information as to the methodology used to determine those inputs and thus no way to determine whether the resulting study would be TELRIC.[30]

5. TDS Internal Cost Model

Four TDS-affiliated RLECs, Concord, Humphreys, Tellico, and Tennessee, propose to use an internal TDS cost model. As discussed in, above, the TDS cost model is not TELRIC-compliant because it fails to identify the methodology used to calculate TELRIC investment. Specifically, it simplistically expresses TELRIC switching investment as a fixed dollar amount plus a per line amount, without any methodology for how this investment is derived (see worksheet "Company Info & Parameters," rows 25 – 26).

In addition, the TDS cost model does not attempt to distinguish between non-traffic sensitive and traffic sensitive costs. Any TELRIC-compliant cost model must identify and exclude non-traffic sensitive costs from the cost of traffic termination.

[30] For example, the CHR cost model includes only a single input value for switching investment for the entire company, without any methodology for how this investment is derived (see worksheet "Work Sheet," cell E11) and a single input value for each of three accounting category of CWF investment for the entire company, again without any methodology for how this investment is derived (see worksheet "Work Sheet," cells E25 – E27).

The TDS model also proposes to recover the cost of the TELRIC cost study through transport and termination rates. However, as transport and termination rates are intended to cover only the additional costs of call termination for end office switching, tandem switching, and common transport, inclusion of cost study costs is inappropriate.

6. Totherow, Haile & Welch and Lee Olch Consulting (THW / LO) Cost Model

One RLEC, Twin Lakes, proposes to use the THW / LO cost model. As discussed in above, the THW / LO cost model is not TELRIC-compliant because it fails to calculate TELRIC investment. Specifically, it simplistically expresses TELRIC switching investment as a gross investment amount per location, without any methodology for how this investment is derived (see worksheet "INPUT_OTHER," row 11). Similarly, the TELRIC investment for transport termination is simplistically a fixed investment per terminal, again without any methodology for deriving this investment (see worksheet "INPUT_OTHER," rows 41 – 43).

The THW / LO cost model also fails to distinguish between non-traffic sensitive and traffic sensitive costs. Any TELRIC-compliant cost model must identify and exclude non-traffic sensitive costs from the cost of traffic termination.

Finally, the THW / LO cost model includes an allowance for uncollectible revenues, which is not a valid cost component for traffic termination from wireless carriers (see worksheet "RATE," cell E12).

IV. TELRIC Cost Study Methodology Ground Rules

The CMRS Providers offer the following as methodological ground rules, which each Rural Coalition cost study should follow in order to be TELRIC-compliant:

1. Each cost study must contain, either within the model or within the supporting documentation, methods to design an efficient, forward-looking transport and termination network to serve total demand and then compute plant investments and costs consistent with the design. The workings of the methods must be explained, as must the rationale supporting the methods.

2. Each cost study must contain, either within the model or within the supporting documentation, methods to determine the traffic-sensitive component of switching plant. The workings of the methods must be explained, as must the rationale supporting the methods.

3. Each cost study must contain, either within the model or within the supporting documentation, methods for calculating unit investments that demonstrate the linkage between plant investment and costs and total demand (per item 1). The workings of the methods must be explained, as must the rationale supporting the methods.

4. Plant-specific expenses shall be determined so as to be forward-looking and exclude retail costs.

5. Support assets and expenses shall be determined so as to be forward-looking and exclude retail costs.

6. Forward-looking common costs shall be allocated on a basis that attributes reasonable shares to retail and non-retail services, such as on the basis of total ICO capital costs and operating expenses or revenues.

7. Loop costs shall not be included in TELRIC.

V. Conclusion

For the foregoing reasons, the CMRS Providers respectfully submit that none of the methodologies submitted by the Rural Coalition in conjunction with their September 28, 2005, filing is TELRIC-compliant, and that each ICO should be required to submit a cost-study on December 7, 2005, based on forward-looking costs consistent with the TELRIC principles

adopted by the FCC, which are discussed in part above and in the CMRS Providers' previous comments submitted to the TRA.

Respectfully submitted this 18th day of October, 2005.

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www.nera.com

Via E-Mail

September 28, 2006

Jeff Handley
TDS Telecom

Dear Jeff:

Re: TELRIC Cost of Capital Model

This letter describes NERA's fees for a cost of capital analysis for independent telecommunications companies. NERA regularly performs such analyses in regulatory settings, and we have a standard package of services for such analyses.

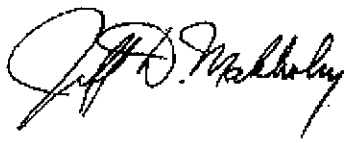
We charge a fixed, $25,000 fee for the provision of a complete, referenced and fully documented cost of capital study for local public utilities, including independent telecommunications studies. The fee specifically pertains to a ready-to-file piece of evidence, but does not include what we normally see as a small incremental redrafting or re-formatting of the evidence for filing. Any incremental work to prepare the draft for filing takes place at NERA's normal fees, shown below. Data requests, hearings and rebuttal testimony (as well as delays in the schedule requiring updated analyses), being essentially unpredictable elements in the regulatory application of cost of capital analyses, also take place at these incremental fees. Any out-of-pocket expenses are rebilled at cost. The hourly fees of the various staff members at NERA who contribute to cost of capital analyses are shown below.

Jeff Makholm	$550
Wayne Olson	$375
Jeff Fabre	$205
Gabriel Prieto	$195
Patrick Mawn	$190

ATTACHMENT B

Please let me know if you have any questions regarding this proposal.

Sincerely yours,



JDM:dih

BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE

In the Matter of	)	
Petition of the Tennessee Rural Independent Coalition	)	**Docket No. 06-00228**
Petition for Suspension and Modification	)	
Pursuant to 47 USC § 251 (f)(2)	)	

AFFIDAVIT OF _____

Terry M. Wales, being first duly sworn, states as follows:

1. My name is Terry M. Wales. I am a resident of Limestone, County, Alabama. I am the General Manager of Ardmore Telephone Company.

2. I have review the statements regarding my company in the Supplemental Statement in 06-00228. The statements are true and accurate to the best of my knowledge.

FURTHER AFFIANT SAITH NOT.

Terry M. Wales

Sworn to and subscribed before me this 2nd day of October, 2006.

Notary Public

My Commission Expires:

11-02-2008

JUDY L. DAUGHRITY
STATE OF TENNESSEE
NOTARY PUBLIC
MARSHALL COUNTY

BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE

In the Matter of	)	
Petition of the Tennessee Rural Independent Coalition	)	**Docket No. 06-00228**
Petition for Suspension and Modification	)	
Pursuant to 47 USC § 251 (f)(2)	)	

AFFIDAVIT OF _____

Levoy Knowles, being first duly sworn, states as follows:

1. My name is Levoy Knowles. I am a resident of McMinnville, Warren County, Tennessee. I am the CEO of Ben Lomand Rural Telephone Coop, Inc.

2. I have review the statements regarding my company in the Supplemental Statement in 06-00228. The statements are true and accurate to the best of my knowledge.

FURTHER AFFIANT SAITH NOT.

Levoy Knowles
Levoy Knowles

Sworn to and subscribed before me this 2nd day of October, 2006.

Patricia D Boyd
Notary Public

My Commission Expires:
8-25-09

PATRICIA D. BOYD
STATE OF TENNESSEE NOTARY PUBLIC
WARREN COUNTY

BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE

In the Matter of	)	
Petition of the Tennessee Rural Independent Coalition	)	**Docket No. 06-00228**
Petition for Suspension and Modification	)	
Pursuant to 47 USC § 251 (f)(2)	)	

AFFIDAVIT OF

Gregory L. Anderson, being first duly sworn, states as follows:

1. My name is Gregory L. Anderson. I am a resident of Pikeville, Bledsoe County, Tennessee. I am the General Manager of Bledsoe Telephone Cooperative.

2. I have reviewed the statements regarding my company in the Supplemental Statement in 06-00228. The statements are true and accurate to the best of my knowledge.

FURTHER AFFIANT SAITH NOT.

Gregory L. Anderson
Gregory L. Anderson, General Manager

Sworn to and subscribed before me this 2nd day of October, 2006.

Lou Ella DeBord
Notary Public

My Commission Expires:

4-21-08

LOU ELLA DeBORD NOTARY PUBLIC AT LARGE BLEDSOE CO. TENN.

BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE

In the Matter of	)	
Petition of the Tennessee Rural Independent Coalition	)	**Docket No. 06-00228**
Petition for Suspension and Modification	)	
Pursuant to 47 USC § 251 (f)(2)	)	

AFFIDAVIT OF _____

William C. Hanchey, Jr., being first duly sworn, states as follows:

1. My name is William C. Hanchey, Jr. I am a resident of Wetumpka, Elmore County, Alabama. I am the Director – Government Affairs (South Region) for CenturyTel of Adamsville, Inc., CenturyTel of Claiborne, Inc and CenturyTel of Ooltewah-Collegedale, Inc.

2. I have review the statements regarding my company in the Supplemental Statement in 06-00228. The statements are true and accurate to the best of my knowledge.

FURTHER AFFIANT SAITH NOT.

_____
[name]

Sworn to and subscribed before me this 2nd day of October, 2006.

_____
Notary Public

My Commission Expires:
3-5-08

BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE

In the Matter of	)	
Petition of the Tennessee Rural Independent Coalition	)	**Docket No. 06-00228**
Petition for Suspension and Modification	)	
Pursuant to 47 USC § 251 (f)(2)	)	

AFFIDAVIT OF _____

Lera Roark, being first duly sworn, states as follows:

1. My name is Lera Roark. I am a resident of Ouachita Parish, Monroe, Louisiana. I am the Vice President of Crockett Telephone Company, Inc.

2. I have review the statements regarding my company in the Supplemental Statement in 06-00228. The statements are true and accurate to the best of my knowledge.

FURTHER AFFIANT SAITH NOT.

Lera Roark
[name]

Sworn to and subscribed before me this 2nd day of October, 2006.

Notary Public Jason F Ott #68253

My Commission Expires:

For Life

BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE

In the Matter of	)	
Petition of the Tennessee Rural Independent Coalition	)	**Docket No. 06-00228**
Petition for Suspension and Modification	)	
Pursuant to 47 USC § 251 (f)(2)	)	

AFFIDAVIT OF _____

Leslie Greer, being first duly sworn, states as follows:

1. My name is Leslie Greer. I am a resident of Wilson County, Tennessee. I am the Chief Executive Officer of DeKalb Telephone Cooperative Inc. dba/ DTC Communications.

2. I have reviewed the statements regarding my company in the Supplemental Statement in 06-00228. The statements are true and accurate to the best of my knowledge.

FURTHER AFFIANT SAITH NOT.

Leslie Greer

Leslie Greer

Sworn to and subscribed before me this 2nd day of October, 2006.

Anita Patrick

Notary Public

My Commission Expires:

5-1-07

BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE

In the Matter of	)	
Petition of the Tennessee Rural Independent Coalition	)	**Docket No. 06-00228**
Petition for Suspension and Modification	)	
Pursuant to 47 USC § 251 (f)(2)	)	

AFFIDAVIT OF DAVID C. CRAWFORD

David C. Crawford, being first duly sworn, states as follows:

1. My name is David C. Crawford. I am a resident of Powell, Knox County, Tennessee. I am the Access Service Manager of Highland Telephone Cooperative, Inc.

2. I have review the statements regarding my company in the Supplemental Statement in 06-00228. The statements are true and accurate to the best of my knowledge.

FURTHER AFFIANT SAITH NOT.

DC Crawford
David C. Crawford

Sworn to and subscribed before me this 2 day of October, 2006.

Cheryl F Ray
Notary Public

My Commission Expires:

8-21-07

BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE

In the Matter of	)	
Petition of the Tennessee Rural Independent Coalition	)	**Docket No. 06-00228**
Petition for Suspension and Modification	)	
Pursuant to 47 USC § 251 (f)(2)	)	

AFFIDAVIT OF _____

I, Desda K. Passarella Hutchins, being first duly sworn, states as follows:

1. My name is Desda K. Passarella Hutchins. I am a resident of Lawrence County, Tennessee. I am the Chief Financial Officer of Loretto Telephone Company, Inc.

2. I have reviewed the statements regarding my company in the Supplemental Statement in 06-00228. The statements are true and accurate to the best of my knowledge.

FURTHER AFFIANT SAITH NOT.

Desda K. Passarella Hutchins
Desda K. Passarella Hutchins

Sworn to and subscribed before me this 2nd day of October, 2006.

Susan M Mork
Notary Public

My Commission Expires:
3-31-07

BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE

In the Matter of	)	
Petition of the Tennessee Rural Independent Coalition	)	**Docket No. 06-00228**
Petition for Suspension and Modification	)	
Pursuant to 47 USC § 251 (f)(2)	)	

AFFIDAVIT OF DAVID ESPINOZA

David Espinoza, being first duly sworn, states as follows:

1. My name is David Espinoza. I am a resident of Munford, TN, Tipton County, Tennessee. I am the Controller of Millington Telephone Company, Inc.

2. I have review the statements regarding my company in the Supplemental Statement in 06-00228. The statements are true and accurate to the best of my knowledge.

FURTHER AFFIANT SAITH NOT.

David Espinoza
[name]

MARY B. CARVER NOTARY PUBLIC AT LARGE SHELBY CO. TENNESSEE

Sworn to and subscribed before me this 2nd day of October, 2006.

Mary B. Carver
Notary Public

My Commission Expires:
My Commission Expires April 15, 2008

BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE

In the Matter of	)	
Petition of the Tennessee Rural Independent Coalition	)	**Docket No. 06-00228**
Petition for Suspension and Modification	)	
Pursuant to 47 USC § 251 (f)(2)	)	

AFFIDAVIT OF _____

F. Thomas Rowland, being first duly sworn, states as follows:

1. My name is F. Thomas Rowland. I am a resident of Lafayette, Macon County, Tennessee. I am the President and CEO of North Central Telephone Cooperative, Inc.

2. I have reviewed the statements regarding my company in the Supplemental Statement in 06-00228. The statements are true and accurate to the best of my knowledge.

FURTHER AFFIANT SAITH NOT.

F. Thomas Rowland

Sworn to and subscribed before me this 2nd day of October, 2006.

Wendy K. Morrison
Notary Public

My Commission Expires:
12/17/07

WENDY K. MORRISON
NOTARY PUBLIC AT LARGE
MACON COUNTY, TENNESSEE

BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE

In the Matter of	)	
Petition of the Tennessee Rural Independent Coalition	)	**Docket No. 06-00228**
Petition for Suspension and Modification	)	
Pursuant to 47 USC § 251 (f)(2)	)	

AFFIDAVIT OF _____

Lera Roark, being first duly sworn, states as follows:

1. My name is Lera Roark. I am a resident of Ouachita Parish, Monroe, Louisiana. I am the Vice President of Peoples Telephone Company, Inc.

2. I have review the statements regarding my company in the Supplemental Statement in 06-00228. The statements are true and accurate to the best of my knowledge.

FURTHER AFFIANT SAITH NOT.

Lera Roark
[name]

Sworn to and subscribed before me this 2nd day of October, 2006.

Jason F. Ott
Notary Public JASON F. OTT #68253

My Commission Expires:

For Life

BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE

In the Matter of	)	
Petition of the Tennessee Rural Independent Coalition	)	**Docket No. 06-00228**
Petition for Suspension and Modification	)	
Pursuant to 47 USC § 251 (f)(2)	)	

AFFIDAVIT OF _____

Bruce Mottern, being first duly sworn, states as follows:

1. My name is Bruce H. Mottern. I am a resident of Knoxville, Knox County, Tennessee. I am the Director – Revenue & Earnings of TDS Telecom.

2. I have review the statements regarding my company in the Supplemental Statement in 06-00228. The statements are true and accurate to the best of my knowledge.

FURTHER AFFIANT SAITH NOT.

Bruce Mottern
[name]

Sworn to and subscribed before me this 2 day of October, 2006.

Linda Perry
Notary Public

My Commission Expires:

3-14-09

LINDA PERRY
STATE OF TENNESSEE
NOTARY PUBLIC

BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE

In the Matter of	)	
Petition of the Tennessee Rural Independent Coalition	)	**Docket No. 06-00228**
Petition for Suspension and Modification	)	
Pursuant to 47 USC § 251 (f)(2)	)	

AFFIDAVIT OF _____

Robert D. Dudney, being first duly sworn, states as follows:

1. My name is Robert D. Dudney, I am a resident of Cookeville, Putnam County, Tennessee. I am the General Manager of Twin Lakes Telephone Cooperative Corporation.

2. I have reviewed the statements regarding my company in the Supplemental Statement in 06-00228. The statements are true and accurate to the best of my knowledge.

FURTHER AFFIANT SAITH NOT.

[name] Robert D. Dudney

Sworn to and subscribed before me this 02nd day of October, 2006.

Notary Public, Ellen Forkum

ELLEN FORKUM NOTARY PUBLIC AT LARGE JACKSON COUNTY, TN

My Commission Expires:

03/01/2008

BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE

In the Matter of	)	
Petition of the Tennessee Rural Independent Coalition	)	**Docket No. 06-00228**
Petition for Suspension and Modification	)	
Pursuant to 47 USC § 251 (f)(2)	)	

AFFIDAVIT OF

Terry M. Wales, being first duly sworn, states as follows:

1. My name is Terry M. Wales. I am a resident of Limestone, County, Alabama. I am the General Manager of United Telephone Company.

2. I have review the statements regarding my company in the Supplemental Statement in 06-00228. The statements are true and accurate to the best of my knowledge.

FURTHER AFFIANT SAITH NOT.

Terry M. Wales

Sworn to and subscribed before me this 2nd day of October, 2006.

Notary Public

My Commission Expires:

11-02-2008

JUDY L. DAUGHRITY
STATE OF TENNESSEE
NOTARY PUBLIC
MARSHALL COUNTY

BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE

In the Matter of	)	
Petition of the Tennessee Rural Independent Coalition	)	**Docket No. 06-00228**
Petition for Suspension and Modification	)	
Pursuant to 47 USC § 251 (f)(2)	)	

AFFIDAVIT OF _____

Kerry Watson, being first duly sworn, states as follows:

1. My name is Kerry Watson. I am a resident of Graves County, Kentucky County, ~~Tennessee.~~ I am the Regulatory Manager of [name of telephone company]. West Ky Rural Telephone

2. I have review the statements regarding my company in the Supplemental Statement in 06-00228. The statements are true and accurate to the best of my knowledge.

FURTHER AFFIANT SAITH NOT.

[name]

Sworn to and subscribed before me this 2 day of October, 2006.

Notary Public

My Commission Expires:
04-14-10

BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE

In the Matter of	)	
Petition of the Tennessee Rural Independent Coalition	)	**Docket No. 06-00228**
Petition for Suspension and Modification	)	
Pursuant to 47 USC § 251 (f)(2)	)	

AFFIDAVIT OF _____

Lera Roark, being first duly sworn, states as follows:

1. My name is Lera Roark. I am a resident of Ouachita Parish, Monroe, Louisiana. I am the Vice President of West Tennessee Telephone Company, Inc.

2. I have review the statements regarding my company in the Supplemental Statement in 06-00228. The statements are true and accurate to the best of my knowledge.

FURTHER AFFIANT SAITH NOT.

Lera Roark
[name]

Sworn to and subscribed before me this 2nd day of October, 2006.

Jason F. Ott
Notary Public JASON F. OTT #18253

My Commission Expires:
For Life