

Exhibit No. ___-T (TWZ-1T)
Docket No. UT-051291
Witness: Timothy W. Zawislak

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

TESTIMONY

OF

TIMOTHY W. ZAWISLAK

STAFF OF
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION

November 30, 2005

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LIST OF EXHIBITS

Exhibit No. ___ (TWZ-2): Qualifications and Experience

Exhibit No. ___ (TWZ-3): Sprint Nextel's Response to WUTC Staff DR No. 9

Exhibit No. ___ (TWZ-4): NASUCA's December 17, 2004, FCC Ex Parte

Exhibit No. ___HC (TWZ-5HC): Highly Confidential Estimated Revenue Impacts

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I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Timothy W. Zawislak, and my business address is 1300 South Evergreen Park Drive Southwest, Olympia, Washington 98504-7250.
My business e-mail address is tim@wutc.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. My educational and professional qualifications and experience (including prior testimony) are provided in Exhibit No. ____ (TWZ-2).

1
2
3 **II. SCOPE OF TESTIMONY**

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

5 A. In this case I will address Staff's proposal to lower United Telephone Company
6 of the Northwest's (United's) intrastate access charges and raise (or restructure)
7 United's local exchange rates, as a condition of the reorganization of United's
8 parent, LTD Holding Company, and the associated proposed spin-off from
9 Sprint Nextel Corporation; in order to be found by the Commission to be in the
10 public interest. This combination of potential rate changes is often referred to
11 generically as "rate rebalancing."

12 **III. SUMMARY OF RECOMMENDATIONS**

13
14 **Q. Please summarize the recommendations in your testimony.**

15 A. Staff recommends that LTD should be required, as a condition for approval of
16 the transaction, to update and restructure the intrastate rates that United charges
17 in Washington State. The company is charging intrastate access rates that violate
18 legal standards as applied by the Commission. At the same time, the company is
19 using an outmoded structure of local rates that provides discounts to certain

1 customers without any reasonable basis and that turns the concept of cost-based
2 pricing on its head. These issues should be corrected now, as part of the process
3 of establishing a stand-alone incumbent local exchange carrier (ILEC) business,
4 because to wait would perpetuate these outdated and illegal rates unnecessarily,
5 and perhaps indefinitely.

6 The specific recommendations of Staff are as follows:

7 ❖ First, the Commission should require that United eliminate its
8 intrastate originating carrier common line charges and lower its
9 intrastate originating local switching access rates.

10 ❖ Second, the Commission should require that United establish a
11 uniform rate structure for local service, in which the company
12 charges the same rate for the same service to the same class of
13 customers in every Washington exchange under current tariff.

14 This uniform rate structure would eliminate the extra charges
15 United now imposes for extended area service and the rate
16 differential that United establishes between smaller and larger
17 exchanges. The uniform rates for each service and class should
18 be set at the level that United now charges in its largest
19 exchanges, e.g. Poulsbo and Sunnyside.

- 1 ❖ Third, the annual Directory Revenue Payment recommended by
2 Ms. Paula M. Strain should be recognized as part of this revenue
3 neutral rate rebalancing in order to ensure that local ratepayers
4 realize the intended benefits of such payments.
- 5 ❖ Fourth, the Commission should require that United reduce its
6 interim terminating access charge (ITAC) from \$0.064851 down
7 to approximately \$0.031779 per minute (i.e. by an amount equal
8 to the additional net revenue that the company will realize as a
9 net result of the first three items.

10 The rate restructuring coupled with the Directory Revenue Payment and
11 the ITAC decrease, are designed to produce no net change in intrastate revenue
12 to United (therefore "revenue neutral"). A table summarizing the various
13 revenue impacts can also be found on page 19 of this testimony.

14

1 IV. INTRASTATE ACCESS CHARGES IN GENERAL

2
3 Q. When were access charges first established in Washington state?

4 A. WUTC Cause No. U-85-23, et al., essentially established intrastate carrier access
5 charges (access charges) during the mid to late 1980's, in order to allow
6 interexchange carriers (IXCs) nondiscriminatory access to the local exchange
7 carrier (LEC) networks. Prior to this the independent LECs operated under a
8 series of settlements with the Bell System for the origination and termination of
9 long distance or toll traffic.

10
11 Q. Does the Commission have any rules or precedent governing intrastate access
12 charges?

13 A. Yes, the Commission has a rule and several cases as precedent regarding
14 intrastate access charges. The FCC also has rules, although they govern
15 interstate access charges.

16
17 Q. What is the Commission's rule and what does it require?

18 A. WAC 480-120-540 requires that LECs have intrastate access charges that meet the
19 following characteristics:

- 1 ➤ Terminating Access Charges must not exceed comparable local
2 interconnection service charges in each exchange.
- 3
- 4 ➤ Universal Service Additives, as an exception, may be authorized as an
5 explicit rate element applied to terminating access service.
- 6
- 7 ➤ Originating Access Charges must be in the public interest.

8 The precise language of the current rule is included below for reference:

9 **WAC 480-120-540 Terminating access charges.**

10 (1)(a) Except for any universal service rate allowed pursuant to subsection (1)(b) of this
11 section, the rates charged by a local exchange company for terminating access
12 service offered by tariff must not exceed the lowest rate charged by the local
13 exchange company for the comparable local interconnection service (in each
14 exchange), such as end office switching or tandem switching. If a local exchange
15 company does not provide local interconnection service (or does so under a bill
16 and keep arrangement), the rates charged for terminating access must not exceed
17 the cost of the terminating access service being provided.

18 (1)(b) If a local exchange company is authorized by the commission to recover any
19 costs for support of universal access to basic telecommunications service through
20 access charges, it shall recover such costs as an additional, explicit universal
21 service rate element applied to terminating access service.

22 (2) The rates charged by a local exchange company for terminating access service
23 offered by price list must not exceed the rates charged by the incumbent local
24 exchange company for terminating access service in the comparable geographic
25 area. For purposes of this subsection, the rates charged by the incumbent local
26 exchange company include any universal service rate charged pursuant to
27 subsection (1)(b) of this section.

28 (3) The cost of the terminating access must be determined based on the total service
29 long-run incremental cost of terminating access service plus a reasonable
30 contribution to common or overhead costs. Local loop costs are considered
31 "shared" or "joint" costs and must not be included in the cost of terminating
32 access. However, nothing in this rule prohibits recovery of local loop costs
33 through originating access charges (including switched, special, and dedicated as
34 defined in subsection (4)(a) of this section).

35 (4) Definitions.

- 1 (4)(a) "Access charge" means a rate charged by a local exchange company to an
2 interexchange company for the origination, transport, or termination of a call to
3 or from a customer of the local exchange company. Such origination, transport,
4 and termination may be accomplished either through switched access service or
5 through special or dedicated access service.
- 6 (4)(b) "Terminating access service" includes transport only to the extent that the
7 transport service is bundled to the end office or tandem switching service.
8 Dedicated transport unbundled from switching services is not subject to
9 subsection (1) of this section.
- 10 (4)(c) "Bill and keep" (also known as "mutual traffic exchange" or "payment in kind") is
11 a compensation mechanism where traffic is exchanged among companies on a
12 reciprocal basis. Each company terminates the traffic originating from other
13 companies in exchange for the right to terminate its traffic on that company's
14 network.
- 15 (5) The requirement of subsection (1) of this section that any terminating rate be
16 based on cost must not apply to any local exchange company that is a small
17 business, or to any local exchange company that is competitively classified, if it
18 concurs in the terminating rate of any local exchange company that has filed a
19 terminating rate that complies with the requirements of subsection (1) of this
20 section. For the purposes of this subsection, "small business" has the same
21 meaning as it does in RCW 19.85.020.
- 22 (6) Any local exchange company that is required to lower its terminating access rates
23 to comply with this rule may file tariffs or price lists (as appropriate) to increase
24 or restructure its originating access charges. The commission will approve the
25 revision as long as it is consistent with this rule, in the public interest and the net
26 effect is not an increase in revenues.

27

28 The rule above is not a limitation on the regulation of intrastate access
29 charges. Washington state statutes, including Chapters 80.01, 80.04, and 80.36
30 RCW, also provide a basis for the regulation and requirements governing
31 intrastate access charges (among all other intrastate rates, as well).

32

1 Q. What precedent, besides Cause U-85-23, et al., does the Commission have
2 regarding intrastate access charges?

3 A. The two most recent and comprehensive cases are Docket No. UT-950200 and
4 Docket No. UT-020406.

5
6 Q. Please describe Docket No. UT-950200.

7 A. Docket No. UT-950200 was a general rate case filed by U S WEST
8 Communications, Inc. ("U S WEST", now known as Qwest Corporation). In that
9 case the Commission lowered U S WEST's intrastate access charges and updated
10 the rate design logic for the pricing of such services. Essentially, the Commission
11 eliminated the carrier common line charge (CCLC) rate element and reduced the
12 overall level of intrastate access charges. Rate design changes were also
13 implemented with regard to the local exchange services (including residence and
14 business, as well).

15 Approximately a year later, U S WEST was allowed to raise its local
16 exchange (residence and business) rates (see Docket No. UT-970766).

17
18 Q. Now, please describe Docket No. UT-020406.

1 A. Docket No. UT-020406 was a complaint case filed by AT&T Communications of
2 the Pacific Northwest against Verizon Northwest. In this case the Commission
3 lowered the overall level of Verizon Northwest's intrastate access charges,
4 including lowering the company's intrastate originating local switching rates as
5 well as its interim terminating access charge (ITAC) rate, in order to correct the
6 anticompetitive effects of the excessive levels of these charges.

7 Again, approximately one year later, Verizon was allowed to raise its local
8 exchange (residence and business) rates in Docket No. UT-040788.

9
10 **Q. Does Staff feel that these precedents should apply to United in this case?**

11 A. Yes, now is an appropriate time to address these issues as they relate to United
12 so that on a going forward basis the spin-off will be in the public interest within
13 the confines of current economic and legal realities.

14
15 **Q. Are there other reasons why these issues should be addressed at this time?**

16 A. Yes, other reasons why changes of this nature should be implemented now are
17 that a) consumers will be notified in conjunction with the change in name of the
18 company, b) the company will be able to make rate changes in order to eliminate
19 unhealthy implicit subsidies, and c) the Commission will be satisfied that United

1 will remain financially healthy, economically viable, and placed on a solid
2 competitive foundation.

3 If this is done without unnecessarily and unfairly disadvantaging its
4 competitors, customers in these areas should realize the benefits of the spin-off
5 that the company touts in its original filing.¹

6
7 **V. UNITED'S ORIGINATING ACCESS CHARGES**

8
9 **Q. What are the levels of United's intrastate originating access charges?**

10 **A.** Exhibit No. ___ (TWZ-3) provides the relevant rates along with a comparison to
11 rates the Commission authorized for Verizon as well as United's comparable
12 interstate rates for the state of Washington. This information comes from the
13 attachment to Sprint's response to Staff Data Request No. 9. United's charges for
14 originating access are significantly higher than the level that the Commission
15 established as reasonable for Verizon. The Commission ordered Verizon to
16 reduce its rates in Docket UT-020406 in order to correct what it found to be illegal
17 and anti-competitive rate discrimination. At paragraph 48 of the Eleventh

¹ See for example the Direct Testimony of John W. Mayo, Exhibit No. ___ (JWM-1T) submitted in this case on August 26, 2005, at page 9, lines 18 through 20.

1 Supplemental Order² in Docket UT-020406, the Commission adopted Dr.
2 Blackmon's reasoning for lowering Verizon's intrastate originating access
3 charges. The Commission should apply this same reasoning to United's access
4 charges in this case and require United to lower its originating access rates to the
5 same level required of Verizon.

6
7 **Q. What specific changes should be required in United's originating access rates?**

8 **A.** United's carrier common line charges of \$0.010 and \$0.005 should be eliminated.
9 United's end office local switching charges (LS1 and LS2) should also be reduced
10 from \$0.0207400 to \$0.015172.

11
12 **Q. With these changes, will United's charges for originating switched access**
13 **service comply with the legal standard that the Commission applied to**
14 **Verizon NW's originating switched access service in Docket UT-020406?**

15 **A.** Yes.
16

² Findings of Fact Numbers 11, 12, and 19, also reinforce this logic which should apply in this case equally, as well, with respect to United.

1 VI. UNITED'S TERMINATING ACCESS CHARGES

2
3 Q. What are United's intrastate terminating switched access charges?

4 A. Exhibit No. ___ (TWZ-3) also provides the relevant rates for this category along
5 with a comparison to Commission authorized Verizon rates as well as United's
6 current comparable interstate rates for the state of Washington.

7
8 Q. What does Staff recommend with regard to United's intrastate terminating
9 switched access charges?

10 A. Staff recommends that United's intrastate interim terminating access charge
11 (ITAC) be reduced from \$0.064851 down to approximately \$0.031779 per minute.
12 This reduction is associated with the restructuring of United's local and switched
13 access rates, and in conjunction with the Directory Revenue Payment. Staff's
14 intent is to keep United's intrastate revenue neutral, in the context of this case.

15 The estimated ITAC above is based on data from the twelve months
16 ended December 31, 2004. However, the Commission should order United to file
17 an updated rate (calculated in the same way) based on data from the twelve
18 months ended December 31, 2005, which should be available by the time the
19 transaction closes.

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Q. Are there other reasons in addition to revenue neutrality why Staff recommends that United's ITAC be lowered?

A. Yes. The Commission decided in its 1998 access charge reform proceeding, Docket No. UT-970325, that the rates that telecommunications companies charge each other for terminating calls should be based solely on the actual cost of providing that service, and should be the same regardless of whether the calls are local "interconnection" calls or long-distance "exchange access" calls.

The ITAC significantly interferes with those principles, because the ITAC does not recover any part of the cost of terminating a call, and because the ITAC is levied on access service but not on interconnection service. Since the ITAC interferes with the Commission's fundamental access charge policy, it should be permitted only to the extent it is necessary to further some other, more important public policy objective. Universal service certainly does qualify as an overriding public policy objective, but only to the level necessary for United to be able to provide comparable and affordable local exchange rates. Currently many of United's local exchange rates are much lower than they need to be and it is unfair to expect other customers throughout the state to subsidize this excessive level of support that is not needed to keep rates affordable and comparable.

1 With an ITAC of approximately \$0.031779 per minute I estimate that United can
2 still support universal service without charging excessive intrastate access
3 charges to its competitors.
4

5 **Q. Why should United reduce its ITAC as Staff recommends, when the result is**
6 **an increase in local rates for some of United's customers?**

7 A. The ITAC should be reduced because today a portion of the ITAC revenues are
8 being used to keep rates for some local customers of United lower than is
9 necessary or reasonable.

10 The sole purpose of the ITAC is to maintain rates in rural and high-cost
11 areas that are affordable and reasonably comparable (i.e. universal service). This
12 is a worthwhile goal, consistent with state and national policy, but United's
13 current rate structure overshoots the mark. Rather than maintain rates in rural
14 and high-cost areas that are equal to its rates elsewhere, United actually charges
15 these areas lower rates. Customers in Poulsbo and Sunnyside pay \$16.40
16 (residence) to \$32.10 (business), compared to rates in Stevenson of \$8.90
17 (residence) to \$17.85 (business). In short, the universal service objectives can be
18 met with a lower ITAC than United's tariff currently mandates.
19

1 VII. UNITED'S LOCAL EXCHANGE RATES

2
3 Q. What local exchange rates does Staff recommend for United?

4 A. Staff recommends that all local exchange rates for United be the same for all
5 exchanges it serves in Washington State as what the company currently charges
6 its customers in its Poulsbo exchange, for comparable residence and business
7 services. This recommendation is meant to include all flat rate and measured:
8 Residence, Business, Centrex, Key Line, and PBX trunk services.

9 In addition, as part of consolidating the local exchange rate groups,
10 United should be required to eliminate its extended area service adders in order
11 to simplify its tariff and achieve the rates it presently charges in the Poulsbo
12 exchange (including extended area service as a single rate for each type of
13 service). The Poulsbo rate levels are reasonably comparable and affordable as
14 well as fair, just, reasonable, and sufficient. Additionally, the Poulsbo rates are
15 similar to the rates Verizon is authorized to charge for similar services.

16 Like both Qwest and Verizon, United should also ensure that its
17 customers' local calling capabilities are adequate within the more simplified local
18 rate structure that Staff advocates here. It should be noted that although
19 different exchanges have different local calling areas in Qwest and Verizon

1 territories, both Qwest and Verizon charge their customers the same local rates
2 regardless of where they are located, or the scope of their local calling. Indeed,
3 extended area service should be implemented to ensure that the local exchange
4 rates themselves include all of the basic services that customers throughout the
5 state have come to expect.

6 Furthermore, United's current management (which will be the future
7 management of the spun-off company) understands that customer service is
8 important as the company enters into the next phase of its existence.

9 Adjustments for adequate local calling areas will benefit both United and LTD
10 Holding Company, at this time, and into the future, as consumer calling patterns
11 and demand evolves. Now is an appropriate time to review these rates, terms,
12 and conditions, in order to refresh and update the company's offerings.

13
14 **Q. Why is it appropriate to rebalance local exchange rates, the proposed directory
15 revenue payment, and intrastate access charges on a revenue neutral basis?**

16 **A.** Based on Staff witness Ms. Betty Erdahl's review of United's earnings situation,
17 United is within a range of reasonableness and this process should not be unduly
18 extended or delayed to the detriment of competition and consumer welfare in
19 Washington State.

1 Mr. Wilford Saunders also explains in more detail why this treatment is in
2 the public interest. Ms. Kathleen M. Folsom's analysis also supports this
3 treatment given the fact that it is Staff's recommendation to ensure that the spun-
4 off company remains financially viable. Ms. Paula M. Strain's recommendation
5 to book the directory revenue payment to local service revenue is also consistent
6 with this overall approach.
7

8 **Q. What should be the timing of these rate changes in the context of this case?**

9 A. Staff recommends that the Commission require United to issue proposed tariff
10 revisions to implement all of these changes within 30 days after the transaction
11 closes. Staff further recommends that the rate change filings should include a
12 complete transition plan, proper customer notification verification, and price
13 times quantity information so the Commission can validate revenue neutrality.
14

15 **Q. Why not wait for the results of the FCC's rulemaking in Common Carrier (CC)**
16 **Docket 01-92 – the "Intercarrier Compensation Reform Proceeding" (or, "ICC**
17 **Reform Proceeding")?**

18 A. That proceeding started in 2001 and does not yet appear to be extremely close to
19 resolution. Additionally, as noted in NASUCA's Ex Parte to the FCC dated

1 December 17, 2004³ (see also Exhibit No. ___ (TWZ-4); a) States should retain
2 authority to reach the targets in their own way and, b) “[n]o [f]inal [s]olution . . .
3 is advisable or possible.”

4 Although Staff believes that solutions are possible at the FCC, it is equally
5 true that solutions are possible at state commissions such as the WUTC.

6 Additionally, the largest portion of the underlying problem in the FCC docket is
7 intrastate access charges. Staff believes that the WUTC can and should address
8 intrastate access charge issues as opportunities arise. Every incremental
9 improvement is progress in the right direction and the timing of this case should
10 work in conjunction with furthering federal public policy goals as well as
11 implementing settled state-side precedent at the same time.

³ Available on the FCC's website at:

http://gullfoss2.fcc.gov/prod/ecfs/retrieve.cgi?native_or_pdf=pdf&id_document=6516885459

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VIII. TABLE OF ESTIMATED REVENUE IMPACTS

Q. Please summarize the estimated revenue impacts for Staff's recommendations.

A. See the table inserted below for this summary:

(a)	(b)	(c) Current Price	(d) Proposed Price	(e) Annual Revenue Impact (000's)
1.a. Originating Local Switching		\$0.020740	\$0.015172	
1.b. Originating Carrier Common Line-P		\$0.010000	\$0.000000	
1.c. Originating Carrier Common Line-NP		\$0.005000	\$0.000000	
2. Terminating Interim USF Rate		\$0.064851	\$0.031779	
3.a. Local Exchange Rates - RES (avg)			\$16.40	
3.b. Local Exchange Rates - BUS (avg)			\$32.10	
4. Directory Revenue Payment Residual				
GRAND TOTAL				

Exhibit No. ___HC (TWZ-5HC) also includes the table above populated with the confidential (yellow) and highly confidential (blue) revenue information.

The annual revenue impact estimates above are based on data from the twelve months ended December 31, 2004. However, the Commission should order United to file based on data from the twelve months ended

1 December 31, 2005, which should be available by the time the transaction closes.

2 Therefore, the ITAC rate could ultimately vary slightly in order to continue to
3 keep revenue in balance.

4
5 **IX. CONCLUSION**

6
7 **Q. Do you have any other recommendations with regard to intrastate access**
8 **charges at this time?**

9 **A.** Yes, one additional item. United should also be required to update its toll/access
10 imputation study based on the new access charges stated above (along with
11 updating all other factors consistent with twelve month ended December 31,
12 2005, actual data), also within 30 days after the transaction closes.

13
14 **Q. Does this conclude your testimony at this time?**

15 **A.** Yes.
16