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July 21, 2006

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JUL 21 2006

SOUTH DAKOTA PUBLIC
UTILITIES COMMISSION

Patty Van Gerpen
South Dakota Public Utilities Commission
500 East Capitol Avenue
Pierre, South Dakota 57501

Re: Docket TC05-083; Docket TC05-087; Docket TC05-090; Docket TC05-091;
Docket TC05-092; Docket TC05-093; Docket TC05-094; Docket TC05-095;
Docket TC05-109

Dear Patty:

Please find enclosed for filing four (4) copies of the following Direct Testimony, together with Certificate of Service, in the above referenced dockets:

✓ Docket TC05-083: Direct Testimony of Christy Miedema

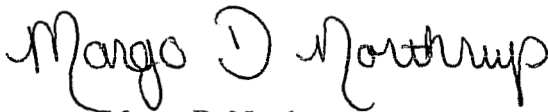
✓ Docket TC05-087: Direct Testimony of Ann Kuyper

Docket TC05-090 – TC05-095: Direct Pre-Filed Testimony of Tim Eklund

✓ Docket TC05-109: Direct Testimony of Jonas O. Karlsson

Sincerely yours,

RITER, ROGERS, WATTIER & BROWN, LLP

By: 
Margo D. Northrup

MDN/rar
Enclosures

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JUL 27 2006

SOUTH DAKOTA PUBLIC
UTILITIES COMMISSION

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF SOUTH DAKOTA

IN THE MATTER OF THE ESTABLISHMENT
OF LOCAL EXCHANGE CARRIERS
ASSOCIATION'S (LECA) SWITCHED ACCESS
REVENUE REQUIREMENTS FOR 2005

West River Telecommunications Cooperative

Docket TC05-109

Direct Testimony

Direct Testimony of Jonas O. Karlsson

1 **Q: What is your name and address?**

2 A: My name is Jonas O. Karlsson. My business address is 2270 La Montana Way, Colorado
3 Springs, Colorado, 80918.

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

5 A: I am a Consultant with GVNW Consulting, Inc (GVNW), a telecommunications consulting
6 company located in Colorado Springs, Colorado. GVNW serves a number of telephone
7 companies, primarily Rural Local Exchange Carriers (RLECs), throughout the United States.
8 GVNW also assists clients with other areas of finance & accounting, engineering, billing and
9 marketing. My expertise includes the areas of cost separations and cost study preparation.

10 **Q: What is your educational and business background?**

11 A: I received a Bachelors of Arts degree in Business from Harding University (1997) in Searcy,
12 AR, and a Master of Business Administration from Portland State University (2000) in Portland,
13 OR. I have been employed with GVNW since 2000, working with switched access cost studies
14 throughout my tenure with the company. I have been involved with South Dakota in general and
15 West River Telecommunications Cooperative specifically for the past two years, assisting the
16 client with cost study filings with the South Dakota Public Utilities Commission (SDPUC) and
17 other work.

18 **Q: On whose behalf are you testifying in this proceeding?**

19 A: My direct pre-filed testimony is submitted on behalf of West River Telecommunications
20 Cooperative (WRT), headquartered in Hazen, ND. WRT is a RLEC with approximately twenty-
21 five exchanges, two of which are located in South Dakota. The South Dakota piece of WRT
22 serves 3880 customers in the exchanges of Mobridge and McLaughlin.

23 **Q: What is the purpose of your testimony?**

1 A: I will provide testimony on how WRT's intrastate switched access cost study is performed
2 and how it complies with current SDPUC Administrative Rules relating to switched access
3 services within the state of South Dakota.

4 **Q: What is the goal of the cost study?**

5 A: The goal of the cost study is to determine the intrastate switched access charge that is required
6 to properly recover the portion of a telephone company's switched access investment and
7 expenses associated with intrastate operations. This process is defined by rules established by
8 the SDPUC and includes allocations of investment and expenses to various jurisdictions,
9 including interstate, intrastate, and local. The cost study also separates investment and expenses
10 between regulated and non-regulated operations. The SPDUC rules are applied specifically to
11 WRT's unique network configuration and other operating parameters. This testimony deals with
12 the cost study filed in 2005 based on 2004 year data.

13 **Q: Are you familiar with SDPUC rules for cost settlements?**

14 A: Yes. In South Dakota the applicable access rules are contained in SDPUC Administrative
15 Rules, ARSD 20:10:27 through 20:10:29. These chapters establish rules for the determination of
16 switched access charges for intrastate switched access services provided by each carrier's carrier
17 operating in the state.

18 **Q: How is the intrastate switched access charge determined?**

19 A: The intrastate switched access return on net investment and expenses is often referred to as
20 the intrastate revenue requirement. The intrastate switched access charge can be found be
21 dividing the company's intrastate revenue requirement by total intrastate switched access
22 minutes.

1 **Q: Did you determine WRT's intrastate switched access revenue requirement in the 2005**
2 **switched access cost study?**

3 A: Yes. All of WRT's costs associated with South Dakota operations, including property costs,
4 revenues, expenses, taxes and reserves, were allocated between intrastate toll and all other
5 jurisdictions. The revenue requirement is comprised of the return on net investment plus
6 expenses.

7 **Q: Were WRT's investments and expenses allocated according to the SDPUC rules in**
8 **determining the intrastate revenue requirement?**

9 A: Yes. The following steps are taken to determine the intrastate revenue requirement, as
10 outlined in ARSD 20:10:28:02. The fundamental basis on which separations are made is the use
11 of telecommunications plant in each of the operations. The first step is the assignment of the cost
12 of the plant to categories. The basis for making this assignment is the identification of the plant
13 assignable to each category and the determination of the cost of the plant so identified. The
14 second step is the apportionment of the cost of the plant in each category among the operations
15 by direct assignment where possible. All remaining costs are assigned by the application of
16 allocation factors. For example, in the assignment of property costs to categories and in the
17 apportionment of such costs among the operations, each amount assigned and apportioned is
18 identified as to the account classification in which the property is included. The separated results
19 are identified by property accounts and apportionment bases are provided for those expenses
20 which are separated on the basis of the apportionment of property costs. Similarly, amounts of
21 revenues and expenses assigned to each of the operations are identified as to account
22 classification.

23 **Q: Did WRT separate its plant investment into categories in the cost study?**

1 A: Yes. WRT apportions its cost among categories by actual use or direct assignment. WRT
2 records its Central Office Equipment (COE) in accounts 2210-223x. The total investment in
3 these accounts is classified into the following categories according to ARSD 20:10:28:20
4 through 20:10:28:44.

5 Category 1 – Operator Systems Equipment

6 Category 2 – Tandem Switching Equipment

7 Category 3 – Local Switching Equipment

8 Category 4 – Circuit Equipment

9 WRT records its Cable and Wire Facilities (CWF) in Accounts 241x – 242x. The total
10 investment in these accounts is classified into the following categories according to ARSD
11 20:10:28:49 through 20:10:28:64.

12 Category 1 – Exchange Line Excluding Wideband

13 Category 2 – Wideband and Exchange Trunk

14 Category 3 – Interexchange

15 Category 4 – Host/Remote

16 **Q: Is property not associated with the South Dakota operations excluded from WRT's**
17 **South Dakota cost study?**

18 A: Yes. When available direct assignments of investments and expenses associated with the two
19 South Dakota exchanges is used to determine the base for the cost study. When there are joint
20 use facilities the investment and expenses associated with South Dakota is based on loop count
21 ratios for South Dakota compared to total WRT plant ratios.

22 **Q: Is property rented to another party excluded from WRT's telecommunications**
23 **operations in the cost study?**

1 A: Yes. When the COE and CWF categories are reviewed any known investment identified for
2 solely non-regulated purposes is removed from the cost study. In addition, any joint use
3 investment is removed from the cost study based on its percentage of usage (usage broken down
4 based on circuit counts on the COE side and circuit miles on the CWF side) of the total.

5 **Q: Were the remaining investments in the COE and CWF categories recovered as part of**
6 **the switched access charge?**

7 A: No. Investment and expenses related to EAS and private line use are not recoverable through
8 the intrastate cost study process. Only the intrastate switched access portions of the remaining
9 investments in the COE and CWF accounts are recoverable.

10 **Q: How were the intrastate portions of the remaining COE investments determined?**

11 A: The intrastate portion of these investments is determined according to ARSD 20:10:28:06,
12 20:10:28:33, 20:10:28:35, 20:10:28:40, 20:10:28:42, and 20:10:28:44, whereby allocation factors
13 are applied to the category investments.

14 COE Cat. 1 – Operator Systems Equipment is not applicable to WRT since WRT does not
15 use any operator systems equipment.

16 COE Cat. 2 – Tandem Switching Equipment is not applicable to WRT since WRT does not
17 employ a tandem switch.

18 COE Cat. 3 – Local Switching Equipment is allocated based on the percentage of intrastate
19 switched access minutes of use, as compared to the total minutes of use, for this equipment.

20 In accordance with ARSD 20:10:28:35 the intrastate Weighted Dial Equipment Minute
21 (WDEM) factor is adjusted to ensure that the total of intrastate plus interstate WDEM is less
22 than or equal to 85%.

23 COE Cat. 4 – Circuit Equipment has several subcategories, which are described as follows:

1 Cat. 4.12 – Exchange trunk circuit equipment, wideband and non-wideband (EAS) is not
2 recoverable through the cost study, as mentioned above. WRT has EAS between its
3 exchanges; therefore, the circuit equipment associated with these segments does not get
4 assigned to the intrastate switched access revenue requirement.

5 Cat. 4.13 – Exchange line circuit equipment excluding wideband is allocated based on the
6 25% intrastate factor, per ARSD 20:10:28:40.

7 Cat. 4.23 – All other Interexchange circuit equipment (not counting the private line piece,
8 which is excluded) is allocated based on the relative number of conversation minutes
9 (CM) applicable to such facilities per ARSD 20:10:28:42.

10 Cat. 4.3 – Per ARSD 20:10:28:44 host/remote message circuit equipment, category 4.3,
11 includes message host/remote location circuit equipment for which a message circuit
12 switching function is performed at the host central office associated with cable and wire
13 facilities as described in § 20:10:28:52. The intrastate category 4.3 cost of host/remote
14 circuit equipment assigned to message services is apportioned among the toll and other
15 services operations based on the assignment of host/remote message cable and wire
16 facilities as described in § 20:10:28:64.

17 **Q: How were the intrastate portions of the remaining CWF investments determined?**

18 A: The intrastate portion of these investments were determined according to ARSD 20:10:28:06
19 and 20:10:28:61-64, whereby allocation factors were applied to the category investments.

20 CWF Category 1 – Exchange Line Excluding Wideband:

21 Cat. 1.1 - Intrastate private line and state WATS lines are directly assigned to the
22 intrastate private line jurisdictions, which is not recoverable through the intrastate
23 switched access revenue requirement.

1 Cat. 1.3 – Subscriber or common lines that are jointly used for local exchange service and
2 exchange access for intrastate and interstate interexchange services are allocated based on
3 the 25% intrastate factor, per ARSD 20:10:28:61.

4 CWF Category 2 – Wideband and Exchange Trunk (EAS) is allocated based on relative
5 intrastate minutes of use. EAS is not recoverable through the cost study, as previously
6 explained, per ARSD 20:10:28:62.

7 CWF Category 3 – Interexchange CWF (only the joint portion, not the private line portion is
8 included) is allocated based on conversation minute miles as applied to toll message circuits
9 or other classes of circuits, per ARSD 20:10:28:63.

10 **Q: What are the basic network elements that are to be recovered through the intrastate**
11 **cost study?**

12 A: The basic network elements are transport, switching and carrier common line. In addition to
13 the return on net investment, operating and taxes are also recoverable through the intrastate cost
14 study.

15 **Q: Which of the above category investments are included in WRT's intrastate transport**
16 **revenue requirement for the 2005 study?**

17 A: CWF category 3 and COE categories 2 and 4.23 investments. These investments are then
18 netted against the associated accumulated depreciation.

19 **Q: Which of the above category investments are included in WRT's intrastate carrier**
20 **common line revenue requirement for the 2005 study?**

21 A: CWF category 1 subscriber loop plant and COE category 4.13 subscriber circuit investments.
22 These investments are then netted against the associated accumulated depreciation.

1 **Q: Which of the above category investments are included in WRT's intrastate local**
2 **switching revenue requirement for the 2005 study?**

3 A: COE category 3 investment. These investments are then netted against the associated
4 accumulated depreciation.

5 **Q: Were there any other investments included in the revenue requirement for the 2005 cost**
6 **study?**

7 A: Yes. General support assets were also included in the revenue requirement for the 2005 cost
8 study. The general support assets are contained in accounts 211x and 212x and include such
9 items as land, buildings, vehicles etc. The apportionment of the general support assets is based
10 on the separation and allocation of the combined cost of central office equipment, and cable and
11 wire facilities. For example, the amount of general support assets allocated to transport would
12 depend on the percentage of central office equipment and cable and wire facilities assigned to
13 intrastate transport to total intrastate central office equipment and cable and wire facilities, per
14 ARSD 20:10:28:15.

15 **Q: Was the intrastate net investment determined from the previous steps used to determine**
16 **the revenue requirement for each element?**

17 A: Yes. In addition, the following items were included in the calculation of the net investment:
18 Materials and Supplies, Cash Working Capital and Amortized Intangible Assets. Once the net
19 investment is determined the amount is multiplied by a 10% rate of return, per ARSD
20 20:10:27:06 and SDPUC Docket TC93-086.

21 **Q: Did WRT include expenses related to the plan investment in the revenue requirement**
22 **established in the 2005 intrastate cost study?**

1 A: Yes. WRT included expenses related to the plant investment in the revenue requirement
2 established in the 2005 study. WRT follows the rules contained in ARSD 20:10:28:92 through
3 ARSD 20:10:28:96 as the basis for allocation of these expenses. The expenses are contained in
4 accounts 611x, 612x, 621x, 623x, 641x and 653x. The expenses are allocated to the intrastate
5 jurisdiction and rate elements in the same manner as the related plant investment. The
6 depreciation expense related to the plant investments is allocated based on the related plant
7 investment.

8 **Q: Did WRT include other operating expenses in the revenue requirement established in**
9 **the 2005 intrastate cost study?**

10 A: Yes. The study included operating expenses, based the rules contained in ARSD 20:10:28:88
11 through 20:10:28:123. There are numerous categories of operating expenses and each type is
12 allocated based on its function or on allocation related to its use. Expenses related to access
13 charges, contained in account 6540, that are paid for exchange access services, are directly
14 assigned to toll and therefore not included in the intrastate revenue requirement. Customer
15 operations expense is another category of expenses and is contained in the marketing account
16 661x and services account 662x. WRT used direct allocations of any customer operations
17 expenses which were identified as incurred by the South Dakota part of the operations. For any
18 customer operations expenses not directly assigned with the South Dakota operations WRT
19 based the customer operations expense allocation factors on the whole WRT operational factors.
20 Other expenses are related to the corporate operations of WRT. These include executive and
21 planning, and general and administrative expenses. These are included in accounts 671x and
22 672x. The allocation of these expenses is based on the separation of the big three expenses:

1 plant-specific expenses, plant-nonspecific expenses, and customer operations expenses. The
2 rules relating to the corporate operations expenses are contained in ARSD 20:10:28:123.

3 **Q: Did WRT include operating taxes in the revenue requirement established in the 2005**
4 **intrastate cost study?**

5 A: Yes. WRT did include operating taxes in the revenue requirement in the 2005 study. The
6 rules that are the basis for WRT's inclusion of taxes are contained in ARSD 20:10:28:124
7 through 20:10:28:125. The appropriate tax percentages were entered into the SDPUC intrastate
8 access cost model and the cost model determined the appropriate taxes to be included within the
9 cost model. Any taxes that are directly assignable are assigned appropriately, and remaining
10 taxes are assigned based on the separation of the cost of telecommunications plant in service.

11 **Q: As new technologies emerge, how are these rules applied?**

12 A: Since the rules have remained fairly unchanged for the past ten years the approach is to apply
13 the principles and intent of the rules to any new technologies which may emerge.

14 **Q: Which of the above amounts actually determine WRT's revenue requirement?**

15 A: As explained in previous sections, the return on net investment for each of the network
16 elements makes up a portion of the overall revenue requirement. In addition, the portion of
17 operating expenses and taxes is determined to be intrastate and allocated to the three network
18 elements is also included in the revenue requirement.

19 **Q: Does this conclude your testimony?**

20 A: Yes.

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF SOUTH DAKOTA

IN THE MATTER OF THE ESTABLISHMENT OF LECs' 2005 SWITCHED ACCESS REVENUE REQUIREMENTS

CERTIFICATE OF SERVICE

ALLIANCE COMMUNICATIONS COOP., INC.	TC05-083
BROOKINGS MUNICIPAL TELEPHONE (SWIFTEL)	TC05-087
MIDSTATE COMMUNICATIONS	TC05-090
WESTERN TELEPHONE COMPANY	TC05-091
BERESFORD MUNICIPAL TELEPHONE COMPANY	TC05-092
ROBERTS COUNTY TELEPHONE COOPERATIVE	TC05-093
McCOOK COOPERATIVE TELEPHONE	TC05-094
KENNEBEC TELEPHONE COMPANY	TC05-095
WEST RIVER TELECOMMUNICATIONS COOPERATIVE	TC05-109

CERTIFICATE OF SERVICE

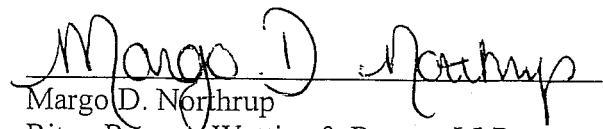
I hereby certify that a true and correct copy of the Direct Testimony of Christy Miedema, Ann Kuyper, Tim Eklund and Jonas O. Karlsson was served in each of the above dockets via the method(s) indicated below, on the 21st day July, 2006, addressed to:

Karen Cremer, Staff Attorney	<input type="checkbox"/>	First Class Mail
South Dakota Public Utilities Commission	<input checked="" type="checkbox"/>	Hand Delivery
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Pierre, South Dakota 57501	<input type="checkbox"/>	Overnight Delivery
	<input type="checkbox"/>	E-Mail

Dated this 21st day of July, 2006.

A handwritten signature in cursive script that reads "Margo D. Northrup". The signature is written in black ink and is positioned above a horizontal line.

Margo D. Northrup
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