**Exhibit No. \_\_\_ T (TWZ-1T)**

**Docket UT-081393**

**Witness: Timothy W. Zawislak**

**BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

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| **Verizon Select Services, Inc.; MCImetro Access Transmission Services, LLC; MCI Communications Services, Inc.; Teleconnect Long Distance Services and Systems Co. d/b/a Telecom USA; and TTI National, Inc.,** **Complainants,****v.****United Telephone Co. of the Northwest,** **Respondent.** | **DOCKET UT-081393** |
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**TESTIMONY**

**OF**

**TIMOTHY W. ZAWISLAK**

**STAFF OF**

**WASHINGTON UTILITIES AND**

**TRANSPORTATION COMMISSION**

**June 5, 2009**

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**LIST OF EXHIBITS**

Exhibit No. \_\_\_ (TWZ-2): United’s Local Exchange Rates in Washington

Exhibit No. \_\_\_ (TWZ-3): Statewide Local Exchange Rates of Washington ILECs

Exhibit No. \_\_\_ (TWZ-4): Average National Urban Local Exchange Rate

Exhibit No. \_\_\_ HC (TWZ-5HC): Highly Confidential Imputed Revenue Effects

1. **INTRODUCTION AND SCOPE OF TESTIMONY**

**Q. Please state your name and business address.**

A. My name is Timothy W. Zawislak, and my business address is located at the UTC’s Headquarters in the Richard Hemstad Building, 1300 South Evergreen Park Drive Southwest, Olympia, Washington 98504-7250. My business e-mail address is tzawisla@utc.wa.gov.

### Q. By whom are you employed and in what capacity?

A. I am employed by the Washington Utilities and Transportation Commission (Commission) as a Telecommunications Regulatory Analyst. My participation in this case is on behalf of the Commission’s Staff (Staff).

### Q. What are your educational qualifications and work experience?

A. In December 1989, I earned a Bachelor of Arts degree in accounting from Saint Martin’s College (now University). In January 1990, I began my career with the Commission.

 My experience at the Commission has included providing expert witness testimony on accounting issues and issues specific to telecommunications, such as access charges, extended area service (EAS), intercarrier compensation, payphone deregulation, toll imputation, and universal service.

 I have submitted testimony in the following Commission dockets: UT-921259 (Toledo Telephone Company, EAS), UT-940700/701 (PTI Communications/U S WEST Communications, Sale of Rural Exchanges), UT-950200 (U S WEST Communications, general rate case accounting issues), UT-970658 (U S WEST Communications and GTE Northwest Inc., payphone deregulation), UT-980311(a) (Telecommunications general, universal service), UT-990672 (GTE Northwest Inc., access charges), UT-020406 (Verizon Northwest Inc., access charges, Universal Service, and toll imputation), UT-031472 (WECA, VoIP and intercarrier compensation), and UT-040788 (rate design in the interim rate relief phase, revenue requirement adjustments in the revenue requirement phase and Interim Terminating Access Charge (ITAC) in the permanent rate design phase).

 I have also participated on the Staff teams assigned to the Telecommunications Generic Cost proceedings including Dockets UT-960369, et al., UT-003013, UT-023003, and UT-033034; the Northwest Natural Gas Company general rate case in Docket UG-080546; and the CenturyTel and Embarq merger proceeding in Docket UT-082119.

 Finally, I was the lead Staff assigned in Docket UT-970325, which was the Commission’s rulemaking that established WAC 480-120-540, “Terminating Access Charges.” Dr. Glenn Blackmon was the manager during this timeframe, and the rule was upheld by the Washington State Supreme Court on March 6, 2003.

### Q. What is the scope of your testimony in this case?

A. I will first present Staff’s review of United Telephone Company of the Northwest’s d/b/a Embarq’s (United’s) local exchange rates and compare them to the local exchange rates of other incumbent local exchange companies (ILECs) in Washington and the national average of urban local exchange rates. Next, I will provide the calculation of imputed annual revenue that Staff witness Dr. Blackmon relies upon in his recommendation to reduce United’s Interim Universal Service Fund Additive (IUSFA a/k/a Interim Terminating Access Charge “ITAC”) rate element. Finally, I will provide Staff’s recommendation regarding local exchange rate levels. This supports Staff’s recommendation that the Commission should phase out United’s ITAC unless United is able to demonstrate a need for support of universal access to basic telecommunications services through access charges in its next general rate case and/or alternative form of regulation (AFOR) proceeding, consistent with the Commission’s Order No. 05 in the CenturyTel-Embarq merger proceeding.

 The keystone of United’s case – as Dr. Blackmon explains – is United’s assertion that the existing levels of access charges are necessary to support “universal service” by subsidizing United’s twenty-plus year-old local exchange rates. Dr. Blackmon further demonstrates (with supporting evidence as provided by Ms. Jing Liu and Mr. Rick Applegate) that United has failed to justify its current access rates and that certain focused reductions are required to minimize harms to competition in the market for interexchange services and to ensure that all of United’s rates are fair, just, reasonable and sufficient.

 Staff recommended reductions do not cut as deep, or as quickly, as the access charge reductions proposed by either the complainant (Verizon) or the intervenor (AT&T). Staff’s recommendations in this case also better reconcile with the timing of the Commission’s recent order approving Embarq’s merger with CenturyTel.

**II. UNITED’S LOCAL EXCHANGE RATES IN WASHINGTON**

**Q. Please describe the results of Staff’s review of United’s local exchange rates in Washington.**

A. United’s Washington local exchange rates are included in Exhibit No. \_\_\_ (TWZ-2).

 These rates vary from a low of $8.90 per month for residential and $17.85 for business service in United’s Stevenson exchange, to a high of $16.40 for residential and $32.10 for business service in the company’s Poulsbo exchange. These rates are often referred to as R1 and B1 (single line Residence and single line Business, respectively).

# **III. COMPARABLE LOCAL EXCHANGE RATES IN WASHINGTON**

**Q. Please describe how other Washington ILECs’ local rates compare to United’s.**

A. I have provided Exhibit No. \_\_\_ (TWZ-3) for this purpose. The rates that the other ILECs in Washington charge also vary between residence and business service, as well as by company.

 Generally, the larger the company (and the more recently the company has been before the Commission in a rate proceeding) the higher the price for local exchange service. For example, Verizon’s local exchange rates in Camas-Washougal are $16.90 and $33.60 for R1 and B1 services, respectively. Compared to United’s rates of $8.90 and $17.85 for local exchange service in the neighboring high-cost service area of Stevenson, United’s rate levels for this area appear to be unreasonably low. Verizon’s rates above were recently phased in through Docket UT-040788, and became effective July 1, 2007.

# **IV. COMPARABLE LOCAL EXCHANGE RATES ON A NATIONAL LEVEL**

**Q. How do United’s local exchange rates compare to local exchange rates on a national level?**

A. Exhibit No. \_\_\_ (TWZ-4) provides the national average urban monthly charge for flat-rate service (including touch tone service). That rate is $15.72 per month, as reflected in Table 1.1. Staff believes that, although the more relevant comparison is to local exchange rates (which are provided separately and discussed above as Exhibit No. \_\_\_ (TWZ-3) for reference) charged by United itself and other local exchange carriers within the state of Washington, the rates paid by local exchange customers in other states are also informative for this purpose. Dr. Blackmon discusses specific rates in other states to show that even a local exchange rate of $20.00 a month, or more, has still been considered to be reasonable in this context.

# **V. IMPUTED ANNUAL REVENUE AT VERIZON’S RATE LEVELS**

**Q. Please provide and explain the calculation of the imputed annual revenue that Dr. Blackmon refers to when making his recommendation that United’s ITAC should be reduced.**

A. Exhibit No. \_\_\_ HC (TWZ-5HC) attached to this testimony sets out this calculation.

 Staff used the company’s highly confidential access line counts and the rates contained in its public tariffs to produce estimated annual revenue levels at United’s current local exchange rates and at the levels that Dr. Blackmon recommends (specifically, the Verizon local exchange rate levels for R1 and B1 services) for the purpose of determining whether United requires an ITAC to support its ability to provide local exchange service at rates that are reasonably comparable to those charged in urban areas. By comparing the resultant revenues, the delta is the amount that is assumed to be over-subsidized and therefore imputed in Dr. Blackmon’s recommendation.

 The exhibit is provided in Excel format and therefore may be adjusted if the Commission or other parties wish to analyze the sensitivity of using other local exchange rates within this context. Staff has run four such sensitivity analyses for illustration purposes, which are presented on page three of the highly confidential exhibit.

**Q. Why should United reduce its ITAC as Staff recommends, when the result could arguably be an increase in local rates for at least some of United’s customers?**

A. The ITAC should be reduced because today a portion of the ITAC revenues are being used to keep rates for some local customers of United lower than is reasonably comparable to other customers in the state and across the nation. In short, as Dr. Blackmon explains, universal service objectives can still be met without any ITAC.

 Dr. Blackmon also addresses the concepts of reasonable comparability and affordability in his testimony.

# **VI. STAFF RECOMMENDED RATE LEVELS**

**Q. What local exchange rates would Staff recommend for United?**

A. Although this is not a general rate case proceeding or an AFOR, the very nature of “high cost support” requires some pre-judgment about what a reasonable local exchange rate structure would be. WAC 480-120-540(1)(b) says that “*if* a local exchange company is authorized by the commission to recover any of its costs for support of universal access to basic telecommunications services through access charges, it shall recover such costs as an additional, explicit universal service rate element applied to terminating access service.” Therefore, it is first necessary to propose a hypothetical level of local exchange rates that is consistent with current rate design principles and results in rates that are reasonably comparable to those charged in urban areas, and then to determine (as described in the previous section of my testimony) whether there is any residual revenue requirement that must be met through terminating access rates. This section therefore presents Staff’s analysis of an appropriate local exchange rate design for United.

 Staff’s recommendation is that all local exchange rates for United should be the same for all exchanges the company serves in Washington State as what the company currently charges its customers in its Poulsbo exchange, for comparable residence and business services. This recommendation is meant to include all flat rate and measured rate options, including: Residence, Business, Centrex, Key Line, and PBX trunk services.

 Like both Qwest and Verizon, United should also ensure that its customers’ local calling capabilities are adequate within the more simplified local rate structure that Staff proposes here. It should be noted that although different exchanges have different local calling areas in Qwest and Verizon territories, both Qwest and Verizon charge their customers the same local rates regardless of where they are located, or the scope of their local calling. Indeed, United’s extended area service should continue to be reviewed to ensure that the local exchange rates themselves continue to include all of the basic services that its customers throughout the state have come to expect.

 Furthermore, United’s current management will be blended with CenturyTel’s current management after the merger is consummated. Both companies understand that customer service is important especially with the next phase of its existence, which involves increased competition and technological change to the network. Adjustments for adequate local calling areas (via extended area services or otherwise) will benefit both United and CenturyTel at this time, and into the future, as consumer calling patterns and demand evolves. The next three to four years would be an appropriate time to review these rates, terms, and conditions in order to refresh and update the company’s offerings. This is also consistent with the merger order’s discussion of the “syneries” United expects to achieve within five years of the merger.

### Q. Are you recommending in your comparative rate analysis that the Commission increase United's local rates to any particular level?

### A. No. The purpose of this analysis is to determine whether United can justify the use of an interim universal service terminating rate element. Local rates are relevant to this analysis because any universal service rate should reflect only those costs that cannot be recovered directly from the retail customers of United without exceeding a threshold of rates that is affordable and reasonably comparable. The evidence I have provided shows that United could collect the revenue that it now receives from the interim universal service rate through its own retail rates without exceeding that threshold. It does not automatically follow from “could” that United “should” collect that money. The Commission decided in the Verizon access charge complaint case to separate the question of access rates from the question of local rate offsets (5th Supplemental Order, UT-020406). If the Commission adopts Staff's recommendation to phase out the interim universal service rate, United will have the opportunity to demonstrate to the Commission that it requires an increase in other rates in order to earn a reasonable rate of return.

### Q. Is it unfair to United to lower its access rates without simultaneously increasing its local rates?

### A. No. The deficiencies in United’s rate structure are long-standing, and the company has had many opportunities over the years to correct its local rates. The three-year phase-out proposed by Staff provides further opportunity for United to demonstrate its need for this revenue.

###  The company has not been before the Commission for a general rate increase within the last 20 years. There is no reason to believe that its costs have any direct relationship to the existing revenue stream. If United needs to change its revenues, it should be required to file and present its case to the Commission utilizing a fully restated and pro formed results of operations statement (a/k/a earnings review) to justify an increase in revenues.

# **VII. CONCLUSION**

### Q. Does this conclude your testimony at this time?

A. Yes, it does. Thank you.