

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of)	
)	
Investigation of Certain 2012)	WC Docket No. 12-233
Access Tariffs)	
)	WCB/Pricing No. 12-09
SureWest Telephone)	
Tariff FCC No. 1, Transmittal No. 32)	
)	

DIRECT CASE OF SUREWEST TELEPHONE

SureWest Telephone (“SureWest”) hereby submits its Direct Case and responses to certain issues set for investigation in the August 31, 2012 Order Designating Issues for Investigation, DA 12-1430 (“*Designation Order*”) in the above-captioned proceeding.

I. Introduction

On June 18, 2012, SureWest issued tariff Transmittal No. 32 containing its biennial Annual Access Charge Filing. On July 2, 2012, the Wireline Competition Bureau released an Order that suspended for one day and set for investigation the Access Recovery Charge (“ARC”) rates contained in the 2012 Annual Access Tariff Filings of all issuing local exchange carriers (“LECs”) that charged an ARC.¹ On July 9, 2012, as directed by the Bureau in the 2012

¹ 2012 Annual Access Tariff Filings, WCB/Pricing No. 12-09, Order, DA 12-1037 (Wireline Comp. Bur., rel. July 2, 2012) (2012 Suspension Order). Separately, on July 2, 2012, SureWest Telephone became a wholly-owned subsidiary of Consolidated Communications Holdings, Inc., pursuant to Commission prior approval.

Suspension Order, SureWest issued Transmittal No. 35, which suspended ARC rates filed in its Annual Access Charge Tariff.²

The *Designation Order* designated six issues for investigation. Portions of four of those issues are currently applicable to the SureWest filing.³ Each of those issues are addressed separately below.

II. Issue A: Impact of Non-Recurring Charges on SureWest's Calculation of Base Period Revenue.

SureWest was identified in Appendix A, Issue A (Base Period Revenue) in the single category of non-recurring charges ("NRCs"). SureWest did not address intrastate non-recurring revenues in its Description and Justification ("D&J") because no Fiscal Year ("FY") intrastate orders placed during FY 2011 included a non-recurring charge. Nevertheless, SureWest derived its NRC earned and collected Base Period ("BP") revenue using the same practices described in SureWest's amended D&J Section V.C.1, as provided to the Commission in Amended Transmittal No. 32, filed August 17, 2012. Specifically, to determine the FY2011 earned revenue, SureWest downloaded monthly billing details for the billing period of November 1, 2010 through October 1, 2011, which represents the data period of October 1, 2010 through September 30, 2011. Using the monthly reports, SureWest performed several data filters to

² Subsequent to issuing Transmittal No. 32, SureWest discovered that some of the tariff pages in that filing contained typographical errors. SureWest had properly calculated a reduction to its Special Access DS3 rates. However, when nine of the rates were imported into the tariff pages, they were erroneously typed into the counter-part Switched Access rates rather than the intended Special Access rates. The typographical errors were remedied in two phases. With the June 27, 2012, issuance of Transmittal No. 33, SureWest was able to reduce, correctly, the nine Special Access DS3 rates; because the transmittal contained only rate reductions, it could become effective on seven days' notice. The second phase involved restoring the erroneously reduced Switched Access rates. This was accomplished on June 29, 2012, when SureWest issued Transmittal No. 34 (pursuant to Special Permission 12-021).

³ Portions of Issues A and B, along with C and E, apply to the SureWest filing. Issue D is addressed to NECA pool members, which does not include SureWest. Issue F addresses further general procedures that may be necessary to implement an Order terminating the present investigation of all designated carriers.

extrapolate demand and revenue by carrier, jurisdiction, direction, and access billing element, including non-recurring charges. SureWest filtered out any prior period billing from these data exports. The filtered data was then copied into the fiscal year summary.

Accordingly, SureWest proposes to amend paragraph five of Section V.C.1 of its D&J to include at the end of the second sentence the words, “including non-recurring charges.”

To determine the FY2011 earned revenue, SureWest downloaded monthly billing details for the billing period of 11/1/2010 through 10/1/2011 which represents the data period of 10/1/2010 through 9/30/2011. Using the monthly reports, SureWest performed several data filters to extrapolate demand and revenue by carrier, jurisdiction, direction, and access billing element, [including non-recurring charges]. SureWest filtered out any prior period billing from these data exports. The filtered data was then copied into the fiscal year summary.

In regard to SureWest’s 2011 Interstate Switched Access Revenue Requirement, SureWest relied on its last filed cost study submitted on June 16, 2010, which inherently includes any NRC related rate elements. However, SureWest has discovered in a review of its 2012 RoR ILEC Interstate worksheet the inadvertent exclusion of Interstate NRCs in that worksheet, even though those NRCs are included in SureWest’s filed tariff. Accordingly, SureWest has revised its 2012 RoR ILEC Interstate worksheet sheet to include NRCs totaling \$5,780. The addition of interstate NRCs to SureWest’s worksheet resulted in a minor change to SureWest’s total eligible recovery. Therefore, SureWest provides a revised TRP consisting of the following files: RoR-ILEC-ICC-data.xls, RateCeiling-CAF.xls, and Tariff-Rate-Comparison_CAF.xls. SureWest notes the \$5,780 NRC amount reduces its eligible recovery.

**III. Issue B: Impact of Non-Recurring Charges
on SureWest's Calculation of Intrastate Rate Reductions.**

SureWest was identified in Appendix A, Issue B (Intrastate Rate Reductions), solely for the sub-issue of NRCs. Apparently, the Commission is concerned that SureWest did not properly calculate the required intrastate rate reductions because NRCs were not included in SureWest's TRPs. Indeed, SureWest's 2012 RoR ILEC Intrastate Rates worksheet was absent of NRC detail. Nevertheless, SureWest has properly calculated its required intrastate rate reductions. SureWest elected not to include an NRC section in that worksheet because no FY 2011 intrastate orders were placed constituting an NRC and no change in demand was forecast (i.e., \$0.00 revenue and 0 expected demand). Although having no associated demand and revenue, SureWest hereby revises its 2012 RoR ILEC Intrastate worksheet to include the category of NRCs, and it attaches the revised worksheet hereto, as part of SureWest's revised TRP.

**IV. Issue C: SureWest's Calculation of
Projected Switched Access Demand.**

SureWest was among the carriers designated for investigation as to whether it reasonably estimated its projected interstate and intrastate switched access demand for the 2012-13 tariff filing year. In preparing their tariff filings, LECs were directed to use existing demand estimation methods to project demand for the 2012-13 tariff period. As shown below, SureWest used the same existing demand estimation methods to project demand for the 2012-13 tariff period that SureWest used to project Test Year ("TY") demand in all prior interstate access charge filings.

Paragraph 19 of the *Designation Order* requires carriers to provide the amount of LSS reflected in cell F7 of their 2012 RoR ILEC Interstate Rates Worksheet. For SureWest, that

amount is \$0.00, as SureWest has never been a recipient of LSS. Further, in response to the request for the projected annual percentage rate of demand change reflected in the calculation of the amount in cell F10 on SureWest’s 2012 RoR ILEC Interstate Rates Worksheet, SureWest calculates 14% as the annual loss in Local Switching and 3% in annual loss in Tandem Switching. Finally, for cell G9 on SureWest’s 2012 RoR ILEC Intrastate Rates Worksheet, SureWest calculates an 18% annual loss in Local Switching and a 4% annual loss in Tandem Switching.

The table below shows the annual percentage rate of demand loss used by SureWest in its filing. As seen therein, the projected demand is completely consistent with the historical trend. The table identifies projected Intrastate Local Switching as the only element with an annualized demand loss in excess of 15%. It should be noted that Local Switching volume is significantly less than Tandem Switching, which shows projected demand losses far less than 15% (i.e. 3% for Interstate and 4% for Intrastate).

Annual Percentage Rate of Demand Change			
		Intrastate MOU (000s)	Interstate MOU (000s)
Local Switching			
Jul 2008 - Jun 2009	Actual		
Jul 2009 - Jun 2010	Actual	(14%)	(24%)
Jul 2010 - Jun 2011	Actual	(19%)	(18%)
Jul 2011 - Jun 2012	Actual	(19%)	(14%)
Jul 2012 -Jun 2013	Projected TY	(18%)	(14%)
Tandem Switching			
Jul 2008 - Jun 2009	Actual		
Jul 2009 - Jun 2010	Actual	(1%)	(18%)
Jul 2010 - Jun 2011	Actual	(4%)	(2%)
Jul 2011 - Jun 2012	Actual	(5%)	(9%)
Jul 2012 -Jun 2013	Projected TY	(4%)	(3%)

In regard to demand loss in excess of 15%, what follows is a detailed explanation of how SureWest's loss factor was derived, as previously described in its 2012 Annual Access D&J, Section IV, Subpart B.

Demand quantities used in the development of rates include facility inventories, minutes of use and minute-miles. The required data were developed by forecasting demand for the period July 1, 2012, through June 30, 2013, based on historical demand quantities. Sources for the required historical demand data include carrier access billing records, end user billing records, access line trends, access service requests, and other independent variables. Traffic sensitive demand was compiled by month for the period January 2007 through December 2011.

Historical traffic sensitive demand was one factor used to forecast the traffic sensitive demand for all usage sensitive rate elements. For the past several years, SureWest has experienced a steady and rapid decline in both residential and business access lines. SureWest has continually faced competition for its wireline customer base. Most recently, with the advent of VoIP service provided by the incumbent cable television companies serving in SureWest's area, along with other competitive local exchange and wireless carriers, the number of lines currently served has declined by 25% since SureWest's last Interstate Access Charge Tariff filing of July 2010.

A separate forecast of both local switching and tandem switching access demand, independently, was constructed using an econometric modeling software application called "E-Views." Least squares linear regression was used to develop the forecast with five independent variables. The independent variables used include local and state statistics related to income, population, employment, and gross state product (GSP), as well as competitive factors including access line loss generated by growth in VoIP and wireless use. The independent variables were

derived from various sources including the U.S. Office of Management and Budget, FCC Wireline Competition Bureau – Industry Analysis and Technology Division, UCLA Anderson School of Business Forecast, California Department of Finance, City of Roseville – Planning Department, and the City of Citrus Heights – Finance Department. Based upon explanatory variables created by linear regression, the forecast is statistically significant. The final results from the “E-Views” application are similar to the national trends reflected in the FCC’s latest *Trends in Telephone Service* report released September 2010.

In regard to projecting interstate and intrastate annual demand loss, it should be noted that using the Base Period (“BP”) (as described by Footnote 39 in the *Designation Order*), compared to the Test Year (“TY”) gives a false indication of the year-over-year (“*annual demand*”) loss. In other words, the period between the BP and the TY spans 21 months for intrastate, and in SureWest’s case, 24 months for interstate, both reflecting greater than an annual change. For the interstate BP, SureWest used TY 2010-2011, as filed in the 2010 SureWest Annual Access Filing, the most recent filed by SureWest. SureWest’s interstate BP dates back two years, not one, and results in a 12-month gap between the end of SureWest’s BP and the beginning of SureWest’s TY. The gap creates a bi-annual change, not an annual change, which is the basis of the Commission’s focus of comparison for reviewing projected demand loss exceeding an *annualized* rate of 15%. Likewise, for intrastate, the period from FY 2011 (October 2010 through September 2011) through the TY (July 2012 through June 2012) spans 21 months and contains a nine-month gap between the end of the BP to the beginning of the TY period. Again, this gap creates a greater than annual change.

Although the comparison, as described in Footnote 39, is not a year-over-year comparison and it reflects greater than an annual change, as significant as those changes appear to be for each rate element, a weighted average shows the demand change to be much less. See Exhibit 1, attached hereto.

In Exhibit 1, SureWest developed a weighted change in demand from BP to TY, which results in a less than 6% for interstate and less than 12% for intrastate. The weighted demand change calculates a weighted percent demand growth/loss based on its Switched Access Demand for all switched access rate elements. The demand elements calculated on the stand-alone elements consists of: Local Switching, Tandem Switching, Tandem Transport, DS1 and DS3 Entrance Facilities, DS1 and DS3 Direct Trunk Transport, and for interstate only, SS7-STP Port Termination, SS7 Transport, and Database Query. A calculation of weighted switched access demand was then made to apply the weighted demand to individual element demand growth.

In sum, SureWest used the same existing demand estimation methods to project demand for the 2012-13 tariff period that it used in prior access demand calculations. Those methods properly projected Intrastate Local Switching as the only element with an annualized demand loss in excess of 15%. Further, a method using weighted change in demand from BP to TY results in a less than 6% projected demand loss for interstate and less than 12% for intrastate.

V. Issue E: SureWest's Proposed ARC Rates.

As discussed in response to Issue A, SureWest discovered in a review of its 2012 RoR ILEC Interstate worksheet relating to NRCs the inadvertent exclusion of Interstate NRCs in that worksheet. Accordingly, SureWest has revised its 2012 RoR ILEC Interstate worksheet sheet to include NRCs totaling \$5,780. The addition of interstate NRCs to SureWest's worksheet causes SureWest's eligible recovery to change. SureWest notes the \$5,780 NRC amount does reduce its

eligible recovery. However, the reduction in eligible recovery is so minimal that it does not impact SureWest's currently filed ARC rates. Therefore, the ARC rates remain the same as those filed in SureWest's Transmittal No. 32.

The *Designation Order* directs SureWest to submit a table showing its filed ARC rates and the ARC rates supported by its direct case. SureWest provides the following:

Access Recovery Charge (ARC) Rate Table			
	Filed Rates (T-32)	Supported DC Rates	Change in Rate
Residence	\$0.50	\$0.50	\$0.00
Single Line Business	\$0.50	\$0.50	\$0.00
Multi-Line Business, ISDN PRI, and Centrex	\$1.00	\$1.00	\$0.00

Finally, the *Designation Order* directs SureWest to include a complete TRP showing the calculation of SureWest's ARC rates. Accordingly, SureWest provides a revised TRP consisting of the following files: RoR-ILEC-ICC-data.xls, RateCeiling-CAF.xls, and Tariff-Rate-Comparison_CAF.xls.

VI. Conclusion

As shown herein, SureWest has properly calculated its ARC rates, has reasonably calculated its intrastate rate reductions, and has reasonably estimated its projected interstate and intrastate switched access demand. Its ARC rates are just and reasonable, and thus SureWest

requests that the Commission withdraw the suspension of those rates.

Respectfully submitted,

SUREWEST TELEPHONE

By: /s/ Paul J. Feldman
Paul J. Feldman

Its Attorney

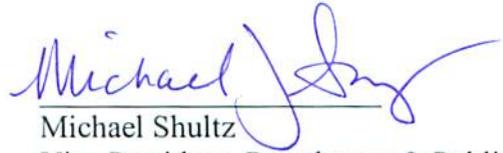
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September 27, 2012

CERTIFICATION

I hereby certify that the factual statements contained in the attached Direct Case of SureWest Telephone are true and correct to the best of my knowledge and belief.

September 27, 2012



Michael Shultz
Vice President, Regulatory & Public Policy
Consolidated Communications, Inc.
(corporate parent of SureWest Telephone)