Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. Glenn Blackmon, Ph.D., 1300 South Evergreen Park Drive Southwest, P.O. Box 47250, Olympia, Washington 98504. My e-mail address is *blackmon@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 Assistant Director of Telecommunications.

Q. WHAT ARE YOUR EDUCATION AND EXPERIENCE QUALIFICATIONS?

A. I hold Ph.D. and master's degrees in public policy from Harvard University and a bachelor's degree in economics from Louisiana State University. I have been employed at the Commission since August 1995 and assumed my current position in April 1996. I have been responsible, either directly or as a supervisor, for implementation of all aspects of the Telecommunications Act of 1996, including interconnection and reciprocal compensation.

I previously served as the Commission's economics advisor in the interconnection case, Docket No. UT-941464, and the U S WEST general rate case, Docket No. UT-950200. Prior to working at the Commission, I was a consultant in private practice, where my clients included both regulated companies and consumer advocates, and an analyst for the Washington State

Senate Energy and Utilities Committee. I have presented testimony as an expert witness before this Commission, as well as the Illinois and Idaho commissions.

I am the author of a book, *Incentive Regulation and the Regulation of Incentives* (Boston: Kluwer Academic Publishers, 1994). I have authored or co-authored articles on utility regulation and economic theory published in *American Economic Review*, *Journal of Regulatory Economics*, *Yale Journal on Regulation*, *Journal of Risk and Uncertainty*, and *Public Utilities Fortnightly*.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to respond to the testimony of the Qwest and Verizon witnesses on the issue of reciprocal compensation and to make recommendations to the WUTC on this subject.

Q. HAVE YOU TESTIFIED BEFORE ON RECIPROCAL COMPENSATION ISSUES?

A. Yes. I was Staff's witness on reciprocal compensation issues in both Phase I and Phase II of the initial generic cost proceeding, Docket Nos. UT-960369, et al. I also was Staff's witness in the complaint case filed by WorldCom against GTE Northwest, in which the WUTC held that GTE should have been paying reciprocal compensation to WorldCom and fined GTE for failing to do so. In addition, I have advised the WUTC on reciprocal compensation issues in various interconnection arbitrations, including Docket No. UT-990340 (U S West/Nextlink) and UT-003006 (U S West/Sprint).

MAIN POINTS

Q. WHAT ARE THE MAIN POINTS OF YOUR TESTIMONY?

A. I have three primary points regarding reciprocal compensation:

- ❖ The reciprocal compensation arrangements already approved by the WUTC are based on sound economic and legal principles, and there is no need to make any fundamental changes in them.
- ❖ The ILECs are generally right in concluding that the specific reciprocal compensation rate structure results in excess compensation in situations characterized by long call durations and high load factors. The WUTC should order a more cost-based rate structure for all local traffic, not just Internet-bound calls.
- ❖ The WUTC should reiterate its policy regarding bill-and-keep compensation, which is that this compensation structure is appropriate only when traffic between two local exchange companies is roughly in balance.

RESPONSE TO VERIZON WITNESS TRIMBLE

Q. MR. TRIMBLE RECOMMENDS THAT THE WUTC ESTABLISH A SEPARATE INVESTIGATION INTO THE NATURE OF COSTS FOR TERMINATION OF CALLS. WHAT IS YOUR REACTION TO THIS RECOMMENDATION?

A. *This* proceeding is a separate investigation into reciprocal compensation issues. It was established after the WUTC found that it did not have sufficient evidence in the first generic cost proceeding, Docket Nos. UT-960369, et al., to resolve these issues. I know of no reason why a third proceeding would be required.

Q. MR. TRIMBLE CONTENDS THAT A MARKET FAILURE EXISTS BECAUSE OF THE "EXISTENCE OF USAGE[-]INSENSITIVE PRICING IN THE RETAIL ARENA AND USAGE[-]SENSITIVE COMPENSATION BETWEEN CARRIERS" AND THAT THE WUTC'S OBJECTIVE SHOULD BE "MATCHING THE RATE STRUCTURE AND RATE LEVEL BETWEEN THE END USER AND THE INTERCARRIER ARRANGEMENT." DO YOU AGREE?

A. No. Verizon appears to argue that the economic relationships between various customers and local exchange companies will be inherently unstable unless all prices – both retail and network – are placed on the same unit basis, either measured or flat. To the contrary, there is nothing inherently unstable or inequitable about a difference in pricing structure between the network level and the retail level. Such differences are bound to occur since retail services typically are provided using multiple network elements and interconnection services, and those underlying elements and services will have different cost structures. A service such as local exchange service has some costs that are incurred on a per-customer basis, some that are incurred on a per-minute basis, and some that are sensitive to neither the number of customers nor the number of minutes.

While one can make a rather simple-minded (and ultimately incorrect) argument that every retail pricing structure should conform to the exact nature of the underlying costs, Verizon would go the other direction and have the WUTC set network prices based on retail pricing structure. The WUTC has consistently based network prices, i.e., unbundled network elements and reciprocal compensation, on costs, and it should continue to do so.

Q. WOULDN'T YOU AGREE THAT, IF THE RATE PAID FOR TERMINATION OF CALLS WERE VERY HIGH, SOME OF THE PROBLEMS IDENTIFIED BY MR. TRIMBLE COULD OCCUR?

A. Yes, but the problem would be due to getting the price wrong, not to having a price at all. The WUTC has recognized the importance of accurate, cost-based interconnection pricing for the past five years, since it issued its Interconnection Order in 1995. The WUTC has consistently sought to establish cost-based prices for reciprocal compensation because it has recognized that either excessive prices or the zero prices inherent in bill-and-keep would distort economic decisions and lead to opportunistic behavior. One can only imagine the havoc that would have ensued had the WUTC in 1995 adopted the incumbents' position that reciprocal compensation prices should be almost 10 times higher than cost. The WUTC has gone beyond recognizing the great importance of having local interconnection prices set properly; it has also recognized the importance of this issue with respect to termination of toll calls.

If prices are set correctly, so that they reflect both the level and the structure of costs for terminating calls, competing local exchange companies will have no incentive to manipulate traffic patterns or target particular customers types just to collect the reciprocal compensation revenue. The originating carrier will pay the terminating carrier an amount just equal to the cost that the originating carrier would have incurred had the call stayed on its own network. Carriers with lower switching costs will have a competitive advantage over those with higher switching costs, and this competition will ultimately lead to lower prices and greater efficiency.

Q. DO YOU SUPPORT VERIZON'S RECOMMENDATION TO REPLACE EXPLICIT PER-MINUTE COMPENSATION WITH A BILL-AND-KEEP ARRANGEMENT?

A. No. Bill-and-keep is another way of saying that local exchange carriers will terminate each other's traffic without any explicit compensation. This was the compensation method traditionally used by local exchange companies that had adjacent service areas and shared a local calling area. Roughly as many calls went one way as the other, and neither company had any practical way to affect that balance. In that circumstance, there was no advantage to applying any price to the traffic, because the payments would net to zero regardless of the price.

Bill-and-keep still has a role in local interconnection, but that role is only where interconnection traffic is roughly in balance. (I say "roughly" because the cost of measuring and billing the traffic can justify tolerating some imbalance in

traffic.) Any time traffic becomes unbalanced, bill-and-keep is no longer appropriate, because it results in one company bearing uncompensated costs incurred for the benefit of another company.

In this instance, Verizon is terminating significantly more traffic on its competitors than they are on it, and Verizon's proposal to require bill-and-keep would provide it with a windfall. In the absence of those competitors, it would have to incur the cost of terminating those calls on its own network, but Verizon would have those competitors do its work without compensation.

Q. DO YOU AGREE WITH MR. TRIMBLE ABOUT THE COST OF CALL TERMINATION HAVING BOTH SETUP AND DURATION COMPONENTS?

A. Yes. The per-minute rates currently being paid for reciprocal compensation reflect the average cost of terminating traffic. The actual cost can vary significantly and systematically based on several factors, one of which is the length of the call. The result is that a single rate for call termination tends to overcompensate the terminating carrier for long-duration calls and under compensate for short-duration calls.

Q. MR. TRIMBLE RECOMMENDS THAT THE WUTC EITHER ESTABLISH SEPARATE CHARGES FOR CALL SETUP AND CALL DURATION OR ESTABLISH A LOWER RATE THAT WOULD APPLY

TO TERMINATION OF ALL INTERNET-BOUND CALLS. ARE THESE REASONABLE PROPOSALS?

A. The first proposal – to establish separate charges for setup and duration – is a reasonable proposal. It would result in reciprocal compensation charges that more accurately reflected the costs of terminating calls of varying lengths. If a company's customers are originating many short calls, that company is imposing significant setup costs on the terminating carrier -- setup costs that are not fully compensated by a fixed per-minute termination rate. On the other hand, if a company's customers are originating many long calls, the fixed per-minute termination rate is more than compensatory because the terminating carrier incurs setup costs less frequently than average.

The second proposal, and the only one for which Verizon proposes a specific rate, is not a reasonable proposal, except perhaps in limited circumstances. This proposal – to charge a different price for different calls based on whether it is Internet-bound – confuses correlation with causation. The nature of the call, i.e., whether it is Internet-bound or not, does not determine its cost. While Internet-bound calls probably are correlated with longer durations, there are almost certainly many short calls used to send and receive information over the Internet.

A good example would be a customer who programs her computer to fetch and dispatch electronic mail from a server on the Internet at regular intervals: that configuration would likely result in dozens of calls each day, each of which would be a few seconds to a few minutes in duration. It is the longer duration itself that

causes the average cost to be lower. The pricing structure should be based on the actual cost causation factor, not some imperfect indicator such as whether the call is Internet-bound.

While the default rate structure should not be based on the nature of the call, there may be circumstances where two carriers agree to such an arrangement, perhaps to avoid the necessity of measuring call setup and duration units.

Q. IF THE WUTC WERE TO ESTABLISH SEPARATE SETUP AND PER-MINUTE RATE ELEMENTS FOR CALL TERMINATION, WOULD THAT ADVERSELY AFFECT COMPETING LOCAL EXCHANGE COMPANIES?

A. It would adversely, though not unfairly, affect local exchange companies who are terminating traffic characterized by long hold times. Those companies are, in essence, currently being compensated for setup costs that they are not incurring. This change would benefit any company whose incoming calls are characterized by short hold times. Those companies would then be paid for the setup costs they are incurring. It is worth noting that Verizon's proposal to establish a separate rate for Internet-bound calls would have a similar negative effect on the long-duration companies but it would withhold the benefits to the short-duration companies.

Q. MR. TRIMBLE ALSO PROPOSES THAT COMPETITIVE LOCAL EXCHANGE COMPANIES RECEIVE A LOWER RATE TO REFLECT

WHAT HE CONTENDS ARE INTERCONNECTION ARRANGEMENTS MORE AKIN TO TANDEM SWITCHING. DO YOU AGREE WITH THIS PROPOSAL?

A. No. The standard for reciprocal compensation rates is the cost that the originating carrier would have incurred had the call stayed on its own network. Verizon would turn this standard on its head and establish a rate based on what it contends are the lower costs incurred by the terminating carriers. One might well be able to demonstrate that high volumes of traffic terminating on a single switch (which characterizes some but not all Internet-bound traffic) would be routed in a more efficient and less costly manner than the typical traffic. However, Verizon needs to make that showing based on its own network design and costs, not its competitors.

Q. WOULD IT BE APPROPRIATE IN SUCH AN ANALYSIS TO INCORPORATE THE COST OF SPECIFIC TECHNOLOGIES FOR OFFLOADING INTERNET-BOUND TRAFFIC AT THE ORIGINATING SWITCH?

A. Yes. These technologies, variously called "modem pooling," "modem aggregation," "cyber-POPs," etc., replace the interoffice transport, tandem switching, and end-office termination functions of a typical circuit-switched call with lower-cost packet-switched transport and routing. If Verizon could show that it would have incurred lower packet-switched costs – and not the traditional circuit-switched costs – had the Internet-bound traffic stayed on its own network,

then it would be appropriate to factor those lower costs into the transport and termination rates.

Q. WOULD IT ALSO BE APPROPRIATE TO HAVE THE TERMINATION RATE VARY DEPENDING ON THE LOAD FACTOR OF THE TERMINATING SWITCH?

A. Yes. The current rates for termination are based on the typical or average load factor of the terminating switch. By "load factor," I mean the average calling volume relative to the peak calling volume. For example, if the peak calling volume is 1,000 calls per hour and the average volume is 100 calls per hour, the load factor is 10 percent. Much of the cost of switching is determined by the peak volume, because the switch must have sufficient capacity to handle that peak load. The peak-driven nature of switching costs is the primary reason that the WUTC has repeatedly expressed its preference for capacity-based charges for call termination.

As the load factor increases, the cost per minute decreases. If the terminating traffic volumes are very even, i.e., a 100 percent load factor, then the fixed costs of the switch can be spread over many more minutes of traffic than if the average traffic volumes are very low relative to the peak. Therefore, the appropriate rate would vary with the load factor of the traffic being terminated on a particular company's switch. To the extent that Internet service providers use their incoming dial-up lines more efficiently than the average, the local exchange carrier serving those providers would have a higher load factor than the average.

This is another example where Internet-bound traffic may be less costly to terminate, but it is due to the underlying nature of the call volumes and not the fact that the calls are connecting to the Internet.

Q. PLEASE SUMMARIZE YOUR RECOMMENDATION IN RESPONSE TO VERIZON'S TESTIMONY ON RECIPROCAL COMPENSATION.

A. Verizon's proposal to establish a separate rate for Internet-bound traffic should be rejected because the proposal is based on factors that are not unique to Internet-bound traffic. The WUTC should instead direct Verizon to break down the current per-minute call termination rate into separate rate elements for call setup and call duration. The WUTC also should direct Verizon to provide cost calculations based on the load factor of the terminating traffic. These cost calculations could then be used to establish termination rates that vary with load factor.

The result of these steps will be termination rates that more closely reflect the underlying costs of the service being provided by the terminating carrier without singling out Internet-bound traffic as a separate class of traffic. The WUTC should consider establishing a separate rate structure for Internet-bound traffic only if Verizon is able to demonstrate that those calls would, if they had remained on its network, been routed using a different technology with different costs. I have offered one example of a technology-based difference – the offloading of Internet-bound calls at the originating switch – but it is up to Verizon to show how such a technology actually affects the cost of transport ant

termination and how such a rate structure would be fairly and effectively administered.

Finally, the WUTC should continue to permit interconnecting companies to use bill-and-keep, but either company should be free to opt into explicit compensation if traffic is no longer in rough balance.

RESPONSE TO QWEST WITNESS TAYLOR

Q. DO YOU AGREE WITH DR. TAYLOR'S ANALYSIS OF THE JURISDICTIONAL NATURE OF A CALL IN WHICH THE CALLER CONNECTS TO THE INTERNET?

A. No. His analysis does not account for the fact that an Internet service provider is not a telecommunications company. Internet service providers do not file tariffs or price lists and do not register as telecommunications companies. They use the services of telecommunications companies but are not themselves telecommunications companies. Therefore, an "end-to-end analysis" is not appropriate. The dial-up call to an Internet service provider terminates at the switch of the Internet service provider's local exchange carrier. However, I do agree with Dr. Taylor that ultimately it is the economic analysis and not the jurisdictional analysis that should determine the compensation for Internet-bound calls.

Q. **DR. TAYLOR TESTIFIES THAT INTERNET SERVICE PROVIDERS ARE THE COST CAUSERS WHEN THEY RECEIVE A DIAL-UP CALL FROM A TELEPHONE CUSTOMER. DO YOU AGREE?**

A. No, the cost causer is the person that originated the call. If this argument had merit, Qwest would send my local telephone bill to the shops that I call each month in response to their advertisements. They don't, because regardless of what induced me to make the calls, the reality is that I made them and I am responsible for their cost.

Q. **WHAT ABOUT DR. TAYLOR'S ANALOGY WITH LONG-DISTANCE CARRIERS, WHO PAY TERMINATING ACCESS CHARGES RATHER THAN BEING PAID FOR TERMINATING CALLS?**

A. The problem with this analogy is that Internet service providers are not telecommunications companies. A long-distance carrier is providing the end-to-end call to the customer, and to the extent it uses the local exchange network at each end of the call, it compensates the local exchange companies. The long-distance carrier is the originating telecommunications company, and it is responsible for the cost of that call from its origination to its termination. The local exchange companies do not collect any money directly from the customer for that toll call. By contrast, the Internet service provider is not the originating telecommunications company; rather, it is the called party.

What is common in the examples of toll calls and Internet-bound calls is that in both instances the originating carrier (a) is responsible for the costs of

originating, transporting, and terminating the call and (b) recoups its cost in the telecommunications charges paid by the customer. The originating carrier of the toll call is the long-distance carrier. The originating carrier of the local call to the Internet service provider is the customer's local exchange company.

Q. IF INTERNET SERVICE PROVIDERS WERE TO BE TREATED AS TELECOMMUNICATIONS COMPANIES, HOW WOULD THAT AFFECT THE COMPENSATION PAID TO THE LOCAL EXCHANGE COMPANY THAT SERVES THE CUSTOMER MAKING THE DIAL-UP CALL?

A. It would change who pays the originating local exchange company, but it would not change the amount paid to that company. If Internet service providers were telecommunications companies, they would pay the originating local exchange company for the use of its loop and switch, but the customer would stop paying the local exchange company. Moreover, regardless of whether the originating local exchange company or the Internet service provider is considered to be the "originating carrier," the question before the WUTC in this proceeding is what compensation should be paid to the *terminating carrier*. If the law were to change and Internet service providers were to be treated like long-distance companies, the WUTC would still need to determine the proper compensation for the terminating carrier.

Q. DO RECIPROCAL COMPENSATION PAYMENTS TO TERMINATING CARRIERS RESULT IN A SUBSIDY FOR INTERNET USE?

A. No. Reciprocal compensation payments simply compensate the terminating carrier for the costs of terminating the call. I will grant that, if the rates are set above cost, the result will be to shift money from the originating carrier to the terminating carrier. One could then expect terminating carriers to compete for that business, such as by passing through the additional revenue to the customer receiving the call, and to increase the volume of traffic on which the above-cost rate is collected. That result, however, would be due entirely to getting the price wrong and not to having a price in the first place.

Q. DO YOU BELIEVE THAT COST-BASED RECIPROCAL COMPENSATION RATES CREATE AN ARBITRAGE OPPORTUNITY FOR COMPETITIVE LOCAL EXCHANGE COMPANIES?

A. No, and apparently Dr. Taylor does not either. His testimony on arbitrage is premised on the circumstance "[w]hen the compensation available to the CLEC for delivering ISP-bound traffic exceeds its actual cost of delivering that traffic." He testifies at some length on this subject, but in essence his point is that if the rate is above cost, the market will supply more of the service than is economically efficient. This is a point that the WUTC has been making since 1995 when it rejected U S WEST's proposal to charge 3.28 cents per minute for call termination.

Q. DOES COMPENSATING OTHER CARRIERS FOR THE COST OF TERMINATING INTERNET-BOUND TRAFFIC CREATE UPWARD PRESSURE ON RETAIL RATES FOR LOCAL EXCHANGE SERVICE?

A. No, though I would agree that if Qwest could force other carriers to accept those calls without compensation, as Dr. Taylor proposes, it would reduce Qwest's costs of providing local exchange service. I do not disagree that calls to Internet service providers have a cost, as do all other calls. If the overall volume of calls per-line increases significantly, that would, all other things being equal, lead to a need to increase the price of flat-rated local exchange service. However, there are many factual questions unanswered in that statement, such as whether the practice of ordering second lines has offset the practice of calling the Internet enough to yield no change in per-line traffic volumes and whether any increase in call volumes is being offset by an increase in the load factor of traffic. More importantly, whatever pressure is created, is independent of whether the traffic is being terminated by Qwest or by its competitors, because Qwest pays the competitors what it would have had it terminated those calls on its own network.

Q. IS IT IMPROPER FOR A COMPETITIVE LOCAL EXCHANGE COMPANY TO SPECIALIZE IN THE TYPE OF CUSTOMER IT SERVES, PARTICULARLY IF THE RESULT IS AN IMBALANCE OF TRAFFIC BETWEEN IT AND THE INCUMBENT LOCAL EXCHANGE COMPANY?

A. No, it certainly is not. In a competitive market, companies do not have to be all things to all customers. It is both common and highly beneficial for firms to specialize. The WUTC's 1995 Interconnection Order makes this point in explaining why it is so important that interconnection prices be set based on cost:

> Situations are likely to arise where two competitors do not want or need exactly the same services, measured in either quantity or quality, from one another. One company might desire to terminate all traffic to another on that company's tandem, but the second may prefer to terminate its traffic at each of the first company's end offices. [citation omitted] These decisions will be made by each company based on economics, technology, and the demands of its customers for quality service and low prices. A bill and keep arrangement that presumes mutual exchange of services will not, over the long term, provide the flexibility to accommodate the diversity that is likely to result from competing local exchange companies, though it may well be used in some situations. 4th Supplemental Order, Docket UT-941464, p. 33.

Q. PLEASE RESPOND TO DR. TAYLOR'S SUGGESTION THAT INTERNET-BOUND TRAFFIC BE SUBJECT TO MANDATORY BILL-AND-KEEP COMPENSATION.

A. This proposal should be rejected by the WUTC. As I testified earlier, bill-and-keep can have a limited role in compensation for exchange of local traffic, but only where traffic is roughly in balance. Dr. Taylor argues, in essence, that because the termination rates are currently too high relative to the cost of terminating traffic to Internet service providers, the rate should be set at zero. That would be a bigger mistake than leaving the rates where they are today.

RESPONSE TO QWEST WITNESS BROTHERSON

Q. PLEASE RESPOND TO MR. BROTHERSON'S COMMENT THAT NO "WASHINGTON PUBLIC POLICY OBJECTIVE IS SERVED BY INCLUDING INTERNET-RELATED TRAFFIC IN RECIPROCAL COMPENSATION."

A. I disagree with that statement. In fact there are good public policy reasons for including Internet-bound traffic in reciprocal compensation arrangements. It is good policy to set prices so that they cover costs and to have originating carriers in an interconnected network compensate their competitors for the costs of terminating their traffic. Moreover, explicit cost-based reciprocal compensation will permit competitors to specialize in their service offerings. The WUTC should not, as Qwest proposes, establish policies that effectively punish companies for catering to a market segment that receives more calls than it makes or vice versa.

Q. MR. BROTHERSON STATES THAT PAYING RECIPROCAL COMPENSATION ON INTERNET-BOUND CALLS WILL PLACE AN ENORMOUS BURDEN ON QWEST CUSTOMERS. DO YOU AGREE?

A. No, I do not. I will agree that there has been a great increase in the number of dial-up calls to the Internet over the past five years. Even if there were no local competitors, that additional traffic would result in some amount of additional cost. It is far from clear that such additional cost is large relative to the overall cost of

local exchange service and that it has not been offset by other trends such as the increased sale of second lines for dial-up Internet access. I also will agree that the rate currently being paid for termination of Internet-bound calls is greater than the additional cost that Qwest would have incurred had it terminated those calls. The fact that the high rate is largely Qwest's own doing should not detract from the WUTC's willingness to establish a more accurate cost-based rate. In summary, any burden on Qwest's customers would result from their greater use of the telephone and the application of an inappropriately high rate, not from paying reciprocal compensation to Qwest's competitors.

Q. MR. BROTHERSON RECOMMENDS THAT THE WUTC DETERMINE THAT TANDEM SWITCHING RATES SHOULD NOT BE PAID WHEN A COMPETITIVE LOCAL EXCHANGE COMPANY HAS DIRECT TRUNKING TO A QWEST END OFFICE. DO YOU AGREE WITH THIS RECOMMENDATION?

A. Yes, I do. This is another example of the general problem of trying to have one rate that applies in every circumstance. The policy of paying competitors the tandem rate for calls terminating on their switch is based on the general circumstance in which the competitor has customers spread over a broad geographic area on its fiber ring. Were Qwest to serve such a dispersed customer base itself, it would route much of that traffic through a tandem network, and thus it is appropriate to pay the competitor at the tandem rate. However, where there are large volumes of traffic terminating at a single end office, Qwest would use

direct end office trunking to deliver that traffic. The traffic would not go through the tandem. The competitor therefore is entitled to compensation at the end office rate and not the tandem rate.

Q. DO YOU HAVE ANY FURTHER RECOMMENDATIONS REGARDING THE APPROPRIATE RECIPROCAL COMPENSATION RATES FOR QWEST?

A. Yes. I was disappointed that Qwest did not follow up on its suggestions in the Sprint arbitration case, Docket No. UT-003006, to make reciprocal compensation rates more cost-based. In that case, Qwest identified call duration as a significant factor in establishing call termination rates. As I discussed earlier in response to Mr. Trimble's testimony, it is reasonable to expect long-duration calls to have lower per-minute costs because the setup costs are spread over more minutes. Sprint and Qwest did not pursue the rate issue in the arbitration, but I had understood that they would raise this issue in this proceeding.

Nonetheless, I have the same recommendation on this issue that I made earlier with respect to Verizon. The WUTC should direct Qwest to separate its current call termination charges into setup and per-minute elements.

While Qwest has not yet proposed it, I want to make clear that I would not support establishing a separate rate for Internet-bound calls based solely on the longer average hold times of those calls. A rate specific to Internet-bound calls should be justified only if Qwest could show that it would use a lower-cost

technology, such as offloading to the packet network at the originating switch, for that traffic.

Finally, again as with Verizon, I believe it would be appropriate to establish a rate structure in which the rate varied inversely with the load factor of the traffic being terminated.

CONCLUSION

Q. DO YOU HAVE ANY FURTHER TESTIMONY AT THIS TIME?

A. No.