BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF SOUTH DAKOTA

In the Matter of the Petition of Brookings Municipal Utilities D/B/A Swiftel Communications for Suspension or Modification of Dialing Parity, Number Portability and Reciprocal Compensation Obligations	))))))	Docket No. TC07-007

Rebuttal Testimony of Randy G. Farrar

On Behalf of Sprint Communications Company, L.P.

PUBLIC VERSION

August 8, 2008

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I. Introduction

Q. Please state your name, occupation, and business address.

A. My name is Randy G. Farrar. My title is Senior Manager – Interconnection Support for Sprint United Management, the management subsidiary of Sprint Nextel Corporation. My business address is 6450 Sprint Parkway, Overland Park, Kansas 66251.

Q. Did you file Direct Testimony in this proceeding on June 6, 2007?

A. Yes, I did.

Q. What is the scope and purpose of your Rebuttal Testimony?

A. I am testifying on behalf of Sprint Communications Company L.P. ("Sprint"). I will provide input to the Public Utilities Commission of South Dakota concerning the request of Brookings Municipal Utilities d/b/a/Swiftel ("Swiftel") for a 251(f)(2) suspension or modification of their obligation to provide dialing parity, number portability, and reciprocal compensation.

Specifically, I will supplement my June 6, 2007 Direct Testimony ("Direct Testimony") based upon Swiftel's June 11, 2008 Responses to Sprint's Discovery Requests ("Responses"). I will also respond to the Direct Testimony of Mr. Dan Davis, testifying on behalf of the South Dakota Telecommunications Association ("SDTA"). This Rebuttal Testimony complements my June 6, 2007 Direct Testimony, and concludes that Sprint's interconnection request cannot be considered an "undue economic burden" to Swiftel.

II. Response to the Direct Testimony of Mr. Dan Davis.

Q. On page 7, Mr. Davis presents six issues in which he supports all of Swiftel's positions. Please comment on Mr. Davis' first issue, the four month delay in LNP.

A. This will be addressed by Sprint witness Mr. James R. Burt, but it is my understanding that Sprint is willing to accept this condition.

Q. Please comment on Mr. Davis' second and third issues, the cost of transporting wireline traffic beyond Swiftel's service territory.

A. Mr. Davis presents no new information on this issue – he simply reiterates Swiftel's position that it should not be responsible for transport costs outside its service territory.

As I discussed in my Direct Testimony (page 12, line 12 through page 15), the FCC's "Calling Party's Network Pays" position is well established, and many state commissions have explicitly decided on each carrier's responsibility to deliver its originating traffic to the other carrier. Sprint is willing to accept its duty to be financially responsible to deliver its originating traffic to Swiftel. Sprint expects Swiftel to accept the same responsibility for its originating traffic.

Q. On page 11 of his Direct Testimony, Mr. Davis provides references to Section 251(c)(2) of the Act and Section 51.305 of the FCC Rules to support his contention that Swiftel is not required "to pay for transport costs outside of its network." Is this correct?

A. No. The Sections of the Telecommunications Act of 1996 ("the Act") and FCC Rules Mr. Davis quotes simply do not address the ILEC's financial responsibility for its originating traffic. The Sections Mr. Davis quotes simply define the obligations of the ILEC – the ILEC must allow the CLEC to interconnect with the ILEC at any technically feasible point the CLEC chooses. In other words, the ILEC cannot force the CLEC to interconnect in an uneconomical, inefficient, anti-competitive manner.

Forcing the CLEC to pay for the costs of the ILEC's originating traffic, as demanded by Swiftel and Mr. Davis, is not consistent with the FCC's "Calling Party's Network Pays" policy, anticompetitive, and contrary to the Act and the very FCC Rules quoted by Mr. Davis.

Q. Please comment on Mr. Davis' fourth issue, the cost of transporting CMRS traffic beyond Swiftel's service territory.

A. In this case, Mr. Davis acknowledges Swiftel's financial responsibility for transporting its originating traffic to CMRS providers beyond Swiftel's service territory. Specifically, he states that, "[u]nlike the previous two issues, it would appear that there is a requirement for which Swiftel must seek a suspension or modification" of its duties under the Act.

Q. Does Mr. Davis explain why Swiftel is financially responsible to transport CMRS traffic beyond its service territory, but why Swiftel is not financially responsible to transport wireline traffic?

A. No. According to Mr. Davis, Swiftel is financially responsible to transport CMRS traffic beyond its service territory, but Swiftel it is not financially responsible to transport wireline traffic beyond its service territory. Mr. Davis provides no explanation for this conflicting logic.

Q. On page 18, line 17, Mr. Davis states that, "[b]ased on Swiftel's projected additional transport cost that would be incurred … I believe that Swiftel's Petition … should be granted." Please comment.

A. As discussed on pages 28 – 30 of my Direct Testimony, Swiftel's projected costs are simply wrong – they are based on an incorrect interpretation of Sprint's interconnection request. Mr. Davis does not present an independent analysis of either Swiftel's incorrect interpretation or of Swiftel's flawed cost study.

Q. On page 19, line 14, Mr. Davis refers to his Attachment A, “the direct DS1 costs that the SDTA members would incur should a wireless carrier make a similar request to each of them ….” Please comment.

A. There are two problems with this analysis. First, this does not reflect the ILECs’ actual cost. The numbers provided by Mr. Davis are based on tariff rates, not underlying costs. As discussed in my Direct Testimony, page 24, line 15 through page 25, line 8, Swiftel has acknowledged much lower costs in its Arbitration Docket No. TC06-176.

Second, let’s just accept Mr. Davis’ numbers at face value. For Swiftel, he estimates a transport cost of $2,578.26. Under Sprint’s proposed facilities sharing, Swiftel's financial responsibility would be about 50% of that, or $1,289.13. Mr. Davis does not even attempt to explain how an expense of $1,289.13 represents an “undue economic burden” on Swiftel. In 2007, Swiftel had annual revenues of **[Begin Swiftel Confidential]** $[redacted], net income of $[redacted], and provided a subsidy to Brookings of $[redacted] **[End Swiftel Confidential]**. I assert that such a trivial expense cannot be viewed as an “undue economic burden” on Swiftel.

Q. Please comment on Mr. Davis’ fifth issue, the provision of end office equal access functionality; and sixth issue, collection of access charges.

A. As discussed on pages 32 – 34 of my Direct Testimony, Swiftel is simply wrong – based on its incorrect interpretation of Sprint's interconnection request. Sprint is not requesting that Swiftel route any of its originating traffic, toll or otherwise, in any particular manner. How Swiftel chooses to route its originating traffic is Swiftel's decision, and Sprint has no interest in how Swiftel chooses to do so. Mr. Davis does not present an independent analysis of either Swiftel's incorrect interpretation or of Swiftel's flawed toll dialing parity cost study.

Q. Do you have a final comment on Mr. Davis' Direct Testimony?

A. Yes. Although Mr. Davis quotes extensively from the Eighth Circuit Court's Great Plains – Western Wireless decision, he ignores a very important element of that decision. Specifically, on page 16 of that decision, the Eighth Circuit Court stated:

> First, all else equal, if a provision of the Act is vague we are inclined to interpret the provision in a manner that promotes competition. It is undisputed that Congress passed the Act with the intention of eliminating monopolies and fostering competition.[1]

Simply put, when in doubt, rule in favor competition. But, Mr. Davis' and Swiftel's position on every issue thwarts competition. That cannot be the intention of the Act or the FCC Rules.

[1] WWC License, L.L.C. v. Pub. Serv. Comm'n, 459 F.3d 880, 891 (8th Cir. 2006).

III. Swiftel's Data Responses

Q. Did Sprint serve Data Requests on Swiftel, asking Swiftel to document and support the cost estimates contained in Mr. Rasmusson's Direct Testimony?

A. Yes. On or about June 1, 2007, Sprint submitted Data Requests including a request for Swiftel to provide documentation and support for specific cost estimates contained in Mr. Rasmusson's Direct Testimony.

Q. Did Swiftel provide the documentation and support requested by Sprint?

A. No. While Swiftel did provide a response on June 11, 2008, it provided little actual documentation and support for its cost estimates.

Q. Please provide examples of Swiftel's failure to provide adequate documentation and support for its cost estimates.

A. On page 20 of my Direct Testimony, I criticized Mr. Rasmusson's cost estimates as "undocumented and unsupported by any vendor quotes, installation times, labor costs, etc." For the most part, Swiftel's cost estimates remain "undocumented and unsupported by any vendor quotes, installation times, labor costs, etc."

For example, in its Request for Production 2, Sprint requested documentation for Swiftel's cost data contained in Mr. Rasmusson's Exhibit 1A. Swiftel's Response 2a was simple one sheet of paper which simply regurgitated the values in question. Thus, these input values remain "undocumented and unsupported by any vendor quotes, installation times, labor costs, etc."

The undocumented inputs discussed above remain unreasonable. For example, in Mr. Rasmusson's Exhibit 1A, "Administrative" and Regulatory" costs are **[Begin Swiftel Confidential]** $[redacted], or [redacted]% [$[redacted] / ($[redacted] - $[redacted])] of all other operating expenses. Administrative and regulatory costs are considered part of corporate overheads in FCC Part 32 accounts 6700. This is an extraordinarily high percentage. For example, in Docket TC06-176, Swiftel used a factor of only [redacted]% for corporate overhead expenses **[End Swiftel Confidential]**. This is the same default value use by the FCC in its USF Inputs proceeding.[2] According to ARMIS, Qwest's 2007 corporate overhead expenses were only 14.8% [$837,850 / ($6,491,362 - $837,850)] of total Operating Expenses. Thus, Swiftel's overhead expense ratio greatly exceeds the FCC's estimate, actual industry ratios, and Swiftel's own estimate in another docket.

[2] *In the Matter of Federal-State Joint Board on Universal Service* and *Forward-Looking Mechanism for High Cost Support for Non-Rural LECs*; FCC CC Docket Nos. 96.45 and 97-160; Tenth Report and Order, Adopted October 21, 1999; Released November 2, 1999.

Q. Are there other cost estimates of Mr. Rasmusson that "undocumented and unsupported by any vendor quotes, installation times, labor costs, etc."?

A. Yes. For example, in its Request for Production 2, Sprint also requested documentation for Swiftel's cost data contained in Mr. Rasmusson's Exhibit 3, specifically Swiftel's estimates of **[Begin Swiftel Confidential]** $[redacted] for "Translations," and $[redacted] and $[redacted] for "LERG Access and Updates," "Non-Recurring" and "Monthly Recurring," respectively **[End Swiftel Confidential]**. Swiftel's response to the "Translations" expense was to simply repeat "Martin Group's experience." Thus, Swiftel added absolutely no support for what had been provided in Mr. Rasmusson's Direct Testimony, despite Sprint's explicit request for additional support and documentation.

As for the LERG monthly recurring costs of **[Begin Swiftel Confidential]** $[redacted], Swiftel simply provided an estimate of "the annual monthly LERG subscription" fee **[End Swiftel Confidential]**. Swiftel made no attempt to explain how this LERG expense was directly attributable to Sprint's request to interconnect with Swiftel. It is Sprint's experience that all ILECs routinely subscribe to the LERG in order to route traffic. If Swiftel is not currently subscribing to the LERG, Sprint does not know how Swiftel is loading industry NXX information into its switches for routing traffic.

As for the LERG non-recurring costs of **[Begin Swiftel Confidential]** $[redacted], Swiftel once again relies on "Martin Group's experience," without providing additional support or documentation for Mr. Rasmusson's testimony **[End Swiftel Confidential]**.

Q. Beginning on page 20, line 19 of your Direct Testimony, you discuss the FCC's strict guidelines for LNP cost recovery. Did Swiftel's responses to Sprint's data requests cause you to change your opinion that "Swiftel's testimony does not meet this standard?"

A. No. The FCC stated:

> … we require LECs to distinguish clearly costs incurred for narrowly defined portability functions from costs incurred to adopt other systems to implement LNP, such as maintenance, billing, or order processing systems.[3]

Swiftel's cost study does not distinguish the FCC's narrowly defined LNP costs. Swiftel's cost study inputs remain unsupported, undocumented, and do not meet the FCC standard.

Q. Beginning on page 28 of your Direct Testimony, you state that Swiftel's claims of costs associated with its provision of Wireless Dialing Parity are, in fact, $0 due to Swiftel's misinterpretation of Sprint's interconnection request. Did Swiftel's responses to Sprint's data requests address this issue?

[3] *Telephone Number Portability Cost Classification Proceeding*; FCC Docket No. 95-116; Memorandum Opinion and Order; Released December 14, 1998.

A. No. Nothing in Swiftel's responses addresses its misinterpretation of Sprint's interconnection request.

Q. Beginning on page 32 of your Direct Testimony, you state that Swiftel's claims of costs associated with its provision of Toll Dialing Parity are, in fact, $0 due to Swiftel's misinterpretation of Sprint's interconnection request. Did Swiftel's responses to Sprint's data requests address this issue?

A. No. Again, nothing in Swiftel's responses addresses its misinterpretation of Sprint's interconnection request.

IV. Undue Economic Burden

Q. On page 35, lines 5 – 8 of your Direct Testimony, you stated,

> **At present, Sprint does not have access to any Swiftel financial information. Sprint has asked for such information in its June 1, 2007 Discovery. If Swiftel provides this information, Sprint will conduct further analysis concerning the identification of an "undue economic burden" on Swiftel."**

Are you now able to perform this analysis?

A. Yes. As part of its responses to Sprint's data requests, Swiftel provided financial information. Therefore, Sprint is now able to perform an analysis of Swiftel's finances, and estimate the impact of lifting Swiftel's rural exemption. This analysis will consist of two parts. First is an analysis of

Swiftel's current financial condition; second is an analysis of the economic burden of lifting Swiftel's rural exemption.

Q. Have other state commissions previously lifted an RLEC's § 251(f) rural exemption?

A. Yes. At least eight state commissions, Iowa, Montana, New York, Ohio, Pennsylvania, Texas, and Wisconsin, have lifted the rural exemption for at least thirty-seven RLECs. Many of these RLECs are much smaller and more rural than Swiftel. This information is provided in Attachment RGF-6.

Q. As discussed on page 16, line 24, through page 17, line 7, of your Direct Testimony, the Eighth Circuit Court's decision states,

> **It is the full economic burden on the ILEC of meeting this request that must be assessed by the state commission … not just a discrete part.[4]**

How have you evaluated this criteria?

A. Brookings Municipal Utilities ("Brookings") as a combined entity includes electric, water, and wastewater "funds," in addition to its "telephone fund." Since Swiftel (i.e. the "telephone fund") is a part of a much larger business entity, whose financial operations are intermingled, it is appropriate to consider the impact of Sprint's competitive entry not only on Swiftel, but on Brookings in its entirety.

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[4] *Direct Testimony of Randy G. Farrar*, citing *Iowa Utilities Board, et al. v. Federal Communications Comm'n*, 219 F.3d 744, 761 (8th Cir. 2000), cert. granted on other grounds, 531 U.S. 1124, 121 S. Ct. 877 (2001).

A. Financial Analysis of Swiftel

Q. Please describe the financial analysis performed for Swiftel.

A. In order to examine Swiftel's financial condition, Sprint calculated several financial ratios commonly used to assess a telecommunications company's financial well-being. These financial indicators are:

- Revenue Per Access Line
- Operating Income to Net Plant
- Return on Average Equity
- Equity Ratio
- Fund Transfer Ratio

Q. Is Swiftel an investor-owned, for-profit company?

A. No. Brookings Municipal Utilities ("Brookings") is a municipally owned utility. Brookings consists of several "Funds," specifically, Telephone, Electric, Wastewater, and Water Funds. Swiftel (the Telephone Fund) is a part of, and is essentially owned by, Brookings. As such, Brookings and Swiftel are not investor-owned, for-profit enterprises. While it would be reasonable for Brookings to operate at a profit, i.e. produce revenues in excess of its costs, it would not be expected that Brookings or Swiftel would operate at profit levels necessary to attract investor capital in a competitive capital market.

Also, as a municipal utility with multiple "Funds," Brookings is able to provide subsidies in the form of dollar transfers from one Fund to another Fund.

1. Revenue per Access Line

Q. Please discuss the results of Sprint's analysis of Swiftel's revenue per access line.

A. The results of Sprint's analysis of Swiftel's revenue per access line are shown in Attachment RGF-7. For the four-year period 2004 – 2007, Swiftel's average operating revenue per access line was **[Begin Swiftel Confidential]** $, which has been consistently growing to $ in 2007 **[End Swiftel Confidential]**.

I did not calculate this ratio for Brookings in its entirety because only Swiftel (i.e. the telephone fund) has access lines.

Q. How does Swiftel's revenue per access line compare to that of other ILECs?

A. According to ARMIS,[5] the average revenue per access line for Large ILECs and Mid-Sized ILECs for the 2004 – 2007 time period was $69.66 and $70.09, respectively. Thus, Swiftel's average revenue per access line in

[5] Automated Reporting Management Information System.

2007 was about **[Begin Swiftel Confidential]** % less than the Mid-Sized ILECs four-year average **[End Swiftel Confidential]**. While somewhat less than industry, is it adequate and growing.

2. Operating Income to Net Plant Ratio

Q. Please discuss the results of Sprint's analysis of Swiftel's operating income to net plant ratio.

A. The results of Sprint's analysis of Swiftel's operating income to net plant ratio are shown in Attachment RGF-8, page 1. For the three-year period 2005 – 2007, Swiftel's average operating income to net plant ratio was **[Begin Swiftel Confidential]** % **[End Swiftel Confidential].**

The results of Sprint's analysis of Brookings' operating income to net plant ratio are shown in Attachment RGF-8, page 2. For the two-year period 2006 – 2007, Brookings' average operating income to net plant ratio was **[Begin Swiftel Confidential]** % **[End Swiftel Confidential]**.

Q. How does Swiftel's operating income to net plant ratio compare to that of other ILECs?

A. According to ARMIS, the operating income to net plant ratio for Large ILECs and Mid-Sized ILECs in the 2005 – 2007 time period was 25.3% and 42.3%, respectively, for a weighted average is 27.4%. Thus, Swiftel's operating income to net plant ratio was **[Begin Swiftel Confidential]** that of Large and Mid-Sized ILECs over the three-year period **[End Swiftel Confidential]**.

Brookings' operating income to net plant ratio was about **[Begin Swiftel Confidential]** that of Large and Mid-Sized ILECs **[End Swiftel Confidential]**.

3. Return on Equity

Q. Please discuss the results of Sprint's analysis of Swiftel's return on average equity.

A. The results of Sprint's analysis of Swiftel's return on average equity are shown in Attachment RGF-9, page 1. For the three-year period 2005 – 2007, Swiftel's return on average equity was **[Begin Swiftel Confidential]** % **[End Swiftel Confidential]**.

The results of Sprint's analysis of Brookings' return on average equity are shown in Attachment RGF-9, page 2. For the two-year period 2006 – 2007, Brookings' return on average equity was **[Begin Swiftel Confidential]** % **[End Swiftel Confidential]**.

Q. How does Swiftel's return on average equity compare to that of other ILECs?

A. According to ARMIS, the return on average equity for Large ILECs for the 2005 – 2007 time period was 19.0%. (This information was not available for Mid-Sized ILECs.) Thus, Swiftel's return on average equity was **[Begin Swiftel Confidential]** than the industry average **[End Swiftel Confidential]**.

Brookings' return on average equity is about **[Begin Swiftel Confidential]** than comparable industry figures **[End Swiftel Confidential]**.

4. Equity Ratio

Q. Please discuss the results of Sprint's analysis of Swiftel's equity ratio.

A. The results of Sprint's analysis of Swiftel's average equity ratio are shown in Attachment RGF-10, page 1. For the three-year period 2005 – 2007, Swiftel's average equity ratio was **[Begin Swiftel Confidential]** % **[End Swiftel Confidential]**.

The results of Sprint's analysis of Brookings' average equity ratio are shown in Attachment RGF-10, page 2. For the two-year period 2006 – 2007, Brookings' average equity ratio was **[Begin Swiftel Confidential]** % **[End Swiftel Confidential]**.

Q. How does Swiftel's average equity ratio compare to that of other ILECs?

A. According to ARMIS, the average equity ratio for Large ILECs for the 2005 – 2007 time period was 55.7%. (This information was not available for Mid-Sized ILECs.) Thus, Swiftel's average equity ratio was about **[Begin Swiftel Confidential]** [redacted] than the industry average **[End Swiftel Confidential]**.

Brookings' average equity ratio is **[Begin Swiftel Confidential]** [redacted], than comparable industry figures **[End Swiftel Confidential]**.

5. Fund Transfer Ratio

Q. Please discuss the results of Sprint's analysis of Swiftel's fund transfer ratio.

A. Brookings/Swiftel is a municipal utility, not an investor-owned utility. As a municipal entity, Swiftel does not pay a "dividend" to its parent, Brookings. However, Swiftel does generate an earnings surplus, which is transferred to Brookings. This fund transfer is functionally equivalent to a dividend payout by Swiftel to the parent company. Brookings uses the funds transfer from Swiftel to provide a subsidy to the other "funds."

Because Brookings is a municipal utility, it does not have shareholders to pay a “dividend.” Thus, Brookings does not have a dividend payout.

The results of Sprint’s analysis of Swiftel’s fund transfer ratio are shown in Attachment RGF-11, page 1. For the four-year period 2004 – 2007, Swiftel’s average fund transfer ratio was **[Begin Swiftel Confidential]** [redacted]% **[End Swiftel Confidential]**.

Q. How does Swiftel’s fund transfer ratio compare to the dividend payout ratio of other ILECs?

A. According to ARMIS, the average dividend payout ratio for Large ILECs for the 2004 – 2007 time period was 150.12%. (This information was not available for Mid-Sized ILECs.) Thus, Swiftel’s fund transfer ratio is **[Begin Swiftel Confidential]** [redacted] than the industry’s average dividend payout ratio **[End Swiftel Confidential]**.

Q. What do you conclude about Swiftel/Brookings’ financial condition?

A. Both Swiftel, and its parent, Brookings Municipal Utilities, are profitable enterprises. Its financial indices are steady, and improving over time. Again, Swiftel and Brookings are not investor-owned, for-profit enterprises. Thus, they do not have the same financial incentive of a for-profit enterprise.

Most significantly, Swiftel, as the “telephone fund,” provides a financial contribution (i.e. a subsidy) to the other “funds” which comprise Brookings Municipal Utilities. Specifically, over the four year period 2004 – 2007, Swiftel has, on average, transferred **[Begin Swiftel Confidential]** % of its earnings to the other “funds” **[End Swiftel Confidential]**. Thus, Swiftel is providing a direct subsidy to the other “funds.”

B. Economic Burden of Lifting Swiftel’s Rural Exemption

Q. Has Sprint performed an analysis of the economic burden on Swiftel due to the lifting of Swiftel’s rural exemption?

A. Yes.

Q. Please summarize the major assumptions contained in Sprint’s economic burden analysis.

A. Sprint’s economic burden analysis is shown in Attachment RGF-12. The analysis includes the following three major assumptions:

1. Sprint will enter the market six months after the rural exemption is lifted <u>and</u> an interconnection agreement (“ICA”) is completed and signed,
2. Sprint will achieve certain residential and business market penetration rates, as discussed below, and
3. Swiftel will realize minimal operating expense reductions.

Q. Please summarize the results of Sprint's economic burden analysis.

A. The results of the Sprint economic burden analysis is that Swiftel will experience a **[Begin Sprint Confidential]** % decrease in earnings 1.5 years after the rural exemption is lifted <u>and</u> an interconnection agreement is completed and signed, a % decrease in earnings after 2.5 years, and a % decrease in earnings after 3.5 years**[End Sprint Confidential]**.

Q. Please describe Sprint's economic burden analysis.

A. Sprint's economic burden analysis consists of the following five steps.

1. Identify Sprint's anticipated market penetration rates,
2. Calculate the number of Swiftel access lines subject to competition,
3. Calculate the year-end number of Swiftel access lines that will be lost,
4. Calculate the mid-year percentage of Swiftel's access lines and revenues that will be lost, and
5. Calculate the reduction in Swiftel earnings resulting from the loss in revenues.

Q. Please describe the first step of Sprint's economic burden analysis.

A. The first step is to identify the anticipated market penetration rates that would be realized if the jointly provided Sprint/Mediacom service was offered in Swiftel's service territory.

Sprint's estimates of market penetration rates are based on two sources of information. The first source is publicly available penetration data, obtained from financial reports published by several cable companies [see Attachment RGF-2(Revised)[6]]), Sprint estimates the residential penetration rates to be **[Begin Sprint Confidential]** % after one year in the market, % after 2 years, and % after three years in the market, as seen in Rows 11 – 13 in Attachment RGF-12 **[End Sprint Confidential]**.

The second source of Sprint's market penetration rates is Sprints actual experience in similar rural markets. As can be seen in Attachment RGF-13, the Sprint business model is currently providing a competitive alternative in at least 152 rural markets across the US. Since its initial rollout in early 2006, Sprint currently has an average market penetration rate of **[Begin Sprint Confidential]** % of access lines (see Cell M200 in Attachment RGF-13). Based upon a variety of measurements, Sprint's penetration rate one-year after market entry is in the range of % - % (see Rows 202 – 206). Sprint's penetration rate two-years after market entry is no more than % (see Rows 202 – 206) **[End Sprint Confidential]**.

[6] This is an updated version of Attachment RGF-2, originally provided in the Direct Testimony of Randy G. Farrar, June 6, 2007.

Based on publicly available data, and Sprint-specific data, the penetration rates used in Attachment RGF-12 are reasonable, if not conservative to Swiftel's favor.

Based on Sprint's experience to date, business market penetration rates are expected to be **[Begin Sprint Confidential]** [redacted] of residential market penetration rates **[End Sprint Confidential]**.

Q. Please describe the second step of Sprint's economic burden analysis.

A. The second step is to calculate the number of Swiftel access lines subject to competition. The starting point is the total number of Swiftel access lines as of year-end 2006 – **[Begin Swiftel Confidential]** [redacted] access lines[7] **[End Swiftel Confidential]**. However, the total number of households passed is only **[Begin Sprint Confidential]** [redacted] **[End Sprint Confidential]**. Sprint assumes there will be one access line per household.

Sprint further calculated the number of small businesses targeted by the business model, those with **[Begin Sprint Confidential]** [redacted] employees, based on U.S. Census data.[8] Sprint further assumes one access line per

[7] Per Swiftel's response to Sprint Interrogatory 18. Note that Swiftel did not provide year-end 2007 data.

[8] U.S. Census Bureau 2005 Industry Code Summary, Zip Codes 57006 and 57007, Brookings, SD..

every two employees, resulting in a total of business access lines subject to competition **[End Sprint Confidential]**.

The end result is an estimated **[Begin Sprint Confidential]** , or % of Swiftel's total access lines, are subject to competition, as seen in Rows 15 – 21 of Attachment RGF-12 **[End Sprint Confidential]**.

Q. Please describe the third step of Sprint's economic burden analysis.

A. The third step is to calculate the actual year-end number of Swiftel access lines that will be lost due to competition. This is simply the multiplication of the access lines subject to competition multiplied by the Sprint market penetration rates, as shown in Rows 23 – 27 of Attachment RGF-12.

Q. Please describe the fourth step of Sprint's economic burden analysis.

A. The fourth step is to calculate the mid-year percentage of Swiftel's access lines and revenues that will be lost due to competition. This is simply the average of the beginning-of-year and end-of-year percentage rates, as shown on Rows 29 – 31 of Attachment RGF-12. The percentage loss in access lines is equivalent to the percentage loss in revenues due to Sprint's competitive entry, as shown on Row 35 of Attachment RGF-12.

Q. Please describe the fifth and final step of Sprint's economic burden analysis.

A. The fifth and final step is to calculate the reduction in earnings resulting from the loss in revenues. Sprint assumes that Swiftel will realize minimal operating expense reductions, only 5%, as shown in Row 38 of Attachment RGF-12. This is an extremely conservative assumption, which Swiftel will be able to exceed. Finally, Sprint recognizes that Swiftel will realize state and federal income tax reductions, as shown in Rows 39 – 44 of Attachment RGF-12.

Q. Please summarize the results of Sprint's economic burden analysis.

A. Sprint's economic burden analysis concludes that Swiftel will realize earnings reduction equal to **[Begin Sprint Confidential]** [redacted]%, of revenues, 1.5 years after the rural exemption is lifted and an interconnection agreement is signed; [redacted]% of revenues 2.5 years after signing the ICA; and [redacted]% of revenues 3.5 years after signing the ICA, as shown in Row 46 of Attachment RGF-12 **[End Sprint Confidential]**.

Q. Based on these results, does competition represent an undue economic burden on Swiftel?

A. No. The assumptions used in the Sprint economic burden analysis are reasonable, and based on actual industry data whenever possible. Other assumptions, such as Swiftel's reduction in operating expenses, are very conservative to Swiftel's advantage.

As can be seen in Row 46 of Attachment RGF-12, the Swiftel earnings lost due to competition, as a percentage of revenue, are minor. Therefore, Swiftel's implementation of an interconnection agreement with Sprint will not result in an undue economic burden to Swiftel.

V. Conclusion

Q. Please summarize your testimony.

A. Swiftel's rural exemption should be lifted. The Sprint business model currently provides a competitive alternative to over 4,000,000 end users in at least 42 states across the US, including in at least 152 rural LEC territories. Swiftel's end users should not be denied a competitive alternative.

The Direct Testimony of Mr. Davis does not provide any additional information. His positions are anticompetitive and contrary to the intent of the Act and FCC Rules. He repeats Swiftel's incorrect interpretations of Sprint's interconnection request.

Swiftel's cost study is inconsistent with FCC guidelines, and its inputs are undocumented and unsupported. Swiftel's data request responses did not address these issues.

Sprint's analysis demonstrates that lifting Swiftel's rural exemption will not be an "undue economic burden" on Swiftel.

Q. Does this conclude your Rebuttal Testimony?

A. Yes, it does.