Exhibit No.__THC(HJR-1T)HC
Docket No. UT-081393
Witness: Henry J. Roth

BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION

VERIZON SELECT SERVICES, INC.; MCIMETRO ACCESS TRANSMISSION SERVICES, LLC; MCI COMMUNICATIONS SERVICES, INC.; TELECONNECT LONG DISTANCE SERVICES AND SYSTEMS CO. d/b/a TELECOM USA; AND TTI NATIONAL, INC., Complainants, v. UNITED TELEPHONE COMPANY OF THE NORTHWEST, d/b/a EMBARQ Respondent.	**DOCKET NO. UT-081393**

RESPONSIVE TESTIMONY OF HENRY J. ROTH

ON BEHALF OF UNITED TELEPHONE COMPANY OF THE NORTHWEST, D/B/A EMBARQ

April 17, 2009

PUBLIC VERSION

HIGHLY CONFIDENTIAL PER PROTECTIVE ORDER
IN
UTC DOCKET UT-081393

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I. INTRODUCTION

Q. Please state your name and your business address.

A. My name is Henry (Hank) Roth. My business address is 5454 West 110th Street, Overland Park, Kansas 66211.

Q. By whom are you employed and what is your position?

A. I am employed by Embarq Management Company as Director – Economic Costing in the Finance Department.

Q. Please describe your educational background and work experience.

A. I received a Bachelor of Science degree from The Ohio State University in December, 1979 with majors in Finance and Accounting. I have worked for Embarq and its predecessor companies for twenty-nine years from 1980 to the present. From 1980 to 1988, I worked for United Telephone Company of Ohio through a series of positions in Accounting and Network. In 1988, I started working at Corporate Staff for United Telecommunications, Inc. which shortly thereafter purchased controlling interest in Sprint. From 1990 to 1997, I worked in the Long Distance Division of Sprint providing financial decision support to both Data and Voice Product Management groups. From 1997 to March of 2008, I worked in Network and was responsible for the development, execution and tracking of the Embarq's annual capital plans. Since March 2008, I manage a work group of 19 people who perform economic cost of service studies for retail and wholesale services.

Q. What are your present duties and responsibilities?

A. My responsibilities include developing and implementing cost study methods that comport with Total Service Long Run Incremental Cost ("TSLRIC") and Total Element Long Run Incremental Cost ("TELRIC") methodologies. I am responsible for written and oral testimony, serving on industry work groups, and participating in technical conferences related to TSLRIC/TELRIC costing methodologies, filing of studies within 18 individual states that comprise Embarq's local telephone operating companies, and providing cost expertise to Embarq's participation in regulatory cost dockets.

Q. Have you testified before any regulatory commissions?

A. Yes. I have previously testified before the State Corporation Commission of Virginia and have pre-filed direct testimony before the State of New Jersey Board of Public Utilities as well as before the State Corporation Commission of the State of Kansas.

Q. On whose behalf are you testifying?

A. I am testifying on behalf of United Telephone Company of Northwest d/b/a Embarq ("United").

Q. Was this testimony prepared by you or under your direct supervision and control?

A. Yes. Both my testimony and the cost study undertaken in support of my testimony were prepared by me or prepared under my direct supervision and control. United's cost study is based on Embarq's Economic Cost Model ("ECM"). The ECM addresses comprehensively the cost of the loop, switching and interoffice transport network components as well as expense studies. Please refer to the Table of Contents listing my exhibits.

II. PURPOSE OF TESTIMONY

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to present to the Commission the results of a cost study and an associated analysis conducted by United in response to a complaint filed by Verizon Select Services, Inc.; MCIMetro Access Transmission Services, LLC; MCI Communications Services Inc.; Teleconnect Long Distance Services and Systems Co., d/b/a Telecom USA; and TTI National Inc. ("Verizon"). My testimony supports United's position that its current intrastate switched access rates in the state of Washington are just and reasonable. In addition, I will present an analysis comparing the costs of providing intrastate switched access services with the revenues generated by intrastate switched access services. The cost study is appended to my testimony at Exhibit No._HC(HJR-4HC). I will explain how the services sold by the interexchange carriers ("IXCs") require the use of United's local loop and how United is unable to fully recover costs from end-users for the cost of basic local service. Therefore, it is just and reasonable for IXCs to pay for their use of United's loop. Finally, I will address direct testimonies respectively submitted by Lawrence J. Bax on behalf of AT&T Communications of the Pacific Northwest, Inc., TCG Oregon, Inc. and TCG Seattle, Inc. ("AT&T") and Paul B. Vasington on behalf of Verizon Select Services, Inc.; MCIMetro Access Transmission Services, LLC; MCI Communications Services Inc.; Teleconnect Long Distance Services and Systems Co., d/b/a Telecom USA; and TTI National Inc. ("Verizon").

Q. How is your testimony structured?

A. My testimony consists of 27 pages of testimony along with attached exhibits, including the cost study at Exhibit No._HC(HJR-4HC). My testimony is specific to United in Washington. First, I will present United's intrastate switched access service costs and show how these costs exceed the revenue associated with these services in Washington, therefore, concluding United's current intrastate switched access rates are just and reasonable. Second, I will demonstrate how revenue for regulated retail services are below costs thus demonstrating why it is just and reasonable for AT&T and Verizon to pay for their use of the loop. Third, I will respond to several issues in the pre-filed direct testimonies of AT&T and Verizon. In this regard, from a costing standpoint, I will address why simply mirroring another ILEC's intrastate access rate or mirroring interstate rates is not appropriate for United in the state of Washington and why evaluating costs is fundamental to the process of balancing the primary goals of the 1996 Telecom Act. I will highlight several reasons why United has different cost characteristics from either Verizon Northwest or Qwest. And, finally, I will present United's TSLRIC cost study.

III. UNITED INTRASTATE SWITCHED ACCESS SERVICES

Q. AT&T witness Mr. Bax at page 3 of his direct testimony references United's intrastate switched access charges as "excessive, unjust, unfair and unreasonable". Verizon witness Mr. Vasington at page 4 of his direct testimony characterizes United's rates as "unjust and unreasonable". Do you agree?

A. No. The cost study appended to my testimony at Exhibit No._HC(HJR-4HC) shows that United's intrastate switched access rates are not excessive and are just, fair and reasonable when compared to United's costs using Washington-specific data. Witnesses Mr. Felz and Mr. Dippon also address the just and reasonableness of United's existing rates in their respective testimonies submitted on behalf of United.

Q. Mr. Bax from AT&T states at page 23 of his direct testimony that there is no need for United to produce a cost study in this proceeding. Mr. Vasington of Verizon simply conjectures that rates could be substantially lower without any cost evidence. Do you agree with these approaches in evaluating intrastate switched access rates?

A. No, I do not agree. AT&T has recommended that United's intrastate access rates be reduced to match its interstate rates "which are apparently quite sufficient to recover costs"[1]. Verizon advocates that the Commission "order United to mirror Verizon Northwest's intrastate access rates"[2]. Clearly, a cost study is responsive to the claims made and recommendations sought by AT&T and Verizon in this proceeding. A cost study produces hard facts. It does not look at inapplicable surrogate cost metrics (e.g. interstate, Qwest or Verizon NW rates) and does not focus on one specific component of an overall picture (i.e. access charges, rate rebalancing, and/or universal service). While not a substitute for a rate case, any Commission review of whether United's current intrastate access rates are just and reasonable must include a review of United's costs.

Q. What did your study reveal about United's intrastate switched access service?

1 Bax Direct Testimony, page 23

2 Vasington Direct Testimony, page 31

A. United's weighted average cost to provide intrastate switched access service in Washington is **[BEGIN HIGHLY CONFIDENTIAL]** $[redacted] per minute **[END HIGHLY CONFIDENTIAL]**. The corresponding average per minute revenue for intrastate switched access service is **[BEGIN HIGHLY CONFIDENTIAL]** $[redacted] per minute **[END HIGHLY CONFIDENTIAL]**. I have included in my testimony, at Exhibit No._HC(HJR-2HC), page 1, a summary of the individual intrastate switched access component costs. These costs equate to **[BEGIN HIGHLY CONFIDENTIAL]** $[redacted] **[END HIGHLY CONFIDENTIAL]** per month per line. The average monthly per line revenue generated by intrastate switched access is **[BEGIN HIGHLY CONFIDENTIAL]** $[redacted] **[END HIGHLY CONFIDENTIAL]**. United's intrastate switched access service revenues are less than the total of its switched access costs. Table 1 below summarizes the revenue and cost for United's intrastate switched access service.

[BEGIN HIGHLY CONFIDENTIAL]

Table 1

Intrastate Switched Access Service	**Per MOU**	**Monthly Amounts per Line**
Revenue	$ [redacted]	$ [redacted]
Costs	$ [redacted]	$ [redacted]
Shortfall	$[redacted]	$ [redacted]

[END HIGHLY CONFIDENTIAL]

Q. You stated above that AT&T and Verizon sell services that require United's local loop. Can you explain?

A. Yes. As United's Washington intrastate tariff for Switched Access Services demonstrates, there are three rate categories which apply to Switched Access Service;

Switched Transport, Local Switching, and Common Line. Provisioning of the Common Line for Access Services is defined as "….. the Telephone Company will provide the use of Telephone Company common lines by a customer for access to end users..".[3]

Q. Do Verizon's and AT&T's witnesses acknowledge that intrastate switched access requires the use of United's loop plant network?

A. Yes. Verizon and AT&T are clear that intrastate switched access service requires the use of United's local loop. Verizon provides a diagram which shows the components, including "common line" which defines access service.[4] AT&T also states that "Access service offers nothing more than the temporary use of LEC facilities to transport and switch the toll call between the toll carrier and its customer".[5] However, given the high-cost, rural nature of United's territory in the State of Washington, United is unable to recover fully the cost for the local service network from their local end-user customers. Clearly, it is just and reasonable for IXCs to pay for their use of United's local loop.

Q. Has the Washington Commission acknowledged that local loop plant is used by multiple services?

A. Yes. In their ruling on cost study issues in a rate case proceeding involving Qwest (Washington Utilities and Transportation Commission v. U.S. West Communications (Qwest), Docket NO. UT 950200), the Commission ruled: "The local loop facilities are required for nearly every service provided by the Company to a customer. Neither local

3 Tariff WN U-9, United Telephone Company of the Northwest, ACCESS SERVICE 3.3.1

4 Vasington Direct Testimony, page 5

5 Bax Direct Testimony, page 3

service nor in-state long distance service nor interstate long distance nor vertical features can reach a customer without the local loop."[6]

Q. Does your cost analysis include a method of assigning the local loop plant cost to intrastate switched access services?

A. Yes, it does. Since the service which AT&T and Verizon sell to their customers requires the use of United's local loop plant network, I have appended to my testimony at page 2 of Exhibit No._HC(HJR-2HC) the calculation of an assigned cost for use of the local loop. The assignment starts with 75% of the total monthly loop cost assigned to intrastate services. Then based on a study of actual end user switching usage, I have assigned **[BEGIN HIGHLY CONFIDENTIAL]** [redacted]% **[END HIGHLY CONFIDENTIAL]** of the intrastate local loop cost to intrastate switched access services which I then convert to a minute-of-use (MOU) rate. The resulting cost per minute is **[BEGIN HIGHLY CONFIDENTIAL]** $[redacted] **[END HIGHLY CONFIDENTIAL]** for the use of the local loop.

IV. UNITED INTRASTATE REGULATED RETAIL SERVICES

Q. In this complaint, Verizon alleges that United's intrastate access rates are unjust and unreasonable. Why then is it necessary to examine the costs and revenues associated with intrastate switched access service <u>and</u> basic local exchange service?

A. In Washington, it is necessary to undertake analyses for both intrastate switched access service and basic local exchange service. As more thoroughly described in the testimony

6 Washington Utilities and Transportation Commission v. U.S. West Communications, Inc., Docket NO. UT-950200 Fifteenth Supplemental Order, Page 83 - 84

of United witness Mr. Dippon, regulated access rates are part of a holistic rate structure aimed at providing available and affordable basic local telephone service to all U.S. citizens. (Dippon page 8) A complete TSLRIC cost study incorporates the costs of the switching, transport and local loop operations from which the monthly recurring cost for intrastate regulated retail services is developed. It is important to examine basic local exchange service to determine if support is required to cover costs and how much support is needed, if any. Only then can we determine if switched access rates are set at levels that will both cover the costs of access service and provide for any needed support of local exchange service.

This testimony includes a full cost study that incorporates the costs of the switching, transport and local loop operations from which the monthly recurring cost for intrastate regulated retail services was developed. As an ILEC operating in Washington, United has carrier of last resort obligations requiring it to provide telecommunications services to all customers in its serving territory, no matter the cost, as more fully addressed by Mr. Dippon and Mr. Felz. From a costing standpoint, what this means is that these regulatory obligations influence the actual total cost to United to build and maintain a robust network compliant with United's carrier of last resort obligation and the policy of universal service at affordable rates, as further addressed by Mr. Dippon and Mr. Felz. The most significant impact to costs is on a per-unit basis as United must recover the fixed cost nature of its telecommunications network over decreasing demand.

Q. What did the results of your study reveal about United's intrastate regulated retail services?

A. United's service territory in Washington has low customer density. Also, the terrain in United's service territory is rocky and mountainous. Therefore, United incurs high costs to provide service and to maintain its network in this area. United's average cost to provide intrastate regulated retail service in Washington is **[BEGIN HIGHLY CONFIDENTIAL]** $[redacted] **[END HIGHLY CONFIDENTIAL]** per month per line. The average monthly revenue generated by basic local exchange and other relevant services is **[BEGIN HIGHLY CONFIDENTIAL]** $[redacted] **[END HIGHLY CONFIDENTIAL]** per month per line, or **[BEGIN HIGHLY CONFIDENTIAL]** $[redacted] less **[END HIGHLY CONFIDENTIAL]** per line than the monthly cost. The costs are derived from United's cost study while the revenues represent the revenues for providing intrastate regulated retail services to the customer base represented in the cost study. The revenues include basic local service including custom calling features (i.e. vertical services), state toll, intrastate switched access, and reciprocal compensation.[7] Table 2 below summarizes the revenue and cost for United's intrastate regulated retail service.

[BEGIN HIGHLY CONFIDENTIAL]

Table 2

Intrastate Regulated Retail Service	**Monthly Amounts per Line**
Revenue	$ [redacted]
Costs	$ [redacted]
Shortfall	$ [redacted]

[END HIGHLY CONFIDENTIAL]

7 The revenues exclude non-switched service revenues as well as special access revenues.

Most significant is the support required for residential basic local service. Residential basic local service revenues are short of costs by **[BEGIN HIGHLY CONFIDENTIAL]** $[redacted] **[END HIGHLY CONFIDENTIAL]** per line. Residential lines are **[BEGIN HIGHLY CONFIDENTIAL]** [redacted]% **[END HIGHLY CONFIDENTIAL]** of United's local lines in Washington. In addition, the aggregate revenues for business basic local service are less than the cost. I have appended to my testimony a summary of my results, appearing in Exhibit No._HC(HJR-2HC), Page 3. Revenue for intrastate switched access services are included in the per line amounts. This shows that, even with the inclusion of revenues associated with switched intrastate access services, the overall intrastate regulated retail services revenue is significantly less than the applicable costs. Of course, any reduction to United's intrastate switched access rates increases the need for significant support for basic local services. In other words, the less revenue support provided to basic local services from intrastate switched access services due to reductions in those access rates, the greater the need for additional revenues to support basic local services. For a carrier serving low density, high-cost areas of Washington, the existing cost support provided by intrastate switched access service is and remains absolutely critical.

Q. Did the analysis presented above take into account the impact of United's terminating universal service fund access rate?

A. Yes it did. This analysis includes United's universal service fund rate that recovers a residual amount of terminating revenues.[8] Excluding the revenues generated by the

8 WAC 480-120-540 (3)

universal service fund rate would produce an even greater shortfall of approximately **[BEGIN HIGHLY CONFIDENTIAL] $[redacted] [END HIGHLY CONFIDENTIAL]** per line.

Q. Do you expect that United's costs will decline?

A. No, I do not expect United's costs to decline. United is no different than any other company in Washington or the United States that has been impacted by increases in the costs of labor (including health care), commodities, and energy which must continue to be managed. The net effect of these factors is continued upward pressure on costs on a per unit basis.

Q. Are the costs for regulated intrastate basic local service the same across all of United's Washington territory?

A. No, United's costs across Washington vary due to the nature of our footprint. In general, the less dense the wire center, the higher the costs we incur. For example, a Washington *residential* line in United's territory has an average intrastate cost per line of **[BEGIN HIGHLY CONFIDENTIAL] $[redacted] [END HIGHLY CONFIDENTIAL]** per month. However, costs in United's 31 exchanges range from a high of **[BEGIN HIGHLY CONFIDENTIAL] $[redacted] [END HIGHLY CONFIDENTIAL]** per month for a mountainous rural area to a low of **[BEGIN HIGHLY CONFIDENTIAL] $[redacted] [END HIGHLY CONFIDENTIAL]** per month for a residential line in a more populous area of United's Washington service territory. I have appended to my testimony, in Exhibit

No._HC(HJR-2HC), page 4 a schedule of monthly per line intrastate revenue and costs for United's 31 wire centers in Washington.

Q. What primary factors influence United's costs of providing basic local exchange service?

A. The primary factors that impact United's per unit costs are density, distance and economies of scale.

- Density, defined as loops per square mile, is the biggest driver of costs because it determines over how many units the infrastructure and associated fixed costs can be spread. Urban wire centers, as can be expected, are denser than rural wire centers. In Washington, United has an average density per wire center of 9 loops per square mile while Verizon NW (Verizon's ILEC affiliate operating in Washington) has 40 loops per square mile and Qwest has a very dense 118 loops per square mile.[9] Figure 1 below represents the average loop density per 1 square mile of a United wire center. Figures 2 and 3 represent the average loop density per 1 square mile of Verizon NW and Qwest wire centers respectively. For demonstrative purposes, I have used a $100,000 investment for the wire center and have shown below how fixed investment costs can be reduced by many multiples when spread across a much denser area.

9 Density statistics source is the fourth quarter, 2007 USAC report.

Figure 1

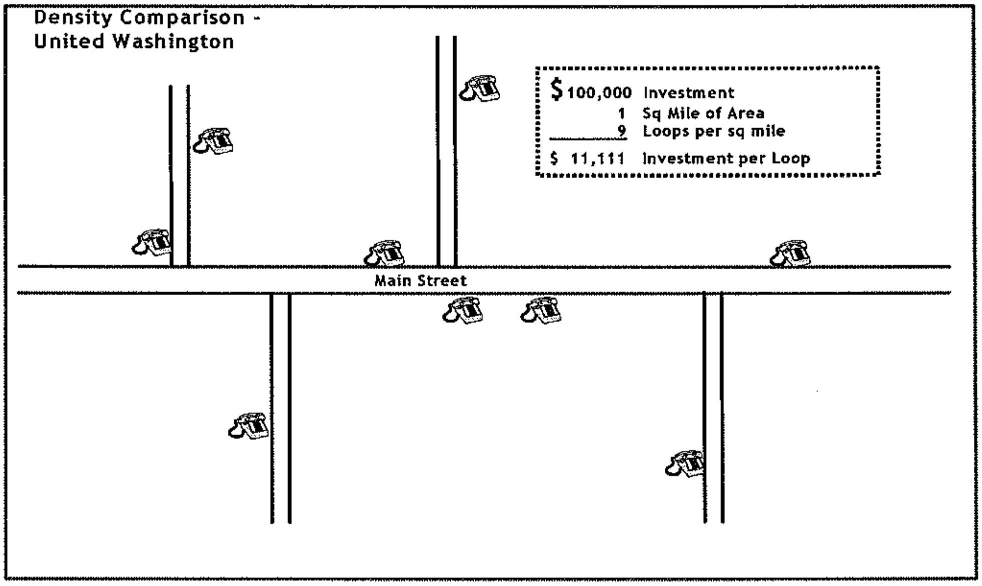


Figure 2

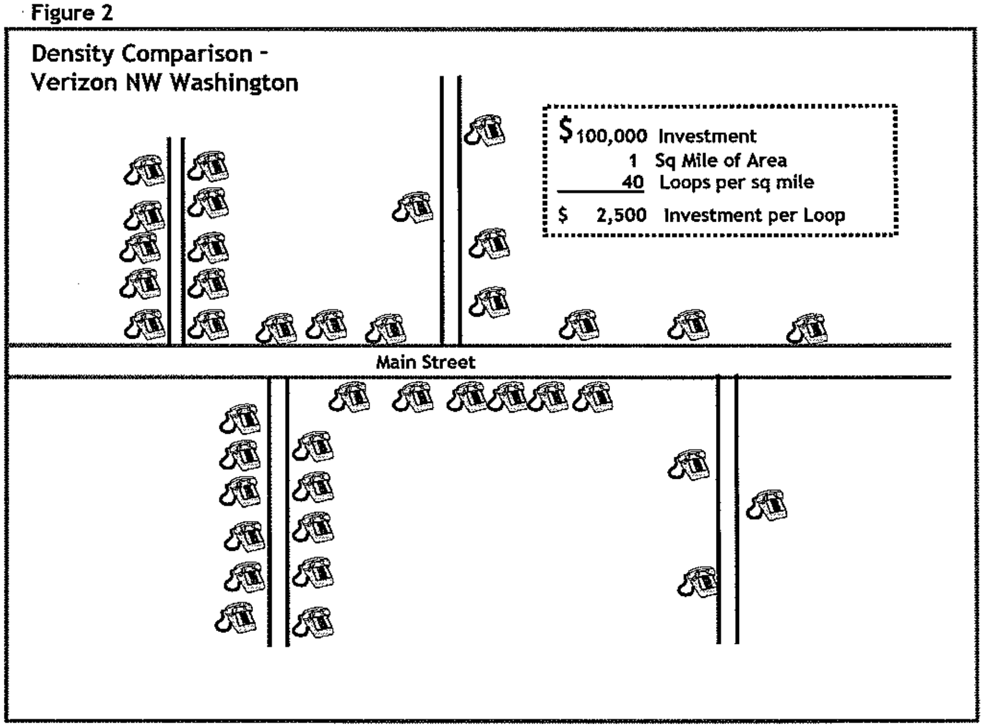
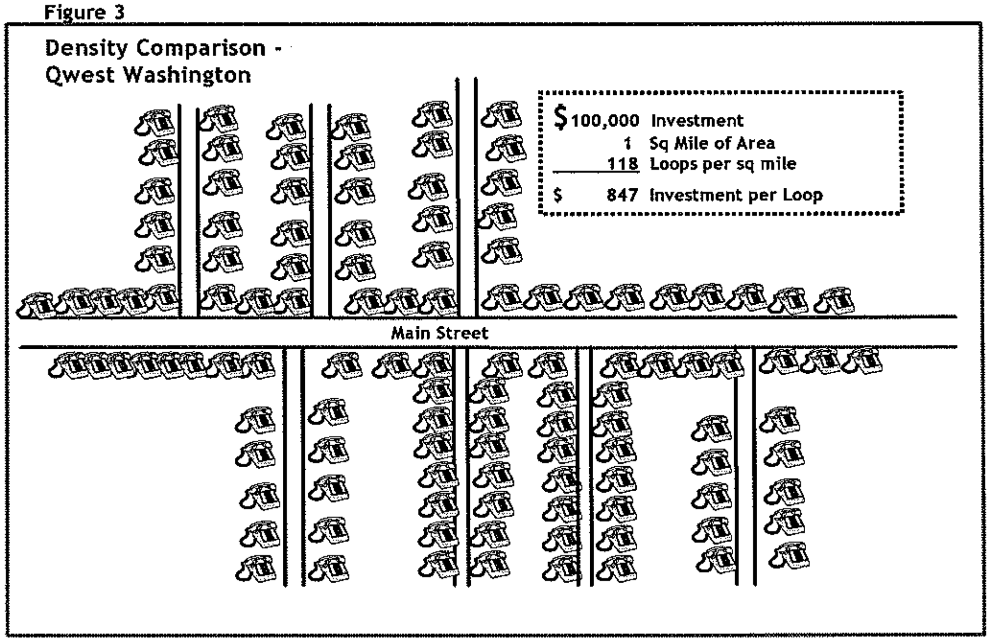


Figure 3



- Distance also drives cost. In United's specific situation, this factor is manifested in the average amount of cable sheath feet required per loop which is 224 feet in Washington. To put this into perspective, consider that Qwest requires an average of only 161 feet per loop.[10] The more investment required per revenue generating unit obviously causes the need for higher revenue per unit. Also, longer distances are likely to require higher maintenance expense per loop.

- Economies of scale are realized based on the size of a business entity's purchasing power and thus allows for either cost advantage or disadvantage. No matter how efficiently United is able to run its operations, it cannot be expected to achieve the same per-customer cost economies in purchasing power compared to

10 2007 ARMIS.

ILECs the size of Verizon NW or Qwest. The major advantage of having large economies of scale is vendor equipment pricing for items such as switch equipment, cable materials, digital loop electronics and virtually all material items. It is commonly understood that volumes purchased are one of the foremost criteria in vendor equipment price negotiations. It is without question that Verizon NW's and Qwest's plant in-service and capital expenditures scale advantages require vendor equipment and material purchase volumes that are many times greater than those of United. As a result, larger ILECs can command considerably lower vendor equipment prices.

These factors (i.e., density, distance, and economies of scale) are the basis for the unique cost characteristics each provider exhibits. These factors when populated with facts further demonstrate that an intrastate access rate unique to each provider's costs must be maintained.

Q. Are Verizon NW's or Qwest's intrastate switched access rates the appropriate level for United's intrastate switched access rates in Washington?

A. No. From a costing standpoint, United's intrastate access rate should not be set at Verizon NW's or Qwest's rate levels. A rate unique to each provider should be established since a provider's costs vary across Washington due to the nature of each provider's cost characteristics (e.g., customer density, distance/terrain, and economies of scale) associated with its service territory footprint. The intrastate access rate for each ILEC should be established based on individual ILEC costs and other factors experienced by that provider. United does not serve any metropolitan areas, whereas Verizon NW and Qwest each serve large, dense communities like Seattle, Tacoma, Bellevue, Everett, Spokane, and Olympia, for example. In contrast, United's largest communities are still small by comparison including cities like Poulsbo, Sunnyside, Grandview, Prosser, Toppenish, Goldendale, White Salmon, and Stevenson. In fact of the 31 United-served wirecenters, 18 have fewer than 1,000 lines. For all of the reasons identified above, United has completely different cost characteristics from either Verizon NW or Qwest. United's intrastate access rate should be established based on the costs and other factors experienced by United that are unique to United.

Q. On page 24 of his direct testimony, Mr. Vasington states that United is a sizeable, sophisticated, and well-financed competitor that cannot credibly claim any need for alleged special protection. Please comment.

A. United has not asked for special protection, nor does it receive special protection as Mr. Vasington alleges. (Indeed, Mr. Vasington suggests that United, Verizon and Qwest are competitors with similar characteristics in Washington.) Simply stated, United does not have the same costs as Verizon NW or Qwest. United is 16th out of 24 Washington state telephone operating companies in population density per square mile of territory in Washington. In fact Verizon NW and Qwest combined have service territory that includes 90% of the state population within 48% of the area. The rest of the telephone operating companies cover 10% of the population that is spread out in the remaining

52% of the state.[11] As previously discussed, density is a larger driver of per unit costs, therefore, it is not plausible that United could have the same per unit costs as Verizon NW or Qwest. United seeks to recover its costs and to meet its obligations to be a carrier of last resort and to provide universal service at affordable local rates. As other United witnesses address, pricing policies enable United to meet these objectives in Washington and, therefore, cannot be deemed as special protection.

Q. Do you have other evidence that Verizon NW's costs are not similar to United's costs?

A. Yes. In Docket No. UT 040788 Verizon NW put forth their TSLRIC for Residence Service - Basic Calling Service; One-Party is $34.83 and $38.36 for Premium Calling Service.[12] United's cost are multiples of Verizon NW's cost. To repeat, United does not have the same costs as Verizon NW.

Q. On page 15 of his direct testimony, Mr. Bax states that there is no cost justification for United's intrastate switched access rates to be so much higher than its interstate rates. Please comment.

A. Mr. Bax has attempted to link the cost of United's intrastate switched access to United's interstate access price. United's switch cost study and intrastate switched access results are based upon United's specific customers and actual intrastate switched access demand in Washington. Thus the results are specific to United in Washington and specific to

11 Population Density statistics source is the 2008 US Census estimate base on BLR wire center boundary data sorted by Telephone Operating Company Name (OCN).

12 Verizon Northwest Docket No. UT-040788; Direct testimony of Kevin C. Collins, Exhibit No. (KCC-2C) page 1

United's intrastate switched access service. Conversely, interstate rates are not cost based.

Q. Mr. Bax states at page 16 of his direct testimony that "consequently, the Commission can safely conclude that reducing United's intrastate switched access rates to interstate levels will also be sufficient to recover United's intrastate switched access cost". Is this correct?

A. No, Absolutely not. As addressed in the testimony of Mr. Dippon (pages 8-9), the pricing undertaken by the FCC for interstate services includes deliberate external support mechanisms and charges to ensure that interstate switched access rates remain reasonable as those rates have been reduced over the years. Interstate access charges were not simply lowered; the rates were restructured and rebalanced. Mr. Bax has failed to mention that the FCC CALLS initiative that reduced system-wide composite interstate access rates also included the establishment of two explicit support mechanisms. At the same time that interstate access charges in Washington were reduced, United began collecting federal high cost support payments and additional support from United's end users through subscriber line charges ("SLCs"). An isolated comparison of just the interstate and intrastate switched access rate elements ignores the significant additional sources of support created to allow the interstate rates to move to their current levels. In fact, United's total interstate yield in Washington is actually higher than United's intrastate yield when all appropriate interstate support mechanisms are considered. As noted previously, the interstate switched access rates are not set based upon costs. United has not prepared an interstate access cost study. However, United's total interstate access revenues (including SLC and Interstate Access Support ("IAS")) do cover the cost of providing intrastate switched access service, but this conclusion exists only because SLC and IAS revenue have been included. As Mr. Bax clearly is aware, however, SLC and IAS are not included with intrastate revenue; therefore it is erroneous to claim, as Mr. Bax has done, that the interstate switched access rates *alone* would recover the costs of interstate and intrastate services. The assertion that the federal rates do or should somehow magically recover intrastate costs remains unsupported, untrue and speculative – particularly given the high costs of basic exchange service in Washington as addressed above.

V. UNITED'S TSLRIC COST STUDY

Q. Please define total service long run incremental cost ("TSLRIC") methodology.

A. The term "total service," indicates that the relevant increment is the entire quantity of the service that a firm produces, rather than just a marginal increment over and above a given level of production. The term "long run" refers to a period of time long enough so that all of a firm's costs become variable or avoidable. The term "incremental cost" refers to the cost created or incurred by offering the total demand for the services being studied. Finally, the study utilizes forward-looking, least cost technology.

Q. Has the TSLRIC methodology been used previously before this Commission?

A. Yes it has. As stated in paragraph (2) of WAC 480-120-540, "The cost of the terminating access shall be determined based on the total service long-run incremental cost of terminating access service plus a reasonable contribution to common or overhead costs".

TSLRIC was the methodology approved in Docket NO. UT-950200 Washington Utilities and Transportation Commission v. U.S. West Communications, Inc. (Qwest Access Charge Reduction).

Q. Please describe the approach used by United in performing TSLRIC studies for this case.

A. The TSLRIC study methodology can be described in the following steps.

1. Determine Network Design. The study begins with the determination of the forward-looking, most efficient network architecture. The network design is based on existing wire center locations and reflects currently available technology, which is appropriate and efficient for the current and reasonably foreseeable demand levels.

2. Determine Forward-Looking Installed Cost. Using United's current vendor material costs and labor rates specific to United's serving area, the incremental installed costs for all investment required to build a functioning access service are determined. Determination of the incremental investments is based on the long run view.

3. Develop Capital and Expense Costs. The study also includes capital and expense costs, which reflect the total cost of owning and operating a specific type of asset. They are developed at the FCC account level and include the annual cost of depreciation, a return on investment, income taxes, maintenance expenses, network operations expense (testing, monitoring), and other taxes. The forward-looking, efficient levels of direct maintenance, network operations expense and other taxes were

developed using United's actual experience with owning and operating the associated technologies in Washington.

4. Determine Reasonable Contribution to Common Costs. United includes a contribution to common costs in its cost study results that are added to the TSLRIC. The cost study accompanying my testimony includes a description in Exhibit No._(HJR-3) of (1) how the costs of switched intrastate access calls were determined; (2) how the costs of interoffice transport facilities were determined; (3) how loop investments were determined; (4) what direct expenses were included in the cost study; (5) what common cost expenses were included in the cost study results; (6) assumptions about cost of capital; and (7) inputs for economic depreciation rates.

Q. **Please describe the process you used to develop the cost of switching intrastate access calls.**

A. A full narrative description of United's TSLRIC switch study is contained in United's cost study narratives, (See Exhibit No._(HJR-3)). The TSLRIC switching cost study was developed via the Switch Cost Module ("SCM"). The SCM combines the United-specific switch investment results with actual Washington switch usage information to derive TSLRIC results for each host complex. The cost model inputs reflect the actual switch locations in Washington, current vendor costs consistent with negotiated contracts and switch specific line and usage data. This combination of United-specific switch inputs for United territories in Washington ensures that switch cost study results are forward-looking and reflect the economics of United's investment in Washington. The cost model includes the use of the switch processor, line and trunk usage, and signaling system 7 for each switched access service call. The results realistically reflect the rural low density economics of United's investment in Washington as demonstrated by the statistical fact that in Washington, United has an average of 2,238 lines per wire center versus the Embarq nationwide average of 4,613 lines.

Q. Please describe the process used to develop the cost of interoffice transport facilities associated with intrastate switched access calls.

A. A full narrative description of United's TSLRIC transport study is contained in United's cost study narratives. (See Exhibit No._(HJR-3)). The TSLRIC Transport study was developed via the Transport Cost Module ("TCM"). The TCM develops forward-looking costs for interoffice transport facilities using a network architecture that reflects existing Washington wire centers, optical based transmission equipment of OC3, OC12, OC48, OC192 capacity and fiber facilities deployed in a survivable ring design. The TCM inputs reflect current vendor costs for equipment, United-specific discounts and United-specific installation labor costs and ring circuit demand quantities. This combination of United-specific transport inputs for United's territories in Washington ensures that transport cost study results are forward-looking. (See Exhibit No._HC(HJR-4HC))

VI. SUMMARY OF TESTIMONY

Q. Please summarize your responsive testimony.

A. United determined its Washington-specific costs of providing both switched access service and local exchange service using a TSLRIC study based upon accepted (e.g. FCC) rules for performing such studies and added a reasonable contribution to common costs. United's intrastate switched access rates in the state of Washington are just and reasonable. Specifically, the study shows that United's cost of intrastate switched access service plus a local loop access cost component is greater than the revenue generated by intrastate switched access services. The IXCs who purchase intrastate switched access services from United use the local loop to deliver their services to their customers and are purchasing access to the local customer using United's local loop. The IXCs, as users of the local loop, should continue to pay an allocated portion for usage of the local loop. In addition, the basic local exchange service cost study performed by United shows clearly that the cost to provide intrastate regulated retail services is greater than the revenues generated by those services.

United in Washington is the carrier of last resort providing service in high-cost, low-density areas of the state. The assertions and recommendations made by AT&T and Verizon in this proceeding would fail to allow United sufficient cost recovery. United maintains that any determination of the proper rate level for intrastate switched access rates should consider the cost characteristics/structure and demographics for each individual provider, as undertaken in this case. Surrogate metrics (e.g. interstate, Verizon, or Qwest rates) are inapplicable for determining United's intrastate switched access rates. United's cost study produces hard facts based upon United-specific cost characteristics in the state of Washington. Recommendations to move to interstate rates fail to properly consider all elements of the interstate pricing scheme such as support for the local loop (i.e. SLC and IAS components). The positions of AT&T and Verizon should be rejected.

Q. Does that conclude your testimony?

A. Yes it does.

VII. EXHIBITS

Exhibit No.__HC(HJR-2HC) – Summaries

Exhibit No.__(HJR-3) – Narratives

Exhibit No.__HC(HJR-4HC) – Cost Study