

LAW OFFICES
BRYDON, SWEARENGEN & ENGLAND
PROFESSIONAL CORPORATION

DAVID V.G. BRYDON
JAMES C. SWEARENGEN
WILLIAM R. ENGLAND, III
JOHNNY K. RICHARDSON
GARY W. DUFFY
PAUL A. BOUDREAU
SONDRA B. MORGAN
CHARLES E. SMARR

312 EAST CAPITOL AVENUE
P.O. BOX 456
JEFFERSON CITY, MISSOURI 65102-0456
TELEPHONE (573) 635-7166
FACSIMILE (573) 635-0427

DEAN L. COOPER
MARK G. ANDERSON
GREGORY C. MITCHELL
BRIAN T. MCCARTNEY
BRIAN K. BOGARD
DIANA C. FARR
JANET E. WHEELER

OF COUNSEL
RICHARD T. CIOTTONA

August 29, 2002

Secretary
Missouri Public Service Commission
P. O. Box 360
Jefferson City, Missouri 65102

FILED³
AUG 29 2002

Missouri Public
Service Commission

Re: Case No. TR-2001-65

Dear Mr. Roberts:

Enclosed for filing please find an original and eight copies of the Surrebuttal Testimony of Robert C. Schoonmaker.

Please see that this filing is brought to the attention of the appropriate Commission personnel. If there are any questions regarding this filing, please give me a call. I thank you in advance for your attention to and cooperation in this matter.

Sincerely,


W.R. England, III

WRE/da
Enclosures
cc: Parties of Record

FILED³
AUG 29 2002

Missouri Public
Service Commission

Exhibit No.: _____
Issue: Investigation of Exchange Access Costs
Witness: Robert C. Schoonmaker
Type of Exhibit: Surrebuttal Testimony
Sponsoring Party: Small Telephone Company Group
Case No.: TR-2001-65
Date: August 29, 2002

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

In the Matter of an Investigation of the)
Actual Costs Incurred in Providing Exchange) Case No. TR-2001-65
Access Service and the Access Rates to be)
Charged by Competitive Local Telecommunications)
Companies in the State of Missouri)

AFFIDAVIT OF ROBERT C. SCHOONMAKER

Robert C. Schoonmaker, of lawful age, being duly sworn, deposes and states as follows:

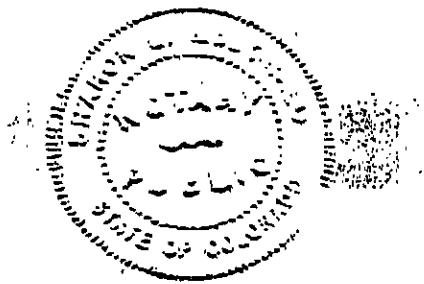
1. My name is Robert C. Schoonmaker. I am employed by GVNW Consulting, Inc. as a Vice President.
2. Attached hereto and made a part hereof for all purposes is my surrebuttal testimony.
3. I hereby affirm that my answers contained in the attached testimony to the questions therein propounded are true and correct to the best of my knowledge and belief and that the information contained in the attached schedules is also true and correct to the best of my knowledge and belief.

Robert C. Schoonmaker
Robert C. Schoonmaker

Subscribed and sworn to before me this 29th day of August, 2002.

Sharon L. McDonald Notary Public

My Commission expires: 8-28-2006



1 SURREBUTTAL TESTIMONY OF ROBERT C. SCHOONMAKER
2

3 Q. Please state your name and address.

4 A. My name is Robert C. Schoonmaker. My business address is 2270 La Montana
5 Way, Colorado Springs, Colorado 80918.
6

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

8 A. I am a Vice President of GVNW Consulting, Inc., a consulting firm specializing
9 in working with small telephone companies.
10

11 Q. Are you the same Robert C. Schoonmaker that previously filed direct and rebuttal
12 testimony in this proceeding?

13 A. I am.
14

15 Q. What is the purpose of your testimony?

16 A. I will be responding briefly to certain issues raised in the rebuttal testimony of
17 various witnesses in this proceeding?
18

19 Q. On Page 8 of his rebuttal testimony, Staff witness Dr. Ben Johnson criticizes Mr.
20 Larsen's observations regarding comparisons between forward-looking and
21 embedded traffic-sensitive costs. Do you have any observations on his criticism?

22 A. I do. Dr. Johnson comments that, "It is widely recognized that the
23 telecommunications industry is a declining cost industry..." and concludes with
24 his opinion that since "...traffic sensitive costs are largely a function of the cost

1 of...digital electronic equipment, one would expect forward looking costs to be
2 lower than embedded costs in this category.” While it may be “widely
3 recognized” or widely believed that the telecommunications industry overall is a
4 declining cost industry, such recognition and belief is driven primarily by the
5 economics of serving large urban areas, and not the provision of such services in
6 small rural communities. While the cost of switching hardware may have
7 decreased somewhat even in small switches, it has been my observation and
8 perception that those hardware cost decreases have been largely or completely
9 offset by increasing software cost development for central office switches. Over
10 the past several years there has been a steady string of new regulatory
11 requirements for new capabilities in switches that have required implementation
12 through software changes and/or hardware additions. These include 4-digit CIC
13 codes, interchangeable NPA/NXX codes, intraLATA presubscription, and most
14 recently, added CALEA requirements. Implementation of SS7 signaling has also
15 added additional cost to switching and transport costs.

16
17 The “widely recognized” declining costs are also not as significant for the cost of
18 local transport in rural areas since the proportionate cost of digital electronic
19 equipment costs to construction and cable costs is less than in urban areas and has
20 been mitigated by service improvements involving implementation of interoffice
21 “ring” technology to provide redundant routing. The lower trunk efficiencies in
22 rural interoffice applications and greater distances also lead to differing cost
23 characteristics in rural vs. urban areas.

1

2 Q. SWBT Witness Mr. Unruh quotes the Missouri statutes regarding universal
3 service on Page 5 of his testimony and concludes that the statutes don't
4 contemplate using the Missouri USF to allow ILECs to lower their switched
5 access rates. Do you agree with Mr. Unruh's conclusion?

6 A. Generally no. While the statutes related to the Missouri USF do not specifically
7 contemplate using the funds to reduce access rates, they do contemplate payments
8 to companies that have high costs for providing essential local
9 telecommunications service. Proposals for such a fund are pending before the
10 Commission in Case No. TO-98-329. The Commission's rules require any
11 company receiving universal service payments under these cost based provisions
12 to offset the universal service payments with rate reductions so they will not
13 receive a windfall. Such rate reductions could be made in intrastate access rates if
14 approved by the Commission. Thus, the implementation of a Missouri USF fund
15 could result indirectly in reduced intrastate access rates. The Joint
16 Recommendation presented by some of the parties in Case No. TO-98-329
17 illustrated one way this might take place.

18

19 Q. SWBT Witness Mr. Barch, on pages 15-18 of his testimony offers both his
20 opinions and those of experts in regulatory economics and accounting regarding
21 the use of fully allocated costs and concludes on Page 18 that "...the LRIC of
22 intrastate switched access in Missouri is the purest cost foundation on which

1 decisions should be made and therefore ought to be considered as the preferred
2 method.” What are your comments regarding this discussion?

3 A. Mr. Barch’s discussion seems to focus on an implied dichotomy between the
4 “arbitrary” allocations inherent in fully allocated cost studies and the unstated, but
5 assumed, non-arbitrary and exacting determination of costs in LRIC studies.
6 Perhaps there are circumstances in other industries with simpler cost structures
7 where that dichotomy exists. However, in the telecommunications industry, and
8 particularly for small rural companies, such a dichotomy is a contrived
9 comparison that doesn’t exist. Yes, fully allocated cost studies do include
10 allocations of some costs based on judgmental, “arbitrary”, factors. However,
11 LRIC cost studies are based on models, inputs, cost theories, and judgmental
12 decisions that collectively produce variations in costs that are, in my belief, no
13 less arbitrary and uncertain than those produced by embedded studies. The
14 comparisons I referred to in my rebuttal testimony between Dr. Johnson’s and
15 Sprint witness Mr. Farrar’s determination of LRIC where results, in some cases,
16 were as much as fifty times (50x) different demonstrate the lack of certainty,
17 exactness, and “purity” of the reality of the LRIC approach. Furthermore, Mr.
18 Barch clearly recognizes that LRIC studies only determine a price “floor” not the
19 prices that should be established. In the regulatory environment where we
20 operate, the determination of the price, based on a LRIC study, focuses around
21 what level of contribution should be added to the price floor to arrive at the price,
22 a decision that is largely subjective and arbitrary.

23

1 Q. SWBT witness Barch, on page 18 of his testimony, criticizes the use of Parts 36
2 and 69 of the FCC's rules apparently because they are interstate rules? How do
3 you respond to this criticism?

4 A. Mr. Barch correctly states that FCC Part 36 rules are designed to determine the
5 allocation of costs between the interstate and intrastate jurisdictions. Since this
6 Commission has the responsibility to address costs that are assignable to the
7 intrastate jurisdiction, it is entirely appropriate for the Commission to be
8 concerned with these allocations and the recovery of costs for which they have
9 legal responsibility. FCC Part 69 is written to apply specifically to the interstate
10 jurisdiction. The FCC correctly did not establish rules related to cost recovery of
11 intrastate costs. However, the procedures used by the FCC are generally
12 transferable to the intrastate jurisdiction as well and can be used by the
13 Commission to determine the cost of access services in the intrastate jurisdiction
14 just as the FCC uses those procedures to determine the cost of access services for
15 rate of return regulated companies in the interstate jurisdiction.

16

17 Q. On page 21 of his testimony, Mr. Barch indicates that you seek an exclusive
18 equivalence between the terms "actual" and "historical". Does this reflect a
19 correct understanding of your testimony?

20 A. No, I was not trying to reach a theoretical conclusion as to whether actual costs
21 can only be reflected by historical costs and that historical costs are the exclusive
22 determinant of actual costs. In my testimony on page 5, where I discussed "real
23 world" considerations, I was trying to point out that in the context of this

1 proceeding it was unlikely that the forward-looking or incremental costs
2 developed for the small Missouri companies would really reflect their actual
3 costs, whether historical or forward looking. I believe that concern has been
4 substantiated in the evidence presented. The alleged incremental or forward-
5 looking costs for the small companies are based on models of hypothetical
6 networks using cost inputs primarily based on national industry assumptions,
7 regression analysis of the costs of certain large companies and other techniques
8 which are not designed to determine the “actual” costs of the companies, but a
9 broad estimate of costs in the industry in general.

10
11 Q. Several witnesses have offered recommendations about the rate caps that the
12 Commission has established in regard to CLEC rates. Sprint witness Mr. Harper
13 supports the current Commission procedures and observes that they are very
14 consistent with the “safe harbor” rules that exist at the FCC. Do you have any
15 observations that the Commission should consider regarding this issue?

16 A. Yes. I think that it is important for the Commission to recognize that the access
17 rates of the large companies in the state such as SWBT, Verizon, and Sprint are
18 based on averages of their access costs across the state and are heavily influenced
19 by cost characteristics in the urban areas in which they operate. This is especially
20 true of SWBT. A competitor who chooses to compete with one of these
21 companies in a rural area only may be substantially disadvantaged since the large
22 companies’ access rates don’t reflect the access costs specifically
23 incurred/experienced in those rural areas. The Commission should note that in

1 the FCC's "safe harbor" rules that they made a specific exception for companies
2 only competing in rural areas and provided an alternative "safe harbor" level for
3 those companies based on the access rates filed by the National Exchange Carrier
4 Association. I believe that a similar alternative provision should be considered by
5 the Commission for CLECs in Missouri competing with a large company only in
6 its rural operating areas.

7

8 Q. Does this conclude your surrebuttal testimony?

9 A. Yes, it does.

10