BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of the Request of Sprint Nextel Corporation for an Order Declining to Assert Jurisdiction Over or, in the Alternative, Application of Sprint Nextel Corporation for Approval of the Transfer of Control of United Telephone Company of the Northwest and Sprint Long Distance, Inc. From Sprint Nextel Corporation to LTD Holding Company.	DOCKET NO. UT-051291

REBUTTAL TESTIMONY OF

NANCY L. JUDY

ON BEHALF OF
SPRINT NEXTEL CORPORATION

JANUARY 5, 2005

CONFIDENTIAL AND HIGHLY CONFIDENTIAL
PER PROTECTIVE ORDER IN DOCKET NO. UT-051291

[REDACTED VERSION]

1 **I. INTRODUCTION**

2

3 **Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND CURRENT**
4 **POSITION.**

5 A. Nancy Judy, 902 Wasco Street, Hood River, OR 97031. I am employed by Sprint
6 Nextel Corporation ("Sprint") as the State Executive for Oregon and Washington.

7

8 **Q. ARE YOU THE SAME NANCY JUDY WHO FILED TESTIMONY IN THIS**
9 **DOCKET ON AUGUST 26, 2005?**

10 A. Yes.

11

12 **II. PURPOSE OF TESTIMONY**

13 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

14 A. The purpose of my testimony is to present Sprint's response to the testimony filed on
15 behalf of Public Counsel by Michael L. Brosch and to the testimony filed on behalf of
16 the Washington Utility and Transportation Commission Staff by Wilford Saunders,
17 Paula Strain, Tim Zawislak, and Betty Erdahl. My testimony will reaffirm that the
18 separation of LTD Holding Company will have no adverse effect on service quality,
19 and that it would be premature to institute additional service quality tools based on
20 conjecture that there could be service quality problems in the future. I will explain
21 why Sprint believes that directory imputation and Staff proposed rate changes should
22 be irrelevant to the Commission's consideration of Sprint's application. Aside from
23 their lack of relevancy to this proceeding, Sprint is greatly concerned about the

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financial impact of these proposals, and their interference with the company's ability to ensure a smooth transition for United's customers.

III. SERVICE QUALITY MONITORING

Q. PUBLIC COUNSEL WITNESS BROSCH CALLS FOR ADDITIONAL SERVICE QUALITY MONITORING AND REPORTING. STAFF WITNESS ERDAHL CALLS FOR SERVICE GUARANTEES. IS IT NECESSARY FOR THE COMMISSION TO ADOPT SUCH RECOMMENDATIONS?

A. No. The separation of United from Sprint will have no adverse effect on service quality, or on the ability of United to meet all of its obligations. Customers will continue to be able to call existing numbers to obtain new services, report service problems and address billing or other customer care issues. United and LTD Holding Company will have the assets, agreements, technical capabilities, managerial expertise, employees and other resources to allow United to continue to provide quality services to its customers. Customers will continue to interact with the local employees who serve them today in their local communities.

It is premature to discuss plans aimed at correcting problems before any service quality problems arise, especially since United has no history of service problems. With only a few exceptions, United meets and exceeds the service quality benchmarks established by the Commission, as noted in Ms. Erdahl's testimony. In the instances for which United missed a 100 percent benchmark, it still achieved results in the range

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1 of 95 to 99 percent on repair. Not specifically noted by Ms. Erdahl, but over the same
2 period, United closed 97 percent of service activations within 5 days against the 90
3 percent benchmark. Ms. Erdahl also correctly noted that the Commission did not
4 receive any service quality complaints relating to United over the most current 12-
5 month period.
6
7 United will remain subject to service quality obligations after separation. The
8 Commission has extensive service quality standards and reporting rules in place to
9 monitor service quality and the statutory authority to address any service issues should
10 they arise. In fact, these rules were recently reviewed and modified as part of the
11 Commission's general rewrite of the telecommunications rules (UT-990146). United
12 describes any maintenance issues for exchanges that exceed the trouble report
13 standard, in compliance with the rule. Anyone with access to the Internet, including
14 Public Counsel, can monitor United's service results because they are posted on the
15 Commission's website.
16
17 **Q. SHOULD THE COMMISSION MONITOR STAFFING LEVELS BY**
18 **FUNCTIONAL CATEGORY?**
19 A. No. Again, there is no need for additional reporting based upon conjecture and
20 speculation about what might happen. The Commission has not established
21 benchmarks to measure the appropriate level of staffing for network administration,
22 installation/repair, call centers, etc., nor should it attempt to manage staffing levels. It

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1 makes more sense for the Commission to continue to concentrate on how well United
2 performs as indicated by service quality reports and customer complaints.
3
4 **Q. SHOULD THE COMMISSION MONITOR MONTHLY CAPITAL**
5 **EXPENDITURES BY FUNCTIONAL CATEGORY?**
6 A. No. Again, the Commission has not established standards to measure the "correct"
7 level of spending, nor would it be appropriate to do so. Capital expenditure levels
8 tend to fluctuate from year to year, let alone month to month. Capital projects can be
9 delayed for any number of reasons including frozen ground during the winter months,
10 the inability to obtain permits or right-of-way easements, contractor's schedules, etc.
11 One year United may have a major project to replace miles of cable. A similar
12 initiative on the same scale may not recur for several years. The Commission has
13 tools it can use to ensure that United is maintaining and replacing its plant and
14 investing in new technologies, such as service quality reports, tariff product offerings,
15 income statements and balance sheets, and, potentially, reports United will file under
16 its requirement to be an eligible telecommunications provider of universal service.
17
18 **Q. SHOULD UNITED PROVIDE MONTHLY REPORTS OF OPERATING**
19 **EXPENSES AND ACCESS LINES?**
20 A. No. United currently files quarterly Washington State Operating Reports that provide
21 operating expenses and access lines by month. Public Counsel has not explained why
22 getting these reports more often would be necessary post-separation.
23

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1 **IV. CUSTOMER BENEFIT**

2

3 **Q. STAFF WITNESS SAUNDERS NOTES THAT OTHER**
4 **TELECOMMUNICATIONS COMPANIES ARE ATTEMPTING TO**
5 **DIVERSIFY THEIR BUSINESSES RATHER THAN PURSUE A SINGLE-**
6 **BUSINESS STRATEGY. CAN YOU COMMENT ON HOW THE**
7 **SEPARATION BETTER POSITIONS UNITED TO MEET CUSTOMER**
8 **NEEDS?**
9 A. The separation of Sprint's ILEC operations is intended to create a company with a
10 single-minded focus on its local markets. That is not to say that United will be singly-
11 focused on providing local, wireline service. United will continue to provide a full
12 portfolio of services to its customers in Washington through a combination of self-
13 provisioning and commercial agreements. The portfolio will continue to include long-
14 distance, wireless, high-speed data and video services. There is no need for LTD
15 Holding Company to be a national provider, with requisite scale economies, to make
16 these products available to its local customers at affordable rates. It can make such
17 services available to its customers through the use of commercial service agreements,
18 as discussed by Richard Pfeifer in his rebuttal testimony.
19
20 One benefit of a single-business concentration strategy is that it entails less ambiguity
21 about "who we are" and "what we do." The energies of the total organization are
22 directed down one business path. Sprint currently serves five times as many wireless
23 customers as wireline customers. That makes nationwide wireless service its core

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1 business. Given the predominance of wireless customers, Sprint will naturally focus
2 on its nationwide business built around wireless services and its nationwide fiber optic
3 and global IP network. In contrast, the new local company's core business will be
4 telecommunication services that meet the needs of its local customers. There is less
5 chance that management's time or organizational resources, and the company's capital
6 investment, will be stretched thinly over too many activities. Entrepreneurial efforts
7 can focus exclusively on keeping the firm's business strategy and competitive
8 approach responsive to local markets and fine-tuned to customer needs. The company
9 can become better at what it does by concentrating on its core, local business. It
10 should also be able to make decisions faster and have more flexibility because it will
11 not have to resolve the inherent tensions between Sprint's anticipated national wireless
12 strategy and LTD Holding Company's local wireline strategy. These benefits in turn
13 will promote the state's telecommunications policy of competition and customer
14 choice.
15

16 **Q. HOW WILL THE SEPARATION INCREASE COMPETITION?**

17 A. After the separation, Sprint will be a competitor to the new local company. Sprint has
18 announced that it will focus on serving as a wireless alternative to wireline service and
19 to advance competition by, for example, partnering with cable companies' to offer
20 voice services. Sprint's long-distance service will also compete directly with the new
21 local company's offerings. In addition, the new local company will have its own long
22 distance and wireless offerings.
23

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1 **V. RATE REBALANCING**

2

3 **Q. SHOULD THE COMMISSION ADDRESS UNITED'S RETAIL RATES IN**
4 **THIS PROCEEDING AS ADVOCATED BY STAFF WITNESSES SAUNDERS**
5 **AND ZAWISLAK?**

6 A. No. This is a transfer of property case under Chapter 80.12 RCW, not a rate case.
7 There is nothing about the separation of LTD Holding Company from Sprint that
8 affects the reasonableness of United's rates, or perpetuates outdated rates. Local
9 customers should not have to face rate increases merely because United will have a
10 new parent company, especially since United's cost structure will remain virtually
11 unchanged, as demonstrated by the testimony of Richard Pfeifer. Staff's proposal
12 would significantly increase local rates at the same time it reduces United's revenues.
13 United is very concerned that its transition to a stand-alone local company will be
14 viewed by local customers negatively if it is associated with a rate increase.
15 Additionally, Staff's rate design makes some major changes without regard to the
16 Company's input. United believes it should have some say in how it recovers its
17 revenues, and this is not the proper forum for that discussion.

18

19 **Q. STAFF INDICATES THAT ITS RATE REBALANCING PROPOSAL IS**
20 **REVENUE-NEUTRAL. IS IT REVENUE-NEUTRAL?**

21 A. No, it is certainly not revenue neutral to Sprint. As discussed by Richard Pfeifer,
22 United would lose ** in revenue under Staff's proposal in Exhibit TWZ-
23 5HC, despite the fact that United is currently earning * percent return on intrastate

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1 operations. See Exhibit RGP-10C. Perhaps Staff believes the impact would be
2 revenue-neutral to United's Washington operations because Ms. Strain recommends
3 that Sprint pay out [redacted]** in cash to LTD Holding Company, and ultimately United,
4 to cover the amortization she proposes. However, there is neither basis nor precedent
5 for this treatment as I will explain later in my testimony.
6
7 **Q. WHAT WOULD BE THE IMPACT OF STAFF'S RATE REBALANCING**
8 **PROPOSAL ON UNITED'S CUSTOMERS?**
9 A. Based on Mr. Zawislak's estimates in Exhibit TWZ-5HC, which includes a reduction
10 of [redacted]** for the gain of the directory sale, residential customers would
11 experience a $2.62/line rate increase and businesses $4.89/line on average. It should
12 be noted, however, that the average masks the variability of the increases by exchange.
13 The impact would vary considerably by exchange due to Staff's proposed elimination
14 of EAS surcharges. At the high end, Stevenson residents would see an increase of
15 approximately $7.50/month.
16
17
18 **Q. WHAT OTHER PRACTICAL IMPACTS WOULD STAFF'S PROPOSAL**
19 **HAVE?**
20 A. A major restructuring of access and local rates is a huge and complex undertaking. It
21 is not a simple matter of changing six rates as one might surmise from reviewing Mr.
22 Zawislak's Exhibit __TWZ-5HC. Hundreds of service and equipment codes would
23 need to be changed. United would want to look at the effect the proposed rate changes

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1 would have on the demand for other services to see if they too should be changed. A
2 change in one rate frequently necessitates a change in other rates for services that are
3 complements or substitutes in order to maintain the same cross-elasticity.
4 Additionally, packages, or bundles, that contain local service would need to be
5 reviewed and most likely, repriced. Mr. Zawislak wants updated demand figures
6 which would take some time to prepare. Also, it appears from Mr. Zawislak's
7 response to Data Request 1 from Public Counsel that Mr. Zawisklak is contemplating
8 including Centrex services in the rate restructure. This adds another level of
9 complexity since that particular product is rate banded based on the number of lines
10 provisioned. Centrex is a substitute service for PBX trunks, so PBX trunk pricing
11 would need to be reviewed and repriced. Customer service on-line handbooks would
12 need to be changed and training provided so that our service representatives could
13 discuss the changes with customers. New tariffs would need to be filed for every
14 service affected. Additionally, WAC 480-120-194 would require customer
15 notification prior to implementation. Typically, these notices are contained in billing
16 statements that take 30 days to cycle through. Therefore, it would take at least two
17 months to ensure that all customers received at least 30 days notice of the rate
18 increase. This factor alone would make it impossible for United to implement new
19 rates within 30 days after the separation closes, as proposed by Mr. Zawislak. Further,
20 if the Commission were to require United to notify customers of the rate changes
21 concurrent with the name change, as proposed by Mr. Zawislak, it could delay the
22 separation.
23

1 **Q. DOES UNITED HAVE A PATTERN OF LOCAL AND EXCHANGE RATES**
2 **THAT DO NOT COME CLOSE TO MATCHING THE COST OF PROVIDING**
3 **THE SPECIFIC SERVICES IN SPECIFIC LOCATIONS AS ALLEGED BY**
4 **MR. ZAWISLAK?**

5 A. No. United has followed the Commission's pricing policies over the years. These
6 policies rely in part on cost standards; however, it is important to note that the
7 Commission's method for defining costs for individual rate elements has changed over
8 the years. Local rates have historically been set using residual rate-making. In other
9 words, basic local rates are set to cover the "residual" revenue requirement not
10 recovered by all the other services for which prices have already been determined. For
11 instance, toll and access rates may be priced first, with the remaining revenue
12 requirement to be recovered from local rates. Residual pricing is typically used as a
13 means of setting basic local exchange rates at low levels to foster universal service.
14 The goal of rate design is to set prices to earn an authorized rate of return for intrastate
15 operations based on fully embedded cost studies. These costs are allocated to the
16 intrastate jurisdiction based on FCC Part 36 rules and regulations. Beyond that level,
17 the complexity of determining costs for a given service, such as intrastate transport or
18 local residential service, increases dramatically especially because so many costs are
19 joint or common to these services. These issues surface in the rate design phase of a
20 rate case. Over the years, Commission policy has changed regarding the cost of
21 service standard that should be applied to determine the reasonableness of particular
22 rate elements. For instance, WAC 480-120-540 relies upon total service long-run
23 incremental cost plus a "reasonable contribution to common or overhead cost," as

1 opposed to fully embedded cost, as the cost standard for setting the price of
2 terminating access service. Under the rule, loop costs are not to be included in
3 terminating access charges, but can be recovered in originating access charges.
4 Ultimately, it is up to the Commission to decide the portion of shared cost that should
5 be recovered in originating access service and how much should be recovered in local
6 rates.[1]
7
8 All of United's local and exchange access rates have been reviewed by Staff,
9 recommended by Staff for approval, and ultimately approved by the Commission.
10 Staff has had the opportunity for sixteen years to contest United's local rate structure,
11 and retains the opportunity going forward. Likewise, United will retain its opportunity
12 to file rate changes after the separation.
13
14 **Q. ARE UNITED'S RATES OUTDATED AND ILLEGAL?**
15 A. United's local rates have been in place for a long time, but certainly they are not
16 illegal. The last time local rates were restructured was in 1989 upon a Staff
17 investigation of earnings. United's interim universal service charge, also known as the
18 interim terminating access charge ("ITAC") was established in 1999 as a result of an
19 extensive cost docket, UT-980311(a), and in compliance with the new terminating
20 access charge rule that arose out of UT- 970325 "Reform of Intrastate Access
21 Charges." In keeping with the rule, United reduced its terminating access charges and
22 implemented a universal service charge.

[1] In UT-950200, p. 85 of the Fifteenth Supplemental Order (April 11, 1996) the Commission stated that loop costs are shared and should be matched with all of the revenues derived from the use of the loop.

1

2 **Q. MR. ZAWISLAK ARGUES THAT ITAC INTERFERES WITH THE WUTC'S**
3 **CONCLUSION IN UT-970325 THAT TERMINATING CALLS SHOULD BE**
4 **BASED SOLELY ON THE ACTUAL COST OF SERVICE BECAUSE: 1) ITAC**
5 **DOESN'T RECOVER ANY PART OF THE COST OF A TERMINATING**
6 **CALL; AND 2) ITAC IS LEVIED ON ACCESS SERVICE BUT NOT**
7 **INTERCONNECTION SERVICE. HAS THE COMMISSION ADDRESSED**
8 **THESE ISSUES?**

9 A. Yes. The order in which the Commission adopted current WAC 480-120-540 stated
10 that it was the Commission's intention to assess a terminating universal service charge
11 based on the methodology in UT-980311. As noted in UT-020406[2], the Commission
12 determined that the cost information from UT-980311 was sufficient for use in
13 calculating the ITAC. Further, that ITAC is not *per se*, unduly harmful.[3] Therefore,
14 the current rule expressly excludes universal service charges from the requirement that
15 terminating access charges must not exceed the rates that ILECs charge for
16 comparable local interconnection service, or the cost of terminating access.

17

18 The concern that ITAC is levied on access service and not local interconnection was
19 also addressed in UT-020406. The Commission explained that interconnecting ILECs
20 and ISPs belong to different "classes", or groups that use services for different
21 purposes and that the Commission evaluates not only costs allocated to each class of
22 service, but the use of the service, the benefit of the service, the law applicable to the

[2] *Id*. p.34, ¶114-115.
[3] *Id* P. 36, ¶122.

1 service, and the responsibility of the class for supporting a company's operations. The
2 Commission concluded there was no demonstration of undue discrimination with
3 regard to differences in price among Verizon's access type services for
4 interconnection, interexchange and ISP traffic.[4]
5
6 **Q. WHAT DID THE COMMISSION DETERMINE WAS THE AVERAGE COST**
7 **PER LOOP FOR UNITED IN UT-980311(a)?**
8 A. In the 10th Supplemental order, United's cost was determined to be $44.17. As a result
9 of the 11th Supplemental Order, United's cost was $46.02.[5]
10
11 **Q. HOW MUCH UNIVERSAL SERVICE WAS UNITED ALLOWED TO**
12 **RECOVER AS A RESULT OF THIS ANALYSIS?**
13 A. United was allowed to recover $8.874M Universal Service Support, or Interim
14 Terminating Access Charges ("ITAC") under General Order No. R-450 in UT-970325
15 on the basis of the 11th Supplemental Order. United initially filed to recover $4.6M in
16 universal service, and reduced its access charges by a corresponding amount. This
17 filing was withdrawn, however, at Staff request, and refiled with rates designed to
18 recover $6.6M in universal service, or 74 percent of the amount calculated in UT-
19 980311(a) with a corresponding reduction in access rates. Staff recommended
20 approval of the filing and it was approved by the Commission. Coincidently, this
21 amount of recovery is in keeping with the decision in UT-020406 in which the

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[4] P. 21, ¶58.
[5] The Tenth Supplemental order contained an error in pole values, and contained non-recurring revenues that should have been excluded. See paragraphs 100-102.

1 Commission determined that Verizon's ITAC should recover 75 percent of universal
2 service costs (p. 39, ¶135).
3
4
5 **Q. IS THERE ANY REASON WHY UNITED'S ACCESS RATES MIGHT**
6 **JUSTIFIABLY BE HIGHER THAN QWEST'S OR VERIZON'S?**
7 **A.** Yes. United is a rural company whereas Qwest and Verizon are non-rural companies.[6]
8 United's serving territory is sparsely populated and spread out across the state. More
9 than half of United's exchanges contain fewer than 1,000 access lines. Due to these
10 characteristics, United has a high cost structure relative to Qwest and Verizon. In the
11 Costing Docket, UT-980311(a), United's cost per loop was nearly twice as high as
12 Qwest's and 1.6 times higher than Verizon's. In order to preserve affordable local
13 rates, United must recover more contribution from its other services or from a
14 universal service fund than would a non-rural, lower-cost company.
15
16 **Q. HOW WELL DO UNITED'S ACCESS CHARGES REFLECT THE**
17 **REALITIES OF THE TELECOMMUNICATIONS MARKET IN**
18 **WASHINGTON?**
19 A. Please see Exhibit NLJ-5. Only Qwest and Verizon have access rates lower than
20 United. All other local providers (19 of them) have access rates higher than United,
21 including Century Telephone which serves more access lines than United.
22

[6] While both Qwest and Verizon serve some rural areas within the state, they have been designated non-rural Eligible Telecommunication Carriers (ETCs) by the FCC for Universal Service purposes. United has been designated as a rural company.

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1 **Q. HOW MANY TOLL CARRIERS OFFER SERVICE IN UNITED'S SERVING**
2 **AREA?**
3 A. It varies by exchange, but all of United's customers can select from at least 30 toll
4 carriers. See Exhibit NLJ-6.
5
6 **Q. DO TOLL CARRIERS CHARGE HIGHER TOLL RATES IN UNITED'S**
7 **LOCAL SERVICE TERRITORY THAN IN QWEST OR VERIZON**
8 **TERRITORY?**
9 A. No. Under RCW 80.36.183, toll carriers are required to provide statewide averaged
10 toll rates. Consequently, rural customers do not have to pay higher toll rates than
11 urban customers. For the most part, toll carriers do not vary their toll plan rates from
12 state to state. Due to the averaging, toll carriers operate in areas throughout the nation
13 that are unprofitable or have low profit margins, and conversely, in areas where profit
14 margins are high.
15
16 **Q. WHAT ABILITY DOES UNITED HAVE TO IMPACT TOLL RATES**
17 **THROUGH ACCESS CHARGE REDUCTIONS?**
18 A. Since most toll carriers develop nationwide rates, United has virtually no ability to
19 impact toll rates through access charge reductions. Even if toll carriers develop state-
20 specific toll rates, United has a very limited ability to affect toll rates because the
21 traffic volume from United's 80,000 access lines is relatively insignificant compared
22 to the traffic volume generated by the 3.8M access lines in the state.
23

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1 **Q. DOES UNITED'S LOCAL RATE STRUCTURE INCLUDE DISCOUNTS**
2 **THAT ARE OFFERED TO CERTAIN CUSTOMERS WITHOUT ANY**
3 **REASONABLE BASIS AS ALLEGED BY MR. ZAWISLAK?**
4 A. No, there are no special discounts for certain customers. United has two local rate
5 groups. Additionally, the rates for business service are higher than for residential
6 service, as is the case for all other ILECs operating in the state. Occasionally, United
7 offers special promotions to induce customers to try offerings, in which case the price
8 might be reduced for a limited duration, or a one-time charge might be waived. These
9 promotions are filed with the Commission and approved before they are offered.
10

11 **Q. WHY DOESN'T UNITED HAVE A UNIFORM LOCAL RATE STRUCTURE?**
12 A. Historically, rates for local telephone service were based on a value of service
13 standard. Specifically, the rates for the most rural areas were priced below more urban
14 areas even though the underlying economics would dictate otherwise. The rationale
15 for this approach was that service in the more urban areas was more valuable since the
16 subscribers had access to a larger local calling population. This form of pricing fell
17 out of favor with the advent of local competition as companies and policymakers
18 recognized the incompatibility of competition and cross-subsidization. In 1983 United
19 had four rate groups. In 1986 United reduced the four rate groups down to two. All
20 basic local rates except for Poulsbo and Sunnyside were set at $8.90 for residential and
21 $17.85 for business. Poulsbo and Sunnyside basic local rates were set 50 cents higher
22 for residential, and 95 cents higher for business. United expects to continue this
23 trend of eliminating rate groups in any future local rate filings.

1

2 **Q. ASIDE FROM THE TWO LOCAL RATE GROUPS, ARE THERE OTHER**
3 **REASONS WHY UNITED'S LOCAL RATES VARY BY EXCHANGE?**

4 A. Yes. United assesses Extended Area Service (EAS) Surcharges that vary by
5 exchange.

6

7 **Q. WHY DOES UNITED ASSESS EXTENDED AREA SERVICE (EAS)**
8 **SURCHARGES THAT VARY BY EXCHANGE?**

9 A. United's surcharges have kept current with the Commission's changing policy over
10 the years and are in compliance with the current rule. The Commission has grappled
11 with EAS policy for many years, chiefly because the demand for service has typically
12 been driven by high toll users who wish to pass the cost of the service on to those who
13 do not benefit from the service. This is especially true if the cost is shifted to rate
14 payers outside of the exchange.[7]

15

16 Initially, rates for EAS were based on formulas that averaged some costs among all of
17 a company's EAS users. In the late 1960's the Commission rejected this approach in
18 favor of calculating EAS additives sufficient to recover an amount equal to the toll
19 revenues from a specific route. This policy began to change in the late 1980s when
20 some routes were established by the legislature that priced EAS well below the loss of
21 toll revenues. By 1990 the rule changed again. EAS rates were to be capped at $3.50
22 for residential subscribers with the remaining revenue requirement recovered from

[7] See First Supplemental Order in UT-911288, p. 8., Policy Statement in UT-970546

1 current earnings, then from local rates, up to $12.50 for residents, and finally from a
2 community calling fund. In May 1992 the Thurston County Superior Court
3 invalidated the community calling fund. In 1993, United received Commission
4 approval on a new rate matrix for EAS with a tiered rate structure reflecting the
5 number of access lines available to the customer. In 1998 United filed to implement
6 six more EAS routes in compliance with a settlement agreement ordered in Dockets
7 UT-981074 and UT-970545, and sought approval of a newly designed EAS rate
8 matrix. Staff recommended approval stating that the matrix "creates a more equitable
9 rate structure for all of United's customers based on the size of their respective calling
10 areas and because it includes a full measured option which will allow customers to pay
11 for only what they use, if they so desire, on a per minute basis." Staff further stated,
12 "United should be commended for being proactive, for arriving at a mutually
13 beneficial solution and for implementing this positive change including new services
14 and new choices for its customers."
15
16 **Q. WHAT WAS THE LAST EAS POLICY THE COMMISSION ADOPTED AND**
17 **WHY WAS IT ADOPTED?**
18 A. The industry submitted extensive calling area capability studies in compliance with the
19 rule that was put into effect in 1990. The rule required companies to submit studies
20 showing whether exchanges had 80 percent local calling capability[8] as a threshold for
21 determining whether new EAS routes should be established. In 1993, the Commission

[8] WAC 480-120-405(4) defined local calling capability as "the percent of the total intrastate intraLATA minutes originating in an exchange that terminates within the local calling area, except where an interLATA extended area service route is proposed, in which case "local calling capability" means the percent of total intrastate minutes originating in an exchange that terminates within the local calling area."

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1 approved approximately 35 new EAS routes or clusters in the state that resulted from
2 the new 80 percent calling capability rule and nine other factors the Commission
3 considered such as whether customers have toll-free access to basic services like
4 hospitals, government offices, schools, etc. In 1997, the Commission issued a policy
5 statement suspending any new EAS routes, and indicated it would be re-examining the
6 rule, mainly because the existing rule was shifting costs from high toll users to others.
7 New EAS routes would only be considered in hardship situations. A rulemaking
8 docket was established, UT-970545. The Washington Independent Telephone
9 Association (WITA) subsequently filed a petition for waiver of the existing rule (UT-
10 981074). Ultimately, the industry made compliance filings in the EAS settlement
11 ordered in UT-981074 and UT-970545. At that point the industry and Staff were
12 satisfied that all communities had EAS sufficient to allow customers to call and
13 receive calls from community medical facilities, police and fire departments, city or
14 town government, elementary and secondary schools, libraries, and a commercial
15 center. In 1999 the Commission issued a new EAS rule that stated that "the
16 commission may expand local calling areas only under the most exceptional
17 circumstances." In a letter to a subscriber in one of United's exchanges who was
18 asking for more EAS, the Commission referenced the new rule which "expresses the
19 Commission's preference for relying on optional, market-based solutions rather than
20 imposing mandatory local calling." This rule remains in place today.
21
22 **Q. SHOULD UNITED RESTRUCTURE ITS LOCAL RATES TO ELIMINATE**
23 **SEPARATE EAS SURCHARGES?**

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1 A. No, not at this time. In order to make United's transition to the new company
2 successful, it must be transparent to customers. A rate increase that would be
3 concurrent with the new brand launch would send the wrong signal to United's local
4 customers. Customers would likely surmise that the "new company" is less efficient
5 or that it is a price gouger. Thus, United's preference is that no local rate increases
6 will result as a condition of approval of the separation.
7
8 **Q. WOULD UNITED HAVE ANY OTHER RESERVATIONS ABOUT**
9 **ELIMINATING EAS SURCHARGES**?
10 A. Yes. If United were to collapse EAS into local rates the company would face some
11 risk that new EAS routes will be ordered without any means of recovery of the lost
12 access or toll revenue other than filing a full-blown rate case. Given United's current
13 earnings level, it does not wish to incur revenue losses.[9] Statements by Mr. Zawislak
14 such as, "extended area service should be implemented to ensure that the local
15 exchange rates include all of the basic services that customers throughout the state
16 have come to expect" and "adjustments for adequate local calling areas will benefit
17 both United and LTD holding company, at this time, and into the future…" lead the
18 Company to believe that Staff may be reversing its policy on EAS and want to add
19 more routes. There is additional evidence from the recent settlement in the Verizon-

[9] See Betty Erdahl's Exhibit BAE-2C, Col. (g), which shows a ____*% rate of return for intrastate operations for 12 months ending June 2005 operations, and Richard Pfeifer's Exhibit RGP-10C which depicts a ____*% rate of return for intrastate operations for the 12 months ending September 2005.

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1 MCI merger case that staff may want to add more EAS routes in order to consolidate
2 rate centers even if there is no community of interest between the exchanges.[10]
3
4 **Q. PLEASE SUMMARIZE YOUR TESTIMONY ON RATE REBALANCING**
5 A. All of United's current rates have been reviewed and approved by the Commission.
6 Certainly the Commission's and companies' pricing policies change over time in
7 response to changing market conditions and social objectives, new cost standards and
8 other factors. However, nothing about the fact that United will have a new parent
9 affects the Commission's or United's ability to address pricing matters as they always
10 have. Staff has not demonstrated that United's current rate design has caused any
11 harm. United's local customers have 30 or more toll providers to choose from and do
12 not pay higher toll charges than other customers in the state. Moreover, Staff's
13 proposed rate design puts United at risk because it ignores cross-elasticity and would
14 eliminate EAS surcharges despite Staff's apparent desire to expand EAS. United's
15 only avenue of recourse would be to file for a general rate case, and suffer the
16 financial hit in the meantime. Finally, United is concerned about the impact on its
17 local customers and how that impact will affect their perception of the separation of
18 United from Sprint. Under Staff's proposal, some of United's residential customers
19 would see local rate increases of $7.50/month. Timing such increases concurrent with
20 the separation and new brand launch not only sends the wrong message to customers

[10] See UT-050814, Order No. 07. p. 40. Verizon agreed with Staff to add more EAS routes even though Public Counsel pointed out that the Commission recently declined to pursue extended area service for one or more of the rate centers based on a Staff analysis that there is an insufficient community of interest between the rate centers and the population center to proceed under the relevant rule. The loss of toll revenue to Verizon was estimated at $500K/year, which Verizon would normally need to pursue under a rate case but would be prohibited to do so until July 1, 2009 under the stay-out provision of the settlement.

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by implying that there is some nexus between the change in control and United's rates, but is a recipe for a public relations disaster.

VI. SALE OF DIRECTORY IN 2003

Q. WHICH OF SPRINT'S WITNESSES WILL BE ADDRESSING THE SALE OF THE STOCK OF THE DIRECTORY BUSINESS?

A. Brian Staihr will discuss economic theory as it relates to Sprint Corporation's stock sale of its directory publishing business. I will provide an historic context of how directory revenue has been handled for United in the past, and will compare and contrast Staff's proposal in this case with the way the Commission resolved Qwest's sale of Dex in UT-021120. Richard Pfeifer will discuss all remaining issues raised by Staff and Public Counsel, including why this issue should not be addressed in the instant proceeding.

Q. PLEASE SUMMARIZE SPRINT'S POSITION WITH REGARD TO THE 2003 SALE OF THE STOCK OF SPRINT'S DIRECTORY PUBLISHING BUSINESS.

A. Sprint believes that like the rate rebalancing issue, there is no connection between this issue and the matter to be determined in this proceeding. As Richard Pfeifer will testify, the transfer of control in this docket does not give rise to any change in facts or circumstances relating to the directory sale or the existing revenue imputation. Sprint Corporation's sale of its directory publishing business is not analogous to Qwest's sale

1 of Dex. In contrast to Qwest, United never owned any assets that were involved in the
2 directory publishing business. Brian Staihr will demonstrate that the value of the
3 publishing business was not created by United. Moreover, United ratepayers bore no
4 risk or financial burden that would entitle them to a share of proceeds.
5
6 If the Commission believes that imputation of the gain should be further explored, it
7 could make a determination in a future rate case. The Commission would have all the
8 information it would need. United provided information concerning the stock sale at
9 the time of the sale and subsequently in this proceeding. That information will not be
10 lost as a result of the separation of United from Sprint. In the meantime, United's
11 local rates will continue to reflect ** of directory imputation, even though
12 there is no longer any actual directory advertising revenue stream associated with this
13 subsidy.
14
15 **Q. IN WHAT WAY WAS UNITED'S AFFILIATION WITH SPRINT'S**
16 **DIRECTORY PUBLISHING BUSINESS DIFFERENT FROM QWEST'S**
17 **AFFILIATION WITH DEX?**
18 A. Unlike Qwest, United never operated its own directory publishing business or owned
19 any assets related to directory publishing, nor has the Commission ever included
20 Sprint Publishing and Advertising assets in United's ratebase. United originally
21 obtained directory publishing services through a contract with LM Berry. When
22 Sprint entered the publishing business it created a wholly owned subsidiary,
23 Directories America, Inc., which was the parent to Sprint's directory publishing

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1 business. At that point, Directories America became a sister company to United.
2 Unlike Qwest, United did not transfer any assets, employees, or working capital to
3 Sprint's directory publishing business because it had none related to directory
4 publishing. To the best of my knowledge, the Commission has never issued an order
5 asserting that United had any assets or ownership of Sprint's directory publishing
6 business. And unlike Qwest, there has never been any case or Commission order in
7 which either Staff or the Commission determined that a sale of the directory occurred
8 over which the Commission had jurisdiction. Additionally, in United's case, there was
9 never an MFJ order that assigned ownership of directory publishing to United, as there
10 was in Qwest's case.
11
12 **Q. HOW HAS THE COMMISSION HANDLED DIRECTORY IMPUTATION**
13 **FOR UNITED FOR RATEMAKING PURPOSES?**
14 A. In the 1989 Staff earnings investigation that culminated in a local rate rebalancing, U-
15 89-3067-SI, Staff adjusted United's test year based on Staff's belief that United did
16 not receive enough compensation in base fees from its affiliate. Staff believed that
17 United should have received ** of revenue, whereas the company had
18 recognized ** of test year revenue. The difference of ** was used as a
19 test year adjustment. United stipulated to include this adjustment for ratemaking
20 purposes and has not had a basic local rate change since then; therefore, United
21 currently has ** of directory imputation revenue built into its current rates.
22 Sprint has been unable to find any Commission order approving this imputation
23 arrangement, and this arrangement was the result of a stipulation, so it does not appear

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1 that the Commission has ever decided that United should be imputing directory
2 revenues for ratemaking purposes or otherwise.
3
4 **Q. HOW DOES STAFF PROPOSE TO APPLY THE GAIN ON THE SALE OF**
5 **SPRINT'S DIRECTORY PUBLISHING BUSINESS?**
6 A. Although Ms. Strain recommends that the Commission apply the amortization of the
7 gain in any future rate proceeding filed by United for a 10-year period, it is actually
8 applied in Mr. Zawislak's rate rebalancing proposal immediately, without the benefit
9 of a rate case and without recognition of the imputation currently built into rates. Mr.
10 Pfeifer will elaborate on this issue.
11
12 **Q. HOW IS STAFF'S PROPOSED TREATMENT OF UNITED DIFFERENT**
13 **FROM THE WAY THE QWEST/DEX GAIN WAS HANDLED?**
14 A. The treatment Staff proposes for United is much harsher. In the Qwest/Dex case, the
15 Commission accepted a partial stipulation and ordered a one-time customer credit that
16 represented 7.67 percent of the Washington share of the gain, but deferred any rate
17 reductions to a future rate case that may never occur. It is conceivable that Qwest's 15
18 year amortization may expire with no impact on Qwest's rates, or that the amortization
19 will only impact rates for a few years. In United's case, Mr. Zawislak's rate
20 rebalancing proposal uses the amortization immediately to reduce United's revenues.
21 Staff also uses a shorter amortization period for United than it did for Qwest.
22 Additionally, in this case Staff recommends that the corporate entity that sold the
23 publishing business (Sprint) make a cash payment to its subsidiaries (LTD Holding

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1 Company and United) to distribute the gain. A similar requirement was not imposed
2 on Qwest, nor am I aware of this requirement applying to any other local company
3 operating in Washington.
4
5 **Q. WHAT IS SPRINT'S RECOMMENDATION REGARDING THE 2003 SALE**
6 **OF THE STOCK OF SPRINT'S DIRECTORY PUBLISHING BUSINESS ?**
7 **A.** The Commission should disregard this issue because it is irrelevant to this proceeding.
8 There is no relationship between this transfer of control proceeding and the stock
9 purchase transaction that occurred three years ago. Because United never owned any
10 assets related to the directory publishing business, and its ratepayers bore no risk or
11 financial gain related to the business, there is no basis for calculating a gain
12 attributable to United. If the Commission wishes to explore the issue further, it could
13 do so in a rate case proceeding. At that point the Commission can make a
14 determination on the amount of subsidy, if any, it wishes to include in local rates
15 based upon all the information it will have at hand such as earnings level, the impact
16 the subsidy would have on competition, the prospects for continuing profitability in
17 the directory advertising market and other factors as addressed by Richard Pfeifer.
18
19 **VII. AFFILIATED INTEREST**
20
21 **Q. UNDER RCW 80.16.010 WOULD SPRINT BE AN AFFILIATED INTEREST**
22 **OF UNITED OR SLDI AFTER THE SEPARATION?**

1 A. No. Ms. Erdahl seems to rely upon one definition contained in this law which
2 describes an affiliated interest as "Every corporation or person with which the public
3 service company has a management or service contract." Taken literally, this would
4 mean that every copy machine repair service, janitorial service, etc. provided under
5 contract would constitute an affiliated interest. Sprint doubts this was the intent when
6 the law was created. Certainly the Commission has not enforced this interpretation in
7 its review of the annual affiliated interest reports that are filed by ILECs.
8
9 **Q. SHOULD THE LONG-DISTANCE RESALE COMMERCIAL CONTRACT**
10 **THAT SPRINT LONG DISTANCE, INC. ENTERS INTO WITH SPRINT BE**
11 **TREATED AS AN AFFILIATED INTEREST AGREEMENT AS PROPOSED**
12 **BY MS. ERDAHL?**
13 A. No. Sprint does not believe that LTD Holding Company or any of its entities would
14 be affiliated interests of Sprint after the separation, but even if they were, the affiliated
15 interest statutes would not apply to this contract. The reason is that United is not a
16 party to this contract The contract is between SLDI and Sprint. SLDI is certified as
17 a competitive provider in Washington. Under WAC 480-121-063, certain regulatory
18 requirements are waived for competitively classified companies, including Chapter
19 80.16 RCW Affiliated Interests. One of Ms. Erdahl's concerns with the long-distance
20 contract is that the five year term will limit United's flexibility to compete effectively
21 after the spin-off, and could restrict LTD's ability to compete with other long distance
22 carriers. She also expresses concern that the wholesale rates Sprint will charge may
23 not be fair because Sprint has not provided a cost study supporting the rates. There is

1 no basis for this concern, however, because long-distance and wholesale pricing is
2 regulated by the competitive market. Additionally, as indicated by the table in
3 Richard Pfeifer's rebuttal testimony, the toll revenue at issue will not appear on
4 United's books, but will be booked to non-regulated operations by United's new toll
5 affiliate, currently certified as SLDI. Under this arrangement, United will bill access
6 charges to Sprint at tariff rates as it has in the past. If United's local customers select
7 another provider instead of SLDI, such as AT&T, United will charge the same tariff
8 access rates as it would charge Sprint. Therefore, there can be no negative impact to
9 United's regulated operations nor any harm to "captive customers of a regulated
10 telecommunications carrier" as Ms. Erdahl puts it. United's revenue will not vary
11 with the success or failure of SLDI.
12
13 Further, it has not been the Commission's practice to require other toll resellers that
14 are competitors to SLDI to prove that they are paying fair wholesale rates, nor does it
15 require the underlying provider to submit cost studies to determine if the competitive
16 rate they are charging resellers is fair. Requiring Sprint to provide access rates to
17 SLDI at cost would interfere with the market dynamics. For example, it would be
18 discriminatory if Sprint were required to provide access rates to SLDI at cost, but not
19 required to provide access rates to Sprint's other resellers at cost. Conversely, if
20 Sprint has contracts with other resellers with most favored nation (MFN) provisions, it
21 would be required to provide access to its other resellers at regulated rates that would
22 not be sufficient to maintain its wholesale business profitably.
23

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1 **Q. SHOULD THE WIRELESS SERVICE RESALE MVNO AND THE BUSINESS**
2 **SALES AGENCY AGREEMENTS BE TREATED AS AFFILIATED**
3 **INTEREST AGREEMENTS?**
4 A. No. Again, both contracts are between SLDI and Sprint. Even if an argument could
5 be made that the two entities were affiliated interests after the separation, SLDI is
6 exempt from the affiliated interest statue under WAC 480-121-063. With respect to
7 the business sales agency agreement, SLDI is not *required* to sell services on behalf of
8 Sprint as Ms. Erdahl testified. Rather, SLDI is entering into this agreement because it
9 provides an opportunity for a new revenue stream.
10
11 **Q. SHOULD LTD'S CONTRACT TO PROVIDE CNAM SERVICES TO SPRINT**
12 **BE TREATED AS AN AFFILIATED INTEREST?**
13 A. No. This service will be provided to Sprint by LTD Holding Company, not United,
14 and is a non-regulated service that will not affect United's regulated operations in any
15 way.
16
17 **VIII. CONCLUSION**
18 **Q. BASED UPON YOUR READING OF THE TESTIMONY PUBLIC COUNSEL**
19 **AND STAFF, DO THE CONCLUSIONS CITED IN YOUR PRIOR**
20 **TESTIMONY CHANGE?**
21 A. My conclusions about United possessing the requisite technical and managerial
22 capabilities to continue to provide quality of service do not change, nor do my
23 conclusions about the benefits of the separation. I am concerned, however, that

1 United's objective of making the transition transparent to its customers would be
2 unattainable if the Commission adopts Staff's proposal and conditions approval on a
3 major rate rebalancing. Additionally, I am concerned that addressing issues beyond
4 the scope of this proceeding, such as rate rebalancing and Sprint's sale of its directory
5 business three years ago will delay the separation. Delayed approval of the
6 application will impair LTD Holding Company's ability to accomplish a smooth
7 transition. Florida, Nebraska, Nevada, Ohio, South Carolina, Wyoming, and
8 Minnesota have already approved the separation. When coupled with states where no
9 approval is required, these approvals include 78 percent of LTD Holding Company's
10 access lines. Ultimately, the real decision before the Commission does not concern
11 rate rebalancing or directory imputations, but whether United and LTD Holding
12 Company will be better situated to face increased competition on their own, where
13 they have the flexibility, autonomy, and independence to meet their local customers'
14 needs unencumbered by the demands of a larger, predominantly wireless, carrier. The
15 answer is clearly yes. The Commission should approve the proposed separation.
16
17 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**
18 A. Yes.