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BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Petition of QWEST CORPORATION for Arbitration of an Interconnection Agreement with UNION TELEPHONE COMPANY d/b/a UNION CELLULAR under Section 252 of the Federal Telecommunications Act of 1996	DOCKET NO. 04-049-145

DIRECT TESTIMONY OF JASON P. HENDRICKS ON BEHALF OF UNION TELEPHONE COMPANY

DIRECT TESTIMONY OF JASON P. HENDRICKS ON BEHALF OF UNION TELEPHONE COMPANY

Q. State your name for the record.

A. My name is Jason P. Hendricks.

Q. What is your business address?

A. 2270 LaMontana Way, Colorado Springs, Colorado 80918.

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

A. I am employed by GVNW Consulting, Inc. ("GVNW") as a Senior Consultant. GVNW provides consulting services on a variety of issues to independent telecommunications companies and their affiliates.

Q. Please describe your educational background and business experience.

A. I graduated from Penn State with a Bachelor of Science degree in Economics, from the University of Wyoming with a Master of Science degree in Economics (and a specialization in Regulatory Economics), and from the University of Illinois – Springfield with a Master of Arts degree in Political Studies. As an employee of GVNW, I have assisted rural LECs in various capacities on issues such as access charges, universal service, LNP and tariff filings. I have also assisted companies in cost studies, business development and regulatory advocacy. I have advocated on behalf of GVNW's clients in many state commission workshops, meetings and proceedings. Among the proceedings in which I testified are the Illinois interconnection and unbundled network element pricing dockets of Citizens and Verizon in which I reviewed and proposed changes to the forward-looking cost models developed by those companies on

behalf of the rural CLECs I was representing.

Prior to my employment at GVNW, I was employed by the Illinois Commerce Commission ("ICC") as an Economic Analyst in the Telecommunications Division. As part of my duties at the ICC, I provided testimony in numerous proceedings implementing the Telecommunications Act of 1996 ("TA 96"), including a proceeding in which Ameritech's first TELRIC rates were established. I was also involved in many other matters and proceedings with regard to forward-looking cost concepts, including a proceeding in which I reviewed a number of forward-looking cost models in order for the ICC to recommend which cost models it believed the FCC should use to develop USF on behalf of non-rural ILECs.

Q. On whose behalf are you providing testimony in this proceeding?

A. I am providing testimony on behalf of Union Telephone Company ("Union").

Q. What is the purpose of your testimony in this proceeding?

A. The purpose of my testimony is to propose and support an asymmetric compensation rate.

Q. Please describe what you mean by an asymmetric compensation rate.

A. Asymmetric compensation occurs when a competitive local exchange carrier ("CLEC") or wireless carrier ("CMRS") charges a rate for the transport and termination of local traffic that exceeds the rate charged by the incumbent local exchange carrier ("ILEC") for the transport and termination of local traffic. FCC pricing rules for interconnection agreements dictate that rates for transport and

termination of telecommunications traffic must be symmetrical (the CLEC or wireless carrier charges the same rate as the ILEC) except that a state commission may establish asymmetric rates, if the carrier other than the ILEC proves that its costs are higher than the ILEC's costs. (C.F.R. Title 47, Section 51.711).

Q. What cost methodology does the FCC require a wireless carrier to use in order to support asymmetrical rates?

A. The cost methodology the FCC prescribes to support asymmetric rates is the total element long-run incremental cost (TELRIC) approach commonly used by LECs to support rates for interconnection services and unbundled network elements. (C.F.R. Title 47, Section 51.505 and 51.511). Among the TELRIC components are requirements that costs must be developed assuming the most efficient technology currently available and the lowest cost network configuration given the existing location of wire centers (switches). In addition, the costs must be developed assuming forward-looking cost of capital and depreciation rates, and a reasonable allocation of common costs.

Q. Have you developed a cost study for Union that complies with the FCC's TELRIC rules?

A. Yes. Enclosed as Union Exhibit 11 is a cost study that develops Union's costs to transport and terminate local traffic, and which I believe complies with the FCC's TELRIC rules.

Q. Please provide a general overview of what is included in Union Exhibit 11.

A. Union Exhibit 11, in electronic format, is an Excel workbook with 14 tabs. The

first tab is a summary sheet, which provides a summary of expenses and investments, as well as the resulting rate from the model. Specifically, the model develops a cost/rate per minute of $0.038144. Union proposed that this cost for transporting and terminating local traffic be adopted as the asymmetric rate for purposes of the interconnection agreement if the Commission chooses not to adopt Union's access rate proposal contained in the testimony of Mr. Woody. The remaining 13 tabs of the workbook contain the assumptions, data, and inputs used to develop the costs contained in the summary tab.

Q. Please describe, in general, the network assumptions you used in the cost development.

A. The costs are developed assuming the most efficient technology currently available and the lowest cost network configuration given the existing location of Union's wireless switch and cell sites. Union is currently converting its wireless network from TDMA to GSM, which Union believes is the most efficient network currently available. As part of that conversion, Union purchased and installed a new GSM switch in 2003. Given how recently the switch was purchased, I have used its actual cost in the development of the proposed asymmetric rate. Correspondingly, I have used costs for GSM cell sites that were recently added, or projected to be added, to the network in order to develop average cell site costs, assuming that all cell sites were converted from TDMA to GSM at the same time. In reality, Union will be converting its existing TDMA cell sites to GSM over the next few years. But the model assumes, as I believe it must under the FCC

pricing rules, that the entire network is GSM because that is the most efficient technology currently available. In addition, the model assumes that all projected cell sites that Union will be adding between 2004 and 2006 are in place and operation. The switch and the cell site costs are used in the development of the termination rate contained in the summary tab of Union Exhibit 11.

The transport component of the proposed asymmetric rate is developed based on the assumption that all calls from the point of interconnection with Qwest to Union's switch are carried via microwave transmissions. This is, in fact, how calls are carried today for ultimate termination from Qwest's customers to Union's wireless customers because it is the most efficient means to do so over such long distances. Using the capacity of a T-1 as defined by the FCC (9,000 minutes per circuit per month), I determined how many projected T-1s of microwave capacity would be required to serve projected minutes of use terminating from Qwest. I then multiplied the number of projected T-1s worth of capacity by the microwave cost for such capacity to arrive at the annual assumed microwave transport costs.

Q. How is demand calculated in the model?

A. The demand figures used are minutes of use (MOU). The model annualizes Union's actual wireless MOU for the first half of 2004 and increases them to account for additional demand expected with the projected cell site additions from July 2004 through 2006. A growth factor of 3% per year is then added to account for the expected increased wireless usage per customer. The present value of the

total assumed MOU per year is then divided into the present value of the total projected switch and cell site costs to calculate the $0.034606 termination component of the proposed asymmetric rate.

The transport minutes are calculated by annualizing the MOU terminated from Qwest to Union's wireless customers and adding an assumed annual increase in usage of 3% per year. The assumed transport minutes are then divided into the assumed annual transport costs to calculate the $0.003538 transport component of the proposed asymmetric rate.. It provides these services pursuant to certificates of authority that it has received from the respective regulatory bodies.

Q. Why are the costs developed using present values?

A. Present value calculations in general are made to recognize that a dollar received today is worth more than a dollar tomorrow. Present values are used in the model to recognize that costs for the network will not be recovered all at once but will instead be recovered over the life of the network. However, it would be administratively burdensome to change the rates each year to equate future expected revenues with future expected costs. So, present value calculations are used in order to develop one rate that will ensure that the sum of the discounted projected revenue streams will equal the sum of the discounted projected costs over the life of the network. The proof of such calculation s is contained at the bottom of the summary tab in the electronic version of Union Exhibit 11. The discount factor used per year is 11.25%.

Q. You mention the projected life of the network. What projected lives did you

assume in the model?

A. I assumed that each network component would have a life span of 10 years. This corresponds to depreciation rate of 10%, which I believe is a reasonable forward-looking depreciation rate for the competitive environment in which Union operates and given the rapid pace with which technology changes in the wireless market.

Q. What kind of capital structure did you assume on the model?

A. I assumed a 45/55 debt-to-equity ratio. The cost of debt is 7.7%, which is the rate Union was able to secure for its most recent loan. The cost of equity is assumed to be 11.25%, which is the FCC authorized interstate rate for rural LECs. I believe the resulting weighted cost of capital of 10.78% is a reasonable forward-looking assumption given the markets in which Union operates and the level of competition it faces.

Q. What assumption did you make regarding common costs?

A. Common costs are assumed to be 10% of the expected costs of maintenance, power and depreciation costs. The common costs are assumed to be comprised of what is commonly referred to in the regulated telecom world as corporate operations expenses, consistent with that used to calculate such costs in the HAI TELRIC model. The resulting common costs per year from this calculation range from approximately $277,000 to approximately $361,000, which appear reasonable for a company of Union's size.

Q. You mention power and maintenance expenses. How were they calculated?

A. Power and maintenance expenses are calculated by using the actual assignment of those costs by Union to its wireless operation in 2003 and then increasing them to account for proposed cell site additions from 2004 to 2006 and to account for an assumed annual increase in such expenses of 3% per year.

Q. Are there any concluding comments you would like to make?

A. As with any cost model, the one included in Union Exhibit 11 is sensitive to the inputs used. I believe that the inputs assumed for annual growth in MOU and expenses, as well as the inputs assumed for depreciation, cost of capital, and discount factors, are reasonable forward-looking assumptions based on my experience in the telecom industry. However, if one wanted to test the sensitivity of the model to the inputs assumed, one would need only change the highlighted cells contained in the input tab.

Q. Does that conclude your testimony?

A. Yes, it does.