EXHIBIT 2

STATE OF NEW HAMPSHIRE
BEFORE THE PUBLIC UTILITIES COMMISSION

DT 11-____

PETITION OF MERRIMACK COUNTY TELEPHONE COMPANY FOR APPROVAL OF AN ALTERNATIVE FORM OF REGULATION

PREFILED DIRECT TESTIMONY OF THOMAS E. MURRAY ON BEHALF OF MERRIMACK COUNTY TELEPHONE COMPANY

JULY 1, 2011

PREFILED DIRECT TESTIMONY OF THOMAS E. MURRAY

Q. Please state your name and business address.

A. My name is Thomas E. Murray and my business address is 24 Depot Square, Unit 2, Northfield, Vermont 05663.

Q. By whom are you employed, and in what capacity?

A. I am employed by TDS Telecom Service Corporation ("TDS Telecom") as Manager - State Government Affairs in TDS Telecom's Government and Regulatory Affairs Department. I have responsibility for the State Regulatory affairs and State Legislative affairs in Maine, New Hampshire, Vermont and New York.

Q. Please describe your relevant background and experience.

A. My background includes twenty years in the telecommunications field including seven years of employment at TDS Telecom, four years with Rural Cellular Corp. and six years in Vermont state government. I have most recently served as the Chief Information Officer for the State of Vermont and as Executive Director of the Vermont Telecommunications Authority.

Q. What are your duties at TDS Telecom?

A. I directly manage regulatory, legislative and industry relations for 21 TDS Telecommunications Corporation ("TDS") ILECs in the four-state area I mentioned earlier. I have direct responsibility for each state's regulatory and legislative activity. Duties include monitoring and participation in regulatory dockets and proceedings, as well as legislative and industry activities.

Q. What is the purpose of your testimony?

A. My testimony is submitted in support of the petition by MCT to adopt an Alternative Regulation Plan (the "Plan", which is Exhibit 1 to the petition) pursuant to New Hampshire RSA 374:3-b, and is in two parts. In Part 1, I review the eligibility criteria under that statute for approval of such a plan and describe how MCT and the Plan meet each of those criteria. In Part 2, I review additional items related to the Plan not covered in Part 1.

Q. Was RSA 374:3-b recently amended by the New Hampshire General Court?

A. Yes. MCT previously sought approval of an alternative regulation plan under an earlier version of RSA 374:3-b. Amendments to this statute, which were made this year in Senate Bill 22, were enacted into law by the New Hampshire legislature and took effect on June 14, 2011. The amended statute is very similar to the earlier statute, with some substantive changes.

Q. Please summarize the substantive changes reflected in the amended statute.

A. RSA 473:3-b, as amended, still applies only to incumbent local exchange carriers serving fewer than 25,000 access lines. The new amendments, however, require such a carrier, as a threshold condition of eligibility for alternative regulation under the statute, to show that it now has 25% fewer access lines in service than it had on December 31, 2004. This new requirement replaces the previous statutory requirement that the petitioner show that competitive service is available to a majority of the retail customers in each of its exchanges. The new amendments also (1) eliminate the need to demonstrate that alternative regulation will promote innovative services and (2) substantially ease the entry of competitors into the petitioner's exchanges by declaring that such entity is consistent with the public good as a matter of law and by removing the requirement of a hearing before such competitive entry is authorized.

Q. What was the outcome of the earlier MCT alternative regulation petition?

A. MCT submitted its earlier petition to the Commission on March 1, 2007. After 3 years, the Commission denied the original MCT petition on May 14, 2010. MCT has now opted to submit this new petition and seek the Commission's approval of an alternative regulation plan under the provisions of the newly amended statute.

Q. Why is MCT seeking Alternative Regulation at this time?

A. The rapid evolution of competitive wireless, wireline and Voice over Internet Protocol ("VoIP") providers has created a situation where traditional telephone companies require marketing flexibility and comparable regulation in order to survive. In MCT's particular circumstance, cable, VoIP and Wireless telephone providers operating throughout MCT's service territory enjoy considerably less regulation than MCT and they have garnered market share from MCT. Competition in these various forms presents a significant threat to the viability of small telephone companies and our ability to sustain our universal service commitments. MCT and TDS believe it is in the best interest of the Company, its customers and the State of New Hampshire to grant alternative regulation status to

MCT, so that MCT can compete and continue to provide services to rural New Hampshire residents and businesses.

PART 1 – ELIGIBILITY CRITERIA REVIEW OF THE PLAN

Q. Does MCT meet the threshold eligibility requirements of RSA 374:3-b?

A. Yes. As required by RSA 374:3-b, II, MCT is an incumbent local exchange carrier subject to rate-of-return regulation and serves fewer than 25,000 access lines. MCT serves approximately 12,775 access lines in a service territory comprised of the Antrim, Bradford, Contoocook, Henniker, Hillsborough, Melvin Village, Sutton, and Warner exchanges.

Q. What standard have you applied in your analysis?

A. I have followed RSA 374:3-b, which states:

I. In this section, "small incumbent local exchange carrier" means an incumbent local exchange carrier serving fewer than 25,000 access lines.

II. Solely at its option, a small incumbent local exchange carrier subject to rate of return regulation, and only such small incumbent local exchange carrier, may petition the public utilities commission for approval of an alternative form of regulation providing for regulation of such carrier's retail operations comparable to the regulation applied to competitive local exchange carriers, subject to paragraph III, due to its status as carrier of last resort.

III. The commission shall approve the alternative regulation plan if it finds that:

(a) The small incumbent local exchange carrier has 25 percent fewer access lines in service than it did on December 31, 2004;

(b) The plan provides for maximum stand-alone basic local service rates at levels that do not exceed the comparable rates charged by the largest incumbent local exchange carrier operating in the state and that do not increase by more than 5 percent in each of the 4 years after a plan is approved with the exception that the plan may provide for additional rate adjustments, with public utilities commission review and approval, to reflect changes in federal, state, or local government taxes, mandates, rules, regulations, or statutes;

(c) The plan meets intercarrier service obligations under other applicable laws;

(d) The plan preserves universal access to affordable stand-alone basic telephone service; and

(e) The plan provides that, if the small incumbent local exchange carrier operating under the plan fails to meet any of the conditions set out in this section, the public utilities commission may require the small incumbent local exchange carrier to propose modifications to the alternative regulation plan or return to rate of return regulation.

IV. The alternative regulation plan may allow the small incumbent local exchange carrier to offer bundled services that include combinations of telecommunications, data, video, and other services.

V. Following approval of the alternative regulation plan, the small incumbent local exchange carrier shall no longer be subject to rate of return regulation or be required to file affiliate contracts or seek prior commission approval of financings or corporate organizational changes, including, without limitation, mergers, acquisitions, corporate restructurings, issuance or transfer of securities, or the sale, lease, or other transfer of assets or control.

VI. Notwithstanding any other provision of law, competitive entry in the service territory of a small incumbent local exchange carrier which has petitioned for approval of an alternative regulation plan, is consistent with the public good for the specific purpose of RSA 374:22-g and approval of such competitive entry shall not require a hearing as required under RSA 374:26.

Q. Please describe your analysis and your conclusions regarding the Petition and Plan.

A. I will discuss each of the criteria in turn.

1. RSA 374:3-b, III(a) – Access Line Loss

Q. Does MCT have 25 percent fewer access lines in service than it did on December 31, 2004?

A. Yes. As identified in its 2010 New Hampshire ILEC-3 Annual Report, MCT had 12,775 total access lines in service as of December 2010. In December 2004, MCT had 17,792 total access lines in service. The total access line loss over this period of time is -28.20%.

Q. Please explain why you're testifying that MCT had 17,792 total access lines in service in December 2004 when MCT's 2004 New Hampshire ILEC-3 Annual Report shows 19,041 total access lines in service?

A. The methodology used for counting access lines in service was standardized in 2005. MCT's 2004 New Hampshire ILEC-3 Annual Report reported items such as extension lines, official lines, and test lines (among others) in its count of access lines in service. After removing these non-revenue producing or partial lines and utilizing a standardized methodology which only includes full revenue producing access lines since 2005, MCT determined that it had 17,792 total access lines in service as of December 2004.

2. RSA 374:3-b, III (b) – Price Cap for Stand-Alone Basic Service

Q. Please briefly describe the pricing provisions of the Alternative Regulation Plan.

A. For purposes of conforming the Plan to the objectives of the statute (i.e., significantly reducing regulation of retail services while preserving universal service and meeting intercarrier obligations), the services are put into three buckets: (i) stand-alone basic retail services, (ii) non-basic retail services and (iii) wholesale services. While it is defined further within the Plan, stand-alone basic retail services are residential and business single-party line voice services that include the additional features that constitute "basic service" as defined in Puc 402.05 and Puc 412.01. Wholesale services are those services that are provisioned to other telecommunications carriers for interconnection of networks (e.g., switched access, reciprocal compensation, special access). Any other services that do not fall within the definitions of stand-alone basic retail services or wholesale services are classified as non-basic retail services.

Q. How are rates for stand-alone basic retail service set up under the Plan?

A. As required by the guiding statute, rates for stand-alone basic retail services cannot be raised higher than the rates charged by the largest incumbent local exchange carrier ("ILEC") in New Hampshire (the "Rate Cap"). The largest ILEC in New Hampshire is Northern New England Telephone Operations LLC, d/b/a FairPoint Communications-NNE ("FairPoint"). Essentially, MCT will be able to adjust stand-alone basic retail service rates at its own discretion as long as it does not exceed this Rate Cap. In addition, each stand-alone basic retail service rate cannot increase by more than 5 percent each year for the initial four years under the Plan (the "Annual Percentage Rate Cap"). With these two rate cap elements, the Plan meets the requirements of RSA 374:3-b, III(b).

Q. Please identify the current monthly residential single-party line voice service rate at each of MCT's exchanges, and the corresponding Rate Cap.

A. The current monthly residential single-party line voice service rate is $11.24 for each MCT exchange. FairPoint's rate methodology uses "local rate groups," which set basic local rates based on the number of callable access lines in an exchange's local calling area. Using FairPoint's local rate groups, the current corresponding Rate Caps for each MCT exchange are shown below:

	FairPoint Rate Group	Rate Cap
Antrim	D	$14.43
Bradford	D	$14.43
Contoocook	E	$15.71
Henniker	D	$14.43
Hillsborough	D	$14.43
Melvin Village	C	$13.27
Sutton	C	$13.27
Warner	C	$13.27

Q. Are exogenous adjustments made to the rates for stand-alone basic retail service used in determining the Rate Caps or the Annual Percentage Rate Cap?

A. Yes. In addition to rate changes allowed under the statutory Rate Caps, the Plan, pursuant to RSA 374:3-b,III(b) authorizes additional rate adjustments that are made as a result of exogenous changes as defined within the statute. As a result, the Rate Cap and Annual Percentage Rate Cap can be adjusted to reflect the Rate Cap plus or minus any changes made due to an exogenous event.

Q. Would you explain the exogenous change provision of the Plan?

A. The purpose of the exogenous change provision is to allow the Company to make changes to its rates for stand-alone basic retail services due to financial impacts that result from a governmental action that is not within the control of the Company. Specifically, an exogenous event is a change in any single federal, state, or local government tax, mandate, rule, regulation, or statute that would cause a change in MCT 's total intrastate regulated revenue, expenses, or plant in service, of more than 5% in any twelve-month period, as compared to the base period. Any change in rates resulting from an exogenous change must receive the approval of the Commission. The process would require the Company to file a petition with the Commission (or the Commission to act on its own motion) seeking such adjustments to a stand-alone basic retail service rate beyond those allowed within the Plan. After an opportunity for a hearing on the matter, the Commission would either approve or deny the petition.

While it is not anticipated that there will be many exogenous events, the provision is needed to allow for events that are outside the control of the Company. For example, if the Federal Communications Commission eventually implements a new regime for intercarrier compensation, the Company may need to adjust its stand-alone basic retail rates to reach a specific national benchmark rate before drawing from a national funding mechanism. Such a government mandate would likely require the Company to adjust its stand-alone basic retail rates beyond the limit allowed for under its Plan.

Q. Will MCT be able to offer customers bundles of services that include stand-alone basic retail services?

A. Yes. As long as the stand-alone basic retail service in the bundle is available separately to the customer, MCT will also be able to offer it in a bundle with any other regulated or unregulated services. The rates for the bundle will not be limited by a cap or any other restriction. However, customers desiring the stand-alone basic retail service will continue to be able to purchase it subject to the rate cap.

Q. How are rates for non-basic retail service set under the Plan?

A. Under the Plan, rates for non-basic retail services will be subject to the same very limited regulation that competitive companies face, i.e., the limits on these rates will be set by the market, not by regulation.

3. RSA 374:3-b, III(c) – Intercarrier Obligations

Q. Does the Plan meet intercarrier service obligations under applicable law?

A. Yes. The Company shall meet its intercarrier obligations under other applicable laws including, without limitation, the federal Telecommunications Act of 1996 and applicable successor legislation. Under the Plan, MCT will not oppose Commission certification or registration of any company seeking to do business as a CLEC in its service territory. The Plan is consistent with the public good for the specific purpose of RSA 374:22-g and approval of such competitive entry shall not require a hearing as required under RSA 374:26. In addition, the Company agrees to waive the federal rural exemption as qualified in the Plan.

Q. How are rates for wholesale services set under the plan?

A. Under the Plan, there are no changes to the existing level of regulation regarding the pricing, tariffing, or other state and federal intercarrier obligations concerning MCT's provisioning of wholesale services.

4. RSA 374:3-b, III(d) – Universal Service

Q. Does the Plan preserve universal access to affordable stand-alone basic telephone service?

A. Yes. MCT will continue investing in its network to meet customers' needs, ensuring that customers receive essential services. In addition, MCT will continue to provide service as the carrier of last resort. Moreover, the extensive competition in each of MCT's exchanges, together with the limitations on stand-alone basic service rates under the Plan, will ensure that stand-alone basic telephone service will remain available and affordable. Finally, MCT will continue to participate in the federal universal service program and maintain its status as an eligible telecommunications carrier under 47 U.S.C. § 254.

5. RSA 374:3-b, III (e) – Modification or Termination

Q. What would happen under the Plan in the event that MCT fails to meet any of the conditions for alternative regulation set forth in RSA 374:3-b?

A. In such an event, the Commission would be able to enforce MCT's compliance with any such condition, require modification of the Plan to achieve such compliance or order the Company to return to rate-of-return regulation. An evidentiary hearing would be afforded MCT to determine whether or not it was meeting the conditions set forth in RSA 374:3-b.

Q. What conclusion have you reached as a result of your review of the statutory criteria of RSA 374:3-b as they relate to the Company and the proposed Plan?

A. I conclude that MCT meets the eligibility requirements for approval of an alternative form of regulation and that the Plan satisfies each of the requirements of RSA 374:3-b.

PART 2 – ADDITIONAL REVIEW OF THE PLAN

Q. What are the goals of the Plan?

A. The goals of the Plan are designed to comply with the specific criteria set forth in RSA 374:3-b. Specifically, the goals are to:

- Set forth the regulatory requirements applicable to the Company's retail operations that are comparable to the regulation the Commission applies to CLECs.
- Ensure that a high level of service continues to be provided to the Company's customers while maintaining a network that meets customer needs.

- Facilitate the transition to a competitive telecommunications market in the areas served by MCT.
- Meet intercarrier service obligations.
- Preserve universal service by maintaining the status of the Company as the carrier of last resort to ensure customers have access to affordable stand-alone basic telephone service.

Q. How does the Plan regulate the retail operations of MCT compared to the regulation the Commission applies to a CLEC?

A. Pursuant to the statute, under the Plan MCT would be regulated in a manner comparable to the regulation that applies to a CLEC. The exceptions are (i) the rate cap on stand-alone basic retail service rates, (ii) the regulation of wholesale service rates and (iii) the continuing requirement for MCT to serve as the carrier of last resort. Appendix 1 of the Plan details the administrative rules of the Commission that will be applicable to MCT while it operates under the Plan.

Q. What tariffing requirements are required by the Plan when establishing prices for MCT's basic and non-basic retail services?

A. Appendix 1 to the Plan lists the PUC Rules that we believe to be in concurrence with RSA 374:3-b. In the case of tariffing, MCT will be following the Uniform Tariff requirements of Puc 431.05(a)-(c). The Company will file the Uniform Tariff within 90 days from the Commission's final order approving the Plan.

Q. Please describe how you arrived at the list of administrative rules that will be applicable to MCT under the Plan.

A. On April 23, 2008, the Commission approved the amended alternative regulation plans of Wilton and Hollis in Order No. 24,852 in DT 07-027. The list of administrative rules in Appendix 1 to MCT's Plan is identical in scope to the administrative rules currently applicable to Wilton and Hollis. The proposed list is also identical in scope to the administrative rules that are applicable to Kearsarge Telephone Company under Order No. 25,182, issued by the Commission on December 22, 2010, and to Union Telephone Company under Order No. 25,235, issued by the Commission on June 15, 2011.

Q. What is the term of the Plan?

A. The Plan will be effective on the first day of the month following the issuance of the Commission's final order approving the Plan, and will continue until the Plan is terminated. The Plan does not have a termination date. MCT can terminate the Plan upon its own initiative by filing a notice of termination with the Commission. Upon filing such a letter, MCT would immediately return back to its prior regulation or, in the alternative, if the Company qualifies for another form of regulation at that time, it could elect that form of regulation. The Commission may also terminate the Plan under Section 2.3 of the Plan as discussed earlier in this testimony.

Q. What are the benefits of the Plan to the customers of MCT?

A. The benefits to customers include all benefits brought by competition: attractive pricing and bundling, along with MCT's commitment to provide a network that will preserve access to affordable stand-alone basic telephone service. At the same time, the Plan limits customer risks by limiting stand-alone basic local rate changes in conjunction with capping stand-alone basic local service rates. From a customer's point of view this is a "win, win" situation. The company who wants to serve them will have a level playing field to compete with new providers, likely bringing customers better services while assuring the continuance of affordable stand-alone basic local telephone service. The Commission will continue to monitor the success or failure of the Plan and can act at any time to assure compliance with the provisions of the statute and applicable PUC rules.

Q. Does this conclude your testimony?

A. Yes, it does.