BEFORE

THE PUBLIC SERVICE COMMISSION OF

SOUTH CAROLINA

DOCKET NO. 2008-326-C

IN RE:

Application of Time Warner Cable	)
Information Services (South Carolina), LLC	)
d/b/a Time Warner Cable to Amend its	)
Certificate of Public Convenience and	)
Necessity to Provide Telephone	)
Services in Service Area of Fort Mill Telephone	)
Company d/b/a Comporium Communications	)
and for Alternative Regulation	)
_____	)

DIRECT TESTIMONY
OF
AUGUST H. ANKUM, PH.D.

ON BEHALF
OF
TIME WARNER CABLE INFORMATION SERVICES
(SOUTH CAROLINA) LLC ("TWCIS")

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I. INTRODUCTION

QUALIFICATIONS OF WITNESS

Q. PLEASE STATE YOUR NAME, OCCUPATION AND BUSINESS ADDRESS.

A. My name is Dr. August H. Ankum. I am a Senior Vice President at QSI Consulting, Inc., ("QSI"), a consulting firm specializing in economics, econometric analysis, and telecommunications cost modeling. My business address is 1027 Arch Street, Suite 304, Philadelphia, PA 19107.

Q. WHAT IS QSI CONSULTING, INC.?

A. QSI Consulting, Inc. ("QSI") is a consulting firm specializing in traditional and non-traditional utility industries, econometric analysis and computer aided modeling. QSI provides consulting services for regulated utilities, competitive providers, government agencies (including public utility commissions) and industry organizations.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND WORK EXPERIENCE.

A. I received a Ph.D. in Economics from the University of Texas at Austin in 1992, an M.A. in Economics from the University of Texas at Austin in 1987, and a B.A. in Economics from Quincy College, Illinois, in 1982.

My professional background covers work experiences in private industry and at state regulatory agencies. As a consultant, I have worked with large companies, such as AT&T, AT&T Wireless and MCI WorldCom ("MCIW"), as well as with smaller carriers, including a variety of competitive local exchange carriers ("CLECs") and wireless carriers. I have worked on many arbitration proceedings between new entrants and incumbent local exchange carriers ("ILECs"). Specifically, I have been involved in arbitrations between new entrants and NYNEX, Bell Atlantic, U S WEST, BellSouth, Ameritech, SBC, GTE and Puerto Rico Telephone. Prior to practicing as a telecommunications consultant, I worked for MCI Telecommunications Corporation ("MCI") as a senior economist. At MCI, I provided expert witness testimony and conducted economic analyses for internal purposes. Before I joined MCI in early 1995, I worked for Teleport Communications Group, Inc. ("TCG"), as a Manager in the Regulatory and External Affairs Division. In this capacity, I testified on behalf of TCG in proceedings concerning local exchange competition issues, such as Ameritech's Customer First proceeding in Illinois. From 1986 until early 1994, I was employed as an economist by the Public Utility Commission of Texas ("PUCT") where I worked on a variety of electric power and telecommunications issues. During my last year at the PUCT, I held the position of chief economist. Prior to joining the PUCT, I taught undergraduate courses in economics as an Assistant Instructor at the University of Texas from 1984 to 1986.

A list of proceedings in which I have filed testimony is attached hereto as Exhibit (AA-1).

Q. ON WHOSE BEHALF IS THIS TESTIMONY FILED?

A. This testimony is filed on behalf of Time Warner Cable Information Services (South Carolina), LLC ("TWCIS").

PURPOSE AND RECOMMENDATIONS

Q. WHAT IS TWCIS REQUESTING IN THIS PROCEEDING?

A. In this proceeding, TWCIS is asking the Commission to amend its Certificate of Public Convenience and Necessity, issued to TWCIS by the Commission in Order No. 2004-213 in Docket Nos. 2003-362-C. By this application, TWCIS is seeking permission to serve customers in the geographic areas currently served by Fort Mill.

Q. DOES TWCIS CURRENTLY OFFER SERVICES IN THE RLECS' SERVICE AREAS?

A. No. TWCIS does not currently provide in the RLECS' service areas any of the services addressed in this Application. TWCIS does provide interstate point to point, private line telecommunications services to retail and wholesale customers in the RLECs' service territory. These services generally consist of non-voice transmission services, provide for

high-capacity, point-to-point, point-to-multipoint and multipoint-to-multipoint dedicated connections between one or more customer locations and/or TWCIS.

Q. PLEASE BRIEFLY DESCRIBE THE SERVICES THAT TWCIS IS PLANNING TO OFFER UNDER AN EXPANDED CERTIFICATE.

A. TWCIS plans to provide facilities-based interconnected VoIP services and intrastate non-voice telecommunications services in the RLECs' service area under the alternative regulatory scheme approved in Docket No. 2003-362-C. TWCIS provides its voice service using Internet protocol ("IP") technology, the Company's privately managed IP network, and the public switched telephone network. These interconnected VoIP services will be offered to both residential and commercial customers pursuant to tariff. In addition, TWCIS intends to offer high capacity point to point, private line non-voice intrastate transmission/telecommunications services in the areas served by the RLECs. These non-voice services will be offered to retail and wholesale business customers pursuant to tariff. TWCIS currently offers both of these types of services pursuant to tariff in the areas of South Carolina served by AT&T, Horry Telephone Company, Verizon, and Hargray Telephone Company.

Q. IS TWCIS ASKING THE COMMISSION TO LIFT THE RLECS' RURAL EXEMPTION?

A. No. TWCIS is *not* asking the Commission to lift Fort Mill's rural exemption. TWCIS can offer the services covered by its application without the termination of that exemption. TWCIS merely seeks a Certificate of Public Convenience and Necessity to operate as a

telephone utility within the areas served by the RLECs. The limited rural exemption in Section 251(f) of the Act has absolutely no bearing on this certification proceeding.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of this testimony is to demonstrate that this application is in the public interest and should be granted by this Commission. Specifically, in this testimony, I will demonstrate, consistent with the requirements of S.C. Code § 58-9-280, that the provision of TWCIS' services (a) will not adversely impact the availability of affordable local exchange service, (b) does not otherwise adversely impact the public interest, and (c) is consistent with the promotion of universal service.

In a separate piece of testimony, TWCIS witness, Mr. Warren Fischer, C.P.A., will demonstrate that Fort Mill is financially well positioned to adjust to the introduction of TWCIS' services into their service areas, which further demonstrates that TWCIS' application is consistent with the requirements of § 58-9-280.

The Commission has concluded in previous proceedings that TWCIS possesses the "technical, financial, and managerial capabilities sufficient to provide the services requested."[1] The testimony of Julie Laine will provide further detail regarding that requirement, as well as the final component of the Commission's inquiry in this proceeding, namely, that the "service to be provided will meet the service standards that the commission may adopt."

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[1] *See* Order Nos. 2004-213 and 2005-381(A) regarding TWCIS's technical, financial and managerial resources.

Q. PLEASE SUMMARIZE YOUR FINDINGS AND RECOMMENDATIONS.

A. In view of the fact that TWCIS' application is consistent with the availability of affordable local exchange service, the preservation and promotion of universal service and is in the public interest, I recommend that the Commission approve this application.

II. COMPETITION SHOULD BE ENCOURAGED: IT PROMOTES INNOVATIVE SERVICES AND ENSURES AFFORDABLE PRICES

Q. IN GENERAL, IS COMPETITION GOOD FOR SOCIETY AND SHOULD IT BE ENCOURAGED?

A. Yes. As is well recognized by economist and policy makers, competition is a positive force that guides economic behavior toward successively better results. It forces companies to be efficient and innovative and to offer up-to-date products at competitive and affordable terms and conditions, to the enormous benefit of consumers. Competition may also eliminate outdated practices and stir market participants into different directions, generating benefits not only for consumers but also for stockholders. As noted, these dynamics are well recognized and lie at the heart of the free-market based economy that has made the United States prosperous and a dominant force in the global economy.

Q. DO THESE SAME CONSIDERATIONS APPLY TO TELECOMMUNICATIONS?

A. Yes. In fact, given the importance of telecommunications in the United States' economy, these considerations are equally if not more relevant to the telecommunications industry. Indeed, these considerations, among others, were what motivated the passage of the Telecommunications Act of 1996 ("The Act"). The Act unequivocally sought to foster the development of competition, and indeed there is language that expressly preempts state and local laws that prohibit or have the effect of prohibiting competitive entry. *See* 47 U.S.C. § 253(a).

Q. WHAT DID THE FCC SAY WITH RESPECT TO LOCAL COMPETITION AND THE BENEFITS TO CONSUMERS AND SOCIETY?

A. In its dozens of orders regarding local competition issues, the FCC has broadly construed and consistently enforced the Act's pro-competitive provisions as requiring incumbent LECs to open up local markets so as to confer the benefits of competition on all ratepayers. In the *Local Competition Order*, the FCC stated:

> Competition in local exchange and exchange access markets is desirable, not only because of the social and economic benefits competition will bring to consumers of *local* services, but also because competition eventually will eliminate the ability of an incumbent local exchange carrier to use its control of bottleneck local facilities to impede free market competition. […] The opening of all telecommunications markets to all providers will blur traditional industry distinctions and bring *new packages of services, lower prices and increased innovation to American consumers*.[2] (Emphasis added.)

[2] *In The Matter Of Implementation Of The Local Competition Provisions In The Telecommunications Act Of 1996, Interconnection between Local Exchange Carriers and Commercial Mobile Radio Service Providers*, First Report and Order, 11 FCC Rcd. 15,499, ¶ 4 (rel. Aug 8, 1996). ("*Local Competition Order*")

Upon grant of its Application, TWCIS will be able to expand its offerings to the more rural areas of South Carolina and provide consumers with an alternative choice for telephone and telecommunications services.

III. TWCIS' APPLICATION WILL NOT ADVERSELY IMPACT THE AVAILABILITY OF AFFORDABLE LOCAL EXCHANGE SERVICE

Q. WILL TWCIS' APPLICATION ADVERSELY IMPACT THE AVAILABILITY OF AFFORDABLE LOCAL EXCHANGE SERVICE?

A. No. In fact, as discussed in more detail below, TWCIS will introduce competitive alternatives into the market – i.e., increase the availability of affordable local exchange service – and will have a positive impact on Fort Mill's service offerings as well.

Q. COULD TWCIS' APPLICATION CAUSE FORT MILL TO RAISE ITS RATES FOR BASIC SERVICES?

A. No. As a practical matter, Fort Mill has opted for an alternative regulation regime under which it is prohibited from increasing its rates for basic local services.

Q. PLEASE DISCUSS IN MORE DETAIL THE RELEVANCE OF THE ALTERNATIVE REGULATION REGIME?

A. Since 1996, the South Carolina General Assembly has passed several provisions allowing LECs to be alternatively regulated. One such provision is S.C. Code Section 58-9-576,

which allows RLECs to be alternatively regulated if they make a showing of one the following in order to qualify to be alternatively regulated: (1) that they were facing competition from at least two wireless providers, (2) that the Commission had approved a local interconnection agreement with a non-affiliated entity, or (3) that another provider's service competes with their basic local exchange telephone service.[3] There are several aspects of this alternative regulation regime that are important to this application:

- Fort Mill made the decision to be alternatively regulated voluntarily.
- As an alternatively regulated company Fort Mill is no longer regulated by its rate of return.
- By making the election Fort Mill no longer can come to the Commission and ask for a rate increase.
- Alternatively regulated companies can charge what they want to for most of their services (subject to a complaint process for abuse of market position) but they are limited by statute in what they can charge for flat-rated local exchange services for residential and single-line business customers. Once their rates reach the statewide average, those rates can only be adjusted for inflation.[4]

The fact that the RLECS are alternatively regulated has direct relevance to this application in that competition from TWCIS will not "adversely impact the availability of

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[3] See, S.C. Code Section 58-9-576.

[4] See 58-9-576(B)(3).

affordable local exchange service." Because these companies, with complete knowledge of their finances, have made the voluntary decision to be alternatively regulated they cannot raise their basic local rates above the inflation-adjusted statewide average. This means that, as a practical matter, TWCIS' market entry cannot adversely impact the affordability of those basic services, and TWCIS's entry also ensures greater availability of such services.

Q. IN ANY EVENT, WOULD TWCIS REPRESENT ONLY A LIMITED FORM OF COMPETITION FOR THE COMPANY?

A. Yes. First, TWCIS will likely initially be providing services to mostly residential customers, consistent with its current customer base as a cable TV provider. This form of market entry is different from that traditionally used by CLECs, who typically enter markets by targeting business customers, a strategy which some ILECs have at times disparaged as "cherry picking." It is important to note that TWCIS does not intend to cherry pick the more profitable business customers – the revenues of whom are often used to subsidize affordable rates for residential customers.

Next, TWCIS market entry will only be gradual, giving the company additional time to adjust not only their own service offerings and operations but also to adjust their cost structure by retiring unused facilities as some residential customers may be migrating to TWCIS. To the extent that facilities become underutilized, the company will also be in position to scale back maintenance on those facilities as well as to cancel certain planned network upgrades. This means that as TWCIS gradually establishes itself in the market

place, the company will have time to make the necessary adjustments to stay financially viable.

Q. **WOULD TWCIS HAVE SOME INHERENT ADVANTAGE OVER THE COMPANIES IN MARKETING ITS SERVICES?**

A. Not necessarily. The RLEC has all the advantages of incumbency, including established customer relationships, ongoing operations and facilities, sound finances, universal service subsidies, and knowledge of their communities and their telecommunications needs. Further, assuming that the company has offered high quality services at affordable rates, it should be able to rely on vested customer loyalties it may have cultivated over possibly decades of company-customer relationships. In addition, advances in technology and services allow the company to offer compelling service bundles of their own that include new products, such as high-speed Internet services and, in some cases, video services. In other words, the company should be well positioned to hold its own against any would-be competitor, such as TWCIS.

Q. IF TWCIS WERE WILDLY SUCCESSFUL AND EVENTUALLY SOME 20 PERCENT OF THE COMPANIES' CUSTOMERS WERE TO MIGRATE TO TWCIS WOULD FORT MILL BE ABLE TO ADJUST TO THIS NEW MARKET REALITY?

A. Yes. Even if the rural ILEC were to eventually lose up to 20 percent of its access lines, it is *financially* well positioned to absorb such attrition.

Q. IS THE COMPANY CURRENTLY IN GOOD FINANCIAL HEALTH, INDICATING THAT IT WOULD BE ABLE TO WITHSTAND COMPETITIVE ENTRY?

A. Yes. This issue is discussed in more detail by TWCIS witness Warren Fischer, who demonstrates that the company is in good financial health. The company is profitable. Further, it has significant amounts of retained earnings, greatly in excess of any short term losses that it may incur due to a loss of customers. Also, it has significant amounts of current assets (liquid) on hand relative to it liabilities and any possible short term losses it may incur due to a loss of customers.

Q. EARLIER YOU NOTED THAT THE COMPANY IS WELL POSITIONED TO WITHSTAND *SHORT TERM* LOSSES DUE TO COMPETITIVE ENTRY. WHAT ABOUT THE LONG TERM?

A. In the long term, the company is even better positioned. As discussed, over time the companies will be able to make adjustments to its operations and expense structures to mitigate the impact of a loss of customers. For example, over time, the companies will be able to reduce maintenance expenses and cancel facility/network upgrades for unused facilities when some customers migrate to TWCIS. Further, given that TWCIS' entry into the market will be a gradual process, the companies will be able to depreciate unutilized facilities and further readjust their cost structures to their revenues streams.

Moreover, in the long run, the company will be able to adjust the quality of its own service offerings, improve its marketing and advertising efforts, and possibly venture into more advanced services.

These longer term developments may not only permit the company to increase revenue streams from its existing customers but also to maintain the business customers who might have migrated to TWCIS.

Q. HOW STRONG IS FORT MILL'S POSITION IN THE MARKETPLACE?

A. It is very strong because it offers not only the "core" local telephone services, but a full range of modern communications products. To better demonstrate that a modern rural telecommunications carrier in South Carolina is a strong player in the market, it helps not to look at the rural company in question in this case, but to compare product offerings of the RLECs in which territory TWCIS is presently applying for the Certificate of Public Convenience and Necessity. This includes Farmers Telephone Cooperative, Fort Mill and Rock Hill Telephone, Home Telephone and PBT Telecom. I also expanded my analysis to include St. Stephen, where TWCIS withdrew its application. A review of the companies' web sites[5] revealed that besides local telephone service, each company offers long-distance telecommunications and high-speed Internet;[6] that all five companies offer wireless telephone and four out of five companies (all but Farmers) currently market video services, including High-Definition TV ("HDTV"). While Farmers is not

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[5] This research is documented in Exhibit AA-2 to my testimony.

[6] The highest download speed offered by companies is as follows: St. Stephens and Time Warner is 10 Mbps, Fort Mill and Rock Hill is 9 Mbps, Home and PBT is 5 Mbps, and Farmers is 1.5 Mbps (though Farmer's speeds are likely to go up significantly because, as documented in Exhibit AA-2, Farmers is currently in the process of updating its network to allow IP TV capabilities.

marketing video services on its web site today, its plans to expand the video segment of its business are known.[7] In addition, four out of six RLECs offer home security services. The following table presents the survey of the RLECs product offerings graphically and compares them to TWCIS' product offerings:

Table. Products and Services Marketed by Companies*

Company	Landline Phone	High Speed Internet	Wireless Phone	Video	Home Security
Farmers Telephone Cooperative	Yes	Yes	Yes	Expanding**	No
Fort Mill Telephone	Yes	Yes	Yes	Yes	Yes
Home Telephone	Yes	Yes	Yes	Yes	Yes
PBT Telecom	Yes	Yes	Yes	Yes	Pending availability
Rock Hill Telephone	Yes	Yes	Yes	Yes	Yes
St. Stephen Telephone	Yes	Yes	No	Yes***	No
Time Warner Cable	Yes	Yes	No	Yes	No

** -- Based on the review of the companies' web site. See Attachment 2 to this testimony for specific sources.*
*** -- Currently serves limited areas but is upgrading its network to offer IP TV.*
**** -- Resells Dish Network.*

As shown in the table, the RLECs' product offerings are no less diversified than TWCIS' offerings. In fact, most RLECs may have an edge over TWCIS because they offer wireless telephone and home security – the two products that are not offered by TWCIS.

While some of these services may be provided by the RLECs' affiliates or constitute a re-sale (as in the case with, say, St. Stephen, which resells satellite TV rather than offering

[7] See Exhibit AA-2 for publications regarding Farmers' effort to upgrade its network with IP TV capabilities. Also, Farmers has recently been granted cable franchising authority in Andrew.

TV over its own facilities like other companies), the important fact is that these services are marketed jointly.

Q. WHY IS IT IMPORTANT THAT ALL RLECS OFFER TRIPLE PLAY OR EVEN QUADRUPLE PLAY BUNDLES?

A. "Triple play" (phone, Internet and video) and "quadruple play" (phone, Internet, video and wireless phone) bundles are powerful tools of acquiring and retaining customers in today's communications marketplace. The added bonus of bundled product offerings is that they attract the high-revenue/high-end customers – customers who tend to purchase more than just a basic service. The value of bundled product offerings as a marketing tool is reflected in the RLECs' own promotional materials. For example, PBT's web site highlights the advantages of one-stop shopping, billing and customer support:

> Why choose PBT? Consolidated billing and customer service are a great advantage to PBT customers. You could receive six different bills from six different companies – local telephone service, long distance, Internet, satellite, wireless, and security. With PBT you can combine all of those into a single bill, and write one check each month.[8]

Home's web site points out to the cost savings in joint provision of packaged services:

> All over the United States, telecom companies now offer services in what are called "bundles." These bundles are simply "packages" of the most popular services. By combining services that used to be advertised, ordered, installed, billed, and serviced separately, those services can be delivered less expensively - so the collective price of those services can be lowered! We

[8] See http://www.pbtcomm.net/profile.asp.

> named our bundles Simple Connections, because they are the simplest way to connect to the services you want most.[9]

Similarly, Comporium (Fort Mill and Rock Hill) describes itself as "a one-stop shop for a variety of products and services."[10] Comporium is as a particularly illustrative case study for the success of bundling strategy because the name "Comporium" was derived from words "Communications" and "Emporium." According to a recent news article,[11] Comporium was created by joining together the Rock Hill, Lancaster and Fort Mill telephone and cable TV companies, Community Long Distance, Associated Data Services. Associated Telecom Inc., Stenseth Directory Services, and TeleWatch Security. Comporium later bought part of Cingular's local wireless network. [12] The article observes that "[w]hile national telecommunications companies are still working out the details for delivering wireless services as part of a quadruple-play bundling strategy, the four-product bundle is old hat in South Carolina's York and Lancaster counties [Comporium's serving area]. In fact, the promotional mailers that hit the region's mailboxes tout a quintuple play."[13] The article mentions that "Comporium now has 105,468 access lines. Twenty-seven percent of its landline customers also take cellular service. It passes 106,594 cable-television homes and claims 60,000 basic subscribers."[14] The article goes on to praise Comporium's marketing efforts for home security services

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9 See http://www.hometelco.com/simpleConnectionsWhyBundle.php.

10 See http://www.comporium.com/site/cg_about.php.

11 See http://www.multichannel.com/article/CA6476832.html "If It Plays In Comporium. Small, Family-Owned S.C. Provider Rides Innovation's Fast Track" *By Linda Haugsted -- Multichannel News, 9/10/2007*.

12 See http://www.multichannel.com/article/CA6476832.html.

13 See http://www.multichannel.com/article/CA6476832.html.

14 See http://www.multichannel.com/article/CA6476832.html.

(which helped earn Comporium the designation of dealer of the year for 2006 by alarm manufacturer First Alert) and the video programming content carried by Comporium, which includes Comporium's own local news programs, telecasts of local church sermons and high school graduation ceremonies. The article notes that the local video programming content offered by Comporium contributes to Comporium's success against its competitor – direct broadcast satellite TV – and explains why subscription to satellite TV is significantly below the national average in Comporium's territory. [15] The article ends with the following citation of a local person's view on Comporium:

> "I don't have a choice," said Michelle, a hotel worker who didn't want her last name used, echoing others interviewed for this story. "[Comporium's] all right. I just wish there was some competition. It's always nice to have a choice. Without it, they can do anything they want on prices." [16]

Essentially, the article notes that rate increases and the absence of competitive pressures were the only area of customer dissatisfaction.

Q. HOW DO THE RLEC RATES COMPARE TO RATES OFFERED BY TIME WARNER CABLE?

A. These rates are comparable to those of Time Warner in South Carolina. The following table[17] makes this comparison:

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[15] See http://www.multichannel.com/article/CA6476832.html.

[16] See http://www.multichannel.com/article/CA6476832.html.

[17] Exhibit AA-2 contains data sources for this table, while Exhibit AA-3 is a spreadsheet version of this table that shows individual rate components of each figure.

Table. Comparison of Current Rate Offerings*

Product:	Phone		Phone and Broadband		Triple Play	Quadruple Play
Company	Cheapest Stand Alone Local Phone Service	Local Phone + Features** + Unlimited LD	Local Phone + Features + Unlimited LD + Internet (1.5 Mbps download)	Local Phone + Features + Unlimited LD + Internet (7 Mbps download)	Local Phone + Features + Unlimited LD + Internet (1.5 Mbps download) + HDTV	Wireless Discount if Bundled with Other Services
Farmers Telephone	$14.35	$65.80	$89.85	n/a	not listed	Wireless Offered; No discount listed
Fort Mill Telephone	$14.35	$54.90	$99.85	$114.85	$152.80	$ 10 off per Month
Home Telephone	$14.35	$56.49	$86.49	$96.49	$146.44	Yes -- Call Company
PBT Telecom	$14.35	$62.30	$92.25	$108.25	$140.19	Additional $5 per Month
Rock Hill Telephone	$14.35	$54.90	$99.85	$114.85	$152.80	$ 10 off per Month
St. Stephen Telephone	$14.35	$67.89	$97.84	$107.84	$160.82	Wireless Not Offered
Time Warner Cable	$49.95	$53.90	$81.85	$96.40	$148.20	Wireless Not Offered

** -- Based on the review of the companies' web site. See Exhibits AA-2 and AA-3 to this testimony for specific sources and calculations. Rates do not include taxes and other surcharges.*

*** -- Features plan chosen to include Caller ID, Call Waiting and Voice Mail.*

As shown in the table above, the RLEC rates are very close, and in some cases lower than TWCIS' rates. Because the rates are so close, and the product offerings are comparable, it is reasonable to expect that after TWCIS' entry, the resulting competition will not cause any drastic "exodus" of customers from RLECs to TWCIS (as might happen in a hypothetical case in which one company's cost and rates were significantly lower than another company's cost and rates). In fact, it is reasonable to expect that price competition would impose a moderate downward pressure on rates, promoting the public interest and addressing concerns of the RLECs customers such as the above quoted

Comporium's customer Michelle who is not happy because she does not have a choice of providers.

Q. WHAT IS THE MAIN CONCLUSION FROM THE REVIEW OF THE RLEC PRODUCT OFFERINGS?

A. The main conclusion is that both in terms of product offerings and rates the RLECs are well positioned to face competitive entry. In fact, the RLECs offer a more diversified portfolio of products than TWCIS, such as the quadruple play bundles and home security services. These bundled product offerings allow the RLEC to retain the high-revenue customers. In addition, the RLECs should be successful in customer retention because of their local presence, their efforts and ability to customize services to local demand and their name recognition. Therefore, TWCIS' entry, while providing the desired price discipline to the RLECs' product offerings, will not cause a significant loss in the RLECs customer counts and revenues, preserving the revenue base and keeping the basic service affordable.

IV. TWCIS' APPLICATION IS CONSISTENT WITH THE PRESERVATION AND PROMOTION OF UNIVERSAL SERVICE

Q. IS TWCIS'S APPLICATION *CONSISTENT WITH* THE PROMOTION OF UNIVERSAL SERVICE?

A. Yes. TWCIS' application is consistent with universal service objectives and its further entry into these new markets will not harm the availability or quality of services, including access to advanced telecommunications services. Further, as shown above and in Mr. Fischer's testimony, the Fort Mill will be able to adjust to TWCIS' presence in the market, so there will be no indirect adverse impacts on its ability to promote universal service. Indeed, TWCIS' entry will likely result in healthy competition which should ultimately serve to promote universal service through reduced rates and increased quality of service for consumers in these service territories. In short, TWCIS' further entry into Fort Mill's markets will be consistent with the core market-opening provisions of the 1996 Act and any public policy objectives to preserve and promote universal service.

Q. PLEASE EXPLAIN FURTHER HOW THE PRESENCE OF TWCIS WILL IN FACT *ADVANCE* UNIVERSAL SERVICE OBJECTIVES?

A. The presence of TWCIS in the market place will advance universal service objectives by increasing the availability of quality service offerings at affordable rates. TWCIS will also offer advanced services consistent with universal service objectives. Moreover, there is no basis to assume that competition will impair the RLEC's ability to continue offering telecommunications services and advanced services to consumers. To the contrary, experience makes clear that competitive entry spurs incumbent providers to operate more efficiently, improve their service offerings, and deliver greater value to consumers. In short, TWCIS' presence in the market place will advance rather than impair universal service objectives.

Q. DO UNIVERSAL SERVICE FUNDS TYPICALLY INCLUDE PROVISIONS THAT ENSURE RLEC's RECOVERY OF THEIR HIGH COST FACILITIES EVEN FOR FACILITIES NOT SERVING CUSTOMERS?

A. Yes. The federal high cost fund calculates costs and subsidies based on the overall network that a RLEC maintains as part of its provider of last resort obligations. This means that as the RLEC loses customers to competitors, such as TWCIS, it continues to receive support for network facilities that are no longer being used to provide service to particular customers. Such federal subsidies further insulate the RLEC against any adverse impacts associated with competitive entry.

There are several federal universal support mechanisms that could help to offset an RLEC's decreased revenue caused by the loss of subscriber lines. First, with a decrease in the number of lines served, an RLEC's average cost per working loop would increase relative to the national average, and it would therefore be eligible for increased federal High Cost Loop support. *See* 47 C.F.R. §§ 36.621, 36.631. Second, a loss of lines could produce a higher local switching support factor, entitling an RLEC to additional federal support for local switching costs. *See* 47 C.F.R. §§ 36.125(f), 54.301. Third, any revenue lost from subscriber line charges (SLCs) would be fully offset by increased Interstate Common Line Support (ICLS). *See* 47 C.F.R. § 54.901. Under each of these federal universal support mechanisms, an RLEC's level of support per-line would only increase, assuming that its fixed costs remained roughly the same. *See Federal-State Board on Universal Service*, Fourteenth Report and Order, Twenty-Second Order on Reconsideration, and Further Notice of Proposed Rulemaking, 16 FCC Rcd 11244, 11294

¶ 125 (2001). An RLEC could also obtain additional revenue by rebalancing its retail rates or by seeking additional support under the state universal service funding scheme.

Q. PLEASE PROVIDE SOME MORE BACKGROUND ON THE SUBSIDIES THAT RLECS CURRENTLY RECEIVE FROM THE FEDERAL AND STATE UNIVERSAL SERVICE FUND PROGRAMS.

A. The federal Universal Service Fund ("USF") program offers several types of high-cost subsidies for qualifying incumbent LECs, including the four subsidy types that the RLECs currently receive, which are High Cost Loop support, Interstate Common Line Support, Local Switching Support, and Safety Net Additive. The first two mechanisms – High Cost Loop and Interstate Common Line Support are the most important mechanisms because they constitute over 80% of the RLECs total federal high cost support disbursements.[18]

Eligibility for each type of support is determined by calculating the incumbent LECs' embedded costs. The rules governing calculations of federal high-cost support are contained in the Code of Federal Regulations "("CFR") Parts 36 and 54. Both the disbursements from the federal USF associated with high-cost support, and the cost data underlying the calculations of support are available publicly.[19]

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[18] Disbursements from the federal USF associated with high-cost support can be seen on the web site of the fund administrator, the Universal Service Administrative Company ("USAC") at http://www.usac.org/hc/tools/disbursements/. In 2007, from 80% (Rock Hill), and 96% (Fort Mill and PBT Telecom) of federal USF moneys was coming from these two mechanisms.

[19] The National Exchange Carrier Association ("NECA") data submissions with the FCC and the USAC are posted on the NECA and FCC web sites. These submissions contain the ILECs' cost and expense adjustment information, as well as the data collection instructions and definitions. NECA's most recent data filing is the 2008

The South Carolina USF (established under S.C. Code Section 58-9-280(E)) provides support for each Carrier of Last Resort (including all RLECs in this case) determined as the difference between that company's cost of providing basic local service[20] and the maximum price it was allowed to charge for basic local service.

State and federal USF constitutes a large portion of the RLECs' revenues, as I demonstrate below. To show a broader picture, I am including revenue and USF support data for all RLECs in which territory TWCIS is presently applying for the Certificate of Public Convenience and Necessity. This includes Farmers Telephone Cooperative, Fort Mill and Rock Hill Telephone, Home Telephone and PBT Telecom. The following table contains the RLECs actual disbursements from the federal, as well as, as state, USF and compares them to the total revenue:

USF Data Submission, which is based on the 2007 embedded cost data (available at http://www.neca.org/source/NECA_Tools_4788.asp).

[20] The RLECs per line cost are typically based on the embedded cost studies. See, for example, Order No. 2004-452 in docket No. 1997-239-C, p. 19.

Table. RLECs Total Revenue and Universal Service Fund Disbursements in 2007*

LEC	Total Revenue	State USF	Federal USF				% State and Federal USF in Total Revenue
			High Cost Loop	Interstate Common Line Support	Local Switching Support	Safety Net Additive	
Farmers Telephone	$67,450,032	$4,555,699	$8,655,144	$7,323,336	$0	$926,016	**32%**
Fort Mill Telephone	$19,044,942	$272,269	$661,269	$1,256,514	$85,716	$0	**12%**
Home Telephone	$23,960,367	$2,397,049	$1,151,472	$2,395,872	$661,176	$0	**28%**
PBT Telecom	$18,754,074	$1,536,904	$2,213,217	$2,318,796	$204,468	$0	**33%**
Rock Hill Telephone	$39,696,228	$993,377	-$132	$1,943,400	$0	$496,992	**9%**

** -- Total Combined Operating Revenue is from the RLEC Annual Reports to the Commission. Disbursements from SC USF are from the RLECs' Responses to TWC 1st Set of Interrogatories, question 1-12 (Farmers) or 1-11 (all other RLECs). Disbursements from federal USF are from Universal Service Administration Company data available at http://www.usac.org/hc/tools/disbursements/.*

As shown in the table above, state and federal USF disbursements constitute a relatively large portion of total revenues, exceeding 25% of total revenue for all RLECs other than Comporium companies (Fort Mill and Rock Hill). However, it is also important to note that Fort Mill currently receives federal high cost loop support, meaning that its per line cost exceed the federal benchmark, and it will receive additional support if it losses access lines (as explained below). This is an important observation because USF revenues are essentially "protected" from the impacts of competition: When the end user line counts fall, the USF revenues do not fall. In fact, as I explain below, the <u>USF revenues are likely to increase</u>.

Q. PLEASE EXPLAIN WHY THE USF REVENUES ARE LIKELY TO INCREASE WHEN THE RLEC'S LINE COUNTS DECREASE.

A. Both state and federal USF revenues are likely to increase when the line counts decrease because these mechanisms are based on the RLEC's embedded per line cost and are designed as a "make whole" mechanisms. When the RLEC's line counts decrease, the embedded costs – costs associated with the embedded plant – do not decrease at the same rate, and in the short and medium run stay relatively stable.[21] As a result, the *per line cost* would increase (at least, in the short and medium run).

At the high level, both state USF and federal High Cost Loop mechanisms determine per line support by comparing the per line embedded cost and a certain benchmark.[22] Under this scheme an increase in the RLEC's per line cost results in higher *total* support.[23] The federal Common Line Support is determined as a difference between the company's "common line revenue requirements" (the embedded costs assigned to the common line) and the company's revenues from the Subscriber Common Line charge ("SLC") and

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[21] While they may be some savings in operating expense, the embedded plant would likely stay constant in the short and medium run. In the long run the companies should be able to scale back plant in network segments where concentration takes place – sizing of the trunk side of the switch, interoffice facilities, feeder cable, Digital Loop Carriers and spare capacity intended for future growth. Distribution facilities (dedicated facilities associated with end user customers) would likely stay in place if the RLECs keep their status of the Carrier of the Last Resort.

[22] To be more specific, the federal High Cost Loop mechanism provides support if the company's per line cost exceed the national benchmark by 115%, with the exact formula depending on the amount by which the company-specific per line cost exceed the nation benchmark. See CFR §36. 631 and Appendix B to NECA 2008 USF Data Submission. For a company of RLECs' size, the portion of company-specific cost in excess of 115% of the national benchmark but under the 150% of the national benchmark is supported at 65%, while the portion of cost in excess of 150% are supported at 75%.

[23] This result – that not only per line support, but also total support increases when line counts fall – follows from the formula of the total support being as follows: total support = (per line cost – benchmark) * lines * percent supported = (total cost – benchmark * lines)* percent supported. It is clear from the last expression that as the number of lines decrease, total support increases (other things being equal and under the condition that the per line cost exceed the benchmark). Note that while under the federal mechanism the benchmark – the nationwide average cost per loop – is technically affected by the cost of the six RLECs at issue, practically this effect is negligible because of the small size of the six RLECs compared to the universe of all LECs in the nation.

some other adjustments.[24] Again, while the embedded cost assigned to the common line is relatively stable, the company's revenues from the SLC are expected to go down as RLEC's line count goes down. As a result, the Common Line Support would go up. In other words, the federal Common Line Support mechanism compensates rural companies for the loss in revenues associated with the SLC.

Q. WOULD THE STATE USF SUPPORT POSSIBLY ALSO AID THE COMPANY?

A. Yes. There are two ways in which state USF support could further reduce the impact of TWCIS's entry. First, the RLEC can receive additional support by submitting the new cost studies. First, the RLEC can receive additional support by submitting the new cost studies. While I cannot explicitly calculate this impact because I do not have access to the RLEC's state USF cost studies, the general scheme is the same as for the federal High Cost Fund: as the embedded per line costs increase, so too would the total support available to compensate for any revenue shortfall. Second, the RLEC may request additional support to compensate revenue reductions to products other than basic local service when they decrease their end user rates. Therefore, when the RLEC cuts its end-user rates in response to TWCIS' entry, it can request compensation from the state USF for the shortfall in revenue that results from these rate reductions. In other words, the state USF mechanism provides two levels of "defense" against competitors – not only can it compensate for the shortfall in cost recovery stemming from line losses, but it can

[24] See CFR §54.901. The other adjustments include the common line charge revenues (to be phased out), the special access surcharge, the line port cost in excess of basic analog ports and the Long-Term Support.

also finance the RLECs' rate reductions – rate reductions made as a competitive response to TWCIS.

Q. WHAT FACTORS OTHER THAN THE USF SUBSIDIES WILL HELP MITIGATE THE REVENUE LOSSES DUE TO COMPETITIVE ENTRY?

A. My testimony so far has focused on events that are most apparent in the short and medium runs. However, because market entry does not happen instantaneously, the incumbents have ample time to adjust their network and operations, and cut their cost in the face of competition. With fewer lines there will be less expense associated with customer service (billing and collection), as well as maintenance and repair (trouble reports). Other expenses, such as general and administrative costs, are also under the RLEC's control.

Further, in the long run, the RLEC will have time to adjust not only its expenses, but also the telephone plant. Over time, the Company may scale back its operations and reduce its costs as facilities are depreciated and do not need to replacement or are replaced by newer facilities for fewer customers or circuits. Similarly, the RLEC may scale back its operations in the areas of new construction. As I mentioned above, opportunities to scale down plant are present in every network segment where concentration takes place:[25] sizing of the trunk side of the switch, interoffice facilities, feeder cable, Digital Loop Carriers and spare capacity intended for future growth. Even the return of the network

[25] I am focusing on the areas where concentration takes place because I assume that RLECs would keep sizing of the trunk side of the switch, interoffice facilities, feeder cable, Digital Loop Carriers and spare capacity intended for future growth.

investment is not a cost that is fixed for the very long run. If a segment of the plant is fully depreciated and becomes excessive due to reduced demand, the company should be able to scale it down.

V. TWCIS' APPLICATION IS IN THE PUBLIC INTEREST

Q. IS TWCIS' APPLICATION IN THE PUBLIC INTEREST?

A. Yes. For all of the aforementioned reasons, and because TWCIS brings consumer choice to rural South Carolina, TWCIS' application is in the public interest.

Q. IF THE ILEC LOSES CUSTOMERS OR REDUCES RATES IN ORDER TO KEEP CUSTOMERS, IS THAT HARMFUL TO CONSUMERS OR THE PUBLIC INTEREST?

A. No, to the contrary. In a market with multiple providers one would expect customers to change providers from time to time, assuming providers are engaged in competitive rivalry. In other words, customer churn is an indication that consumers are exercising their ability to change providers and are reaping the benefits of competition, as they may be getting lower bills, enjoying new or better features, receiving better customer services, etc. Moreover, if rates decrease as a result of competition between carriers and their efforts to retain and acquire customers, the lower prices benefit not only consumers but also the local communities and their economies at large, as a more efficient telecommunications environment emerges. Additionally, with advances in technology

and bundled service offerings, expected revenue per customer served becomes of possibly greater significance than a simple count of access lines gained or lost. In sum, the benefits of competition for rural communities are generally the same as the benefits of competition for the nation at large and there are no good reasons to deprive rural ratepayers in South Carolina of such competition and its benefits.

Q. SHOULD THE COMMISSION RESTRICT MARKET ENTRY BY TWCIS IN ORDER TO PROTECT THE RLEC AND ITS STOCKHOLDERS?

A. No. Competition is generally recognized as conferring great benefits on local communities and their economies. While Fort Mill will lose its monopoly position, there is no valid public policy reason to deny rural ratepayers the benefits that result from competition.

VI. CONCLUSION

Q. PLEASE SUMMARIZE YOUR TESTIMONY?

A. In this testimony I have demonstrated that TWCIS' application is consistent with the availability of affordable local exchange service, preserving and promoting universal service and the public interest.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does.