

DIRECT TESTIMONY
OF
JAMES ZOLNIEREK

POLICY DEPARTMENT
TELECOMMUNICATIONS DIVISION
ILLINOIS COMMERCE COMMISSION

IN THE MATTER OF THE PETITION OF USCOC OF ILLINOIS RSA #1, LLC,
USCOC OF ILLINOIS RSA #4, LLC, USCOC OF ROCKFORD, LLC, AND
USCOC OF CENTRAL ILLINOIS, LLC PETITION FOR DESIGNATION AS AN
ELIGIBLE TELECOMMUNICATIONS CARRIER UNDER 47 U.S.C. § 214(e)(2)

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1 **Q. Please state your name and business address.**

2 A. My name is James Zolnierrek and my business address is 527 East Capitol
3 Avenue, Springfield, Illinois 62701.

4

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

6 A. I am employed by the Illinois Commerce Commission (“Commission” or
7 “ICC”) as the Interim Manager of Policy Department within the Public
8 Utility Bureau’s Telecommunications Division.

9

10 **Q. Please state your education background and previous job**
11 **responsibilities.**

12 A. I earned my Doctor of Philosophy degree in economics from Michigan
13 State University in 1996. Prior to joining the Illinois Commerce
14 Commission I was employed by the Federal Communications Commission
15 (“FCC”) in the Common Carrier Bureau, Industry Analysis Division.

16

17 **Overview**

18

19 **Q. What is the purpose of your testimony?**

20 A. In this proceeding U.S. Cellular seeks redefinition of the service areas of
21 five rural local exchange carriers, including “Citizens Telecommunications
22 of Illinois d/b/a Frontier Communications of Illinois (“Citizens”), Frontier
23 Communications of Midland, Inc. (“Frontier/Midland”), Odin Telephone

24 Exchange, Inc. (“Odin”), Verizon South, Inc. (“Verizon South”), and
25 Wabash Telephone Cooperative (“Wabash”).¹ With respect to such rural
26 redefinition requests the Federal Communications Commission (“FCC”)
27 has indicated that:

28 As part of the public interest analysis for ETC applicants that
29 seek designation below the service area level of a rural
30 incumbent LEC, we will perform an examination to detect the
31 potential for creamskimming effects that is similar to the
32 analysis employed in the *Virginia Cellular ETC Designation*
33 *Order* and the *Highland Cellular ETC Designation Order*.
34 As discussed below, the state commissions that apply a
35 creamskimming analysis similar to the Commission’s will
36 facilitate the Commission’s review of petitions seeking
37 redefinition of incumbent LEC service areas filed pursuant to
38 section 214(e)(5) of the Act.²
39

40 I believe that it is desirable for states and the FCC to apply similar
41 creamskimming analyses to new ETC applications. Accordingly, I provide
42 an analysis of the potential for creamskimming effects raised by U.S.
43 Cellular’s request for service area redefinitions in rural service areas.

44
45 Although, U.S. Cellular also proposes redefinitions of certain non-rural
46 local exchange carrier service areas,³ I do not provide an analysis of the
47 potential for creamskimming effects raised by U.S. Cellular’s request for
48 service area redefinitions in the non-rural service areas. With respect to
49 such non-rural redefinition requests the FCC has stated:

¹ USCOC of Illinois RSA #1, LLC, USCOC of Illinois RSA #4, LLC, USCOC of Rockford, LLC, and USCOC of Central Illinois, LLC, Petition for Designation of Eligible Telecommunications Carrier, Docket No. 04-0653 (“Petition”) at ¶ 52.

² Federal Communications Commission, Report and Order (“ETC Order”), CC Docket No. 96-45, FCC 05-46, Released March 17, 2005, at ¶ 48 (footnotes omitted).

50 We find that a creamskimming analysis is unnecessary for
51 ETC applicants seeking designation below the service area
52 level of non-rural incumbent LECs. Unlike the rural
53 mechanism, which uses embedded costs to distribute
54 support on a service area-wide basis, the non-rural
55 mechanism uses a forward-looking cost model to distribute
56 support to individual wire centers where costs exceed the
57 national average by a certain amount. Therefore, under the
58 non-rural methodology, high-density, low-cost wire centers
59 receive little or no high-cost support, thereby protecting
60 against the potential for creamskimming.⁴
61

62 Accordingly, I do not provide an analysis of the potential for
63 creamskimming effects raised by U.S. Cellular's request for service area
64 redefinitions in non-rural service areas.

65
66 **FCC Creamskimming Analysis Guidelines**
67

68 **Q. What circumstances has the FCC identified as creating the potential**
69 **for creamskimming?**

70 A. The FCC has stated that "[t]he potential for creamskimming ... arises
71 when an ETC seeks designation in a disproportionate share of high-
72 density wire centers in an incumbent LEC's service area."⁵

73
74 **Q. Why has the FCC identified creamskimming as a public interest**
75 **concern?**

76 A. The FCC has identified two primary concerns with respect to
77 creamskimming. First the FCC stated:

³ See Petition, Exhibit B.

⁴ FCC, ETC Order, at ¶ 52 (footnotes omitted).

78 By serving a disproportionate share of the high-density
79 portion of a service area, an ETC may receive more support
80 than is reflective of the rural incumbent LEC's costs of
81 serving that wire center because support for each line is
82 based on the rural telephone company's average costs for
83 serving the entire service area unless the incumbent LEC
84 has disaggregated its support.⁶
85

86 Second, the FCC stated:

87 The effects of creamskimming also would unfairly affect the
88 incumbent LEC's ability to provide service throughout the
89 area since it would be obligated to serve the remaining high-
90 cost wire centers in the rural service area while ETCs could
91 target the rural incumbent LEC's customers in the lowest
92 cost areas and also receive support for serving the
93 customers in these areas.⁷
94

95 **Q. Do the FCC guidelines for analyzing creamskimming require an**
96 **assessment of whether a carrier seeking ETC designation intends to**
97 **creamskim or not?**

98 A. No. The FCC has stated that "...the analysis should consider not whether
99 the competitive ETC intends to creamskim, but whether the ETC
100 applicant's proposed service area has the effect of creamskimming."⁸
101

102 **Staff Information**
103

104 **Q. Did you compile any information with respect to wire-center density**
105 **in the rural service areas where U.S. Cellular is seeking**
106 **redesignation?**

⁵ Id. at ¶ 49.

⁶ Id.

⁷ Id.

107 A. Yes. For each of the five rural service areas, I computed population per
108 square mile information for each wire center contained within the rural
109 service area. These figures are presented in Exhibit JZ-1 to my testimony.
110 I obtained wire center boundary information from Wire Center Premium v
111 7.3.⁹ I obtained population and area information from the 2000 Census of
112 Population and Housing.¹⁰

113

114 **Q. How did you calculate population per square mile and household per**
115 **square mile information?**

116 A. I mapped each census block reported in the 2000 Census of Population
117 into the boundary of an individual Illinois wire center based upon the
118 internal point latitude and longitude for each census block contained in the
119 2000 Census of Population. Then, for each wire center, I summed the
120 population and land area figures from the 2000 Census of Population for
121 each census block that I mapped into each wire center.

122

123 **Creamskimming Analysis**

124

125 ***Citizens Service Area***

126

⁸ Id. at ¶ 49, n. 136.

⁹ Wire Center Premium v 7.3 is dated October 2003 and is produced by Geographic Data Technology.

¹⁰ The 2000 Census of Population and Housing is produced by the U.S. Department of Commerce, U.S. Census Bureau.

127 **Q. Does the information you collected provide any reason to believe**
128 **that the potential for creamskimming exists with respect to U.S.**
129 **Cellular’s proposal to serve only a portion of the Citizens Service**
130 **Area?**

131 A. No. The information I compiled suggests that the average population
132 density of the portion of the Citizens service area U.S. Cellular proposes
133 to include as part of its designated ETC area is below the average
134 population density of the portion of the Citizens service area U.S. Cellular
135 does not propose to include as part of its designated ETC area and below
136 the average population density of the entire Citizens service area.¹¹

137

138 ***Frontier/Midland Service Area***

139

140 **Q. Does the information you collected provide any reason to believe**
141 **that the potential for creamskimming exists with respect to U.S.**
142 **Cellular’s proposal to serve only a portion of the Frontier/Midland**
143 **Service Area?**

144 A. No. The information I compiled suggests that the average population
145 density of the portion of the Frontier/Midland service area U.S. Cellular
146 proposes to include as part of its designated ETC area is below the
147 average population density of the portion of the Frontier/Midland service

¹¹ The averages computed here across wire centers are weighted by wire center populations. Therefore, the averages reported here are equivalent to figures derived by dividing the entire population of the area containing the wire centers by the total land area containing the wire centers.

148 area U.S. Cellular does not propose to include as part of its designated
149 ETC area and below the average population density of the entire
150 Frontier/Midland service area.

151

152 ***Odin Service Area***

153

154 **Q. Does the information you collected provide any reason to believe**
155 **that the potential for creamskimming exists with respect to U.S.**
156 **Cellular’s proposal to serve only a portion of the Odin Service Area?**

157 A. No. The information I compiled suggests that the average population
158 density of the portion of the Odin service area U.S. Cellular proposes to
159 include as part of its designated ETC area is below the average population
160 density of the portion of the Odin service area U.S. Cellular does not
161 propose to include as part of its designated ETC area and below the
162 average population density of the entire Odin service area.

163

164 ***Verizon South Service Area***

165

166 **Q. Does the information you collected provide any reason to believe**
167 **that the potential for creamskimming exists with respect to U.S.**
168 **Cellular’s proposal to serve only a portion of the Verizon South**
169 **Service Area?**

170 A. Yes. U.S. Cellular reports that the average population density of the
171 portion of the Verizon South service area U.S. Cellular proposes to include
172 as part of its designated ETC area is greater than the average population
173 density of the entire Verizon South service area by approximately 4
174 persons per square mile.¹² Based on the information I have compiled, I
175 find a slightly larger variance of approximately 6 persons per square mile.

176

177 Of additional concern is that the information I compiled suggests that the
178 average population density of the portion of the Verizon South service
179 area U.S. Cellular proposes to exclude from its designated ETC area is
180 below the average population density of the entire Verizon South service
181 area. The difference is approximately 17 people per square mile. In other
182 words, U.S. Cellular proposes to exclude a relatively rural portion of
183 Verizon's service area (relative to the remainder of the Verizon South
184 Service area) from its designated ETC area.

185

186 **Q. Why does this later information raise concerns of creamskimming?**

187 A. It goes to the concern identified by the FCC that U.S. Cellular might leave
188 Verizon South unable to serve the area outside that portion U.S. Cellular
189 seeks ETC designation in, should U.S. Cellular capture a larger portion of
190 customers inside the portion U.S. Cellular seeks ETC designation in.

191

¹² Petition at ¶ 58.

192 **Q. Has U.S. Cellular addressed these potential creamskimming**
193 **concerns with respect to the Verizon South service area?**

194 A. No. While U.S. Cellular does present evidence that it will serve a number
195 of sparsely populated wire centers in the Verizon South service area, it
196 does not address the disparity in density between the Verizon South area
197 it intends to include in its ETC area and the Verizon South area it intends
198 to exclude from its ETC area. Similarly, US Cellular does not address
199 concerns regarding Verizon South's ability to serve this area. Verizon
200 South's ability to serve its entire service area is a critical public interest
201 consideration.

202

203 ***Wabash Service Area***

204

205 **Q. Does the information you collected provide any reason to believe**
206 **that the potential for creamskimming exists with respect to U.S.**
207 **Cellular's proposal to serve only a portion of the Wabash Service**
208 **Area?**

209 A. Yes. I find, as did IITA witness Schoonmaker,¹³ that the average
210 population density of the portion of the Wabash service area U.S. Cellular
211 proposes to include as part of its designated ETC area is slightly greater
212 than the average population density of the entire Wabash service area. In
213 addition, the information I compiled suggests that the average population

¹³ Direct Testimony of Robert C. Schoonmaker On Behalf of the Illinois Independent Telephone Association and Certain Member Companies in Docket No. 04-0653 at 76 and 77.

214 density of the portion of the Wabash service area U.S. Cellular proposes
215 to exclude from its designated ETC area is below the average population
216 density of the entire Wabash service area. In both cases the disparities
217 are approximately 3 to 4 persons per square mile.

218

219 **Q. Has U.S. Cellular addressed these potential creamskimming**
220 **concerns with respect to the Wabash service area?**

221 A. No. U.S. Cellular cited only unweighted wire center averages showing
222 that the average population per square mile in areas inside its proposed
223 Wabash ETC area exceeds the average population per square mile in the
224 entire Wabash ETC area. Unweighted wire center averages, however,
225 produce population per square mile figures that differ from those actually
226 occurring in the areas inside and outside U.S. Cellular's proposed service
227 areas. For example, under U.S. Cellular's methodology a wire center with
228 100 people per square mile covering 100 miles averaged with a wire
229 center with 1 person per square mile covering 1 mile will produce an
230 average population per wire center of 50.5. However, the actual density of
231 the combined area covered by the two wire centers is approximately 99
232 people per square mile. Because the actual densities of these areas will
233 determine whether FCC's creamskimming concerns are potentially valid,
234 the evidence presented by U.S. Cellular to date does not remedy the
235 creamskimming concerns identified by the information I have compiled.

236

237 **Conclusion**
238

239 **Q. What is your recommendation with respect to the rural service area**
240 **redefinitions proposed by U.S. Cellular?**

241 A. Above, I have identified potential creamskimming issues related to U.S.
242 Cellular's proposal to redefine the Verizon South and Wabash service
243 areas. If U.S. Cellular does not provide evidence to remedy these
244 concerns, then the Commission should deny U.S. Cellular's request for
245 ETC status in the Verizon South and Wabash service areas.

246

247 **Q. Does this conclude your testimony?**

248 A. Yes.