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

IN THE MATTER OF THE PETITION )  
OF QWEST CORPORATION FOR )  
ARBITRATION OF AN INTERCONNECTION )  
AGREEMENT WITH UNION TELEPHONE ) Docket No. 04-049-145  
COMPANY UNDER § 252 OF THE FEDERAL )  
TELECOMMUNICATIONS ACT OF 1996 )

**SUPPLEMENTAL SURREBUTTAL TESTIMONY**

**OF**

**JASON P. HENDRICKS**

**FOR**

**UNION TELEPHONE COMPANY**

August 11, 2006

1 **Q. Please state your name and business address.**

2 A. My name is Jason P. Hendricks, and my business address is 2270 LaMontana Way,  
3 Colorado Springs, CO 80918.

4

5 **Q. Are you the same Jason P. Hendricks who previously filed Direct Testimony on**  
6 **October 4, 2005 and Surrebuttal Testimony on November 11, 2005, in this**  
7 **proceeding?**

8 A. Yes, I am.

9

10 **Q. What is the purpose of your supplemental surrebuttal testimony?**

11 A. The purpose of my surrebuttal testimony is to respond to the rebuttal testimony of Qwest  
12 witness Peter Copeland, dated July 21, 2006. Specifically, I disagree with his analysis  
13 and recommend that the Commission accept Union's asymmetric cost study.

14

15 CORRECTIONS TO UNION'S PROPOSED COST STUDY

16 **Q. Before you address any disagreements with Mr. Copeland's testimony, do you have**  
17 **any corrections you'd like to make to Union's proposed cost study?**

18 A. Yes. In the summary tab of the model submitted to the Parties on May 30, 2006, there  
19 were two formula errors in the summing of minutes of use (MOU) in the last column.  
20 The error occurred when the model was revised on April 28, 2006, to incorporate the  
21 Commission's approved depreciation rates for Qwest. Specifically, although I don't  
22 agree that Union is required to use the 14.5 year economic life approved for Qwest, I  
23 increased the economic lives from 10 years to 14.5 years in the April 28 study to

24 minimize the number of contentious issues in the proceeding. However, when modifying  
25 the model in a number of places to implement the intended changes I inadvertently failed  
26 to make a corresponding change to the summation of MOUs. Accordingly, the  
27 derivation of the per-minute rates included costs for the 14.5-year period divided by  
28 MOUs for a 10-year period. The resulting overstatement of costs was purely accidental.  
29 The formula errors were also, unfortunately, included in the May 30 revised study  
30 submitted to the Parties. Confidential Exhibit 15 is the further revised study. As can be  
31 seen from the summary page, the proposed rate is now \$0.036533. This rate is less than  
32 the rate of \$0.036626 included in my October 4, 2005, direct testimony.

33

34 IMPACT OF COST STUDY REVISIONS

35 **Q. On pages 4 and 5 of his testimony, Mr. Copeland criticizes Union for filing revised**  
36 **studies that have led to “huge” rate increases without justification. What is your**  
37 **response to Mr. Copeland?**

38 A. Mr. Copeland’s arguments are moot because the apparent increase in rates was the result  
39 of a formula error that has now been corrected. In fact, as I’ve explained, Union’s  
40 proposed rates are now less than what they were in my direct testimony. Mr. Copeland’s  
41 discussion troubles me for two reasons. First, I’m unsure why he, being aware that the  
42 formula error he identified was causing Union to “overstate the unit cost by almost 25%”  
43 (Copeland 7-21-2006 rebuttal, p. 33), would argue that Union has not supported the  
44 “huge” increase in rates “from the first study to the last study of 24 percent.” (Copeland  
45 7-21-2006 rebuttal, p. 4). Mr. Copeland should have known that without the formula

46 error, Union's proposed rates in the May 30, 2006, study are actually less than those in  
47 the October 2, 2005, study.

48  
49 Second, I believe it would have been more administratively efficient for Mr. Copeland to  
50 have pointed out what was obviously a formula mistake either via an informal discussion  
51 with me or via a data request clarification. At this point in the proceeding, I believe it is  
52 in everybody's best interest to focus on the core disputes in the proceeding rather than  
53 muddle the record with things that are better handled "off-line."

54

55 **Q. To be clear, why has Union revised its cost study?**

56 A. The reason Union has modified its cost study from that originally filed was two-fold.  
57 First, the study originally submitted in this proceeding was based on information from  
58 2003. Union's network has changed substantially since 2003 and Union has much more  
59 detailed cost information on its GSM network than it had at the time of development of  
60 the original study. As one example, the GSM network costs in the original study were  
61 based on projected costs since the GSM network was just beginning to be deployed when  
62 the original study was developed. The current study is based on actual GSM deployment  
63 costs.

64

65 Second, the study has been revised to incorporate each of the major user-adjustable  
66 inputs the Commission approved for Qwest (as identified by Mr. Copeland in his  
67 10-24-2005 rebuttal testimony) except for one, the traffic sensitive factor, which I'll  
68 address later in this testimony. Specifically, Union's study now includes the same

69 Qwest-approved user-adjustable inputs for Annual Productivity Offset, Common Cost  
70 Factor, Cost of Equity, Tax Rate, Debt Ratio, Cost of Debt, and Depreciation Rates.  
71 Again, to be clear, Union doesn't necessarily agree that each of these inputs is  
72 appropriate for its cost study but has merely acquiesced in the use of the inputs in order  
73 to minimize the number of contentious issues in this proceeding.

74

75 **Q. What is your response to Mr. Copeland's comparison of Union's proposed rate to**  
76 **the per-minute rate Union charges its own customers, as derived by dividing the**  
77 **package rate by the number of minutes allowed in the package (Copeland 7-21-2006**  
78 **Rebuttal pages 4-5)?**

79 A. Mr. Copeland vastly understates the effective rate per minute that Union charges to its  
80 own customers. Specifically, customers often don't use all the minutes in their calling  
81 plans that they are allowed to use. Thus, it is inaccurate to divide the package rate by the  
82 total allowable minutes since the actual utilization is often much less than the total. In  
83 addition, when customers exceed their allowable minutes, they are charged overage  
84 charges, which for Union, can range from 10 cents to 45 cents per minute. When  
85 accounting for those two important considerations, the actual effective rate that Union  
86 charges its customers is \$0.17 per minute, as shown in the attached Confidential Exhibit  
87 16. Clearly, this rate is much higher than the rate that Union proposes to charge to  
88 Qwest.

89

90 TRAFFIC-SENSITIVITY AND ADDITIONAL COST STANDARDS

91 **Q. Mr. Copeland spends nearly nine pages discussing the federal statute, rules, and the**  
92 **additional cost standard. What is your response to this discussion?**

93 A. Quite frankly it puzzles me because Mr. Copeland raised this issue in his 10-24-2005  
94 rebuttal testimony and I responded to it in my 11-7-2005 surrebuttal testimony. Mr.  
95 Copeland's 7-21-2006 rebuttal testimony addresses the issue as if those two previous  
96 rounds of testimony didn't exist. Union has explained, though my surrebuttal testimony  
97 and Al Hinman's surrebuttal testimony, that Union's cost study contains only additional  
98 costs and that the network modeled is sensitive to the amount of traffic sent over it. Mr.  
99 Copeland doesn't respond to anything Mr. Hinman or I said on the issue in our  
100 testimonies. Thus, with the exception of a response to Mr. Copeland's reference to a  
101 New York Commission Order, I don't believe there is anything additional to say about  
102 the traffic-sensitive issue since Union has already responded to Qwest's arguments.

103  
104 **Q. Also within his discussion on the additional cost issue, Mr. Copeland mentions a**  
105 **ruling by the New York Commission on asymmetric compensation between Sprint**  
106 **and Verizon (page 14). Does that ruling have any important implications to the**  
107 **Commission in this proceeding?**

108 A. No. According to the quotation provided by Mr. Copeland, Sprint failed to respond to  
109 Verizon's presentation that Sprint's costs were not traffic-sensitive. That case is not  
110 applicable to this proceeding because Union has responded to Qwest's argument that  
111 Union's costs are not traffic-sensitive. In fact, it is Qwest that has not responded to  
112 Union's surrebuttal testimony that its costs are traffic sensitive.

113

114 **Q. Does Union have a Traffic Sensitive Factor input in its model?**

115 A. Yes. I have used 100% as the Traffic Sensitive Factor input for the cost study results  
116 included in Confidential Exhibit 15 because I believe that Union's network costs included  
117 in the study are 100% traffic sensitive. If, however, the Commission were to disagree  
118 with this position and find instead that Union's network is traffic sensitive at some other  
119 percentage, the model need not be rejected in its entirety because that alternative  
120 conclusion could be incorporated in the model through a simple input change. It should  
121 be noted that there is a separate Traffic Sensitive Factor input for switching and cell site  
122 costs. So, if a different conclusion were to be reached with respect to the traffic  
123 sensitivity of the two portions of the network, the model could accommodate both  
124 conclusions.

125

126 RELEVANCE OF INVESTMENTS AND EXPENSES INCLUDED IN UNION'S STUDY

127 **Q. Is Mr. Copeland correct when he states that Union did not remove regulated**  
128 **expenses from the study that are associated with Union's ILEC operations (page**  
129 **28)?**

130 A. No. The expenses included in the study are only associated with wireless operations  
131 because the sub-account codes used include only TDMA (sub-account 3) and GSM (sub-  
132 account 8). The study makes a clear delineation on the sub-accounts, as Mr. Copeland  
133 knows because he mentions it in his footnote 10, in which he criticizes the use of TDMA  
134 expenses. Union's regulated expenses are identified by sub-account 2, none of which are  
135 included in the study.

136

137 **Q. What is your response to Mr. Copeland's arguments that TDMA expenses are**  
138 **inappropriately included in the study, including his footnote 10 where he attempts**  
139 **to mathematically prove his point (pages 28-29)?**

140 A. Sub-account 8 (GSM) is a relatively new sub-account established by Union for its GSM  
141 operations. Previously, Union's employees assigned time and expenses for all wireless  
142 activity, both GSM and TDMA, to sub-account 3. Many employees still mistakenly  
143 assign GSM-related time and expenses to sub-account 3. Accordingly, Mr. Copeland's  
144 calculation of the proportion of wireless expenses associated with TDMA is not accurate  
145 because most of the wireless expenses are now associated with GSM, given that, as Mr.  
146 Copeland notes, only 10 out of 163 sites are TDMA-only.

147

148 **Q. Is Mr. Copeland correct when he states that Union double-counted land and**  
149 **building lease expenses (page 32)?**

150 A. No. Union included buildings it owns in the investment figures included for each cell site  
151 for which there is a building assumed. For the sites where Union owns buildings, the  
152 land and building expenses included in the study are for the land that must be leased from  
153 third parties and upon which Union must place its buildings and towers, not for leasing of  
154 buildings. For example, Union has lease arrangements with the National Forest Service  
155 and ranchers in order for Union to place its cell sites on their land. For sites where  
156 Union does not own buildings, the land and building lease expenses included in the study  
157 are for the leasing of building space from third parties necessary for Union to place its  
158 electronics. For example, Union leases building space from the University of Wyoming



159 in order for Union to have its Laramie White Hall cell site. In no instance are building  
160 lease expenses assumed for sites for which Union owns buildings. Thus, there is no  
161 double-counting because the study does not assume ownership and leasing of buildings in  
162 the same cell sites.

163

164 **Q. Is Mr. Copeland correct when he states that it is inconsistent with TELRIC**  
165 **standards for a TELRIC cost model to grow operations and have common costs**  
166 **grow proportionately (page 26)?**

167 A. No. As I stated in my direct testimony, Union's method for calculating common costs is  
168 consistent with the manner in which common costs are calculated by HAI, a TELRIC  
169 cost model that has been approved in numerous states. In fact, the model has been  
170 approved specifically for Qwest in a number of states. In addition, although Mr.  
171 Copeland argues that Union's methodology isn't reflective of an efficiently operating  
172 company, he conveniently overlooks the fact that Union's common costs decrease every  
173 year in its cost study.

174

175 **Q. Mr. Copeland implies that Union's revised study produces common costs that**  
176 **contradict a statement you made in your direct statement because the common costs**  
177 **in the revised study fall outside the range you stated was reasonable for a company**  
178 **of Union's size (pages 25-26). Is Mr. Copeland's implication correct?**

179 A. No. The statement I made in my direct testimony was in reference to a company that was  
180 modeled to have only 221 cell sites, whereas in the revised study, Union's network is  
181 modeled to have 325 cell sites. I would expect a larger company to have more common

182 costs. For example, I'd expect Qwest to have more common costs than a rural telephone  
183 company. To expect otherwise would defy logic. As stated, the common cost markup  
184 methodology in Union's cost study has been accepted in numerous proceedings across  
185 the country. An inherent component of the methodology is one in which common costs  
186 increase as the network grows larger.

187

188 **Q. Mr. Copeland implies that Union's estimated costs should be reduced because 55**  
189 **percent of the GSM sites have two buildings associated with them and the costs of**  
190 **the second building may need to be apportioned to other services (pages 26-27).**  
191 **What is the purpose of the second building for those GSM cell sites with a second**  
192 **building?**

193 A. In those cell sites, there is a building to house a generator and a building to house  
194 electronic equipment. The second building in those sites is not used to provide other  
195 services or to provide other carriers with access to Union's network. The second building  
196 is instead part of Union's cost of providing voice service.

197

198 **Q. Should the second building in such cell sites be allocated to other services?**

199 A. No. Both buildings are utilized to provide wireless service to Union's customers and not  
200 to provide separate access for a collocating carrier as Mr. Copeland suggests. Thus, it is  
201 entirely appropriate to include the costs of both buildings in the asymmetric cost study  
202 because there is not another service to which such costs should be allocated.

203

204 **Q. That being said, does Union receive revenue from other carriers for collocation and**  
205 **access to Union's network?**

206 A. Yes. Union's response to Qwest's June 8, 2006 data request will contain detail about the  
207 amount of revenue Union receives from other carriers for access to Union's network.

208

209 **Q. For purposes of asymmetric compensation cost development, should the costs in**  
210 **Union's network be offset by the revenue received from other parties for access to**  
211 **Union's network?**

212 A. Not necessarily. I am unaware of any instances where an ILEC's reciprocal  
213 compensation rate is reduced as a result of allocating central office building costs to  
214 collocation services because of revenue received from competitive carriers that collocate  
215 in the ILEC's central office to access unbundled loops. If, however, Qwest can provide  
216 evidence that shows that its reciprocal compensation rate was reduced as a result of  
217 allocating central office building costs to collocation services in Utah, Union is willing to  
218 consider reducing its costs in a manner similar to the way that Qwest did. But Union  
219 should not be held to higher standard than Qwest on this issue.

220

221 WHETHER SWITCHING COSTS INCLUDE ONLY TERMINATING COSTS

222 **Q. Mr. Copeland states that voice messaging, text messaging, call waiting, call**  
223 **forwarding, caller ID, three-way calling, operator, text messaging (SMS) and GPRS**  
224 **data services do not belong in a TELRIC study for terminating voice calls**  
225 **originated by Qwest end users. What is your response to Mr. Copeland's**  
226 **arguments?**

227 A. As stated in response to Qwest Data Request 4-008 regarding SMS and GPRS services,  
228 Union's cost study primarily includes costs that are associated with equipment and  
229 facilities utilized to provide voice services because, in Union's network, voice service has  
230 priority. So, any SMS and GPRS costs included in the study would have a minimal  
231 impact on the calculated rate. With respect to the other services identified by Mr.  
232 Copeland, Union has issued a data request of Qwest for which Union has requested data  
233 that will allow it to determine the methodology utilized by Qwest to calculate the usage-  
234 sensitive portion of Qwest's switch in the calculation of the reciprocal compensation rate  
235 approved by the Commission. It would be additionally helpful for Mr. Copeland to  
236 provide information about whether those costs were removed in the calculation of  
237 Qwest's switching cost, and if so, how the removal of those costs was performed. In  
238 particular, if those service costs were removed from Qwest's switching cost calculations,  
239 was the 90% usage-sensitive factor approved for Qwest the means by which such costs  
240 were removed? Any insight Qwest can provide on this issue would be helpful. As  
241 previously stated, Union's model can easily accommodate a traffic sensitivity factor for  
242 switching of something other than 100% but Union should not be held to higher standard  
243 than Qwest on this issue.

244

245 **Q. Do you agree with Mr. Copeland's arguments that Union's assumed minutes of use**  
246 **(MOU) growth rates in conjunction with 2003 switch investment assumption implies**  
247 **that Union's switch is not traffic sensitive (pages 20-21)?**

248 A. No. Union's network and MOU growth assumptions are consistent with TELRIC  
249 methodology. Specifically, Union's model is based on an assumption that the entire

250 network is built in year one and that all expected growth associated with that network is  
251 expected to occur in year one. By matching investment and maximum usage in year one,  
252 Union is assuming the most efficient utilization, and hence, the lowest rate possible.

253

254 **Q. Do you agree with Mr. Copeland’s argument that Union purchased excessive**  
255 **switching capacity because Union will be using only 63% of its switch capacity in**  
256 **2008 (i.e., 325 sites out of 515 cell site capacity) (pages 22-23)?**

257 A. No. Union’s GSM switch only has the ability to serve 515 cell sites if it includes  
258 additional equipment that was not included as part of the switch cost estimates in the  
259 model. In other words, the purchase price for Union’s switch in the model does not  
260 include the price for all equipment necessary to serve 515 sites. As a matter of fact,  
261 Union will soon need to augment its switch with additional call processing capabilities  
262 because Union’s switch is currently on the verge of exhausting capacity, even though  
263 Union does not currently serve the 325 cell sites assumed in the study. Thus, the study  
264 does not assume excessive switching capacity as Mr. Copeland argues. Rather, the  
265 switch costs in the model are likely underestimated since the switch will need to be  
266 augmented to handle to handle the call processing capability for the 325 sites assumed in  
267 the model.

268

269 ADEQUACY OF UNION’S SUPPORTING DOCUMENTATION

270 **Q. Mr. Copeland spends a considerable portion of the latter-half of his testimony**  
271 **supporting his statement that Union has provided “little, if any, supporting**  
272 **documentation for switch, cell site, and transport investments and expenses” (page**

273 **16), including statements that Union's responses to Qwest's data requests are**  
274 **inadequate. Do you agree with Mr. Copeland's arguments that Union has not**  
275 **provided adequate documentation to support its cost study?**

276 A. No, I do not agree with Mr. Copeland's arguments that Union has not adequately  
277 supported its study. With respect to the adequacy of Union's data request responses,  
278 Union objected to the data requests Mr. Copeland identified in his testimony on grounds  
279 that they were burdensome, ambiguous, unlikely to lead to admissible evidence, and or  
280 irrelevant.<sup>1</sup> If Qwest disagrees with Union's objections and believes the data requested is  
281 relevant to this proceeding, it is incumbent upon Qwest to ask the Commission to  
282 overrule Union's objections. But it is not acceptable for Qwest to point to the objections  
283 as grounds for its claims that Union has not supported its study. Furthermore, despite  
284 those objections Union still provided data to Qwest in response to some of those data  
285 requests.

286  
287 With respect to Mr. Copeland's position that Customer Proprietary Records (CPRs) do  
288 not provide current pricing and that Union must produce contracts and invoices to  
289 demonstrate that it has used current equipment prices in its study (page 29), I have  
290 enclosed in Confidential Exhibit 17 the CPRs for one of Union's cell sites, 12-Mile Gap,  
291 to show the Commission the level of detail included in the cell site CPRs. We provided  
292 this, and a CPR relevant to each of Union's other 67 current GSM-only sites, to Qwest.

293 As can be seen, the CPR provides detail on the equipment in place, building costs,

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<sup>1</sup> Union did not object to Data Request 01-020 in which Union stated that its transport costs are based on conservative estimate of what a microwave T-1 would cost per hop. Estimates are often made in cost studies and the impact of this estimate on Union's proposed rate is minimal. If Qwest believes the estimate is inaccurate, it is incumbent upon Qwest to explain why and provide an alternative estimate, if applicable.

294 material costs, labor costs, and the accounts to which the costs were assigned. The detail  
295 is sufficient to allow Qwest to determine whether costs were efficiently incurred.<sup>2</sup>  
296 Consistent with Union's objection on the issue, I don't believe that contracts or invoices  
297 are required to prove that such costs are efficiently incurred. These are recent, actual  
298 costs incurred by a carrier in a highly competitive industry in which there is no incentive  
299 or reward to inflate costs since there is no guaranteed recovery mechanism for wireless  
300 investments.

301

302 CONCLUDING REMARKS

303 **Q. Do you have any concluding comments you'd like to make?**

304 A. Yes. The only issue Mr. Copeland raises with which I agree is the formula error, which  
305 has now been corrected. Union has responded to the rest of his arguments in this  
306 testimony, in Union's original surrebuttal testimonies, and in the data request responses  
307 to Qwest. Union's cost study is accurate and fully supported. Accordingly, I recommend  
308 that the Commission accept Union's cost study and require that the asymmetric  
309 compensation rate Union proposes be incorporated in the arbitrated agreement between  
310 Union and Qwest.

311

312 **Q. Does that complete your supplemental surrebuttal testimony in this docket?**

313 A. Yes, it does.

---

<sup>2</sup> Also, in Union's response to Qwest's data request 4-009 on equipment capacity (which Mr. Copeland criticizes on page 11), Union referenced the CPR data and explained, despite its objection, that Qwest could use this information to extrapolate the values it requested relative to equipment capacity.