Exhibit No. ___THC (PMS-7THC)
Docket No. UT-051291
Witness: Paula M. Strain
REDACTED VERSION

BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION

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

SUPPLEMENTAL TESTIMONY OF

PAULA M. STRAIN

STAFF OF
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION

RE: RECOGNITION OF GAIN ON SALE
OF SPRINT PUBLISHING AND ADVERTISING

REDACTED VERSION

February 6, 2006

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I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Paula M. Strain. My business address is 1300 S. Evergreen Park Drive S.W., P.O. Box 47250, Olympia, WA 98504. My email address is pstrain@wutc.wa.gov.

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

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

Q. Are you the same Paula M. Strain who filed responsive testimony earlier in this proceeding?

A. Yes. I filed responsive testimony in this docket on November 30, 2005.

II. SCOPE OF SUPPLEMENTAL TESTIMONY

Q. What is the scope of your supplemental testimony?

A. I am presenting supplemental testimony to amend the recommendation of Commission Staff on the appropriate regulatory recognition of the gain realized by Sprint Corporation (now Sprint Nextel Corporation) when it sold its directory publishing affiliate Sprint Publishing & Advertising, Inc. (SPA) to R. H. Donnelley Corporation.

III. SUMMARY OF TESTIMONY

Q. Please summarize your testimony.

A. In its responsive testimony, Staff recommended that Sprint Nextel should make a cash payment to United of [redacted] representing the Washington portion of the gain on the sale of the directory business. Further, in order to ensure that United's ratepayers receive benefit from the sale and relinquishment of the publishing rights, Staff proposed that United amortize to local revenues the amount of [redacted] for 10 years, which represents amortization of the gain on the sale that can be attributed to regulated operations of United. Staff further recommended, through the testimony of Timothy W. Zawislak, that this amortization of the gain be incorporated into rates by reducing access charges and increasing local rates net of the amortization of the gain (i.e. rate rebalancing), to be implemented within 30 days after the close of the spin-off transaction.

After Staff filed its responsive testimony, the Commission ruled[1] that rate rebalancing would not be considered in this case. Therefore, Staff wishes to offer an alternative recommendation regarding the treatment of the directory sale gain for ratemaking purposes.

Q. How does Staff wish to amend its recommendation?

A. Staff recommends:

- the Commission accept the Washington gain on sale of [redacted] agreed to by the Commission Staff, Public Counsel, and United. Staff has attached the calculation of this amount as Exhibit No. ___ HC(PMS-8HC) to its supplemental testimony. The only difference between this number and Staff's original gain calculation is in the use of an average of two years' revenues to determine the Washington portion of the gain, rather than revenues from a single year used in Staff's calculation.

[1] Bench Order, January 30, 2006; *see Transcript*.

- the effect of the Washington SPA gain should reduce intrastate rates only when United's rates come under Commission consideration again (e.g., through a company-filed general rate case, through any complaint against United's intrastate rates, or through any other case in which United's intrastate rates are accepted to be at issue).
- The Commission should require, as a condition of its approval of the transaction, that Sprint Nextel Corporation transfer cash to United in the amount of the Washington SPA gain. It should require that United then record the gain amount as a regulatory liability on its books. The account should increase each year to account for the time value of money, and be reduced each year by the amount of the current directory imputation. The ratemaking treatment of the regulatory liability should be determined as part of the next case in which United's intrastate rates are at issue.
- if the Commission decides not to require that Sprint Nextel Corporation transfer cash to United in the amount of the Washington gain, it should nonetheless require that United set up a regulatory liability account on its books for the amount of the gain. The account should increase each year to account for the time value of money, and

be reduced each year by the amount of the current directory imputation. Again, the ratemaking treatment of the regulatory liability should be determined as part of the next case in which United's intrastate rates are at issue.

Q. How much of the gain should be attributed to United's ratepayers?

A. All of the gain should be attributed to ratepayers. As I discussed in my responsive testimony, the value of the directory to advertisers stems from its distribution to United's local telephone customers and its status as the "official" telephone directory for those customers.

IV. DISCUSSION

Q. How does Staff's recommended approach benefit today's ratepayers?

A. Under Staff's revised recommended approach, the current rates, including the current imputation level, continue to be charged. Thus, today's ratepayers are paying less than they otherwise would if the current imputation were not continued.

Q. Why is Staff now recommending a delay in passing the benefit of the directory publishing gain on to United's customers?

A. Staff has revised its recommendation to comply with the Commission's bench order of January 30, 2006. In that order the Commission said that it would determine in this case the appropriate amount of the gain on the SPA sale but would not consider proposals to raise or lower rates. Staff's recommended approach defers the <u>recognition in rates</u> of the gain until the next case in which United's intrastate rates are at issue.

Q. Why does Staff no longer recommend that the amortization of the gain begin immediately?

A. Staff's previous recommendation is no longer appropriate if it cannot have an immediate effect on rates, as it did in Staff's initial responsive testimony. If the directory publishing gain were to be amortized during the period between the effective date of the sale and the time that United's intrastate rates are reviewed and changed, then years of that benefit could be lost to ratepayers. Staff's approach recognizes that the delay in passing the gain to ratepayers should be accounted for, by increasing the regulatory liability for the time value of money during the deferral period. Also, as discussed earlier, ratepayers receive a benefit in the form of the current imputation.

Q. In this proceeding, Public Counsel witness Mr. Brosch recommends an immediate one-time credit to customers for part of the gain on the SPA sale. Does Staff agree with that recommendation?

A. No, for several reasons. First, applying a uniform credit per access line, as Public Counsel recommends, will reduce the amount of SPA gain available to ratepayers at the time of United's next rate proceeding. Second, ratepayers are currently receiving the benefit of lower rates due to the current imputation amount of [redacted]. Third, the Commission should not consider one mechanism for passing the gain through to customers, such as the one-time credit, until it is ready to consider other mechanisms that it might ultimately find to be superior, such as using the gain to offset the need for a rate increase in a general rate case. Fourth, a one-time credit inappropriately concentrates the benefit on those customers who are subscribing to service at a single point in time. The directory sale has a long-term effect on United's business opportunities and its customers. Allocating a disproportionate portion of the gain to customers currently taking service does not seem equitable to future customers.

Q. What is the carrying charge that should be used for the regulatory liability account?

A. Staff recommends using a carrying charge of 8.15%. This rate will increase the regulatory liability account each year to account for the time value of money equal to the amount of the current directory imputation. Use of this rate ensures that the regulatory liability is not depleted by the time United's next intrastate rate proceeding is before the Commission.

Q. How does the 8.15% compare to the discount rates advocated by Staff in its initial response testimony, and those recommended by United and by Public Counsel?

A. The 8.15% rate Staff now recommends is between the 7.88% that United supports and that Staff previously recommended, and the 8.50% discount rate Public Counsel advocates.

Q. In its initial responsive testimony, Staff recommended a 10-year amortization period for the SPA gain. Has Staff changed that recommendation?

A. Yes. It is not necessary to decide this now; the Commission can decide that when it next addresses United's rates, as alluded to in the Commission's recent order.[2]

Q. Does this conclude your testimony?

A. Yes.

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[2] Bench Order, January 30, 2006; *see Transcript*.