

1 **WITNESS QUALIFICATIONS AND BACKGROUND**

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Q. PLEASE STATE YOUR NAME, JOB TITLE AND BUSINESS ADDRESS.
A. My name is Karen A. Baird. My job title is Director, Markets-Regulatory Strategy for U S WEST Communications (U S WEST¹). My business address is 421 SW Oak, Portland, OR 97204.

Q. PLEASE DESCRIBE YOUR QUALIFICATIONS AND EXPERIENCE.
A. I received a BS in business administration from Portland State University in 1980 and a masters in business administration from the University of Oregon in July 1994. I have been employed by U S WEST since 1981 (then Pacific Northwest Bell). I have held a variety of positions in U S WEST, including sales, product management, regulatory affairs, strategic development, issues management, and E911 service and technical design.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE ANY STATE REGULATORY COMMISSION?
A. Yes. I have testified before the Commissions of South Dakota, Colorado, Oregon, Utah, Nebraska and New Mexico.

PURPOSE OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?
A. The purpose of my testimony is to describe U S WEST's proposed withdrawal and grandfathering of Centrex Plus and to explain why the filing should be approved by the Commission.

Q. DOES THIS CENTREX PLUS FILING CHANGE ANY RATES FOR CENTREX PLUS SERVICE OR ANY OTHER TARIFFED OR PRICE LISTED SERVICE?
A. No.

WHAT IS CENTREX PLUS?

Q. WHAT IS CENTREX PLUS?
A. Centrex Plus is a central office-based switching service offered by U S WEST that includes a standard feature package of optional calling features such as call hold, call transfer and three-way calling.

In my testimony, all references to U S WEST Communications, Inc., and U S WEST refer exclusively to the U S WEST Communications, Inc., and have no connection to the U S WEST Media Group, Inc., or its subsidiaries.

1
2 Centrex Plus is a central office-based switching alternative
3 to Private Branch Exchange Switches or, as they are
4 commonly called, PBXs. Centrex Plus is, and PBXs are,
5 designed for and marketed to medium and large business
6 and government end-user customers.
7

8 **WHY U S WEST PROPOSED**
9 **TO GRANDFATHER CENTREX PLUS**

10
11 **Q. COULD YOU PLEASE EXPLAIN THE CENTREX PLUS FILING**
12 **U S WEST MADE ON FEBRUARY 5, 1996?**

13 A. Yes. In Tariff Transmittal 2740T U S WEST requested
14 the Washington Utilities and Transportation Commission
15 approve the "discontinuance" of Centrex Plus to new
16 customers" and the "grandfathering" of existing
17 customers until April 29, 2005.
18

19 **Q. WITH THE APPROVAL OF TARIFF TRANSMITTAL 2740T, WOULD**
20 **CENTREX PLUS BE THE ONLY GRANDFATHERED CENTREX SERVICE**
21 **IN THE TARIFF?**

22 A. No. U S WEST grandfathered, i.e., is no longer
23 offering to new customers, a number of Centrex-related
24 services such as Centrex Group Use Service
25 (grandfathered June 10, 1977), Centrex (grandfathered
26 March 30, 1981), Centraflex System 3 (grandfathered
27 August 28, 1986), and Centron service (grandfathered
28 May 5, 1995).
29

30 **Q. WHY HAS U S WEST INTRODUCED AND SUBSEQUENTLY OBSOLETE**
31 **SO MANY CENTREX TYPE PRODUCTS?**

32 A. Since the mid 1970s, when PBXs began to match or exceed
33 the capabilities of the original Centrex product on a
34 price competitive basis, U S WEST has generally
35 modified the product and grandfathered the pre-existing
36 versions.
37 Pre-existing versions were grandfathered to eliminate
38 pricing anomalies.
39

40 **Q. WHY DID U S WEST REQUEST THE DISCONTINUANCE AND**
41 **GRANDFATHERING OF CENTREX SERVICE IN THE TARIFF?**

42 A. To address price arbitrage that will occur in the new
43 telecommunications environment with the Centrex Plus
44 service.
45

46 **Q. PLEASE DESCRIBE THE PRICE ARBITRAGE CONCERNS OF**
47 **U S WEST.**

48 A. Centrex Plus, as it is currently priced and structured,
49 has significant and inappropriate advantages when
50 compared with existing basic business service and

1 feature prices. With the rapidly changing marketplace
2 and regulatory environment resulting from the
3 Washington Supreme Court decision in 1994, various
4 proceedings initiated at the Commission which have
5 encouraged local service competition and by the Federal
6 Telecommunications Act of 1996, these advantages create
7 uneconomic arbitrage (or resale) opportunities that
8 U S WEST must address as the local telecommunications
9 market is opened for competitive entry.

10

11 **Q. WHY SHOULD THIS COMMISSION BE CONCERNED ABOUT**
12 **UNECONOMIC ARBITRAGE (OR RESALE) OPPORTUNITIES?**

13 A. If the Commission were to continue to allow Centrex to
14 be resold in Washington, a Centrex reseller could
15 exploit the significant price differential between
16 Centrex station lines and U S WEST basic exchange
17 business service. If this were to occur, revenue that
18 contributes substantially to the recovery of joint and
19 common cost is significantly reduced, forcing the rates
20 of all services to increase.

21

22 For example, historically, local exchange business lines,
23 features and toll have been priced at a rate that
24 allows a contribution to support lower residential
25 rates. Thus, if a significant loss of business
26 exchange lines, features, toll, and of switched access
27 associated with interLATA toll traffic were to result
28 from Centrex resale, this contribution would be greatly
29 reduced.

30

31 **Q. CAN YOU DEMONSTRATE HOW A CENTREX RESELLER COULD**
32 **EXPLOIT THE PRICE DIFFERENTIAL?**

33 A. Yes. Confidential Exhibit A demonstrates the average
34 revenue per line a business exchange line generates in
35 Washington. This revenue estimate is based on the rate
36 for a business line, the average revenue per line for
37 central office features like hunting and call waiting,
38 the average amount of intraLATA toll, and switched
39 access service associated with outgoing interLATA toll.

40

41 Also, in Exhibit A, U S WEST projects the average revenue
42 generated from a resold Centrex line. This much lower
43 revenue estimate represents not only the price
44 difference between the rate for a business line, and a
45 Centrex station line, but the fact that Centrex
46 resellers aggregate their customers' intraLATA and
47 interLATA traffic to bypass U S WEST's toll and
48 switched access services.

49

50 **Q. CAN YOU EXPLAIN WHAT YOU MEAN WHEN YOU STATE THAT CENTREX**
51 **RESELLERS AGGREGATE THEIR CUSTOMERS' INTRALATA AND**

1 **INTERLATA TOLL TRAFFIC TO BYPASS**
2 **U S WEST'S TOLL AND SWITCHED ACCESS SERVICE?**

3 A. Yes, existing Centrex Plus resellers use Centrex Plus
4 to combine long distance traffic from unaffiliated
5 end users, then use dedicated toll trunks to haul that
6 traffic from the Centrex Plus system to an
7 interexchange carrier selected by the Centrex Plus
8 reseller. This allows the reseller to offer a 1+
9 alternative to U S WEST's intraLATA long distance
10 service.

11
12 **Q. IS THE CURRENT BUSINESS PRACTICES OF CENTREX RESELLERS WHO**
13 **AGGREGATE TOLL TRAFFIC INCONSISTENT WITH THE NEW FEDERAL**
14 **TELECOMMUNICATIONS ACT?**

15 A. Yes, it could be. One of the substantive protections
16 afforded by the new federal telecommunications law is
17 that RBOCs do not have to implement intraLATA
18 presubscription until the RBOC has been authorized to
19 provide interLATA long distance service or February 8,
20 1999 whichever is earlier. Section 271(e)(2)(B) of the
21 new federal telecommunications law provides:

22
23 Except for single-LATA States and States that have issued an
24 order by December 19, 1995, requiring a Bell
25 operating company to implement intraLATA toll
26 dialing parity, a state may not require a Bell
27 operating company to implement intraLATA toll
28 dialing parity in that state before a Bell
29 operating company has been granted authority under
30 this section to provide interLATA services
31 originating in that State or before 3 years after
32 the date of enactment of the Telecommunications
33 Act of 1996, whichever is earlier.

34
35 The new federal telecommunications law also precludes AT&T
36 and MCI Metro from joint marketing resold Centrex Plus
37 with their interLATA long distance services. Section
38 271(e)(1). Thus, AT&T and MCI Metro could not resale
39 Centrex Plus in a manner similar to other Centrex Plus
40 resellers currently operating in Washington.

41
42 **Q. HAVE OTHER STATES ADDRESSED THIS CONCERN?**

43 A. Yes, the Public Utilities Commission of the State of California, in recently
44 looking at the resale issue, released an order finding that such a practice
45 undermined the Act:

46
47 We agree with Pacific that Centrex should be resold only as
48 a business system to single businesses and not as
49 a network infrastructure, toll aggregation tool
50 that undermines the federal law on presubscription

1 timing. . . . The balance set by the law would be
2 upset if [resellers] could give their customers
3 presubscription through Centrex sale. It would be
4 inappropriate to use resale of Centrex as a tool
5 to aggregate toll from unrelated end users. . . .
6 We shall consider imposing appropriate use and
7 user restrictions limiting Centrex . . . to resale
8 as business systems in place of premise based
9 equipment (i.e., PBX)².

10

11 **Q. IS THE WITHDRAWAL AND GRANDFATHERING OF CENTREX PLUS**
12 **INCONSISTENT WITH THE NEW TELECOMMUNICATIONS ACT OF**
13 **1996?**

14 A. No. I am not aware of any provision in the
15 Telecommunications Act of 1996 that would require
16 U S WEST to continue to offer Centrex Plus to new
17 customers.

18

19 **Q. ARE THERE ANY AUTHORIZED CENTREX RESELLERS IN THE STATE**
20 **OF WASHINGTON TODAY?**

21 A. Yes.

22

23 **Q. ARE ALL OF THE INTERVENORS IN THIS CASE CURRENTLY**
24 **U S WEST CENTREX CUSTOMERS IN WASHINGTON?**

25 A. No.

26

27 **Q. WHAT EFFECT COULD THE GRANDFATHERING OF CENTREX PLUS**
28 **SERVICE HAVE ON COMPANIES WHO CURRENTLY ARE NOT**
29 **SUBSCRIBING TO THE SERVICE?**

30 A. Their concerns appear to be tied to a desire, at some
31 unspecified time in the future, to resell U S WEST
32 Centrex service, and the ability to increase their
33 profits by exploiting the price difference between
34 Centrex service and U S WEST business basic exchange
35 services.

36

37 **Q. HOW WILL ALTERNATIVE LOCAL EXCHANGE COMPANIES COMPETE IF**
38 **THEY ARE UNABLE TO RESALE U S WEST CENTREX SERVICE IN THE**
39 **FUTURE?**

40 A. Alternative local exchange companies will have a large
41 array of retail services (at wholesale rates), and
42 unbundled interconnection elements, to use in meeting
43 the needs of their customers. These resale
44 opportunities will be in addition to any of their own
45 facilities or equipment these providers might choose to

Order Instituting Rulemaking on the Commission's Own Motion into Competition
for Local Exchange Service, Docket No. R.95-04-043, 044 at pp. 24-25 (See
Schedule B)
and Commission Decision released March 13, 1996, Decision No. 96-03-020 at
pg. 25.

1 install in Washington.

2

3 **ALTERNATIVE SERVICES FOR EXISTING CUSTOMERS**

4

5 **Q. DO U S WEST'S RETAIL CENTREX CUSTOMERS HAVE COMPETITIVE**
6 **ALTERNATIVES TO CENTREX?**

7 A. Yes. U S WEST's retail Centrex customers have several
8 alternatives to select from. The two most obvious
9 include new local exchange providers who have placed
10 their own central office switch in service and are
11 offering a Centrex service, and PBX providers who are
12 anxious to meet the needs of Washington business
13 customers for telephone switching systems.

14

15 PBXs can provide functional equivalents or substitutes for
16 all of the features available with Centrex service. In
17 particular, many PBXs have management control
18 capabilities not currently available on the U S WEST
19 Centrex service.

20

21 **Q. DID THIS COMMISSION FIND THAT CENTREX SERVICE IS IN**
22 **FACT A COMPETITIVE SERVICE OFFERING IN THE STATE OF**
23 **WASHINGTON?**

24 A. Yes, in Cause No. U-86-86 the Commission determined
25 that Centrex-type services, specifically, intercom
26 dialing and optional feature package elements, were
27 competitive. This issue was investigated again in 1992
28 and in November, 1993, the Commission issued the Fourth
29 Supplemental Order in Docket No. UT-911488, et al. At
30 page 20 of that order, the Commission found that the
31 Centrex-type services share of the Washington business
32 customer market was between ten and fifteen percent and
33 that U S WEST had no captive customer base for Centrex-
34 type services. This means that in 1993, 85-90% of the
35 Washington business customer market utilized non-
36 Centrex-type service.

37

38 **Q. DO OTHER NEW LOCAL EXCHANGE TELECOMMUNICATIONS**
39 **PROVIDERS IN WASHINGTON OFFER CENTREX SERVICE?**

40 A. Yes, at least three alternative local exchange
41 providers currently offer their own Centrex-type
42 service to their business customers and are not
43 currently resellers of

44 U S WEST Centrex Plus service. In fact, most recently, MCI
45 Metro extended a promotion directed at existing U S
46 WEST Centrex customers (see Exhibit B). As local
47 exchange carriers, under the Telecommunications Act of
48 1996, each of these carriers will have the obligation

1 to provide for resale their Centrex-type
2 telecommunication services. It is clear that existing,
3 and potential resellers of Centrex-type services, will
4 have choices other than the U S WEST Centrex Plus
5 product.
6

7 **Q. ARE THERE A LARGE NUMBER OF ALTERNATIVE PROVIDERS FOR**
8 **PBX SERVICES IN WASHINGTON?**

9 **A.** Yes. Local providers of PBXs include companies like
10 GTE, Communications World of Seattle, and Executone.
11 In addition, large nationally known companies, such as
12 AT&T also provide PBX services in Washington. These
13 providers market to all areas of Washington. In fact,
14 PBX systems can be utilized in all U S WEST exchanges,
15 while U S WEST Centrex service is not available in all
16 exchanges.
17

18 **Q. HOW MANY CENTREX PLUS CUSTOMERS DOES U S WEST CURRENTLY**
19 **HAVE IN WASHINGTON?**

20 **A.** U S WEST has 143 rate stabilized Centrex Plus customers
21 in Washington as of June, 1996.
22

23 **Q. HOW MANY BUSINESS CUSTOMERS DOES U S WEST CURRENTLY**
24 **SERVE IN WASHINGTON?**

25 **A.** U S WEST served 178,804 business customers in
26 Washington in May, 1994.
27

28 **Q. ARE THERE OTHER CENTREX CUSTOMERS AFFECTED BY THIS**
29 **FILING?**

30 **A.** Yes. As of June, 1996, there are 51 rate stabilized
31 Custom Centron customers, 19 rate stabilized Centraflex
32 customers, 32 rate stabilized Centron customers, and
33 one rate stabilized Centrex Standby line customer
34 affected by this filing.
35

36 **Q. HOW ARE THESE CUSTOMERS AFFECTED BY THIS FILING?**

37 **A.** Their Centrex services were grandfathered in the past
38 as previously discussed in my testimony. At the time
39 the services were grandfathered, these customers were
40 advised that when their current Centrex service
41 contract expired, they would be required to convert
42 their service to Centrex Plus or to an alternative
43 service.
44

45 **Q. HOW DOES U S WEST'S PROPOSAL MODIFY THIS "GRANDFATHER"**
46 **TARIFF PROVISION?**

47 **A.** U S WEST'S proposal enables these customers to have the
48 same terms and conditions with the obsolescence of
49 their service as those specified for Centrex Plus
50 service customers.
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1 **PROVISIONS FOR EXISTING CUSTOMERS**

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Q. WHY WAS THE DATE APRIL 29, 2005, CHOSEN AS THE DATE TO TERMINATE CENTREX PLUS?

A. U S WEST wished to honor the terms of its existing contracts. The customer contract of longest duration in the Washington expires on March 1, 2002; the customer contract of longest duration in the U S WEST region expires on April 29, 2005. U S WEST chose to apply April 29, 2005 for all existing Centrex Plus customers across the U S WEST region, in order to allow them a comfortable transition period.

Q. WHY HAS U S WEST INCLUDED PROVISIONS IN THIS FILING TO CONTINUE CENTREX SERVICE FOR EXISTING CUSTOMERS?

A. U S WEST indicated its intention to continue to provide Centrex Plus to "current Centrex Plus customers" up to April 29, 2005, under certain conditions because these customers will need at least two years, if not longer, to complete the process necessary to select a new service, and to have such a new service installed.

Q. PLEASE DESCRIBE "CURRENT 'CENTREX PLUS' CUSTOMERS" AS YOU HAVE USED THE PHRASE.

A. I use the phrase "current Centrex Plus customers" to mean:

1. Those Centrex Plus customers of record as of February 5, 1996;
2. Those customers to whom U S WEST had presented a written offer, documented proposal, or Request for Proposal (RFP) response on or before February 5, 1996, which terminates on or before May 5, 1996; or
3. Those customers who have signed a contract, or for whom a service order was issued, on or before February 5, 1996, and whose service had not yet been installed.

Q. WHAT ARE THE CONDITIONS TO WHICH "CURRENT CENTREX PLUS CUSTOMERS" ARE SUBJECT AS DESCRIBED IN U S WEST'S FEBRUARY 5, 1996, GRANDFATHERING?

A. The following key conditions are proposed to be applicable to U S WEST's "current Centrex Plus customers":

1. Waiver of Termination Liability Charges. Centrex Plus customers are allowed to convert to other U S WEST services such as PBX trunks, 1FB and ISDN without a Centrex Plus termination liability charge or non-recurring charges to convert to another U S WEST

1 service.

2

3 2. Common Blocks. Centrex Plus customers may not add
4 additional common blocks beyond those on record or
5 identified in an authorized U S WEST proposal as of
6 February 5, 1996. Centrex Plus customers may vacate
7 and move locations which may require a common block to
8 be changed. However, no additional common blocks may
9 be added as a result of the move.

10

11 3. Additional Locations. Centrex Plus customers may add up
12 to 20 additional locations annually for each of their
13 common blocks. The only exception is that a Centrex
14 Plus customer may initially add more than 20 locations
15 to its pre-existing Centrex Plus system if the Centrex
16 Plus customer has acquired another system. This
17 exception also applies to realignments between
18 government entities. Following the initial acquisition
19 or government realignment, any additional growth is
20 limited to 20 new locations annually per common block.

21

22 4. Station Lines. Centrex Plus customers may move, add or
23 change station lines and optional features at existing
24 locations until the customer converts to another
25 service, their Centrex Plus service contract expires or
26 until April 29, 2005. Centrex Plus customers with 1 to
27 100 station lines may add up to 100% of their current
28 station lines annually for each common block. Centrex
29 Plus customers with 101 or more station lines may add
30 up to 100% of their current station lines every two
31 years for each common block. In neither instance are
32 station lines compounded for purposes of calculating
33 future growth.

34

35 5. Assignments. Existing Centrex Plus systems may be
36 assigned subject to the assignee being bound by the
37 terms set forth above.

38

39 **Q. WHAT IS THE PURPOSE OF THESE CONDITIONS?**

40 A. As I stated earlier, Centrex Plus is designed to
41 provide central office-based switching to medium and
42 large business and government end-user customers.
43 These conditions were designed to allow the majority of
44 these customers the flexibility to continue doing
45 business in their typical growth and utilization
46 patterns until such time as they select and install a
47 new telephone switching service.

48

49

50 **Q. WHAT IS THE IMPACT OF THE GRANDFATHERING TERMS ON**
51 **EXISTING CENTREX PLUS RATE STABILITY CONTRACTS?**

1 A. Rate Stability Contracts are fixed price contracts for
2 Centrex Plus or other services. The rates set forth in
3 Centrex Plus Rate Stability Contracts will continue in
4 effect, but the conditions I described are proposed to
5 apply to existing Centrex Plus Rate Stability
6 Contracts.
7

8 **RECOMMENDATIONS**

9
10 **Q. WHAT DO YOU RECOMMEND?**

11 A. For the reasons stated above, I believe it is in the
12 best interest of U S WEST, and its Washington
13 customers, that the Commission approve discontinuance
14 of Centrex Plus and the terms and conditions of
15 grandfathering requested for the tariffed Centrex Plus
16 service.
17

18 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

19 A. Yes it does. Thank you.
20