

Exhibit No.:
Issue: ETC Designation
Witness: Don J. Wood
Type of Exhibit: Direct Testimony
Sponsoring Party: Western Wireless
Case No.: TO-2004-0527
Date Testimony Prepared: August 5, 2004

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

In the Matter of the Application of)
WWC License, LLC, d/b/a CellularOne® for)
Designation as an Eligible)
Telecommunications Carrier, and Petition for)
Redefinition of Rural Telephone Company)
Service Areas)

Case No. TO-2004-0527

DIRECT TESTIMONY OF DON J. WOOD

ON BEHALF OF WWC LICENSE, LLC d/b/a CELLULARONE®

AUGUST 5, 2004

1 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

2 A. My name is Don J. Wood. I am a principal in the firm of Wood & Wood, an economic
3 and financial consulting firm. My business address is 30000 Mill Creek Avenue, Suite
4 395, Alpharetta, Georgia 30022.

5
6 Q. WHAT ARE YOUR RESPONSIBILITIES AT WOOD & WOOD?

7 A. I provide to consulting clients economic and regulatory analysis of the
8 telecommunications, cable, and related convergence industries with an emphasis on
9 economic policy, competitive market development, and cost-of-service issues.

10

11 Q. PLEASE DESCRIBE YOUR BACKGROUND AND EXPERIENCE.

12 A. I received a BBA in Finance with distinction from Emory University and an MBA with
13 concentrations in Finance and Microeconomics from the College of William and Mary.
14 My telecommunications experience includes employment at both a Regional Bell
15 Operating Company ("RBOC") and an Interexchange Carrier ("IXC").

16 Specifically, I was employed in the local exchange industry by BellSouth
17 Services, Inc. in its Pricing and Economics, Service Cost Division. My responsibilities
18 included performing cost analyses of new and existing services, preparing documentation
19 for filings with state regulatory commissions and the Federal Communications
20 Commission ("FCC"), developing methodology and computer models for use by other

1 analysts, and performing special assembly cost studies.

2 I was employed in the interexchange industry by MCI Telecommunications
3 Corporation, as Manager of Regulatory Analysis for the Southern Division. In this
4 capacity I was responsible for the development and implementation of regulatory policy
5 for operations in the southern United States. I then served as a Manager in MCI's
6 Economic Analysis and Regulatory Affairs Organization, where I participated in the
7 development of regulatory policy for national issues.

8
9 Q. HAVE YOU PREVIOUSLY PRESENTED TESTIMONY BEFORE STATE
10 REGULATORY COMMISSIONS?

11 A. Yes. I have testified on telecommunications issues before the regulatory commissions of
12 thirty-eight states, Puerto Rico, and the District of Columbia. I have also presented
13 testimony regarding telecommunications issues in state, federal, and overseas courts,
14 before alternative dispute resolution tribunals, and at the FCC. A listing of my previous
15 testimony is attached to my testimony as **Exhibit DJW-1**.

16
17 Q. ARE YOU FAMILIAR WITH THE APPLICATION OF UNIVERSAL SERVICE
18 MECHANISMS AT THE STATE AND FEDERAL LEVELS?

19 A. Yes. In the course of my professional experience, I have addressed issues regarding the
20 design, implementation, and ongoing administration of universal service support

1 mechanisms. I have also performed extensive analyses of the costs of service, including
2 but not limited to network costs incurred by telecommunications carriers to provide local
3 exchange services and have specifically addressed the issue of how costs may vary
4 among and between geographic areas. I was involved in the review and analysis of both
5 the Hatfield/HAI cost model and the Benchmark Cost Proxy Model (“BCPM”)
6 considered by the FCC in CC Docket No. 96-45, and have presented testimony regarding
7 the relative merits of both cost models on numerous occasions.

8 More recently, I have analyzed the applications of a number of carriers seeking
9 designation as an Eligible Telecommunications Carrier (“ETC”), including applications
10 to be granted ETC status in areas serviced by both non-rural and rural Incumbent Local
11 Exchange Companies (“ILECs”).

12
13 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

14 A. I have been asked by WWC License LLC d/b/a CellularOne® (“Western Wireless”) to
15 address the public interest aspect of its application for ETC designation in Missouri
16 within the areas set forth in Attachments 1 and 2 to its Application.

17
18 Q. WHAT QUESTIONS ARE BEFORE THE COMMISSION IN THIS PROCEEDING?

19 A. For the area identified in Attachment 1 to Western Wireless’ Application that is served by
20 Southwestern Bell (a non-rural LEC), the relevant question before the Commission is

1 simply the following: Has Western Wireless committed to offer and advertise the nine
2 supported services throughout the proposed service area? For the areas identified in
3 Attachments 1 and 2 served by KLM Telephone Co., ALLTEL Missouri, Inc., Craw –
4 Kan Telephone Cooperative (Kansas), Kan Telephone Cooperative (Missouri), Spectra
5 Communications Group, LLC, Sprint/United Telephone Co. of Missouri, all of which are
6 rural telephone companies (“RTCs”), there are two relevant questions: (1) *Has Western*
7 *Wireless committed to offer and advertise the nine supported services throughout the*
8 *proposed service area?*, and (2) *Is the designation of Western Wireless as a competitive*
9 *ETC in the public interest?*

10
11 Q. HAVE THESE QUESTIONS BEEN THE FOCUS OF THE PROCEEDINGS BEFORE
12 OTHER STATE REGULATORS IN WHICH YOU PARTICIPATED?

13 A. Yes. Because the criteria for designation of ETCs are set forth in Section 214 of the
14 Communications Act, these questions have been, as they must be, the focus of the review
15 made by the regulators in each case (state regulatory bodies where they had jurisdiction,
16 the FCC where they did not). The state regulatory commissions, as well as the FCC,
17 have applied the federal law to determine the eligibility of a petitioning carrier.

18 In direct contrast, the rural ILECs in these prior proceedings have sought to
19 significantly broaden the scope of review and have attempted to put competition on trial.
20 While such attempts have rarely been successful, they have often become distractions

1 that unnecessarily consume the time and resources of all involved. Put directly, the
2 purpose of this proceeding is *not*, as many rural LECs have argued, to answer the
3 question “Is the introduction of competition for telecommunications services in rural and
4 high-cost areas in the public interest?” That question has been affirmatively answered
5 and the policy direction has been set on a federal level by both Congress and the FCC.
6 Rather, the questions to be addressed here concern the facts of Western Wireless’
7 Application.

8
9 Q. BASED UPON YOUR REVIEW OF THE COMPANY AND ITS APPLICATION, DO
10 YOU BELIEVE THAT THE DESIGNATION OF WESTERN WIRELESS AS AN ETC,
11 AND THE COMPETITIVE ENTRY MADE POSSIBLE BY SUCH A DESIGNATION,
12 WILL PROVIDE BENEFITS TO END USERS?

13 A. Yes. These competitive benefits have both a short term and long term component.

14 End users will benefit in the short term from a choice of suppliers that represents
15 different technologies, and from choosing the technology that best meets their needs.
16 They can also select from a much broader array of service and pricing plans, and again
17 can choose the plan that best meets their individual needs. Over the longer term,
18 consumers will benefit as competitive market forces act to make all providers, including
19 the ILECs, more efficient and responsive to customer needs.

20 Based on my research and experience in the area of universal service and the

1 designation of ETCs, I fully support the FCC's conclusion that the entry of a competitive
2 ETC into a rural telephone company service area can be expected to create the following
3 benefits: "[to] provide incentives to the incumbent to implement new operating
4 efficiencies, lower prices, and offer better service to its customers." Conversely, the FCC
5 has found "no merit" in arguments that the designation of a competitive ETC in a rural
6 telephone company service area will reduce investment incentives, increase prices, or
7 reduce the service quality of the ILEC.

8 The short-term benefits of competitive entry, including lower prices, new service
9 offerings, the availability of different technology, and the ability to diversify among
10 suppliers, are important; but while they are important components of any public interest
11 determination, they do not tell the whole story. In my experience, the long-term
12 economic benefits of competition represent an equally important source of potential gain
13 for consumers of telecommunications services in rural areas and for rural economic
14 development. In a recent order, the FCC refers to the provision of "customer choice,
15 innovative services, and new technologies" as benefits of competitive ETC designation in
16 a rural area, and also explicitly notes that "competition will result not only in the
17 deployment of new facilities and technologies, but will also *provide an incentive to the*
18 *incumbent rural telephone companies to improve their existing network to remain*

1 *competitive*” (emphasis added).¹ The FCC went on to conclude that “*competition may*
2 *provide incentives to the incumbent to implement new operating efficiencies*, lower
3 prices, and offer better service to its customers “ (emphasis added).²

4
5 Q. DO YOU HAVE ANY DIRECT EXPERIENCE WITH THE IMPACT OF
6 COMPETITIVE ENTRY IN RURAL AREAS?

7 A. Yes. While competitive entry is important in urban and suburban areas, in my experience
8 the existence of competitive alternatives in rural areas is even more important for at least
9 two reasons:

10 **1. The existence of competitive options for telecommunications services,**
11 **particularly the availability of wireless service, is important for rural**
12 **economic development.**

13
14 When making investment and relocation decisions, companies consider the
15 availability of telecommunications services in an area. Reliable voice services, data
16 services, and wireless services with sufficient coverage all play a role in this process. In
17 order to compete with their urban and suburban counterparts to attract investment and
18 jobs, rural areas need for these services to be available.

19 **2. The availability of affordable and high-quality wireless service is**
20 **extremely important in rural areas for health and safety reasons.**

¹ *Western Wireless Corporation Petition for Designation as an Eligible Telecommunications Carrier in the State of Wyoming*, CC Docket No. 96-45, Released December 26, 2000, paragraph 17.

² *Id.* paragraph 22.

1
2 Reliable mobile communications have a level of importance for people who live
3 and work in rural areas that people living in urban areas often fail to appreciate. The
4 availability of even the highest quality wireline service is no substitute for a mobile
5 service with broad geographic coverage, simply because the wireline service is often
6 physically not there when needed. In an area where fields being worked are far from the
7 road, and where wireline phones along the roadway are few and far between, the
8 availability of wireless communication can literally save a life.

9
10 Q. HAS WESTERN WIRELESS COMMITTED TO OFFER AND ADVERTISE THE
11 NINE SUPPORTED SERVICES THROUGHOUT THE PROPOSED SERVICE AREA?

12 A. Yes. Western Wireless made that commitment in its Application. As described in more
13 detail by Western Wireless witness Jim Blundell, the Company stands ready, willing, and
14 able to meet this commitment.

15
16 Q. WILL WESTERN WIRELESS OFFER SERVICES THAT PROVIDE BENEFITS TO
17 CONSUMERS?

18 A. Yes. As described in the Application, Western Wireless will provide the residents and
19 businesses in the specified areas with important options. End users will be able to choose
20 the technology – wireline or wireless – that best meets their individual needs. End users

1 will also be able to choose from among rate plans that will allow them to more closely
2 match the service that they receive (and pay for) with their calling patterns and
3 frequency. End users in rural and high-cost areas will be able to receive enhanced and
4 advanced telecommunications services comparable to those available in more urban
5 areas, including such services as voicemail, call waiting, call forwarding, caller ID, three-
6 way calling, text messaging, and wireless data and Internet services. Last, but certainly
7 not least, end users will have greater access to the personal and public safety benefits of
8 wireless service.

9
10 Q. IS THERE SOME FACT OR ISSUE THAT IS SPECIFIC TO WESTERN WIRELESS,
11 OR THE SERVICE AREAS WITHIN WHICH IT SEEKS ETC STATUS IN
12 MISSOURI, THAT WOULD OUTWEIGH THOSE BENEFITS?

13 A. No. Western Wireless's desire to serve – and its commitment to do so – fully complies
14 with the service obligations set forth in the Act and is consistent with that of other
15 carriers that have been designated as an ETC in areas served by rural ILECs.
16 Furthermore, Western Wireless has committed to meeting the requirements set forth in
17 the recent *Virginia Cellular Order*³ as discussed in more detail by Western Wireless
18 witness Jim Blundell.

³ *Virginia Cellular, LLC Petition for Designation as an Eligible Telecommunications Carrier In the Commonwealth of Virginia*, CC Docket 96-45, Released January 22, 2004.

1
2 Q. YOU STATED THAT IN THE OTHER STATE PROCEEDINGS IN WHICH YOU
3 HAVE PARTICIPATED, THE LECS HAVE SOUGHT TO IMPROPERLY BROADEN
4 THE SCOPE OF THE PROCEEDING. PLEASE EXPLAIN.

5 A. In these other state proceedings, ILECs have asked state regulators to weigh the benefits
6 and costs of permitting competitive entry into rural areas (specifically areas of low line
7 density) and the benefits and costs of granting ETC status to more than one carrier in
8 such an area. These questions are simply not relevant to the designation of an ETC. To
9 the contrary, the relevant questions here are specific to Western Wireless' demonstration
10 of its capability and commitment to satisfy the obligations of a competitive ETC.

11 As far as the public interest issue is concerned, it is the interests of the public –
12 the consumers of telecommunications services – that must be considered. The interests
13 of individual carriers, or categories of carriers, is not a significant element of the public
14 interest determination. This is consistent with the FCC's stated principle of "competitive
15 neutrality" in the operation of any rural universal service mechanism. The FCC and Fifth
16 Circuit Court of Appeals have been clear that the purpose of the federal universal service
17 mechanism is to protect rural consumers of telecommunications services; its purpose is
18 not to protect incumbent LECs:

19 The Act does *not* guarantee all local telephone service providers a
20 sufficient return on investment; quite the contrary, it is intended to
21 introduce competition into the market. Competition necessarily

1 brings the risk that some telephone service providers will be unable
2 to compete. The Act only promises universal service, and that is a
3 goal that requires sufficient funding of *customers*, not *providers*.
4 So long as there is sufficient and competitively neutral funding to
5 enable all customers to receive basic telecommunications services,
6 the FCC has satisfied the Act and is not further required to ensure
7 sufficient funding of every local telephone provider as well
8 (emphasis in original).⁴
9

10 This Commission will need to be watchful for efforts to re-litigate the FCC's decisions
11 regarding the operation of the federal universal service mechanism in rural areas. The
12 LECs typically ask state regulators to effectively set aside certain portions – but not
13 others – of the FCC's Orders, and engage in a process of second guessing both Congress
14 and the FCC regarding (1) the benefits of competitive entry, and (2) the most effective
15 means of ensuring that consumers in rural areas have access to high-quality
16 telecommunications services that are comparable to those services available in more
17 urban areas.
18

19 Q. FOR WHAT GEOGRAPHIC AREAS IN MISSOURI IS WESTERN WIRELESS
20 SEEKING ETC DESIGNATION?

21 A. As set forth in its Application, Western Wireless is seeking designation as a competitive
22 ETC throughout each of the designated areas listed in Attachments 1 and 2, including

⁴ *Alenco Communications, Inc. v. FCC*, 201 F.3d at 620 (5th Cir. 2000), cited in *Fourteenth Report and Order* at ¶ 27.

1 portions of two non-rural Southwestern Bell wire centers located within the State of
2 Missouri and the one wire center served by Craw-Kan Telephone Cooperative (Kansas)
3 within the State. For the areas served by KLM Telephone Co., the designated area is the
4 entire study area of the RTC. For the service areas of ALLTEL Missouri, Inc., Craw-Kan
5 Telephone Cooperative (Missouri), Spectra Communications Group, LLC, and
6 Sprint/United Telephone Co. of Missouri, Western Wireless is requesting designation as
7 a competitive ETC throughout the specific wire centers identified on Attachment 2
8 subject to the Commission's and the FCC's agreement to "redefine" the service area
9 requirement to permit Western Wireless to be designated in an area smaller than the
10 incumbents' study areas.

11
12 Q. PLEASE EXPLAIN WHY "REDEFINITION" IS NECESSARY.

13 A. "Redefinition" is necessary because Western Wireless' licensed cellular boundary is not
14 contiguous with the study area boundaries of ALLTEL Missouri, Inc., Craw-Kan
15 Telephone Cooperative (Missouri), Spectra Communications Group, LLC, and
16 Sprint/United Telephone Co. of Missouri.

17
18 Q. WILL THERE BE ANY IMPACT ON THOSE RURAL ILECS IF THE PROPOSED
19 "SERVICE AREA REDEFINITION" IS GRANTED?

20 A. No. The term "redefinition" is really a misnomer that has led to some confusion in

1 similar proceedings, and warrants some explanation. In reality, no rural ILEC service
2 area is actually being “redefined.”

3 From the point of view of the ILECs, their service areas will be *unchanged* by the
4 “redefinition” request. If Western Wireless’ request is granted, the process will be
5 entirely transparent to the ILECs. The ILECs will not be required to operate in a
6 different manner and their receipt of federal USF support will not change in any way.

7 The impact of the service area redefinition process is quite different for a CETC
8 such as Western Wireless. Without the ability to qualify as an ETC for the more refined
9 service area, a CETC cannot compete on a equal footing with the ILEC and may not be
10 able to provide the supported services in a given area at all. Of course, for a CETC such
11 as Western Wireless the “redefinition” is actually the creation of, not a change to, its ETC
12 service area.

13 In summary, Western Wireless is asking that it be permitted to define a service
14 area in Missouri that it can serve as an ETC. The requested area includes some, but not
15 all, of the exchanges served by ALLTEL Missouri, Inc., Craw-Kan Telephone
16 Cooperative (Missouri), Spectra Communications Group, LLC, and Sprint/United
17 Telephone Co. of Missouri in the State of Missouri. If this request is granted, Western
18 Wireless will be able to service the area as an ETC, public benefits will be realized, and
19 the ILECs will be unaffected. If the request is not granted, Western Wireless will not be
20 able to serve the area as an ETC, public benefits will not be realized, and the ILECs will

1 still be unaffected.

2
3 Q. WILL SERVICE AREA REDEFINITION RESULT IN WESTERN WIRELESS
4 SERVING ONLY THE LOW-COST, HIGH REVENUE CUSTOMERS IN THE
5 RURAL ILECS' SERVICE AREAS?

6 A. No. The facts here are directly analogous to those of the *Virginia Cellular* petition
7 recently approved by the FCC. Because the contour of Western Wireless' licensed
8 cellular service area differs from the rural ILECs' study area boundaries, the Company is
9 unable to provide facilities-based service to the entirety of the rural ILEC study areas.
10 For this reason, Western Wireless has committed to provide service throughout all of the
11 rural ILECs' wire centers that it is licensed to serve in their entirety. This commitment
12 will not result in Western Wireless serving only the low-cost, high revenue customers in
13 any of the rural ILECs' study areas.

14 I have reviewed Mr. Blundell's population figures and agree that the average
15 "population density" of the wire centers where Western Wireless is licensed to serve does
16 not materially differ from the wire centers where the Company is not licensed to serve.
17 Although population density is, at best, a poor proxy for estimating the costs of providing
18 service in any particular area, the data in this case demonstrate that when an analysis
19 consistent with that relied upon by the FCC in its *Virginia Cellular Order* is conducted,
20 Western Wireless' application does not create a "creamskimming" concern. Western

1 Wireless will be serving wire centers with very similar population densities.

2 As the FCC observed at footnote 112 of the *Virginia Cellular Order*, if the
3 Commission is in any way concerned that service area redefinition may inadvertently
4 result in Western Wireless being designated as an ETC in only low-cost, high revenue
5 wire centers, it can initiate a process to disaggregate the rural ILECs' universal service
6 support. This process will allow the rural ILECs to identify and target the receipt of
7 universal service support to individual wire centers, or even to distinct areas within a wire
8 center, based on demonstrated differences in cost.⁵ When designating Western Wireless
9 as a competitive ETC in Wyoming, the FCC concluded that a rural ILEC's option to
10 disaggregate its support "substantially eliminated" any risk that a competitor would be
11 able to cream skim by being designated in only low-cost portions of its study area.⁶

12
13 Q. WILL SERVICE AREA REDEFINITION AFFECT THE AMOUNT OF UNIVERSAL
14 SERVICE SUPPORT THE RURAL ILECS RECEIVE?

15 A. No. The FCC confirmed at paragraph 43 of its *Virginia Cellular Order* that under its

⁵ *Multi-Association Group (MAG) Plan for Regulation of Interstate Services of Non-Price Cap Incumbent Local Exchange Carriers and Interexchange Carriers*, CC Docket No. 00-256, *Fourteenth Report and Order*, Released May 23, 2001, paragraphs 136-164.

⁶ *Petitions for Reconsideration of Western Wireless Corporation's Designation as an Eligible Telecommunications Carrier in the State of Wyoming*, CC Docket No. 96-45, *Order on Reconsideration*, Released October 19, 2001, paragraph 12.

1 current rules, receipt of universal service support by a competitive ETC will not affect the
2 total amount of support that a rural ILEC receives, and redefining the service area of the
3 rural ILEC will not change the amount of universal service support that is available to the
4 incumbent.

5
6 Q. WILL SERVICE AREA REDEFINITION RESULT IN ANY INCREASED
7 ADMINISTRATIVE BURDEN FOR THE RURAL ILECS?

8 A. No. At paragraph 44 of the *Virginia Cellular Order*, the FCC confirmed that service area
9 redefinition merely enables competitive ETCs to serve areas that are smaller than the
10 entire rural ILEC study area. It does not modify the existing rules applicable to the rural
11 ILEC for calculating costs on a study area basis, nor does it affect the rural ILEC's other
12 compliance obligations.

13
14 Q. IS THE DESIGNATION OF WESTERN WIRELESS AS AN ETC IN THE AREAS
15 SERVED BY KLM TELEPHONE CO. IN PUBLIC INTEREST?

16 A. Yes. Western Wireless will provide competitive alternatives in terms of pricing and
17 technology. The operation of Western Wireless as an ETC can be expected to benefit
18 consumers directly (through pricing, convenience, and public safety opportunities) and
19 indirectly (as an important part of rural economic development). In addition, the unique
20 advantages of Western Wireless' service offerings (including the recognized benefits of

1 mobility and access to advanced and enhanced services comparable to those available in
2 more urban areas) will benefit an increased population of Missouri consumers as the
3 Company utilizes universal service support to expand and improve its network over time.
4

5 Q. IS THE CONDITIONAL DESIGNATION OF WESTERN WIRELESS AS AN ETC IN
6 THE IDENTIFIED ALLTEL MISSOURI, INC., CRAW-KAN TELEPHONE
7 COOPERATIVE (MISSOURI), SPECTRA COMMUNICATIONS GROUP, LLC, AND
8 SPRINT/UNITED TELEPHONE CO. OF MISSOURI, WIRE CENTERS, PENDING A
9 SERVICE AREA "REDEFINITION", IN THE PUBLIC INTEREST?

10 A. Yes. For the same reasons, Western Wireless' designation as a competitive ETC will
11 benefit consumers in the identified wire centers where the Company is licensed to serve.
12

13 Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

14 A. Yes.
15