

1 looked at, so I'm unsure of it.

2 Q. Okay. And then, finally, instead of using an IXC,
3 can your company use a third-party transit carrier, such as
4 SBC or Sprint?

5 A. I think it's been said before it's -- we're --
6 we're not the capable of doing that, you know, technically or
7 feas-- or legally.

8 MS. DIETRICH: Okay. Thank you.

9 JUDGE PRIDGIN: Anything further, Ms. Dietrich?

10 MS. DIETRICH: No. That's it.

11 JUDGE PRIDGIN: Ms. Haas -- or Mr. Haas? Excuse
12 me.

13 MR. HAAS: No questions.

14 JUDGE PRIDGIN: Mr. Cecil?

15 MR. CECIL: No questions.

16 JUDGE PRIDGIN: All right. Thank you.

17 Mr. Johnson for Respondent?

18 MR. MARK JOHNSON: Nothing. Thank you.

19 JUDGE PRIDGIN: Mr. Johnson for Petitioners?

20 MR. CRAIG JOHNSON: No, Your Honor.

21 JUDGE PRIDGIN: All right. Thank you. Then
22 there's nothing further for this witness?

23 (NO RESPONSE.)

24 JUDGE PRIDGIN: All right. Mr. Heins, thank you
25 very much. You may be excused.

1 (WITNESS EXCUSED.)

2 JUDGE PRIDGIN: And do I understand correctly the
3 sole remaining witness for Petitioners is Mr. Schoonmaker?

4 MR. CRAIG JOHNSON: Yes, Your Honor.

5 JUDGE PRIDGIN: All right. As -- and I'm assuming
6 that even if we went ahead with Mr. Schoonmaker, we probably
7 would still be able to get Mr. Conwell done so he could
8 travel?

9 MR. MARK JOHNSON: Oh, sure.

10 JUDGE PRIDGIN: Okay. Okay. Mr. Schoonmaker, if
11 you'd like to come forward and be sworn, please, sir.

12 If you'd raise your right hand and be sworn,
13 please.

14 (WITNESS SWORN.)

15 JUDGE PRIDGIN: Thank you very much, sir. If you
16 would, please have a seat.

17 And, Mr. Johnson, do you need to lay -- lay a
18 foundation for this witness or are we gonna proceed as we have
19 been?

20 MR. CRAIG JOHNSON: Perhaps I better do the
21 traditional thing with Mr. Schoonmaker.

22 JUDGE PRIDGIN: All right. Thank you.

23 Mr. Johnson for Petitioners, when you're ready,
24 sir.

25 ROBERT C. SCHOONMAKER testified as follows:

1 DIRECT EXAMINATION BY MR. CRAIG JOHNSON:

2 Q. Would you state your name and give us your business
3 address, please?

4 A. My name is Robert C. Schoonmaker. My business
5 address is 2270 La Montana Way, Colorado Springs, Colorado.

6 Q. And by whom are you employed and in what capacity?

7 A. I'm employed by GVNW consulting, Inc. And I am
8 president and CEO.

9 Q. And I believe -- are you the same Robert
10 Schoonmaker that's caused to be prefiled direct and rebuttal
11 testimony in this case?

12 A. I -- I am.

13 MR. CRAIG JOHNSON: And I think, Your Honor, and
14 you check -- and you correct me if I'm wrong -- that these
15 have been premarked as Exhibit No. 8 for the direct and 9 for
16 the rebuttal?

17 JUDGE PRIDGIN: I would want to check with the --
18 the court reporter. That's -- that would be the order in
19 which I would want them marked, yes.

20 (EXHIBIT NOS. 8 AND 9 WERE MARKED FOR
21 IDENTIFICATION.)

22 JUDGE PRIDGIN: Let me go ahead and show as marked
23 Mr. Schoonmaker's direct testimony as Exhibit No. 8 for
24 identification purposes, and his rebuttal testimony as Exhibit
25 No. 9 for identification purposes.

1 BY MR. CRAIG JOHNSON:

2 Q. Mr. Schoonmaker, with respect to Exhibit 8, are
3 there any corrections that need to be made?

4 A. I have a couple of minor corrections.

5 Q. Can you please recite those for us, for the record?

6 A. Yes. On page 9, line 18 of the first word
7 "associations" should be replaced by "associates".

8 And on page 27 on line 6 near the end of the line
9 the designation "STCG" should be replaced with "Petitioners".

10 Then on that same page on line 21, next-to-the-last
11 word is "switched" with an E-D on the end. That should be
12 replaced with "switch," S-W-I-T-C-H.

13 Q. Any other changes or corrections to No. 8?

14 A. No.

15 Q. Do you have any changes or corrections that need to
16 be made to Exhibit No. 9, your rebuttal?

17 A. I do. On page 25, line 13 the second word "of"
18 should be replaced with "most," M-O-S-T.

19 Q. Can you read that sentence for me, again, with the
20 correction?

21 A. Yeah. The sentence would read, this means that
22 during most hours of the day and year, they will be used at
23 less than full capacity.

24 Q. Thank you.

25 Any more on Exhibit 9?

1 A. No.

2 Q. With those changes or corrections, if I were to ask
3 you the same questions that were contained in Exhibits 8 and
4 9, would your answers today be the same?

5 A. Yes.

6 Q. And is those answers true and correct to the best
7 of your knowledge and belief?

8 A. They are.

9 MR. CRAIG JOHNSON: I offer 8 and 9, and tender
10 Mr. Schoonmaker for cross-examination?

11 MR. MARK JOHNSON: No objection.

12 JUDGE PRIDGIN: I will show Exhibits 8 and 9
13 admitted.

14 (EXHIBIT NOS. 8 AND 9 WERE RECEIVED INTO EVIDENCE.)

15 JUDGE PRIDGIN: Mr. Johnson for Respondent, when
16 you're ready, sir.

17 MR. MARK JOHNSON: Okay. Thank you.

18 CROSS-EXAMINATION BY MR. MARK JOHNSON:

19 Q. Mr. Schoonmaker, is it correct that you provide
20 testimony mainly on two topics, first, the rate to be charged
21 prospectively for interMTA traffic and, second, the issue of
22 reciprocal compensation for calls from landline customers of
23 your clients to T-Mobile customers?

24 A. In this case that's -- that's the primary
25 testimony. In my rebuttal there were a few other issues that

1 I addressed as well.

2 Q. Just wanted to make sure we understood the sort --
3 the -- the thrust of your testimony.

4 Okay. And with respect to the prospective
5 intraMTA rate, is it correct that you provide objective
6 evidence to support the 3.5 cents per minute rate that the
7 Petitioners are proposing?

8 A. Yes.

9 Q. And as I understand -- and as I understand it, your
10 testimony is that the appropriate forward-looking costs would
11 justify a higher rate than 3.5 cents; is that correct?

12 A. That's correct.

13 Q. But that since that's the rate that the Petitioners
14 offered in negotiation with T-Mobile, that they're sticking
15 with that offer in this arbitration?

16 A. That's correct.

17 Q. Okay. Now, as I understand it, you don't provide
18 any evidence concerning the jurisdictional split of the
19 traffic between interstate and intrastate and interMTA and
20 intraMTA; is that right?

21 A. That's correct.

22 Q. So to the extent the Arbitrator would like to find
23 evidence supporting the proposal of the parties -- of the
24 Petitioners concerning those issues, he should look to the
25 testimony of the witnesses who preceded you?

1 A. Yes.

2 Q. On the issue of landline to mobile compensation,
3 Mr. Schoonmaker, is it correct that in your testimony you
4 assumed that the connection between T-Mobile and your clients
5 is indirect?

6 A. Today the connections are indirect and -- and --
7 yes. And also T-Mobile has no numbers that are rated within
8 the exchanges of the Petitioners.

9 Q. Okay. But for the purposes of analyzing your
10 testimony, we can assume that, in your mind, you were -- you
11 were thinking that these connections between my clients and
12 T-Mobile are indirect?

13 A. Between your clients and T-Mobile?

14 Q. No. Your -- your clients and T-Mobile.

15 Did I say my?

16 A. Yeah, you did say my.

17 Q. Okay. Well, yours.

18 A. Okay.

19 Q. That's what I meant to say.

20 A. Yes, they -- they -- they are.

21 Q. Okay. And that, in fact, has been confirmed by the
22 testimony we heard this morning?

23 A. Yes.

24 Q. Okay. And as a result of that, you testified that
25 the Petitioners, in question in this case, do not have to pay

1 compensation to T-Mobile for terminating traffic originated by
2 the customers of the Petitioners?

3 A. Well, that -- that's only one piece of the reason
4 why. I mean, the -- the broader reason is that T-Mobile has
5 no numbers within the local calling areas of -- of the
6 Petitioners.

7 Q. Okay. Well, let's --

8 A. And there -- and -- and, therefore, T-Mobile has no
9 traffic to those customers. The traffic is the traffic of
10 interexchange carriers who --

11 Q. Okay.

12 A. -- carry that --

13 Q. Well, let --

14 A. -- traffic.

15 Q. Let me make sure we understand the reasons for your
16 position that the Petitioners don't have to pay compensation
17 to T-Mobile for landline to mobile traffic.

18 First, because the networks are not directly
19 connected and, second, because the calls originated by the
20 Petitioners' customers to T-Mobile customers go outside your
21 client's local calling scopes?

22 A. Well, in -- in my mind, it's primarily related to
23 the second, and that is that the calls that originate from
24 customers that are the Petitioners' local customers are not
25 originated -- are -- are calls that originated by

1 interexchange carrier customers who happen to be the local
2 carrier's customers --

3 Q. Okay.

4 A. -- and -- and their interexchange carrier calls.
5 They're not from the local telephone company.

6 Q. Okay. But you -- you heard the testimony from Mr.
7 Simon, didn't you, that calls from Chariton Valley Telephone
8 customers to Chariton Valley Wireless customers that go
9 outside the Chariton Valley Telephone local calling scope are
10 considered local calls, correct?

11 A. I -- I -- I heard that testimony. It wasn't clear
12 to me, but I assumed that the reason that is, is because they
13 have telephone numbers that are within -- that are rated
14 within the Chariton Valley area, even though they may
15 physically be located outside the Chariton Valley area. And
16 the dir--

17 Q. And when you say Chariton Valley, you're saying
18 Chariton Valley Telephone, not Chariton Valley Wireless?

19 A. Well, let me start over.

20 The Chariton Valley Wireless customers would have
21 telephone numbers rated within exchanges that are in the
22 Chariton Valley Telephone Company local calling area.

23 And, consequently, regardless of whether those
24 Chariton Valley Wireless customers are located a small
25 distance outside the Chariton Valley local calling area or

1 they happen to be in New York or Los Angeles or Jefferson
2 City, because the telephone number of that customer is located
3 in the local calling area, the call would be a local call.

4 Q. Okay. So -- so you would -- your understanding is
5 that if the Chariton Valley Wireless customer was in New York,
6 even though that's not just an inter-- interMTA call, but an
7 interstate call, that because that customer of Chariton Valley
8 Wireless has an NPA/NXX that is in your -- in your
9 terminology, rated within the Chariton Valley calling area,
10 that that's a local call?

11 A. That's correct.

12 Q. Okay.

13 A. Because Chariton Valley Telephone Company has no
14 way to know where that customer is physically located.

15 Q. Mr. Schoonmaker, would you agree with me that your
16 conclusion concerning the obligation, if any, of your clients
17 to compensate T-Mobile for this landline to mobile traffic is
18 based on your reading of the telecommunications act, the FCC
19 orders and the FCC regulations?

20 A. And the Companies' tariffs and the FCC's
21 pre-subscription rules.

22 Q. Okay. And when you say the Companies' tariffs, you
23 mean the tariffs that are on file and approved by the Missouri
24 Public Service Commission?

25 A. Yes.

1 Q. Okay. To your knowledge, has the issue of
2 compensation for land to mobile traffic been the subject of an
3 interconnection arbitration in Missouri --

4 A. Yes.

5 Q. -- other than -- other than this arbitration?

6 A. Yes.

7 Q. Did that arbitration involve a wireless carrier?

8 A. Yes, it involved Mid-Missouri Cellular and
9 Southwestern Bell Telephone Company.

10 Q. Did that case go to hearing?

11 A. It did.

12 Q. And -- but that case is not -- there hasn't been
13 a -- a -- well, let me ask you this: When did that case go to
14 hearing?

15 A. A number of years ago.

16 Q. And that -- and that's a case that you actually
17 testify about in your prefiled testimony; is that right?

18 A. Well, I've got --

19 Q. Let me refer you to page 45 of your direct
20 testimony.

21 A. Yes.

22 Q. That's the -- so you -- you -- you address this
23 Mid-Missouri case on page 45 of your direct testimony?

24 A. Right.

25 Q. And that decision was -- was rendered a number of

1 years ago; is that right?

2 A. Yes, probably -- I mean, based on the case number,
3 I would guess it was rendered in 1999 or 2000.

4 Q. Would you agree with me that the law has evolved
5 somewhat since then?

6 A. That the law has evolved.

7 Q. There have been changes in the law.

8 A. I -- I'm not aware that there are any changes in
9 the statutes related to those kinds of provisions since that
10 time.

11 Q. But there have been FCC orders and FCC regulations
12 issued since that time relevant to wireless traffic of this
13 type, correct?

14 A. I'm sure there have been some.

15 Q. Okay. To your knowledge, does any local exchange
16 carrier in Missouri pay compensation to a wireless carrier for
17 terminating land to mobile calls?

18 A. Would you repeat the question?

19 Q. Sure. I'd be happy to.

20 To your knowledge, does any local exchange carrier
21 in Missouri pay compensation to a wireless carrier for
22 terminating land to mobile calls?

23 A. Yes, I'm -- I -- I know there are.

24 Q. And those are as a result of negotiated agreements?

25 A. Negotiated or arbitrated.

1 Q. There are -- there are -- you -- to your knowledge,
2 there are arbitra-- agreements resulting from arbitrations
3 between a landline carrier in Missouri and a wireless carrier
4 in Missouri that call for compensation for land to mobile
5 traffic?

6 MR. CRAIG JOHNSON: May -- may I object or try to
7 help? Are you talking about IXC provision traffic or
8 something that may go across the direct connection that's
9 subject to the interconnection agreement?

10 MR. MARK JOHNSON: Well, now that --

11 MR. CRAIG JOHNSON: The reason I ask is --

12 MR. MARK JOHNSON: Now that he's testified for his
13 witness -- you know, I -- you know, I stand on my question.

14 MR. CRAIG JOHNSON: The question is vague and
15 indefinite, Your Honor.

16 THE WITNESS: Okay. In regard to your question,
17 agreements that I'm specifically aware of are negotiated
18 agreements. I don't follow all of the SBC and wireless
19 agreements, and -- and I don't know whether any of those have,
20 in fact, been arbitrated or not.

21 BY MR. MARK JOHNSON:

22 Q. Okay. Is it correct that the calls from your
23 clients' landline customers to T-Mobile require 1-plus
24 dialing?

25 A. They do.

1 Q. Without regard to where the T-Mobile customer is
2 located?

3 A. Yes.

4 Q. Could it --

5 A. Becau-- because T-Mobile has not put any numbers in
6 the local calling areas of the Petitioners.

7 Q. And -- and you heard that -- you -- you heard the
8 testimony earlier that of these four companies, only one of
9 them has a direct connection with any wireless carrier; is
10 that correct?

11 A. I heard that.

12 Q. And in that case, it's Chariton Valley, which has a
13 direct connection with its subsidiary, Chariton Valley
14 Wireless, right?

15 A. That's -- that was the testimony this morning, yes.

16 Q. Okay. Is it correct that for the situations where
17 1-plus dialing is required, that the local exchange carriers
18 network recognizes it as an interexchange call?

19 A. Yes.

20 Q. The local exchange carrier derives originating
21 access revenues for that call; is that correct?

22 A. If the pre-subscribed carrier is an interexchange
23 carrier, that's correct. But if the pre-subscribed carrier in
24 some circumstances may be the telephone company itself.

25 Q. Okay.

1 A. Not for these Petitioners, but for other companies
2 in the state.

3 Q. Now, just to make sure that we're -- we're clear on
4 a couple of things. And I know you've testified in lots of
5 these cases over the years.

6 It is correct, is it not, that for wireless
7 carriers, their local calling scope is in an -- the entire
8 MTA?

9 A. For compensation purposes, it is.

10 Q. Okay. But for the local exchange carriers, their
11 local calling scope is defined by the tariffs on file with the
12 Public Service Commission; is that right?

13 A. That's correct.

14 Q. Okay. And those local call --

15 A. For calling purposes.

16 Q. Okay. And those local calling scopes for the
17 four Petitioners in this case are the areas which I have
18 colored in, or in the case of Northeast, you know, put a
19 cross-hatched area in; is that correct?

20 A. Well, that's not completely accurate, I don't
21 believe. I -- for example, I think in Mid-Missouri's case
22 they do not have local calling between all their exchanges,
23 although I'm not certain of that.

24 Q. Okay. Do you know if any of these companies is,
25 you know -- let's say their customers benefit from being in a

1 MCA, metropolitan calling area?

2 A. None of those are in a multi-- or a metropolitan
3 calling area.

4 Q. To make sure that we're clear on how the revenues
5 flow for a call -- for the calls that we've been talking --
6 talking about today, for a call placed by a Mid-Missouri
7 customer in the Pilot Grove exchange, which is right there
8 (indicating) -- I'm pointing to it in central Missouri -- to a
9 T-Mobile customer in St. Louis, that's an intrastate call
10 crossing the MTA boundary. So it's an
11 intrastate/intraMTA call.

12 Would you agree with that?

13 A. Yes.

14 Q. Mid-Missouri recognizes that as an interexchange
15 call; is that correct?

16 A. That's correct.

17 Q. Okay. So if the customer has a pre-subscribed
18 interexchange carrier, Mid-Missouri sends the call to that
19 interexchange carrier, right?

20 A. That's correct.

21 Q. Okay?

22 A. By law, by FCC rule, by State Commission rule --

23 Q. Unders--

24 A. -- they have to.

25 Q. Understood.

1 That interexchange carrier will pay Mid-Missouri
2 originating access?

3 A. That's correct.

4 Q. The customer placing the call will pay the
5 interexchange carrier a usage-sensitive charge for that long
6 distance call; is that right?

7 A. Depends on the interexchange carriers tariffs or
8 schedule of rate for the customer. In some cases they may --
9 might be a --

10 Q. It might be a flat rate-calling plan.

11 A. It might be a flat rate --

12 Q. Okay.

13 A. -- or a monthly fee or something. But in many
14 cases, at least, it's usage sensitive.

15 Q. All right.

16 A. But it -- it would depend on the interexchange
17 carriers rates and -- that they charge and the plan that the
18 customer subscribes to.

19 Q. The interexchange carrier then sends the call, the
20 call gets to T-Mobile?

21 A. Right.

22 Q. However that happens. And I believe it's your
23 testimony that you be-- you -- you believe that the
24 interexchange carrier compensates T-Mobile for carrying the
25 call, right?

1 A. I believe I said the -- the interexchange carrier
2 is responsible to compensate them, according to whatever
3 arrangements T-Mobile has made with that interexchange
4 carrier.

5 Q. Right. Understood.

6 And then at the terminating end of the call to the
7 T-Mobile wireless phone, again depending on the calling plan
8 that the T-Mobile customer has with T-Mobile, T-Mobile may
9 charge the customer for completing the call?

10 A. Yes.

11 Q. So thi-- these are how all -- how all the revenues
12 flow?

13 A. Right.

14 Q. With the situation as it exists today?

15 A. Yes.

16 Q. Okay. Now, to look at this Mid-Missouri case that
17 you mentioned a moment ago and -- and as addressed on page 45
18 of your direct testimony, is it correct that you rely on this
19 Mid-Missouri case for the proposition that only with direct
20 connection does the wireless carrier receive reciprocal
21 compensation from the landline carrier?

22 A. Okay. Let me -- could you ask your question again?

23 MR. MARK JOHNSON: Could you read it back?

24 THE WITNESS: Fair.

25 (THE COURT REPORTER READ BACK THE REQUESTED

1 PORTION.)

2 MR. MARK JOHNSON: I'll rephrase it. Sorry.

3 BY MR. MARK JOHNSON:

4 Q. Is it -- is it fair to say that you rely on the
5 Mid-Missouri case to say that only where there's a direct
6 connection between the landline carrier and the wireless
7 carrier will a call from the landline carrier to the wireless
8 carrier be considered a local call?

9 A. That's one of the authorities I've -- that I rely
10 on.

11 Q. And, further, that Mid-- this Mid-Missouri case
12 says that a call from a landline carrier to a wireless carrier
13 will only be considered local if the cellular exchange lies
14 within the local calling area of the landline exchange?

15 A. That's what it says.

16 Q. All right. So --

17 A. Can you wait just a second? Let me make a note.

18 Q. Sure.

19 A. Okay.

20 Q. Okay. Thank you.

21 To summarize your testimony on this point, is it
22 correct to say that a landline company in Missouri would have
23 to pay compensation to a wireless company for completing a
24 landline to wireless call if two criteria are met, first,
25 there's a direct connection between the landline company and

1 the wireless company and, second, the wireless number called
2 is rated within the landline company's local calling area?

3 A. Within the State of Missouri those are not the only
4 times when I would believe that a landline company should
5 compensate a wireless carrier on a local basis.

6 Q. Well --

7 A. There are other circumstances.

8 Q. What other circumstances?

9 A. If the landline company is providing toll service
10 and acting as an interexchange carrier, if you will, such as
11 SBC does, such as Fidelity Telephone Company does, such as
12 Century does and a --

13 Q. All right.

14 A. -- call originates from one of their customers who
15 is pre-subscribed to them as the interexchange carrier and the
16 call is a toll call, which is rated under that telephone
17 company's toll tariffs and it goes to a wireless carrier
18 anywhere within the same MTA, even though it's dialed 1-plus,
19 because that call is between the local exchange company and
20 that customer is the local exchange company's customer for
21 toll service and the wireless carrier, then local
22 compensation, reciprocal compensation would apply.

23 And in re--

24 Q. But -- but that would be the same as the
25 interexchange carrier -- in the example we used a moment ago,

1 the interexchange carrier and the call from the Mid-Missouri
2 exchange from St. Louis, that would be the same as the
3 interexchange carrier compensating T-Mobile under whatever
4 relationship they have; is that correct?

5 A. Well, I mean -- I mean, that's -- that's one part
6 of it. But the other part of it is that it is a call between
7 a local exchange company and a CMRS provider. And under the
8 FCC rules, a call between a local exchange company and a CRMS
9 provider is local for compensation.

10 Q. Okay. But --

11 A. When an IXC is involved, that end-user when -- in
12 making the interexchange carrier call is not a customer of the
13 local exchange carrier, they're a customer of the IXC, the
14 call is between an IXC and a CRMS --

15 Q. Okay.

16 A. -- provider, and that is not a local call under the
17 FCC's rule.

18 Q. But in the example you used, is it correct that the
19 local exchange carrier is, in effect, acting as an
20 interexchange carrier because they're -- they're the
21 pre-subscribed interexchange carrier, right?

22 A. They are, but they're also the local telephone
23 exchange company, and the IXC and the LEC are the same entity.

24 Q. Okay. But --

25 A. That's the difference.

1 Q. -- the important thing -- the important point there
2 is that they're acting in completing that call as the
3 interexchange carrier --

4 A. No.

5 Q. -- right?

6 A. The important thing is that they're completing both
7 as the local exchange company and the interexchange carrier.

8 Q. Let's say they're not the pre-subscribed
9 interexchange carrier.

10 A. Okay.

11 Q. And let me ask you, do you know whether any of
12 the -- the four Petitioners here provide long distance
13 service?

14 A. They do not --

15 Q. Okay?

16 A. -- to my knowledge.

17 Q. All right. So the example you used doesn't apply
18 to these four companies --

19 A. That's --

20 Q. -- does it?

21 A. That's correct, because --

22 Q. Okay. So for these four companies, is it correct
23 that the only time, in your opinion, that they would have to
24 pay T-Mobile compensation for terminating a land to mobile
25 call is if T-Mobile were directly connected to their networks

1 and the phone number -- the T-Mobile phone number to which the
2 call is going is rated in the local exchange carrier's local
3 calling scope?

4 A. The phone number would have to be rated in the
5 local exchange carrier's local calling area. There may be
6 cases -- and this would be a -- I mean, a whole another set of
7 legal arguments about direct versus indirect connections --
8 but there could be possibilities where it could be an -- an
9 indirect connection and that might still apply.

10 Q. But as far as you know, that would not apply to
11 these companies?

12 A. Well, what -- what doesn't apply and that's
13 important here is that no wireless company with the exception
14 of Char-- Chariton Valley Wireless has numbers that are
15 located within the local calling areas.

16 Q. Okay. All right. Let's -- let's -- let -- let's
17 talk about the costs side of your -- your testimony.

18 A. Okay.

19 Q. Would you agree that the rates the Petitioners
20 charge for intraMTA call termination may not exceed their
21 forward-looking transport and termination costs?

22 A. Un-- under the terms of an arbitration, that's
23 correct. There's a limit. If the companies negotiate
24 something, it could be different than that.

25 Q. And the rate that you advocate for this service is

1 3.5 cents a minute. That's -- that's the rate for which you
2 are providing testimony, right?

3 A. That's correct.

4 Q. Okay. So you would agree that the 3.5 cent per
5 minute proposal may not exceed your client's forward-looking
6 costs for transport and termination?

7 A. Yes.

8 Q. Okay. From your review of the T-Mobile testimony,
9 is it correct that Mr. Conwell provides evidence concerning
10 the Petitioner's intraMTA rate proposal? Of --

11 A. He -- he --

12 Q. -- of the T-Mobile witnesses, he's the one who
13 talks about it?

14 A. Yeah, that's correct. And he does provide his view
15 of that.

16 Q. Understood.

17 But you would agree that if your clients advocated
18 a rate that's cost based, then -- then that rate would have to
19 be based on forward-looking costs?

20 A. That's what the FCC rules say.

21 Q. Okay. Would you agree that it is your client's
22 burden as the incumbent LEC to prove that the rate they
23 propose does not exceed forward-looking economic costs?

24 A. I -- I think that's generally correct. But it may
25 involve a legal conclusion, which -- which I'm not going to

1 make.

2 Q. Okay. Certainly willing to make it plenty of times
3 in your prefiled testimony.

4 Would you agree that the -- the -- that the burden
5 that they have to prove that they must -- must bear includes a
6 presentation of a cost study?

7 A. Yes.

8 Q. Would you agree with me that, to the extent
9 possible, the transport and termination rates should reflect
10 company-specific costs?

11 A. That's -- that certainly is the idea.

12 Q. Okay.

13 A. There gets to be practical difficulties with that,
14 as I explained in my testimony.

15 Q. And we have four Petitioners involved here. Is it
16 correct that you are sponsoring a single rate to be used by
17 all four Petitioners, the 3.5 cents per minute?

18 A. Yes, and I provided forward-looking costs for them
19 both on a composite basis an on an individual company basis.

20 Q. Right. And isn't it correct that in your testimony
21 you indicate that the costs of these companies are not the
22 same?

23 A. Yes.

24 Q. Each company in its own way is unique?

25 A. Yes.

1 Q. There are varying sites; is that right?

2 A. Yes.

3 Q. By numbers of exchange and numbers of customers?

4 A. Geography, a whole lot of other things.

5 Q. All right. And is it true that their networks are
6 configured differently?

7 A. Certainly.

8 Q. Okay. Does your testimony include an individual
9 company-specific cost study for each of the companies?

10 A. It concludes -- includes the results of those cost
11 studies. We did not include the hundreds of pages of -- of
12 information that might be required to -- to --

13 Q. Uh-huh. Could -- could a company-specific cost
14 study be performed for each of these companies?

15 A. Yes, it was.

16 Q. It -- it -- when you say, yes, it was, yes, they
17 were -- yes, it was performed?

18 A. Yes.

19 Q. And those company-specific studies are reflected in
20 your testimony; is that right?

21 A. That's correct.

22 Q. If -- if you look at page 7, line 22 of your direct
23 testimony, Mr. Schoonmaker, isn't it correct that you testify
24 there that there was insufficient time to evaluate the
25 specific inputs for each company in the cost studies?

1 A. Yes, as I indicate elsewhere in one of my testimony
2 pieces that the FCC took some four years and thousands and
3 tens of thousands of hours to do that. It doesn't -- it's not
4 practical to do that for a company like Alma, whose revenue
5 out of this case may be somewhere between \$2,000 and \$5,000 a
6 year.

7 Q. But to say that it's not practical, you're not
8 saying that it's impossible?

9 A. No, it's not impossible. I mean, one -- one could
10 spend --

11 Q. Okay.

12 A. -- those kinds of years and years doing it. And --
13 and whether we get a result that's any better or worse or that
14 we just spend instead of a day in this hearing, two weeks or
15 three weeks in this hearing room arguing about the various
16 data is -- it -- it is possible.

17 Q. Okay. Is it correct, Mr. Schoonmaker, that you are
18 advocating use of the Hatfield Model for the -- the cost
19 studies in this case?

20 A. Yes.

21 Q. Now, that -- that's not a study of -- of
22 company-specific costs, is it?

23 A. Yes, it is.

24 Q. Well, isn't it correct that there are, let's say,
25 hundreds of inputs into the analysis that is performed using

1 the Hatfield Model?

2 A. There are thousands of them, yes.

3 Q. Thousands of them.

4 Is it correct that, for the vast majority of those
5 inputs, you did not use the specific costs of the
6 four petitioning companies?

7 A. I -- I used what were, in my judgment, were
8 reasonable judgments to arrive at the specific costs of those
9 four companies, just as Mr. Conwell used similar inputs for
10 companies, all four of them in his analysis, I did as well.
11 And I relied on the default inputs, which are based on a much
12 broader study.

13 But did I change each one specifically, no. And if
14 I had, I would be criticized, because they're too individually
15 related and they're not reflective of the forward-looking
16 costs.

17 Q. Now, in your testimony you use the word "default
18 inputs". Is another way of expressing that
19 assumptions? Default inputs, are they assumptions?

20 A. Well, I suppose any input into a study is -- is an
21 assumption. They are -- they are inputs that are based in
22 many cases on studies of data at -- at a national or regional
23 level, they're based on judgments of experts, they're based on
24 studies of empirical data and a variety of things, depending
25 on the nature of the input.

1 Q. Okay. I --

2 A. Some of those inputs are based on U.S. geological
3 survey maps of the United States and the top of -- type of
4 soil that are in specific areas.

5 Q. But is it fair to say that, to the extent you
6 relied on the default inputs, you accepted the assumptions
7 made in the Hatfield Mod-- Model that those default inputs are
8 appropriate?

9 A. I -- I did accept the default inputs. Whether they
10 are assumptions are not, they are the default inputs.

11 Q. Okay. Now, did you help prepare the responses to
12 Data Requests in this arbitration?

13 A. I -- I prepared responses to some of the second set
14 of Data Requests --

15 Q. Okay.

16 A. -- not all of them. I did not prepare any
17 responses to the first set.

18 Q. Okay. Now, I believe in your direct testimony you
19 indicated that you sometime in early July, so sometime early
20 last month you ran the model again, and determined that some
21 of the inputs had been inappropriate and you needed to change
22 some, and the results showed a -- a decrease in cost --

23 A. That's correct.

24 Q. -- for these companies; is that right?

25 A. Yeah. There were basically two specific inputs

1 that I changed that related to that, and I describe those in
2 my testimony.

3 Q. I understand.

4 A. And they had to do with tandem traffic.

5 Q. And those -- those changes resulted in reductions
6 in the costs for each of the four companies?

7 A. That's correct.

8 MR. MARK JOHNSON: Let me hand you -- this is an
9 exhibit from Mr. Conwell's testimony.

10 What is this 10?

11 JUDGE PRIDGIN: Yes, sir.

12 MR. MARK JOHNSON: Or -- 10. Okay. I ask that
13 this be marked as -- for purposes of identification as
14 Exhibit 10. And I am not going to talk about the specific
15 numbers that --

16 THE WITNESS: Are you gonna ask me about it?

17 (EXHIBIT NO. 10 WAS MARKED FOR IDENTIFICATION.)

18 BY MR. MARK JOHNSON:

19 Q. Well, I'm not gonna ask you about the specific
20 numbers, because I know some of them are confidential.

21 But first I want to ask you if you have seen this
22 exhibit before. It's Exhibit WCC-1 from Mr. Conwell's direct
23 testimony.

24 A. I have seen it, yes.

25 Q. Okay. And you -- did you review that exhibit in

1 preparing your rebuttal testimony?

2 A. I reviewed it in general terms. I didn't
3 necessarily check every number on it.

4 Q. Okay. Well, I -- what I want to ask you is,
5 whether the information contained in this exhibit, to your
6 knowledge, is accurate?

7 A. I -- I believe it is. Again, I didn't cross check
8 every number, but --

9 Q. Okay. But, as far as you know, it's accurate?

10 A. As far as I know, it's accurate.

11 MR. MARK JOHNSON: This exhibit will offered into
12 evidence later as a part of Mr. Conwell's testimony, but I
13 would like it to be separate in the record. So I -- could I
14 offer it as Exhibit 11 -- or 10? Excuse me.

15 JUDGE PRIDGIN: That's fine with me.

16 Any objection?

17 MR. CRAIG JOHNSON: No objection.

18 JUDGE PRIDGIN: Exhibit No. 10 is admitted.

19 (EXHIBIT NO. 10 WAS RECEIVED INTO EVIDENCE.)

20 BY MR. MARK JOHNSON:

21 Q. Mr. Schoonmaker, would you agree with me that at
22 least one of the grounds of support for the 3.5 percent
23 intraMTA rate is that it is contained in traffic termination
24 agreements reached with other wireless carriers?

25 A. That's one of the reasons that it was offered to

1 T-Mobile, and that we are continuing to support it, yes.

2 Q. Okay. Now, in his testimony, is it correct, that
3 Mr. Conwell provides examples of how he believes the Hatfield
4 Model overstates forward-looking transport and termination
5 costs?

6 A. He does.

7 Q. What --

8 A. Of whi-- which I disagree with.

9 Q. Well, I understand. I just wanted to make sure
10 that -- that you understood that he was presenting his side.

11 A. Yes.

12 Q. Would you agree that, in his testimony, Mr. Conwell
13 provided evidence concerning an arbitration decision in
14 Oklahoma, which is critical of the Hatfield Model?

15 A. He did.

16 Q. Okay.

17 A. And I responded to that in my rebuttal testimony.

18 Q. Okay. Is it correct that in your direct testimony
19 you express concerns about the Hatfield Model and its
20 applicability to these four Petitioners?

21 A. Yes, I express concerns about any forward-looking
22 cost model. But the FCC has required us that we use them,
23 and -- and so we have to do that, even though they may not, in
24 my view, be terribly appropriate.

25 Q. All right. Is it true that you express concern

1 about a lack of time to investigate all of the default data in
2 the Hatfield Model?

3 A. I did. You've previously referred to that.

4 Q. How long did you have to evaluate the applicability
5 of the Hatfield Model to these four Petitioners?

6 A. Well, in terms of this particular case, I had a
7 very short time period. But I have used the Hatfield Model in
8 regards to these Petitioners and other companies both in
9 Missouri and in other states over a period of several years,
10 so I'm fairly familiar with it.

11 Q. Okay. When did you start your evaluation of the
12 applicability of the Hatfield Model to these
13 Four Petitioners? Was it before or after the arbitration
14 petition was filed?

15 A. Oh, it was probably six years ago.

16 Q. To these four specific companies?

17 A. For these four specific companies, along with a
18 number of other companies when I used this model in testimony
19 in this state in regards to Universal service Funding --

20 Q. Okay.

21 A. -- several years ago.

22 Q. So even after six years of evaluation, you're still
23 not sure whether the Hatfield Model yields reliable results
24 for these four companies?

25 A. That's true.

1 Q. Okay. Is it correct that you also express concern
2 about the "broad inputs and generalized formulas," which might
3 mask company-specific circumstances?

4 A. Yes, that's a quote from page 8 of my direct
5 testimony.

6 Q. All right. Third, did you express concerns
7 concerning the validity of the use of a Hatfield Model for
8 small telephone companies?

9 A. Yes. Unfortunately the FCC has required us to use
10 forward-looking cost models for these purposes, and so we have
11 to use the models that are available.

12 Q. Okay. Would you agree with me that the
13 four Petitioners here are small telephone companies?

14 A. They are.

15 Q. And, finally, would you agree that you express
16 concern about the model being less accurate for small
17 geographic areas than for large geographic areas?

18 A. I do.

19 Q. Being, for example, less accurate for companies
20 that have a small number of exchanges, such as the
21 four Petitioners, as opposed to large local exchange carriers
22 like SBC that have hundreds or thousands of exchanges?

23 A. Yes.

24 MR. MARK JOHNSON: I'm gonna hand you a document
25 which I'll ask to have marked as Exhibit 11. Is that what

1 we're up to?

2 (EXHIBIT NO. 11 WAS MARKED FOR IDENTIFICATION.)

3 BY MR. MARK JOHNSON:

4 Q. Exhibit 11 appears to be the answers to T-Mobile's
5 second Data Request.

6 Do you agree with that?

7 A. Yes.

8 Q. And I believe you said a moment ago that you
9 participated in preparing the answers to these Data Requests?

10 A. Some of them, yes.

11 Q. Let me refer you to page 9, particularly Item B
12 which says, the forward-looking model assumption for
13 interoffice mileages is that the individual offices will be
14 routed to the nearest RBOC wire center. Individual exchange
15 mileages to these offices as contained in the distance file
16 used are as follows, colon.

17 Do you see that?

18 A. I do.

19 Q. Is the information that appears in the two columns
20 below, is that information that comes out of the Hatfield
21 Model?

22 A. Yes, one of the --

23 Q. Okay. So --

24 A. One of the files that's used is in the Hatfield
25 Model.

1 Q. Okay. So the -- the numbers, which are the
2 mileages, that appear in the right-hand column, those are the
3 default inputs from the Hatfield Model --

4 A. They --

5 Q. -- or those are the inputs from the Hatfield Model?

6 A. They are data that's in a file and it has -- that's
7 used by the Hatfield Model.

8 Q. Okay. Would you agree with me that the Hatfield
9 Model indicates that the mileage for Alma -- it's in here as
10 22 miles --

11 A. Yes.

12 Q. -- is that right?

13 Let me, then, refer you to page 5 of the Data
14 Requests, in particular Item No. -- or the answer to
15 Question 10.

16 At the top of page 5, Question 10 it says -- then
17 this is the -- well, first of all, I'll read the question, and
18 then the response.

19 The question is: Alma Telephone apparently has
20 interoffice facilities from its single switch to the
21 Southwestern Bell point of interconnection, period. Please
22 provide the following information.

23 And if you'll look at A, route mileage from the
24 Alma Telephone switch to the SWBT POI. POI is short for point
25 of interconnection, would you agree --

1 A. Yes.

2 Q. -- with that?

3 A. Uh-huh.

4 Q. And if you look at the response below to
5 Item A it says, Alma Telephone Company route miles to
6 interconnection point with Citizens Telephone is 3.64 miles;
7 is that right?

8 A. Yes.

9 Q. That's the actual figure?

10 A. Yes.

11 Q. 22 miles is the figure that's assumed in the
12 Hatfield Model; is that right?

13 A. Based on an assumption of what the efficient
14 forward-looking network would be, it assumes that rather than
15 going to Citizens tandem, which it does, that Alma would go to
16 a regional Bell operating company tandem --

17 Q. Okay.

18 A. -- which in the model happens to be located in
19 Chillicothe, Missouri.

20 Q. Okay.

21 A. And -- and the model assumes that all the Kansas
22 City traffic would go to the Chillicothe one, and it would be
23 more efficient to have a single tandem in that LATA.

24 Q. Let me refer you back to the top of page 9, Item
25 letter -- small letter A. Well, actually let me refer you to

1 the last line on the previous page, page 8, where it starts --
2 it says, in -- in the HAI Model, and I -- HAI is short for
3 Hatfield Associates?

4 A. Actually the company is now named HAI.

5 Q. Okay.

6 A. At one time it was named Hatfield Associates, but
7 it's not HAI.

8 Q. But if you, then, look at the top of page 9 it
9 says, the type of transport system based on the model
10 documentations is an O3 -- pardon me -- OC3 system for all
11 companies; is that correct?

12 A. Yes, that's what it says.

13 Q. Are the four Petitioners all companies that have an
14 OC3 network?

15 A. I believe, based on their Data Requests, they have
16 different networks.

17 Q. Okay. Let me refer you, then, to page 5, the
18 answer to Question 10B. This is for Alma. It says, optical
19 transport to the POI capacity of FOXCR card is 49.152 Mbps or
20 megabits per second.

21 Will you agree with me that that describes the DS3
22 network, as opposed to an OC3?

23 A. I'll accept that, subject to check. I didn't make
24 that conversion.

25 Q. Okay. Go to the answer to 11B. That's on the next

1 page, page 6. This is for Chariton Valley. The response
2 says -- and near the end of 10B, nominal bandwidth is OC12.
3 Now, OC12 is different from OC3, is it not?

4 A. It is.

5 Q. And, as far as you know, does Chariton Valley have
6 an OC12 network?

7 A. That's what their Data Response says. I assume
8 they do.

9 Q. Okay. And then look at -- go down on the same page
10 to 12A, which relates to Mid-Missouri. And if you see 12A --
11 the response for 12A at the bottom it says, the south ring
12 uses a Lucent DDM-2000 OC12 system. We are using four of the
13 DS3s on the system, which is capable of 12 DS3s or about 1/3
14 of the system's capacity.

15 You skip a sentence, and it says, the north ring
16 uses a Lucent OC12 system. Does that indicate to you that
17 Mid-Missouri's system is OC12, not OC3?

18 A. It does.

19 Q. Finally on page 7, Question 13 which relates to
20 Northeast Missouri Rural Telephone. If you go to -- pardon
21 me -- page 8 for the response. Indicate -- it indicates that
22 their system is an OC12 system; is that correct?

23 A. Yes.

24 Q. And that's different from an OC3 system?

25 A. Yes.

1 Q. Which the Hatfield Model assumes?

2 A. Right. More expensive.

3 Q. Would you agree with me, Mr. Schoonmaker, that each
4 of the four companies has represented that the system which
5 they now have in place is the -- is the least cost, most
6 efficient system for their purposes?

7 A. Yes, each one represented that.

8 MR. MARK JOHNSON: Okay. I offer Exhibit 11 into
9 evidence, the -- the Data Responses. And if it's admitted, I
10 am finished.

11 JUDGE PRIDGIN: Thank you.

12 Any objections?

13 MR. CRAIG JOHNSON: No, Your Honor.

14 MR. MARK JOHNSON: Thank you.

15 JUDGE PRIDGIN: Okay. No. 11 is admitted.

16 (EXHIBIT NO. 11 WAS RECEIVED INTO EVIDENCE.)

17 JUDGE PRIDGIN: Mr. Johnson for Respondent, thank
18 you.

19 MR. MARK JOHNSON: And thank you, Mr. Schoonmaker.

20 JUDGE PRIDGIN: Before we go into further cross,
21 let me just kind of figure out what kind of time.
22 Ms. Dietrich, do you plan to have quite a few questions or do
23 you know?

24 MS. DIETRICH: I -- I have quite a few.

25 JUDGE PRIDGIN: Okay. Mr. Haas?

1 MR. HAAS: Eight to ten.

2 JUDGE PRIDGIN: Okay. Mr. Cecil, you've got --

3 MR. CECIL: I have a few.

4 JUDGE PRIDGIN: Okay. I hesitate to -- to break in
5 the middle of a witness. But because of the time and because
6 of the workload on the court reporter, this may be a -- a
7 convenient time -- as convenient time as any to break for
8 lunch, since we're about 10 'til 12 unless any Counsel has
9 objections or unless that's gonna throw our schedule off.

10 All right, seeing none, let's go ahead and -- and
11 go off the record for a lunch break. Let's resume at -- at
12 one o'clock if we could, please.

13 We're off the record.

14 (A RECESS WAS TAKEN.)

15 JUDGE PRIDGIN: All right. Good afternoon. We're
16 back on the record. We're resuming the arbitration hearing in
17 IO-2005-0468.

18 If I recall correctly, when we broke for lunch, we
19 were at the point where the Advisory Staff was going to
20 cross-examine Mr. Schoonmaker.

21 And, Ms. Dietrich, if you're ready, do you have
22 some questions?

23 MS. DIETRICH: Yes, I do. Thank you.

24 QUESTIONS BY MS. DIETRICH:

25 Q. When you were having a discussion with Mr. Johnson

1 for T-Mobile about whether current carriers have
2 interconnection agreements that allow for direct
3 interconnection between the wireless and the LEC, you said
4 that, yes, you were aware of some in Missouri that did have
5 such a situation or if it -- let me rephrase that.

6 You were aware that there were interconnection
7 agreements between wireless and LECs; is that correct?

8 A. That's correct.

9 Q. And do you know if any of those are small LECs?

10 A. Yes.

11 Q. Not necessarily the ones in this case, but small
12 LECs?

13 A. Yes.

14 Q. Okay. And do you know if any of those have direct
15 interconnection agreements that they negotiated?

16 A. Yes.

17 Q. Okay. And do you know if, in those instances,
18 whether the wireless number is rated within the local calling
19 area of the LEC?

20 A. Yes.

21 Q. Okay.

22 A. There are -- there are a couple that I know
23 directly, yes --

24 Q. Okay.

25 A. -- that are with carriers that are not affiliates.

1 Q. Okay. Now, I'd like to ask you some questions on
2 your testimony. I'd like to start with your direct on page 5.
3 At lines 20 through 22 your -- you say at the middle of line
4 20, reciprocally -- reciprocally to be charged to the
5 Petitioners for traffic terminated by the Petitioners for
6 which they are responsible to the wireless carriers.

7 Do you see that?

8 A. Yes.

9 Q. Does that mean that the Petitioners have agreed to
10 reciprocal compensation for LEC to wireless traffic?

11 A. I -- it -- what it means is, if there was a
12 circumstance where T-Mobile had numbers rated within the local
13 calling area of the -- of the company and which there was an
14 appropriate interconnection range and there, in fact, then was
15 a local interconnection, this would be the appropriate rate to
16 charge for that.

17 Q. But only under those circumstances?

18 A. Right. It -- it -- I mean, it doesn't apply to the
19 current circumstances, because the companies have no traffic
20 for which they are responsible. All the traffic that's going
21 to T-Mobile that's been described is IXC traffic.

22 Q. Okay. Then in several places throughout your
23 testimony you make statements such as, you've made changes to
24 inputs because you've assumed this or that or, you know,
25 you've made changes to the cost of this because you've made

1 some assumptions.

2 Without going through your testimony input by input
3 or, you know, page by page, can you just give me generally
4 what things you used as the basis for making various
5 assumptions?

6 A. Well, they -- they varied, based on the
7 assumptions. Many of them were done based on studies that
8 were done earlier at the time the Missouri studies were
9 initially prepared back in -- and I was trying to remember the
10 year when we had the USF cost proceeding. It was a long time
11 ago.

12 But we did a number of studies at that point in
13 time in regards, for example, to the traffic factor that we
14 reduced to more re-- more closely reflect the AS traffic, in
15 regard to the cost per customer for -- for customer operations
16 functions, the -- the change in the buried cable percentages
17 was based on a review of the companies in the state and how
18 much buried cable investment they had versus aerial cable
19 investment.

20 COE switching which I described was -- was based on
21 company investments. And I re-looked at it in regard to this
22 case in comparisons of their 2003 imbedded investments.

23 The switching expense factor that I discussed and
24 Mr. Conwell discussed in his rebuttal testimony was based on a
25 review of 2003 in-- data from the companies' annual reports.

1 I mean, in other cases like the structure sharing
2 assumption changes, they were based more on a review of the --
3 the circumstances of the company.

4 One of the areas that I disagreed substantially
5 with the HAI providers in which the FCC disagreed
6 significantly, as well, not quite as -- they didn't go quite
7 as far as I did, and the -- the assumptions the FCC used on
8 structure sharing, but certainly very much in that direction.

9 The network operation factor was one that was more
10 based on judgment. I discussed that in -- in my testimony,
11 and the differences both in the timeframe of now versus when
12 that assumption was made.

13 And in that case, the -- the original assumption of
14 the network operations expense factor being 50 percent was a
15 judgmental decision made by the HAI developers that had --
16 it -- it had no numerical analysis or background.

17 It was just their -- their judgment of what might
18 happen to the Bell operating companies over the next few years
19 in regards to their net-- network operation expenses.

20 And I -- I went through in my testimony and --
21 and -- and described why expenses in that category are very
22 different from small companies than large companies, because
23 there are many items that are significant it-- cost items for
24 RBOCs that the companies have virtually none of, because they
25 have no second-level supervision and -- and some of the other

1 items that impact that.

2 Q. Okay. If we could turn to page 30. Starting at
3 line 16 you're talking about making several adjustments based
4 on actual investments or actual scenarios. And it goes on for
5 a little bit of a discussion there.

6 A. On page 30?

7 Q. Uh-huh.

8 A. The direct?

9 Q. Oops. Yes. Starting at line 16?

10 A. If the Commission determines?

11 Q. Oh, perhaps I have the wrong site. But just
12 generally speaking in your testimony, you've made some
13 adjustments based on actual investments that the companies
14 have made; is that correct?

15 A. Yes, that was primarily related to the switching --
16 COE switching investment.

17 Q. If you adjust the model towards actual costs, are
18 the results still forward looking?

19 A. Well, as I -- I discuss in my direct testimony in
20 regards to COE switching, in the case of COE switching, I
21 believe it is. Because the current COE switching equipment
22 that's considered forward-looking equipment is very similar to
23 the -- the kind of equipment the companies currently have in
24 service.

25 In other cases, it wouldn't be an appropriate

1 comparison. And cable and wireless facilities is probably the
2 most glaring, because the forward-looking assumption is that
3 that will be done with the loop carrier equipment with fiber
4 penetrating much farther into the network than many of the
5 companies currently have.

6 So the -- the -- the network equipment is different
7 on forward-looking basis. In the case of COE switching,
8 the -- the switching equipment is still considered --
9 forward-looking equipment is reasonably close to what -- what
10 the companies currently have invested in it, and it's a much
11 better test in that case.

12 I -- I would note that even then recognizing that
13 there are conventional wisdom and maybe some TPIS factors that
14 suggest that the cost of switching has come down, the factor
15 that I used only produced COE switching investment at
16 72 percent of what the companies' current investment levels
17 are.

18 And that helps to recognize the possibility that
19 the switching equipment cost has been reduced somewhat from
20 when the companies purchased it.

21 Q. Okay. And then on page 30 at line 20 you have a
22 number there, .0583?

23 A. Yes.

24 Q. Can you explain to me how you went through the
25 calculations or the reasoning to -- behind going from .0583 to

1 the .035 that is being proposed?

2 A. The -- the .05383 is the composite forward-looking
3 cost that was produced in the studies that I did. Because the
4 companies have -- have themselves negotiated contracts with
5 several other carriers and used the .035 rate as the
6 negotiated rate and one that's been accepted by those other
7 wireless carriers, because the companies offered that to
8 T-Mobile in the course of negotiations as a means and hopes of
9 being able to settle this issue as it had with a number of
10 other wireless carriers -- in fact, I think with all the other
11 wireless carriers that the companies interconnect with, and so
12 that they wouldn't be accused of not negotiating in good
13 faith, I think, the company has continued that offer of
14 .035 cents into the arbitration proceeding, even though it's
15 less than the forward-looking cost that the cost studies
16 produced.

17 Q. Since the .035 is less than the forward-looking
18 cost that was produced, is the .035 forward looking?

19 A. Well, the -- the .035 represents a -- a negotiated
20 position. It's not a specific cost determination. It's a
21 rate that the companies have negotiated with other carriers,
22 that other carriers have accepted and they've been willing to
23 accept, and -- and one that they've offered to T-Mobile and --
24 and continue to offer as -- as a means of settling it.

25 It's not a specific cost number. It's less than

1 the forward-looking cost.

2 Q. Okay. On page 40 of your direct. At line 10 you
3 talk about, thus, traffic, for example, between an IXC and a
4 CMRS provider is not local telecommunications traffic under
5 the FCC's rules.

6 Just for clarification, what is the compensation
7 mechanism for that traffic?

8 A. The F-- FCC had a case two or three years ago where
9 the question had been raised originally -- I believe it came
10 out of a court case in Kansas City between Sprint and one of
11 the interexchange carriers. Sprint Wireless, Sprint PCS was
12 charging access rates to interexchange carriers pursuant to a
13 tariff that they had filed somewhere. I don't remember where.

14 And there was a case they -- the Court referred it
15 to the FCC. The FCC essentially came back and found that --
16 that it was not inappropriate for wireless carriers to pay
17 IXCs terminating compensation, but they would not establish
18 specific rules. And that the IXCs and the wireless carriers
19 should enter into commercial negotiations to determine those
20 rates.

21 From the testimony that T-Mobile has presented, it
22 sounds like either they haven't entered into those
23 negotiations or those negotiations have not been successful.
24 And they -- the testimony that they offered said that they
25 weren't receiving compensation from the IXCs.

1 But, nevertheless, it's -- that's an issue between
2 the IXC's and the CMRS providers, including T-Mobile, and is
3 not something that the LEC should be responsible for.

4 Q. Okay. Then on page 42, your discussion at lines 18
5 through 24 where you're talking about why the Petitioners have
6 no local traffic that they are exchanging with the
7 CMRS providers.

8 Is there any third-party transit traffic between
9 the LECs in this case and the CMRS providers?

10 A. I'm thinking. Just a minute.

11 The difference between these four Petitioners
12 and -- and T-Mobile, I am not aware of any. All the
13 discussion has been and my understanding is that T-Mobile does
14 not have any local numbers in the local calling area.

15 Pursuant to the companies' local tariffs and the
16 pre-subscription rules and requirements, that traffic has to
17 be dialed 1-plus and -- and becomes interexchange carrier
18 traffic between that end-user or the IXC and whoever they use
19 to terminate.

20 Q. Okay. I'd like to go back to page 22. I think it
21 is where you start your discussion of cost of capital.

22 And as you were calculating cost of capital and --
23 and taking a look at the results from the model and that type
24 of thing, were any considerations made due to the recent
25 finance case that Alma has gone through?

1 A. No.

2 Q. And I assume, then, that no adjustments were made
3 to the numbers to reflect the financing proposal that's --

4 A. No, they --

5 Q. -- that was before the Commission?

6 A. In the studies that we did, we used the
7 11.25 percent overall cost of capital that the FCC initially
8 found appropriate in 1990, and then in the multi-association
9 group, the MAG order, in 2001 or -- I think it was in 2001
10 they reaffirmed as an appropriate rate of return and didn't
11 change it. We used that -- that rate of return.

12 I -- I would comment in regards to cost of capital
13 that certainly over the past 5 years since that order -- well,
14 I'm -- there are variations in the general financial markets
15 that have occurred for small rural telephone companies. The
16 business risks have increased significantly, because of the
17 uncertainty of the regulatory environment.

18 The competition and the loss of traffic that
19 they're facing to wireless carriers and -- and the potential
20 for loss to VOIP providers, if you will, as -- as broadband
21 penetration increases, which it has done significantly in that
22 timeframe, which to me means that the -- the cost of equity
23 for these small rural companies probably has increased
24 significantly in that time because of the specific business
25 risks to their business regardless of what may have changed in

1 the overall general financial situation.

2 Q. And you said cost of equity has increased?

3 A. Yes.

4 Q. Okay. Let's see. In your -- I'd like to turn to
5 Mr. Conwell's rebuttal testimony, if I may. And I'll have you
6 take a look at that.

7 On page 7 of his testimony beginning at line 18 he
8 says, the un-- unanswered questions include, and then
9 throughout the next, oh, probably 3 pages he has different
10 sections where he has questions that he felt should be
11 answered as far as the cost study review and the preparation
12 that you completed.

13 And I was wondering if you would be able to respond
14 to those questions at this time.

15 A. How many pages do you -- do you want me to go?

16 Q. Well, it's -- it's scattered throughout 3 pages.
17 It's not 3 solid pages.

18 A. Okay.

19 Q. Like, for instance --

20 A. The one on 19 and 20?

21 Q. 19, uh-huh.

22 A. Well, in -- in regards to the questions on 19
23 through 21, in the HAI Model -- the HAI Model calculates the
24 traffic between various offices and between the -- the office
25 and the tandem determines from formulas and tables --

1 engineering tables within the model the appropriate number of
2 various kinds of trunks that need to be provisioned in order
3 to carry that traffic. And then it uses formulas and tables
4 to determine cable size.

5 If you go to the inputs for the HAI Model, the
6 smallest size of fiber that is used in the HAI Model is a
7 12-fiber cable. And in the interoffice portion the cost
8 that's used is the cost of the -- pretty sure it's in one of
9 these -- in the Data Request responses, the cost of a 24-fiber
10 cable.

11 So in the interoffice portion, the -- the HAI Model
12 is using a 24-fiber cable. And based on the formulas and the
13 development of the -- the engineering people and -- and other
14 people that put the model together, that was the appropriate
15 size of cable to use.

16 In feeder cable and other cable within the office
17 it would go down to 12 fibers, depending on the amount of
18 traffic that was on the fiber.

19 Q. Okay. So for this particular question regarding
20 cable size, then, you would say that the HAI calculation was
21 sufficient?

22 A. That -- that would be -- that would be my position.
23 And I think it's -- it's certainly similar to the sizes of
24 cables that the companies use and that they reported. But in
25 some cases they used larger cables than that for various

1 reasons in their actual currently configured networks.

2 Q. Okay. At the top of page 8 the question is, what
3 is their current cost of cable construction per foot of cable,
4 material prices, local contractor costs, et cetera.

5 Can you answer that question?

6 A. Well, I mean, the -- the data that's in the HAI
7 Model developed by surveys of -- of the HAI people and a was
8 developed by surveys of -- of the HAI people and engineers
9 with contractors across the country, based on the cost of
10 cable at a point in time, and based on the cost of placing
11 cable, of splicing it, of engineering it and so forth.

12 Since that time, you know, the cost of fiber,
13 frankly, has fluctuated vitally. After that for a period of
14 three or four years it increased substantially. There was a
15 tremendous demand for fiber cable, and -- and the cost went up
16 and it -- frankly, there was a period of time when it simply
17 wasn't available.

18 People were -- I -- and I talked to clients during
19 that period of time when they were having to order fiber 18 to
20 24 months in advance to get delivery.

21 After the dot com bust and the bankruptcy of a
22 number of network providers of various kinds and the demand
23 for fiber fell off substantially and the cost reduced.

24 I think it's growing and -- and, frankly, the
25 manufacturing capacity was cut substantially by people like

1 Corning, who manufacture fiber.

2 And so the -- the cost of fibers varied widely over
3 the time. I did not take the time to try to go back
4 and -- and get fiber costs. We have done that in some cases
5 in the past. And, you know, if we get it for two or
6 three companies, we typically then say, well, your sample
7 wasn't big enough or we could buy it cheaper than that
8 somewhere else, and we end up with the same kinds of arguments
9 about cost of fiber regardless of what data you have.

10 The cost of labor has probably gone up some.
11 Although inflation has been rather modest and labor contracts
12 have been modest, certainly the costs of labor have increased
13 over time.

14 Overall I think that the costs that are in the
15 model are -- are reasonably reflective of the -- the -- the
16 cost of construction.

17 Q. Okay. And then the next question is, what is the
18 interoffice route mileage of Alma's connection to the
19 Southwestern Bell point of interconnection, Chariton's ring
20 and Mid-Missouri's two rings?

21 A. That infor-- information was provided in response
22 to the Data Request, which was entered as an Exhibit 11, I
23 believe, but I don't -- can anybody help me with the number so
24 we get it correct here?

25 JUDGE PRIDGIN: You know, that -- that lat-- that

1 latest Data Request was No. 11.

2 THE WITNESS: Okay. And -- and let me make a
3 couple of -- of comments about that, and the questioning from
4 Mr. Johnson for the Respondent.

5 He pointed out that -- that the -- the mileage for
6 Alma was 22 miles in the model, that Alma's actually -- the
7 actual mileage to its interconnection with Citizens as
8 reported by them is 3.28 or something like that.

9 In -- in the FCC's description of what a -- a
10 appropriate forward-looking cost study was, about the only
11 thing that they held constant in terms of current network
12 configurations was the location of the wire centers.

13 And they did say that forward-looking cost studies
14 should be based on current location of the wire centers. But
15 beyond that, they said that a forward-looking cost study
16 should reflect the most cost-efficient network.

17 And we had a question from Mr. Johnson about
18 the -- and the fact that in those Data Requests in Exhibit 11
19 that the companies each indicated that the network they had
20 built was the -- with the most cost-efficient equipment.
21 And -- and that's based on the current locations of the
22 network, the current locations of tandems and so forth.

23 In the HAI Model, the model rebuilds what it
24 assumes is the appropriate forward-looking cost network and
25 the most efficient interoffice network. And it's focused on

1 Bell or large local exchange company tandem switches.

2 And those tandem locations in the model and the
3 interconnections between them are based on a series of
4 assumptions that were dev-- developed by the modelers that the
5 FCC has used in its USF model and -- and so forth.

6 And -- and those network locations and that --
7 locations of rings and so forth are not necessarily the same
8 ones that are in the ground now and that a company would build
9 to if they were updating their construction, as the companies
10 have.

11 And -- and so the mileages are different because
12 the forward-looking network that they build on a statewide
13 basis assumes connections with Bell -- rings that ultimately
14 go to the Bell tandem at efficient locations, which is at
15 the -- the nearest local Bell wire center.

16 And -- and those are the assumptions that were --
17 that were included in the model as to what's the -- the most
18 appropriate forward-looking network.

19 So the fact that the network distances are -- are
20 different from what is actually in place doesn't mean that the
21 companies built something inefficiently based on the network
22 they have and the network they have control of and the
23 existing network.

24 It's not the same network that the model assumes on
25 a forward-looking basis, which assumes that nothing's in the

1 ground and we start from scratch.

2 And I mentioned this morning, for example, that in
3 the model, the only tandem -- Bell tandem that's located in
4 the -- in the model in the Kansas City LATA is located not in
5 Kansas City, but in -- in -- shoot, I can't think of the
6 town -- Chillicothe, which is much more centrally located in
7 terms of mileage. And I assume that's why it was -- was
8 located there.

9 BY MS. DIETRICH:

10 Q. His -- his next question talks about interoffice
11 transport systems and forecasting utilization of DS0s. If I
12 remember correctly from this morning, in the DR response that
13 was discussed in Exhibit 11, there was discussion about most
14 of the Petitioners have something in the range of an OC
15 something -- you know, OCS and that they perhaps even have,
16 you know, greater than that.

17 So did you make any adjustments to the model to
18 take into account what they actually have or did you rely on
19 the HAI?

20 A. I -- I relied on the HAI Model to do that. And --
21 and the -- the discussion we had this morning with Mr. Johnson
22 for three of the companies, I believe, they indicated they
23 currently have OC12 systems, which has -- have a greater
24 capacity than the OC3s that would have been used in the model
25 and that were more expensive.

1 In the case of Alma, I believe it was indicated
2 that they had one DS3, which is the -- a smaller facility than
3 the OC3, which was assumed in the model. And may be somewhat
4 less, although based on NECA tariff data that we looked at,
5 the cost between a DS3 and an OC3 may be -- may be fairly
6 similar.

7 So, no, I didn't change the model assumptions in
8 that regard. I let the model do it. The -- the systems that
9 are reflected in the model, if anything, are less expensive
10 systems than the companies actually have in place.

11 Q. And -- and what about, for -- for instance,
12 utilization, would it have forecast it properly, the
13 utilization of those facilities?

14 A. Well, it -- it -- the model uses the actual traffic
15 that's going to be used, the size of the trunk groups and then
16 the size of the facilities.

17 And -- and based on it in terms of -- of
18 utilization percentages, I -- I don't remember in the output
19 file there being a specific item that calculates those
20 utilization percentages.

21 As I -- as I indicated in my rebuttal testimony,
22 there are good reasons why utilization percentages are much
23 lower in smaller rural exchanges than they are in -- in large
24 urban areas.

25 And the example I particularly used and related to

1 Alma and the fact that they have a relatively small number of
2 trunks, but because the way the equipment is bought and so
3 forth, they may have a system that could handle capacity
4 considerably greater than that.

5 And it's the most efficient system that they can
6 get, but it still is only utilized a very small percentage of
7 total capacity that could be -- is utilized and will ever be
8 utilized over that, because Alma only has 300 customers and
9 not very much traffic.

10 Q. I think the next group of questions were basically
11 answered through your discussion about the DR responses. I
12 think that's sufficient to give me an idea of at least what
13 you considered on these various types of things.

14 Now, I'd like to take a look at Mr. Pruitt's
15 rebuttal on page 14. Beginning at line 1 he says, Witness
16 Schoonmaker neglects to advise the Commission that the
17 FCC deleted the word "local" from 47 CFR 51.701(a) in 2001.

18 And then he goes on to discuss that idea a little
19 bit. And I'd be interested in your response to that.

20 A. Well, the -- there was a change in the definition
21 of -- of traffic -- local traffic in about that timeframe in
22 an order that has been subsequently remanded by the appeals
23 court as being unlawful and -- and that the FCC hasn't --
24 hasn't readdressed.

25 I thought -- I mean, when I was going through this

1 testimony and preparing it, I thought that I had gotten, at
2 least in regards to the rules, which I quoted on page 39 and
3 40 -- I got the correct updated definition.

4 Q. Is that 39 and 40 of your direct?

5 A. 39 and 40 of my direct, which has to do with
6 51.701(b). I am not certain that I ever quoted 51.701(a).
7 I'm not sure where -- I'm looking for that to see if I can see
8 it.

9 I'm not sure exactly what he's referring to when he
10 talks about 51.701(a). I mean, regardless of that, still
11 talks about traffic between LECs and CMRS providers.

12 And as I've indicated several times both in written
13 testimony and on cross-examination today, the Companies'
14 direct 1-plus traffic to interexchange carriers because
15 they're required to by the telecommunications act, the
16 FCC rules implementing it, the Commission's rules.

17 And when they do that, those become calls that are
18 interexchange carrier calls between end-users, which are the
19 interexchange carrier's customers for those calls, even though
20 they're the -- the LECs' customers for local service. And --
21 and those aren't, in our view, calls between the LEC and the
22 CRMS provider. They're between the IXC. The IXC purchases
23 through our access tariffs the use of our facilities so that
24 they can get to these customers.

25 They have their tariffs -- state tariffs filed with

1 the Missouri Commission for intrastate tariffs that indicate
2 the charges that will be charged to their customers. They --
3 they bill or contract with somebody to bill those customers.
4 The customers pay them. They carry the traffic on their
5 network.

6 We have no contracts between us and the IXC's to
7 carry that traffic on our behalf, because they're not. And --
8 and we just -- we don't understand why -- why people continue
9 to say that -- that those are our customers.

10 Mr. Pruitt, for example, says, well, the only
11 reason we do that is cuz it's a business judgment that we
12 choose not to.

13 MR. MARK JOHNSON: Your -- Your Honor, this is be--
14 this is becoming a speech by the witness. It's not responsive
15 to the question, and I would -- would ask the Arbitrator to
16 instruct the witness to confine himself to the question.

17 JUDGE PRIDGIN: I'll -- I'll try to -- and I
18 realize he's getting asked some open-ended questions, so we'll
19 just have to take it on an ad hoc basis.

20 Ms. Dietrich?

21 MS. DIETRICH: No further questions.

22 JUDGE PRIDGIN: Thank you.

23 Mr. Haas?

24 MR. HAAS: Yes, Your Honor.

25 QUESTIONS BY MR. HAAS:

1 Q. Mr. Schoonmaker, would you please turn to page 14
2 of your direct testimony? At line 6 you refer to 85 percent
3 buried, 5 percent aerial and 10 percent buried plant. Should
4 the 10 percent number refer to something else, perhaps
5 underground plant?

6 A. It should.

7 Q. And what is the difference between buried plant and
8 underground plant?

9 A. Buried plant under the FCC's accounting rules is
10 plant that is put -- put directly in trenches in the ground.
11 Underground plant is plant that's placed in conduit, which is
12 underground, but which allows for the plant to be able to
13 be -- well, No. 1, the conduit gives it additional protection
14 so its life is generally presumed to be longer. And,
15 secondly, it allows that the cable with the end of its useful
16 life can be pulled out of that conduit -- conduit and new --
17 new cable be put into the conduit.

18 Q. At page 22 of your direct testimony you discuss the
19 proposed cost of capital. Let me ask you probably elementary
20 questions, but what is your proposed overall cost of capital?

21 A. 11.25 percent.

22 Q. And what are the percentages of debt and equity in
23 your proposal?

24 A. Just a minute.

25 The debt fraction is 44.2 percent so the -- the

1 equity would be 55.8, I guess, if I've subtracted correctly.

2 Q. Please explain how you -- how you chose that
3 capital structure.

4 A. That is the capital structure that the FCC used in
5 its proceeding in regards to forward-looking models in the --
6 the docket 96-45, carrier common docket 96-45.

7 And the -- the combination of the factors that I
8 used are the same that the FCC used in the synthesis model for
9 USF for purposes and -- and arrives at 11.25 percent rate of
10 return.

11 Q. What cost of debt did you use in your proposal?

12 A. That assumes an 8.8 percent cost of debt.

13 Q. And would you please explain why you used that cost
14 of debt?

15 A. Again, it was -- I -- I used all the cost of
16 capital items based on what the FCC have used to arrive at the
17 overall 11.25 percent rate of return.

18 Q. I want to move on to a different topic. Would you
19 please describe a direct interconnection between an ILEC and a
20 wireless carrier?

21 A. Well, a direct interconnection would be a
22 connection where the wireless carrier constructs or leases
23 facilities typically into the operating area of the local
24 exchange company, and arranges through an interconnection
25 agreement to directly connect that facility to the ILEC's

1 network and -- and provides a circuit or a series of circuits,
2 depending on the nature of the -- the specific connection, to
3 carry the traffic directly from the ILECs, which -- to
4 the -- the wireless carrier's switch possibly through
5 some -- some intermediate nodes and so forth on that, but
6 eventually to go directly to the -- the wireless carrier
7 switch without going through a -- an intervening tandem switch
8 or any other kind of switch.

9 Q. You may have touched on it already, but please
10 describe an indirect connection between an ILEC and a wireless
11 carrier.

12 A. Well, I mean -- I mean, the best example of the
13 indirect connection is the -- the facility that the traffic
14 from T-Mobile is currently terminating over to the companies.

15 In this case the wireless carrier has a direct
16 connection typically from their switch to a Bell tandem switch
17 within the LATA. And then at the Bell tandem switch that
18 traffic is switched on to what's commonly called a common
19 trunk group, which carries the wireless traffic, interexchange
20 carrier traffic, Southwestern Bell's terminating intraLATA
21 toll traffic.

22 Here in Missouri it typically would carry
23 terminating toll traffic that originates with Century or
24 Fidelity or Sprint. Missouri, who are local exchange
25 companies who provide intraLATA toll traffic, and all that

1 traffic gets mixed together on that common trunk facility and
2 comes into the -- the LECs switch through that common trunk
3 facility.

4 Q. Are you familiar with a classification system of
5 interconnections as being Type 1 or Type 2?

6 A. I'm reasonably familiar with those. Those are
7 two types of -- of interconnections between wireless carriers
8 and usually large LECs.

9 The Type 2 connection, if I recall correctly,
10 generally gives -- actually I think there's a 2A and a 2B, and
11 I'm not sure I can distinguish them.

12 But the -- one of them, and I think it's 2B, but
13 I'm not certain, provides for the connection to go directly to
14 the -- the ILECs tandem switch and for traffic to be
15 terminated through all switch -- to all switches that subtend
16 the tandem.

17 The Type 2A, I believe, is an end-office connection
18 where it would go directly from the wireless carrier's switch
19 to a -- a -- an ILEC end office, which is usually in a large
20 metropolitan area where there's a large amount of traffic, and
21 would terminate traffic to all the customers that are -- that
22 are served by that particular end-office switch.

23 The Type 1 connection is a connection to an end
24 office. And -- and my recollection is that normally a Type 1
25 connection also involves the use of telephone company-assigned

1 numbers in their NPA and NXX, so it's a somewhat different
2 type of connection.

3 Q. What type of interconnection is T-Mobile requesting
4 in this proceeding?

5 A. Well, T-Mobile already has a type -- in most cases
6 a Type 2B connection. The traffic would come to us, I would
7 assume. And at least in most cases would come through a
8 Type 2B with a Bell tandem or perhaps a Citizens tandem. And
9 then indirectly through the use of Bell's network and that
10 common trunk group gets to our network.

11 That connection has been in place for a long time.
12 T-Mobile has been using it for years in terminating traffic
13 over it. I think as we're all aware, there are various
14 complaint ca-- cases in regards to T-Mobile about whether
15 they've been compensating the companies for that.

16 And this interconnection is about using that same
17 interconnection, but what the compensation should be on a
18 going-forward basis for the use of that interconnection.

19 Q. What type of interconnection is T-Mobile requesting
20 in this -- in this case for the landline to wireless calls?

21 A. Well, I mean, T-- T-Mobile's position is that -- I
22 guess, as I understand it, I don't think T-Mobile has a -- an
23 issue with the traffic being dialed on a 1-plus basis, and an
24 IXC carrier traff-- carrying that traffic.

25 But it's their position, as I understand it, that

1 even though the IXC carries that traffic, that -- that -- that
2 we have requested the IXC to carry that traffic, and that we
3 should compensate them for the termination of that traffic.

4 But I -- as I understand it, they're not suggesting
5 that we use any different network means to get it to the --
6 the customers than -- than we do currently.

7 MR. HAAS: Thank you. That's all my questions.

8 JUDGE PRIDGIN: Mr. Haas, thank you.

9 Mr. Cecil?

10 MR. CECIL: Yes, sir.

11 QUESTIONS BY MR. CECIL:

12 Q. Mr. Schoonmaker, several pages throughout your
13 testimony you've changed various user adjusted inputs to the
14 HAI. What kind of analysis did you do to arrive at the
15 numbers you chose?

16 A. Well, I -- I discussed some of that in my
17 testimony, and I just dis-- discussed it previously in --
18 in -- in response to a question from Ms. Dietrich.

19 And it depended on the input. In some cases those
20 were judgmental inputs. In other cases such as the COE
21 switching I did compare in the -- in the COE expense factor, I
22 did comparisons between the companies' actual data on their
23 annual reports from 2003 to see what the companies were
24 currently experiencing and -- and believing that that, in
25 those cases, might provide a reasonable estimate of what the

1 forward-looking costs would be.

2 And, I mean, with other ones there were -- there
3 were other kinds of specific analysis that were -- that were
4 done. So there -- there was a combination of things. And I
5 tried to describe those in my direct testimony.

6 Q. In your rebuttal testimony on page 22, line 14 you
7 refer to the NECA tariff. And that's in your discussion --
8 line 14.

9 A. Right.

10 Q. You refer to the NECA tariff as providing a less
11 expensive cost, I assume, for the OC3 than the DS3. I may be
12 naive here, but I'm not sure what the NECA tariff has to do
13 with determining the company's cost unless they're renting or
14 leasing.

15 A. Well, the NECA tariff is filed with the FCC on
16 behalf of the 1,200 to 1,300 companies that participate in
17 that tariff. And it's based on a composite average of the
18 costs of those specific companies and -- and the data that are
19 submitted by those companies or a sample of the companies to
20 NECA.

21 And so, I mean, in doing this, I was illustrating
22 the fact that at least based on the -- the analysis that's
23 done in that tariff, even though an OC3 has a greater capacity
24 than a DS3, because of certain factors related to the -- the
25 availability of the equipment and the cost of the equipment at

1 this point in time when NECA puts all that together and comes
2 out with a tariff rate that's reflective of cost, the OC3,
3 even though it has more capacity is a cheaper option to buy
4 from that tariff.

5 And that's reflective of the costs of that group of
6 NECA companies. It doesn't necessarily say that each of these
7 companies have that same kind of cost breakout, but it is
8 reflective of the overall companies.

9 And using it in this illustration -- what I was
10 trying to do in this illustration on this page was -- was show
11 why it may be more economical for a company to buy a facility
12 that has greater capacity, even though they don't need that to
13 carry the traffic that they've got.

14 Q. Okay. I understand that. Thank you.

15 The last question is on page 25 of your rebuttal
16 testimony. It has to do with theoretical capacity of the
17 trunks. The language I'm looking at is on line -- it starts
18 on line 18 and runs to line 20.

19 Theoretical full capacity of the trunk is -- trunks
20 is based on calculations of trunk usage in large offices with
21 heavy usage and trunk groups that are used more efficiently.

22 You -- you say that there are tables to determine
23 what efficient usage for those trunks should be. Aren't there
24 tables that provide usage factors for rural areas as well? I
25 believe you were talking here about --

1 A. There -- there are tables that are -- well, I may
2 be stretching my -- my engineering memory. But there are --
3 there are tables that are built to size trunk groups based on
4 the overall capacity and the ability to only -- to have less
5 than one percent blocking on those in the busy hour.

6 And -- and -- and the -- the engineering for trunks
7 and trunk groups in both large offices and in small ones
8 are -- are based on those tables. And -- and in large offices
9 with very large trunk groups you can get many more minutes, on
10 average, over all the trunks than you can in the very small
11 trunk group because of the -- the probabilities that some
12 customers are gonna be picking it up, there are more customers
13 that are using the trunk in -- in the large group than there
14 are in the small group.

15 And the -- the -- in the HAI Model the theoretical
16 full capacity that's used is either 10,400 or 10,600 minutes
17 per month. Somewhere in that range.

18 And in my experience in looking at actual traffic
19 in small companies is that, based on their usage, they very
20 frequently only get an average of 3,000 to 4,000 minutes per
21 month over the trunks in their trunk groups.

22 And it's a -- it's a combination of the efficiency
23 in the tables and then it's also a -- a function of the -- the
24 fact that it's cost efficient to buy trunks in T1s or DS3s and
25 so forth, as opposed to buying individual circuits so that --

1 that you get fewer minutes per trunk, on average, over the --
2 the trunks in a small office and in small companies.

3 MR. CECIL: Okay. Thank you. That's all, Your
4 Honor.

5 JUDGE PRIDGIN: Thank you very much.

6 Any recross?

7 MR. MARK JOHNSON: No.

8 JUDGE PRIDGIN: All right. Thank you.

9 Mr. Johnson for Petitioners, any redirect?

10 MR. CRAIG JOHNSON: I think I'll just for sake of
11 my convenience just work backwards through new notes.

12 MR. MARK JOHNSON: I -- I'm sorry. I just --
13 there -- there -- I'm sorry, Craig. I -- I guess
14 there's -- there's one point I -- no, I had said no
15 originally, but there's one point that I -- I think
16 Ms. Natelle -- Ms. Dietrich brought up in her questions, too.

17 RECROSS-EXAMINATION MY MR. MARK JOHNSON:

18 Q. When she asked you for -- whether there were
19 examples of interconnection agreements between small telephone
20 companies and wireless carriers that, I believe, called for
21 direct connection, and you said, yes, there were.

22 Can you tell us what agreements you're aware of, I
23 mean, by -- by company?

24 A. Yes. They're filed public -- public at the
25 Commission's -- Citizens Telephone Company has a contract with

1 Mid-Missouri Cellular for direct connection, and Mid-Missouri
2 Cellular has numbers located in Citizens Higginsville
3 exchange.

4 And Dobson has a contract with Grand River Mutual
5 Telephone Company that calls for and has a direct connection.
6 And they have, as I understand it -- I'm not quite as familiar
7 with that -- but they have numbers in -- at least local
8 numbers in -- in some number of Grand River's exchanges,
9 although not all of them.

10 Q. Do you know whether those agreements were
11 arbitrated or negotiated?

12 A. They were both negotiated.

13 Q. And those are the two that you're aware of? Can
14 you think of any others?

15 A. Now, give me -- give me a minute.

16 Chariton Valley, obviously, is another one which
17 we've discussed this morning, and -- Chariton Valley Cellular.
18 That's all I can think of. It's possible that Fidelity
19 Telephone Company may have a direct interconnection contract
20 with a wireless carrier, but I'm not sure.

21 MR. MARK JOHNSON: Thanks. I'm sorry for
22 interrupting, but thank you, Craig.

23 JUDGE PRIDGIN: Mr. Johnson for Respondent, thank
24 you.

25 Mr. Johnson for Petitioners, redirect?

1 MR. CRAIG JOHNSON: Yes, please.

2 REDIRECT EXAMINATION BY MR. CRAIG JOHNSON:

3 Q. In response to some of Ms. Dietrich's questions you
4 were talking about the -- the fact that companies have
5 proposed a 3.5 percent rate, even though the forward-looking
6 costs that you've developed were higher.

7 The question I wanted to ask is, is it within
8 T-Mobile's rights to adopt one of our existing agreements that
9 has a 3.5 cent rate in it?

10 A. My understanding, it is.

11 Q. As a practical matter, do you agree that that
12 limits your ability to request a rate that's higher than --
13 than what is in an existing approved agreement?

14 A. It certainly has an impact on it, yes.

15 Q. Would you tell us, in your words, what are the
16 major differences in approach between the forward-looking cost
17 modeling that you've done as compared to that Mr. Conwell was
18 doing?

19 A. Well, as I indicated earlier, I mean, one of the
20 differences is that we did choose to use the -- the HAI Model,
21 which is a sophisticated model that develops cost for
22 telephone companies around the country and has to do it for
23 all telephone companies.

24 That model has some fairly sophisticated, but not
25 necessarily perfect means for developing interoffice networks

1 and rings associated with those and the costs of those
2 facilities.

3 Mr. Conwell's exhibits in -- now, in the
4 interoffice area he tends to translate costs into a cost per
5 DS0 based on the -- what he describes as the efficient usage
6 of -- of a facility like an OC3. And -- and generally goes
7 through his cost calculations on a -- in the transport area,
8 at least, largely on a per-DS0 basis, and then translates that
9 into a per-minute basis, again, based on the theoretical
10 number of minutes that might be able to be carried on -- on all
11 of the DS0s rather than using actual minutes and -- and the
12 actual facilities that the company may have.

13 That's a significant difference. We obviously have
14 differences on some input items. He used 1996 RUS data that
15 was used by the FCC as part of their backup data to come up
16 with a cost for switching and average investment per line in a
17 switch to develop costs that are -- that are different than
18 the costs that I used.

19 And he used other non-rural sources such as
20 the CLEC tariff -- southwestern Bell CLEC interconnection
21 agreement to get the cost of A links for switching. And in
22 his experience, based from reading his resume, it seems like
23 he's worked more with the large companies like AT&T and the
24 RBOCs than small companies, although he indicates he's done
25 some small company cost studies.

1 Those were -- produced considerably different
2 results. And -- and that was the case where we went back and
3 got some actual invoice data, which I discussed in my
4 testimony and the invoices were -- were provided in Exhibit 11
5 to that the costs that the companies are paying for A links
6 are considerably higher both than what was in the HAI Model
7 and what he -- he assumed was reasonable.

8 And those are probably, from my viewpoint and a --
9 kind of a broad overview, some of the major differences. I
10 mean, one of the -- the critical items was the using of
11 theoretical capacities rather than the actual capacities or
12 the actual minutes that the company through our experience.

13 Q. Mr. Schoonmaker, if you were to provide in hard
14 copy everything that is comprised within the HAI Model,
15 whether you accepted the defaults or modified them as you've
16 testified, what would that look like?

17 A. Well, the HAI user's manual is about a 250- to 300-
18 page document. The HAI input manual, which describes each of
19 the default inputs and the source for them and -- and where
20 they came from is -- my recollection's in the neighborhood of
21 200 to 300 pages.

22 The printout of each of the individual companies'
23 cost studies, if you do it in a readable format, which you
24 have to go into the electronic models and change the printing
25 parameters to get them out readably is 60 to 80 pages per cost

1 study.

2 Q. And how many cost studies are in the model?

3 A. Four. One -- one for each company.

4 Then behind that there are work files that have
5 some of the early calculations, and that -- I -- I actually
6 have never printed those out, but I think they would comprise
7 some 30 to 40 pages.

8 So it -- it's a -- I mean, it's a significant
9 amount of material we have. I have in some other cases in the
10 past filed all that, and it gets to be a stack of material
11 (indicating) several inches thick.

12 Q. So when you refer to the HAI Model, you're really
13 referring to the XLS-type mathematical calculation
14 instructions, as well as the inputs and as well as the
15 instruction manual?

16 A. Yes. I mean, there is a -- one of the appendices
17 to the -- to the HAI user's manual has a printout of all of
18 the cell formulas, and each of four or five modules that
19 comprise the model.

20 Q. There's some discussion in your testimony about
21 ARMIS data. Is that part of the model?

22 A. There is a -- a -- a series of files in the model
23 throughout the country that are individual files for each
24 company that, in fact, files ARMIS or ARMIS data with the FCC.

25 And then there's an additional file, which is a

1 composite file that is used for smaller companies that do not
2 file their own ARMIS data with the FCC. And -- and that file
3 is based on a composite of those ARMIS filers.

4 The model takes that file, calculates a per-line
5 amount and then -- and then applies that to the number of
6 lines the company actually has in the model to -- to develop
7 that data for that individual company.

8 Q. And you didn't put all of that as an attachment to
9 your testimony. Were you trying to hide something or were you
10 trying to make the testimony efficiently readable in this
11 case?

12 A. We were trying to make it efficiently readable. I
13 mean, there -- there's a number of other files that I haven't
14 described as well beyond that. There's a series of access
15 database files that the model uses as well.

16 Q. Some of the questions and answers that you
17 exchanged with Ms. Dietrich when you were comparing 2.3 or
18 3.64 miles between Alma and Citizens compared to the 22 miles
19 that the HAI Model between Citizens and -- I'm sorry --
20 between Alma and Chillicothe.

21 Do you recall that testimony?

22 A. Yeah. It wouldn't have been to Chillicothe, but to
23 the nearest Bell wire center town. And I -- I haven't looked
24 to see what that might be.

25 Q. If the evidence in this case is that T-Mobile

1 itself connects with Southwestern at the McGee tandem, is that
2 the same place that the HAI Model looks at to make that
3 22-mile transport assumption?

4 A. It -- it would be similar. I mean, obviously it's
5 in Kansas City rather than in Chillicothe. But if -- if the
6 model developers had used Kansas City for the model, the
7 distance still would have been 22 miles to the nearest Bell
8 wire center.

9 Then the model for -- I mean, it assumes the Bell
10 company network is gonna be built with a series of rings that
11 would get from that office back to the tandem switch.

12 Q. Do you know whether or not the actual distance
13 between Alma and McGee is more or less than 22 miles?

14 A. It would be more than 22 miles.

15 Q. Have you reviewed the -- the output of Mr.
16 Conwell's study for the four Petitioners in this case?

17 A. I -- I reviewed his direct testimony exhibits
18 fairly extensively. I have not reviewed the rebuttal test--
19 testimony exhibits very much.

20 Q. Does Mr. Conwell come up with four specific rates
21 each for -- distinct rates for each one of the Petitioners in
22 this case?

23 A. Well, let me go back and double check.

24 I -- I believe he did. Although he tended in his
25 testimony to talk about the average of the four, I think

1 he -- he does come up with individual costs for each of the
2 four companies.

3 Q. Okay. So that part of his testimony where he's
4 proposing rates not to exceed a certain level, that's an
5 aggregate limit for each of the four companies?

6 A. I believe so.

7 MR. CRAIG JOHNSON: That's all I have, Your Honor.

8 JUDGE PRIDGIN: Mr. Johnson, thank you.

9 Anything further from the Advisory Staff?

10 (NO RESPONSE.)

11 JUDGE PRIDGIN: Seeing nothing, may this witness be
12 excused?

13 MR. MARK JOHNSON: Yes.

14 JUDGE PRIDGIN: Mr. Schoonmaker, thank you very
15 much, sir, for your time and your testimony.

16 (WITNESS EXCUSED.)

17 JUDGE PRIDGIN: If I understand correctly, at the
18 beginning of the hearing, we needed to get Mr. Conwell on.

19 And -- and Mr. Johnson from Petitioners, that's the
20 conclusion of your evidence --

21 MR. CRAIG JOHNSON: Yes, Your Honor.

22 JUDGE PRIDGIN: -- is that correct?

23 All right. Thank you.

24 Okay. Mr. Conwell, if you'll --

25 MR. MARK JOHNSON: He needs to use the restroom.

1 He'll be right back.

2 JUDGE PRIDGIN: That's fine.

3 MR. CRAIG JOHNSON: I object.

4 JUDGE PRIDGIN: Sustained. Get him back in here.

5 MR. MARK JOHNSON: It wouldn't be pretty.

6 JUDGE PRIDGIN: We'll stay on the record,
7 and -- and depending on the length of his testimony, we may
8 need to break in the middle of it. I know that's not -- not a
9 natural time to break, but --

10 And do I understand correctly, Counsel, we'll
11 have -- Mr. Conwell and Mr. Pruitt are the lone witnesses --

12 MR. MARK JOHNSON: That's correct.

13 JUDGE PRIDGIN: -- remaining?

14 All right. Thank you.

15 Mr. Johnson for Respondent, did you want to go
16 ahead and mark --

17 MR. MARK JOHNSON: Yes.

18 JUDGE PRIDGIN: -- his testimony?

19 MR. MARK JOHNSON: You read my mind.

20 JUDGE PRIDGIN: Okay. I believe I'm up to Exhibit
21 No. 12.

22 MR. MARK JOHNSON: Okay. Do you want the public or
23 the proprietary versions marked first? Does it make a
24 difference to you?

25 JUDGE PRIDGIN: It doesn't make a difference to

1 me --

2 MR. MARK JOHNSON: Con--

3 JUDGE PRIDGIN: -- as long as we keep it clear in
4 the record.

5 MR. MARK JOHNSON: Okay. Conwell public version
6 will be 12.

7 (EXHIBIT NO. 12 WAS MARKED FOR IDENTIFICATION.)

8 MR. MARK JOHNSON: And Conwell direct proprietary
9 will be 13.

10 (EXHIBIT NO. 13 WAS MARKED FOR IDENTIFICATION.)

11 MR. MARK JOHNSON: And then Conwell rebuttal public
12 version 14.

13 (EXHIBIT NO. 14 WAS MARKED FOR IDENTIFICATION.)

14 JUDGE PRIDGIN: I'm sorry. That's rebuttal public?

15 MR. MARK JOHNSON: Rebuttal public.

16 (EXHIBIT NO. 15 WAS MARKED FOR IDENTIFICATION BY
17 THE 14?)

18 MR. MARK JOHNSON: And we have rebuttal proprietary
19 as 14.

20 JUDGE PRIDGIN: Would that be 15?

21 MR. MARK JOHNSON: Did I misspeak again?

22 15. Sorry.

23 I came up short. Is there another one?

24 MR. CRAIG JOHNSON: Here, you can have this one.

25 MR. MARK JOHNSON: Okay.

1 MS. DIETRICH: Oh, no, that's fine.

2 MR. MARK JOHNSON: Are you sure?

3 MS. DIETRICH: We're okay.

4 MR. MARK JOHNSON: Okay.

5 JUDGE PRIDGIN: Mr. Johnson, thank you.

6 Mr. Conwell, I'll ask you to raise your right hand
7 to be sworn.

8 (WITNESS SWORN.)

9 JUDGE PRIDGIN: Thank you very much, sir. If you
10 would, please have a seat.

11 And, Mr. Johnson for Respondent, when you're ready,
12 sir.

13 MR. MARK JOHNSON: Sure.

14 W. CRAIG CONWELL testified as follows:

15 DIRECT EXAMINATION BY MR. MARK JOHNSON:

16 **Q. Could you state your name, please?**

17 **A. W. Craig Conwell.**

18 **Q. What's your business address?**

19 **A. 405 Hammett Road, Greer, South Carolina.**

20 MR. MARK JOHNSON: Mr. Arbitrator, we have marked
21 Exhibits 12 through 15, I believe; is that correct?

22 JUDGE PRIDGIN: Yes, sir.

23 MR. MARK JOHNSON: Mr. Conwell's direct and
24 rebuttal testimony public and proprietary version, I offer
25 each of those into evidence now.

1 JUDGE PRIDGIN: Any objections?

2 MR. CRAIG JOHNSON: No, Your Honor.

3 JUDGE PRIDGIN: All right. Hearing no objection,
4 Exhibits 12, 13, 14 and 15 are admitted.

5 (EXHIBIT NOS. 12 THROUGH 15 WERE RECEIVED INTO
6 EVIDENCE.)

7 MR. MARK JOHNSON: And I tender the witness for
8 cross-examination. In case he -- okay. You do have a copy of
9 the DPL. I just wanted to make sure.

10 JUDGE PRIDGIN: Very good. Thank you.

11 Mr. Johnson for the Petitioners?

12 MR. CRAIG JOHNSON: Thank you, Judge.

13 CROSS-EXAMINATION BY MR. CRAIG JOHNSON:

14 Q. Good afternoon, Mr. Conwell.

15 A. Good afternoon.

16 Q. The -- what do you call -- what is your name for
17 your set of assumptions that you've used to generate the
18 forward-looking rates that you propose in this case? Does it
19 have a name like HAI or something like that?

20 A. The assumptions and the input data or input to a
21 forward-looking economic cost analysis of transport and
22 termination.

23 Q. But you -- it doesn't have a con-- a name
24 associated with it like HAI?

25 A. No, there's not a -- a published model name per se.

1 Q. And who prepared this forward-looking cost analysis
2 for transport termination?

3 A. I did.

4 Q. So this is your -- for lack of a better word, it's
5 your own model?

6 A. I wouldn't -- I -- I would characterize it as my
7 model or my work. But -- but I think it's important to point
8 out that what I did was to take the cost studies, as presented
9 by the four ILECs, analyze those, and then to make corrections
10 to those.

11 The spreadsheets that I used to do that were
12 spreadsheets that embodied those corrections. So it was not
13 an independent piece of work -- independent of the ILEC cost
14 study. It built upon those studies, making corrections as
15 necessary.

16 Q. Making corrections according to what?

17 A. According to the FCC's rules with regard to
18 forward-looking economic costs, publicly available cost
19 information.

20 Q. Accor-- and do the assumptions that you made with
21 respect to those adjustments, do they follow the HAI Model or
22 do they follow your interpretation of the FCC rules?

23 A. Well, the FCC rules require or -- or provide a
24 definition of forward-looking economic costs. There is
25 additional information about what can and cannot be included

1 in forward-looking economic cost. For example, imbedded costs
2 would not be included.

3 So then with the framework of those definitions, I
4 then analyzed the results of the cost studies produced by the
5 HAI Model and made an assessment of where either the
6 assumptions or data or results of that HAI -- HAI Model were
7 inconsistent with the FCC rules or were not reflective of what
8 would be the forward-looking costs of the -- of the ILECs.

9 And I base that on publicly available information.

10 Q. This assessment of where you believed the results
11 were inconsistent with the FCC rules, that was your personal
12 assessment; is that correct?

13 A. Yes.

14 Q. That assessment that you made is not in any other
15 model or anything of that nature, it's your individual
16 assessment?

17 A. No, that's -- that's not the case. May I give you
18 an example?

19 Q. Sure.

20 A. My assessment of the reasonableness of the
21 switching investment per line was based on published
22 information from the Rural Utility Service for 31 companies or
23 switching systems that had been built and financed by RUS.

24 It was also based on other data that allowed me to
25 take the -- those switching investments and bring them up to a

1 current cost basis. So it was not my personal opinion about
2 what a cost should be. It was founded based on what I
3 consider to be authoritative information about rural utility
4 costs.

5 Q. Maybe I'm mixing big picture and little picture
6 questions here. And I'm not doing a very good job.

7 But, first of all, the forward-looking cost
8 requirement, that is a statutory requirement? Reciprocal
9 compensation is supposed to be based on the incumbents
10 forward-looking costs?

11 A. Yes, according to the FCC rules, they're to be
12 based on -- reciprocal compensation can be based on one of
13 three options of which one is forward-looking economic cost.

14 Q. But for purposes in arbitration where you can't get
15 a voluntary agreement, the Commission is supposed to base its
16 decision on a forward-looking cost analysis?

17 A. Yeah, I -- I'm not an attorney, but that's my
18 understanding of the FCC rules.

19 Q. Did I just hear you say a minute ago that imbedded
20 costs have nothing to do with forward-looking costs?

21 A. No, I didn't say that.

22 Q. Okay. I think your counsel has suggested in this
23 case through some prior questionings that the forward-looking
24 costs are supposed to be company-specific forward-looking
25 costs; is that right?

1 A. Yes.

2 Q. Okay. And in order to have anything to be
3 company-specific -- let's just use Alma, for example, as a
4 real specific company, one of the parties here today.

5 Are you saying that Alma's actual asset structure
6 and its actual cost structure plays no part in even creating
7 the beginning of a forward-looking cost analysis?

8 A. I think -- I think an understanding of the existing
9 network and its configuration is one of the factors that you
10 take into consideration in doing a forward-looking cost study.

11 Let me give you a specific example. The
12 forward-looking economic cost methodology would require, for
13 example, in the case of switching, to determine what the cost
14 of placing an exist -- a new digital switch would be using
15 current vendor prices and current technology.

16 When you determine the operating expenses, those
17 should be the operating expenses of maintaining and operating
18 that switch. Now, you can go to the financial accounts and
19 look at the current ratio of investment on the books and draw
20 some insight about what existing levels are.

21 But you have to begin from that point and ask the
22 question, do I expect that to continue in the future? So it
23 requires a -- a concrete decision that forward-looking cost
24 will be the same as or different than the imbedded cost.

25 The FCC rules require that you cannot just

1 arbitrarily take the imbedded cost and use that as for the
2 basis for reciprocal compensation.

3 Q. I'm trying to look at places where forward looking
4 with a real company have connects -- connections and where the
5 process may be subject to disconnections.

6 And when I was in college and taking economics
7 courses, this would -- this seems to me -- it reminds me when
8 they would talk about a company manufacturing widgets, its
9 incremental or marginal costs of production.

10 Is that the same thing, in your mind, as forward
11 looking?

12 A. No. Generally when -- when we speak of incremental
13 or marginal cost, we're talking about the cost of producing
14 one more unit of -- of production.

15 You could, in theory, look at the cost of producing
16 one more unit of production in the past in which you would
17 look at costs that you incurred in the past and said -- and
18 ask the question, how much did it cost me to produce one more
19 unit at that point in time, or you could do it on a
20 forward-looking basis.

21 So I -- I wouldn't want to say that forward-looking
22 costs are marginal or incremental costs in that sense.

23 Q. You're proposing for these companies a
24 forward-looking cost that -- and, now, this may be kind of a
25 wild ballpark. But it may be 1 percent, 2 percent, 3 percent

1 of the existing intrastate terminating access rates.

2 Does that sound ballparky (sic)? You're proposing
3 less than a tenth of a penny, am I right?

4 A. No, that's not correct. I -- the --

5 Q. I thought it was .0007.

6 A. No. If you look at page 23 of my rebuttal
7 testimony on line 1, you'll see the figure that I have
8 computed after corrections. And that figure is different than
9 the one that you just spoke of.

10 Q. But it's less than a tenth of a penny, isn't it?
11 It's 7/10ths of a penny?

12 MR. MARK JOHNSON: That's --

13 THE WITNESS: Yes.

14 MR. CRAIG JOHNSON: I mean, is this -- is this
15 number confidential to you, T-Mobile?

16 MR. MARK JOHNSON: Well, we -- we -- that's
17 expressed in dollars, not cents.

18 MR. CRAIG JOHNSON: I understand.

19 THE WITNESS: I don't know what -- what numbers I
20 can speak of and what I -- I can't speak of.

21 JUDGE PRIDGIN: I -- I'm looking at -- I see
22 numbers in a public version. I'll let Counsel -- I mean, I'm
23 seeing numbers that --

24 MR. CRAIG JOHNSON: Me too.

25 Since it's in a public version and it's been

1 admitted, I think we can all talk about this particular
2 number.

3 THE WITNESS: Okay. If that -- if that's --

4 BY MR. CRAIG JOHNSON:

5 Q. Is it -- is it true that that number is 6.8/10ths
6 of one penny?

7 A. Yes, that's true.

8 Q. And if Northeast Missouri has an intrastate
9 terminating access rate of 14 cents, this is on an order of
10 magnitude of -- well, what -- can you do the math for me?

11 You're proposing a forward-looking rate for
12 Northeast that would be 95 percent lower than its existing
13 state access rate; is that --

14 A. Yes, I'm proposing a rate that's consistent with
15 the FCC rules based on forward-looking economic cost. There
16 are valid reasons why that number is lower than the intrastate
17 switched access rate.

18 Q. Can you explain to me why, because I'm not sure I
19 understand the reason for this. But why is it okay or fair or
20 why has the FCC decided that a wireless carrier can pay
21 5 percent of what an interexchange carrier would pay for the
22 same services from Northeast Missouri Rural Telephone Company?

23 A. I think the FCC has described its reasons for
24 the -- the rules establishing reciprocal compensation in its
25 first report and order. And --

1 Q. What is the reason? Why is that right?

2 A. Well, my un-- my understanding is that it was based
3 on a determination of forward-looking economic costs were the
4 appropriate cost basis for setting prices. They reflected the
5 costs that were incurred in -- in providing transport and
6 termination to carriers such as T-Mobile.

7 Q. But can you sitting here today tell us in this room
8 why it's fair for AT&T to pay 14 cents for the same service
9 that -- that T-Mobile wants the pay 7/10ths of a penny for?

10 A. Well, the -- the 14 cents that you spoke of, which
11 is based on -- which is the intrastate switched access rate,
12 will be different for a number of reasons. No. 1, it's
13 imbedded costs.

14 Q. I understand that. But the --

15 A. No. 2, it reflects fully allocated costs. No. 3,
16 it reflects a cost structure that is not reflective of the
17 forward-looking cost structure, and is inconsistent with the
18 FCC rules.

19 Q. Did you participate in all the -- the dockets
20 wherein the FCC was looking at establishing the
21 forward-looking cost rules and regulations?

22 A. Did I participate in those hearings?

23 Q. Or -- or follow them, or were you aware of the --
24 the different positions that were taken within the ILEC and
25 the wireless industry?

1 A. It -- it has been a while, but I have read the
2 first report and order as it relates to TELRIC forward-looking
3 economic costs. I've also been involved in the UNE dockets --
4 the first round of UNE dockets in most of the Southwestern
5 Bell states.

6 So, yes, I am familiar with the arguments for and
7 against forward-looking economic cost.

8 Q. At that time, were the ILECs arguing that there'd
9 be an actual cost analysis, as opposed to a forward looking
10 and modeled cost analysis?

11 A. Yes, there were some ILECs, I think, that were
12 arguing that. I don't know that all ILECs were.

13 Q. Well, I know there's the associations and
14 they -- they get thousands of ILECs represented through the
15 comments of 3 or 4 or 5 groups. But, generally, do you recall
16 that they were advocating somebody other than the
17 forward-looking model cost that the FCC eventually -- I guess
18 they adopted?

19 A. I think I would limit my answer to that I'm aware
20 that some were advocating imbedded costs. I -- I wouldn't go
21 so far as to say general.

22 Q. As I recall, the time AT&T was sponsoring
23 one particular model and then their -- some other companies
24 were sponsoring a model, and then the staff of the FCC was
25 sponsoring a model, then later some -- one of those got

1 dropped and two of them got combined into what they called a
2 synthesis model; is that correct?

3 A. The synthesis model is used for the universal
4 service regime.

5 Q. Okay.

6 A. -- Fund regime.

7 Q. It's not used for -- has the FCC ever recognized
8 the use of the HAI Model for reciprocal compensation
9 forward-looking pricing?

10 A. I don't know.

11 Q. Is it fair to say that in your assessments of the
12 outputs of the HAI Model with Mr. Schoonmaker's changes to
13 inputs or whatever you want to call those, you have used your
14 own assessment of where the HAI Model and his adjustments and
15 inputs need to be changed?

16 A. Again, based on the limited documentation that we
17 were provided and focusing on the most important drivers of
18 transport and termination costs, I identified those input
19 items, such as switching investment per line, utilization
20 levels and other sorts of factors and based -- and asked the
21 question, do these input values reflect the current or
22 forward-looking costs of the companies --

23 Q. Uh-huh.

24 A. -- therefore, consistent with the FCC rules where
25 they didn't, and then I used publicly available information to

1 make a substitution what -- with what I considered to be a
2 value that was consistent.

3 Q. Okay. To your knowledge, sir, has the FCC ever
4 stated in a generic fashion with respect to the HAI Model --
5 and by generic I mean with respect to any company's costs that
6 may be modeled by the HAI -- have they ever given this
7 Commission or this Staff any direction as to any piece of the
8 HAI Model that were unacceptable or that the FCC ever
9 sanctioned any pieces that they said were specifically -- were
10 acceptable?

11 A. Well, I think -- I think -- yes, I think there's a
12 good example of that.

13 Q. I'm not talking about in the context of a single
14 company arbitration. Have they just ever come out generically
15 and said these parts of the HAI Model are good and these parts
16 are bad?

17 A. Well, I -- what I was about to -- to say was that
18 in an arbitration with Verizon in Virginia, they made the
19 determination that the usage-sensitive portion of switching,
20 which is 70 percent in the HAI Model, should be zero or close
21 to zero.

22 That's a -- one of half a dozen of the most
23 significant input variables. And so I consider that to be a
24 case where the FCC has taken a position that's contrary to
25 input to the HAI Model.

1 Q. Was that arbitration with Verizon Virginia and a
2 wireless company or was it a competitive local exchange
3 company?

4 A. I believe it was for UNES --

5 Q. UNES?

6 A. -- as opposed to reciprocal compensation.

7 Q. But that --

8 A. I would mention, though, that the same rules that
9 govern the costing for reciprocal compensation also apply to
10 UNES, and vice versa.

11 Q. Is it true that Verizon of Virginia is a -- is it
12 an RBOC?

13 A. Yes, they're an RBOC.

14 Q. And how many customers does Verizon of Virginia
15 serve?

16 A. Several million.

17 Q. Do they serve in and about the Washington D.C.
18 area?

19 A. The northeast and other areas.

20 Q. Would you agree with me that they're not very
21 comparable in terms of size or geographical territories with
22 Alma Telephone Company or Mid-Missouri, Northeast or Chariton
23 Valley?

24 A. I -- I would agree with you they're not the same
25 size, but that's not the issue.

1 Q. Okay. To your knowledge, has the FCC issued any
2 arbitration decisions wherein they compare -- they ruled on
3 HAI Model outputs and inputs that -- in an arbitration
4 involving a rural local exchange company?

5 A. I'm not aware of that.

6 Q. Is it fair to say that you are -- most of your
7 background has to do with working with larger carriers than it
8 does with carriers of 10,000 access lines or less?

9 A. Most of my work has been with larger carriers,
10 although I have reviewed a number of small carrier -- rural
11 carrier forward-looking economic cost studies.

12 You know, I would probably put the number in order
13 of a dozen studies that I have reviewed.

14 Q. I recall reading the Oklahoma decision where they
15 were persuaded that the HAI Model was subject to sufficient
16 manipulation that they didn't trust it and were going to
17 disregard the results in that case.

18 Is that -- is that more or less a fair synopsis of
19 that decision?

20 A. The hearing examiner in that case -- one of the
21 complaints that he had was that the input could be
22 manipulated. Whether that -- the influence that had on his
23 ultimate decision I -- I can't speak to.

24 Q. I think that may be one of the problems that
25 anybody sitting in judgment of forward-looking costs may have

1 regardless of what model it is or whose assessment they're
2 using that they're so subject to being manipulated that it's
3 almost kind of a garbage in/garbage out type of analysis as
4 far as they're concerned.

5 Do you -- do you agree with that?

6 A. I don't agree with that. I mean, I -- businesses
7 throughout the United states and the world routinely base
8 their business plans on forward-looking information.

9 I would be very surprised that any of the ILECs
10 here don't provide a budget that is forward looking, that they
11 don't have some view of what they think their future revenues
12 and expenses would be.

13 So it's a routine thing in business to -- to base
14 your decisions on forward-looking information, perhaps more so
15 than historical information.

16 Q. Do you think anybody or any phone company in the
17 United States in producing such a forward-looking analysis for
18 budgetary purposes goes through anything as exotic as what
19 that HAI Model involves?

20 A. Could you -- could you repeat your question?

21 Q. Do you believe, Mr. Conwell, that a phone company
22 that uses the forward-looking cost analysis for budgetary
23 purposes uses anything as difficult and complex as the
24 HAI Model?

25 A. Well, the measure of worth is --

1 Q. Yes or no. Do you think they would use any --
2 anything that complex?

3 A. I have seen some fairly complex financial plans.
4 But I wanted to mention that the work of the model is not in
5 its complexity or in its rigor. The worth is in the quality
6 of the information it provides, and that's the issue here.

7 I mean, clearly the HAI Model is complex, but the
8 output is wrong.

9 Q. Well, the model doesn't provide information, does
10 it? Not without inputs. It doesn't prov-- provide outputs
11 unless it's got inputs?

12 A. There are default inputs within the model, and then
13 there are user-varied inputs in the model.

14 Q. I think you just came pretty close to agreeing with
15 me that it's a garbage in/garbage out when you said the
16 quality of the inputs determines the quality of the outputs in
17 the model.

18 A. No. My disagreement with you was your
19 characterization that any forward-looking model was -- was
20 prone -- inherent in any forward-looking model or financial
21 plan or whatever, that it was innately flawed because it had
22 garbage in/garbage out. I don't agree that.

23 Q. The quality of the calculations that the model
24 makes is going to determine the quality of the output of the
25 model; is that correct?

1 A. That's correct.

2 Q. The quality of the inputs that go into the model
3 are going to affect the quality of the outputs from the model;
4 is that correct?

5 A. That's correct.

6 MR. CRAIG JOHNSON: That's all I have, Your Honor.

7 JUDGE PRIDGIN: Mr. Johnson, thank you.

8 Do we have any questions from the Advisory Staff?
9 Ms. Dietrich?

10 MS. DIETRICH: Yes.

11 QUESTIONS BY MS. DIETRICH:

12 Q. Mr. Conwell, assuming that the Arbitrator finds
13 that the HAI results that were introduced by the Petitioners
14 are forward looking, and I'm talking about the approximately
15 .0538 rate, would the proposed rate of .035 also be forward
16 looking?

17 A. I -- I -- the reason that I'm hesitating is perhaps
18 the same reason that Mr. Schoonmaker had a bit of trouble with
19 the same question. It's a good question.

20 But the rate is a means of recovery of cost. We
21 don't normally think of rates as being forward looking or not.

22 The question is whether or not the rate that's
23 ultimately decided is -- how it compares with forward-looking
24 cost.

25 The costs, as I've determined it, is less than a