Exhibit No. ____ (RAS-1T)

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON EXCHANGE CARRIER ASSOCIATION, et al., Complainants, v. LOCALDIAL CORPORATION, Respondent.	Docket No. UT-031472

DIRECT TESTIMONY OF

ROBERT A. SMITH

ON BEHALF OF

WASHINGTON EXCHANGE CARRIER ASSOCIATION

February 27, 2004

IDENTIFICATION OF WITNESS

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS?

A. My name is Robert A. Smith. I am Director of Regulatory and Governmental Affairs for the Tenino and Kalama Telephone Companies.

Q. COULD YOU BRIEFLY SUMMARIZE YOUR BACKGROUND IN THE TELECOMMUNICATIONS INDUSTRY?

A. I have been employed in my current position by the Tenino and Kalama companies for the past four years. I began my career with Pacific Telecom Inc., (PTI), or its predecessor companies in 1966. I held the positions of Field Engineer, Accounting Manager, Assistant Treasurer and Settlements Manager, Cost Studies Manager, Manager of Access Charges and Toll Settlements, and Director – External Affairs. PTI was subsequently acquired by CenturyTel at which time I became Director of Revenue Strategies in the CenturyTel Service Group and held that position until I left the Company in December of 1999.

I was the lead instructor for the United States Telephone Association's Cost Separations School for three years and I was a member of the National Exchange Carriers Association (NECA) Access Procedures Committee which drafted the original Part 69 cost allocation rules and developed the NECA Part 67/69 cost allocation model. I participated as a member of the NECA USF Industry Task Force and the USTA Regulatory Methods Sub-Committee. I served as the President of the Washington Independent Telephone Association (WITA) for four

years. I was the Chairman of the Oregon Exchange Carrier Association (OECA) from 1986 through 1999. I am currently the President of the Washington Exchange Carrier Association (WECA) and have held this position since 1990.

Q. HAVE YOU PREVIOUSLY APPEARED AS A WITNESS IN PUBLIC UTILITY COMMISSION PROCEEDINGS?

A. Yes. I have testified on numerous occasions before the Washington Utilities and Transportation Commission. I have also testified before the Alaska, Colorado, Montana, Oregon and Wyoming commissions.

PURPOSE OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to provide some history as to the development of the current access charge system in the state of Washington, to discuss the policy behind access charges and to provide my view of the LocalDial operations.

Q. WHAT IS THE PURPOSE OF ACCESS CHARGES?

A. As I noted in my introduction, I was a member of the Committee which drafted the original Part 69 cost allocation rules. What happened with the advent of competition in the long distance or toll market was an end to the old separations and settlements process. This brought about a need to develop a new intercarrier compensation mechanism. What developed is a system of access charges.

The original rules were developed in 1983 on the interstate level and allocated costs between the interstate jurisdiction and the intrastate jurisdiction. Shortly after that, Washington adopted similar rules that allocated costs between access and local service. Thus, under the cost allocation rules a certain portion of costs are allocated to the federal jurisdiction and a certain portion are allocated to the state jurisdiction. Following similar cost allocation rules as adopted by the state commission, a portion of the intrastate costs are allocated to intrastate access.

Since interexchange companies, as a general rule, use the local network constructed by the local exchange carrier to originate calls from their customers and to terminate calls to destinations their customers want to reach, the access charges are meant to recover a portion of the costs of that LEC network that benefits the interexchange companies for their origination and termination of calls.

Obviously, this system is more complex than I have just described. However, the foregoing does describe the basic underlying purpose of access charges.

Q. IS THIS THE SYSTEM FOLLOWED IN THE STATE OF WASHINGTON TODAY?

A. Yes and no. There are still cost allocation rules in place and the companies do follow those rules. However, with the creation of the Washington Carrier Access Plan or WCAP, strict recovery of the access costs through access rates that change based upon specific company cost studies is no longer in place. Instead, under the

WCAP a Revenue Objective is set for each company. A copy of the WCAP is attached to my testimony as Exhibit No.____ (RAS-2). Mr. Phillips will testify in more detail concerning the operation of the pools in the WCAP.

Q. HOW HAS THE POOL BEEN PERFORMING?

A. Unfortunately, the pool has not met its Revenue Objective in any of the recent years.

Q. WHAT IS THE ADVANTAGE OF THE WCAP?

A. The advantage of the WCAP is a reduction in regulatory expense. The details of cost allocation studies can be quite contentious and can result in large sums of money being spent in regulatory proceedings. Through the use of a Revenue Objective under the WCAP, there is a savings in these regulatory transaction costs.

Q. WHAT ARE THE RISKS OF THE WCAP?

A. Under the WCAP, there is a premium on capturing all of the minutes that are used to originate and terminate long distance calls and assessing access charges on those minutes. Obviously, if minutes are not captured, if there is some by-pass mechanism occurring, the Revenue Objectives will not be met.

Another risk is that for most small companies, the telecommunications business is not a declining cost business. This means that there should be growth in access minutes to help recover the increasing costs that are associated with the intrastate

access cost allocation bucket. If there is not, then a static access rate means that even if the Revenue Objective is met, the entire cost recovery may not occur.

Q. CAN THE INCREASE IN ACCESS COSTS BE RECOVERED AT THE INTERSTATE LEVEL?

A. No. Intrastate access costs cannot be recovered at the interstate level. The cost allocation rules prohibit allocating the portion related to intrastate operations to the interstate jurisdiction. That is the precise purpose of the cost allocation rules, to allocate an appropriate level of costs between jurisdictions.

Q. IS THE WECA POOL THE ONLY INTRASTATE ACCESS MECHANISM?

A. No. The WECA pool is only part of the story. Each WECA member company has traffic sensitive access rates that are contained in its tariff concurrence in the WECA traffic sensitive tariff.

Q. WHAT IS YOUR OPINION OF LOCALDIAL'S OPERATIONS?

A. Based on the description of their operations contained in the depositions of its officers and material from LocalDial's website, LocalDial's operations are similar in nature to any long distance company. It is slightly more complicated than the standard interexchange operation in that it is a two-call system. However, functionally LocalDial is offering long distance service.

Q. PLEASE EXPLAIN.

A LocalDial uses the local networks of LECs to originate calls. The LocalDial customer picks up the phone in their home and dials an access number for LocalDial. Once LocalDial authenticates that the caller is a LocalDial customer, the customer is given a prompt to dial the number they want to call, the "destination number," and upon the customer dialing that number, LocalDial completes the call and the customer talks to the person that they desired to reach. The call reaches the "destination" either over two-way PRIs leased from CLECs or it is handed off to an underlying IXC on a resale basis. The call is terminated over the LEC's network just like any other long distance call is terminated.

Q. DOES THE FACT THAT LOCALDIAL USES LEASED FACILITIES FOR THE TRANSPORT OF ITS CALLS MAKE A DIFFERENCE?

A. No. Interexchange companies use a variety of mechanisms to transport their calls. It may be that they transported over networks that they themselves build. It may be that they lease facilities such as dark fiber. It may be that they purchase special access for dedicated facilities. In this case, the method chosen by LocalDial is simply to purchase leased facilities, the PRIs or DS1s, between locations where it wants to offer service. LocalDial's use of an underlying IXC to terminate calls to locations where it does not have leased facilities looks just like any other reseller of long distance service. Attached as Exhibits Nos. _____ (RAS-3), (RAS-4) and (RAS-5) are diagrams showing LocalDial's traffic flows.

Q. HOW DO THE CALLS FROM THE WECA MEMBER COMPANIES' SERVICE AREAS GET TO LOCALDIAL?

A. Over EAS networks. LocalDial has "local" numbers in a variety of Qwest and Verizon exchanges. This is the local access number that the customer dials to get to the LocalDial network and to LocalDial's facilities in Seattle where their call is authenticated. Given that the NPA/NXX for the numbers used by LocalDial are associated with Qwest or Verizon exchanges, the only way calls from WECA members can get to a LocalDial number, without an IXC other than LocalDial carrying the call, is over an EAS network that has extended area service calling into the area associated with that LocalDial telephone number.

What happens is that LocalDial's service is using the WECA member companies' networks to originate and terminate long distance calls, but bypassing the access network by having those calls routed over the EAS network.

Q. LOCALDIAL STATES THAT IT IS USING IP TECHNOLOGY. DO YOU AGREE?

A. I certainly do not contest their statements that on their local area network or LAN, they convert the TDM message to packets and then convert the call back to TDM when it leaves their LAN for call termination. However, their equipment is functioning no more or less than a toll tandem would do. The traffic is brought in and concentrated at their facility in the Westin Building in Seattle. Their

equipment then determines how the traffic should be routed for call termination. In a simplified format, this is exactly what a toll tandem does.

The fact that the traffic is packetized for a short period of time makes no difference in its functionality. The call is still a long distance call. LocalDial uses a two-call system. However, the call is still a long distance or toll call.

Long distance companies, and local companies for that matter, use compression techniques and filter techniques to improve quality of voice traffic. That does not make those calls exempt from access charges.

Q. DOES THE USE OF THE INTERNET FOR CALLS FROM SOUTHWEST WASHINGTON MAKE A DIFFERENCE IN YOUR VIEW?

A. No. First, for most of the time in question, LocalDial transported calls originating in the Vancouver and Longview-Kelso areas over leased facilities just like it did any other call, except the call first went to Portland and then went over leased facilities to Seattle. Apparently, sometime between July and October of 2003, LocalDial began transporting the calls once they got to Portland to Seattle over an Internet pathway. LocalDial calls this their wide area network or WAN.

This does not change the result that functionally what is happening is that a voice call is originated from one location and terminated to a distant location as a voice call. The fact that LocalDial chooses to transport a portion of the call over the

Internet as part of its WAN, rather than through leased facilities, simply demonstrates that the Internet is one choice of a number of transport mechanisms. It does not change the nature of the call.

Q. WHY SHOULD LOCALDIAL BE SUBJECT TO PAYING ACCESS CHARGES?

A. It is functioning as a long distance company. Its own website contains a description of itself as a long distance provider. I have attached excerpts of its website as Exhibit No.____ (RAS-6). LocalDial is representing itself to the public that it provides long distance service. LocalDial offers that service for a fee. LocalDial is using WECA members' networks to originate and terminate long distance calls. LocalDial should be paying access charges.

Q. WHY IS THIS IMPORTANT TO WECA MEMBERS?

A. As I have explained above, capturing all of the minutes that are used for long distance service for traffic that originates from WECA member service areas or terminates to WECA member service areas is a very critical part of the current compensation mechanism for those companies. The WECA member companies have spent huge sums of dollars to provide high quality networks. Other carriers that use those networks to benefit their own services should compensate the WECA members for that use. Under today's compensation mechanisms, the appropriate and lawful mechanism is access charges. The WECA members rely

on those revenue streams to be able to continue to provide high quality service in their largely rural areas that they serve.

Q. DOES THAT CONCLUDE YOUR TESTIMONY?

A. Yes, for the present time.