

Exhibit No. ____ T (TWZ-1T)

Docket UT-081393

Witness: Timothy W. Zawislak

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

**Verizon Select Services, Inc.; MCImetro
Access Transmission Services, LLC; MCI
Communications Services, Inc.;
Teleconnect Long Distance Services and
Systems Co. d/b/a Telecom USA; and TTI
National, Inc.,**

Complainants,

v.

United Telephone Co. of the Northwest,

Respondent.

DOCKET UT-081393

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 **I. INTRODUCTION AND SCOPE OF TESTIMONY**

2

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

4 A. My name is Timothy W. Zawislak, and my business address is located at the UTC's

5 Headquarters in the Richard Hemstad Building, 1300 South Evergreen Park Drive

6 Southwest, Olympia, Washington 98504-7250. My business e-mail address is

7 tzawisla@utc.wa.gov.

8

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

10 A. I am employed by the Washington Utilities and Transportation Commission

11 (Commission) as a Telecommunications Regulatory Analyst. My participation in this

12 case is on behalf of the Commission's Staff (Staff).

13

14 **Q. What are your educational qualifications and work experience?**

15 A. In December 1989, I earned a Bachelor of Arts degree in accounting from Saint Martin's

16 College (now University). In January 1990, I began my career with the Commission.

17 My experience at the Commission has included providing expert witness

18 testimony on accounting issues and issues specific to telecommunications, such as access

19 charges, extended area service (EAS), intercarrier compensation, payphone deregulation,

20 toll imputation, and universal service.

21 I have submitted testimony in the following Commission dockets: UT-921259

22 (Toledo Telephone Company, EAS), UT-940700/701 (PTI Communications/U S WEST

23 Communications, Sale of Rural Exchanges), UT-950200 (U S WEST Communications,

1 general rate case accounting issues), UT-970658 (U S WEST Communications and GTE
2 Northwest Inc., payphone deregulation), UT-980311(a) (Telecommunications general,
3 universal service), UT-990672 (GTE Northwest Inc., access charges), UT-020406
4 (Verizon Northwest Inc., access charges, Universal Service, and toll imputation), UT-
5 031472 (WECA, VoIP and intercarrier compensation), and UT-040788 (rate design in the
6 interim rate relief phase, revenue requirement adjustments in the revenue requirement
7 phase and Interim Terminating Access Charge (ITAC) in the permanent rate design
8 phase).

9 I have also participated on the Staff teams assigned to the Telecommunications
10 Generic Cost proceedings including Dockets UT-960369, et al., UT-003013, UT-023003,
11 and UT-033034; the Northwest Natural Gas Company general rate case in Docket UG-
12 080546; and the CenturyTel and Embarq merger proceeding in Docket UT-082119.

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

17
18 **Q. What is the scope of your testimony in this case?**

19 **A.** I will first present Staff's review of United Telephone Company of the Northwest's d/b/a
20 Embarq's (United's) local exchange rates and compare them to the local exchange rates
21 of other incumbent local exchange companies (ILECs) in Washington and the national
22 average of urban local exchange rates. Next, I will provide the calculation of imputed
23 annual revenue that Staff witness Dr. Blackmon relies upon in his recommendation to

1 reduce United's Interim Universal Service Fund Additive (IUSFA a/k/a Interim
2 Terminating Access Charge "ITAC") rate element. Finally, I will provide Staff's
3 recommendation regarding local exchange rate levels. This supports Staff's
4 recommendation that the Commission should phase out United's ITAC unless United is
5 able to demonstrate a need for support of universal access to basic telecommunications
6 services through access charges in its next general rate case and/or alternative form of
7 regulation (AFOR) proceeding, consistent with the Commission's Order No. 05 in the
8 CenturyTel-Embarq merger proceeding.

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

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

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

2

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

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

6 These rates vary from a low of \$8.90 per month for residential and \$17.85 for
7 business service in United’s Stevenson exchange, to a high of \$16.40 for residential and
8 \$32.10 for business service in the company’s Poulsbo exchange. These rates are often
9 referred to as R1 and B1 (single line Residence and single line Business, respectively).

10

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

12

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

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

17 Generally, the larger the company (and the more recently the company has been
18 before the Commission in a rate proceeding) the higher the price for local exchange
19 service. For example, Verizon’s local exchange rates in Camas-Washougal are \$16.90
20 and \$33.60 for R1 and B1 services, respectively. Compared to United’s rates of \$8.90
21 and \$17.85 for local exchange service in the neighboring high-cost service area of
22 Stevenson, United’s rate levels for this area appear to be unreasonably low. Verizon’s

1 rates above were recently phased in through Docket UT-040788, and became effective
2 July 1, 2007.

3
4 **IV. COMPARABLE LOCAL EXCHANGE RATES ON A NATIONAL LEVEL**

5
6 **Q. How do United's local exchange rates compare to local exchange rates on a national**
7 **level?**

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

17
18 **V. IMPUTED ANNUAL REVENUE AT VERIZON'S RATE LEVELS**

19
20 **Q. Please provide and explain the calculation of the imputed annual revenue that Dr.**
21 **Blackmon refers to when making his recommendation that United's ITAC should**
22 **be reduced.**

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

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

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

14
15 **Q. Why should United reduce its ITAC as Staff recommends, when the result could**
16 **arguably be an increase in local rates for at least some of United's customers?**

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

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

1 **VI. STAFF RECOMMENDED RATE LEVELS**

2

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

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

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

22 Like both Qwest and Verizon, United should also ensure that its customers’ local
23 calling capabilities are adequate within the more simplified local rate structure that Staff

1 proposes here. It should be noted that although different exchanges have different local
2 calling areas in Qwest and Verizon territories, both Qwest and Verizon charge their
3 customers the same local rates regardless of where they are located, or the scope of their
4 local calling. Indeed, United's extended area service should continue to be reviewed to
5 ensure that the local exchange rates themselves continue to include all of the basic
6 services that its customers throughout the state have come to expect.

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

17
18 **Q. Are you recommending in your comparative rate analysis that the Commission**
19 **increase United's local rates to any particular level?**

20 A. No. The purpose of this analysis is to determine whether United can justify the use of an
21 interim universal service terminating rate element. Local rates are relevant to this
22 analysis because any universal service rate should reflect only those costs that cannot be
23 recovered directly from the retail customers of United without exceeding a threshold of

1 rates that is affordable and reasonably comparable. The evidence I have provided shows
2 that United could collect the revenue that it now receives from the interim universal
3 service rate through its own retail rates without exceeding that threshold. It does not
4 automatically follow from “could” that United “should” collect that money. The
5 Commission decided in the Verizon access charge complaint case to separate the question
6 of access rates from the question of local rate offsets (5th Supplemental Order, UT-
7 020406). If the Commission adopts Staff’s recommendation to phase out the interim
8 universal service rate, United will have the opportunity to demonstrate to the
9 Commission that it requires an increase in other rates in order to earn a reasonable rate of
10 return.

11
12 **Q. Is it unfair to United to lower its access rates without simultaneously increasing its**
13 **local rates?**

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

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

1 **VII. CONCLUSION**

2

3 **Q. Does this conclude your testimony at this time?**

4 **A.** Yes, it does. Thank you.

5