

**STATE OF ILLINOIS  
ILLINOIS COMMERCE COMMISSION**

<b>In the matter of</b>	)	
<b>USCOC of Illinois RSA #1, LLC.</b>	)	
<b>USCOC of Illinois RSA #4, LLC.</b>	)	<b>Docket No. 04-0653</b>
<b>USCOC of Illinois Rockford, LLC. and</b>	)	
<b>USCOC of Central Illinois, LLC.</b>	)	

**SURREBUTTAL TESTIMONY  
OF  
DON J. WOOD  
ON BEHALF OF U. S. CELLULAR CORPORATION**

**AUGUST 18, 2005**

1 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

2 A. My name is Don J. Wood. My business address is 30,000 Mill Creek Avenue, Suite 395,  
3 Alpharetta, Georgia 30022.

4  
5 Q. ARE YOU THE SAME DON J. WOOD WHO PREFILED REBUTTAL TESTIMONY  
6 IN THIS PROCEEDING ON JUNE 9, 2005?

7 A. Yes.

8  
9 Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?

10 A. The purpose of my testimony is to respond to the prefiled rebuttal testimony of Robert C.  
11 Schoonmaker on behalf of the Illinois Independent Telephone Association and certain  
12 member companies (“IITA” or “ILECs”).<sup>1</sup> I will also address several of the issues raised  
13 in Staff’s testimony.

14  
15 Q. DOES MR. SCHOONMAKER PROVIDE ANY NEW INFORMATION IN HIS  
16 REBUTTAL TESTIMONY?

17 A. Not that I have found. It appears that he is simply rearguing points previously made in

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<sup>1</sup> Mr. James E. Stidham filed rebuttal testimony on behalf of SBC Illinois. The issues he addresses are also addressed by Mr. Schoonmaker. Rather than file duplicative surrebuttal testimony, my response to Mr. Schoonmaker in this testimony is intended to serve as a response to Mr. Stidham as well.

18 his direct testimony of April 28. I responded to these points in detail in my rebuttal  
19 testimony of June 9. In my surrebuttal testimony I will endeavor to provide a reasonably  
20 concise response to his claims so that these issues can (hopefully) be put to rest.

21

22 Q. MR. SCHOONMAKER (P. 20) ASSERTS THAT YOU HAVE SOMEHOW  
23 MISCHARACTERIZED HIS TESTIMONY REGARDING THE PURPOSE OF THE  
24 1996 TELECOMMUNICATIONS ACT. IS HE RIGHT?

25 A. No. Mr. Schoonmaker does now acknowledge that the primary intent “of the Act as a  
26 whole” is to do exactly what the introduction to the Conference Report states:

27 To provide for a *pro-competitive*, de-regulatory national policy  
28 framework designed to accelerate rapidly private sector  
29 deployment of *advanced telecommunications and information*  
30 *technologies* and services to *all* Americans by opening *all*  
31 telecommunications markets to competition (emphasis added).  
32

33 Mr. Schoonmaker now suggests (p. 20) that while some sections of the Act (“251  
34 and 252 along with a number of others”) are intended to be consistent with this  
35 overarching goal, other sections, notably §254, are not. There is nothing in the Act that  
36 suggests that Congress intended such an interpretation.

37 Mr. Schoonmaker goes on to state (p. 20) that “the principles enunciated by  
38 Congress in Section 254 do not include a principle of ‘promoting competition’.” He is  
39 playing a bit of a word game here; §254(b) clearly articulates the following as primary

40 principle of the federal universal service program: “consumers in all regions of the  
41 Nation,” “including those in rural, insular, and high-cost areas,” should have access to  
42 telecommunications services that is “reasonably comparable to those services provided in  
43 urban areas.” Mr. Schoonmaker is correct that the words “promote competitive entry”  
44 are not repeated in this section. But as I noted in my rebuttal testimony, Mr.  
45 Schoonmaker devotes a significant portion of his direct testimony (and now his rebuttal)  
46 to an assertion that comparable service is *not* currently being provided in many of the  
47 areas in question. Whether described as “promoting competitive entry” or as a “policy  
48 framework designed to accelerate rapidly private sector deployment” of the facilities  
49 needed to provide all consumers, including those “in rural, insular, and high-cost areas”  
50 access to telecommunications services that are “reasonably comparable to those services  
51 provided in urban areas,” the mechanics of the process are the same and can be  
52 accomplished by the designation of qualified CETCs, including U. S. Cellular.

53

54 Q. MR. SCHOONMAKER (P. 21) TAKES ISSUE WITH YOUR ATTEMPTS TO  
55 “NARROWLY FRAME THE QUESTIONS BEFORE THE ICC.” HOW DO YOU  
56 RESPOND?

57 A. I would submit that an approach of focusing only on the issues actually at hand is an  
58 essential part of any process of providing regulators with the information that they need  
59 in order to reach a decision (certainly an essential part of any reasonably efficient process

60 of doing so). It is clear from his testimony that, in Mr. Schoonmaker's view, any scope is  
61 too narrow unless it leads to the outcome he wants: if the standards in place at the time U.  
62 S. Cellular's petition was filed are met, then subsequently-adopted standards should be  
63 considered, and if the company pledges to meet those subsequent standards, new  
64 requirements should be created and added as necessary until the petition is no longer  
65 compliant. This continuous process of creating new, ever-higher hurdles creates the need  
66 to "narrowly frame the questions" so that a meaningful evaluation of U. S Cellular's  
67 petition can be undertaken.

68

69 Q. MR. SCHOONMAKER TAKES ISSUE (P. 21) WITH YOUR ASSERTION THAT "IT  
70 WOULD BE REASONABLE FOR THE COMMISSION TO EVALUATE U. S.  
71 CELLULAR'S PETITION BASED ON THE REQUIREMENTS IN PLACE AT THE  
72 TIME THE PETITION WAS FILED." HAS YOUR POSITION CHANGED?

73 A. Not at all. My testimony remains that "it would be reasonable" for the Commission to  
74 apply the requirements that existed at the time U. S. Cellular's petition was filed, and  
75 thereby avoid changing the rules in the middle of game. This is exactly the approach  
76 taken by the FCC with regard to its own application of the *2005 USF Order*. The FCC  
77 did not propose to apply the requirements set forth in its order retroactively, but instead  
78 considered existing requests pursuant to the existing requirements and established a  
79 requirement that previously-designated ETCs (including both ILECs and CETCs) meet

80 the new filing requirements in 2006.

81 Equally importantly, the question is ultimately moot: as Mr. Hunter explains, U.  
82 S. Cellular is willing to provide the additional information required by the FCC's 2005  
83 *USF Order* if the Commission requests it.

84

85 Q. DOES MR. SCHOONMAKER AGREE THAT THE REQUIREMENTS OF THE  
86 FCC'S 2005 USF ORDER ARE TO BE APPLIED TO BOTH ILECS AND CETCS?

87 A. Yes. He "agrees and recognizes" (pp. 22-23) that the FCC will apply the new filing  
88 requirements to both ILECs and CETCs and has encouraged states to do so as well. Mr.  
89 Schoonmaker's belief in "competitive neutrality" apparently ends at that point though:  
90 while he urges the Commission to retroactively apply the requirements of the 2005 *USF*  
91 *Order* to U. S Cellular's petition, "this case is not the appropriate forum" to address the  
92 application of the requirements to IITA members.

93

94 Q. MR. SCHOONMAKER ASSERTS (PP. 21, 25-26) THAT FEDERAL LAW  
95 REQUIRES "AN ETC TO PROVIDE SERVICE THROUGHOUT THE DESIGNATED  
96 AREA" OR TO "SERVE THROUGHOUT THE SERVICE AREA." DOES SUCH A  
97 REQUIREMENT EXIST?

98 A. No. Specifically, Mr. Schoonmaker states (p. 21) that he "would submit that Section  
99 214(e)(1) requires an ETC to provide service throughout the designated area and the

100 ICC's adoption of the FCC's minimum recommendations will assist it in implementing  
101 and ensuring this statutory policy."

102 §214(e)(1), of course, includes no such requirement. The requirement, also  
103 codified as 47 CFR §54.201(d)(1) requires an ETC to *offer* services that include the  
104 supported service functionalities throughout the area.. The Joint Board and FCC have  
105 consistently interpreted §214(e)(1) as a requirement that an ETC *provide* service  
106 throughout the area "to all customers who make a reasonable request for service." In the  
107 paragraph of the *2005 USF Order* cited to by Mr. Schoonmaker,<sup>2</sup> the FCC repeats this  
108 interpretation as applicable to all ETCs (ILECs and CETCs), and goes on to describe in  
109 detail a series of steps to be followed by a wireless ETC in order to meet this standard.  
110 As Mr. Hunter explains, U. S. Cellular has committed to follow the approach outlined by  
111 the FCC.

112 As I explained in my rebuttal testimony, in addition to going beyond the language  
113 of the Act or FCC rules, *a literal requirement for an ETC "to provide service throughout*  
114 *the designated service area" would disqualify wireline carriers, including IITA members,*  
115 *as ETCs.*<sup>3</sup> This may explain why Mr. Schoonmaker seeks to erect such a high hurdle for

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<sup>2</sup> Schoonmaker Direct, footnote 36.

<sup>3</sup> Mr. Schoonmaker's assertion (pp. 25-26) that "it should be the ICC's determination what is a reasonable request and not U. S. Cellular's subjective determination" underscores the danger of his position. The competitively neutral application of any such requirement would immediately disqualify the ILECs as ETCs.

116 U. S. Cellular in this proceeding, but insists that any application of such a standard to the  
117 ILECs would not properly be addressed at this time.

118

119 Q. MR. SCHOONMAKER ARGUES (PP. 23-24) THAT BEGINNING WITH ITS  
120 *VIRGINIA CELLULAR ORDER*, THE FCC’S CONSIDERATION OF THE BENEFITS  
121 OF COMPETITIVE ENTRY “DECREASED SIGNIFICANTLY IN IMPORTANCE.”  
122 DO YOU AGREE?

123 A. Not at all. After suggesting – incorrectly – that this factor has “decreased significantly in  
124 importance,” Mr. Schoonmaker goes on to argue (p. 24) that the Commission should now  
125 ignore the FCC’s conclusions in its *Western Wireless Order* regarding customer benefits  
126 that will result from the designation of a CETC. Mr. Schoonmaker significantly  
127 overstates his case in this regard.

128 In the *Virginia Cellular Order* the FCC did not state, or even suggest, that it  
129 would no longer consider “the value of increased competition,” that this factor had  
130 “decreased significantly in importance,” or that it now considers its previous conclusions  
131 – including but not limited to those in its *Western Wireless Order* – regarding the benefits  
132 of competition to no longer be valid. Instead, the FCC simply stated that it would begin  
133 to consider other factors in addition to the benefits of competitive entry when assessing  
134 the public interest of a request for ETC designation. In the *Virginia Cellular Order* itself  
135 (the point at which Mr. Schoonmaker asserts the FCC essentially abandoned the benefits

136 of competitive entry as a factor in determining the public interest of ETC designations),  
137 the FCC concluded (¶12) that “we find that the designation of Virginia Cellular as an  
138 ETC in certain areas served by rural telephone companies *serves the public interest and*  
139 *furtheres the goals of universal service* by providing greater mobility and a choice of  
140 service providers to consumers in high-cost and rural areas of Virginia”<sup>4</sup> (emphasis  
141 added). The FCC didn’t stop there; it went on to grant Virginia Cellular’s petition (¶29)  
142 because “Virginia Cellular’s services would “provide benefits to customers in situations  
143 where they do not have access to a wireline telephone,”<sup>5</sup> that “the mobility of  
144 telecommunications assists consumers in rural area who often must drive significant  
145 distances to places of employment, stores, schools, and other critical community  
146 locations,” that “the availability of a wireless universal service offering provides access  
147 to emergency services that can mitigate the unique risks of geographic isolation  
148 associated with living in rural communities,” and that the larger local calling area of a  
149 wireless carrier can reduce a customer’s toll charges. Cleary, Mr. Schoonmaker’s

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<sup>4</sup> The FCC’s chosen language here compels a question. If Mr. Schoonmaker is correct that goals of universal service, as described in §254 of the Act, do not include a consideration of “promoting and advancing competition,” then what “goals of universal service” does the FCC believe are being furthered by the “greater mobility and choice of service providers” being provided by Virginia Cellular?

<sup>5</sup> As explained in detail in my rebuttal testimony, the geographic area comprised of places in which “customers do not have access to a wireline telephone” is likely to represent at least 95% of the ILEC’s service area (and the area for which they have been designated as an ETC). No ILEC could meet the standard implied in Mr. Schoonmaker’s misstatement of §254(e)(1).

150 statement that “starting with Virginia Cellular, the factor that is ‘benefits of competition’  
151 decreased significantly in importance” is inaccurate. In reality, the FCC has consistently,  
152 both before and after issuing the *Virginia Cellular Order*, focused on the various benefits  
153 of competitive entry – particularly by wireless providers – as an important part of its  
154 public interest consideration.

155

156 Q. IS THERE ANY REASON TO EXPECT THAT THE BENEFITS OF COMPETITIVE  
157 ENTRY IN RURAL AREAS, PARTICULARLY ENTRY BY WIRELESS WIRELESS  
158 PROVIDERS, THAT HAVE CONSISTENTLY BEEN RECOGNIZED AND  
159 CONSIDERED BY THE FCC WILL NOT ACCRUE TO PEOPLE WHO LIVE AND  
160 WORK IN THE AREAS FOR WHICH U. S. CELLULAR SEEKS DESIGNATION AS  
161 AN ETC?

162 A. No.

163

164 Q. MR. SCHOONMAKER QUESTIONS (PP. 24-25) THE APPROPRIATENESS OF  
165 ASYMMETRICAL SERVICE QUALITY REGULATIONS FOR ILECS AND NEW  
166 ENTRANTS. DO YOU AGREE WITH HIS REASONING?

167 A. No. The Joint Board and the FCC have consistently and correctly noted that competitive  
168 neutrality does not mean that existing ILEC service quality requirements should be  
169 universally applied. In its *2005 USF Order*, the FCC explicitly rejected Mr.

170 Schoonmaker’s approach, and encouraged (§30) states “to consider, among other things,  
171 the extent to which a particular regulation is necessary to protect consumers in the ETC  
172 context, as well as the extent to which it may disadvantage an ETC specifically because it  
173 is not the incumbent LEC. We agree with the Joint Board’s assertion that ‘states should  
174 not require regulatory parity for parity’s sake’.”

175 It is precisely “in the ETC context” that such additional constraints are  
176 unnecessary. If customers do not find U. S. Cellular’s service to be of good quality, they  
177 will not buy it, and if they don’t buy it, U. S. Cellular will receive no federal USF  
178 support. In addition to having this strong financial incentive, U. S. Cellular has  
179 committed to the same CTIA Code that the FCC has found sufficient in this regard.<sup>6</sup>

180 Ultimately, the basis for Mr. Schoonmaker’s recommendation is his assertion that  
181 the ILECs do not possess market power, and the apparent basis for this assertion is his  
182 observation that “with the number of wireless phones in the nation greater than the  
183 number of wireline phones, one has to wonder how much ‘market power’ ILECs really  
184 have.” Fortunately, there is no need for any such “wondering.” As Mr. Schoonmaker is  
185 surely aware, any determination of market power begins with a definition of the relevant

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<sup>6</sup> Specifically, the FCC concluded (§28) that it would consider service quality commitments in a manner “consistent with the designation framework established in the *Virginia Cellular ETC Designation Order* and *Highland Cellular ETC Designation Order*” (no new requirement was created), and that “a commitment to comply with the Cellular Telecommunications and Internet Association’s Consumer Code for Wireless Service will satisfy this requirement for a wireless ETC applicant seeking designation before the Commission.”

186 market, including its geographic scope. The fact that on a national basis the number of  
187 wireless phones outnumbers the number of wireline phones says absolutely nothing about  
188 the market power of any IITA member within its service area.<sup>7</sup>

189

190 Q. MR. SCHOONMAKER TAKES ISSUE (PP. 26-27) WITH U. S. CELLULAR'S  
191 CURRENT SIGNAL COVERAGE AND SERVICE IMPROVEMENT PLAN. DOES  
192 HE PRESENT A VALID REASON WHY THE GRANTING OF U. S. CELLULAR'S  
193 PETITION IS NOT IN THE PUBLIC INTEREST?

194 A. No. He initially suggests (p. 26) that U. S. Cellular must have signal coverage in rural  
195 areas that is comparable to the level of coverage in urban areas before being designated  
196 as an ETC. He still has it exactly backwards: it is the need to extend and improve  
197 coverage that that makes the designation of a CETC in rural areas in the public interest.  
198 As I explained in my rebuttal testimony, the FCC, Joint Board, and other state regulators  
199 have consistently rejected the idea that a carrier requesting designation as an ETC  
200 provide service throughout the area prior to designation.

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<sup>7</sup> Mr. Schoonmaker's observation does compel a further question, though. Wireless subscribers exceed wireline subscribers in urban areas by a significant margin, but do not do so in rural areas. Since one of the stated objectives of universal service set forth in §254 is to provide all consumers, including those "in rural, insular, and high-cost areas" access to telecommunications services that are "reasonably comparable to those services provided in urban areas," why would the designation of a wireless ETC in a rural area in order to reduce or eliminate this disparity not be fully consistent with the stated goals of universal service and with the public interest?

201 Mr. Schoonmaker than goes on to complain (p. 27) that U. S. Cellular's plans for  
202 the construction of the first ten cell sites will not cover all low-density wire centers or all  
203 IITA members. Setting aside the fact that Mr. Schoonmaker's assumptions about U. S  
204 Cellular's existing signal coverage is based on a flawed propagation analysis, Mr.  
205 Schoonmaker offers no explanation why a CETC should be required to cover all such  
206 areas in the first year that it receives support, while the ILECs took decades to do so.<sup>8</sup>

207 Mr. Schoonmaker's suggestion (p. 31) that the ILECs built out their networks  
208 without universal service support because explicit subsidies did not come into existence  
209 until recently is nonsense. Various forms of implicit subsidies existed well prior to that  
210 time. Of course, if the ILECs did build out their networks without universal service  
211 support a thorough investigation into the ILECs' current use of funds is in order.

212

213 Q. MR. SCHOONMAKER CONTINUES TO ASSERT (PP. 29-30) THAT THE  
214 INTRODUCTION OF AN ADDITIONAL CARRIER WILL INEVITABLY  
215 INCREASE THE UNIT COSTS OF THE ILECS. HAS HE NOW PRESENTED ANY  
216 FACTUAL FOUNDATION FOR THIS CLAIM?

217 A. No. He first notes (pp. 28-29) that unlike other ILEC witnesses in other proceedings, he

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<sup>8</sup> It is important to recall that even after receiving first implicit and subsequently explicit universal service support for decades, the wireline ILECs still actually serve less than 5% of their service area.

218 has not presented an actual analysis of how he believes that customer density and market  
219 share impact network costs, and concedes (p. 29) that he has provided no factual basis for  
220 his assertion. Instead, Mr. Schoonmaker relies upon his “general knowledge of the  
221 design and costs of building networks” and a “broad conceptual basis” of a fairly simple  
222 concept that a “significant amount of costs are relatively fixed.” From this he concludes  
223 that the average unit cost “will generally be lower” if a provider has 100% market share.

224 Mr. Schoonmaker’s reliance on “general” and “simple” concepts does not serve  
225 him well in this regard for at least two reasons. First, a more detailed cost analysis  
226 reveals that network costs are not fixed at the high level suggested by Mr. Schoonmaker.  
227 As a result, the impact on unit cost caused by changes in volume is much less than Mr.  
228 Schoonmaker apparently believes. Second, Mr. Schoonmaker’s “fairly simple” concept  
229 is too simple, because it relies on a completely static analysis in which only movement  
230 along a given cost curve are considered. In reality, shifts in this curve are both possible  
231 and expected. Because downward shifts are likely and because the relevant cost curve is  
232 much flatter across a wide range of traffic volumes than Mr. Schoonmaker’s “general  
233 knowledge” apparently leads him to believe, there is no basis whatsoever to assume that  
234 an ILEC’s unit costs will increase as a result of the designation of a CETC.

235  
236 Q. MR. SCHOONMAKER CONTINUES TO ARGUE (PP. 31-32) THAT THE  
237 AFFORDABILITY OF U. S. CELLULAR’S RATES IS AN ISSUE. DO YOU

238 AGREE?

239 A. No. Mr. Schoonmaker now states (p. 31) that he did not intend to suggest in his direct  
240 testimony that U. S. Cellular's existing rates are not affordable, but only that the  
241 Commission should consider affordability. The fact remains that *a service that is not*  
242 *affordable will generate no universal service support for U. S Cellular*, so it remains  
243 unclear why the Commission would want to devote a significant amount of time or  
244 resources to such a task.

245

246 Q. MR. SCHOONMAKER CONTINUES TO SUGGEST (P. 32) THAT IF U. S.  
247 CELLULAR DOES NOT USE FEDERAL UNIVERSAL SERVICE SUPPORT TO  
248 REDUCE RATES, THAT SOMEHOW U. S. CELLULAR'S STOCKHOLDERS WILL  
249 BE THE PRIMARY BENEFICIARIES OF ITS ETC DESIGNATION. IS THIS EVEN  
250 POSSIBLE UNDER THE EXISTING RULES?

251 A. No. Mr. Schoonmaker's logic fails at several points. First, he relies on an initial  
252 condition of U. S. Cellular having "considerably higher" rates than the ILECs. There is  
253 no evidence that this is true when the services are compared on an apples-to-apples basis.  
254 It is certainly true that the bundle of service capabilities (vertical features, an expanded  
255 "local" calling scope, and mobility, for example) offered by U. S. Cellular may have a  
256 higher nominal price than an ILEC's much more limited local service offering, but  
257 comparing these prices is indeed meaningless. It is only meaningful to compare the

258 prices of the collection of service capabilities actually being purchased by customers. Of  
259 course, customers make this comparison every day and make their choices accordingly,  
260 and the fact remains that if customers do not find U. S. Cellular's prices to be affordable  
261 and represent a good value for the service received, U. S. Cellular will receive no federal  
262 universal service support.

263 Second, Mr. Schoonmaker assumes that U. S. Cellular could somehow use federal  
264 universal service support to provide some direct benefit its stockholders instead of end  
265 user customers. In reality, all ETCs, including U. S. Cellular, must use all support  
266 received for the provisioning, maintenance, and upgrading of facilities. The Commission  
267 has an important role in assuring the proper use of these funds through its annual  
268 recertification process.

269 Third, Mr. Schoonmaker asserts (p. 33) that "clearly" price reductions are a  
270 permissible use of federal universal service support. I'm not so sure. While Mr.  
271 Schoonmaker is mathematically correct that support not needed for the provisioning,  
272 maintenance, and upgrading of facilities used to provided the nine supported service  
273 functionalities could be used to reduce prices while maintaining earnings, it is not at all  
274 clear that such a use of federal USF is permissible.

275 Finally, Mr. Schoonmaker states (p. 33) that federal USF should not "be tapped to  
276 support 'premium services'." As an initial matter, federal USF does not support services  
277 at all; it supports the networks and operations used to provide the nine supported service

278 functionalities. These networks can, and often are, used to provide additional services as  
279 well. Mr. Schoonmaker provides no definition of his phrase “premium services.”  
280 Certainly he is not suggesting that support can only be received for a customer that  
281 purchases only a basic service consisting of the nine supported functionalities; if this  
282 were the requirement, the ILECs should not receive support for any customer that  
283 purchases a vertical feature or makes a toll call.<sup>9</sup> The FCC has been clear that the value  
284 added by the mobile nature of wireless service would not disqualify the reporting of such  
285 lines for support; in fact, the FCC has found the value of mobility to be a reason to  
286 support the designation of wireless carriers as ETCs.

287  
288 Q. MR. SCHOONMAKER SUGGESTS (PP. 34-35) THAT YOU MISCHARACTERIZED  
289 HIS TESTIMONY BY SUGGESTING THAT HE PROPOSED A REQUIREMENT  
290 THAT U. S. CELLULAR BE REQUIRED TO OFFER UNLIMITED LOCAL  
291 CALLING FOR A FLAT MONTHLY CHARGE. DO YOU AGREE?

292 A. No, although I am happy to accept Mr. Schoonmaker’s statement that he now believes

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<sup>9</sup> Under the existing modified embedded cost recovery mechanism, ILECs do not receive support on a “per-customer” basis, and instead receive a fixed amount of total support (and would do so even if they actually served no customers). In order to eliminate the possibility that federal USF is used to support the network facilities used to provide service to a customer that purchases both a basic and “premium” service, it would be necessary to devise a way to prorate the support received by ILECs on a per-customer basis in order to make the reductions needed to implement Mr. Schoonmaker’s view of what universal service should be.

293 that it is not necessary for U. S. Cellular to offer a service with “unlimited local calling”  
294 in order to be designated as an ETC.

295

296 Q. STAFF WITNESS MCCLERREN STATES THAT THE COMMISSION, RATHER  
297 THAN END USERS, SHOULD ASSESS U. S. CELLULAR’S SERVICE QUALITY.  
298 DO YOU AGREE?

299 A. Mr. McClerren states (pp. 2-3) that “the ability and wisdom of substituting cellular  
300 service for wireline service is central to this proceeding...[t]he Commission is charged  
301 with determining whether it is in the public interest to grant ETC status to USCOC. This  
302 determination necessarily must include an assessment of whether USCOC’s Illinois  
303 customers will receive adequate telecommunications service through USCOC’s cellular  
304 facilities, as they are accustomed to receiving through wireline facilities.”

305 I must respectfully disagree with Mr. McClerren on this issue at a fundamental  
306 level. He is certainly correct that the Commission is charged with determining whether it  
307 is in the public interest to designate U. S. Cellular as an ETC in the requested areas. The  
308 salient question in this regard is *Is it in the public interest to designate U. S. Cellular as*  
309 *an ETC so that it will be eligible for the federal USF support that will enable it to make*  
310 *the capital and other expenditures necessary to provide a service that equals – and in*  
311 *many ways exceeds – the service currently being offered by the wireline ILECs?*

312 This is a fundamentally different question than *Does U. S. Cellular, prior to ETC*

313           *designation, provide a service throughout the requested area that all customers will*  
314           *regard as a viable substitute for wireline service?* I expect that for many customers in  
315           many areas, U. S. Cellular’s wireless service is not yet a desirable substitute, although a  
316           wireless technology platform offers the potential for a high quality telephone service  
317           whose geographic scope and mobility can never be matched by wireline providers. The  
318           “ability and wisdom of substituting cellular service for wireline service” will (1) vary  
319           today based on the needs and location of each given customer, and (2) if U. S. Cellular is  
320           designated as an ETC, change over time as coverage is expanded and improved.

321                     An effort to determine whether customers will receive from U. S. Cellular a  
322           service that is the same as “they are accustomed to receiving to wireline facilities” is off  
323           the mark. There are short- and long-run impacts on customers if U. S. Cellular is  
324           designated as an ETC. In the short run, some customers will be able to receive a service  
325           that is directly comparable to what they currently receive from wireline service. For  
326           these customers, the benefit is a choice of suppliers and pricing plans. Other customers  
327           will be able to receive a service that exceeds the quality and value that they currently  
328           receive from wireline service. For these customers, the benefit will be both a choice of  
329           suppliers and the ability to receive a service not currently available. For a third group of  
330           customers, a directly comparable service may not yet be available. What the designation  
331           of U. S. Cellular as an ETC makes possible is the opportunity for these customers to  
332           receive a comparable or superior service in the future.

333           There is no requirement that for U. S. Cellular to be designated as an ETC, that all  
334           customers be able to receive a service equivalent to what “they are accustomed to  
335           receiving through wireline facilities” today, and I have never seen the FCC or a state  
336           regulator apply such a standard. If federal USF support is available, more and more  
337           customers will find themselves in a position to obtain a high-quality service with features  
338           beyond those of wireline service and with a variety of pricing options. I continue to  
339           believe that customers themselves are in the best position to determine if and when a  
340           service meets their needs.

341

342   Q.   MR. MCCLERREN STATES (P. 12) THAT IF DESIGNATED AS AN ETC, U. S.  
343           CELLULAR SHOULD PARTICIPATE IN A RULEMAKING “TO ADDRESS  
344           SERVICE QUALITY ISSUES UNIQUE TO CELLULAR PROVIDERS.” IS IT YOUR  
345           UNDERSTANDING THAT U. S. CELLULAR WOULD PARTICIPATE IN SUCH A  
346           RULEMAKING?

347   A.   Yes.

348

349   Q.   MR. HOAGG SUGGESTS (PP. 13-15) THAT U. S. CELLULAR SHOULD BE  
350           REQUIRED TO MAKE A SEPARATE PUBLIC INTEREST DEMONSTRATION FOR  
351           EACH ILEC STUDY AREA. ARE YOU AWARE OF ANY INSTANCE IN WHICH  
352           THE FCC OR A STATE REGULATOR HAS REQUIRED THIS KIND OF ILEC-

353 SPECIFIC PRESENTATION?

354 A. Not in my experience. U. S. Cellular has filed a petition for designation as an ETC in a  
355 area that comprises the study area of several ILECs. The public interest determination  
356 before the Commission is for the area included in U. S. Cellular’s petition. Obviously,  
357 the Commission can find that it either is, or is not, in the public interest to designate U. S.  
358 Cellular as an ETC for the requested area, but is not in a position to parse U. S. Cellular’s  
359 request into ILEC study areas.<sup>10</sup>

360 This does not mean that no ILEC-specific information is appropriate for any  
361 issue. The evaluation of a request for service area “redefinition,” for example, is clearly  
362 an ILEC-specific exercise that requires the consideration of ILEC-specific information.  
363 In contrast, U. S. Cellular’s petition for designation is not ILEC-specific and the  
364 information used to evaluate the merits of the petition is specific to U. S. Cellular, not to  
365 any given ILEC.

366

367 Q. MR. ZOLNIEREK STATES (P. 3) THAT SOME CONCERN REMAINS REGARDING  
368 THE POTENTIAL FOR “CREAMSKIMMING.” CAN YOU ADDRESS HIS

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<sup>10</sup> It is noteworthy that in the testimony of Mr. Schoonmaker referenced by Mr. Hoagg, Mr. Schoonmaker provides no ILEC-specific data or ILEC-specific reasons why U. S. Cellular should not be designated as an ETC. Similarly, the ILECs have produced no testimony from company witnesses at all in this proceeding, though such individuals would almost certainly be in the best position to provide any ILEC-specific information that they consider important.

369 CONCERN?

370 A. Yes. Mr. Zolnierек notes (p. 3) that in his direct testimony, he noted a difference in  
371 population density between some of the areas that U. S. Cellular proposed to serve and  
372 some of the areas that it cannot serve, and recommended that U. S. Cellular be required to  
373 “provide evidence to remedy these concerns.”

374 Mr. Zolnierек is correct that in my rebuttal testimony I responded directly to Mr.  
375 Schoonmaker’s claims regarding the potential for “creamskimming,” but it was my  
376 intention when doing so to address Staff’s concerns as well. As I explained in that  
377 testimony (at pp. 66-69), “creamskimming” would be almost impossible to successfully  
378 engage in as a strategy because of the very discrete geographic nature of cost differences,  
379 the difficulty (if not impossibility) of obtaining the cost information necessary to  
380 implement such a scheme, and the fact that wireline and wireless carriers incur costs in  
381 fundamentally different ways. Even assuming away these practical difficulties, 47 CFR  
382 §54.315 permits the disaggregation of support based on differences in cost (thereby  
383 making it impossible for a CETC to somehow benefit by receiving support based on an  
384 average per-line cost).

385

386 Q. WHAT IS MR. ZOLNIERЕК’S STATED BASIS FOR HIS CONCERNS REGARDING  
387 THE POTENTIAL FOR “CREAMSKIMMING.”

388 A. It is my understanding that Mr. Zolnierек’s concerns are based on the results of the

389 population density analysis attached to his direct testimony (ICC Staff Exhibit 2.0) as  
390 Exhibit JZ-1.

391

392 Q. PLEASE DESCRIBE THE ORIGIN OF THE FCC'S POPULATION DENSITY  
393 ANALYSIS AND EXPLAIN HOW IT HAS BEEN APPLIED.

394 A. In its *Virginia Cellular Order*<sup>11</sup> and later in its *2005 USF Order*,<sup>12</sup> the FCC applied a  
395 population density test. As I described in my rebuttal testimony, the FCC examined and  
396 compared the population densities (measured in terms of persons per square mile) of the  
397 wire centers where designation was sought with that of the wire centers where  
398 designation was not sought by the potential CETC.<sup>13</sup> If the wire centers where ETC  
399 designation is sought have a *significantly higher* (approximately an 8:1 ratio, in the  
400 FCC's Virginia Cellular example) population density than the rest of the study area, the  
401 FCC reasoned, it is likely that costs are lower in the requested area, and it is possible that  
402 the CETC may receive some financial benefit, however inadvertent.

403 It is important to understand that the FCC's population density analysis is only a  
404 rough approximation, whose results should be considered in light of the significant

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<sup>11</sup> Virginia Cellular, LLC Petition for Designation as an Eligible Telecommunications Carrier In the Commonwealth of Virginia, CC Docket 96-45, Released January 22, 2004, (Virginia Cellular Order).

<sup>12</sup> *Report and Order*, FCC 05-46 released March 17, 2005 ("2005 USF Order").

<sup>13</sup> Virginia Cellular Order, ¶¶ 34-35, 2005 USF Order ¶¶ 48-53.

405 amount of potential error that is almost certain to be present. This error comes from  
406 multiple sources:

407 1. A measure of persons per square mile, while readily available, is a poor  
408 proxy for telephone lines per square mile and therefore is often a poor  
409 predictor of the costs of serving an area.

410 2. Measuring density at the level of the total wire center or exchange area,  
411 rather than the subset of this area within which telephone plant is actually  
412 built, understates density and overstates cost.

413 3. The resulting error is biased; that is, it is not equally likely to occur in  
414 both directions. This approach will often cause a given exchange area to  
415 be shown as an area of lower density (and presumed higher cost) than it  
416 actually is, and the lower the density of the area being considered, the  
417 greater the magnitude of the resulting error. The same error does not  
418 occur in the opposite direction: the FCC's approach cannot cause a given  
419 area to be reported as having higher density (and presumed lower cost)  
420 that it actually does. This bias causes the FCC's approach to exaggerate  
421 the density (and presumed cost) differences between ILEC exchanges.  
422  
423  
424  
425

426 For these reasons, it is important that the results of a population density analysis,  
427 as created by the FCC and relied upon in this case by Mr. Zolnierek, not be given more  
428 weight than its accuracy warrants. The FCC recognized this potential error in the way  
429 that it has interpreted the results of such an analysis. In its *Virginia Cellular Order*, the  
430 FCC concluded<sup>14</sup> that if there is "a great disparity" in population density (and presumed  
431 costs) between the served and unserved exchanges or wire centers, it is possible that

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<sup>14</sup> ¶¶33-35

432 “granting a carrier ETC designation for only its licensed portion of the rural study area  
433 may have the same effect on the ILEC as rural creamskimming.”

434

435 Q. WHAT “GREAT DISPARITY” DID THE FCC OBSERVE IN ITS *VIRGINIA*  
436 *CELLULAR ORDER*?

437 A. In the Virginia Cellular case, the great disparity observed by the FCC was between an  
438 area (for which ETC designation was sought) with a population density of 273 persons  
439 per square mile and an area (for which ETC designation was not sought) with a density of  
440 33 persons per square mile: a ratio of more than 8:1. By utilizing its results only in a  
441 situation in which such a ‘great disparity’ exists, the FCC avoided having its conclusions  
442 undermined by the inherent error – and inherent bias of that error – in its analysis.

443

444 Q. WHAT IS THE DISPARITY IN POPULATION DENSITY RELATED TO THE  
445 EXCHANGES IN THE VERIZON SOUTH, INC. STUDY AREA?

446 A. As averaged over the wire centers or exchanges for which U. S. Cellular seeks  
447 designation as an ETC, Mr. Zolnierек reports a population density of 42.12 persons per  
448 square mile.<sup>15</sup> As averaged over the wire centers or exchanges for which U. S. Cellular

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<sup>15</sup> Mr. Zolnierек states that he has some disagreement with U. S. Cellular regarding the calculation of population density. In order to set this issue aside, I have utilized the results of Mr. Zolnierек’s, rather than U. S. Cellular’s, calculations. My conclusions are not impacted by

449 does not seek designation as an ETC, Mr. Zolnierек reports a population density of 17.51  
450 persons per square mile. The resulting ratio is 2.41:1.

451

452 Q. WHAT IS THE DISPARITY IN POPULATION DENSITY RELATED TO THE  
453 EXCHANGES IN THE WABASH TELEPHONE COOPERATIVE, INC. STUDY  
454 AREA?

455 A. As averaged over the wire centers or exchanges for which U. S. Cellular seeks  
456 designation as an ETC, Mr. Zolnierек reports a population density of 19.89 persons per  
457 square mile. As averaged over the wire centers or exchanges for which U. S. Cellular  
458 does not seek designation as an ETC, Mr. Zolnierек reports a population density of 13.76  
459 persons per square mile. The resulting ratio is 1.45:1.

460

461 Q. DOES A POPULATION DENSITY RATIO OF APPROXIMATELY 1.4:1 OR 2.4:1  
462 DEMONSTRATE THAT A MEANINGFUL DIFFERENCE IN NETWORK COST  
463 EXISTS?

464 A. In my experience, no. This kind of difference is well within the amount of error that can  
465 be expected from the FCC's approach, and underscores why a "great disparity" (such as

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the magnitude of the difference at issue.

466 the 8:1 ratio relied upon by the FCC) should be required before much weight is put on the  
467 results of this kind of analysis.

468 It is important to remember that the usefulness of population density (measured as  
469 persons per square mile of the entire ILEC wire center or exchange area) depends on an  
470 implicit – but extremely important – assumption that the percentage of the total area  
471 actually served by the ILEC’s wireline network is the same for each exchange. In  
472 practice this almost never true: in an exchange with a low reported population density,  
473 the area actually served by the ILEC’s wireline network is more likely to be less than the  
474 total geographic area of the exchange. As a result, the denominator in the FCC’s analysis  
475 is wrong: the FCC divides population by the number of square miles of the entire  
476 exchange area, when it should divide by the number of square miles actually served by  
477 telephone plant. Use of the “area actually served” as the denominator results in a higher  
478 reported population density, and in a number that is much more comparable with reported  
479 population density of another of the ILEC’s exchanges.

480

481 Q. HAS THE FCC EXPLICITLY RECOGNIZED THIS EFFECT?

482 A. Yes. In its *Fourteenth Report and Order*,<sup>16</sup> the FCC considered this issue and concluded  
483 (§175) that the total geographic area of a wire center or exchange will always be greater

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<sup>16</sup> Fourteenth Report and Order and Twenty-Second Order on Reconsideration and Further

484 than the area actually served; that is, the area to which telephone plant is actually built.

485 The reason, the FCC noted, is that the geographic area of a wire center can contain  
486 unserved areas, such as “lakes, mountains, and deserts.”

487

488 Q. BASED ON YOUR REVIEW OF U. S. CELLULAR’S PETITION, REDEFINITION  
489 REQUEST, AND THE SUPPORTING DOCUMENTATION, DO YOU BELIEVE  
490 THAT THE COMMISSION SHOULD BE CONCERNED ABOUT  
491 “CREAMSKIMMING”?

492 A. No. For all of the above reasons, the facts of this case just don’t support such a concern.

493

494 Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?

495 A. Yes.

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Notice of Proposed Rulemaking, CC Docket No. 96-45, Released May 23, 2001 (Fourteenth Report and Order).