



- c. The "certain CLECs owned by RLECs" include Northern Valley, Mitchell Telcom, and Midstate and RC Communications

1-2. Has Midco recently employed the services of an outside consultant to conduct a cost study?

RESPONSE. Yes. As noted in paragraph four of the Petition, Midcontinent has employed the services of outside consultants. Despite the fact that CLECs have never been subject to cost study requirements, based on discussions with Staff, Midcontinent understood that the Commission would require cost support for rates that exceeded the ILEC switched access rates.

In May 2006, Midcontinent engaged QSI Consulting Inc. ("QSI") to attempt to develop a company-specific cost study for Midcontinent's South Dakota intrastate switched access service that would be compliant with the Commission's applicable cost study rules.<sup>1</sup>

The first focus of this "cost study" effort was to devise a forward-looking economic cost model (referred to as the Network Usage Cost Assessment or "NUCA" model), to investigate the feasibility of applying a forward-looking economic cost standard to determine carriers' intrastate switched access rates, in place of the Commission's existing access charge rules which relied upon an embedded cost framework. Given that the Commission had initiated a major access charge reform proceeding in December 2005 (Rulemaking RM05-002),<sup>2</sup> Midcontinent believed that the Commission would adopt a forward-looking economic cost standard in the near future, so that Midcontinent could use a finalized version of the NUCA model to support a filing for company-specific access rates. Midcontinent also filed comments in that rulemaking that supported the adoption of a forward-looking cost standard, and documented the deficiencies

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<sup>1</sup>Midcontinent retained QSI because QSI has experience in conducting CLEC cost studies and reviewing ILEC cost studies. Further, it was Midcontinent's understanding that the Commission had utilized QSI's consulting services for both energy and telecommunications issues in the past. These two factors suggested that QSI would be able to construct a cost model and develop a cost study that would be acceptable to the Commission and its Staff.

<sup>2</sup>The Commission initiated its proceeding "In the Matter of Revisions and/or Additions to the Commission's Switched Access Rules Codified in ARSD 20:10:27 Through 20:10:29"; Order Opening Docket; RM05-002; dated December 14, 2005.

in the existing South Dakota intrastate access cost model (the "LECA model"), which relies on embedded costs.<sup>3</sup>

Given the lack of progress in the access charge Rulemaking, in December 2006 Midcontinent directed QSI to develop an estimate of its company-specific switched access costs using the embedded cost, LECA model approach. However, Midcontinent, like other CLECs, books its costs on a functional cost center basis consistent with Generally Accepted Accounting Principles ("GAAP"), rather than the FCC-prescribed Uniform System of Accounts ("USOA") which is required for ILECs and serves as the basis for all inputs and calculations in the LECA model. Consequently, QSI had to attempt to map Midcontinent's total company, GAAP-based costs into South Dakota-specific, telecommunications costs according to the 47 C.F.R. Part 32, Part 64 and Part 36 requirements of the LECA model. QSI's efforts included using numerous approximations and broad-gauge allocation methods to separate out telecommunications from non-telecommunications costs, jurisdictionally intrastate South Dakota from interstate and other state costs, and regulated from non-regulated costs. In some cases, cost categories that were known to include some intrastate South Dakota costs were simply excluded, because there was an insufficient basis for a reliable assignment or allocation. In addition, certain special studies that ILECs ordinarily conduct in accordance with 47 C.F.R. Part 36 rules to support their LECA model allocations, such as Dial Equipment Minute ("DEM") weightings analyses, were determined to be infeasible and were not conducted since Midcontinent does not maintain such analyses in the ordinary course of its business.

Throughout this cost study process, Midcontinent has endeavored to keep the Commission Staff informed and to solicit its input. In April 2007, QSI and Midcontinent made a presentation to Staff that described the status of both cost study efforts. QSI's total billings to date for this work have been approximately \$131,000.

1-3. Provide a working electronic copy and the results of the cost study performed as alluded to in paragraph 4 of the Petition and/or the response to question 2 above.

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<sup>3</sup>Midcontinent Communications filed Comments in Docket No. RM05-002 on February 6, 2006.