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1 **SOUTH CAROLINA TELEPHONE COMPANIES**

2 **SURREBUTTAL TESTIMONY OF EMMANUEL STAURULAKIS**

3 **BEFORE THE PUBLIC SERVICE COMMISSION**

4 **OF SOUTH CAROLINA**

5 **SEPTEMBER 11, 2003**

6 **DOCKET NO. 2003-151-C**

7 Q: **Please state your name and business address.**

8 A: My name is Emmanuel Staurulakis. My business address is 6315 Seabrook Road,
9 Seabrook, Maryland 20706.

10

11 Q: **By whom and in what capacity are you employed?**

12 A: I am President of John Staurulakis, Inc. (JSI) a telecommunications consulting
13 firm providing a full range of financial, regulatory and management consulting
14 services to independent telecommunications providers throughout the nation.

15

16 Q: **Please briefly outline your education, training and experience in the**
17 **telephone industry.**

18 A: In 1980, I received a Bachelor's degree in Business Administration from the
19 American University, Washington, D.C. From May 1980 until December 1984, I
20 worked at JSI as a Cost Separations Consultant. My responsibilities included
21 preparing jurisdictional toll cost separations studies for clients in several states.

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In December 1983, I earned a Masters degree in Accounting from the George Washington University, Washington D.C. In January 1985, I became a Supervisory Consultant responsible for the overall preparation and submission of numerous jurisdictional toll cost separations studies, rate case work, and intrastate tariff filings for a number of JSI clients.

In November 1987, I was promoted to Director of the Separations Department. In October 1992, I was promoted to Vice President of Operations and given day to day responsibility for all financial and regulatory matters affecting our clients. I am also a member of the National Exchange Carrier Association's (NECA) Universal Service Fund Committee.

In July of 1997, I was promoted to my current position of President of JSI.

Q: On whose behalf are you testifying in this case?

A: I have been requested to testify on behalf of the South Carolina Telephone Coalition.

Q: What is the purpose of your testimony?

A: The purpose of my testimony is to respond to several issues raised in the rebuttal testimony filed by Mr. Lawrence J. Krajci. Specifically, I clarify issues raised in Mr. Krajci's rebuttal testimony regarding the Commission's ability to conduct a cost-benefit analysis in accordance with Section 214 of the Act, the rapid growth

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in the federal USF program, the history of federal USF, and whether or not the receipt of such USF results in a windfall to ALLTEL.

Q: On page 3, line 21, Mr. Krajci indicates that Section 214 of the Act does not require that the Commission conduct a cost-benefit analysis as part of a public interest showing prior to designating ALLTEL as an ETC. Can you comment on that?

A: Yes. While Section 214 does not require the Commission to conduct a cost-benefit analysis to determine whether the public interest is met, it does not preclude the Commission from using a cost-benefit analysis, and the Commission should use such a standard. Section 214 requires that the Commission make a finding that designating an additional ETC in rural areas is in the public interest before designating such an ETC. It is difficult to imagine how the Commission could make such a public interest determination without considering both the benefits and the costs associated with such designation.

Q: On page 11, line 3 of his rebuttal testimony, Mr. Krajci indicates that the Commission should not concern itself with the size of the federal USF in determining whether or not to grant ALLTEL ETC designation. Do you agree?

A: No. The federal USF program should be treated as a scarce national resource. The various programs that make up the federal USF were designed to accomplish specific objectives. The high-cost programs were established to insure that rural consumers had access to affordable basic local exchange telephone service. The annual cost of the rural high-cost programs exceeds $3 billion and taken together

with the other federal USF programs, the total annual cost exceeds $5 billion. The idea put forth by Mr. Krajci that the Commission should grant ETC designation to ALLTEL so that some of this money flows to the citizens of South Carolina customers is not the reason why the high-cost federal USF programs exist. Mr. Krajci has not put forth any specifics in his rebuttal testimony regarding how the citizens of South Carolina will benefit from ALLTEL's receipt of these funds. In the end, the only beneficiaries of any ETC designated federal USF granted to ALLTEL will be to ALLTEL's shareholders.

Q: Do you agree with Mr. Krajci's rebuttal testimony on page 12, lines 10-11 that the ILEC network was initially built without USF funding?

A: No. Mr. Krajci appears to misunderstand the history of the federal USF programs. In fact, it is interesting to note that in Mr. Mowry's direct testimony, he indicates the importance of the high cost programs to the development of wireline telephone service in remote areas (pg. 9, line 17-19). The reality is that the federal high-cost programs represent explicit dollars that were formerly part of the implicit switched access rates charged by rural carriers to interexchange carriers for the use of their rural networks to originate and to terminate long-distance calls.

Q: Mr. Krajci claims that ALLTEL commits to use available federal high-cost support for its intended purpose. Do you have any comments with respect to that?

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A: Yes. To begin with, Mr. Krajci does not specify anywhere in his rebuttal testimony how ALLTEL intends to utilize the federal USF it would be entitled to should it be granted ETC designation. In fact, in response to interrogatories served on ALLTEL by the South Carolina Telephone Coalition, ALLTEL asserts that it has not even performed any analysis as to how much money in federal USF it would receive as a result of its application. This appears odd to me considering the fact that a large, publicly-traded company such as ALLTEL must perform annual budgets and forecasts of revenue sources and expenditures. It would not be a difficult exercise for ALLTEL to forecast the level of annual USF it would be entitled to in South Carolina if it were to receive ETC designation.

Additionally, a large amount of any USF received by ALLTEL would come from the rural areas served by the Coalition member companies. ALLTEL should utilize any federal USF received for the advancement and preservation of universal service in those rural areas from which the funds arose. ALLTEL operates throughout the state and across multiple study areas, and has not explained how it will ensure that federal USF received will be spent in the appropriate areas. The Commission should deny the application because ALLTEL has failed to provide the Commission with reasonable assurances, in the form of a specific mechanism, to ensure that ALLTEL will meet its obligation regarding the use of any federal USF received in those areas for which the funds are intended.

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1 **Q: Mr. Krajci indicates in his rebuttal testimony on page 12, lines 21-23, that**
2 **federal USF support is not a windfall to ILECs or competitive ETCs when**
3 **utilized for its intended purposes. Do you agree with this statement?**
4 A: I agree with the statement as it pertains to ILECs. I do not necessarily agree with
5 Mr. Krajci's assertion pertaining to ETCs since Mr. Kratci has not offered any
6 specifics as to how ALLTEL will utilize any federal USF it receives in the state.
7 In addition, as competitive ETCs such as ALLTEL are not rate regulated by the
8 Commission, it would be difficult for the Commission to ascertain whether or not
9 a windfall would result from the receipt of federal USF without first knowing if
10 the company is profitable in the first place. A review of ALLTEL's most recent
11 10-Q filing with the Securities and Exchange Commission demonstrates that
12 overall, ALLTEL wireless operations appear to be profitable. For the six months
13 ended June 30, 2003, ALLTEL reported net income of $498 million from its
14 wireless operations nationwide. Unfortunately, ALLTEL does not provide
15 wireless results by state on their 10-Q report.[1] However, if ALLTEL's wireless
16 operation in South Carolina is generating positive net income without any USF
17 support, it is difficult to understand how the receipt of USF support as a result of
18 being granted ETC designation does not result in a windfall.
19 **Q: Does this conclude your testimony?**
20 A: Yes, it does.

[1] The South Carolina Telephone Coalition asked ALLTEL through interrogatories for financial information relating to its South Carolina operations. ALLTEL objected to providing this information, stating it was "not relevant to this proceeding."