EXHIBIT MSR-1T

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of Qwest's Petition to be Regulated Under an Alternative Form of Regulation Pursuant to RCW 80.36.135	Docket No. UT-

DIRECT TESTIMONY OF

MARK S. REYNOLDS

ON BEHALF OF

QWEST CORPORATION

OCTOBER 20, 2006

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I. IDENTIFICATION OF WITNESS

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND EMPLOYMENT.

A. My name is Mark S. Reynolds and my business address is 1600 7th Ave., Room 3206, Seattle, Washington, 98191. I am employed by Qwest Services Corporation ("QSC") as the Senior Director of Washington Public Policy for Qwest Corporation ("Qwest") and other Qwest companies.

Q. PLEASE REVIEW YOUR PRESENT RESPONSIBILITIES.

A. I am primarily responsible for all aspects of state regulatory compliance for QSC, particularly Qwest's regulated Washington operations. My responsibilities include oversight of regulatory filings and advocacy, including presentation of testimony, as in this docket. I am also responsible for QSC's and its affiliates' communications and activities with the Washington Utilities and Transportation Commission ("Commission").

Q. BRIEFLY OUTLINE YOUR EDUCATION AND EMPLOYMENT BACKGROUND.

A. I received a B.A. from Oregon State University in 1977 and an M.B.A. in 1979 from the University of Montana. My professional experience in the telecommunications industry spans 25 years working for Qwest and its predecessors, U S WEST Communications, Inc. ("U S WEST") and Pacific Northwest Bell. I have held various director positions in costs, economic analyses, pricing, planning and interconnection for U S WEST in the marketing and regulatory areas. I was responsible for ensuring economic pricing relationships between and among U S WEST's product lines, including telephone exchange service, long distance, and switched/special access services. I represented U S WEST, both as a pricing policy witness, and as the lead company representative, in a number of state regulatory and industry pricing and service unbundling workshops. Subsequently, I managed an organization responsible for the economic analyses and cost studies that supported U S WEST's tariffed product and service prices and costs before state and federal regulators.

I have also managed U S WEST's interconnection pricing and product strategy and the interconnection negotiation teams that were responsible for negotiating interconnection and resale contracts with new local service providers. Also, I managed U S WEST's cost advocacy and witness group, which was responsible for providing economic cost representation in telecommunications forums, workshops and regulatory proceedings. Finally, prior to my current position, I was responsible for state regulatory finance issues and, specifically, the development and implementation of Qwest's performance assurance plans in conjunction with its Section 271 applications.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS COMMISSION?

A. Yes. I have testified in a number of proceedings before the Commission dating back to 1989, including rate and cost dockets, wholesale arbitration dockets, wholesale complaint dockets, the Qwest/U S WEST merger docket, the 271 docket, the Dex sale docket, and most recently the Service Quality Performance Plan docket.

II. PURPOSE OF TESTIMONY

Q. WHAT IS THE PURPOSE OF THIS TESTIMONY?

A. The purpose of my testimony is to provide an overview of Qwest's request for an alternative form of regulation ("AFOR") in accordance with RCW 80.36.135. To that end, my testimony explains the basis for Qwest's AFOR request, reviews the applicable statues and rules that apply to such a request and summarizes Qwest's evidence that satisfies the statutory requirements.

III. OVERVIEW OF QWEST'S PETITION

Q. WHAT IS THE BASIS FOR QWEST'S PETITION FOR ALTERNATIVE REGULATION?

A. The primary basis is the unprecedented level of competition Qwest now faces in virtually all of its markets in the state of Washington and the differences in regulation between Qwest and its competitors. Qwest faces pervasive competition from wireless providers and cable companies for its residential exchange service, features and long distance. Also, as was determined in Dockets UT-030614 and UT-050258, Qwest faces effective competition for its business services from competitive local exchange carriers ("CLECs") and inter-exchange carriers ("IXCs"). The testimony of David L. Teitzel, also filed in support of Qwest's AFOR petition, provides an in-depth analysis of the various types and levels of competition in the Washington telecommunications market.

Q. WHAT ARE THE REGULATORY DIFFERENCES BETWEEN QWEST AND ITS COMPETITORS?

A. The Commission does not regulate Qwest's inter-modal competitors – wireless providers, cable companies and other Voice over Internet Protocol ("VoIP") providers. Although the Commission does regulate CLECs, CLECs are subject to only minimal regulation. Under the Commission's rules, CLECs are classified as competitive companies for which many of the Commission's rules are waived. As competitively classified companies, CLECs are not required to comply with the Commission rules associated with a number of financial transactions and reporting requirements, including affiliated interests, cash transfers and security obligations, and property transfers. CLECs do not have to keep their accounting books in accordance with regulatory accounting standards and do not have to file quarterly financial reports with the Commission. Also, although CLECs must comply with the Commission's service quality rules, virtually none of them needs to file the monthly service quality reports required of the larger incumbent local exchange companies.[1] Finally, and most important, CLECs are not subject to rate of return regulation, or any other type of regulatory pricing constraint, and all of their services are treated as competitively classified services for which there is minimal regulation.

Q. WHY IS THE RELATIVE LEVEL OF REGULATION AN IMPORTANT CONSIDERATION IN THE COMMISSION'S DELIBERATION OF QWEST'S AFOR PETITION?

A. It is important because regulatory constraints impede Qwest's ability to offer its services in a similar manner as its competitors. As mentioned in the previous response, Qwest is required to comply with financial and service quality

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[1] Only regulated companies serving more than 2% of the access lines are required to file monthly service quality reports.

regulations and reporting requirements. Such regulation forces Qwest to incur monitoring and reporting costs that are not borne by its competitors. Further, Qwest's pricing flexibility is limited by monopoly based constraints and rate of return earnings requirements while its competitors face no such artificial conditions. For example, earnings monitoring and artificial cost requirements are inappropriate in a competitive environment where costs can vary widely between diverse technologies and where prices are determined by the market.[2] In a competitive market, economically efficient prices are driven by consumer demand, based on product functionality, not the underlying product costs or a company's return on investment.

Rate of return regulation is a vestige of a bygone era where monopoly phone companies consented to offer customers services at prescribed rate levels, bounded by a set return on investment, in return for an exclusive operating franchise. Because the fundamental concepts underlying an exclusive franchise have been undermined by pervasive competition, traditional regulation must be relaxed.

RCW 80.36.135, **Alternative regulation of telecommunications companies**, states, in part, that "[c]hanges in technology and the structure of the telecommunications industry may produce conditions under which traditional rate of return, rate base regulation of telecommunications companies may not in all cases provide the most efficient and effective means of achieving the public policy goals of this state . . ." Qwest submits that the changes in technology and

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[2] For example, providing a VoIP telephony service on cable is a relatively small incremental cost compared with the cost to provide traditional circuit switched telephone service. Likewise, the cost to provide wireless services are different from either cable-based telephone or traditional wire-line service costs.

the structure of the telecommunication industry referenced in the statute are precisely what has occurred over the past five years with the emergence of wireless and cable networks and the Internet to offer telecommunications services which are competing with the regulated services of traditional telephone companies such as Qwest. Consequently, Qwest believes that petitioning the Commission to change its regulation to better reflect today's competitive market is exactly the purpose of RCW 80.36.135.[3]

Q. WHAT DID QWEST DO IN PREPARATION FOR ITS ALTERNATIVE FORM OF REGULATION PLAN?

A. In preparation for its AFOR Plan, Qwest conducted a series of discussions with Commission Staff, the Public Counsel Section of the Attorney General's Office, and WebTEC. The purpose of these discussions was to solicit input that Qwest could use to design its AFOR plan. As indicated in my testimony, I reference numerous provisions that Qwest has included in its proposal that have been included because of the feedback provided in these discussions. While Qwest has not included all of the suggestions from other parties, it believes that its Plan is a reasonable proposal that meets the terms of the statute and should be approved by the Commission.

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[3] In many of Qwest's fourteen states, and in other states in the country, laws have been recently changed, or are in the process of being changed, to reflect the competitive telecommunications market and incorporate the goals that are expressed in this testimony. In other states, Qwest has successfully worked with the existing statutes and regulatory processes to achieve these same objectives. Qwest believes that this second approach is the preferable alternative to pursue in Washington at this time.

Q. WHAT DOES QWEST PROPOSE FOR AN ALTERNATIVE FORM OF REGULATION?

A. The basis of Qwest's AFOR proposal is that Qwest should be regulated like a competitively classified company pursuant to RCW 80.36.320[4] subject to certain exceptions and certain transition period requirements, as described herein. Additionally, Qwest requests that the service quality reporting requirements under WAC 480-120-439(1) be waived, although it will still be subject to WAC 480-120-439(2) service quality requirements.[5] Also, Qwest requests that the reporting requirements in the Seventeenth Supplemental Order in Docket UT-991358 be waived for Qwest.[6] Finally, Qwest proposes that upon approval by the Commission, the terms of the AFOR remain in effect for at least four years. Six months prior to the four year anniversary, Qwest and the Commission will conduct a review of the provisions of the AFOR to determine if changing market conditions warrant modifications to the plan. At the four year anniversary, either the Commission or Qwest may reopen the AFOR proceeding to propose modifications to the plan.

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4 The following statutes (and any associated rules and regulations) are waived for competitive telecommunications companies pursuant to RCW 80.36.320: RCW 80.04.300 (Budgets to be filed by companies -- Supplementary budgets); RCW 80.04.310 (Commission's control over expenditures); RCW 80.04.320 (Budget rules); RCW 80.04.330 (Effect of unauthorized expenditure -- Emergencies); RCW 80.04.360 (Earnings in excess of reasonable rate -- Consideration in fixing rates); RCW 80.04.460 (Investigation of accidents); RCW 80.04.520 (Approval of lease of utility facilities); RCW 80.36.100 (Tariff schedules to be filed and open to public); RCW 80.36.110 (Tariff changes -- Statutory notice -- Exception); Chapter 80.08 RCW (Securities) (except RCW 80.08.140, State not obligated); Chapter 80.12 RCW (Transfers of property); Chapter 80.16 RCW (Affiliated interests).

5 Under this provision, Qwest would still be required to comply with WAC 480-120-439 service quality requirements, but would no longer be required to provide mandatory monthly reports. Like Class B companies, Qwest would be required to provide service quality reports, on an exception basis, if requested by the Commission.

6 The Seventeenth Supplemental Order in Docket UT-991358 requires Qwest to provide monthly reports on its Customer Service Guarantee Program. Qwest asks to be relieved of this obligation because no other carriers are required to report on their respective service guarantee programs.

Q. WHAT ARE THE EXCEPTIONS TO THE PROPOSAL WHICH ARE REFERENCED IN THE PREVIOUS RESPONSE?

A. The AFOR does not address the Commission's authority to regulate Qwest's wholesale obligations under the Telecommunications Act of 1996, nor does it address existing carrier-to-carrier service quality requirements, including service quality standards or performance measures for interconnection and appropriate enforcement or remedial provisions in the event Qwest fails to meet service quality standards or performance measures. This exception includes, but is not limited to, Qwest's Interconnection Agreements with CLECs covering Interconnection, Unbundled Network Elements, Ancillary Services, and Resale of Telecommunications Services, Qwest's Interconnection Tariff (WN U-42), and Qwest's Resale Tariff (WN U-43).

The following other exceptions not addressed by the AFOR are:

- Standalone Residential Exchange Service - Flat/Measured Options (WN U-40, Sections 5.2.1 and 5.2.4
- Washington Telephone Assistance Program - "WTAP" (WN U-40, Section 5.2.6 A.)
- Tribal Lifeline (WN U-40, Section 5.2.6 B.)
- Link-up Programs (WN U-40, Sections 5.2.6 C. & D.)
- Basic and Enhanced Universal Emergency Number Service – 911 (WN U-40, Section 9.2)
- Access Service (WN U-44)

The services listed above as exceptions to the AFOR would remain under tariff and subject to the Commission's authority under current statutes and rules.

Q. WHAT ARE THE TRANSITION PERIOD REQUIREMENTS OF THE AFOR?

A. The following requirements would apply during a four year transition period:

- The standalone residential exchange service recurring rate would be capped at $14.50 during the four year transition period. Qwest would not increase the rate by more than $.50 in any year of the transition period.
- Although Qwest's digital business services, analog private line services, and residential exchange service features and packages would be treated as competitively classified in accordance with being treated like a competitively classified company, Qwest would agree not to geographically de-average the non-recurring and monthly recurring rates for these services.[7]
- Notwithstanding the proposed AFOR provision that would exempt Qwest from filing mandatory service quality reports, during the 4 year transition period, Qwest would provide monthly service reports that comply with the Class A company reporting requirements of WAC 480-120-439(1). For its transition period service quality reporting, Qwest would modify its current service quality report format to be consistent with the level of reporting detail provided by other Class A companies.
- Notwithstanding the proposed AFOR provision that would allow Qwest to keep its accounts pursuant to WAC 480-120-355 and file its annual financial report pursuant to WAC 480-120-382, Qwest would file an annual report based on its books of account kept for FCC reporting purposes ("MR books") in accordance with the USOA ("Part 32") as specified in WAC 480-120-359 (1)(a) except that the effective

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[7] The proposed AFOR does not alter the regulatory treatment of any service the Commission has previously determined to be competitively classified.

date for Part 32 would be as currently promulgated, not the date specified in WAC 480-120-999 (4)(a). Qwest's annual report would also include a directory revenue credit in the amount specified by the settlement agreement the Commission approved in the Dex case.[8] Qwest would also include the credits to its depreciation reserve required for a prior sale of rural exchanges[9] and for sharing under a prior AFOR.[10] Finally, Qwest would include a standing adjustment reflecting the difference in rate base between its MR books and its Washington jurisdictional books of account ("JR books") on the date of transition from JR books to MR books.

- Notwithstanding the AFOR provision that would effectively waive the applicability of most financial requirements for Qwest, Qwest agrees to be bound by RCW 80.12 for purposes of reviewing any merger involving its regulated company. Further, notwithstanding that WAC 480-120-369 and WAC 480-120-395 would be waived for Qwest if treated as a competitively classified company, Qwest agrees to be bound by the parts of those rules that are currently being challenged in the Court of Appeals of the State of Washington Division II pending a final resolution of that appeal. If the decision is in Qwest's favor the rules would not apply to Qwest. If the decision is in the Commission's favor, Qwest agrees to be bound by the rules.

For ease of review, Exhibit MSR-2 contains a summary of Qwest AFOR proposal, including the baseline provision, the exceptions, and the transition period requirements.

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8 12th Supplemental Order in WUTC Docket No. UT-0211208.

9 3rd Supplemental Order in WUTC Docket No. 940701, June 8, 1995

10 5th, 16th, 21st, 22nd and 23rd Supplemental Orders in WUTC Docket No. U-89-3245-P.

Q. PLEASE EXPLAIN THE PRACTICAL APPLICATION OF QWEST'S AFOR PROPOSAL, INCLUDING SPECIFIC CHANGES IN THE REGULATION OF QWEST IF THE AFOR IS APPROVED BY THE COMMISSION?

A. The foundation of Qwest's proposal is the provision that it be regulated as a competitively classified company. Although footnote 4 details the statutes that are waived for competitively classified companies, the following list of regulatory changes summarizes the practical effect of this provision:

- All of Qwest's services would be regulated as competitively classified services. In the exceptions portion of Qwest's proposal, however, Qwest effectively removes certain services from competitive classification regulatory treatment – i.e., standalone residential exchange service, WTAP, Tribal Lifeline, Link-up Programs, 911, access service, interconnection service, resale service, and Qwest's other wholesale obligations under the Telecom Act. Qwest services that are not listed as exceptions would be treated as competitively classified services as a result of this provision and include, but are not limited to:
    - Residential features
    - Residential packages
    - Analog private line
    - Digital business services in wire centers that were not previously competitively classified

  In its transition period requirements, however, Qwest agrees not to geographically de-average the non-recurring and monthly recurring rates for these services during the transition period.
- Qwest would not be subject to rate of return regulation

- Qwest would not be subject to regulations or reporting requirements associated with:
  - Securities - RCW 80.08
  - Transfers of Property - RCW 80.12
  - Affiliated Interests – RCW 80.16

  Some transition period exceptions to the waiver of these financial rules are that Qwest agrees to be bound by RCW 80.12 for purposes of reviewing a merger of its regulated company and agrees to be bound by the final court decision associated with WACs 480-120-369 and 480-120-395.
- Qwest's financial reporting requirements would be limited to keeping its accounts in accordance with generally accepted accounting principles ("GAAP") and providing an annual report in compliance with WAC 480-120-382. In the transition period requirements portion of Qwest's proposal, however, Qwest agrees to provide during the four year transition period an annual report and a report on the results of operations reflecting its MR books with adjustments for the directory revenue credit arising from the Dex case, credits to its depreciation reserve for AFOR sharing and rural exchange sales, and a standing balance reflecting the difference between it MR books and JR books on the date of transition.

Another provision of Qwest's proposal is that Qwest be exempt from filing monthly service quality reports, including a waiver of a requirement that it report on its Customer Service Guarantee Program metrics. This provision is constrained by the transition period requirement in which Qwest agrees to continue to provide service quality reports that are consistent with the reporting detail contained in the service quality reports of other Class A companies for the four year transition period.[11] Qwest believes it has an acceptable proposal on which parts of its current service quality report can be eliminated to obtain approximated service quality reporting parity with the other Class A companies.

Finally, Qwest's proposal provides that the AFOR be effective for four years before the Commission or Qwest can reopen the plan to propose modifications. Both the Commission and Qwest would conduct a review of the plan six months prior to the four year anniversary to determine if changing market conditions warrant plan modifications.

Q. WHAT IS THE RATIONALE FOR THE STRUCTURE OF QWEST'S AFOR PROPOSAL?

A. In order to compete effectively in Washington's competitive market, Qwest needs regulatory parity with its competitors. Understanding that it must work within the existing regulatory framework to achieve some semblance of regulatory parity, Qwest chose the regulatory scheme for competitively classified companies because it most closely reflects the level of regulation of at least some of its competitors, even though many of Qwest's most aggressive competitors (such as wireless and VoIP providers) are fully deregulated.

Qwest understands that some parties do not believe that all aspects of its business are highly competitive. After numerous discussions with stakeholders, Qwest modified its proposal to be regulated like a competitively classified company to reflect certain exceptions and transition period requirements. The modifications included creating exceptions for Qwest's wholesale obligations under the 1996

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[11] For a frame of reference, Qwest currently files a forty page monthly service quality report and other Class A companies file 8-12 page service quality reports.

Telecommunications Act, and certain other services, including: standalone residential exchange service, WTAP, Tribal Lifeline, Link-up, E-911 service, and switched access service. Creating exceptions for these service means that current regulation for the services would continue to apply during the AFOR, unless changed in a separate docket.

Qwest also received feedback that the AFOR should be for a specified term and should periodically be subject to Commission modification. Consequently, Qwest developed a provision that set an initial term for the AFOR of four years, establishes a review of the plan by the Commission and Qwest six month prior to the end of that term, and allows either the Commission or Qwest to reopen the plan for modification on the 4 year anniversary of the effective date of this plan.

One area of regulation that is separate from the competitive classification statutes and rules is service quality. Once again, in the interests of achieving regulatory parity with its competitors, Qwest proposes that it not be required to file a monthly service quality report, although it would continue to be required to comply with the service quality rules. This provision is constrained by a transition period requirement that Qwest would continue to provide modified service quality reports for the initial four year term of the plan. Qwest's decision to continue providing service quality reporting during the initial term of the AFOR is based on its desire to allay the concerns of other parties that believe it is important to be able to monitor Qwest's service quality under a new regulatory regime.

Another transition period requirement in the AFOR is that standalone residential exchange service is capped at $14.50 during the transition period and that Qwest may not increase the rate by more than $.50 in any year of the four year transition period. This provision allows Qwest some pricing flexibility for one of its key services during the initial term of the AFOR and yet provides customers with rate certainty and stability during the transition period.

During the four year transition period, Qwest also agrees not to geographically de-average the non-recurring and monthly recurring charges for the services which would be treated as competitively classified services as a result of the AFOR. The rationale behind this requirement is to address the concerns of some parties that customers in certain rural areas might not enjoy the benefits of more intense competition in the urban markets if Qwest were allowed to de-average its rates.

Finally, Qwest's AFOR includes several transition period requirements that allow for a more gradual transition to competitively classified company status in the area of financial reporting. As previously explained, most of the financial transaction and reporting requirements are waived for competitively classified companies. In order to allay the concerns of some parties that believe it is important to be able to continue to monitor Qwest's regulatory financial information as it transitions to a new regulatory scheme, Qwest agrees to the following during the transition period:

- Keep its books of account in accordance with the USOA, provide an annual report and a report on the results of operations in accordance with standard FCC reporting (MR books) but include adjustments for Dex, sharing, rural sales and the transition from JR books to MR books (currently, Washington is the only jurisdiction in which Qwest files Commission adjusted results of operations more frequently than annually);

- Qwest agrees to be bound by RCW 80.12 for purposes of a Commission review of a merger of its regulated company; and,
- Qwest agrees to be bound by the final court decision associated with WACs 480-120-369 and 480-120-395 - if those rules are deemed valid, no waiver of them is sought in the AFOR.

Q. PLEASE INDICATE WHICH OF QWEST'S REGULATED INTRASTATE SERVICES HAVE PREVIOUSLY BEEN COMPETITIVELY CLASSIFIED, WHICH WILL BE TREATED AS COMPETITIVELY CLASSIFIED IF THE AFOR IS APPROVED, AND WHICH WILL REMAIN TARIFFED IF THE AFOR IS APPROVED.

A. Exhibit MSR-3, titled Regulatory Status of Qwest Corporation's Intrastate Services, provides a breakdown of Qwest's intrastate services into the requested categories.

Q. EXHIBIT MSR-3 INDICATES THAT QWEST IS SEEKING TO HAVE ITS DIGITAL BUSINESS SERVICES THAT ARE NOT LOCATED IN COMPETITIVE ZONES TREATED AS COMPETITIVELY CLASSIFIED SERVICES UNDER THE AFOR. WHAT IS YOUR RATIONALE FOR THIS?

A. In Docket UT-050258, the Commission competitively classified Qwest's digital business services in 58 wire centers where they found effective competition based on evidence presented to them by Qwest and Staff. In Qwest's residual wire centers, where it was not granted competitive classification, there was little or no evidence of the presence of either Qwest's or competitors' digital business services. This is primarily due to the fact that such services are mainly used by large businesses that are typically located in urban areas. Because it is difficult to administer product lines under two different regulatory regimes, Qwest is asking the Commission to treat all of its digital business services as competitively classified services under the AFOR. In return, Qwest commits to not geographically de-average these services during the initial 4 year term of the AFOR. This means that customers located in the more rural wire centers of the state would benefit from pricing decisions made by the company to compete in the urban wire centers.

Q. EXHIBIT MSR-3 ALSO INDICATES THAT QWEST IS SEEKING TO HAVE ITS ANALOG PRIVATE LINE SERVICES TREATED AS COMPETITIVELY CLASSIFIED SERVICES. WHAT IS YOUR RATIONALE FOR THIS?

A. If the market for digital private line is competitive, so is the market for analog private line. This is because the same core facilities used to provision digital private line services can be used to provision analog private line services. The main difference in provisioning the services is the type of electronic equipment used at each end of the private line facility. Also, similar to how digital business services would be treated under the AFOR, Qwest commits to not geographically de-average these services during the initial 4 year term of the AFOR.

Q. RCW 80.36.135 REQUIRES THE COMMISSION TO CONSIDER A NUMBER OF PUBLIC POLICY GOALS IN DETERMINING THE APPROPRIATENESS OF AN AFOR. DO YOU BELIEVE THAT YOUR AFOR PROPOSAL SATISFIES THESE PUBLIC POLICY GOALS?

A. Yes. The public policy goals cited by the statute include those declared in RCW 80.36.300 and those listed in RCW 80.36.135. I will first address the public policy goals in RCW 80.36.300.

1. <u>Preserve affordable universal telecommunication service</u>

Qwest's proposed AFOR addresses this goal in variety of ways. First, the AFOR allows Qwest to be more competitive in the marketplace, which will help ensure its survival and the survival of its services which provide customers with more choices at affordable rates. Second, the AFOR specifically carves out standalone residential service as a fully regulated service and establishes a maximum price cap for the service during the initial term of the plan. Finally, for those services that would be treated as competitively classified services as a result of the AFOR, Qwest commits to not geographically de-average the non-recurring and monthly recurring rates. This means that rural customers would receive the benefit of any price changes made for those services by the company to compete in the more intensely-competitive urban markets.

2. <u>Maintain and advance the efficiency and availability of telecommunications service</u>

Qwest's AFOR allows it to be more competitive in the market by enhancing its efficiency which increases its chances of survival and the survival of its services which provide customers with more choices at affordable rates. Efficiency gains directly attributable to the AFOR include streamlined reporting and more efficient accounting and product and price listing processes.

3. <u>Ensure that customers pay only reasonable charges for telecommunications service</u>

Regardless of whether Qwest's AFOR Petition is granted, its prices are largely constrained by the competitive market. Also, as previously mentioned, the AFOR specifically carves out standalone residential service as a fully regulated service and establishes a maximum price cap for the service during the initial term of the plan. And, for those services that would be treated as competitively classified services as a result of the AFOR, Qwest commits to not geographically de-average the non-recurring and monthly recurring rates. This means that rural customers would receive the benefit of any price changes made for those services by the company to compete in the competitive urban markets.

4. <u>Ensure that rates for noncompetitive telecommunications services do not subsidize the competitive ventures of regulated telecommunications companies</u>

Qwest does not believe that any of its services are noncompetitive. Nonetheless, to allay the concerns of some parties that, in some instances, few competitive alternatives may exist for standalone residential exchange service, Qwest agrees in its AFOR to leave that service as a fully regulated service, subject to the Commission's oversight. This means that the Commission can ensure that the rates for the service are fair, just and reasonable and do not provide a subsidy to other services.

5. <u>Promote diversity in the supply of telecommunications services and products in telecommunications markets throughout the state</u>

As previously stated, the AFOR allows Qwest to be more competitive in the marketplace which will help ensure its survival and the survival of its services which provide customers with more choices at affordable rates. As Mr. Teitzel's testimony explains, the past five years have seen a tremendous increase in the number of telecommunications related products available to consumers in all markets, and that trend will certainly continue over the next four years. In order for Qwest to be successful in this highly competitive market, it must be subject to a similar level of regulation as its competitors. Qwest's AFOR is a modest step in that direction.

6. <u>Permit flexible regulation of competitive telecommunications companies and services</u>

Qwest believes that this is exactly what its AFOR is designed to do. Recognizing that its competitors that utilize cable and wireless networks are unregulated, the AFOR helps move the company in the direction of regulatory parity.

Q. PLEASE ADDRESS HOW QWEST'S AFOR PROPOSAL ADDRESSES THE PUBLIC POLICY GOALS OF RCW 80.36.135.

A. The following response addresses how Qwest's AFOR satisfies the public policy goals listed for RCW 80.36.135.

1. <u>Facilitate the broad deployment of technological improvements and advanced telecommunications services to underserved areas or underserved customer classes</u>

Nothing in the AFOR affects Qwest's ongoing commitment to deploy quality and technologically current products to its customers throughout its operating territory. In fact, Qwest's AFOR includes a provision that it would not geographically de-average its rates for the services that would be treated as competitively classified services if the AFOR is approved. This means that rural customers would receive the benefit of any price changes for those services made by the company to compete in the competitive urban markets.

2. Improve the efficiency of the regulatory process

Qwest's AFOR definitely seeks to improve the efficiency of the regulatory process through streamlined financial and service quality reporting and more efficient accounting and product and price listing processes. More specifically, the proposed AFOR would eliminate a number of unnecessary quarterly financial reports, eliminate over 50% of the current monthly service quality report to bring it into line with the reporting detail of other similarly situated companies, and significantly reduce the regulatory filings of a number of services that would be treated as competitively classified services if the AFOR is approved.

3. Preserve or enhance the development of effective competition and protect against the exercise of market power during its development

Because the AFOR begins the transition to regulatory parity for Qwest, vis-à-vis its unregulated cable and wireless competitors, it furthers the development of effective competition. The highly competitive market that is the genesis for Qwest's AFOR request provides the necessary protection against the exercise of market power. Mr. Teitzel's testimony provides compelling evidence that Qwest has virtually no market power in today's market.

4. Preserve or enhance service quality and protect against the degradation of the quality or availability of efficient telecommunications services

Nothing in Qwest's AFOR affects its current retail or wholesale service quality obligations, with the exception of the modifications to Qwest's monthly service quality report to bring it more in line with the reporting by other similar companies. Alternatively, Qwest maintains that in the future, it is the competitive market that will ensure high quality and efficient telecommunications services and not regulation. In today's highly competitive market, if Qwest does not provide a high quality product that is efficiently provisioned and attractive to customers, it will not survive.

5. <u>Provide for rates and charges that are fair, just reasonable, sufficient, and not unduly discriminatory or preferential</u>

Qwest's AFOR proposes a number of its services be treated as competitively classified service. These services are subject to significant competition which will constrain rates and ensure that they are reasonable. In the AFOR, Qwest commits not to geographically de-average the rates for these services which means that rural customers would enjoy the competitive pricing benefits brought about by the highly competitive urban markets. This also helps to ensure against undue discrimination or preference.

6. <u>Not unduly or unreasonable prejudice or disadvantage any particular customer class</u>

Nothing in Qwest's AFOR results in unreasonable prejudice or disadvantages any particular class of customer. As has been previously explained, the AFOR includes Qwest's commitment to not de-average the rates of services that would be treated as competitively classified services if the AFOR is approved. Further, Qwest's AFOR proposal does not change the current level of regulation for wholesale services and standalone residential exchange service.

IV. CONCLUSION

Q. PLEASE SUMMARIZE YOUR TESTIMONY.

A. My testimony provides an overview of Qwest's request for an AFOR. The primary basis for the AFOR is the unprecedented level of competition Qwest now faces in virtually all of its markets in the state of Washington and the differences in regulation between Qwest and its competitors. The Commission does not regulate Qwest's intermodal competitors (wireless, cable, and VoIP) and CLECs are subject to only minimal regulation. The relative level of regulation among competitors is an important consideration for the Commission in its deliberation of Qwest's AFOR Petition because regulatory constraints impede Qwest's ability to offer its services in a similar manner as its competitors. The testimony of David L. Teitzel provides an in-depth analysis of the various types and levels of competition in the Washington telecommunications market.

The basis of Qwest's AFOR is that it should be regulated like a competitively classified company pursuant to RCW 80.36.320, subject to certain exceptions and certain transition period requirements. Additionally, Qwest also requests modifications to its service quality reporting requirements. The AFOR would remain in effect for at least 4 years, at which time either the Commission or Qwest may reopen the AFOR proceeding to propose modifications to the plan. Exceptions to the provision that Qwest be regulated like a competitively classified company include:

- The AFOR does not affect the Commission's current regulation of Qwest's wholesale obligations under the Telecommunications Act of 1996, including wholesale service quality, interconnection agreements, the Interconnection Tariff (WN U-42) and the Resale Tariff (UN U-43).
- Unless otherwise specifically addressed in the AFOR, the following services would remain under tariff and subject to the Commission's authority under current statutes and rules:

    - Standalone Residential local Exchange Services, WTAP, Tribal Lifeline, and Link-up;
    - Universal Emergency Number Service – 911; and
    - Access Service.

The following transition period requirements apply during a four year transition period:

- The standalone residential local exchange service recurring rate would be capped at $14.50 during the four year transition period and would not be allowed to increase by more than $.50 in any year of the transition period;
- Non-recurring and monthly recurring rates for services that would be treated as competitively classified by virtue of the AFOR, would not be geographically de-averaged;
- Qwest would continue to file monthly service quality reports consistent with the service quality reports filed by other Class A companies;
- Qwest would keep its books of account in accordance with the USOA, provide an annual report and a report on the results of operations in accordance with standard FCC reporting (MR books) but include adjustments for Dex, sharing, rural sales and the transition from JR books to MR books (currently, Washington is the only jurisdiction in which Qwest files Commission adjusted results of operations more frequently than annually);
- Qwest agrees to be bound by RCW 80.12 for purposes of a Commission review of a merger of its regulated company; and,
- Qwest agrees to be bound by the final court decision associated with WACs 480-120-369 and 480-120-395 - if those rules are deemed valid, no waiver of them is sought in the AFOR.

Finally my testimony addresses how Qwest's AFOR proposal satisfies the public policy goals declared in RCW 80.36.300 and listed in RCW 80.36.135. Ultimately, Qwest's AFOR represents a critical milestone in the changing telecommunications market and serves as a vehicle by which competitive forces are allowed to replace regulatory mandates. Qwest urges the Commission to approve its petition expeditiously.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does.