

Exhibit No:
Issue: ETC Designation
Witness: Don J. Wood
Type of Exhibit: Supplemental Surrebuttal
Testimony
Sponsoring Party: U.S. Cellular
Case No: TO-2005-0384

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO: TO-2005-0384

SUPPLEMENTAL SURREBUTTAL TESTIMONY

OF

DON J. WOOD

ON BEHALF OF

USCOC OF GREATER MISSOURI, LLC d/b/a U.S. CELLULAR

December 7, 2006

****Denotes Highly Confidential Information****

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

In the Matter of the Application of USCOC)
of Greater Missouri, LLC for Designation)
as an Eligible Telecommunications Carrier) Case No. TO-2005-0384
Pursuant To The Telecommunications Act)
Of 1996)

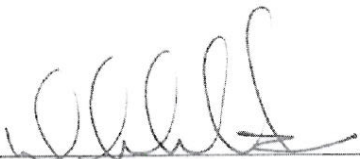
AFFIDAVIT OF DON J. WOOD

I, Don J. Wood, under penalty of perjury, affirm and state this 7th day of
December, 2006:

1. My name is Don J. Wood. I am a principal in the firm of Wood & Wood
Consulting, Inc. My business address is 30000 Mill Creek Avenue, Suite 395,
Alpharetta, Georgia 30022.

2. Attached hereto and made a part hereof for all purposes is my
Supplemental Surrebuttal Testimony on behalf of USCOC of Greater Missouri, LLC
d/b/a U.S. Cellular, having been prepared in written form for introduction into evidence
in the above-captioned docket.

3. I have knowledge of the matters set forth therein. I hereby affirm that my
answers contained in the attached testimony to the questions propounded, including any
attachment thereto, are true and accurate to the best of my knowledge, information and
belief.



Don J. Wood

1 **Purpose of Testimony**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3
4 A. My name is Don J. Wood. I am a principal in the firm of Wood & Wood, an economic
5 and financial consulting firm. My business address is 30000 Mill Creek Avenue, Suite
6 395, Alpharetta, Georgia 30022.

7

8 **Q. ARE YOU THE SAME DON WOOD WHO PREFILED DIRECT TESTIMONY**
9 **IN THIS PROCEEDING ON JULY 12, 2005 AND SURREBUTTAL TESTIMONY**
10 **ON OCTOBER 3, 2005?**

11
12 A. Yes.

13

14 **Q. WHAT IS THE PURPOSE OF YOUR ADDITIONAL SURREBUTTAL**
15 **TESTIMONY?**

16
17 A. I have been asked by USCOC of Greater Missouri, LLC (“USCOC”) to respond to the
18 November 14, 2006 testimonies of Mr. Adam McKinnie on behalf of Commission Staff,
19 Mr. Glenn H. Brown on behalf of Spectra Communications Group, LLC, d/b/a
20 CenturyTel and CenturyTel of Missouri, LLC, Mr. Robert C. Schoonmaker on behalf of
21 The Small Telephone Company Group (together with CenturyTel, the “rural ILECs”),
22 and Mr. James E. Stidham on behalf of Southwestern Bell Telephone, L.P. d/b/a AT&T
23 Missouri (“SBC”).

24

25 **Q. WHAT IS YOUR UNDERSTANDING OF THE SCOPE OF THE OUTSTANDING**
26 **ISSUES AT THIS POINT IN THE PROCEEDING?**

27

1 A. In its March 21, 2006 Order,¹ the Commission noted that it had received evidence and
2 arguments regarding the issues in the case, and indicated that with regard to one issue it
3 had not received sufficient detail: “the Commission finds that U.S. Cellular has not
4 presented sufficient evidence regarding how it intends to use the support it would receive
5 from the Universal Service Fund to improve its network through improved coverage,
6 signal strength, or capacity, in ways that would not otherwise occur without the receipt of
7 high-cost support.” The Commission also stated that “other parties will be given an
8 opportunity to respond to whatever additional evidence U. S. Cellular submits.”

9 Based on the language of the Order, it is my understanding that the additional
10 testimony of other parties is properly limited to the additional evidence produced by
11 USCOC regarding its plans to “to use the support it would receive from the Universal
12 Service Fund to improve its network through improved coverage, signal strength, or
13 capacity.”

14

15 **Q. IS THE ADDITIONAL TESTIMONY OF OTHER PARTIES LIMITED TO THIS**
16 **ISSUE?**

17

18 A. While Staff witness McKinnie’s testimony is limited to the issue at hand, the additional
19 testimonies of Mr. Brown, Mr. Schoonmaker, and Mr. Stidham go well beyond this issue.
20 The ILEC witnesses use their additional testimony to re-argue issues of public policy, the
21 interpretation of FCC orders, alleged harm to ILECs, service area requirements, and other
22 issues that have nothing whatsoever to do with the question of whether USCOC will “use

¹ Order Directing Applicant to File Additional Information about Intended Use of High-Cost Support, Case No. TO-2005-0384, Issued and Effective March 21, 2006.

1 the support it would receive from the Universal Service Fund to improve its network
2 through improved coverage, signal strength, or capacity” if designated as an ETC.

3
4 **Q. HAVE YOU REVIEWED THE “MISSOURI ETC RULE” (4 CSR 240-3.570)**
5 **THAT BECAME EFFECTIVE ON JUNE 30, 2006?**

6
7 A. Yes. In its March 21, 2006 Order, the Commission indicated that the then-proposed
8 regulation could provide a “good guide” for the information that the Commission is
9 seeking from USCOC regarding how the company plans to use USF support to “improve
10 its network.” As Mr. McKinnie points out in his testimony, the new rule can be used to
11 evaluate the information provided by USCOC regarding its network improvement plans.

12
13 **Response to the Additional Testimony of Mr. McKinnie**

14 **Q. HOW IS MR. MCKINNIE’S TESTIMONY ORGANIZED?**

15
16 A. Mr. McKinnie has structured his testimony around the requirements of the new Missouri
17 ETC Rule (4 CSR 240-3.570). This is a logical approach and I will follow it in my
18 testimony.

19
20 **Q. BASED ON HIS ANALYSIS OF USCOC’S FILING AND HIS EVALUATION OF**
21 **THE FILING PURSUANT TO THE REQUIREMENTS OF THE MISSOURI ETC**
22 **RULE, WHAT IS MR. MCKINNIE’S CONCLUSION AND**
23 **RECOMMENDATION?**

24
25 A. In his September 12, 2005 testimony, Mr. McKinnie recommended (p. 21) that the
26 Commission designate USCOC as an ETC, based on his observation that “U.S. Cellular
27 has met four of the five guidelines in the latest FCC *Report and Order* put forth for
28 competitive ETC carriers, and has provided enough information on the remaining

1 guideline to satisfy Staff’s review.” Mr. McKinnie’s stated area of concern regarding
2 USCOC’s application was with the details of USCOC’s proposal for network investment.
3 Because the FCC rules were not yet effective, no concrete guidelines then existed for the
4 evaluation of the company’s proposal. Since that time, the Missouri ETC Rule has
5 become effective and now provides the guidelines for evaluating USCOC’s filing.

6 Regarding this final area of inquiry, Mr. McKinnie concluded (p. 14) that
7 USCOC’s filing meets the criteria of “most of the paragraphs discussed in the Intended
8 Use Order and MO ETC Rule.” He remained concerned about some of the criteria,
9 however, and ultimately concluded that Staff could not recommend approval of
10 USCOC’s request for ETC designation at the time his testimony was filed because of
11 these remaining concerns. My testimony, along with the additional testimony of USCOC
12 witnesses Nick Wright and Alan Johnson will attempt to address each of Mr. McKinnie’s
13 stated concerns.

14
15 **Q. DOES MR. MCKINNIE AGREE THAT USCOC HAS PROVIDED SUFFICIENT**
16 **INFORMATION TO PERMIT THE COMMISSION TO CONCLUDE THAT THE**
17 **COMPANY’S EXPENDITURES WILL EXCEED THE AMOUNT OF USF**
18 **SUPPORT RECEIVED?**

19
20 **A.** Yes. Mr. McKinnie does state (pp. 4-5) a concern, though, with two of the expenditures
21 that were included in the information provided by USCOC in its filing and in response to
22 Staff’s data requests.

23 First, Mr. McKinnie indicates that “Staff has not found any justification to include
24 ** _____ ** as a supported service for USF.” I agree. ** _____ ** is not a
25 supported service functionality listed in 47 CFR §54.101. Any investment or expenses
26 that are incremental to the provisioning of a ** _____ ** functionality (and that can be

1 segregated from other investments) should not be included in a demonstration that a
2 company's network improvement expenditures equal or exceed the amount of federal
3 USF support received.

4 Any carrier that is designated as an ETC and receives federal universal service
5 support must then "use that support only for the provision, maintenance, and upgrading
6 of facilities and services for which the support is intended" (47 U.S.C. § 254(e); 47
7 C.F.R. § 54.7). To be clear, *all* ETCs – including both wireline ILECS and wireless
8 carriers – have common facilities and equipment in their networks that is used to provide
9 both service functionalities "for which the support is intended" and other functions that
10 customers may demand (such as ** _____ ** or other features). For example, an
11 ILEC may use the same local loop facility to provide both supported service
12 functionalities and enhanced services such as voice mail or DSL. The use of the loop to
13 provide these additional enhanced functions does not mean that it is inappropriate for the
14 ILEC to utilize federal USF support to provision, maintain, or upgrade that local loop,
15 because the local loop is an essential part of an ILEC's ability to provided the nine
16 supported service functionalities listed in 47 CFR §54.101. Similarly, a wireless provider
17 may use the same investment in towers, transmission facilities, or switching in order to
18 provide both a supported service functionality and an enhanced function, such as ** ____
19 ____ **.

20 I do agree with Mr. McKinnie, however, that any expenditure that is specific to a
21 non-supported function should not be included in a carrier's demonstration that its
22 expenditures will equal or exceed the amount of USF support received. It is my
23 understanding that USCOC's investment associated with ** _____ ** is nominal and

1 that after its removal, USCOC's planned expenditures, net of any of the costs to provision
2 or provide ** _____ **, continue to exceed the amount of support that it is expected to
3 receive. Of course, a much more meaningful demonstration of how USF support *is*
4 *actually used* to provide service in a given area is made in an ETC's annual
5 recertification filing with the Commission. While it is reasonable to require *all* ETCs
6 (both ILECs and CETCs) to provide a forecast of expected or planned expenditures, it is
7 important to be mindful that such a forecast is a projection that is inherently limited by
8 uncertainties in future costs, customer needs, and – for CETCs – the amount of support
9 that will ultimately be received during the planning period.² The actual expenditure
10 information that must be provided to the Commission by all ETCs as a part of the annual
11 recertification process provides the opportunity for the Commission to determine that all
12 of the USF support received was used “only for the provision, maintenance, and
13 upgrading of facilities and services for which the support is intended.”

14 Mr. McKinnie also expresses some concern that without more detailed
15 information regarding what has been included, “the applicability of ** _____
16 _____ ** to supported services is not clear.” USCOC witness Alan Johnson
17 will be providing this additional detail. It is important to note that simply because
18 equipment is classified as “common” does not disqualify the expenditure from USF

² ILECs and CETCs are in a fundamentally different position in their ability to forecast expenditures based on USF support. An ILEC knows in advance the amount of total support that it will receive during a given year, and can plan accordingly. In contrast, the support received by a CETC is based on the number of customers actually served in the area and reported to USAC on a quarterly basis. Because the amount of support is uncertain, a CETC must engage in more of a contingency planning process and cannot forecast or budget with the same precision that the ILECs – with the additional certainty that they enjoy regarding the amount of USF support to be received – can do.

1 support. In either a wireless or wireline network, a significant amount of “common”
2 equipment is needed to make the network more reliable, to enable testing, and to meet
3 other network operations-related needs. If this equipment is needed in order for the
4 carrier to provide the nine supported service functionalities listed in 47 CFR §54.101,
5 then it is properly supported by USF. As was the case with **_____** above,
6 equipment that is needed only because enhanced or non-supported service functions are
7 being provided (in other words, if the equipment is incremental to the carrier’s decision
8 to offer the non-supported function), then it would not properly be included in either a
9 forecast of USF-related expenditures or in a carrier’s demonstration to the Commission,
10 in the annual recertification process, that all USF support was used “only for the
11 provision, maintenance, and upgrading of facilities and services for which the support is
12 intended.”

13
14 **Q. TURNING TO THE SPECIFIC REQUIREMENTS OF THE MISSOURI ETC**
15 **RULE, DOES STAFF AGREE THAT USCOC HAS PROVIDED THE**
16 **INFORMATION REQUIRED IN PARAGRAPH (2)(A)(1)?**
17

18 **A.** Paragraph 2(A)(1) requires an ETC applicant to provide information regarding the
19 “intended use of the high-cost support” that it expects to receive. My understanding of
20 Mr. McKinnie’s testimony (pp. 5-6) is that Staff is satisfied with much of the information
21 provided, but continues to have some questions.

22 Specifically, Mr. McKinnie states (p. 6) that the black and white map provided by
23 USCOC does not contain “easily discernable information on ‘existing tower site
24 locations’.” In order to address this concern, USCOC is providing maps with higher print
25 quality and that clearly depict tower locations.

1

2 **Q. DOES STAFF AGREE THAT USCOC HAS PROVIDED THE INFORMATION**
3 **REQUIRED IN PARAGRAPH (2)(A)(2)?**

4

5 A. Yes. Mr. McKinnie states at pp. 6-7 that Staff is satisfied with the information provided
6 by USCOC.

7

8 **Q. DOES STAFF AGREE THAT USCOC HAS PROVIDED THE INFORMATION**
9 **REQUIRED IN PARAGRAPH (3)(A)?**

10

11 A. According to Mr. McKinnie, Staff is satisfied with the information regarding USCOC's
12 coverage area before and after the planned improvements have been made, but – as was
13 the case with Paragraph (2)(A)(1), – believes that USCOC needs to more clearly identify
14 “existing site tower locations.” As described above, USCOC is providing this
15 information.

16

17 **Q. DOES STAFF AGREE THAT USCOC HAS PROVIDED THE INFORMATION**
18 **REQUIRED IN PARAGRAPHS (3)(B) and (3)(C)?**

19

20 A. Yes.

21

22 **Q. DOES STAFF AGREE THAT USCOC HAS PROVIDED THE INFORMATION**
23 **REQUIRED IN PARAGRAPH (3)(D)?**

24

25 A. Mr. McKinnie acknowledges (pp. 8-9) that USCOC has provided an estimate of the
26 number of towers to be constructed and a projection of the amount of investment per
27 tower, but expresses a concern that USCOC has not provided a plan containing a separate
28 and specific projection of expenses for each individual site location. I do not share Mr.
29 McKinnie's concern for several reasons.

1 First, while I agree that any ETC applicant should provide the most accurate and
2 detailed information that it has in its possession, it is important to keep in mind that the
3 development of such information is far from cost-free. Developing site-specific
4 investment budgets would be an expensive process, and a decision to do so one or two
5 years in advance of construction – given the high degree of uncertainty regarding
6 customer needs and demands, the amount of support that will ultimately be received, and
7 the availability of internal sources of capital beyond the carrier’s normal budgeting cycle
8 – is unlikely to prove to be a prudent one. Simply selecting a cell site and acquiring the
9 contractual and legal rights (e.g. zoning) to a cell site is a significant undertaking. It
10 seems unreasonable to expect any carrier seeking designation to go through such an
11 expensive process before it knows whether it will be designated as an ETC.³

12 Second, the information provided by USCOC appears to be consistent with the
13 language of the rule. Paragraph (3)(D) requires a requesting carrier to provide “the
14 estimated amount of investment for each project that is funded by high-cost support.”
15 USCOC has provided such an estimate. The question becomes one of what is reasonable
16 to require regarding a detailed estimate “for each project.” My recommendation is that

³ As USCOC witness Johnson explains in his testimony, even with a significant up-front expenditure it is often impossible to accurately project the total cost of the construction of a specific cell site prior to the beginning of the site acquisition process. Under those circumstances, resources that would otherwise have been available for network improvements will have been expended but a significant level of uncertainty regarding the ultimate cost of the project will remain.

1 an ETC applicant should be required to provide project estimates at the level of detail that
2 the company uses in its own capital planning and budgeting process.⁴

3 Third, it is important to keep in mind that while the up-front projections can
4 provide some assurance to the Commission that the carrier will properly use the USF
5 support that it may receive, it is the annual recertification process that will provide the
6 Commission with the opportunity to see how the funds were *actually* used. The kind of
7 detailed cost information that Mr. McKinnie is looking for is properly provided in the
8 annual reporting process (and should be required of all ETCs, including ILECs). As a
9 part of the annual recertification process, the Commission will have this detailed
10 information so that it can see with precision how the support was used and can review an
11 ETC's performance to determine whether it should be recertified for another year.

12 Finally, in other ETC designation proceedings in which I have participated, the
13 information provided to – and accepted by – regulators regarding forecasted expenditures
14 has been based on exactly the kind of per-site averaging performed by USCOC. The
15 acceptance of information at this level of detail reflects a recognition that (1) costs
16 associated with the development of detailed project-specific information can exceed the
17 benefit, and (2) regulators have the opportunity to examine more detailed information as
18 a part of the annual recertification process.

⁴ This approach would avoid a potential delay in network deployment by the newly-designated ETC. If expenses are incurred to conduct a level of project-specific planning and budgeting that would not have been undertaken by the company in the normal course of business, these expenses represent funds that are no longer available to provision, maintain, or upgrade facilities needed to improve service.

1 Q. DOES STAFF AGREE THAT USCOC HAS PROVIDED THE INFORMATION
2 REQUIRED IN PARAGRAPH (3)(E)?
3

4 A. Yes.
5

6 Q. DOES STAFF AGREE THAT USCOC HAS PROVIDED THE INFORMATION
7 REQUIRED IN PARAGRAPH (3)(F)?
8

9 A. It appears that Staff believes that additional information should be provided, but I am
10 unsure exactly what additional information can be provided in this area.

11 Paragraph (3)(F) states that “*if* an applicant believes that service improvements in
12 a particular wire center are not needed, it must explain the basis for this determination
13 and demonstrate how funding would otherwise be used to further the provision of
14 supported services in that area” (emphasis added). To my knowledge, USCOC has made
15 no claim that service improvements in any particular wire center are not needed, so there
16 is ultimately no information to provide in response to this requirement. In reality, it
17 seems unlikely that any ETC – whether an ILEC or wireless CETC – could responsibly
18 make a claim that no improvements will ever be needed in a given wire center. As new
19 technologies become available and as customer needs and expectations change
20 accordingly, it is likely that new investment will be needed in all areas at some point in
21 the future. It would particularly difficult for a newly-designated ETC to reach such a
22 conclusion at a relatively early stage of its network development.

23 It is important to differentiate a claim that “service improvements in a particular
24 wire center are not needed” from a plan for network investment that does not provide
25 improvements to all wire centers within the first two years. USCOC’s two-year plan
26 provides a prioritization of projects (based on customer needs and demands) that USCOC

1 expects to be able to complete (based on its existing capital resources and the amount of
2 federal USF support that it would expect to receive if designated as an ETC). As Mr.
3 McKinnie notes in his testimony (p. 10), USCOC has stated in response to Staff's data
4 requests that "U.S. Cellular has targeted all available support to constructing and
5 operating as many cell sites as possible" but that the capital resources available in the
6 first two years of operation as an ETC are not expected to be sufficient to extend and
7 enhance service to all wire centers.⁵ This is not equivalent to a claim that USCOC
8 believes that service in none of the remaining wire centers can be improved; it is instead a
9 statement that, based on USCOC's current understanding of customer needs and its
10 expectations regarding the amount of support available, that customers will receive the
11 most bang for each ETC buck if the list of projects contained in its proposal are
12 completed first.

13
14 **Q. DOES STAFF AGREE THAT USCOC HAS PROVIDED THE INFORMATION**
15 **REQUIRED IN PARAGRAPH (3)(G)?**

16
17 A. Yes, although Staff has expressed some concern (pp. 11-13 of Mr. McKinnie's
18 testimony) that USCOC's list of projects that are likely to be completed only if USF
19 support is available has not remained static over time.

⁵ The development of the networks of the rural ILECs provides some perspective on this issue. The ILECs built out their networks over time based on the availability of (initially implicit, and later explicit) subsidies. The existing reach of the ILEC networks was certainly *not* obtained during the first two years that some USF-equivalent implicit subsidy was available. Instead, the ILEC networks were built out over an extended period of time as resources were available. While I expect that the buildout of USCOC's network to a comparable area will require less time than was required by the ILECs, it would be unreasonable to expect USCOC to accomplish in two years something that took the ILECs decades to accomplish.

1 Specifically, USCOC has constructed four cell sites that it had previously
2 included on a list of projects to be constructed using USF support. As Mr. McKinnie
3 notes in his testimony (pp. 12-13), USCOC advanced the priority ranking of two of these
4 sites because “the company received a significant amount of feedback from its customers,
5 sales associates, and third-party agents that service in these areas needed improvement”
6 and changed the priority of the other two because their construction would have
7 additional network impacts by improving “the signal strength and reliability” of the
8 company’s microwave transmission network.

9 Such a change in investment priorities is not unusual. While capital resources
10 remain finite, any properly-managed carrier will continuously seek to utilize those
11 resources in the best manner possible. The ranking of potential projects does – and
12 should – change based on an ongoing process of evaluation and the consideration of new
13 information. In this case, USCOC has changed the ranking of projects in its capital
14 budgeting process in order to respond to customer feedback and to increase the reliability
15 of its network.

16 It is important not to let the trees get in the way of the forest. The purpose of the
17 exercise of developing a two-year plan is to provide some additional assurance to the
18 Staff and Commission that a carrier seeking ETC designation will use any and all USF
19 support for the intended purposes (the ultimate demonstration of the use of this support is
20 made as a part of the annual recertification process). Of course, it would be more
21 beneficial to the people living and working in the area if the new ETC not only limits the
22 use of USF support to the purposes set forth in 47 CFR 54.7, but also uses these funds in
23 ways that maximize the customer benefit. USCOC has shown that it is engaging in an