

Exhibit No.:
Issues Addressed: Issue 40

Witness: M. Scott Schultheis
Sponsoring Party: CenturyTel of Missouri, LLC
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REBUTTAL TESTIMONY OF
M. SCOTT SCHULTHEIS
ON BEHALF OF CENTURYTEL OF MISSOURI, LLC.

CASE NO. TO-2009-0037

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1 **INTRODUCTION**

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

3 A. My name is M. Scott Schultheis. My business address is 118 W. Streetsboro Street #190,
4 Hudson, Ohio 44236.

5 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

6 A. I am a principal in the economic consulting firm of Reynolds Schultheis Consulting, Inc.

7 **Q: ON WHOSE BEHALF ARE YOU TESTIFYING?**

8 A. CenturyTel of Missouri, LLC (hereinafter referred to as “CenturyTel”)¹ in this
9 proceeding between CenturyTel and Charter Fiberlink-Missouri, LLC (“Charter”).
10 CenturyTel is an incumbent local exchange carrier (“ILEC”).

11 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL**
12 **BACKGROUND.**

13 A. I have over twenty years of telecommunications experience and have consulted with
14 clients over the last eleven years regarding a variety of telecommunications matters,
15 including the employment of wholesale costing and pricing models, the development of
16 federal and state access tariffs, the conducting of incremental cost studies for
17 interconnection arrangements, and the analysis and determination of regulatory
18 requirements issued by federal and state regulators. Prior to being a consultant, I was
19 employed by ALLTEL Telephone Service Corporation (now Windstream) for eight
20 years, most recently as Staff Manager – Access and Interconnection. In that position, I
21 was responsible for maintaining access tariffs in ALLTEL’s 14 territory states, creating

¹ The Parties have continued to negotiate since the filing of the Petition and it is anticipated that the Parties will continue negotiations during the pendency of this proceeding. If there are any discrepancies between this testimony and CenturyTel’s Disputed Points List filed in this Docket on August 25, 2008 (the “CenturyTel DPL”), this testimony is intended to be controlling as it represents the most current state of CenturyTel’s position there under. In an effort to assist the Arbitrator with the status of the proceeding, CenturyTel retains the right to file an updated and current interconnection agreement and DPL prior to submission of this matter for decision.

1 and updating tariff language in ALLTEL's federal access tariff, developing wholesale
2 rate levels for use in tariffs and margin analysis, calculating and monitoring federal
3 earnings, and developing prices for interconnection agreements. I held various other
4 positions within ALLTEL related to access services, costing issues, and regulatory
5 matters. As an ALLTEL employee, I worked for three years in the Rates and Cost
6 Department of the National Exchange Carrier Association.

7 I have been involved with cost issues through the entirety of my career. My
8 experience ranges from fully allocated cost studies (*i.e.*, Part 36), to access cost
9 development (FCC Part 69) and a wide variety of other cost analyses, including non-
10 recurring charges and economic cost studies utilized in interconnection proceedings and
11 cost analyses associated with universal service. I have developed and/or testified
12 regarding cost matters in state jurisdictions and have filed comments and have
13 participated in cost dockets relating to access and universal service before the Joint Board
14 and the FCC. In addition, I have developed a number of cost models that have been used
15 in interconnection, access and universal service proceedings. Schedule MSS-1 contains
16 my Curriculum Vitae.

17 **PURPOSE OF TESTIMONY**

18 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

19 A. The purpose of my testimony is to respond to the direct testimony of Charter witness
20 Timothy J. Gates related to his claims that (1) CenturyTel did not provide any reliable
21 cost support to justify its proposed number porting service charges,² and (2) CenturyTel

² See Gates Direct Testimony, Page 82, Lines 4-5.

1 failed to offer any cost study, or other evidence, to make that showing.³ This testimony
2 addresses Issue 40.

3 **SPECIFIC ISSUE TESTIMONY**

4 **Issue 40 Should the Pricing Article include Service Order rates and terms?**

5 **Q. WHAT ISSUE IN THE JOINT DPL DOES YOUR TESTIMONY ADDRESS?**

6 A. This testimony is responsive to Issue 40 – Should the Pricing Article include Service
7 Order rates and terms?⁴

8 **Q. ARE ISSUE 27 AND ISSUE 40 INTERRELATED?**

9 A. Yes. If this Commission determines that CenturyTel is allowed to assess charges for
10 administrative costs for porting numbers (Issue 27), then the rates identified and
11 supported in the CenturyTel non-recurring charges (“NRC”) study related to those
12 administrative costs (*i.e.*, the NRCs contained in Issue 40) should be included in the
13 Agreement (as used in this rebuttal testimony, the term “Agreement” is intended to refer
14 to the Parties’ interconnection agreement being arbitrated in this proceeding).

15 **Q. IS MR. GATE'S ASSERTION ACCURATE ON PAGE 82 OF HIS TESTIMONY**
16 **THAT CENTURYTEL DID NOT PROVIDE ANY RELIABLE COST SUPPORT**
17 **TO JUSTIFY ITS PROPOSED NUMBER PORTING SERVICE CHARGES AND**
18 **CENTURYTEL FAILED TO OFFER ANY COST STUDY, OR OTHER**
19 **EVIDENCE, TO MAKE THAT SHOWING?**

20 A. No. CenturyTel provided cost support and cost studies to Charter on July 9, 2008 during
21 the negotiation process. CenturyTel also provided responses to Charter’s First Set of
22 Data Requests on September 8, 2008 specific to underlying schedules/work papers
23 contained in the cost study provided on July 9, 2008. I am also including a copy of the

³ *Id.*, Lines 10-11.

⁴ Charter contends that Issue 27 should be framed as follows: “Should CenturyTel be allowed to assess a charge for administrative costs for porting telephone numbers from its network to Charter’s network?”

1 cost study and supporting schedules to this testimony as Schedule MSS-2 – Proprietary
2 and will refer to this Exhibit as the “NRC Study.” Additionally on September 30, 2008,
3 Jeffrey W. Reynolds submitted testimony in this proceeding on behalf of CenturyTel
4 supporting the charges.⁵

5 Clearly, Charter received CenturyTel’s cost study and can not properly claim that
6 is was not provided.

7 **Q. HOW DOES CENTURYTEL KNOW THAT CHARTER REVIEWED THE**
8 **INFORMATION FROM THE CENTURYTEL NRC STUDY?**

9 A. Charter responded to CenturyTel’s question #26 in the First Set of Data Requests with a
10 Proprietary Attachment C on September 17, 2008. A true and correct copy of this
11 document is attached to this testimony as Schedule MSS-3 - Proprietary. In this
12 Proprietary Attachment C, Charter created a schedule using the exact same CenturyTel
13 labor rates, descriptions, and details from the aforementioned NRC Study. Clearly,
14 Charter received CenturyTel’s cost study and should not claim that is was not provided.

15 **Q. PLEASE IDENTIFY WHICH RATES ARE RELATED TO ISSUE 40 AND**
16 **CONTAINED IN THE NRC STUDY PROVIDED TO CHARTER?**

17 A. The following rates are related to Issue 40 and contained in the NRC Study:

- 18 • Initial Service Order Charge - Simple
- 19 • Initial Service Order Charge - Complex
- 20 • Subsequent Service Order Charge

21 **Q. PLEASE DESCRIBE THE NATURE OF THE IDENTIFIED RATES?**

22 A. Each of the identified rates is a non-recurring charge associated with the implementation
23 of the Agreement to be established through this proceeding and the various service order

⁵ See Reynolds direct testimony, Page 12, Line 8 to Page 13 Line 10.

activities that are anticipated to occur under the Agreement. The charges are based on the non-recurring costs associated with the function at issue.

Q. WHAT ARE NON-RECURRING COSTS?

A. Relative to this case, non-recurring costs are based on costs associated with resources (human and otherwise) used to process various aspects of the services and/or functions requested under the Agreement. Non-recurring costs are incurred on an event-specific basis. For example, when a competitive local exchange carrier (“CLEC”) places an order to CenturyTel under an interconnection agreement requesting a service and/or a function, CenturyTel is required to perform certain tasks on a one-time basis to facilitate provisioning of the ordered service and/or function to the CLEC. In such cases, CenturyTel proposes that each party be able to assess an NRC to the other based the cost associated with these specific events.

Q: HAS CENTURYTEL PREVIOUSLY DEVELOPED A COST-JUSTIFIED RATE FOR MISSOURI FOR THE NRCS NOTED ABOVE?

A: No. All of the NRCs previously included in existing CenturyTel interconnection agreements were negotiated rates based on compromises relating to the entirety of the terms and conditions of the interconnection agreement at issue.

Q. COULD YOU PLEASE EXPLAIN THE BASIS FOR THE NRCS THAT CENTURYTEL IS PROPOSING?

A. Recognizing that CLECs typically claim the need for rates to be based on something other than historical costs, CenturyTel was willing to use a forward-looking cost-based methodology in this proceeding to develop the NRCs applicable to Charter. Thus, the NRCs proposed by CenturyTel employ a forward-looking cost-based methodology to reflect the underlying costs for the foreseeable future. The requested NRCs are based on forward-looking costs, as compared to other costing methodologies used in the

1 telecommunications industry, by virtue of the nature of the cost components of labor cost
2 and CenturyTel's back office systems being examined. CenturyTel believes that this
3 costing methodology satisfies any requirement associated with the development of cost-
4 based rates in this proceeding, and any reasonable view thereof. It is my understanding
5 that CenturyTel does not foresee pressures on the current resources systems that would
6 warrant radical (and hypothetical) changes to the current costs associated with
7 CenturyTel's "back office" operations that would warrant a departure from the
8 methodology used in this proceeding.

9 **Q. PLEASE DESCRIBE THE SPECIFIC METHODOLOGY CENTURYTEL**
10 **UTILIZED TO PERFORM ITS NRC RATE DEVELOPMENT?**

11 A. CenturyTel started by identifying the current system cost and current fully loaded labor
12 cost utilized in the performance of the specific requested task, estimated forward-looking
13 order volumes and developed the NRCs as a function of the total costs and estimated
14 order volumes.

15 **Q. HOW DID CENTURYTEL DEVELOP THE SYSTEM COST?**

16 A. CenturyTel's first step was to identify the various systems utilized in providing the
17 requested services and/or functions. Once identified, the forward-looking costs of these
18 system costs were also identified, and an annual carrying charge was applied to determine
19 the annual, forward-looking cost. This annual forward-looking cost was then divided by
20 the estimated number of system transactions to develop the specific NRC rate for each
21 service and/or function referenced above. This cost was determined to be forward-
22 looking based on the fact that these costs and transactions are current and, based on
23 CenturyTel's relatively new and most efficient systems, would be the same on a forward-
24 looking basis.

1 **Q. PLEASE IDENTIFY THE VARIOUS SYSTEMS REFERENCED ABOVE?**

2 A. The systems identified and their associated cost include the front end Graphic User
3 Interface (GUI), Customer Service Management GUI interface and the Ensemble billing
4 system. These systems and their cost are utilized in the provisioning of CLEC orders and
5 billing to CLEC accounts by CenturyTel.

6 **Q. PLEASE DESCRIBE THE ANNUAL CARRYING CHARGE AND ITS**
7 **DEVELOPMENT?**

8 A. The annual carrying charge is applied to an investment to recover its cost over the life of
9 the asset. The annual carrying charge is developed based on a return on investment,
10 expenses (depreciation and maintenance), and taxes. Each of these elements is consistent
11 with the development of the annual carrying charge and would be expected to be utilized
12 in the future. As a result, this charge recovers the expense, taxes, and return on the asset.

13 **Q. HOW DID CENTURYTEL DEVELOP THE “FULLY-LOADED LABOR COST”?**

14 A. CenturyTel’s first step was to identify the various resource requirements utilized in
15 providing the requested service and/or function. These resource requirements included
16 customer service activity to process orders and technician activity to perform switch
17 translations on specific orders. Once each of these resource requirements was identified,
18 the individual labor cost was identified for each and multiplied by the time required to
19 perform the work. The time was developed based on a time and motion study which
20 determined the time required to complete each of the specific work activities. These
21 costs were determined to be forward-looking based on the fact that these labor costs are
22 current and would be at least the same, if not greater, on a forward-looking basis.

23 **Q. HOW DID CENTURYTEL DEVELOP THE SPECIFIC DEMAND FOR EACH**
24 **NRC?**

1 A. CenturyTel's first step was to review the billing for NRCs for the 12 months ending
2 December 31, 2007. CenturyTel then forecasted the number of additions and disconnects
3 for the upcoming 12 months. CenturyTel's forecast was based on the assumption that the
4 2007 demand level would be the same in the next 12 months and this represents a
5 reasonable forward-looking estimate.

6 **Q. BASED ON THE INFORMATION PROVIDED, ARE THE LABOR COST,**
7 **DEMAND VOLUMES AND INVESTMENT COST FORWARD LOOKING?**

8 A. Yes.

9 **Q. ON WHAT BASIS ARE THOSE COSTS FORWARD LOOKING?**

10 A. The labor cost utilized in this analysis is based on the costs that will be incurred in the
11 future and as such are considered forward looking. The investment cost associated with
12 the D-SET or ezLocal is based on actual cost of a system which was recently installed,
13 and those costs would be the same if installed on a forward-looking basis. The Ensemble
14 billing system and related cost are also based on costs incurred within the past three years
15 and these costs would also be the same if not higher on a forward-looking basis. The
16 demand volumes are based on 2007 actual levels and, with little to no history for
17 CenturyTel to use as a forecast base, it is reasonable to conclude that the volumes that
18 would be experienced in the future would be the same and, as such, are considered
19 forward-looking.

20 **Q. PLEASE PROVIDE A DESCRIPTION OF THE INVESTMENT AND**
21 **FUNCTIONS NECESSARY TO COMPLETE EACH TASK ASSOCIATED WITH**
22 **THE ANNUAL CHARGE FACTOR.**

23 A. The annual charge factor was developed to calculate the annual amount of a specific
24 investment. In this case, it is the cost of the systems associated with the provisioning for
25 a CLEC account request. The D-SET or ezLocal system is the front-end GUI which is

utilized by CLEC customers for local service request order entry. This cost was provided by the company's Information Services Group with an estimated depreciation rate. The annual D-SET expense was then divided by the annual transactions to develop a cost-per-transaction. This system cost was then added to the cost associated with the cost to process the non-recurring activity by the customer service representative to develop a total cost for the non-recurring request.

The Ensemble Billing System and CSM GUI system together constitute CenturyTel's billing system which is utilized by CLEC customers for local service request order entry. This cost was provided by CenturyTel's Information Services Group with an estimated depreciation rate.

The annual Ensemble Billing System and CSM GUI system expense was then divided by the annual transactions to develop a cost-per-transaction. This system cost was then added to the cost associated with the cost to process the non-recurring activity by the customer service representative to develop a total cost for the non-recurring request.

Q. PLEASE IDENTIFY THE PROPOSED NRC RATES IDENTIFIED IN ISSUE 40?

A. The CenturyTel proposed NRC rates are identified in the Table 1 below.

Table 1	
Non-Recurring Rate Element	Proposed Rate
Initial Service Order Charge - Simple	\$13.71
Initial Service Order Charge – Complex	\$78.48
Subsequent Service Order Charge	\$7.39

Q. ARE THESE RATES DIFFERENT THAN THOSE CONTAINED IN THE

1 **SEPTEMBER 2, 2008 REVISED STATEMENT OF UNRESOLVED ISSUES**
2 **FILED IN THIS PROCEEDING?**

3 A. Unfortunately, the wrong rates were entered into the Revised Statement of Unresolved
4 Issues (the “Joint DPL”). Listed below is a side by side comparison of the incorrect rates
5 contained in the Joint DPL and the correct rates from the NRC study.

	<u>Incorrect in</u> <u>Joint DPL</u>	<u>Correct in</u> <u>NRC Study</u>
Initial Service Order Charge – Simple	\$14.02	\$13.71
Initial Service Order Charge – Complex	\$65.77	\$78.48
Subsequent Service Order Charge	\$7.53	\$7.39

11 **Q. ARE THESE THE RATES THAT WERE PROVIDED PREVIOUSLY TO**
12 **CHARTER ALONG WITH THE COST STUDY AND WORK PAPERS YOU**
13 **MENTIONED?**

14 **A. YES.**

15 **Q. PLEASE DESCRIBE THE PROCESS THAT WAS REQUIRED TO BE**
16 **UNDERTAKEN TO DEVELOP CENTURYTEL’S LOCAL SERVICE REQUEST**
17 **RATE.**

18 A. To determine the time required to process the local service request, specific tasks were
19 identified which consist of the initial processing, completion of the order and follow up.
20 This results in the total time to process a local service request for porting which was then
21 multiplied by the customer service representative’s loaded labor rate to determine a
22 portion of the cost to process the local service request.

23 The customer service representative’s loaded labor rate is determined based on a
24 labor cost analysis which identifies the direct and indirect labor cost. Indirect labor costs
25 include payroll benefits, payroll taxes, supervision and support, departmental overhead,
26 and indirect overhead. The total labor rate is then adjusted based on productive hours per
27 year.

1 The administrative order-taking system costs, which includes the web-based
2 ordering system, were identified as part of the overall cost to process the local service
3 request. In addition, the total number of transactions was identified to calculate the
4 system cost on a per-transaction basis. The administrative order-taking system cost was
5 then added to the cost associated with processing the local service request by the
6 customer service representative to develop a total cost for the local service request.

7 **Q. DO YOU AGREE THAT THE RATES PROVIDED BY CENTURYTEL SHOULD**
8 **BE USED IN THE AGREEMENT?**

9 A. Yes.

10 **Q. ARE THE RATES PROVIDED IN SCHEDULE MSS-2 COMPLIANT WITH**
11 **THE COSTING METHODOLOGY STANDARDS APPLICABLE TO THE**
12 **RATES CONTAINED IN AN INTERCONNECTION AGREEMENT AS**
13 **REQUIRED BY 47 U.S.C. § 251?**

14 A. Yes.

15 **Q. IS THERE A SINGLE METHODOLOGY THAT APPLIES FOR ALL COST**
16 **STUDIES?**

17 A. No. For example, in any cost or rate proceeding, opposing cost witnesses may disagree
18 with another on the appropriateness of the study or in the exact methodology used in the
19 development of the rates associated with various functions. There is more than one way
20 to develop a study. With that said, the Commission should not have concern with the
21 pricing proposed based on the costing methodology that was used. The methodology is
22 sound and the result of applying the methodology to the costs and demand amply
23 supports the rates at issue in this proceeding. Therefore, the Commission should not
24 hesitate to affirm CenturyTel's NRC rates in this proceeding that I have identified above.

25 **Q. WHAT SHOULD THE COMMISSION ORDER REGARDING ISSUE 40?**

1 A. The Commission should approve CenturyTel's proposed NRC rates in this proceeding.
2 CenturyTel is undeniably allowed to recover these reasonable costs, and the rates reflect
3 CenturyTel's cost of completing Charter's request.

4 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

5 A. Yes.