

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF SOUTH DAKOTA**

**IN THE MATTER OF THE PETITION OF)
CELLCO PARTNERSHIP AND ITS)
SUBSIDIARIES AND AFFILIATES TO)
AMEND AND CONSOLIDATE ELIGIBLE)
TELECOMMUNICATIONS CARRIER)
DESIGNATIONS IN THE STATE OF SOUTH)
DAKOTA AND TO PARTIALLY)
RELINQUISH ETC DESIGNATION)**

TC10-090

REBUTTAL TESTIMONY OF

DON J. WOOD

ON BEHALF OF

VERIZON WIRELESS

MARCH 16, 2011

1 **I. INTRODUCTION AND PURPOSE**

2 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

3 A. My name is Don J. Wood. My business address is 914 Stream Valley Trail, Alpharetta,
4 Georgia 30022.

5
6 Q. ARE YOU THE SAME DON J. WOOD WHO PRESENTED PREFILED DIRECT
7 TESTIMONY IN THIS PROCEEDING ON JANUARY 7, 2011?

8 A. Yes.

9
10 Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

11 A. The purpose of my testimony is to respond to the February 4, 2011 prefiled Direct
12 Testimony of Peter Bluhm on behalf of James Valley Wireless, LLC (“James Valley
13 Wireless”).

14 **II. MR. BLUHM FAILS TO ADDRESS EITHER THE INTERESTS OF JAMES**
15 **VALLEY WIRELESS OR THE PUBLIC INTEREST**

16 Q. DOES MR. BLUHM ADDRESS HOW THE INTERESTS OF JAMES VALLEY
17 WIRELESS WILL BE IMPACTED IF THE COMMISSION GRANTS THE PETITION
18 TO AMEND AND CONSOLIDATE ETC DESIGNATIONS AT ISSUE IN THIS
19 PROCEEDING?

20 A. No. In fact, other than to note (p. 2) that he has been retained by James Valley Wireless
21 to testify in this proceeding, Mr. Bluhm never mentions the company in his testimony,
22 never provides any description of its operations in the state, and never explains how

1 granting the Petition will impact James Valley Wireless' operations.¹ At no point does
2 Mr. Bluhm claim that granting Verizon Wireless' Petition will cause harm to James
3 Valley Wireless or cause James Valley Wireless to be unable to meet its obligations as an
4 ETC.

5 Instead, Mr. Bluhm's testimony addresses the Petition from the standpoint of a
6 self-appointed arbiter of the public interest. Unfortunately, even his testimony regarding
7 public interest issues is off-target, because Mr. Bluhm ultimately addresses what he
8 believes to be the public interest issues associated with decisions of the FCC and United
9 States Department of Justice related to the Verizon Wireless mergers and with decisions
10 of the FCC related to the operation of the federal universal service program, even though
11 none of these decisions are directly related to the question before the Commission and
12 none of these decisions can be altered by the Commission in this proceeding. To the
13 extent there is a public policy question before the Commission in this case, it is properly
14 phrased as follows: "Given the constraints created by the decisions of the FCC, how can
15 the interests of the citizens of South Dakota (especially those who live, work, and travel
16 in high-cost areas) best be met?" As I will explain in detail, the answer to this question is
17 to grant the Petition and to reject Mr. Bluhm's recommendations.

18

19 Q. DOES MR. BLUHM APPEAR TO UNDERSTAND THE PUBLIC INTEREST
20 BENEFITS OF GRANTING THE PETITION?

¹ Mr. Bluhm does make several general references to the impact on Competitive ETCs ("CETCs") of the recent Verizon Wireless mergers, but the impacts that he identifies were created by the mergers and associated merger conditions; none of the impacts that he describes are related to the Petition before the Commission in this case. As I will explain in detail later in my testimony, the impact identified by Mr. Bluhm is not only unrelated, it has been very small in the past and does not exist at all going forward.

1 A. No. As noted in my Direct Testimony, the amendment and consolidation of the ETC
2 designations of RCC Minnesota, Inc. (“RCC”) and WWC License, LLC (“WWC”) being
3 requested in the Petition seeks to make it clear that the integrated, post-merger Verizon
4 Wireless² operations serving South Dakota now bear all of the ETC obligations
5 throughout the RCC and WWC ETC designation areas, and that it is these post-merger,
6 integrated Verizon Wireless operations that must be responsive to both the Commission
7 and to customers in order to meet these responsibilities. While granting the Petition will
8 not change what Verizon Wireless must do, the clear identification of Verizon Wireless
9 as the ETC with these responsibilities is in the public interest. Mr. Bluhm offers no
10 rationale in support of a position that the citizens of South Dakota would not benefit from
11 the clear identification of Verizon Wireless as the ETC serving throughout most of the
12 State.

13 A. **The Actions of Verizon Wireless Since the Mergers Have Promoted the**
14 **Public Interest**

15 Q. WHAT STEPS HAS VERIZON WIRELESS UNDERTAKEN SINCE THE MERGERS
16 THAT PROMOTE THE PUBLIC INTEREST?

17 A. Each of the mergers was subject to FCC approval, and in each case the FCC outlined a
18 set of conditions and expectations related to both the post-merger efforts of Verizon
19 Wireless and the corresponding benefits to customers. The FCC approved the RCC-
20 Verizon Wireless transaction in its *Memorandum Opinion and Order and Declaratory*
21 *Ruling*, FCC 08-181, released August 1, 2008 (“*RCC Merger Order*”), and this
22 transaction was completed on August 6, 2008. The FCC approved the Alltel-Verizon
23 Wireless transaction in its *Memorandum Opinion and Order and Declaratory Ruling*,

² For clarity, I am referring to Cellco Partnership and its subsidiaries and affiliates collectively as “Verizon Wireless.”

1 FCC 08-258, released November 10, 2008 (“*Alltel Merger Order*”), and this transaction
2 was completed on January 9, 2009.

3 As I noted in my Direct Testimony, these mergers were approved by the FCC
4 subject to certain conditions and expectations. The FCC contemplated that the mergers
5 would result in public interest benefits (benefits that were expected to accrue to
6 customers in both non-rural and rural areas), including but not limited to increased
7 network coverage (in terms of both scope and quality), improved services and features,
8 expedited and expanded roll-out of broadband and other next-generation services,
9 improvements in service quality, increased efficiencies, and ultimately increased and
10 more robust competition for wireless services. Ultimately, the purpose and effect of the
11 mergers was to integrate the RCC, WWC and Verizon Wireless operations and to provide
12 all subscribers “Verizon Wireless” service.

13 To date, the following steps have been taken:

- 14 1. The networks and operations of RCC have been integrated with the networks and
15 operations of the collective Verizon Wireless operations. Similarly, the WWC and
16 Verizon Wireless operations have been integrated nationally, though the WWC network
17 facilities and customers in South Dakota were transferred (as required by the FCC as a
18 condition of the merger) to AT&T Mobility in June 2010.
- 19 2. The integrated Verizon Wireless operations continue to perform the ETC
20 responsibilities across all of the designated areas in South Dakota.
- 21 3. The integrated Verizon Wireless operations continue to meet all ETC obligations, and
22 customers have benefited from their actions to date.
- 23 4. Verizon Wireless has requested an amendment to the existing RCC and WWC ETC to
24 accurately reflect Verizon Wireless as the ETC that continues to meet these ETC
25 obligations.
- 26 27
28
29

30 I will address each of these steps in turn below.

31

1 Q. PLEASE EXPLAIN HOW THE RCC NETWORKS AND OPERATIONS OF RCC
2 WITH ITS OWN NETWORK AND OPERATIONS HAVE BEEN INTEGRATED
3 WITH THE VERIZON WIRELESS NETWORKS AND OPERATIONS, AND HOW
4 THE WWC OPERATIONS HAVE BEEN INTEGRATED WITH VERIZON
5 WIRELESS.

6 A. When considering the merits of the proposed mergers, the FCC explicitly considered a
7 long list of potential public interest benefits.³ Some of these benefits are network related
8 (expanded network footprint; additional features previously available only on the Verizon
9 network (EvDO data rates, VCast™, VZNavigator); faster rollout of broadband features
10 and capabilities, particularly in rural areas; and improvement in service quality), while
11 others are related to an improvement in the experience of customers through
12 improvements in operations (additional service offerings and plans, additional wireless
13 devices, improved customer service). Both the *RCC Merger Order and Alltel Merger*
14 *Order* explicitly note that many of these public benefits depend on the ability and
15 willingness of Verizon Wireless to “expeditiously integrate” operations (and to the extent
16 permitted, networks) after the merger. In the time since the mergers were concluded,
17 Verizon Wireless has made good on its commitment to the FCC to engage in an
18 “expeditious integration” of operations, and networks when appropriate,⁴ in order to
19 make the benefits of the merger available to as many customers in as many markets as
20 possible.

21

³ For example, see *Alltel Merger Order*, ¶¶115-156.

⁴ Post-merger network integration is constrained by other merger conditions, including those that required Cellco to divest certain WWC network assets and subscribers. These assets were controlled and managed by a management trustee after the merger and were not integrated with the Verizon Wireless network.

1 Q. PLEASE EXPLAIN WHY THE INTEGRATED VERIZON WIRELESS OPERATIONS
2 CONTINUE TO PERFORM THE ETC RESPONSIBILITIES ACROSS ALL OF THE
3 DESIGNATED AREA IN SOUTH DAKOTA.

4 A. The FCC has been clear that ETC obligations are unaffected by mergers. For example,
5 when the proposed merger between Verizon Wireless and RCC was under consideration,
6 petitioners asked the FCC to impose as a merger condition a duty for the post-merger
7 Verizon Wireless operations to continue to be subject to RCC's ETC obligations. The
8 FCC effectively concluded that no merger condition was necessary, because Verizon
9 Wireless would be subject to these obligations even without such an explicit condition:

10 In the majority of states at issue in the proposed transaction, the relevant
11 state commissions asserted their jurisdiction over ETC designations, and
12 the Commission acted on ETC designation requests in the remainder of
13 states at issue. *We find that the proposed transaction will not affect the*
14 *ETC obligations of the companies at issue; the ETC obligations in effect*
15 *prior to the proposed transaction will remain in effect upon consummation*
16 *of the proposed transaction. Accordingly, we need not address herein*
17 *Joint Petitioners' request that Verizon Wireless, upon consummation of*
18 *the proposed transaction, be required to continue to provide service as a*
19 *CETC at the same rates and under the same terms and conditions as*
20 *currently offered by RCC/Unicel.*⁵

21
22 In that Order, the FCC was clear that, regardless of whether the ETC designation
23 was made by a state regulator or by the FCC, the ETC obligations in effect prior to the
24 proposed transaction remain in effect for the post-merger combined operations. At the
25 time of the Alltel-Verizon Wireless merger, this question was not raised by commenting
26 parties, and absent such a request, the FCC did not deem it necessary to restate the
27 obvious in the *Alltel Merger Order*. In South Dakota, the post-merger Verizon Wireless
28 operations acted in a way that is fully consistent with the FCC's conclusion and directive:
29 they have continued to meet the ETC obligations that were in effect prior to the merger,

⁵ *RCC Merger Order*, ¶125 (emphasis added).

1 and have done so for the entire designated ETC service areas.

2

3 Q. PLEASE EXPLAIN HOW VERIZON WIRELESS HAS CONTINUED TO SATISFY
4 THE ETC OBLIGATIONS, AND HOW SOUTH DAKOTA CUSTOMERS HAVE
5 BENEFITED FROM THESE ACTIONS TO DATE.

6 A. The “ETC obligations in effect” prior to the merger include the duty to offer the services
7 or functionalities that are “supported by federal universal support mechanisms using its
8 own facilities or a combination of its own facilities and resale of another carrier’s
9 services” (47 CFR § 54.201(d)(1)), advertise the availability of such services and the
10 associated charges (including Lifeline and Linkup services) using media of general
11 distribution (47 CFR § 54.201(d)(2)), and to use any support received only for the
12 provision, maintenance, and upgrading of facilities and services for which the support is
13 intended (47 CFR § 54.7). Similar requirements are set forth in ARSD 20:10:32:42 –
14 20:10:32:55.

15 Through Verizon Wireless’ continued satisfaction of the ETC obligations,
16 significant investments continue to be made to expand and upgrade network facilities
17 throughout the designated ETC service areas in South Dakota, including rural areas. It is
18 also important to note that Verizon Wireless operations have not discriminated among
19 customers when receiving requests for Lifeline/Linkup or when evaluating requests for
20 service; Verizon Wireless has treated all customers within the ETC designation area
21 equally regardless of whether the customer was previously served by RCC, WWC,
22 another Verizon Wireless affiliate, another carrier, or is a completely new customer. As I
23 noted in my Direct Testimony, Verizon Wireless’ performance of the ETC obligations
24 throughout the designated ETC service areas – and the ability of the people who live in

1 these areas to continue benefiting from these actions – is not limited by what network
2 facilities are used to serve the customer, what carrier originally constructed the facilities,
3 or whether the facilities were originally constructed (in whole or in part) using federal
4 universal service support. All subscribers of the integrated Verizon Wireless operations
5 now receive a seamless service throughout the designated ETC service areas. This kind
6 of customer experience is fully consistent with the stated expectations of the FCC in the
7 *RCC Merger Order* and *Alltel Merger Order* regarding an “expeditious integration,” the
8 FCC’s conclusion that “the ETC obligations in effect prior to the proposed transaction
9 will remain in effect upon consummation of the proposed transaction,” and with the
10 public interest of the citizens of South Dakota.

11 It is noteworthy that Mr. Bluhm has presented no facts to suggest that the
12 integrated Verizon Wireless operations have failed to offer the supported services or
13 failed to meet all reasonable requests for service, and no claim has been made that federal
14 universal service support has been used for any purpose other than for “the provision,
15 maintenance, and upgrading of facilities and services for which the support is intended.”
16 No evidence has been presented that the integrated Verizon Wireless operations have
17 failed to meet any state or federal ETC obligation, and no evidence has been presented to
18 demonstrate that Verizon Wireless’ continued service as an ETC in South Dakota has
19 failed to provide the intended benefits of the federal universal service program to
20 consumers.

21
22 Q. PLEASE EXPLAIN HOW SUBSCRIBER LINE COUNTS HAVE BEEN REPORTED
23 TO USAC IN A WAY THAT IS CONSISTENT WITH FCC’S RULES.

24 A. Consistent with 47 CFR §§54.307 and 54.802, it is my understanding that RCC and

1 WWC began including in their quarterly “line counts”⁶ reported to the Universal Service
2 Administrative Company (“USAC”) all lines that they serve within their designated ETC
3 service areas as a part of the integrated Verizon Wireless operations. The specifics of
4 when and how particular line counts were submitted in described in Ms. Steven’s
5 Rebuttal Testimony. The methodology that she describes is consistent with the FCC’s
6 rules and with the integration contemplated by the FCC in the *RCC Merger Order* and
7 *Alltel Merger Order*, though I also understand that the Commission’s certification of
8 WWC to receive support for all lines was conditioned on the approval of the Petition at
9 issue in this proceeding.

10
11 Q. PLEASE EXPLAIN WHY VERIZON THE PETITION SEEKS TO AMEND AND
12 CONSOLIDATE THE EXISTING RCC AND WWC ETC DESIGNATIONS IN
13 ORDER TO ACCURATELY REFLECT VERIZON WIRELESS AS SERVING THE
14 DESIGNATED SERVICE AREAS.

15 A. Consistent with the FCC’s conclusion that “the ETC obligations in effect prior to the
16 proposed transaction” remain obligations of the post-merger Verizon Wireless operations,
17 Verizon Wireless has filed at the FCC and in several states, including South Dakota,
18 applications to amend existing ETC designation orders to reflect the fact that Verizon
19 Wireless continues to fulfill the ETC obligations within each designated service area.
20 The FCC has already approved the request for a pro forma amendment of the ETC

⁶ The concept of reporting customer “lines” is a semantic artifact that dates to a time in which the only ETCs were wireline local exchange companies. For a wireline company, it makes sense to refer to a “line” that is dedicated to a given customer location and that represents a specific network facility. For a wireless carrier, there is no “line” to report, and no network facility that is specific to a given customer location. As a result, wireless CETCs report customer counts to USAC based on handsets and on the billing address associated with each handset.

1 designations at issue in Alabama, North Carolina, and Virginia:

2 The Commission previously designated Alltel as an ETC in Alabama,
3 Virginia, and North Carolina, and RCC as an ETC in Alabama. Cellco
4 proposes to serve the same service areas that the Commission previously
5 considered in its analysis. On November 8, 2008, Alltel and RCC became
6 wholly-owned indirect subsidiaries of Cellco. We approve Cellco's
7 requested pro forma amendments. Accordingly, the designated service
8 areas of Alltel and RCC shall reflect Cellco as the ETC designated entity.⁷
9

10 This language suggests that from the FCC's point of view, the Petition in this
11 proceeding is straight-forward: since RCC and WWC had been designated as ETCs in
12 certain areas, the Petition confirms that the now-integrated Verizon Wireless operations
13 continue "to serve the same service areas that the Commission previously considered in
14 its analysis," and "the ETC obligations in effect prior to the proposed transaction will
15 remain in effect upon consummation of the proposed transaction." The post-merger
16 Verizon Wireless operations are now responsible for continuing to serving the same ETC
17 service areas post merger. The FCC made a *pro forma* change and now shows
18 Cellco/Verizon Wireless as the "ETC designated entity." It is my understanding that
19 Verizon Wireless is seeking the same administrative clarity through its Petition in this
20 proceeding.⁸

21 **III. MR. BLUHM'S RECOMMENDATIONS SHOULD NOT BE ADOPTED**

22 Q. HAVE YOU IDENTIFIED ANY GENERAL AREA OF AGREEMENT WITH MR.
23 BLUHM?

24 A. Yes. I agree that the Commission's decision should fully consider any issues of public
25 interest that will be directly impacted by a decision in this case. It is also noteworthy that

⁷ Order, DA 10-992, released May 28, 2010, ¶¶2-3.

⁸ Of the state applications filed, only one state regulator has ruled to date. On October 1, 2010, the Arkansas Public Service Commission approved the requested amendment, noting that "the Alltel and Verizon Wireless networks, business operations, and subscriber bases have been fully integrated as contemplated and approved by the FCC."

1 Mr. Bluhm has stated (pp. 41-42) that he agrees, as a “general proposition,” with Ms.
2 Stevens’ statement in her Direct testimony that “The fact that high-cost support remains
3 available to incumbent and competitive ETCs within the designated area indicates the
4 cost of providing service is sufficiently high and allows carriers to offer service in areas
5 that might not be economically feasible to serve absent explicit universal service
6 support.”

7 Unlike Mr. Bluhm, who goes to great lengths in his testimony to portray what he
8 describes as a “messy problem,” I believe the public interest considerations before the
9 Commission are relatively straight-forward: Granting the Petition would make it clear to
10 both customers and regulators that the post-merger Verizon Wireless operations are
11 responsible for meeting the ETC obligations and responsibilities throughout the
12 designated ETC service areas in South Dakota. It is important to note that Mr. Bluhm has
13 not identified any negative impact that would actually be created by granting the Petition.
14 In his testimony, Mr. Bluhm has (sometimes accurately, sometimes inaccurately)
15 identified a number of impacts created by previous FCC decisions related to the operation
16 of the Federal Universal Service Fund, and by merger conditions imposed by the FCC
17 and Department of Justice, but none of these impacts are currently avoidable, and none
18 will be affected in any way by the Commission’s decision in this case.

19 In direct contrast, Mr. Bluhm has set forth a set of recommendations that, if
20 adopted, would have a direct, measurable, and resoundingly negative impact on the
21 State’s economy and on its consumers of telecommunications services. The negative
22 impacts of Mr. Bluhm’s recommendations *are* currently avoidable and would be a direct
23 result of a decision in this case to adopt his recommendations.

1 Q. HAVE YOU IDENTIFIED ANY BROAD AREAS OF DISAGREEMENT WITH MR.
2 BLUHM?

3 A. Yes, there are several.

4 First, I disagree with Mr. Bluhm's attempts to equate the public interest with the
5 interests of individual CETCs. As with any question before the Commission, the most
6 important consideration is how end user customers are likely to be impacted over time;
7 the impact on any given provider of services is not the appropriate question. The federal
8 universal service program is designed to provide benefits to the consumers, and potential
9 consumers, of telecommunications services; particularly those who live, work, or travel
10 in rural or other high-cost areas in which high-quality telecommunications services may
11 not otherwise be available.⁹ While the federal USF mechanisms distribute support
12 through carriers, the intended beneficiaries are the consumers residing and traveling in
13 the designated ETC service areas of those carriers. The apparent objective of Mr.
14 Bluhm's testimony – to find some excuse for denying federal USF support to the post-
15 merger Verizon Wireless operations when providing service in the RCC and WWC
16 designated ETC service areas – is directly at odds with this purpose. Mr. Bluhm suggests
17 that if his recommendations are adopted, there may be a slight increase in the amount of
18 federal USF support to other CETCs, including James Valley Wireless. As I will explain
19 later in my testimony, Mr. Bluhm's conclusion is factually incorrect, but the point here is
20 that when making a public interest determination, the Commission should focus on the
21 total amount of support available to the state that can be used to improve service for

⁹ Through the Lifeline and Linkup offerings, the federal universal service program also provides benefits to end users who would otherwise be unable to afford the telecommunications services that they need.

1 customers, not the amount of support received by James Valley Wireless or any particular
2 ETC.¹⁰

3 Second, I disagree with Mr. Bluhm’s apparent belief that rearguing the merits of
4 prior FCC universal service funding decisions is a productive exercise. Mr. Bluhm and I
5 may agree that a number of these FCC decisions have had an adverse impact on the
6 customers of CETCs, but the fact remains that many of the factors that will impact the
7 amount of federal universal service support available to carriers (and particularly CETCs)
8 in South Dakota are the subject of these prior FCC decisions and are not incremental to
9 any question before the Commission in this case. The FCC’s 2008 decision to place an
10 “interim cap” on the amount of USF support available to CETCs within a given state, the
11 FCC’s decision to make a “phase-down” of support available to Verizon Wireless entities
12 a condition of its approval of the Alltel merger, the FCC’s decision¹¹ to effectively
13 remove any of this “phase-down” support from the “interim cap” mechanism (and instead
14 to direct¹² these funds to a broadband initiative that the FCC intends to implement in the
15 near future), and the FCC’s more recent decision¹³ to reduce the amount of the “interim
16 cap” in a state where a CETC relinquishes its ETC designation or otherwise becomes
17 ineligible to continue receiving federal USF support, all impact the amount of support
18 potentially available to either Verizon Wireless or CETCs operating in South Dakota –
19 but these are all decisions of the FCC that cannot be circumvented or altered by the

¹⁰ Mr. Bluhm’s focus on (what he incorrectly believes will be) a small increase in support to a given carrier, while ignoring a significant decrease in support to another carrier, fails to consider that the net impact of his recommendation is negative – and that as a result, the overall impact on South Dakota customers will be negative.

¹¹ *Order and Notice of Proposed Rulemaking*, FCC 10-155, released September 3, 2010 (“*Corr Wireless Order*”).

¹² The FCC refers to this action as one of “reclaiming” support that would otherwise have been available to CETCs (*Corr Wireless Order*, ¶2).

¹³ *Order*, FCC 10-205, released December 30, 2010 (“*Corr II Order*”).

1 Commission in this proceeding.

2 Third, Mr. Bluhm's analysis is based on an assumption that the existing federal
3 universal service support mechanisms, including the support of wireless CETCs at
4 current levels, will continue past 2012. I do not necessarily share his optimism. The
5 FCC's decisions to cap support to CETCs, to require a phase-down of support to Verizon
6 Wireless entities, and to "reclaim" the phase-down support; the FCC's recent decision in
7 the *Corr II Order* to "reclaim" any support associated with a relinquishing or otherwise
8 ineligible carrier; previous FCC proposals that would have eliminated most support to
9 wireless CETCs; the FCC's historic resistance to address the size of the federal fund
10 through any significant reduction in support to wireline ILECs; and the FCC's current
11 stated preference to fund a broadband initiative all strongly suggest that the existing
12 federal USF mechanisms are highly unlikely to be in operation after 2012.

13

14 Q. WHAT SPECIFIC RECOMMENDATIONS DOES MR. BLUHM PRESENT IN HIS
15 TESTIMONY?

16 A. At pp. 43-44,¹⁴ he provides three recommendations:

17 1) The Commission clarify that:

18

19 a) RCC's authority to be an ETC in the state expired as of the merger closing date,
20 August 6, 2008. Therefore, Cellco was not an ETC on or after August 6, 2008.

21

22 b) WWC's authority to be an ETC in the state expired as of the merger closing date,
23 January 9, 2009. Therefore, Cellco was not an ETC on or after January 9, 2009.

24

25 c) The ETC designation previously held by RCC Minnesota, Inc. and Wireless
26 Alliance, LLC, d/b/a Unicel and the ETC designation previously held by WWC
27 License, LLC, successor to GCC License Corporation is not available for use by
28 Cellco for Verizon legacy customers.

29

¹⁴ Mr. Bluhm lays out slightly different versions of these recommendations at pp. 3-4, and 29-30.

1 d) Because of a), b), and c), South Dakota's CETC funding entitlement should not be
2 reduced due to Cellco's voluntary commitment to reduce its support gradually to
3 zero in 2012, and the FCC's decisions about how Cellco's phased-down funding
4 should be redistributed are, therefore, inapplicable to South Dakota.

5
6 e) Future funding for wireless CETCs could be an important tool in ensuring that
7 competitive ETCs in South Dakota will have sufficient funds to build cell sites in
8 currently unserved rural areas of the state.

9
10 2) The Commission should inform USAC of the above determinations in a letter and
11 require USAC to have Cellco refund past overpayments of CETC support.

12
13 3) If the Commission acts on the merits of an ETC designation for Cellco in this
14 proceeding, it should carefully examine whether Cellco has carried its burden of
15 proof on the questions described above and whether designation of Cellco as an ETC
16 is actually in the State's public interest.

17
18 A. **Mr. Bluhm's Recommendations 1a, 1b, and 1c Are Ill-Conceived and Should**
19 **Not Be Adopted by the Commission**

20 1. **ETC Designations Do Not Simply "Expire," as Mr. Bluhm Claims**

21 Q. WHAT IS THE STATED BASIS FOR MR. BLUHM'S RECOMMENDATIONS 1a
22 AND 1b – THAT THE COMMISSION'S PREVIOUS RCC AND WWC ETC
23 DESIGNATIONS SOMEHOW "EXPIRED" ON THE DATE THAT THE MERGERS
24 WERE COMPLETED?

25 A. Throughout his testimony, Mr. Bluhm is clearly searching for any reason to have the
26 Commission reduce or eliminate any federal USF support being provided to RCC and
27 WWC. But he has not identified any adverse impact on James Valley Wireless, and his
28 recommendations would significantly reduce the total amount of federal USF support
29 available to provide benefits to the citizens of the State. The only identifiable motivation
30 for Mr. Bluhm's and James Valley Wireless' position in this case is an attempt to create
31 an artificial competitive advantage; James Valley Wireless is seeking to eliminate the
32 federal USF support for a competitor while increasing its own level of support. Mr.

1 Bluhm offers no rationale for a conclusion that providing such a competitive advantage to
2 James Valley Wireless, at the cost of millions of dollars in federal USF support that could
3 be used to provide better service to customers in high-cost areas throughout the State,
4 would be in the public interest.

5 When considering the merits of Mr. Bluhm’s testimony on this issue, it is also
6 important to note that ETC designations – whether made by a state regulator or by the
7 FCC – do not “expire.” I have been unable to locate any language in the federal statutes,
8 FCC rules, or FCC orders (or in South Dakota statutes, rules, or orders) that refers to the
9 expiration of an ETC designation. Pursuant to certain conditions, a carrier may
10 voluntarily relinquish its ETC designation pursuant to §214(e)(5) of the Act, 47 CFR
11 § 54.205, and ARSD 20:10:32:48; and in South Dakota, if the Commission determines
12 after notice and hearing that a carrier can no longer satisfy the applicable ETC obligations
13 under 47 CFR § 54.201, the Commission may revoke the carrier’s ETC designation
14 (ARSD 20:10:32:49). But neither RCC nor WWC has voluntarily relinquished its ETC
15 designation,¹⁵ and no facts have been presented that the integrated, post-merger Verizon
16 Wireless operations which continue to serve the designated ETC service areas do not
17 meet the ETC requirements set forth in 47 CFR §54.201. Mr. Bluhm certainly offers no
18 facts or legal justification to support a conclusion that on the day before each merger was
19 completed all ETC obligations were being met, but somehow just one day later important
20 ETC obligations were no longer being met – yet this is what he asking the Commission to
21 conclude. In reality, Verizon Wireless has worked to ensure that all of the ETC
22 obligations continue to be satisfied throughout the designated ETC service areas.

¹⁵ The exception to this observation is the partial relinquishment of WWC’s ETC designation in the area served by Golden West Telecommunications Cooperative, Inc. requested in the Petition and already approved by the Commission.

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2. The FCC’s Merger Orders Do Not Invite Any and All Parties to Seek Remedies from State Regulators in a Proceeding Such As This One

Q. AT PP. 5-6, MR. BLUHM REFERS TO A PARAGRAPH OF THE FCC’S *RCC MERGER ORDER* THAT PERMITS CERTAIN ENTITIES TO SEEK REMEDIES FROM STATE REGULATORS UNDER CERTAIN CIRCUMSTANCES. DO YOU AGREE WITH HIS CONCLUSIONS REGARDING THIS LANGUAGE?

A. No. Specifically, Mr. Bluhm testifies that “the FCC noted that if any failure to comply with ETC requirements or other ‘predicted or unpredicted public interest harms’ should occur, parties could ‘seek remedies from the relevant state commissions or the Commission as appropriate,” and cites to paragraph 125 of the *RCC Merger Order* as the source of this language. A review of the actual order reveals that this is not quite what the FCC actually said.

To the extent James Valley Wireless is relying on the language of this section of the *RCC Merger Order* to provide a basis for Mr. Bluhm’s recommendations in this case, such reliance is misplaced. Contrary to Mr. Bluhm’s assertion, the FCC did not invite parties to insert themselves into the Commission’s review of a subsequent petition to amend an ETC designation, but simply noted that the Joint Petitioners in that proceeding may seek appropriate remedies at the state level should the post-merger Verizon Wireless operations fail to comply with the applicable ETC requirements in place prior to the merger. But no facts have been presented here to suggest that, post merger, Verizon Wireless’ continued compliance with the ETC obligations in South Dakota has been anything but positive. To be clear, Verizon Wireless continues to comply with all ETC

1 requirements throughout the designated ETC service areas, and this Commission can
2 certainly exercise oversight through the annual recertification process.

3 As noted previously, Mr. Bluhm never offers an explanation of how granting the
4 Petition will impact James Valley Wireless' operations, and at no point does Mr. Bluhm
5 claim that granting the Petition will cause harm to James Valley Wireless or cause James
6 Valley Wireless to be unable to meet its obligations as an ETC. Even if Verizon Wireless
7 were seeking "new" ETC designation in the current designated service areas (rather than
8 simply amending and consolidating the existing ETC designations that have been in place
9 for several years), there would be no material impact going forward on James Valley
10 Wireless; James Valley Wireless would continue to receive either the same amount of
11 federal USF support, or nearly the same amount of federal USF support, that it would
12 have otherwise received. In an apparent attempt to justify James Valley Wireless'
13 participation in the Commission's review of the Petition whose grant would have no
14 impact on James Valley Wireless, Mr. Bluhm cites to the language of the FCC's *RCC*
15 *Merger Order*. But the language that he cites does not invite parties to insert themselves
16 into a Commission's review of a petition to amend and consolidate existing ETC
17 designations, but rather simply notes that the Joint Petitioners in that proceeding could
18 seek remedies from the appropriate state commission if, post merger, Verizon Wireless
19 failed to continue satisfying the ETC obligations in place prior to the merger. Again, no
20 facts have been presented that suggest the integrated Verizon Wireless operations have
21 failed to satisfy any applicable ETC obligation in South Dakota.

22

3. As Mr. Bluhm Acknowledges, the FCC Has Made It Clear that ETC Designations and Obligations Survive Mergers

Q. DOES MR. BLUHM ACKNOWLEDGE THAT THE FCC HAS MADE IT CLEAR THAT ETC OBLIGATIONS IN EFFECT PRIOR TO A MERGER REMAIN IN EFFECT AFTER THE MERGER HAS BEEN COMPLETED?

A. Yes. At p. 5, Mr. Bluhm correctly points out that in the *RCC Merger Order*, “the FCC specifically found that after the transaction closed, ETC obligations in effect prior to the proposed transaction would remain in effect.” As a result, it appears that Mr. Bluhm agrees that post merger, the integrated Verizon Wireless operation was required to continue to meet all of the responsibilities of an ETC in the designated ETC service areas.

At p. 8, Mr. Bluhm points out that the *Alltel Merger Order* does not contain the same language, and “did not specifically state that all existing ETC obligations would continue in effect.” Mr. Bluhm attaches great significance to what he refers to as this omission, and subsequently takes Verizon Wireless to task for continuing to meet the responsibilities of an ETC in the RCC and WWC designated ETC service areas.

I disagree with Mr. Bluhm’s attempt to attach significance to the fact that the FCC’s language appears in one merger order but not the other. The FCC’s language in no way suggests that its conclusion would apply only in the case of the Verizon Wireless-RCC merger, but instead appears to be a general conclusion that ETC obligations “remain in effect” after mergers are completed. The fact that the FCC did not repeat this general conclusion in the *Alltel Merger Order* does not support a claim that the ETC obligations in effect prior to that merger did not ‘remain in effect’ after the merger was completed. It is unfortunate that Mr. Bluhm fails to consider the most likely explanation for the difference in language between the two orders, because in this case the most likely

1 explanation is the correct one: In the *RCC Merger Order*, the FCC responded to a request
2 by a set of Joint Petitioners to have merger conditions imposed that would require the
3 post-merger Verizon Wireless operations to continue to meet the existing ETC
4 obligations. The FCC concluded that no explicit merger conditions were necessary,
5 because ETC designations and corresponding obligations survive mergers. In the *Alltel*
6 *Merger Order*, the FCC did not “omit” this language because in that case, there was no
7 corresponding request by any commenting party for similar merger conditions. There
8 was no need for the FCC to restate the obvious: that ETC designations and obligations
9 remain in effect post merger, because no commenter asked for a specific merger
10 condition to that effect.

11 It is also noteworthy that Mr. Bluhm does not attempt to distinguish the RCC and
12 Alltel merger transactions, each of which was structured as a stock purchase that resulted
13 in the merger and integration of existing networks and customer bases with existing
14 Verizon Wireless operations. In the end, the FCC’s language in the *RCC Merger Order*
15 supports a conclusion that ETC designations and corresponding obligations remain in
16 effect after merger transactions are completed. After each of the mergers was completed,
17 Verizon Wireless has worked to ensure that all of the ETC obligations that existed before
18 each merger, throughout all of the ETC designation areas affected by each merger, have
19 continued to be met as the RCC and Alltel operations have been integrated with Verizon
20 Wireless. By doing so, Verizon Wireless has helped to ensure that customers throughout
21 these areas continue to receive the services that they rely upon, and has worked to
22 increase the variety and quality of service offerings as contemplated by the FCC in the
23 *RCC Merger Order* and *Alltel Merger Order*. While Mr. Bluhm would like for the
24 Commission to believe otherwise, Verizon Wireless’ efforts represent the actions of a

1 responsible carrier that has continuously sought to meet all ETC obligations that continue
2 to apply to the post-merger operations in each state.

3 4. Mr. Bluhm Provides No Basis for His Claim that ETC Designations
4 Simply “Expire” After a Merger

5 Q. IN SUPPORT OF RECOMMENDATIONS 1a AND 1b, MR. BLUHM STATES A
6 GENERAL PROPOSITION THAT ETC DESIGNATIONS AUTOMATICALLY
7 “EXPIRE” ON A MERGER CLOSING DATE. IS MR. BLUHM’S TESTIMONY ON
8 THIS ISSUE SUPPORTABLE?

9 A. No. At p. 30, Mr. Bluhm asks that the Commission “declare” that “RCC’s authority to be
10 an ETC in the state of South Dakota expired on the merger closing date, August 6, 2008,”
11 and that “WWC’s authority to be an ETC in the state expired on the merger closing date,
12 January 9, 2009.” While I will leave the legal arguments to the attorneys, Mr. Bluhm’s
13 testimony on this issue just doesn’t make sense for several reasons.

14 First, as noted previously, I have been unable to locate any provision in the
15 federal statutes, FCC rules, or FCC orders (or South Dakota statutes, rules, or orders) that
16 addresses how an ETC designation might “expire.” Such a designation may be
17 relinquished (§ 214(e)(5), ARSD 20:10:32:49, and 47 CFR § 54.205) under certain
18 circumstances, and the Commission, after notice and hearing, could revoke an ETC
19 designation if it finds the carrier would no longer be able to satisfy the requirements set
20 forth in 47 CFR § 54.201 and ARSD 20:10:32:49. But there is no language that
21 addresses other circumstances in which an ETC designation would simply “expire” or
22 otherwise cease to exist, as Mr. Bluhm is asking the Commission to “declare” has
23 happened on the merger closing dates.

1 Second, such a conclusion isn't consistent with the language of the FCC, cited by
2 Mr. Bluhm in his testimony, that "the ETC obligations in effect prior to the proposed
3 transaction will remain in effect upon consummation of the proposed transaction."¹⁶ If
4 ETC designations somehow "expire" on a merger closing date, there would be no
5 apparent way for ETC designations and corresponding obligations to remain in effect
6 post merger.

7 Third, Mr. Bluhm's testimony is internally inconsistent and contradictory on this
8 point. At p. 6 of his testimony, he explains that "WWC or its predecessors¹⁷ were
9 designated as an ETC by virtue of a series of designation orders," that "in 2005, WWC
10 was acquired by Alltel Corporation," and "in 2007, Alltel was acquired by Atlantis
11 Holdings, LLC." Yet, inexplicably, Mr. Bluhm offers no explanation of why his theory
12 that ETC designations automatically "expire" on a merger closing date did not apply to
13 any of these previous mergers, and why WWC did not "cease to be" an ETC in 2005
14 when acquired by Alltel. While it undermines the point he is reaching for, Mr. Bluhm
15 actually uses the phrase "WWC's authority to be an ETC" in a way that makes sense: he
16 is describing an entity that, even after two mergers have taken place, continues to be
17 designated as an ETC and must continue to satisfy the obligations of an ETC. The
18 authority (and corresponding obligations) to operate as an ETC did not "expire" when
19 WWC was acquired by Alltel. Likewise, the authority (and corresponding obligations) to
20 operate as an ETC did not "expire" at the time of the Verizon Wireless merger, and the
21 integrated Verizon Wireless operations have continued to satisfy all ETC obligations

¹⁶ *RCC Merger Order*, ¶ 125.

¹⁷ The initial ETC designations were based on applications by WWC License, LLC's predecessor, GCC License Corporation.

1 since the merger, just as post-merger Alltel/WWC operations continued to satisfy all ETC
2 obligations after WWC was acquired by Alltel.

3

4 Q. IS THERE REASON TO BE CONCERNED WITH MR. BLUHM'S
5 RECOMMENDATION THAT THE COMMISSION DECLARE THAT RCC'S AND
6 WWC'S ETC DESIGNATIONS "EXPIRED" UPON THE CLOSING OF THE
7 MERGER TRANSACTIONS?

8 A. Yes. At this point, it is at best unclear how the FCC would apply its conclusions in the
9 recent *Corr II Order* to a situation in which a state commission tried to terminate an ETC
10 designation retroactively to a date prior to the effective date of the *Corr II Order*. The
11 FCC included broad language in that order, concluding that a "state's interim cap amount
12 will be adjusted if the competitive ETC is no longer eligible to receive universal service
13 support for whatever reason, whether it is a voluntary relinquishment, or state or
14 Commission action to revoke or rescind ETC status."¹⁸ This language appears to address
15 situations in which a state regulator attempted to revoke an ETC designation or to
16 decertify the ETC, rather than allowing the ETC to relinquish its designation, in an
17 attempt to prevent the state's "interim cap" from being reduced. Given this language, it
18 is reasonable to conclude that the FCC could view a state regulator's decision to backdate
19 an ETC revocation or decertification (an action that Mr. Bluhm is suggesting that this
20 Commission undertake) as an attempt to circumvent the impact of the *Corr II Order*.

21

¹⁸ *Corr II Order*, ¶5, footnote 10.

1 Q. DOES MR. BLUHM’S RECOMMENDATION MAKE SENSE GIVEN THE FACT
2 THAT WWC WAS MANAGED BY A MANAGEMENT TRUSTEE UNTIL JUNE 22,
3 2010?

4 A. No. As Ms. Stevens discusses in her Rebuttal Testimony, from the closing of the Alltel-
5 Verizon Wireless transaction in January 2009 until June 22, 2010, the WWC operations
6 in South Dakota were under the control of a separate management trustee but in all other
7 respects operated business as usual. It just doesn’t make any sense to suggest that
8 WWC’s ETC designation somehow “expired” in January 2009.

9

10 5. In its Pro Forma Order, the FCC Has Granted in Other States the Relief
11 Requested in the Petition

12 Q. IN YOUR DIRECT TESTIMONY, YOU EXPLAINED THAT THE FCC HAS
13 ALREADY GRANTED VERIZON WIRELESS’ REQUEST FOR AMENDMENTS TO
14 RCC AND ALLTEL ETC DESIGNATIONS IN ORDER TO REFLECT VERIZON
15 WIRELESS AS THE “DESIGNATED ENTITY” RESPONSIBLE FOR MEETING ETC
16 OBLIGATIONS POST MERGER. DOES MR. BLUHM ADDRESS THIS ORDER IN
17 HIS TESTIMONY?

18 A. Yes. At pp. 32-34, Mr. Bluhm acknowledges that the FCC has issued such an order, but
19 fails in his attempts to distinguish the FCC’s *Pro Forma Order*¹⁹ from this case.

20 Specifically, the FCC granted the requested amendments (and in Alabama and
21 Virginia, the requested consolidation) so that the pre-merger RCC, Alltel, and Virginia
22 cellular ETC designation orders would reflect Verizon Wireless as the designated ETC.
23 The request set forth in the Petition before this Commission seeks to accomplish the same

¹⁹ *Order*, DA 10-992, released May 28, 2010, ¶¶2-3 (“*Pro Forma Order*”).

1 result: to have Verizon Wireless reflected as the ETC serving throughout the consolidated
2 RCC and WWC designated area in South Dakota.

3 Mr. Bluhm tries to distinguish the FCC *Pro Forma Order* from this case by
4 identifying four factors that he believes are important. First, he notes that the FCC's
5 authority to reach a decision regarding ETC designations in Alabama, North Carolina,
6 and Virginia was derived from section 214(e)(6) of the Act (which applies to states in
7 which a state regulator has concluded that it does not have the authority to reach such a
8 decision regarding competitive carriers), while this Commission's authority to act on the
9 current Petition derives from section 214(e)(2). This appears to be a distinction without a
10 difference. While the authority of the FCC and state regulators is derived from different
11 subsections of section 214(e), the substantive question of whether ETC designations
12 should be amended in order to clearly reflect the service provider with ETC obligations is
13 exactly the same. Other than noting that the sections are numbered differently, Mr.
14 Bluhm makes no attempt to provide any substantive distinction between 214(e)(2) and
15 214(e)(6).

16 Second, Mr. Bluhm argues that the FCC *Pro Forma Order* is not relevant because
17 it addressed areas in which network assets were not required to be divested, while
18 Verizon Wireless was required to divest certain network assets in the former Alltel ETC
19 designation area. Mr. Bluhm is factually incorrect: divestiture was ordered in each of the
20 three states addressed in the FCC *Pro Forma Order*, and the order concludes that the
21 ETC designations would be amended and consolidated to reflect post-merger Verizon
22 Wireless operations as serving the "same" designated service areas. The FCC did not
23 carve out the divested areas when addressing the designated ETC areas. The FCC also
24 specifically addressed the divested areas by confirming that its order did not affect the

1 status quo in which the management trustee would continue to operate the Alltel assets to
2 be divested and would continue to receive federal USF support until divestiture.

3 I also disagree with Mr. Bluhm's interpretation of the FCC *Pro Forma Order*.
4 The order does not state that the amendments should be made because Verizon Wireless
5 would be using the same network facilities as RCC, Alltel, or Virginia Cellular pre-
6 merger, but rather because Verizon Wireless continued "to serve the same service areas
7 that the Commission previously considered in its analysis." Here, Verizon Wireless
8 continues to serve the same ETC service areas previously considered by this Commission
9 when making the RCC and WWC ETC designations. The fact that, because of merger
10 conditions imposed by the FCC and Department of Justice, the integrated Verizon
11 Wireless operations will continue to serve a portion of the consolidated RCC/WWC
12 designated service area using different network facilities has no impact.

13 Third, Mr. Bluhm argues that the Petition should be rejected by this Commission
14 because it was filed after its similar petition at the FCC. In spite of Mr. Bluhm's claims
15 to the contrary, the timing of the filing does not change the substance of the request, the
16 nature or scope of the ETC obligations, or this Commission's ability to continue
17 monitoring ongoing compliance with the ETC-related obligations being met by the
18 integrated, post-merger Verizon Wireless operations.

19 Fourth, Mr. Bluhm suggests that this Commission should reach a different
20 conclusion than the FCC, because "the FCC and this Commission have different
21 interests." As I understand his testimony, Mr. Bluhm goes on to suggest that the FCC
22 reached its decision, at least in part, because of a desire to reduce the level of federal USF
23 support available to wireless CETCs. While I generally agree with Mr. Bluhm that the
24 FCC has sought to reduce the level of federal USF support being provided to wireless

1 ETCs, I strenuously disagree with any conclusion by Mr. Bluhm that either the Petition in
2 this case or Verizon Wireless' similar petition to the FCC can have any impact
3 whatsoever on the level of federal USF support received by CETCs. Mr. Bluhm refers
4 specifically (p. 34) to the FCC-imposed merger condition that support to the Verizon
5 Wireless entities would be phased down over time, but that decision was made by the
6 FCC at the time that it approved the merger in 2008 and is not addressed in any way in
7 the FCC *Pro Forma Order*. The merits of Verizon Wireless' request to "amend and
8 consolidate" ETC designations is independent of any conditions imposed on the mergers,
9 and this proceeding does not represent an opportunity to remove any merger conditions
10 or to eliminate any impact that they may have on federal USF support in South Dakota.

11 At p. 34, Mr. Bluhm concludes that "South Dakota's interests are less complex"
12 than those of the FCC, and that the State "benefits to the extent that South Dakota
13 wireless carriers can receive and do use federal support to expand wireless signal
14 coverage in rural areas and to provide services such as Lifeline that are not generally
15 available except from ETCs." There is no real dispute that the State benefits when
16 wireless CETCs are able to receive federal USF support and use that support to invest in
17 and operate network facilities in high-cost areas. The fundamental problem with Mr.
18 Bluhm's testimony is his assumption that the request made in the Petition has the ability
19 to impact the amount of federal USF support available to wireless CETCs in South
20 Dakota. Mr. Bluhm seeks to expand this proceeding into a referendum on the merits of
21 the conditions placed on the mergers by the FCC and Department of Justice, and on the
22 merits of the FCC's decisions regarding the distribution of USF support to CETCs.
23 While I may agree with him regarding the merit (or lack of merit) of some of these prior
24 decisions, this proceeding simply does not represent an opportunity to change those prior

1 decisions, nor does it provide an opportunity to somehow eliminate any potential impacts
2 of those prior decisions. Those prior decisions have been issued by decision-makers
3 outside of the State, and for good or ill represent the reality and ground rules that now
4 apply. The task going forward is to determine how to maximize the benefits to the
5 people within the State who live, work, and travel in high-cost areas. Granting the
6 Petition is fully consistent with this objective, and will make it clear to consumers that,
7 post merger, Verizon Wireless bears the responsibility to satisfy all ETC obligations in
8 the RCC/WWC designated ETC service area.

9 Mr. Bluhm's recommendations likewise cannot eliminate or circumvent prior
10 decisions of the FCC. However, his recommendations could, if adopted, result in
11 significant reductions in the total amount of federal USF support available to CETCs and
12 would reduce the total ability of wireless CETCs in the State to "use federal support to
13 expand wireless signal coverage in rural areas and to provide services such as Lifeline
14 that are not generally available except from ETCs."²⁰

15 6. Mr. Bluhm's Claims of "Risks" to Universal Service are Both
16 Unsupported and Unrelated to the Petition in this Proceeding

17 Q. AT PP. 15-19 OF HIS TESTIMONY, MR. BLUHM DESCRIBES A NUMBER OF
18 WHAT HE REFERS TO AS "RISKS TO UNIVERSAL SERVICE" ASSOCIATED
19 WITH THE VERIZON WIRELESS-RCC AND VERIZON WIRELESS-ALLTEL
20 MERGERS. DO YOU UNDERSTAND HIS TESTIMONY ON THIS ISSUE?

21 A. No. It is unclear exactly what Mr. Bluhm seeks to achieve in this section of his
22 testimony. Some of the impacts that he describes have actually taken place, others have

²⁰ As I explain in more detail later in my testimony, although he fails to do so the impact of Mr. Bluhm's recommendations can be quantified. Over the 2008 – 2012 time period, adopting Mr. Bluhm's recommendations would reduce the total amount of federal USF available to CETCs in South Dakota by over \$72 million.

1 not, but none of the impacts (or the decisions that caused the impacts) are at issue in this
2 proceeding. Mr. Bluhm appears to be engaging in a thought exercise in order to answer
3 the question “What if this Commission had been able to eliminate merger restrictions or
4 change the FCC’s decisions regarding the distribution of federal USF support to
5 CETCs?” but offers no explanation of how this could have happened in 2008 (and
6 certainly offers no explanation of how it could happen now). Mr. Bluhm goes on to
7 suggest (p. 29) that his perceived problems have somehow been caused by the timing of
8 the filing of the Petition in this proceeding, but offers no explanation of how an earlier
9 filing would have changed the prior FCC decisions or the ability of this Commission to
10 alter the impact of those decisions. Ultimately, this section of Mr. Bluhm’s testimony
11 fails to provide a roadmap for avoiding any of the “risks” and impacts that he claims have
12 occurred as a result of the FCC decisions.

13 Mr. Bluhm lays out several categories of what he describes as “issues that would
14 understandably have been of interest to the Public Utilities Commission of South Dakota
15 at the time of the mergers,” though he fails to explain what the Commission could have
16 done at the time of the mergers to eliminate these alleged impacts. His first and second
17 categories consist of things that could potentially have been a problem post-merger, but it
18 turns out weren’t a problem after all. He describes the potential for problems with
19 “operational changes” (p. 15, 17) and possible issues with “new ownership” (p. 16, 18)
20 but identifies no actual problems that occurred in either of these areas. It is my
21 understanding that, in reality, the post-merger operational and ownership transition
22 process proceeded fairly smoothly, and customers were able to realize the benefits of the
23 merger as the integration of the companies took place.

1 Mr. Bluhm’s third category of impacts (p. 16, 18) relates to the consequences of
2 the FCC’s decision to cap the amount of federal USF support available to CETCs. While
3 the FCC’s decision to cap support has impacted the total amount of federal USF support
4 available to CETCs within the state, there is no decision that this Commission could have
5 reached at the time of the mergers that would have resulted in an increase in the total
6 amount of federal USF support to CETCs. In contrast, if the Commission were to adopt
7 Mr. Bluhm’s recommendations (either now or if it had done so at some point in the past),
8 the total amount of federal USF support received by CETCs in South Dakota would be
9 reduced by millions of dollars.

10 Mr. Bluhm’s fourth category of impacts (pp. 18-19) relates to the consequences of
11 the “merger conditions imposed by the FCC and DOJ,” including the requirement that
12 support to Verizon Wireless be phased down over time and that certain network assets be
13 divested. As is the case with the FCC’s USF decisions, there is no decision that the
14 Commission could have reached at the time of the mergers that would have resulted in an
15 increase in the total amount of federal USF support to the state. And as was the case with
16 his third category of impacts, if the Commission were to adopt Mr. Bluhm’s
17 recommendations (either now or if it had done so at some point in the past), the total
18 amount of federal USF support received by CETCs in the State would be reduced by
19 millions of dollars.

20 In the end, this section of Mr. Bluhm’s testimony provides no useful information.
21 There is no dispute that decisions by the FCC regarding the administration of the federal
22 universal service fund have impacted the amount of federal USF support available to
23 South Dakota CETCs. After expressing his frustration regarding these issues, Mr. Bluhm
24 comes to the conclusion that the fault somehow lies with Verizon Wireless, because it

1 should have filed its Petition at some (unspecified) earlier date. But he can describe no
2 scenario in which the total amount of federal USF available to South Dakota would have
3 been any higher than it actually was, or any action that could be taken by this
4 Commission that would have increased that level of support. The inability to change the
5 outcome of these FCC decisions (and Department of Justice decisions) is independent of
6 the timing of the Petition; there is no earlier filing date that would have changed the
7 impact of these decisions.

8 7. Mr. Bluhm's Recommendations Are Based on His Failure to Understand
9 that Carriers, Rather Than Networks, Are Designated as ETCs

10 Q. WHAT IS THE STATED BASIS FOR MR. BLUHM'S RECOMMENDATION 1c,
11 THAT THE RCC AND ALLTEL ETC DESIGNATIONS ARE NOT "AVAILABLE
12 FOR USE" BY VERIZON WIRELESS OR TO SERVE WHAT HE REFERS TO A
13 VERIZON WIRELESS "LEGACY CUSTOMERS"?

14 A. Mr. Bluhm's recommendation 1c appears to be based on his understanding – and
15 ultimately his misunderstanding – of how ETC designations are made, the network
16 facilities that an ETC uses to satisfy its ETC obligations, and the way in which an ETC
17 should report its customer counts to USAC.

18 Mr. Bluhm's first area of confusion relates to the network facilities used to meet
19 ETC obligations. As an initial matter, it is important to note that at no point in his
20 testimony does Mr. Bluhm offer any evidence that the integrated Verizon Wireless
21 facilities are in any way incapable of providing the supported service functions, that that
22 these facilities cannot be used to provide high-quality services, or that federal USF
23 support has not been properly invested in facilities that provide benefits to South Dakota
24 consumers in rural and high-cost areas.

1 Instead, Mr. Bluhm appears to be making a claim that specific network facilities
2 must be designated as an ETC. At pp. 8 and 16, he argues that Verizon Wireless has
3 acted improperly, “as if the Verizon Wireless legacy network had received an ETC
4 designation.” He refers to the network facilities used to provide the supported services
5 in South Dakota as “legacy” Verizon Wireless facilities, and argues that RCC and WWC
6 has (apparently improperly, at least in Mr. Bluhm’s view) sought federal support to serve
7 customers in these areas, even though the “legacy network” has never “received an
8 ETC” designation.

9 Mr. Bluhm’s testimony betrays a fundamental misunderstanding of how ETC
10 designations are made. Network facilities are not designated as ETCs, and a given
11 collection of network facilities cannot “receive an ETC designation.” As Mr. Bluhm
12 correctly notes at p. 9, it is a carrier, not a network, that is designated as an ETC, and
13 once designated a carrier must meet its ETC obligations in the designated ETC service
14 area. An ETC may satisfy these obligations using its own facilities or a combination of
15 its own facilities and those of another carrier. And in the case of affiliated entities, the
16 FCC recently reiterated that an ETC’s facilities include the facilities of its affiliated
17 operating entities.²¹

18 When evaluating the operation of an ETC, the proper focus is on customers and
19 on a determination of whether all reasonable requests for service have been met, whether
20 the supported service functions have been provided, and ultimately whether quality
21 services have been provided within the designated ETC service area, including in rural,
22 high-cost, and previously unserved areas. Mr. Bluhm ignores these considerations
23 entirely, and instead seeks to have the Commission focus exclusively on whether the

²¹ *Order*, DA 10-2433, released December 29, 2010 (“*Virgin Mobile Order*”).

1 supported services are being provided using “legacy” WWC facilities, “legacy” RCC
2 facilities, “legacy” Verizon Wireless facilities, or an integrated network consisting of
3 some combination of the above – even though each of these options is permissible and
4 appropriate. In the end, Mr. Bluhm cannot (and does not) claim that customers who live,
5 work, and travel in the RCC/WWC designated ETC service area since the mergers have
6 not received quality service that meets all of the ETC requirements.

7 As Mr. Bluhm points out (p. 36), RCC and WWC have sought to receive federal
8 USF support for serving customers within these designated service areas, regardless of
9 the history of the network facilities used to provide that service. He argues that these
10 actions are somehow inappropriate, because – at least in his view – an ETC must provide
11 service using a network that “has received an ETC designation.” Mr. Bluhm offers no
12 foundation for his novel theory, and provides no reference to any state or FCC order in
13 which a network, rather than a carrier, has “received an ETC designation.”

14
15 Q. MR. BLUHM ALSO TAKES ISSUE WITH THE FACT THAT THE ETC
16 OBLIGATIONS CONTINUE TO BE MET IN THE WWC DESIGNATED ETC
17 SERVICE AREA, EVEN THOUGH VERIZON WIRELESS WAS REQUIRED TO
18 DIVEST WWC NETWORK FACILITIES IN THAT AREA. DO YOU AGREE WITH
19 HIS TESTIMONY ON THIS ISSUE?

20 A. No. Mr. Bluhm is correct that as a condition of its merger with Alltel, Verizon Wireless
21 was required to divest certain assets in a number of geographic areas, including WWC
22 assets in South Dakota. But I fundamentally disagree with Mr. Bluhm’s conclusion that
23 this divestiture requirement somehow prevents the post-merger Verizon Wireless
24 operations from satisfying the ETC obligations in the WWC designated ETC service

1 area.

2 Mr. Bluhm argues (p. 9) that “the former WWC network, which was constructed
3 in part with federal high-cost support, is now owned and operated by AT&T, which is not
4 currently an ETC in South Dakota.” Mr. Bluhm is correct that the network facilities in
5 South Dakota that were a part of the WWC network are now owned (and presumably
6 operated) by AT&T. What he fails to address in his testimony is if (and if so, how) this
7 sale of assets has impacted WWC’s ETC designation or the continued satisfaction of all
8 ETC requirements and obligations in the WWC designated service area. The point that
9 seems to have escaped Mr. Bluhm’s attention is that the post-merger Verizon Wireless
10 operations continue to provide the supported services without the use of these former
11 WWC facilities. Based on my reading of his testimony, Mr. Bluhm has not claimed that
12 the post-merger operations fail to provide quality services throughout the WWC
13 designated service area (he certainly offers no facts to support such a claim in his
14 testimony), but rather that somehow the “wrong” network is being used to provide these
15 services. This is nonsensical; I am not aware of any statute or rule that requires an ETC
16 to use any given network facility when providing service in a designated service area; the
17 rules simply require that the ETC offer the supported services and meet reasonable
18 requests for service. And as the FCC has recently confirmed in the *Virgin Mobile Order*,
19 an ETC may rely on the facilities operated in concert with its affiliated entities to provide
20 the supported services.

21 It is also important to keep in mind that the divested WWC assets have remained
22 in South Dakota and remain available to provide service to customers in rural and high-
23 cost areas. As a result, consumers in the State did not somehow “lose” these assets as a
24 result of the mandatory divestiture. What has been gained is the additional commitment

1 by the post-merger Verizon Wireless operations to continue to invest in network facilities
2 and to provide the supported services within the WWC designated ETC service area.

3 At p. 32, Mr. Bluhm goes on to characterize the continued satisfaction of these
4 ETC obligations, even after completion of the merger requirement to divest certain
5 network assets, as “alarming,” “unauthorized,” and “improper.” A review of his
6 testimony, however, reveals that his claims arise from the same fundamental
7 misunderstanding noted above; namely that it is a network, rather than a carrier, that is
8 designated as an ETC. Specifically, he finds WWC’s actions “improper” because “the
9 Company has continued to collect high-cost support after selling the entire underlying
10 network on which ETC designation had originally been granted.” Such a statement just
11 doesn’t make any sense; to the extent WWC has collected any high-cost support (and my
12 understanding is that USAC only began to distribute federal USF support to WWC under
13 its new study area code in January 2011), it has done so by reporting the number of
14 customers that it is serving in the designated service area as a result of the merger and
15 integration of WWC and Verizon Wireless operations across the country. Mr. Bluhm is
16 incorrect that Verizon Wireless was required to divest all WWC network assets (what he
17 calls “the entire underlying network”), but it is true that Verizon Wireless was required as
18 a merger condition to divest network assets and customers in South Dakota. And a
19 reference to “the underlying network on which ETC designation has originally been
20 granted” has no meaning: the original grant of WWC’s ETC designation (and all
21 subsequent decisions of this Commission to expand that ETC designation area) was to a
22 carrier, not to a network. In reality, it is likely that many of the divested assets were not
23 in place when the ETC designations were made, but instead represent assets that were
24 added over time (at least in part through the investment of federal USF support) – so they

1 cannot represent a “network on which ETC designation has originally been granted.”

2 Pursuant to Mr. Bluhm’s theory, any time new network investments are made, the
3 resulting changed network would need to be designated anew as an ETC. This does not
4 happen, of course, because networks are not designated as ETCs – carriers are.

5
6 Q. AT PP. 9 AND 17, MR. BLUHM CLAIMS THAT VERIZON WIRELESS HAS
7 REPORTED THE INTEGRATION OF THE “LEGACY” WWC NETWORK AND
8 THE “LEGACY” VERIZON WIRELESS NETWORK. IS HE RIGHT?

9 A. No. At p. 9, Mr. Bluhm asserts that Verizon Wireless “stated in its Petition in this docket
10 that the Alltel (WWC) and Celco networks are fully integrated,” and cites to p. 3 of the
11 Petition as the source of this conclusion. But a review of the Petition reveals no such
12 statement; in reality, the Petition states (correctly) at pp. 2-3 that “as a result of the
13 transactions, the WWC, RCC, and Verizon Wireless networks, business operations, and
14 subscriber bases have been fully integrated *as contemplated and approved by the FCC.*”
15 In the *RCC Merger Order* and *Alltel Merger Order*, the FCC sets forth a number of
16 expectations and limitations associated with its approval. The Verizon Wireless
17 integration efforts have been consistent with both the expectations and limitations set
18 forth in those orders. As this Commission is aware, in the *Alltel Merger Order* the FCC’s
19 limitations included requirements to divest some subscribers and network assets in
20 certain geographic areas, including South Dakota. For this reason, Verizon Wireless was
21 unable to integrate the former WWC network assets located in South Dakota. Verizon
22 Wireless has, however, been able to integrate WWC business operations with Verizon
23 Wireless operations, as expected by the FCC and as described in the language of the
24 Petition. These integration efforts have been national in scope.

1 Still seeking to create an issue where none actually exists, Mr. Bluhm states (p.
2 17) that as he understands my Direct Testimony, Verizon Wireless “planned to ‘fully
3 integrate’ the Alltel network with its existing Verizon Wireless network.” Even a cursory
4 reading of my direct testimony reveals just the opposite: when describing the
5 expectations of the FCC that “Verizon Wireless would ‘expeditiously integrate’ the
6 networks and business operations of the merged companies,” I explicitly note that “At
7 ¶159 the *Alltel Merger Order*, the FCC conditioned its approval of the merger on the
8 divestiture of Alltel network and operational assets in a number of geographic markets,
9 including the area in South Dakota previously served by Alltel. While Verizon Wireless
10 continues to have the duty to serve this area as an ETC, it must do so using network and
11 operational assets other than those previously used by Alltel to serve the area.”

12 My testimony goes on to explain that the satisfaction of the ETC requirements has
13 *not* relied on network integration, but has instead proceeded in the entire area where this
14 Commission designated WWC and RCC, including those areas in which a merger
15 condition required the divestiture of network assets: “Verizon Wireless’ performance of
16 its responsibilities as an ETC throughout the designated ETC service area – and the
17 ability of the people who live in these areas to continue benefiting from Verizon
18 Wireless’ operation as an ETC – is not limited by what network facilities are used to
19 serve the customer, what carrier originally constructed the facilities, or whether the
20 facilities were originally constructed (in whole or in part) using universal service support
21 funds. All Verizon Wireless subscribers now receive a seamless service throughout the
22 designated ETC service area.”

23 Given this language (and other language that explicitly limits certain network and
24 subscriber integration to areas served by RCC prior to the mergers), it is difficult to

1 understand how Mr. Bluhm could reach an “understanding,” based on the language of my
2 Direct Testimony, that Verizon Wireless “planned to ‘fully integrate’ the Alltel network
3 with its existing Verizon Wireless network.” In reality, my Direct Testimony, like the
4 Petition, accurately describes Verizon Wireless’ efforts to “integrate networks, business
5 operations, and subscriber bases” has been done in a way that is fully consistent with the
6 efforts “*contemplated and approved by the FCC*” in the *RCC Merger Order* and *Alltel*
7 *Merger Order*.

8
9 8. Mr. Bluhm’s Claims Regarding the Reporting of Customer Counts are
10 Both Factually and Conceptually Incorrect

11 Q. YOU STATED THAT A PART OF THE BASIS FOR MR. BLUHM’S
12 RECOMMENDATION 1c IS HIS DISAGREEMENT WITH THE WAY IN WHICH
13 RCC AND WWC REPORTED CUSTOMER COUNTS TO USAC. WHAT IS YOUR
14 UNDERSTANDING OF HIS TESTIMONY?

15 A. Throughout his testimony, Mr. Bluhm takes issue with RCC’s and WWC’s reporting of
16 customer counts to USAC. As Ms. Stevens explains in her Rebuttal Testimony, several
17 of Mr. Bluhm’s claims regarding how RCC and WWC have made these filings over time
18 are factually incorrect. In addition to these factual errors, many of Mr. Bluhm’s claims
19 are based on fundamental conceptual errors on his part. I will address these conceptual
20 errors below.

21
22 Q. MR. BLUHM TAKES ISSUE WITH RCC’S AND WWC’S REPORTING OF
23 CUSTOMER COUNTS TO USAC BASED ON THE TOTAL NUMBER OF
24 CUSTOMERS SERVED IN THE DESIGNATED ETC SERVICE AREAS. DO YOU

1 AGREE WITH HIS TESTIMONY ON THIS ISSUE?

2 A. No. It appears that Mr. Bluhm is again confusing the designation of a carrier as an ETC
3 with the designation of specific network facilities, based on the flawed premise that
4 networks are somehow designated as ETCs. For example, at pp. 20-21 he suggests that
5 RCC and WWC have improperly reported customers who are “legacy” customers or
6 “lines that were a part of the Verizon Wireless legacy network.” His continued focus on
7 how service was provided in the designated ETC service areas, and particularly on what
8 network facilities were used pre- and post-merger, is off-target. What is important is that
9 RCC and WWC filed accurate customer counts within the areas now served collectively
10 by the integrated Verizon Wireless operations in South Dakota. As long as the ETC
11 obligations continue to be satisfied (*i.e.*, to meet all reasonable requests for service, to
12 provide (at a minimum) the supported service functions, and to provide quality service),
13 it simply doesn’t matter whether network facilities deployed by RCC, WWC, or other
14 Verizon Wireless affiliated entities prior to the merger (or a combination of these
15 network facilities, or a combination of these integrated network facilities and those of
16 another carrier), are used to satisfy these obligations. What is important is that – *from the*
17 *point of view of the customers in the designated areas* – all ETC obligations are being
18 met.²²

19 At p. 23, Mr. Bluhm makes a similar claim regarding the areas in which Verizon
20 Wireless was required, as a condition of the merger, to divest certain network facilities
21 that were owned pre-merger by WWC, and claims that “Verizon Wireless” has been
22 “receiving support on former [*i.e.*, divested] WWC/Alltel lines.” As Ms. Stevens

²² As noted previously in my testimony, it is my understanding that the Commission has concluded that WWC should not receive USF support in 2011 until this Petition has been granted.

1 explains in her Rebuttal Testimony, he is simply wrong about this; WWC has not
2 reported any of the divested customers to USAC, and notified USAC that no support
3 should be distributed to the former WWC study area codes (399001 and 399002).
4 Conceptually, Mr. Bluhm is again wrong for the same reason: Verizon Wireless, like
5 James Valley Wireless and all other wireless CETCs, does not report “lines” that are
6 specific to any given set of network facilities, but instead reports the number of
7 customers that it served within the designated ETC service area. WWC’s “line count”
8 filings are appropriate because they accurately reflect the number of customers served
9 within its designated ETC service area. Mr. Bluhm has offered no evidence that WWC is
10 not meeting its ETC obligations with respect to each and every customer that it has
11 reported to USAC.

12

13 Q. HOW HAVE RCC AND WWC REPORTED CUSTOMER COUNTS TO USAC?

14 A. In her Rebuttal Testimony, Ms. Stevens provides the details regarding which customers
15 have been reported in each geographic area over time.

16 As I explained in my Direct Testimony, the customer reporting process appears to
17 be fully consistent with the language of 47 CFR §§54.307 and 54.802, which tie the
18 support available to a CETC with the total number of customer “lines”²³ served in a
19 designated ETC service area. It is also my understanding that RCC’s and WWC’s
20 reporting process is consistent with directions provided by FCC Staff, and has been
21 documented in letters to USAC. Most importantly, RCC’s and WWC’s method of

²³ As noted previously, the use of the term “line” is a misnomer when applied to a wireless carrier, because there is no dedicated transmission facility to a customer’s location (as there would be for a wireline carrier). Instead, wireless CETCs report to USAC the number of customer handsets served.

1 reporting is fully consistent with the manner in which the post-merger Verizon Wireless
2 operations in South Dakota have operated since the completion of the merger transactions
3 and subsequent integration. Verizon Wireless has worked to make the benefits of its
4 integrated operations available to all customers within the designated service areas, and
5 has not excluded any group of customers from its obligations and the corresponding
6 benefits. As a result, there is a proper matching between customers served by the
7 integrated operations and the customers reported to USAC.

8
9 Q. AT P. 26, MR. BLUHM ARGUES THAT VERIZON WIRELESS SHOULD NOT
10 HAVE RELIED ON THE DIRECTIONS PROVIDED BY FCC STAFF WHEN
11 REPORTING CUSTOMER COUNTS TO USAC. WHAT IS HIS BASIS FOR THIS
12 STATEMENT?

13 A. In support of his argument that Verizon Wireless “should not have relied” on the advice
14 of FCC Staff, Mr. Bluhm cites to an FCC order that he believes supports a proposition
15 that “when FCC staff advice is contrary to the Commission’s rules, the Commission may
16 still enforce its rules, despite any reliance by the public.” But the question of whether an
17 FCC rule trumps FCC Staff advice is not an issue here: Mr. Bluhm has not identified any
18 FCC rule (or rule of this Commission) that he believes RCC or WWC to have violated
19 when reporting customer counts to USAC. In this case the language of §§54.307 and
20 54.802, and the advice of FCC Staff, appear to be consistent.

21
22 B. **Mr. Bluhm’s Claims Regarding the Impact of the Required “Phase-Down” of**
23 **Federal USF Support to Verizon Wireless Entities Are Incorrect**

24 Q. WHAT IS THE STATED BASIS FOR MR. BLUHM’S RECOMMENDATION 1d,

1 THAT THE AMOUNT OF CAPPED SUPPORT AVAILABLE TO CETCS IN SOUTH
2 DAKOTA SHOULD NOT BE AFFECTED BY THE MERGER REQUIREMENT
3 THAT VERIZON WIRELESS BE SUBJECT TO A “PHASE-DOWN” OF FEDERAL
4 USF SUPPORT?

5 A. His testimony is not completely clear on this point, but it appears that Mr. Bluhm
6 believes that if (1) RCC’s authority to be an ETC in the state “expired” as of the merger
7 closing date (August 6, 2008), and (2) WWC’s authority to be an ETC in the state expired
8 as of the merger closing date (January 9, 2009), that somehow the total amount of federal
9 USF available to CETCs in South Dakota would have been higher than it actually was
10 during the time since the mergers, and that it would be higher in the future.
11 Unfortunately, Mr. Bluhm provides no quantification of this claim, and provides no
12 calculations to show how it could have occurred.

13 It appears that Mr. Bluhm’s theory is based in part on the fact that, in the *Alltel*
14 *Merger Order*, the FCC imposed as a condition of the merger a requirement that support
15 received by Verizon Wireless entities be phased down by 20% per year, and that this
16 “phase-down” amount would be removed from the state cap on federal USF support
17 available to CETCs. He refers (pp. 13-14) to this merger condition as having been
18 “voluntary” on Verizon Wireless’ part. While technically true, acceptance of this
19 condition was “voluntary” in the same sense that the acceptance of other merger
20 conditions was “voluntary”: Verizon Wireless could agree to the condition or face having
21 the FCC decide to withhold its approval of the merger. He returns to this issue at p. 42,
22 and argues that it is not in the public interest for the Commission to designate as an ETC
23 a company that was willing to forego federal USF support, and that the Commission
24 should instead direct support to those carriers who are more “committed” to serving rural

1 areas.²⁴ Setting aside the fact that the Petition at issue in this proceeding does not seek a
2 “new” ETC designation (but instead seeks to amend and consolidate existing
3 designations previously granted for the same geographic areas), Verizon Wireless’ level
4 of “commitment” to continue serving the designated areas is well established. Since the
5 mergers, the integrated operations have continued to meet all ETC obligations throughout
6 the designated ETC service areas. Mr. Bluhm has presented no evidence that other
7 CETCs in the state are more “committed” to their responsibilities or somehow more
8 deserving of federal USF support.

9 More importantly, the math just doesn’t support Mr. Bluhm’s assertions. The
10 FCC’s decision to limit the amount of total support available to CETCs within a given
11 state effectively capped support (for all elements except IAS) at March 2008 levels.²⁵
12 The dates on which each of the merger transactions was completed (August 6, 2008 and
13 January 9, 2009) occurred after the capped amount was established, so the state caps
14 reflect the mix of CETCs that were operating in South Dakota prior to the mergers,
15 including RCC and WWC.

16
17 Q. ARE THERE OTHER PROBLEMS WITH MR. BLUHM’S ANALYSIS RELATING
18 TO THE INTERIM CAP?

19 A. Yes. At pp. 20-24 of Mr. Bluhm’s testimony, he attempts to prove that “Cellco”
20 improperly submitted “Alltel/WWC line counts” including Verizon Wireless “legacy
21 lines” to USAC that affected the calculation of support available for South Dakota for
22 2009 and 2010. His entire analysis in this section is wrong, because he misunderstands

²⁴ Mr. Bluhm does not provide a listing of these “more committed” carriers, though the list presumably includes James Valley Wireless.

²⁵ IAS is subject to a different capping mechanism that applies on a nationwide basis.

1 the facts. As explained in the Rebuttal Testimony of Linda Stevens (pp. 25-26), no
2 Verizon Wireless “legacy lines” were reported under SAC 399002 for support to be
3 received in 2009 and 2010. No “legacy lines” were reported under SAC 399018 until the
4 reports for September 2010, which relate to support to be received in 2011. Therefore,
5 whatever changes occurred in South Dakota’s interim cap factor in 2009 and 2010 were
6 the result of (1) the relatively insignificant number of lines reported under the RCC ETC
7 designation, SAC 399003, or (2) some other reason. Mr. Bluhm’s entire analysis relating
8 to the impact on the cap in 2009 and 2010 is accordingly flawed.

9
10 Q. HAVE YOU PREPARED YOUR OWN ANALYSIS OF THE IMPACT OF THE
11 PHASE-DOWN ON THE INTERIM CAP?

12 A. Yes. In order to evaluate the merit of Mr. Bluhm’s claims, it is necessary to calculate the
13 total amount of federal USF support that would have been available to CETCs in South
14 Dakota under two scenarios: Scenario 1 is the base case, and represents what has actually
15 happened since the mergers and that is expected to happen going forward. Scenario 2
16 represents Mr. Bluhm’s alternative scenario, in which ETC designations have somehow
17 “expired” on the dates that the mergers have been completed.²⁶ The difference in the
18 total amount of federal USF support available to CETCs in the State can then be
19 calculated, and the merits of Mr. Bluhm’s arguments can be examined.

20

²⁶ As noted previously in my testimony, it remains unclear how Mr. Bluhm believes this kind of “expiration” could have occurred; there does not appear to be any provision in the statutes, FCC rules, or FCC orders (or state statutes, rules, or orders) that would accommodate his scenario. In my analysis, I have assumed that some form of relinquishment (either voluntary or involuntary) has taken place on or about the dates that he specifies. This assumption allows the merits of Mr. Bluhm’s claims regarding dollar amounts to be evaluated separately from his unsubstantiated assumptions about the applicable law and any basis for the “expiration” of ETC designations.

1 Q. DOES MR. BLUHM PERFORM THIS CALCULATION AND PROVIDE THE
2 RESULTS IN HIS TESTIMONY?

3 A. No. After making a number of public interest claims in his testimony, Mr. Bluhm fails to
4 provide any analytical foundation for those claims.

5

6 1. Calculation of the Impact on the Total Amount of Support Available to
7 CETCs in South Dakota, 2008 - 2012

8 Q. HAVE YOU PERFORMED THESE CALCULATIONS?

9 A. Yes. Exhibit DJW-2 shows the results of this analysis for the years 2008-2012.

10 For the purposes of this analysis, I am assuming that some kind of voluntary or
11 involuntary relinquishment has taken place at the time of the merger. To simplify the
12 presentation of the results, for these calculations I have treated the Verizon Wireless-
13 RCC merger as if it had been finalized on August 1, 2008 (rather than August 6), and the
14 Verizon Wireless-Alltel merger as if it had been finalized on January 1, 2009 (rather than
15 January 9). These simplifying assumptions do not materially change the results.

16

17 Q. WHAT WOULD BE THE 2008 IMPACT TO SOUTH DAKOTA OF ADOPTING MR.
18 BLUHM'S RECOMMENDATIONS?

19 A. Exhibit DJW-2, Page 1 of 5 shows the impact to the State for 2008. If the RCC ETC
20 designation had somehow ended at the time the merger was finalized, RCC would have
21 received \$464,285 fewer dollars in support. More precisely, Mr. Bluhm proposes for this
22 determination to be made retroactively, and for Verizon Wireless to be required to repay
23 to USAC the amount received by RCC in 2008. Of course, these funds have to come

1 from somewhere, so either way there would be \$464,285 fewer dollars available to
2 support investment and operations in the RCC designated ETC service area.

3 The total state impact depends on how the FCC would treat this kind of
4 “retroactive relinquishment,” or whatever it is that Mr. Bluhm is proposing to actually
5 have take place. As he points out at p. 13 of his Direct Testimony, the FCC has recently
6 concluded that when a CETC relinquishes its designation or otherwise becomes ineligible
7 for support, the amount of support received by that ETC is subtracted from the total
8 amount of “interim cap” amount of support for the state. Based on the rules in place in
9 2008, the amount of federal USF support lost by RCC would have been redistributed to
10 other CETCs in the state. It is now entirely unclear whether the FCC would apply the
11 new “*Corr II Order*” rule that it recently adopted, or would apply the rules in place in
12 2008. Assuming (for Mr. Bluhm’s benefit) that the FCC would apply the 2008 rules that
13 were in effect, *Mr. Bluhm’s proposal would likely have had no impact on the total*
14 *amount of FUSF available in South Dakota for 2008.*

15
16 Q. WHAT WOULD BE THE 2009 IMPACT TO SOUTH DAKOTA OF ADOPTING MR.
17 BLUHM’S RECOMMENDATIONS?

18 A. Exhibit DJW-2, Page 2 of 5 shows the impact to the state for 2009. If the RCC ETC
19 designation had somehow ended on the date the merger was finalized, RCC would not
20 have received \$835,879 in federal USF support, and if the WWC ETC designation had
21 likewise ended on the date that merger was finalized, WWC would not have received
22 \$33,709,572 in federal USF support, for a total lost support amount of \$34,545,451.
23 Pursuant to the operation of the FCC “interim cap,” other CETCs would have received
24 additional support of \$271,904; but in order to obtain this increase the state would lose

1 \$34,545,451 in investment by RCC and WWC. *As a result, the impact of Mr. Bluhm's*
2 *proposal on the total amount of FUSF support available in South Dakota for 2009 would*
3 *have been a loss of over \$34.5 million dollars.*

4
5 Q. WHAT WOULD BE THE 2010 IMPACT TO SOUTH DAKOTA OF ADOPTING MR.
6 BLUHM'S RECOMMENDATIONS?

7 A. Exhibit DJW-2, Page 3 of 5 shows the impact to the state for 2010. The analysis for 2010
8 assumes that both the RCC and WWC ETC designations somehow ended on the dates
9 that the mergers were finalized, and reflects the fact that the WWC customers and
10 network assets that had been managed by the management trustee were sold to a non-
11 ETC carrier during the second quarter. Loss of support due to Mr. Bluhm's proposal
12 would have totaled \$17,636,203. Through the operation of the FCC interim cap²⁷ an
13 increase in support to other CETCs of \$229,523 would have resulted; but this increase
14 would have come at the cost of foregoing \$17,636,203. *As a result, the impact of Mr.*
15 *Bluhm's proposal on the total amount of FUSF support available in South Dakota for*
16 *2010 would have been a loss of over \$17.6 million dollars.*

17
18 Q. WHAT WOULD BE THE 2011 IMPACT TO SOUTH DAKOTA OF ADOPTING MR.
19 BLUHM'S RECOMMENDATIONS?

20 A. Exhibit DJW-2, Page 4 of 5 shows the impact to the State for 2011. Mr. Bluhm's
21 proposal would result in the loss of \$13,538,520 of federal USF support. In its

²⁷ The FCC interim cap applied during the quarters prior to the sale of WWC assets, but did not apply after the sale because the former WWC customers were no longer being reported by WWC. Also, WWC did not begin to receive support for any lines reported under SAC 399018 until January 2011. As a result, Mr. Bluhm's proposals would have resulted in no change to the amount of support received by CETCs during the third and fourth quarters of 2010.

1 projections, USAC is currently predicting that the cap factor for 2011 will be 1; that is,
2 total CETC support will be less than the capped amount, so a reduction in support to
3 RCC or WWC would not result in a corresponding increase in support to other CETCs.
4 If this proves to be the case, the net impact to the state for 2011 will be a loss of
5 \$13,538,520. Based on USAC's current data it is at least possible, however, that the cap
6 factor could end up being as low as 0.96. In order to provide the most conservative
7 analysis possible (that is, one that is most favorable to Mr. Bluhm), I have calculated an
8 impact based on a .96 cap factor. This cap factor could result in an increase in support to
9 CETCs of \$86,244, but at the cost of losing \$13,538,520. *As a result, the impact of Mr.*
10 *Bluhm's proposal on the total amount of FUSF support available in South Dakota for*
11 *2011 would be a loss of at least 13.4 million dollars.*

12
13 Q. WHAT WOULD BE THE 2012 IMPACT ON SOUTH DAKOTA OF ADOPTING MR.
14 BLUHM'S RECOMMENDATIONS?

15 A. Exhibit DJW-2, Page 5 of 5 shows the impact to the state for 2012. Mr. Bluhm's
16 proposal would result in the loss of \$6,769,260 of federal USF support. Based on current
17 projections, the cap factor for 2012 is likely to be 1; that is, total support to CETCs will
18 be less than the capped amount, so a reduction in support to RCC or WWC would not
19 result in a corresponding increase in support to other CETCs. If this proves to be the
20 case, the net impact to the state for 2011 will be a loss of \$6,769,260. Again considering
21 a scenario in which it is at least possible that the cap factor could end up being as low as
22 0.96, I have calculated a most-conservative scenario. This cap factor could result in an
23 increase in support to CETCs of \$86,244, but at the cost of losing \$6,769,260. *As a*
24 *result, the impact of Mr. Bluhm's proposal on the total amount of FUSF support*

1 available in South Dakota for 2012 would be a loss of at least 6.6 million dollars.

2

3 **C. The Policy that Mr. Bluhm Asks the Commission to Adopt in His**
4 **Recommendation 1e Would Be Undermined by His recommendations 1a –**
5 **1d.**

6 Q. WHAT IS MR. BLUHM’S RECOMMENDATION 1e?

7 A. It appears that Mr. Bluhm is simply asking that this Commission adopt, as a matter of
8 policy, his observation that “future funding for wireless CETCs could be an important
9 tool in ensuring that competitive ETCs in South Dakota will have sufficient funds to
10 build cell sites in currently unserved rural areas of the state.”

11 There is nothing objectionable about Mr. Bluhm’s statement as a matter of policy.
12 What is perplexing is that, while asking to Commission to adopt a policy that explicitly
13 recognizes the importance of federal USF to CETCs and to the ability of those CETCs to
14 construct the network facilities needed to serve high-cost areas of the state
15 (Recommendation 1e), Mr. Bluhm is also asking the Commission to takes actions that
16 would reduce the amount of federal USF support received by CETCs in South Dakota by
17 over \$20 million (Recommendations 1a and 1b) and by over \$52 million
18 (Recommendation 2), for a total reduction in report to the state of more than \$72 million.
19 It is difficult to reconcile Mr. Bluhm’s request for a policy statement recognizing the
20 importance of FUSF to CETCs and his request that the Commission act to reduce the
21 amount of this support by \$72 million.

22

1 **D. Mr. Bluhm’s Recommendation 2 is Unsupported and Would Be Detrimental**
2 **to the Public Interest**

3 Q. WHAT IS THE STATED BASIS FOR MR. BLUHM’S RECOMMENDATION 2, TO
4 HAVE RCC AND WWC REPAY TO USAC ANY AND ALL FUSF SUPPORT
5 RECEIVED SINCE THE MERGERS WERE FINALIZED?

6 A. At p. 44, Mr. Bluhm restates this recommendation as the following: “the Commission
7 should inform USAC of the above determinations in a letter and require USAC to have
8 Cellco refund past overpayments of CETCs support.” Setting aside any questions
9 regarding what the Commission can compel USAC to do, there are two fundamental
10 problems with Mr. Bluhm’s recommendation. First, Mr. Bluhm has not explained how
11 the Commission could undertake some kind of retroactive revocation of the existing ETC
12 designations. Second, the fact remains that Mr. Bluhm has not identified or documented
13 any “past overpayments” of federal USF support.

14
15 **E. Mr. Bluhm’s Recommendation 3 is Premised on the False Assumption that**
16 **Verizon Wireless is Seeking a “New” ETC Designation in this Proceeding**

17 Q. WHAT IS MR. BLUHM’S RECOMMENDATION 3?

18 A. Mr. Bluhm’s Recommendation 3 appears to address a scenario in which Verizon
19 Wireless is filing for an initial ETC designation in some geographic area, and urges the
20 Commission to consider the merits of such a designation. The relevance of this
21 recommendation is at best unclear; there is no “new” ETC designation being sought in
22 this proceeding. Verizon Wireless is not seeking to expand the scope of the existing ETC
23 designations, but is instead simply trying to amend and consolidate the existing
24 designations in order to make it clear that the post-merger consolidated Verizon Wireless
25 operations are responsible going forward for meeting ETC obligations in the consolidated

1 designated ETC service area. Even though the Petition does not seek any initial or
2 expanded ETC designation, Verizon Wireless has provided supporting testimony that
3 fully supports a conclusion that all of the ETC requirements are being met and that such a
4 designation would be in the public interest. In other words, even if Mr. Bluhm were
5 correct that Verizon Wireless is seeking some “new” ETC designation, his claim that
6 Verizon Wireless would have somehow failed to meet its burden of proof in such a case
7 would still be incorrect.

8 **IV. CONCLUDING OBSERVATIONS**

9 Q. DO YOU HAVE ANY CONCLUDING OBSERVATIONS ABOUT MR. BLUHM’S
10 TESTIMONY?

11 A. Yes. At p. 37 of his Direct Testimony, Mr. Bluhm argues in favor of “a clear set of
12 expectations about who will provide universal services to South Dakota citizens, what
13 facilities and services will be available and in what locations, and how and by whom
14 federal support will be used.” What Mr. Bluhm advocates in his testimony is what
15 Verizon Wireless is seeking to accomplish in this proceeding. The consolidated Verizon
16 Wireless operations should be identified as responsible for ensuring that all ETC obligations
17 are met. The current method of reporting to this Commission information about service
18 offerings, network facilities, and the use of all federal USF support will continue, and it
19 will be clear to both the Commission and the public that the post-merger consolidated
20 Verizon Wireless operations must be responsive and responsible when satisfying all ETC
21 requirements.

22
23 Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

24 A. Yes.

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