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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION ) CASE NO. QWE-T-02-25  
OF QWEST CORPORATION FOR PRICE )  
DEREGULATION OF BASIC LOCAL )  
EXCHANGE SERVICES )  
\_\_\_\_\_ )

REBUTTAL TESTIMONY OF

Douglas J. Lincoln, Ph.D.

on behalf of

QWEST CORPORATION

April 16, 2003

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1 I. INTRODUCTION

2 Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND TELL  
3 US WHERE YOU ARE EMPLOYED.

4 A. My name is Douglas J. Lincoln. My office is  
5 located at 1910 University Drive, Boise, Idaho. I am a  
6 Professor of Marketing in the College of Business and  
7 Economics at Boise State University.

8 Q. HAVE YOU PREVIOUSLY PROVIDED TESTIMONY IN THIS  
9 PROCEEDING?

10 A. Yes, I filed direct testimony in this proceeding  
11 on December 17, 2002.

12 Q. PLEASE PROVIDE AN OVERVIEW OF YOUR REBUTTAL  
13 TESTIMONY.

14 A. My rebuttal testimony addresses issues raised in  
15 this proceeding through the testimonies of Ben Johnson and  
16 Wayne Hart. In my testimony, I demonstrate that the Idaho  
17 statutory requirements for price deregulation of Qwest's  
18 basic local exchange service in the seven exchanges have  
19 been met. I respond to both Dr. Johnson's and Mr. Hart's  
20 many contentions that effective competition does not exist  
21 within the seven exchanges because those contentions are  
22 illogical, invalid and unsupported by statistically  
23 meaningful data.

1        II. REBUTTAL TO TESTIMONY OF BEN JOHNSON AND WAYNE HART

2                                A. Qwest's Survey

3                Q.    ON PAGE 18, LINE 6-7, OF HIS DIRECT TESTIMONY, DR.  
4    JOHNSON SAYS YOUR STUDY "IS MUCH TOO LIMITED TO BE RELIABLE"  
5    AND CRITICIZED HOW YOU DEVELOPED YOUR SURVEY QUESTION  
6    REGARDING FUNCTIONAL EQUIVALENCY. DO YOU FIND ANY VALIDITY  
7    IN HIS CRITICISM?

8                A.    I don't. First, in reviewing Dr. Johnson's  
9    qualifications as contained in Appendix A of his direct  
10   testimony, I did not find any suggestion that Dr. Johnson  
11   has dealt directly with any survey research processes or  
12   methodologies. The design of survey procedures and survey  
13   data collection instruments is a field of study that  
14   requires years of formal education, training, and experience  
15   in order to execute a survey-based study that produces data  
16   that are both reliable and valid. Dr. Johnson's apparent  
17   lack of understanding of and inexperience with such studies  
18   is evident by his sole focus on "reliability" in his  
19   testimony (page 18, line 6). One with expertise in this  
20   field knows that the most important factor to consider in  
21   evaluating research results is their validity, not  
22   reliability. A study is valid when it, in fact, measures  
23   what it reports to measure. As an analogy, a valid

1 speedometer in an automobile would report one is traveling  
2 at 60 mph if this was the true speed. On the other hand, an  
3 automobile would be said to have a reliable (but invalid)  
4 speedometer if it always reported one to be traveling at 65  
5 mph when, in fact, the true speed was 60 mph. Reliability  
6 refers to the ability to produce the same exact findings  
7 each time one repeats something like asking a survey  
8 question. Validity, on the other hand, refers to the ability  
9 to produce an accurate reflection of that being measured.  
10 If a measurement instrument provides a valid measure, it  
11 will always be reliable. But, if something is reliable, it  
12 may or may not be valid. Thus, Dr. Johnson's statement that  
13 my study "is much too limited to be reliable" is something  
14 of a non sequitur. What Dr. Johnson seemed to ignore or not  
15 recognize was that our survey followed accepted research  
16 standards so that valid results were produced and used for  
17 the basis of my direct testimony.

18 Q. ON PAGES 19-20 OF YOUR DIRECT TESTIMONY, YOU  
19 EXPLAINED HOW YOU AND DR. MACDONALD ARRIVED AT AN  
20 OPERATIONAL DEFINITION OF "FUNCTIONALLY EQUIVALENT." DO YOU  
21 AGREE WITH DR. JOHNSON'S CRITICISM OF THAT PROCESS?

22 A. First, I found his criticism to be internally  
23 inconsistent. As stated in his direct testimony, "The survey

1 other research efforts that had developed a valid set of  
2 questions and/or scales to measure the criterion of  
3 functional equivalence. That is precisely why the  
4 qualitative research step was undertaken with the 36 adults.  
5 Most researchers understand that consumers frequently do not  
6 use dictionary definitions or have dictionaries with them  
7 when responding to survey questions. It would be sloppy  
8 research not to take time and effort to be sure survey  
9 respondents will have a common understanding of the words  
10 and terms contained in the survey.

11 Third, it should be remembered that our survey  
12 instrument was pretested with a separate group of 40  
13 Idahoans living in the seven exchanges. As reported in my  
14 direct testimony, 96% of those in the residential pretest  
15 market segment said they understood the terms used in the  
16 survey. This was another step that helped ensure that valid  
17 results would be produced by the full study with 800  
18 respondents.

19 Fourth, what Dr. Johnson seems to miss when he offers  
20 his sometimes amusing examples, such as how consumers could  
21 or would use a pickup truck versus a sports car for  
22 different purposes, is the fact that our survey explicitly  
23 specified the exact use context that respondents were to

1 think of when responding to the survey questions. That  
2 context was specified as making and receiving local calls  
3 for either household or small business purposes. This is  
4 the context at issue in this application.

5 Q. HOW DO YOU RESPOND TO DR. JOHNSON'S ACCUSATION ON  
6 PAGE 19 THAT YOUR SURVEY'S FINDINGS ARE SKEWED UPWARDS  
7 BECAUSE YOU ASKED IF RESPONDENTS COULD SOLELY RELY (RATHER  
8 THAN "WILLING TO SOLELY RELY") ON WIRELESS SERVICE FOR THE  
9 PURPOSE OF MAKING AND RECEIVING LOCAL CALLS?

10 A. Dr. Johnson's criticism reveals a misunderstanding  
11 of the statutory standard, in my opinion. Section 62-  
12 622(3)(b) requires proof that functionally equivalent and  
13 competitively priced alternatives are reasonably available.  
14 As I and (I believe) Qwest's other witnesses understand this  
15 section, the underlying inquiry is whether, if Qwest were to  
16 raise residential and small business rates significantly,  
17 customers could (if they were so inclined) obtain an  
18 equivalent to basic local exchange service from a non-Qwest  
19 carrier. In contrast, Dr. Johnson would seem to believe  
20 that the section requires Qwest to show that customers have  
21 already made this transition or are inclined to doing so at  
22 this time. Given my understanding that the purpose of this  
23 statute is to withhold price deregulation until it is clear

1 that Qwest could not unreasonably raise prices for a captive  
2 customer base, Dr. Johnson's interpretation is far too  
3 stringent. I stand by the survey questions and believe that  
4 they were actually quite conservative.

5 Q. DR. JOHNSON REFERS TO YOUR SURVEY DATA AS  
6 "PROBLEMATIC" (PAGE 19, LINE 13) AND GOES ON TO SUGGEST THAT  
7 ONLY A MINORITY OF IDAHOANS IN THE SEVEN EXCHANGE AREAS  
8 COULD SUBSTITUTE THEIR WIRELINE SERVICE WITH WIRELESS  
9 SERVICE (PAGE 19, LINE 15-18). DO YOU AGREE?

10 A. No. for two reasons. First, our surveys were  
11 developed and executed in a scientific manner. The  
12 processes used in developing survey questions followed sound  
13 methodological practices established by the survey research  
14 industry. I have over three decades of experience in  
15 designing such surveys as well as formal education to  
16 support my experience. As pointed out in my direct  
17 testimony, the surveys were designed in a manner to produce  
18 conservative estimates of wireline and wireless  
19 substitution. There are no "problems" with the  
20 methodologies employed in our surveys. What Dr. Johnson  
21 calls for is an extensive, in-depth survey to address a  
22 plethora of what are essentially marketing, (not regulatory)  
23 issues. For example, he purports the need to study what

1 consumers could, would, and are willing to do and all the  
2 associated reasons behind their attitudes. Whether or when,  
3 consumers switch from wireline to wireless service is, as  
4 Dr, Johnson notes, a function of consumer preferences.

5 The purpose of our study was not to uncover consumer  
6 preferences so that one could effectively stimulate  
7 consumers to switch over. That would certainly be the  
8 challenge of a marketing study I might commission if I were  
9 the marketing manager for a wireless service provider. The  
10 purpose of our study was to determine the degree to which  
11 the Idahoans who would be affected by price deregulation  
12 believed that effective competition existed in their area.  
13 This was accomplished by using a scientifically developed  
14 and executed survey with 800 Idahoans.

15 **B. Functional Equivalence.**

16 **Q. DR. JOHNSON DEFINES "FUNCTIONALLY EQUIVALENT" AS**  
17 **MEANING VIRTUALLY IDENTICAL (PAGE 9, LINE 17). HOW DO YOU**  
18 **RESPOND TO DR. JOHNSON'S DEFINITION?**

19 A. I think his definition is without merit and  
20 therefore not a valid working definition. Dr. Johnson's  
21 personal definition was based, he says, on the separate  
22 dictionary definitions of "functional" and "equivalence."  
23 His definition of function is "the action for which a person

1 or thing is specially fitted or used or for which a thing  
2 exists: **PURPOSE.**" (page 9, line 8). "Functionally" was  
3 said to indicate the active purpose for which an object  
4 (service) exists or is used. The definition given by Dr.  
5 Johnson for equivalence was "equal in force, amount, or  
6 value or corresponding or virtually identical especially in  
7 effect or function."

8 Using the same methodology and definitions suggested by  
9 Dr. Johnson, I could deduce that services are functionally  
10 equivalent if equal in their purpose. In constructing his  
11 definition of functional equivalence from the same component  
12 definitions, I believe Dr. Johnson misuses his own  
13 definition of "function." That is, rather than focus on the  
14 **purpose** of the service, he focuses his definition on the  
15 **characteristics** of the service. I believe this is why much  
16 of his remaining testimony deals with immaterial issues such  
17 as the ergonomic characteristics and ancillary attributes of  
18 the telephone handset. Furthermore, Dr. Johnson is so  
19 focused on the peripheral characteristics of the service  
20 that he fails to even address the purpose of the service.  
21 Fortunately, the statute is very clear on this point. As  
22 discussed in Mr. Teitzel's rebuttal testimony, Idaho Code §  
23 62-603(2) clearly defines the purpose of basic local

1 exchange service as "the provision of access lines to  
2 residential and small business customers with the associated  
3 transmission of two-way interactive switched voice  
4 communication within a local exchange calling area."

5       If we rely on the statutory definition of the purpose  
6 of basic local exchange service, wireless service would be  
7 functionally equivalent to wireline service if it provided  
8 access lines to residential and small business customers  
9 with the associated transmission of two-way interactive  
10 switched voice communication within a local exchange calling  
11 area.

12       There is nothing in the statute that suggests that a  
13 "functionally equivalent" service must use the same size and  
14 shape telephone instrument as its wireline counterpart, as  
15 implied by Dr. Johnson (page 25, line 2). Nor is there  
16 anything that suggests that one should be able to download  
17 identical amounts of data from the Internet at identical  
18 speeds (page 26, line 14). The statute simply says, in  
19 laymen's terms, that the purpose of basic local exchange  
20 service is to allow residential and small business customers  
21 to talk to each other while in separate, fixed locations  
22 within a local exchange calling area. I do not think it is  
23 possible for any rational person to deny that cell phones

1 are designed for the exact purpose identified by the  
2 statute.

3 As explained in my discussion of value propositions in  
4 my direct testimony (pages 6-9; Exhibit 4), products do not  
5 have to possess attributes or characteristics that are  
6 identical in every way in order to be perceived as  
7 substitutes. The issue is the degree to which one product  
8 or its alternative is perceived to provide the desired  
9 benefits or value that determines substitutability. In  
10 other words, consumers buy and use products for what they  
11 expect them to "do" for them.

12 Dr. Johnson's definition of functional equivalence  
13 ignores the findings of our scientifically designed and  
14 implemented empirical research involving a total of 876  
15 Idahoans (36 in the study terminology phase, 40 in  
16 pretesting, and 800 in the final two telephone surveys) who  
17 were able to tell us exactly what functional equivalence  
18 meant to **them**. They are the ones affected by the  
19 Commission's decision. These Idahoans told us that products  
20 are functionally equivalent when they can "do the same  
21 thing." They **did not** say products were functionally  
22 equivalent when they possessed the same physical attributes  
23 or characteristics. Furthermore, when those surveyed were

1 asked to think about and respond to the study's "solely rely  
2 on" question, it was clear that the use context for that  
3 question was making and receiving local calls (from their  
4 household or small business). The results of the study that  
5 were presented in Exhibits 8 and 10 of my direct testimony  
6 and the additional results of sample subsets (e.g., views of  
7 those who already have cell phone service in their household  
8 or at their business) both show that a large majority of  
9 Idahoans in these seven exchanges believe wireless phone  
10 service is, in fact, functionally equivalent to wireline  
11 basic local exchange service.

12 **Q. WHAT IS WRONG WITH DR. JOHNSON'S OPINION THAT ONLY**  
13 **SERVICES THAT ARE IDENTICAL IN EVERY POSSIBLE WAY TO**  
14 **WIRELINE SERVICE SHOULD BE CONSIDERED FUNCTIONALLY**  
15 **EQUIVALENT?**

16 A. It basically sets a standard that cannot  
17 reasonably be met. If the Commission follows Dr. Johnson's  
18 interpretation and decides to define a functionally  
19 equivalent service as one that is absolutely identical to  
20 wireline service (not only in its advantages but also in its  
21 disadvantages), it would be assuming a standard that is  
22 virtually impossible to meet. In following Dr. Johnson's  
23 advice, even Qwest's operations in other states would not be

1 considered identical to Qwest's operations in Idaho because  
2 they may not have employees that provide **identical** levels of  
3 customer service. Furthermore, even if it was possible,  
4 there is no rational business motive for a firm to raise  
5 capital with the intent of creating an exact clone of an  
6 existing service that is currently being regulated.

7 Consumers would have no reason to switch to the new  
8 service provider because it would not be offering anything  
9 different than Qwest. On top of that, the new service  
10 provider would be at a disadvantage because its market share  
11 would be lower and, as a result, it would have to charge  
12 significantly higher prices to cover its cost of capital and  
13 to attempt to make a profit. In all my years of marketing  
14 education and practice experience, I have yet to see a case  
15 where consumers would pay significantly more for a product  
16 that is exactly identical to an existing, well-known  
17 product.

18 **Q. DO YOU BELIEVE THAT DR. JOHNSON CORRECTLY**  
19 **ADDRESSED THE ISSUE OF CELL PHONES BEING A COMPLEMENT AND**  
20 **NOT A SUBSTITUTE FOR WIRELINE SERVICE?**

21 A. No. Dr. Johnson provided the following definition  
22 for the term complement:

23 "products that have a relation such that an increase in  
24 the price of one will decrease the demand for the other

1 or a decrease in the price of one will increase the  
2 demand for the other." (page 14, line 21-24.)

3  
4 Dr. Johnson also uses the analogy of peanut butter and  
5 jelly to explain the concept of complements by suggesting  
6 that if the price of one increases, consumption of both  
7 goods will typically decrease. From this discussion, Dr.  
8 Johnson makes the following conclusion about the  
9 relationship between wireline service and cell service:

10 "While a limited degree of substitution occurs in practice,  
11 these services are primarily complementary to each other."

12 (page 16, line 12) Dr. Johnson would therefore like us to  
13 believe that, similar to the relationship between peanut  
14 butter and jelly, when the price of wireline phone service  
15 **increases**, consumption of cell phone service **decreases**. We  
16 should also expect, according to Dr. Johnson's definition,  
17 that when the price of wireline phone service **decreases**, the  
18 consumption of cell phone service should **increase**. After  
19 careful review of Dr. Johnson's testimony, I could not find  
20 one allusion to empirical evidence to support his claim that  
21 wireline phone service and cell phone service are  
22 complements rather than substitutes.

23 In contrast to Dr. Johnson's testimony, I believe that  
24 our research and the research of others clearly shows that  
25 cell phone service is a substitute product for wireline

1 phone service. I am using the term substitute here to refer  
2 to the same definition offered by Dr. Johnson. Substitutes  
3 are:

4 "products that have a relation such that an increase in  
5 the price of one will increase the demand for the other  
6 or a decrease in the price of one will decrease the  
7 demand for the other."<sup>1</sup>  
8

9 Thus, if wireless service is a substitute to wireline  
10 service, when the price of wireline phone service **increases**,  
11 the consumption of cell phone service **increases**. Similarly,  
12 when the price of cell phone service decreases, the  
13 consumption of wireline service will decrease. Although Dr.  
14 Johnson and Staff provide no scientific evidence to prove  
15 that wireless is a complement to wireline service, we have  
16 found a number of studies that show it is a substitute.

17 In his testimony, Mr. Teitzel refers to and quotes from  
18 reports from the Heritage Foundation<sup>2</sup> and from INSIGHT  
19 Research Corporation.<sup>3</sup> In addition, Horvath and Maldoom  
20 (2002) conducted a longitudinal study<sup>4</sup> analyzing over 7,000

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<sup>1</sup> Economics, Robert B. Ekelund, Jr. and Robert D. Tollison, Little, Brown and Company, 1986, p. 74.

<sup>2</sup> Heritage Foundation Reports, Local Telephone Competition: *Unbundling the FCC's Rules*, February 10, 2003.

<sup>3</sup> *Fixed-Mobile Substitution: A Simultaneous Equation Model With Qualitative and Limited Dependent Variables*, Reka Horvath and Dan Maldoom, August 2002 <http://www.dotecon.com/images/reports/dp0202.pdf>

<sup>4</sup> A "longitudinal study" is one that uses data from a number of different time periods. In this study, survey data was collected in 1999, 2000, and 2001

1 British Telephone users to investigate if wireless use  
2 should be characterized as a substitute or complement to  
3 wireline service. This was a highly sophisticated study  
4 that used time-series statistical analysis and controls for  
5 selectivity bias<sup>5</sup> caused by preference or taste differences.  
6 The two key findings of the study were: 1) increased  
7 wireless use significantly decreases the use of wireline  
8 service, and 2) as the price of wireless telephony decreased  
9 in the last year of their data set, line substitution  
10 increased dramatically.

11 Q. ON PAGE 22, LINE 11 OF HIS DIRECT TESTIMONY,  
12 DR. JOHNSON MENTIONS THAT CONSUMERS NEED TO PERCEIVE TWO  
13 PRODUCTS TO HAVE VERY SIMILAR ATTRIBUTES TO CONSIDER THEM  
14 SUBSTITUTES. DO YOU AGREE WITH THIS VIEW?

15 A. Absolutely not. This view shows a lack of  
16 understanding as to what drives consumer behavior.  
17 Marketing education long ago dispensed with the notion that  
18 consumers behave in a manner that is 100% economically  
19 rational. In making this statement, Dr. Johnson totally  
20 misses the point that consumers buy and consume products  
21 because of their value in use. Consumers buy products

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<sup>5</sup> Selectivity bias occurs when the sample selected for the test is not representative of the population from which it was selected.

1 according to their perceived benefits. They buy products  
2 for what they want or expect them to "do" for them.

3 "A business should view itself as a *provider of*  
4 *solutions* rather than a *seller of products and*  
5 *services.*"<sup>6</sup>

6  
7 As a practical example, I do not care if my cell phone  
8 is analog or digital. In fact, I am not even sure which  
9 type of cell phone I have. But, I do care about what I get  
10 or do not get regarding cell phone use as a result of the  
11 two technologies.

12 The automobile replaced the horse as America's favored  
13 transportation mode, even though they are certainly not the  
14 same in terms of attributes or characteristics as is  
15 required according to Dr. Johnson's view. Today, e-mail  
16 communication has substituted for traditional letter (or  
17 note) mailing via the United States Postal Service. These  
18 two products do not have the same attributes/characteristics  
19 and are certainly not based on the same technology. Dr.  
20 Johnson's definition would be a hard sell at the USPS, which  
21 lost just over \$800 million in profits between 1990 and  
22 1997. A main reason attributed to this loss was the growth  
23 of e-mail.<sup>7</sup>

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<sup>6</sup> Market-Based Management-Strategies for Growing Customer Value and Profitability, 3<sup>rd</sup> ed., by Roger Best, Prentice-Hall, 2003, p.87.

<sup>7</sup> Heather Harreld, "USPS: Fighting for survival," Federal Computer Week; Falls Church; Jun 5, 2000.

1           Once consumers have purchased and used a particular  
2 product, they learn how well the product meets their  
3 expectations. They will then adjust their behavior (e.g.,  
4 continue to buy or not) according to how well their needs  
5 are perceived to have been met. This fact was evident in  
6 our survey results, as wireless service was viewed as a  
7 substitute more often by those with experience using a cell  
8 phone than those respondents who had never used a cell  
9 phone.

10           **Q. DR. JOHNSON SAYS YOUR INTERPRETATION OF YOUR**  
11 **SURVEY RESULTS "IS CONTRADICTED BY THE FACT THAT SO FEW**  
12 **CONSUMERS TODAY ACTUALLY DO SOLELY RELY ON A CELL**  
13 **PHONE." (PAGE 20, LINE 15-16). DO YOU AGREE WITH THIS**  
14 **STATEMENT?**

15           A. No. As mentioned by Mr. Teitzel in his rebuttal  
16 testimony, Dr. Johnson seems to want to employ an  
17 unreasonable standard by which to conclude that any market  
18 has effective competition. He seems to feel that 100% of  
19 all consumers must have already moved to another supplier or  
20 product in order to demonstrate substitutability. I do not  
21 believe that the manufacturers of buggy whips waited until  
22 everyone was driving automobiles to conclude that

1 automobiles were effectively competing with horse-based  
2 transportation.

3 Dr. Johnson's reference to estimates that only 3-5% of  
4 all consumers using cell phones as their own phone service  
5 understates the current level of penetration, and more  
6 importantly, the speed with which penetration has occurred  
7 and how it has occurred at different rates within market  
8 segments. In this regard, Mr. Shooshan has testified about  
9 far higher levels of actual line and usage substitution.

10 It should also be recalled that our survey was  
11 conservative in nature. A very good example of this  
12 pertains to Dr. Johnson's contentions about low use of  
13 wireless phones as the consumers' only phone. Our survey  
14 sample frame was drawn only from a wireline phone number  
15 pool. Had we included wireless phone numbers (held by  
16 residential and the small business segment) in the sample  
17 frame, we would automatically expect that our survey results  
18 would have demonstrated even greater perceptions of the  
19 effective competition presented by wireless service. By  
20 definition, surveying those already known to have wireless  
21 service would "push up" our numbers of those perceiving  
22 functional equivalency, price competitiveness, and  
23 reasonable availability.

1 Q. DR. JOHNSON SAYS HE FINDS "IT PUZZLING THAT" YOU  
2 "CAN CONCLUDE THAT WIRELESS AND WIRELINE SERVICES ARE  
3 FUNCTIONALLY EQUIVALENT WHEN OVER 40% OF RESIDENTIAL  
4 CUSTOMERS AND 65% OF SMALL BUSINESS CUSTOMERS SAY THEY COULD  
5 NOT SOLELY RELY ON CELL PHONE SERVICE." (PAGE 20, LINE 22-  
6 23, PAGE 21, LINE 10). DO YOU UNDERSTAND WHY HE IS PUZZLED  
7 BY YOUR CONCLUSION?

8 A. No. It seems he has not carefully reviewed the  
9 exhibits that report my survey findings as he has apparently  
10 chosen to ignore the fact that the actual percentages are  
11 much higher when one accounts for the non-voice reasons that  
12 motivated some respondents to answer negatively to the  
13 "solely rely on" question. Let me reiterate that the  
14 percent of residential customers who said they could solely  
15 rely on cell phone service, when one considers (i.e., adds  
16 in) non-voice reasons is 62% (Lincoln Direct, Exhibit 8,  
17 page 4). And, the corresponding percentage (with non-voice  
18 reasons added back) for the small business segment is 85%  
19 (Lincoln Direct, Exhibit 10, page 4).

20 Q. IS THERE MORE EVIDENCE FROM YOUR STUDY TO SUGGEST  
21 THAT THE DEGREE OF SUBSTITUTABILITY IS CONCEIVABLY EVEN  
22 HIGHER THAN YOU REPORTED IN YOUR DIRECT TESTIMONY?

1           A. Yes. If we just consider those respondents in our  
2 survey that reported either having a cell phone in their  
3 household or at their business, we find even more evidence  
4 that the two phone services are substitutes. Some 60% of  
5 those households with a cell phone user<sup>8</sup> said they could  
6 solely rely on a cell phone for local calling. This is in  
7 contrast to the 30.2% of those households not containing a  
8 cell phone user who said they could solely rely on the cell  
9 phone for this reason. The relative percentage for  
10 households with a cell phone user when non-voice reasons  
11 (for not solely relying on) are added back rises to 72.2% as  
12 compared to 41.9% for households without a cell phone user.  
13 Whether or not non-voice reasons are considered, households  
14 with cell phone users are significantly more likely to say  
15 they could solely rely on the cell phone than those  
16 households without a cell phone user.

17           For small businesses using cell phone service,<sup>9</sup> those  
18 responding that they could solely rely on cell phone service  
19 increased from 36.4% to 88.3% when non-voice reasons are  
20 added back into the totals. The corresponding percentages  
21 for those small businesses currently without cell phone

---

<sup>8</sup> The number of such households was 270 out of 402 or 67.2%.

<sup>9</sup> The number of small businesses was 239 out of 398 or 60.1%.

1 service increases from 28.7% to 37.9% when non-voice reasons  
2 are eliminated.

3 **Q. WHY ARE THESE FINDINGS SIGNIFICANT?**

4 A. They show that as Idaho consumers and small  
5 businesses adopt and use cellular phone service they learn  
6 that cell phone service is very substitutable for wireline  
7 service. The findings from our scientific survey with 800  
8 Idahoans refutes Dr. Johnson's contention that they are  
9 complements and not substitutes. Thus, the facts speak  
10 against his unsupported speculation.

11 **C. Competitive Pricing.**

12 **Q. DO YOU AGREE WITH DR. JOHNSON'S STATEMENT "THE**  
13 **COMPANY HASN'T EVEN TAKEN THE NECESSARY STEPS TO**  
14 **MEANINGFULLY COMPARE WIRELESS AND WIRELINE PRICES FROM A**  
15 **CONSUMER PERSPECTIVE?" (PAGE 32, LINE 19-20)**

16 A. No. I find this statement to be 180 degrees  
17 opposite of accurate. It suggests to me that Dr. Johnson  
18 did not take the time to review our study's findings. As  
19 that seems to be the case, I will repeat the key pricing  
20 related findings that our respondents generated. In our  
21 residential segment survey (Lincoln Direct, Exhibit 8, age  
22 5) some 43.5% said the price of cell phone service for their  
23 household, when compared to traditional phone service **was**

1 **lower or about the same** (the responses for each were 22.9%  
2 for same and 20.6% for less). This is a larger percentage  
3 than those who said the price of wireless is higher than  
4 wireline (34.8%).

5 The corresponding findings for the small business  
6 segment (Lincoln Direct, Exhibit 10, page 5) were 42.5%  
7 perceived the wireless prices as the same or less, compared  
8 with only 34.7% saying wireless cost more than wireline.

9 I should note that around 22% of the respondents in  
10 each study segment were unsure about the price and therefore  
11 did not state a position. If one removes them<sup>10</sup> from the  
12 pricing analysis and reports only on those with an opinion,  
13 one finds that 55.5% of the residential respondents and  
14 55.0% of the small business respondents saying wireless  
15 costs "less or the same" as wireline. This would leave  
16 around 45% (of those with an opinion) saying that wireless  
17 prices are higher than wireline prices. In summary, more  
18 consumers see the wireless prices as less than or the same  
19 as wireline services than see wireless costing more.

20 Furthermore, we find that those either living in  
21 households with cell phone service or those working in  
22 businesses with such service, are more likely to perceive

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<sup>10</sup> This results in 315 usable residential respondents and 307 small business respondents.

1 the prices as similar. While 43.5% of all residential  
2 respondents said wireless prices were the same or less than  
3 wireline service, this percentage jumps up to 53.7% for  
4 those with wireless service. And, the 42.5% response rate  
5 for the small business segment jumps to 49.4%. What these  
6 findings tell us is very clear. Those with cell phone  
7 experience and/or those that live and work in a setting in  
8 which cell phone service is being used, see or perceive even  
9 more competitive pricing than those who are not in such  
10 settings. As more and more consumers and small businesses  
11 adopt wireless phone service, they are also more likely to  
12 form the same perceptions as those (adopting wireless)  
13 before them.

14 **Q. WHAT DO YOU SEE AS THE SIGNIFICANCE OF THE**  
15 **FINDINGS YOU HAVE JUST DISCUSSED?**

16 A. Those findings should provide the Commission some  
17 measure of assurance with regard to Staff's oft-repeated  
18 fear that a price-deregulated Qwest will significantly  
19 increase its prices and hold Idahoans captive. This  
20 conclusion has absolutely no merit if one considers the  
21 consumer perception of prices revealed by our study. If the  
22 majority of consumers believe wireless prices are already  
23 the same or less than that of Qwest's wireline service, the

1 Company would be making a serious marketing mistake by  
2 making any kind of significant price increase. This move  
3 would provide a clear economic incentive for its customers  
4 to switch to wireless service as their primary phone  
5 service.

6 Q. DR. JOHNSON STATES THAT A MEANINGFUL COMPARISON  
7 BETWEEN WIRELESS PRICES AND WIRELINE PRICES MUST TAKE  
8 SEVERAL FACTORS INTO CONSIDERATION (PAGE 35, LINE 5-15). DO  
9 YOU AGREE WITH HIS CONTENTION?

10 A. Yes and no. I believe he is correct in assuming  
11 that consumers will take their own particular needs and  
12 usage context into account when deciding what to buy or when  
13 to switch suppliers. However, where I disagree with Dr.  
14 Johnson is with his contention that determining the degree  
15 to which prices are competitive can be accomplished solely  
16 by studying what prices are offered in the marketplace. It  
17 is a rudimentary marketing principle that, for initial  
18 purchasing decisions, consumer perceptions on pricing  
19 influence their behavior far more than the reality of  
20 pricing distinctions. Consumer price perceptions are formed  
21 in many ways: salesperson presentations, seeing price  
22 tickets, seeing advertisements, talking with others, reading  
23 and paying bills, etc. But, as mentioned before, consumers'

1 perceptions can and do change as they gain experience with a  
2 particular product or service. Thus, they may learn that  
3 their original perceptions were inaccurate and change their  
4 "view." As an example, our survey found that as consumers  
5 gained experience with cell phones, they were significantly  
6 more likely to view them as a substitute for wireline  
7 service when it comes to making and receiving local calls.

8           **Q. HOW DID YOUR SURVEY TAKE THE CONSUMER'S USE**  
9 **CONTEXT INTO ACCOUNT WHEN RESPONDENTS GAVE THEIR PERCEPTIONS**  
10 **ON WIRELESS AND WIRELINE PRICE COMPETITIVENESS?**

11           A. Our (residential) survey question was "Do you  
12 think the monthly price of using cell phone service for your  
13 household is about the same, more than, or less than the  
14 price of using traditional phone service?" The question for  
15 the small business segment was identical except in referring  
16 to the use context. The question format required the  
17 respondent to mentally think of cell phone services prices  
18 in relation to **their household**. This means that most, if  
19 not all, of Dr. Johnson's contentions that all the consumer  
20 **use contexts** have to be taken into account in order to make  
21 pricing competitiveness study meaningful is inappropriate.  
22 Our survey allowed each respondent to take his or her  
23 individual context into consideration. After having done

1 so, the respondents expressed (through their answers) a  
2 belief that wireless service is functionally equivalent,  
3 competitively priced and reasonably available in the seven  
4 exchanges.

5 **Q. WHAT DO YOU SEE AS THE SIGNIFICANCE OF THE**  
6 **FINDINGS YOU JUST DISCUSSED?**

7 A. I feel the Commission should be assured that its  
8 constituents do, in fact, perceive that the prices of  
9 wireless and wireline phone service in the seven exchange  
10 areas are competitive. This finding should also eliminate,  
11 or at least greatly ease, any Commission and/or Staff fears  
12 about Qwest significantly raising its wireline service price  
13 when it is deregulated. Our study suggests that such a move  
14 would likely result in Qwest losing even more customers to  
15 its wireless competitors. The only conceivable way for  
16 Qwest to avoid the negative consumer repercussions of such a  
17 price would be to increase the benefits offered to their  
18 current wireline customers. If they were to pursue that  
19 strategy and retain customers, then the Commission and Staff  
20 should be rewarded by knowing that the general public's  
21 interest has been served.

1 Q. DR. JOHNSON REFERS TO YOUR EXHIBIT 5 FROM YOUR  
2 DIRECT TESTIMONY AS "GREATLY OVERSIMPLIED" (PAGE 36, LINE  
3 19). DO YOU AGREE WITH HIS CONTENTION?

4 A. Dr. Johnson apparently did not understand the  
5 purpose of that exhibit, which was to show examples of how  
6 three different wireless pricing plans can be placed into a  
7 competitive map with Qwest wireline service. The exhibit  
8 was used to demonstrate the concept of customer value and  
9 three different value propositions. In developing and  
10 describing this exhibit, I did not purport that this is how  
11 most or even a majority of consumers might view the  
12 marketplace.

13 The conclusion that I made in my direct testimony that  
14 Dr. Johnson criticizes was not based on Exhibit 5, but  
15 instead on an analysis of several pricing plans as shown in  
16 Mr. Teitzel's Exhibit 13.

17 Nevertheless, I contend that my analysis, or any  
18 pricing analysis by Commission Staff that focuses  
19 exclusively on what is offered in the marketplace, is less  
20 important to a final determination on the level of price  
21 competitiveness in the telecommunications market than are  
22 consumer perceptions of prices. A majority of the 800  
23 Idahoans living in these seven exchanges said they believe

1 the price of wireless service is competitive with the price  
2 of wireline service given their particular setting, home or  
3 business.

4 Q. DO YOU HAVE ANY COMMENTS ON MR. HART'S ATTEMPT TO  
5 COMPARE THE PRICES OF QWEST'S BASIC LOCAL EXCHANGE SERVICE  
6 WITH PRICES OF VARIOUS WIRELESS CARRIERS?

7 A. Yes. First, his attempt to perform such analysis  
8 seems to be futile as he himself admits: "However, I must  
9 point out that such a comparison is very difficult as the  
10 products are so different and there are so many different  
11 options for each product." (pages 7-8) If this is the case,  
12 Mr. Hart has basically said two things: (1) that there is  
13 no reasonable methodology that one can use to determine  
14 price competitiveness in a valid manner and (2) the mere  
15 existence of so many choices and variations, by definition,  
16 implies a very, very competitive marketplace.

17 In addition, as noted by Mr. Teitzel in his rebuttal,  
18 the assumptions and calculation approaches used by Mr. Hart  
19 are flawed. Again, this raises questions about the validity  
20 of his findings.

21 For example, Mr. Hart included non-voice minutes in  
22 his average usage calculations. He then uses these inflated  
23 usage levels to determine what a wireless customer might pay

1 (under the plans he has chosen) for this supposedly average  
2 use. This methodology tends to inflate the estimated  
3 wireless monthly bills, which he claims are very high  
4 relative to basic local exchange wireline prices. Let me  
5 point out how inflated his final figures might be. A recent  
6 study by UCLA<sup>11</sup> reported that Americans spent 11.1 hours per  
7 week online from their homes in 2002. Assuming a four-week  
8 month, this translates to some 2,664 minutes in a month.  
9 This same study also reported that the percentage of  
10 households online in 2002 was 59.3%<sup>12</sup> and that 75% of those  
11 homes used a telephone modem connection.<sup>13</sup> Assuming these  
12 findings are representative of Idaho, I estimate that the  
13 average number of monthly local exchange minutes consumed by  
14 such a non-voice use for an average or typical Idaho  
15 household is 1,184 minutes.<sup>14</sup> In reality, my estimate is  
16 still likely to be conservative since the 11.1 hour average  
17 in the UCLA study was calculated by inquiring of only one  
18 respondent in each household. It is reasonable to assume  
19 that multiple household members could also be online using

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<sup>11</sup> The UCLA Internet Report Surveying the Digital Future Year Three, UCLA Center for Communication Policy, February 2003, p. 17. <http://ccp.ucla.edu/pdf/UCLA-Internet-Report-Year-Three.pdf>

<sup>12</sup> Id. at 23.

<sup>13</sup> Id. at 25.

<sup>14</sup> Calculated as 2,664 minutes times 59.3% times 75%.

1 the same telephone modem and phone line, bringing total use  
2 of the phone line well above the estimated 11.1 hours.

3 Furthermore, I do not believe that studying the  
4 published prices of competitors is very valid approach for  
5 the purpose of assessing pricing competitiveness. A better  
6 approach involves studying actual consumer price  
7 perceptions. Such perceptions will influence consumers'  
8 willingness to substitute. Until they learn that their  
9 perceptions are different than reality, perception will  
10 drive their behavior. These perceptions about wireless and  
11 wireline price offerings were assessed in our survey.

12 Exhibit 5 to my direct testimony and Mr. Teitzel's  
13 Exhibit 13 were only meant to show what kinds of offerings  
14 existed in the marketplace. It is the results of our survey  
15 with 800 Idahoans that provides the most valuable scientific  
16 evidence relating to the statutory requirement of  
17 competitively priced service, in my opinion. In contrast to  
18 Mr. Hart's conclusion that "wireless service would be  
19 significantly more expensive than the price of Qwest's basic  
20 local service" (page 8, Line 6-7), a clear majority of  
21 Idahoans living and/or working in the seven exchange areas  
22 do not feel this way at all.

1 Q. DO YOU AGREE WITH MR. HART'S CONCLUSION THAT "WIRELESS  
2 SERVICE IS NOT COMPETITIVELY PRICED FOR THE VAST MAJORITY OF  
3 CUSTOMERS AND WOULD NOT BE AN EFFECTIVE REGULATOR OF QWEST'S  
4 RATES?

5 A. No. For all practical purposes, our study's  
6 findings clearly show that wireless prices would act to  
7 constrain the price Qwest is able to charge and receive from  
8 its customers. If most consumers already believe that  
9 wireless service prices are the same as, or lower than,  
10 wireline service, then any significant price increase by  
11 Qwest will create a powerful incentive for its current  
12 customers to switch to wireless as their primary local  
13 calling phone solution.<sup>15</sup> Even Dr. Johnson admits that he  
14 could and would shift to wireless if Qwest significantly  
15 increased its basic local exchange wireline rates.<sup>16</sup> And,  
16 higher prices would logically prevent the Company from  
17 acquiring new customers including those younger individuals  
18 beginning to form households and searching for a local  
19 calling solution. This means that current price perceptions

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<sup>15</sup> As already mentioned, the only way that such a price increase could prevent consumer from switching would if Qwest could somehow offer more for what they charge. Using customer value theory, some consumers would be willing to pay the higher price if they felt the price was justified.

<sup>16</sup> Dr. Johnson testifies at pages 19-20 of his testimony, "Likewise, I could get rid of my wireline service but I'm not willing to-unless someone forces me to (e.g. by drastically raising the price)."

1 of wireless service provide Qwest with the reality of losing  
2 current customers and never acquiring new customers should  
3 it choose to significantly raise its wireline local exchange  
4 service prices.

5

6 Q. DR. JOHNSON AT PAGE 42 OF HIS TESTIMONY STATES  
7 THAT "MOST CUSTOMERS WOULD BE PLACED AT THE MERCY OF QWEST'S  
8 MONOPOLY POWER, FORCED TO PAY WHATEVER RATES IT ELECTS TO  
9 IMPOSE." ASSUMING THE COMMISSION GRANTS QWEST'S APPLICATION,  
10 DO YOU AGREE WITH THIS DIRE PREDICTION?

11 A. Absolutely not. In fact, I believe the opposite is  
12 true. As I have already pointed out, Qwest would be in  
13 grave danger of losing a substantial number of customers if  
14 it were to significantly raise its wireline prices without  
15 somehow significantly increasing its value proposition.

16 The facts of our survey support my contentions. The  
17 residential and small business respondents clearly view the  
18 wireless and wireline phone service as being substitutable,  
19 competitively priced, and reasonably available for the  
20 purpose of making and receiving local calls. This means that  
21 the captive customers alluded to by Dr. Johnson do not exist  
22 in large numbers. Consumers believe they can use an  
23 alternative product (i.e., a cell phone) to solve their

1 local call making and call receiving needs, they see that  
2 same alternative as already costing the same or less than  
3 wireline, and they believe that cell phone service is easy  
4 to find and obtain in their own exchange area. Put in its  
5 simplest form, Idahoans living and/or working in these seven  
6 local exchanges already perceive the existence of effective  
7 competition in the marketplace.

8           **Q.   APART FROM WHAT YOU HAVE STATED ABOVE, WHY DO**  
9 **BELIEVE THAT FOR QWEST TO RAISE ITS WIRELINE PRICES WOULD**  
10 **REPRESENT MARKETING SUICIDE IN THE CURRENT MARKET PLACE?**

11           A.   In addition to the reasons discussed above, there  
12 is another condition in today's telecommunications  
13 marketplace that exemplifies how difficult and why such a  
14 price move might backfire on Qwest. Wireless providers are  
15 overtly promoting their services as a substitute for  
16 wireline services. One is the AT & T wireless advertisement  
17 run on January 26, 2003, during the Superbowl, which  
18 portrayed an *Antiques Roadshow* setting in which a wireline  
19 customer is told by an appraiser that his phone is worth  
20 nothing. (Appendix 1) A second example is a Cricket  
21 advertisement aired on local television station KTVB (NBC  
22 affiliate) on November 30, 2002. This advertisement's  
23 objective is clearly noted in its message:

1 "Everywhere you look home phones are being replaced by  
2 Cricket. Cricket service works just like your home  
3 phone with all the local calls you want for one low  
4 predictable price plus plenty of free long distance.  
5 So why pay for both? Cricket, it could be your only  
6 phone." (Appendix 2)  
7

8 **D. Reasonable Availability**

9 **Q. DO YOU AGREE WITH MR. HART'S ASSESSMENT THAT**  
10 **WIRELESS SERVICE IS REASONABLY AVAILABLE TO CUSTOMERS IN THE**  
11 **SEVEN EXCHANGES? (PAGE 27, LINE 9)**

12 A. Yes. He has accurately described exactly  
13 what we found in our survey. An overwhelming percentage of  
14 residential and small business customers feel that it is  
15 easy to get wireless service in their area and that there  
16 are a good number of choices of wireless service options.

17 **Q. DR. JOHNSON STATES "MORE THAN ONE-HALF OF ALL**  
18 **HOUSEHOLDS STILL DO NOT HAVE A MOBILE PHONE." (PAGE 41, LINE**  
19 **7) DO YOU AGREE WITH HIM?**

20 A. No. It is unclear what, if any, data he relied on  
21 to make this assertion. Our simple random sample based  
22 survey of households found that one or more persons in 67.2%  
23 of the households surveyed in the seven exchanges used a  
24 cell phone. This is over two-thirds of all respondents.  
25 Given our sample size of 402 respondents, we are 95%  
26 confident that the true penetration of cell phones within

1 households of the seven exchange areas falls between 62.3%  
2 and 72.1%.

3 **E. Staff's Research**

4 **Q. MR. HART REFERS TO CONVERSATIONS WITH STUDENTS AND**  
5 **YOUNG ADULTS IN HIS ASSESSMENT OF WIRELESS SERVICE QUALITY**  
6 **(PAGE 18, LINE 10-18). DO YOU FEEL HIS USE OF THIS INPUT IS**  
7 **VALID AND CAN THEREFORE AID THE COMMISSION IN ITS DECISION-**  
8 **MAKING PROCESS?**

9 A. I do not. To place credence on this type of non-  
10 scientific input would be grossly inappropriate. Such  
11 anecdotal information does not lead to meaningful, valid or  
12 reliable generalizations. I can state that in my one year of  
13 using Spring PC wireless that I have never experienced a  
14 dropped call or voice quality problems. But, this is  
15 unacceptable as evidence of the experience of an entire  
16 population. Similarly, what Mr. Hart purports to have found  
17 is totally invalid because he did not use scientific methods  
18 from which he could possibly generate valid information.

19 **Q. MR. HART ATTESTS THAT TO VERIFY THE ACCURACY OF**  
20 **THE CLAIMS MADE ABOVE, STAFF CONDUCTED A STUDY ON MARCH 17,**  
21 **2003 BY PLACING 50 CELL CALLS. DO YOU BELIEVE THAT THE**  
22 **ACCURACY OF SUCH CLAIMS HAS BEEN VERIFIED?**

1           A. No, not at all. Mr. Hart relied on what is  
2 commonly referred to as convenience sampling. This refers  
3 to a situation where the selection of the place and time of  
4 data collection results in respondents being chosen in a  
5 subjective rather than objective process. Convenience  
6 sampling is recognized as having significant potential to  
7 produce misleading (i.e., invalid) results.<sup>17</sup> This means  
8 that Mr. Hart's results should not be used to draw valid  
9 conclusions. His choice of what wireless service to "test"  
10 (i.e., Cricket) automatically influenced his findings. A  
11 valid test would have used a variety of services or, at a  
12 minimum, services that were randomly selected from those  
13 available in the marketplace. Additionally, the choice of  
14 day and the choice of time of day was one of convenience and  
15 without rationale. Again, a valid test would include a  
16 variety of days and times during which testing would occur.  
17 Imagine if an Albertsons grocery store wanted to know how  
18 satisfied its customers were with that store's products and  
19 services and attempted to do so by only interviewing those  
20 who shopped on Saturday morning between 9 AM and Noon and  
21 that they only interviewed customers who happened to pass

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<sup>17</sup> G.A. Wyner, "Representation, randomization, and realism," Marketing Research, Fall, 2001, pp. 4-5.

1 through the produce department. This would not give  
2 Albertsons a valid picture of overall customer satisfaction.

3 Another issue is the fact that what Mr. Hart chose to  
4 measure in this "test" was not developed in a scientific  
5 manner. The choice of what to measure and how to measure  
6 such occurred within a research vacuum. For example, his  
7 choice of measuring the time between pressing the send  
8 button on the wireless handset and the ringing of the  
9 wireline phone is unjustified. Why was this chosen to  
10 measure? Who says it is important enough to customers to  
11 prevent them from switching from wireline to wireless  
12 service? Where is the evidence in the literature that says  
13 this is how you measure wireless customer satisfaction?

14 I have many years of teaching, researching, and  
15 consulting in the field of customer satisfaction measurement  
16 and management. Mr. Hart's approach in this study is  
17 totally without merit and goes against an abundance of  
18 published customer satisfaction literature.

19 **Q. MR. HART BELIEVES THAT THE ABOVE DISCUSSED STUDY**  
20 **IS "SUFFICIENT TO BE GENERALLY CONSIDERED STATISTICALLY**  
21 **SIGNIFICANT." (PAGE 19, LINE 15-16) DO YOU AGREE?**

22 **A.** No. This statement demonstrates a lack of  
23 understanding about the term "statistically significant."

1 The term "statistically significant" is used in research to  
2 refer to situations where some measure is statistically  
3 compared to another measure. I see no evidence that Mr.  
4 Hart statistically compared anything to anything. Perhaps  
5 he is using this term to imply that his sample findings are  
6 representative of larger population. If so, this is  
7 certainly an inaccurate view. For the reasons already  
8 pointed out in my prior statements, this study was neither  
9 valid, nor did it produce anything which could be considered  
10 representative of the population of interest to this  
11 application (i.e., those living and/or working within the  
12 seven local exchanges).

13 As the editor of what is recognized as the most  
14 influential journal in the field of marketing education, I  
15 can assure you that if I received a manuscript based on this  
16 type of research, it would be desk rejected immediately and  
17 not even sent out for review by my peers. It would simply  
18 be a waste of both our reviewers' time and that of the  
19 author(s). If, on the other hand, Mr. Hart had carefully  
20 designed an experiment within which he attempted to measure  
21 consumer satisfaction with wireless versus wireline service  
22 performance, things might be different. With the correct  
23 experimental design, including well supported reasons for

1 his choice of independent variables (e.g., what brand of  
2 service, time of day, day of week, etc.) and his choice of  
3 dependent variables (e.g., call quality, time to place/make  
4 call, ease of making call, etc.), we might have something  
5 for which statistical differences could be measured and  
6 reported. None of this occurred in the purported attempt to  
7 verify the accuracy of the anecdotal claims found in his  
8 conversation with students and young adults. Of course, one  
9 must remember that such claims were not valid (i.e., true of  
10 the entire population) in the first place because of his use  
11 of convenience sampling. Therefore, any attempt to prove  
12 them as scientifically valid was basically bad research  
13 chasing bad research.

14 **Q. MR. HART CONCLUDES THAT CUSTOMERS OF FLAT-RATED**  
15 **WIRELESS SERVICE MUST MAKE A TRADEOFF BETWEEN THE**  
16 **CONVENIENCE AND FEATURES OFFERED BY WIRELESS CARRIERS AND**  
17 **THE (BETTER) QUALITY OF SERVICE PROVIDED BY WIRELINE**  
18 **CARRIERS. (PAGE 20, LINE 4-7.) DO YOU AGREE WITH THIS**  
19 **STATEMENT?**

20 **A.** No. This conclusion is at least partially  
21 predicated on the Staff test "study" involving 50 calls it  
22 made on a Cricket phone. As I have pointed out, that study  
23 cannot be construed to be valid using any scientific

1 criteria. As a result, Mr. Hart again offers a conclusion  
2 unsupported by any statistically meaningful data. It is  
3 also undermined by the fact that, as Mr. Shooshan and Mr.  
4 Teitzel point out, consumers continue to flock to cell  
5 phones. Were service quality as poor as Mr. Hart implies,  
6 this would not be the case, in my opinion.

7 Q. DO YOU AGREE WITH MR. HART'S VIEW THAT IT IS  
8 IDAHO'S CURRENTLY SLUGGISH ECONOMY THAT IS CAUSING QWEST'S  
9 WIRELINE BUSINESS TO SLOW OR ERODE? (PAGE 29, LINE 2-7)

10 A. I do not find any empirical support for such a  
11 statement in his testimony. This appears to be an  
12 unsupported hypothesis. One could just as easily argue that  
13 such economic factors should be reducing or inhibiting the  
14 sales of wireless services. But, I believe statistics  
15 provided by Mr. Teitzel and Mr. Souba in their testimony  
16 show how fast and extensive the penetration of wireless  
17 service has been in recent years in Idaho. If Mr. Hart  
18 contends that wireless is so much more expensive than  
19 wireline service and that the economy is "tough" right now,  
20 then why would the sales of wireless services be  
21 skyrocketing? The logic is simply not here.

22

23

**F. Consumer Input**

1 Q. WHAT IS YOUR OPINION REGARDING THE STATISTICAL  
2 VALIDITY OF THE CONSUMER INPUT THAT THE COMMISSION HAS  
3 RECEIVED REGARDING THIS APPLICATION? TO WHAT DEGREE SHOULD  
4 THIS INPUT BE USED IN DETERMINING IF EFFECTIVE COMPETITION  
5 AS DEFINDED BY IDAHO CODE § 62-622(3) EXISTS IN THE SEVEN  
6 LOCAL EXCHANGE AREAS?

7 A. I think it is very important that any constituent  
8 potentially affected by a Commission decision of this  
9 potential magnitude has an equal and fair opportunity to  
10 express his or her views and desires. I commend the  
11 Commission for having such a process and for its decision to  
12 actively reach out to constituents living in or around the  
13 areas where the three workshops were held. These methods  
14 for informal input are important for at least two reasons:  
15 (1) they provide an opportunity for citizens to voice their  
16 input and (2) they sometimes allow Staff to get a feel for  
17 the reasons behind why some consumers either favor or do not  
18 favor a particular decision. If the Staff considered this  
19 input to be valuable, Staff should have followed up by  
20 conducting formal scientific research to determine if the  
21 concerns or opinions expressed were statistically  
22 representative of the populations of interest in the subject  
23 exchange areas.

1           However, I must strongly advise against relying  
2 heavily on informal input as evidence because it: (1) has  
3 not been collected using valid scientific methods and (2)  
4 does not offer the number of observations (responses) needed  
5 to make statistical inferences about the larger population  
6 to be affected by the eventual decision.

7           Let me clarify the dangers of using this non-  
8 scientific input in a scientific manner. Those individuals  
9 who chose to provide input through these mechanisms or  
10 avenues do so on what researchers commonly refer to as a  
11 self-selection basis. In other words, they decided to come  
12 forward and say or write something. However, because the  
13 respondents were not selected using a probability-based  
14 methodology in which every respondent has an equal and known  
15 chance of involvement, we cannot assume these self-selected  
16 respondents are similar to the larger population of interest  
17 to this application (i.e., those living and/or working in  
18 the seven local exchange areas).

19           On the other hand, the 800 participants in our  
20 telephone surveys were selected using a probability sampling  
21 method. Every single household<sup>18</sup> and small business<sup>19</sup> with

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<sup>18</sup> Our sample frame or calling list was randomly generated from the list of 215,797 primary billing residential phone numbers.

<sup>19</sup> Our sample frame or calling list was randomly generated from the list of 26,183 primary billing small business phone numbers.

1 Qwest wireline service in the seven exchange areas had an  
2 equal and known chance of participating in our surveys.  
3 Probability sampling methods are one requirement of  
4 producing statistical inferences. Non-probability methods,  
5 such as voluntary input and/or convenience sampling, cannot  
6 guarantee such ability.

7       Even if one made the rather far-fetched assumption  
8 that the 38 people who filed written comments with the  
9 Commission were truly representative of all those living  
10 and/or working in the seven exchange areas, the sample size  
11 is so small that the statistical precision would be so wide  
12 that there is a significant chance that one could draw a  
13 false conclusion. For this application setting, there are  
14 two possible false conclusions that the Commission might  
15 make. One, the Commission might conclude that the statutory  
16 requirements for price deregulation have been met when, in  
17 fact, they have not. Or two, the Commission might conclude  
18 the requirements have not been met when, in fact, they have  
19 been.

20       In summary, using the self-selected group of 38 people  
21 to extrapolate results for the whole population cannot be  
22 justified. Apart from the non-characteristic nature of the  
23 respondents, the small sample size dramatically increases

1 the odds that any conclusions based on that data are not  
2 representative of the views of Idahoans living in the seven  
3 exchange areas. Decisions of this potential magnitude  
4 (affecting thousands of Idahoans) should not rely on data  
5 suffering from this level of imprecision.

6 This means that the Commission is much more likely **not**  
7 to make one of the two false conclusions discussed above if  
8 it places more weight on our survey findings than those of  
9 Mr. Hart's "study" or the solicited consumer input.

10 **III. CONCLUSION AND RECOMMENDATION**

11 **Q. PLEASE SUMMARIZE YOUR TESTIMONY.**

12 A. In my testimony I have provided evidence to  
13 demonstrate that Dr. Johnson's and Mr. Hart's measures of  
14 effective competition and their assessment of its presence  
15 in the seven exchanges is scientifically flawed and invalid.  
16 I have pointed out how both witnesses have either ignored or  
17 dismissed the voices of 800 Idahoans who, on several proven  
18 scientific bases, represent thousands of wireline customers  
19 either living and/or working in these exchanges.

20 **Q. WHAT IS YOUR RECOMMENDATION TO THIS COMMISSION?**

21 A. I recommend that the Commission approve Qwest's  
22 request for deregulation in the seven exchanges of Boise,  
23 Caldwell, Idaho Falls, Meridian, Nampa, Pocatello and Twin

1 Falls. I fully respect and appreciate the challenge the  
2 Commission faces in making this decision. In doing so, I  
3 would hope the Commission takes comfort in knowing that  
4 Qwest, by commissioning the survey research I oversaw, has  
5 allowed the affected constituents a fair and valid forum to  
6 voice the public's interest in this matter.

7 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

8 A. Yes.

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**January 26, 2003 - AT&T Wireless "Superbowl Ad"**

ANTIQUUE BAND WAGON

(Sitting at table with appraiser holding desktop push button telephone with hard wire attached)

Appraiser: "This is what was once called a telephone, back here, this is something once referred to as a wire"

Man: "A wire..."

Appraiser: "People would actually be tethered to the wall."

Man: "That's weird."

Appraiser: "Do you know how much this worth?"

Man: "No" (shaking head)

Appraiser: Diddley squat ( \$0 displayed)

Announcer: "Dag gum it."

Announcer: "When your wireless phone can be your only phone, that's M-Life from AT&T Wireless."

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**CRICKET COMMERCIAL PROMOTING USE OF  
WIRELESS PHONE FOR SOLE-SOURCE SERVICE**

Aired SAT, NOV. 30, 2002 - BOISE, ID  
KTVB, CHANNEL 7 NBC

(Visual - telephones leaving homes, going down  
streets and going off cliff)

Everywhere you look home phones are being replaced  
by Cricket. Cricket service works just like your  
home phone with all the local calls you want for  
one low predictable price plus plenty of free long  
distance. So why pay for both? Cricket, it could  
be your only phone.

Visual at end of commercial:  
Cricket  
Unlimited local calling  
500 long distance minutes  
\$39.99 a month plus tax

Running Time: approx. 30 seconds

**CERTIFICATE OF SERVICE**

I hereby certify that on this 21<sup>st</sup> day of April, 2003, I served the foregoing **REBUTTAL TESTIMONY OF DOUGLAS J. LINCOLN, PH.D. ON BEHALF OF QWEST CORPORATION** upon all parties of record in this matter as follows:

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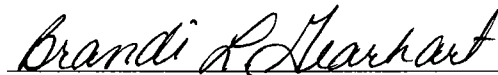
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