

BEFORE THE PUBLIC SERVICE COMMISSION OF WYOMING

| | | |
|-----------------------------|---|-----------------------------|
| IN THE MATTER OF THE TARIFF |) | |
| FILING BY QWEST CORPORATION |) | |
| FOR AUTHORITY TO REVISE |) | |
| FEDERAL UNIVERSAL SERVICE |) | Docket No. 70000-1247-TT-06 |
| FUND (USF) AND TELEPHONE |) | Record No. 10599 |
| ASSISTANCE PROGRAM TRIBAL |) | |
| LIFELINE CREDITS |) | |

PRE-FILED DIRECT TESTIMONY OF

Denise Kay Parrish

On Behalf of the Office of Consumer Advocate

Filed March 19, 2007
Hearing April 10, 2007

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A. My name is Denise Kay Parrish and my business address is 2515 Warren Avenue,
3 Suite 304, Cheyenne, Wyoming 82002.

4
5 **Q. WHAT IS YOUR OCCUPATION?**

6 A. I am currently the Deputy Administrator of the Wyoming Office of Consumer
7 Advocate (OCA). In this position, I review and provide input into the
8 recommendations made by the OCA. I review utility applications filed with the
9 Wyoming Public Service Commission (Commission) and provide advice to the
10 Administrator regarding the involvement the OCA should have, if any, in the
11 various cases. I review applications, perform analyses and provide
12 recommendations to the Commission relative to various utility matters, including
13 revenue requirements, tariff language, competitive issues, rules and regulations,
14 and other items. I write and issue press releases, perform special studies, as well
15 as provide information and research to customers, the legislature, the OCA
16 Administrator, and others. I do other assignments and tasks, as needed and as
17 assigned by the OCA Administrator.

18
19 **Q. WHAT IS YOUR EDUCATIONAL AND PROFESSIONAL**
20 **BACKGROUND?**

21 A. In 1976, I graduated from Michigan State University with a Bachelor's degree in
22 Accounting. I have spent thirty years as a regulator of public utilities, having
23 been on the staff of four state utility regulatory commissions and two consumer
24 advocate entities. More than fifteen of these years have been spent at the
25 Wyoming Public Service Commission. I have taken classes related to various
26 aspects of public utility regulation, including income taxes, regulatory accounting,
27 capital recovery, cost-of-service, rate design, revenue requirements, separations
28 and allocations, and other specialized topics. I have taught classes on issues of
29 accounting standards, general ratemaking principles, affiliate transactions,
30 regulatory accounting, financial reporting, and other specialized topics to
31 regulatory professionals.

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Since 2002, I have been an instructor at the Michigan State University Institute of Public Utilities (CAMP NARUC). I have also worked with the Nigerian Communications Commission on regulatory accounting and reporting matters and have done work for the International Telecommunications Union as a seminar leader. Furthermore, I have participated as a presenter at several meetings of the Tariff and Pricing Committee of the Energy Regulators Regional Association (ERRA). Finally, I was a presenter at, and participant in a workshop sponsored by the Energy Group of the Institute of International Education (IIE) regarding the development of an Electricity Distribution Indicator Toolkit.

I am the past chair and a current member of the National Association of Regulatory Utility Commissioners' Staff Subcommittee on Accounting and Finance. I am a member of the NARUC Staff Subcommittee on International Relations. I am listed in the current edition of Who's Who of American Women. I am currently a member of the National Association of State Utility Consumer Advocates' (NASUCA) Tax and Accounting Committee. Finally, I am a member of the staff of the Federal-State Joint Board on Universal Service.

Q. DO YOU HAVE EXPERIENCE AS AN EXPERT WITNESS?

A. Yes. I have testified more than one hundred twenty-five times as an expert witness. I have testified before the Michigan Public Service Commission, the Colorado Public Utilities Commission, the Colorado District Court, the Arizona Corporations Commission, the Wyoming Public Service Commission, and the Wyoming Legislature Joint Corporations Committee. I have testified in telecommunications, water, wastewater, electric, and natural gas cases. The subjects upon which I have testified include revenue requirements, rate design, cost-of-capital, nuclear decommissioning, accounting deferrals, adjustment mechanisms, income taxes, capital recovery, universal service funding, and other specialized topics.

1 **Q. WHO DO YOU REPRESENT IN THIS PROCEEDING?**

2 A. As a member of the Office of Consumer Advocate, I represent the interests of
3 Wyoming citizens and all classes of utility customers in this public utility matter,
4 as required by W.S. § 37-2-401. It is neither my intent nor my charge to represent
5 the position of any individual, group, municipality, or corporation.
6

7 **Q. WHAT COURSE OF ACTION IS AVAILABLE TO INDIVIDUAL**
8 **CONSUMERS OR OTHER INTERESTED PARTIES IF THEY WISH TO**
9 **PURSUE ISSUES NOT ADDRESSED BY THE OFFICE OF CONSUMER**
10 **ADVOCATE, OR TAKE A DIFFERENT POSITION FROM THE OFFICE**
11 **OF CONSUMER ADVOCATE?**

12 A. Consumers and other parties may intervene in the proceedings and raise
13 additional issues not addressed by the Office of Consumer Advocate, and may
14 take different positions than those presented by the OCA. Consumers may also
15 present written or oral comments at the hearing, which then become part of the
16 record in the case and are available to the Commission as it makes its decision on
17 any particular proposal or suggested change. The OCA encourages the
18 participation of the public and all interested parties in cases before the
19 Commission.
20

21 **Q. ARE YOU SPONSORING ANY EXHIBITS OR SCHEDULES IN THIS**
22 **PROCEEDING?**

23 A. No, I am not. All of the information that I wish to present in my prefiled
24 direct presentation is contained within the body of my direct testimony.
25

26 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

27 A. The purpose of my testimony is to present the OCA's position regarding Qwest's
28 tariff filing to pass back its federal universal service fund receipts to its Wyoming
29 local service customers. In my testimony, I provide background about the federal
30 universal service fund (FUSF), the Wyoming universal service fund (WUSF), the

1 tariff provision that is the subject of this proceeding, and offer an alternative
2 means of flowing back Qwest's FUSF receipts to its Wyoming customers.

3
4 **Q. MS. PARRISH, WHAT FAMILIARITY DO YOU HAVE WITH THE**
5 **FEDERAL UNIVERSAL SERVICE FUND?**

6 A. My expertise in the current federal universal service fund goes back to 1996, with
7 the passage of the federal 1996 Telecommunications Act (the 1996 Act). Section
8 254(a)(2) required the Federal Communications Commission (FCC) to complete
9 its initial rules proceeding on the FUSF within 15 months of the passage of the
10 1996 Act. The FCC released its initial order on May 8, 1997. Within one week of
11 that order being released, I had familiarized myself with the order and was
12 participating as a presenter (with Qwest representatives) in a video conference
13 about the FCC's decision.

14
15 In the last ten years, I have continued to be an active participant in meetings about
16 FUSF and have advocated on behalf of Wyoming customers relative to FUSF
17 issues. These activities include: meetings with FCC Commissioners about the
18 Wyoming telecommunications story and our need for federal support to keep
19 basic service affordable; meetings with members of the Federal-State Joint Board
20 on Universal Service (Joint Board) to tell the Wyoming story; participating in
21 and/or observing numerous meetings of the Rural Task Force on Universal
22 Service; drafting many sets of comments on behalf of the Wyoming Public
23 Service Commission and filing them with the FCC or the Joint Board about
24 various FUSF proposals; drafting several sets of comments on behalf of the
25 Wyoming Office of Consumer Advocate and filing them with the FCC or the
26 Joint Board in response to various FUSF proposals or provisions; and finally,
27 agreeing to become a member of the Joint Board staff to work on FUSF matters.

28
29 **Q. DO YOU ALSO HAVE EXPERTISE REGARDING THE WYOMING**
30 **UNIVERSAL SERVICE FUND?**

1 A. Yes. I was an active representative of the Wyoming Public Service Commission
2 when the initial discussions took place that ultimately lead to the passage of the
3 Wyoming Telecommunications Act of 1995 (1995 Wyoming Act). I spent many
4 hours in legislative committee meetings, in one-on-one discussions, and in
5 preparing background information relative to the passage of the 1995 Wyoming
6 Act. W.S. § 37-15-501, which was first authorized as part of the 1995 Wyoming
7 Act, creates the WUSF.

8
9 After the passage of the 1995 Wyoming Act, I was assigned --- along with Mr.
10 Ivan Williams – to draft the Wyoming Universal Service Fund rules and
11 regulations. As part of the process of the Commission adopting these rules (found
12 in Section 500 of the Commission’s Procedural Rules and Special Regulations),
13 many meetings were held with interested parties and many proposals considered
14 and discussed. Since the adoption of the rules, I have also participated in several
15 hearings where the rules were either proposed to be modified, or where there were
16 questions of interpretation regarding the rules.

17
18 I was also active in the early implementation of the WUSF rules. I regularly was
19 asked to work with the Commission’s USF manager (a third party manager, rather
20 than a member of the Commission staff) to review proposals, implementation
21 questions, and initial computations. I regularly appeared before the Commission
22 to respond to WUSF questions and responded to inquiries of the industry and
23 other interested parties. In this role, I was also frequently asked by the
24 Commission to provide “what-if” scenarios as the legislature considered
25 amendments or modifications to W.S. § 37-15-501.

26
27 For several years, Mr. Williams and I were considered to be the Commission’s *in-*
28 *house experts* on WUSF.

29
30 **Q. ARE YOU ALSO FAMILIAR WITH THE QWEST TARIFF PROVISION**
31 **THAT IS THE SUBJECT OF THE ISSUES IN THIS MATTER?**

1 A. Yes. The Qwest tariff provision containing the Federal Universal Service Fund
2 Credit first appeared as a result of the Commission's approval of U S WEST
3 Communication's (Qwest's predecessor's) prices in Docket No. 70000-TR-99-
4 480. The provision was first effective October 1, 1999. This was a docket in
5 which I actively participated, both in terms of negotiating a settlement and in
6 terms of being a witness for the Consumer Advocate Staff.

7
8 Furthermore, I was assigned as the Commission analyst regarding the FUSF
9 credits for the first few annual cases that were filed by Qwest relative to this tariff
10 provision. So, I am familiar with not only the establishment of the tariff
11 provision, but also with its early implementation.

12
13 **Q. PLEASE EXPLAIN THE QWEST TARIFF FILING WHICH UNDERLIES**
14 **THE CONTROVERSY IN THIS CASE.**

15 A. On June 1, 2006, Qwest submitted a tariff change to the Commission for
16 approval. This filing involved Section 5.1.6(C)(2) and Section 5.2.6(B)(3) of
17 Qwest's Exchange and Network Services Tariff. An e-mail accompanying the
18 electronic filing explains:

19 Attached is Qwest Corporation's electronic filing which revises
20 Qwest's federal universal service fund (USF) credits for those
21 customers whose local exchange service rates exceed the
22 Wyoming USF support benchmark; and also revises the Telephone
23 Assistance Program Tribal Lifeline credits resulting from the
24 changes to Qwest's state and federal USF credits in order to
25 maintain the \$1.00 net rate for the Tribal Lifeline telephone
26 assistance program customers, for filing today, June 1, 2006.

27
28 The proposed effective rate for the change in the FUSF credits was July 1, 2006.

29 More specifically the filing proposed the following changes:
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| | THEN EFFECTIVE RATE (EFFECTIVE 7/1/2006) | PROPOSED RATE(EFFECTIVE 7/1/2007) |
|--|--|---|
| Zone One and Local Rate Area One Credits | \$6.80 | \$6.27 |
| Zone Two and Local Rate Area Two Credits | \$16.80 | \$16.27 |
| Zone Three Credits | \$32.05 | \$30.20 |
| | | |
| Tribal Lifeline Credit | \$20.80 | \$21.33 |

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At one point in its filing, Qwest indicates that this filing is being made “in compliance with the Commission Order in Docket No. 90071-XO-06-26¹.” The OCA, however, fails to see why the two matters are related, as I will explain later in my testimony.

Given the history of the rate setting process and the WUSF rules, the OCA views the purpose of the filing slightly differently. Each year, the amount of FUSF that Qwest receives is subject to change. The bill credit is changed annually to reflect the revised amount of FUSF receives each year. This is consistent with the stipulation in Docket No. 70000-TR-99-480 that established the FUSF credit section of the tariff which states at paragraph 20, “FUSF credits will be adjusted annually to reflect changes in the level of FUSF support.”

Q. WHAT IS THE REASON THAT THE ZONE AND LOCAL RATE AREA CREDITS ARE PROPOSED BY QWEST TO BE DECREASED WHILE THE TRIBAL LIFELINE CREDIT IS PROPOSED TO INCREASE?

A. The total amount of FUSF available to Qwest was reduced for the more recent period, based on all of the factors used by the FCC and the Universal Service

¹ It appears the matter Qwest intended to reference is Docket No. 90072-XO-06-26. Even when the reference is corrected, OCA continues to believe that the two matters are unrelated, as will be discussed later.

1 Administrative Company (USAC) to distribute funds. Thus, no matter how the
 2 funds are distributed by zone, the available total is less. Little, if any, of the
 3 difference between the two years' credits is driven by differences in the method
 4 by which the credits are spread to the various zones.

5
 6 The tribal lifeline credit amount is determined in an entirely different manner than
 7 is the zone credit. The ultimate goal of the tribal lifeline credit is to assure that
 8 the customers who qualify for this special rate pay no more than one dollar, if
 9 possible under the established formula. So, the amount of the tribal lifeline credit
 10 is driven by the end rate, rather than a total pool of money to be distributed to
 11 different groups of customers.

12
 13 **Q. PLEASE EXPLAIN THE COMPUTATION USED TO DERIVE THE**
 14 **TRIBAL LIFELINE CREDIT.**

15 A. Section 5.2.6(B)(3) of Qwest's Exchange and Network Services tariff sets forth a
 16 succinct summary of the computation used to derive the \$1 rate paid by qualifying
 17 customers. Summarizing from Qwest's tariff, Section 5, Page 30.2, Release 9,
 18 with the rates currently approved on an interim basis effective July 1, 2006:

| | BASE RATE AREA | ZONE 1 | ZONE 2 | ZONE 3 |
|--------------------------------------|-------------------|-----------|-----------|-----------|
| Single Party Rate | \$23.10 | \$23.10 | \$23.10 | \$23.10 |
| Zone Charge | \$0 | \$15.50 | \$25.50 | \$46.25 |
| Subscriber Line Charge | \$6.50 | \$6.50 | \$6.50 | \$6.50 |
| Non-Tribal Lifeline Credit | (\$16.50) | (\$16.50) | (\$16.50) | (\$16.50) |
| WUSF Credit | \$0 | \$0 | \$0 | (\$6.82) |
| FUSF Credit | \$0 | (\$6.27) | (\$16.27) | (\$30.20) |
| Additional Tribal Lifeline Credit | (\$12.10) | (\$21.33) | (\$21.33) | (\$21.33) |
| CUSTOMER PAYS | \$1.00 | \$1.00 | \$1.00 | \$1.00 |

19

1 The FCC rules further set forth the specific tiers of support that are available to
2 carriers serving non-tribal lifeline and tribal lifeline customers. These rules are
3 found at C.F.R. § 54.403:

- 4 ▫ The first charge waived is the amount of the subscriber line charge,
5 or in this case, \$6.50 per month.
- 6 ▫ An additional \$1.75 per month credit is available if the carrier
7 certifies that it will, and has received approval to, pass the amount
8 through to the customers.
- 9 ▫ An additional amount, equal to one-half of the amount of any state-
10 mandated support (but not to exceed an additional \$1.75 per
11 month) is available if the carrier certifies that it will pass this
12 amount through to customers and has received approvals to do so.
- 13 ▫ An additional credit of up to \$25 per month is available to a carrier
14 serving an eligible resident of tribal lands, to the extent that it does
15 not bring the local residential rate below \$1 per month and the
16 carrier certifies that it will pass the amount through to the
17 customer.

18 Adding these up, the total amount of federal credit available for Tribal lifeline
19 customers is as much as \$28.50 plus the amount of the subscriber line charge,
20 which is currently \$6.50, for a total of \$35.00.

21
22 To this amount is added the additional available state lifeline credit (specified at
23 W.S. § 37-2-301(b)) of the greater of \$3.50 per month or “the amount necessary
24 to obtain the matching waiver available under applicable orders and regulations of
25 the federal communications commission.” The Qwest tariff shows the state
26 lifeline credit to be \$6.50 per month, although to be consistent with the Wyoming
27 statutes and federal rules, the amount should only be \$3.50 per month. I have
28 been unable to find a satisfactory explanation for the difference as of this point in
29 time.

30

1 **Q. IF YOUR READING OF THE STATUTES AND RULES IS CORRECT²,**
 2 **AND LIFELINE CUSTOMERS ARE RECEIVING MORE STATE**
 3 **LIFELINE CREDITS THAN PERMITTED, WHAT IS THE IMPACT ON**
 4 **NON-TRIBAL LIFELINE AND TRIBAL LIFELINE CUSTOMERS?**

5 A. At this point in time, there would be no impact on the ultimate rate paid by the
 6 tribal lifeline customers. The ultimate bill paid by eligible tribal lifeline
 7 customers would still be \$1.00 per month. This result is shown below in the
 8 simple example for a zone three customer:
 9

| | CURRENT COMPUTATION | MODIFIED COMPUTATION |
|--------------------------------------|------------------------|-------------------------|
| Single Party Rate | \$23.10 | \$23.10 |
| Zone Charge | \$46.25 | \$46.25 |
| Subscriber Line Charge | \$6.50 | \$6.50 |
| Non-Tribal Lifeline Credit | (\$16.50) | (\$13.50) |
| WUSF Credit | (\$6.82) | (\$6.82) |
| FUSF Credit | (\$30.20) | (\$30.20) |
| Additional Tribal Lifeline Credit | (\$21.33) | (\$24.33) |
| CUSTOMER PAYS | \$1.00 | \$1.00 |

10
 11 In the case of the tribal lifeline customer, the state lifeline credit would be \$3.00
 12 less while the tribal lifeline credit would be \$3.00 more, resulting in the same
 13 \$1.00 per month charge to customers. While not illustrated in the chart above, the
 14 \$1 per month result would be the same for the customers in the base rate area and
 15 for customers in zones one and two.
 16

² In the process of confirming that the appropriate state lifeline credit is \$3.50 rather than \$6.50, I examined several other local exchange carriers' tariffs, and found that in each of them, the listed state lifeline credit was \$3.50 per month.

1 There are other differences though, particularly in the way the two credits are
 2 funded. The state credit is funded through a surcharge on the bill of Wyoming
 3 residential and business customers, although eligible lifeline customers do not pay
 4 the surcharge. (See W.S. § 37-2-303.) The tribal credit is paid out of the larger
 5 federal universal service fund, which is currently funded through a surcharge on
 6 the interstate and international portion of the bills of customers nationwide.

7
 8 For non-tribal lifeline customers, the disputed \$3.00 would not automatically be
 9 offset with additional money from the FUSF. Instead, the lifeline customer’s bill
 10 would be increased \$3.00 per month, while slightly reducing the amount of the
 11 surcharge necessary to be charged to non-lifeline customers.

| | BASE RATE AREA | | ZONE 1 | | ZONE 2 | | ZONE 3 | |
|-----------------------------------|-------------------|------------------|-------------------|------------------|-------------------|------------------|-------------------|------------------|
| | Current (Interim) | Corrected | Current (Interim) | Corrected | Current (Interim) | Corrected | Current (Interim) | Corrected |
| Single Party Rate | \$23.10 | \$23.10 | \$23.10 | \$23.10 | \$23.10 | \$23.10 | \$23.10 | \$23.10 |
| Zone Charge | \$0 | \$0 | \$15.50 | \$15.50 | \$25.50 | \$25.50 | \$46.25 | \$46.25 |
| Subscriber Line Charge | \$6.50 | \$6.50 | \$6.50 | \$6.50 | \$6.50 | \$6.50 | \$6.50 | \$6.50 |
| Non-Tribal Lifeline Credit | (\$16.50) | (\$13.50) | (\$16.50) | (\$13.50) | (\$16.50) | (\$13.50) | (\$16.50) | (\$13.50) |
| WUSF Credit | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | (\$6.82) | (\$6.82) |
| FUSF Credit | \$0 | \$0 | (\$6.27) | (\$6.27) | (\$16.27) | (\$16.27) | (\$30.20) | (\$30.20) |
| CUSTOMER PAYS | \$13.10 | \$16.10 | \$22.33 | \$25.33 | \$22.33 | \$25.33 | \$22.33 | \$25.33 |

13

14 **Q. WHO IS ELIGIBLE FOR LIFELINE SERVICE?**

15 A. Qualifications for lifeline services, either tribal or non-tribal, are generally based
 16 on eligibility for other income-based support programs. The full list of
 17 qualifications is defined in Qwest’s tariff at Section 5, pages 28 through 30.1, of
 18 its Exchange and Network Services tariff. Generally, customers will qualify if

1 they are also eligible for programs such as supplemental security income,
2 Medicaid, food stamps, low income energy assistance, or other similar income
3 based programs.

4
5 **Q. PLEASE EXPLAIN THE GENERAL PROCESS USED TO DETERMINE**
6 **THE AMOUNT OF FEDERAL UNIVERSAL SERVICE FUNDS TO BE**
7 **RECEIVED ANNUALLY BY QWEST.**

8 A. The process of determining the level of support that Qwest will receive from the
9 FUSF begins with a forward-looking economic cost model. The model generates
10 the statewide average forward-looking cost per line for the non-rural carrier. This
11 cost is then compared to the national average cost to determine if the non-rural
12 carrier is eligible for high-cost support from the FUSF. The national average cost
13 per line is considered to be the national cost benchmark. If the statewide average
14 cost per line is more than two standard deviations above the national cost
15 benchmark, then the non-rural carrier qualifies for some high cost loop FUSF.

16
17 The precise amount of funding to be received starts with the amount by which the
18 carrier's average line cost exceeds the national average cost. This amount is then
19 multiplied by 76%, the amount determined to be within the interstate jurisdiction.
20 This product is then multiplied by the number of lines reported by the carrier.
21 This determines the total dollar amount of FUSF for a non-rural carrier in an
22 individual state.

23
24 **Q. DOES THE FORMULA THAT YOU JUST DESCRIBED DETERMINE**
25 **HOW MUCH OF THAT TOTAL POOL OF FUNDS RECEIVED BY**
26 **QWEST WILL GO TO EACH WYOMING CUSTOMER?**

27 A. No. It does not. However, there is an additional step described within the federal
28 rules relative to the distribution of the funds. The additional step is described at
29 C.F.R. 54.309(b), and is summarized below:

- 30 □ The forward looking cost model determines the percentage of the
31 total amount of support by wire center. It does this by calculating

1 the ratio of the wire center's average forward-looking cost above
2 the national cost benchmark compared to the total forward-looking
3 cost above the national cost benchmark for all wire centers within
4 the state.

- 5 ▫ The percentage of total support for each wire center is then
6 multiplied by the total dollar amount of support for the state, to
7 determine the dollar amount of FUSF for each wire center.
- 8 ▫ The dollar amount of FUSF for each wire center is divided by the
9 number of reported lines in the wire center to determine a per line
10 amount of support for each individual wire center.
- 11 ▫ The wire center's per line support is multiplied by the number of
12 lines served by the eligible non-rural carrier to determine that
13 individual carrier's amount of support.

14
15 Based on this process, there are a number of factors that can impact the amount of
16 FUSF Qwest receives for its Wyoming operations in each year. Two of the more
17 significant factors are the number of lines it serves versus the number of lines
18 served by other carriers and changes in its mix of higher cost versus lesser cost
19 customers.

20
21 **Q. DO THE FEDERAL RULES PERMIT A WAIVER OF THIS PROCESS?**

22 The federal rules do permit a waiver to allow for the use of a different geographic
23 area other than wire centers for disaggregating the support. Wyoming has
24 requested and been granted such a waiver, so that the support is disaggregated by
25 the base rate area and zones, rather than at the wire center level. This is the
26 waiver discussed in and attached to the direct testimony of Qwest's witness, Mr.
27 Philip Grate.

28
29 In the order granting the Wyoming waiver petition (found as Exhibit 2 of Mr.
30 Grate's testimony), the Federal Communications Commission concluded, at
31 paragraph 7:

1 In approving the Washington Commission’s petition, we
2 recognized that the targeting of support to wire center density
3 zones would closely associate support with the cost of providing
4 service, would reduce opportunities for “cream skimming,” and
5 therefore, would promote efficient competitive entry. Similarly,
6 we find that the Wyoming Commission’s proposal to target non-
7 rural high-cost support to retail and UNE cost zones will result in
8 **support amounts more closely reflecting the underlying cost of**
9 **providing services,** which, in turn, will decrease opportunities for
10 “cream skimming,” and discourage uneconomic market entry. The
11 Wyoming Commission’s method of targeting non-rural high-cost
12 support to retail and UNE cost zones furthers the Commission’s
13 goal of targeting support to the smallest practicable geographic
14 area. Finally, we recognize that the targeting of support based on
15 the Wyoming Commission’s retail and UNE cost zones is
16 **consistent with the states’ primary role of ensuring reasonable**
17 **comparability of rates within their borders** and would give the
18 Wyoming Commission a degree of flexibility in reaching that goal.
19 We, therefore, conclude that approval of the Wyoming
20 Commission’s waiver petition will preserve and advance universal
21 service, and is in the public interest. [Footnotes omitted and
22 emphasis added.]
23

24 From this citation, two things are important that will be key in the discussion of
25 the OCA proposal, below. The first is the concept that support and the underlying
26 costs are – or should be – related. Second, the targeting of support is a means that
27 an individual state can use to try to achieve the comparability standard discussed
28 in the 1996 Act.
29

30 **Q. DOES QWEST’S PROPOSED FUSF DISTRIBUTION METHOD**
31 **PROVIDE FOR A RELATIONSHIP BETWEEN SUPPORT AND COST?**

32 A. I don’t know, in spite of the OCA’s attempt to learn the underlying reasoning
33 behind the Qwest proposal for FUSF credits. In data request number 5, the OCA
34 asked Qwest:

35 Please explain how Qwest derived the per line Federal Universal
36 Service Fund (FUSF) credit it proposes for each of its
37 geographically deaveraged areas.
38

39 Qwest representative Ms. Norsworthy responded:
40

1 The per-line credit was proposed by the Administrator, checked by
2 Respondent for Qwest, and concurred in by Respondent on behalf
3 of Qwest. Please see Confidential Attachment A, State Universal
4 Service Fund Computations, Summary 2006-7 Rate Design for
5 Qwest Corporation.
6

7 In our sixth data request to Qwest, the OCA again sought information on the
8 nature of the credit computations with the following question:

9 Please explain how the geographically de-averaged per line
10 Federal Universal Service support amounts computed quarterly by
11 USAC were used in, or relate to, the derivation of the proposed
12 geographically de-averaged FUSF credits.
13

14 Qwest responded:

15 Qwest is not aware precisely the factors the Administrator may
16 consider in suggesting a credit design for returning federal high
17 cost universal service support to customers. When Qwest
18 reviewed the Administrator's proposed design, Qwest did not
19 consider the details of the underlying federal support calculations
20 in its assessment of reasonableness.
21

22 The OCA then attempted to get information about the derivation of the credits
23 from the Wyoming USF manager, assuming he represented the Commission as
24 the Wyoming USF Administrator. To date, the Commission Technical Staff has
25 chosen not to respond, so answers to these data requests were never received.
26

27 **Q. WHAT DO THE COMMISSION'S PROCEDURAL RULES AND**
28 **SPECIAL REGULATIONS SAY ABOUT THE DISTRIBUTION OF FUSF**
29 **SUPPORT AMONG THE VARIOUS CUSTOMER CLASSES?**

30 **A.** Commission approval of the proposed distribution is required by the language of
31 Section 500(j) of the Commission's Procedural Rules and Special Regulations
32 (Commission Rules):

33 Each company's incremental amount of Federal Universal Service
34 Fund receipts resulting from changes in the company's high cost
35 loop fund support shall also be credited, monthly, to the bills of
36 customers on a per line basis. **The amount of the credit for each**
37 **of the customers shall be computed, and authorized by the**
38 **Commission, in a manner consistent with federal receipt of**
39 **such funds.** A total amount of this credit shall equal the difference
40 between the amount of Federal Universal Service Funds received

1 in the most recent calendar year and the amount of Federal
2 Universal Service Funds most recently used in the computation of
3 rates. [Emphasis added.]
4

5 **Q. MS. PARRISH, PLEASE PROVIDE INFORMATION ON THE AMOUNT**
6 **OF FEDERAL SUPPORT THAT USAC COMPUTED AND REPORTED,**
7 **ON A PER LINE BASIS, FOR EACH OF THE ZONES.**

8 A. Yes. The best source of data to provide this type of information is the detailed
9 Appendices that are publicly reported by the Universal Service Administrative
10 Company on a quarterly basis. One of these detailed schedules provides the High
11 Cost Model Support Projected by Wire Center for each eligible carrier. Looking
12 at the data for the 4th quarter of 2005 and the 2nd quarter of 2006, the data shows
13 the following per line support for Qwest exchanges:
14

| | 4 TH QUARTER 2005 | 2 ND QUARTER 2006 |
|----------------|------------------------------|------------------------------|
| Base Rate Area | \$0 | \$0 |
| Zone One | \$3.29 | \$3.38 |
| Zone Two | \$11.99 | \$12.29 |
| Zone Three | \$30.03 | \$30.79 |

15
16 None of these figures match those proposed in Qwest's filing. In fact, for zones
17 one and two, the USAC figures are substantially less than the figures proposed by
18 Qwest in its tariff filing in this proceeding.
19

20 **Q. HAVE YOU STUDIED THE CONFIDENTIAL STATE UNIVERSAL**
21 **SERVICE FUND COMPUTATIONS REFERRED TO BY QWEST IN THE**
22 **ABOVE-CITED RESPONSE TO THE OCA'S DATA REQUEST?**

23 A. Yes. Based on my analysis of the WUSF manager's computation, one primary
24 conclusion is apparent regarding the FUSF distribution to Qwest's customers: the
25 FUSF funds are being distributed in a manner that emphasizes minimizing the
26 size of the WUSF rather than minimizing the size of customer's bills. Yet, no
27 where in either federal or state rules, or federal or state statutes have I found

1 minimizing the state fund to be a stated desirable goal – especially if it comes at
2 the expense of already high-cost customers.

3
4 **Q. IS IT APPROPRIATE TO INTERWEAVE THE WUSF MANAGER’S**
5 **ANNUAL SPRING COMPUTATIONS WITH THE QWEST FUSF BILL**
6 **CREDITS?**

7 A. No. The computations should be completely separate, and the two are clearly
8 distinguished in the Commission’s Rules.

9
10 Section 500(j) of the Commission’s Rules discusses the treatment of the FUSF. It
11 states that the amount of FUSF to be credited to rates, prior to any distribution of
12 WUSF, is to be the difference between the amount of FUSF “received in the most
13 recent calendar year” and the amount of FUSF “most recently used in the
14 computation of rates.” Thus, in Qwest’s filing that initiated this case, it should be
15 addressing FUSF funds received in 2005. This would have been the “most recent
16 calendar year” at the time the filing was made in June 2006. Customer rates that
17 are inclusive of the FUSF credits based on 2005 FUSF distributions, would then
18 be in effect for a 12 month period of July 2006 through June 2007. By making
19 this computation on a consistent basis, year-to-year, the customers are assured of
20 receiving the benefit of the most recent amounts of FUSF, and Qwest is
21 reasonably assured that it will not have to give back more than it is receiving in
22 any particular year.

23
24 A completely different subsection of the Commission’s rules discusses the annual
25 computation of WUSF support thresholds and distributions. Section 500(g) is the
26 relevant subsection for examining the manager’s annual computation:

1 ...The manager shall annually compute both the statewide
2 weighted average service rate and each telecommunications
3 provider's local service rate in a consistent **manner based on end**
4 **of calendar year line counts and prices set pursuant to the**
5 **provisions of W.S. § 37-15-203** or otherwise by a price sheet
6 lawfully filed exclusively under W.S. § 37-15-204, taking into
7 account the classification options available to telecommunications
8 companies under paragraph (h) of this rule...[Emphasis added.]
9

10 Since the prices and line counts to be used in the manager's computation are to
11 be based on end of calendar year figures – that is, historically reported figures – it
12 is not possible to use prices that include FUSF credits that will not be
13 requested, let alone approved, until several months after the end of the historic
14 calendar year. Actual end of calendar year data does not incorporate a portion of
15 the price that is set months after the end of the historic calendar year end.
16

17 Furthermore, the prices used in the manager's computation are to be prices set
18 pursuant to W.S. § 37-15-203. This statutory provision discusses the regulation of
19 non-competitive prices – prices that are to be approved by the Commission prior
20 to becoming effective. Therefore, it would be inconsistent with the Commission
21 rule to use a price that had not yet been either filed or approved in the annual
22 computation in the annual WUSF distribution computation.
23

24 It is clear from the language of the Commission's Rules that the prices, including
25 any FUSF credits, are to be established pursuant to statutory provisions. Then,
26 those already filed, noticed, and approved prices are used in a future computation
27 by the manager of WUSF thresholds and distributions.
28

29 **Q. BASED ON YOUR OBSERVATIONS, IS THIS THE WAY THAT THE**
30 **WUSF DISTRIBUTION IS BEING COMPUTED?**

31 **A.** No. Based on the confidential worksheet provided by Qwest with its data
32 responses, the FUSF credits that are submitted for Commission approval in this
33 case are also used by the WUSF manager in his computation of WUSF support

1 thresholds and weighted average prices. This is inconsistent with the Commission
2 Rule.

3
4 It also defies logic to use a price – a price that will not appear in a filing for
5 approval or public comment until several months later – in a computation that
6 calls for the use of historical data. Then, it adds insult to injury, when that
7 proposed FUSF credit is finally filed for approval, for the WUSF manager to
8 indicate that it is too late to comment on the proposal, since the time for comment
9 was when the price was used in an earlier calculation – a calculation made months
10 before parties even knew what the FUSF proposed credit would be. Top this off
11 with the fact that the manager’s computation is confidential, and all opportunity
12 for public comment is foreclosed on this issue. It is difficult for the OCA to
13 imagine foreclosure of public input being the Commission’s intention. Yet, that
14 seems to be what is inferred by Qwest, when it indicates that the matter of the
15 FUSF credits filing is simply a compliance filing following the direction given in
16 the Commission’s May 11, 2006 order establishing the 2006-7 assessment rate
17 and support threshold.

18
19 The OCA completely and vehemently disagrees with any characteristic of this
20 filing as a compliance filing. It should be treated for what it is and what it was
21 established to be back in 1999 – an annual Qwest tariff filing that impacts local
22 telecommunications prices for thousands of Wyoming customers.

23
24 **Q. PLEASE EXPLAIN WHY YOU TAKE ISSUE WITH THE QWEST FUSF**
25 **DISTRIBUTION PROPOSAL THAT FOCUSES ON MINIMIZING THE**
26 **STATE UNIVERSAL SERVICE FUND RATHER THAN MINIMIZING**
27 **CUSTOMERS’ BILLS.**

28 A. As stated earlier, there is no stated mandate to minimize the size of the Wyoming
29 fund, especially if it means having higher rates for thousands of Wyoming
30 customers than would otherwise be necessary. Additionally, it ignores the federal
31 universal service principles found in Section 254 of the 1996 Act, including: (1)

1 Telecommunications services should be available in urban and rural areas at
2 reasonably comparable rates; (2) There should be specific, predictable and
3 sufficient Federal and State mechanisms to preserve and advance universal
4 service; and (3) Services considered to be part of universal service should bear no
5 more than a reasonable share of joint and common costs of facilities used to
6 provide those service.

7
8 I will further explain, discussing on each of the stated federal principles in more
9 depth, below.

10
11 **Q. PLEASE DISCUSS THE COMPARABILITY PRINCIPLE THAT IS**
12 **FOUND IN SECTION 254 OF THE 1996 ACT.**

13 A. Found at Section 254(b)(3) of the 1996 Act, the comparability principle states:

14 Consumers in all regions of the Nation, including low-income
15 consumers and those in rural, insular, and high cost areas, should
16 have access to telecommunications and information services,
17 including interexchange services and advanced
18 telecommunications and information services, that are reasonably
19 comparable to those services provided in urban areas and that are
20 available at rates that are reasonably comparable to rates charged
21 for similar services in urban areas.

22
23 The FCC has established a comparability test that the prices approved for Qwest's
24 zone one, two, and three customers fail to meet, according the Commission's own
25 admission. At page 11 of the December 21, 2004 *Joint Petition of the Wyoming*
26 *Public Service Commission and the Wyoming Office of Consumer Advocate for*
27 *Supplemental Federal Universal Service Funds for Customers of Wyoming's Non-*
28 *Rural Incumbent Local Exchange Carrier*, it is stated: "As illustrated in the above
29 table, Wyoming would need additional support of about \$4.7 million annually in
30 order to make the Qwest customers' rates reasonably comparable to nationwide
31 urban rates." Clearly, this filing shows that Wyoming rates did not meet the
32 comparability test. This same admission is found in a September 30, 2004 letter
33 that the Commission sent to the FCC wherein it states on page 2: "...the

1 Wyoming Commission must conclude that its rural residential rates are not
2 reasonably comparable to the nationwide urban rate benchmark.”
3

4 I wish to digress for just a moment to comment on a matter likely to arise in
5 response to this discussion about comparability. Above, I discussed the FCC’s
6 comparability test and Wyoming’s failure to meet this test. However, some may
7 comment that the federal court has overturned the specific comparability test that
8 I reference in this testimony. While that is true, it is also a fact that the FCC has
9 not yet replaced the overturned test. Meanwhile, the overarching, important
10 principle remains – federal law requires reasonably comparable rates between
11 urban and rural telecommunications services. It is difficult to imagine the
12 Commission denying its earlier position that Wyoming’s rates are not yet
13 comparable to urban rates in the United States, especially when the FCC reports
14 that the average urban residential rate as of October 15, 2005 is \$24.74, including
15 subscriber line charges and various surcharges. This compares to a typical Qwest
16 rate in zone one, two, or three of more than \$40. Therefore, I am confident in my
17 argument that Wyoming rates do not currently comply with the comparability
18 mandate contained in the 1996 Act.
19

20 The Qwest proposal for distributing FUSF receipts does nothing to alleviate the
21 comparability failure. Conversely, the OCA recommendation makes movement
22 in the right direction, moving the rates for more than 20,000 Wyoming customers
23 closer to the nationwide, average urban rate.
24

25 **Q. PLEASE EXPLAIN WHY YOU BELIEVE THAT THE QWEST**
26 **PROPOSAL IS INCONSISTENT WITH THE PRINCIPLE THAT**
27 **SUPPORT MECHANISMS ARE TO BE SPECIFIC, PREDICTABLE, AND**
28 **SUFFICIENT.**

29 A. This principle is specifically stated at Section 254(b)(5) of the 1996 Act:

30 There should be specific, predictable and sufficient Federal and
31 State mechanisms to preserve and advance universal service.
32

1 There is no indication of how distributing FUSF to minimize the size of the
2 WUSF assists in preserving or advancing universal service. There is no
3 examination of whether this distribution method is contributing to allowing more
4 customers to have telephone service or whether the service is more affordable.
5

6 More importantly, there is an underlying assumption that if rates are unaffordable
7 or not passing the comparability test, then any additional support should come
8 from the FUSF, and not the WUSF. This is troubling for several reasons.
9

10 First, the assessment to support the WUSF is less than one percent currently. This
11 compares to an assessment of about ten percent to support the FUSF. Due to the
12 size of the federal assessment, many think that the current level of federal support
13 is unsustainable, and there is an active discussion among interested parties that
14 perhaps the time is right for additional caps to be placed on the federal support
15 mechanisms. Continued levels of support from the FUSF are doubtful, while the
16 opportunity for additional support is looking like nothing more than a dream.
17 Given the widespread view that the FUSF could collapse under its own weight at
18 any time, the predictability and sufficiency of the federal fund is in serious
19 question. This supports the view that the federal goal should, and must, be met
20 through a combination of support from the federal and state funds.
21

22 Second, it is not clear that even if a reasonable, incremental amount of the FUSF
23 were received there would be any significant immediate impact on the prices to
24 customers. This is especially true if the federal funds continue to be allocated in a
25 manner similar to the method proposed in this case and the Commission's Rules
26 remain as they are today. The following example is offered to illustrate this point:
27
28
29
30

1 *Assume \$2.35 million (about one-half of the Commission’s requested supplement)*
 2 *in incremental FUSF with 10,000 customers in Zone One, 10,000 customers in*
 3 *Zone Two, and 20,000 customers in Zone Three³. The result, using the Qwest*
 4 *proposed method, would be:*

| | ZONE 1 | | ZONE 2 | | ZONE 3 | |
|------------------------|----------------|----------------|----------------|----------------|----------------|----------------|
| | Current | Illustration | Current | Illustration | Current | Illustration |
| Single Party Rate | \$23.10 | \$23.10 | \$23.10 | \$23.10 | \$23.10 | \$23.10 |
| Zone Charge | \$15.50 | \$15.50 | \$25.50 | \$25.50 | \$46.25 | \$46.25 |
| Current FUSF Credit | (\$6.27) | (\$6.27) | (\$16.27) | (\$16.27) | (\$30.20) | (\$30.20) |
| Additional FUSF Credit | \$0 | (\$1.49) | \$0 | (\$1.49) | \$0 | (\$1.49) |
| WUSF Credit | \$0 | \$0 | \$0 | \$0 | (\$6.82) | \$0 |
| CUSTOMER PAYS | \$32.33 | \$30.84 | \$32.33 | \$30.84 | \$32.33 | \$30.84 |

5
 6 *At most, customers would see a decrease in the price they pay of \$1.49, since*
 7 *most of the incremental federal funds would be offset by reductions in the*
 8 *WUSF. Less than one-third of the incremental FUSF would be used to reduce*
 9 *the rates of the high-cost zone customers.*

10
 11 *More likely, customers would see no decrease, since the Commission has allowed*
 12 *some carriers who receive federal support but not Wyoming support to keep any*
 13 *of the federal funds that, if credited to customers, would reduce rates below the*
 14 *Wyoming threshold of 130% of the weighted statewide average rate.*

15
 16 Third, in the process of minimizing the WUSF, rather than customer prices,
 17 essentially treats the WUSF threshold (130% of the weighted statewide average
 18 rate) as a price floor as well as a price ceiling for the zone customers. It becomes
 19 a targeted price, rather than ceiling price. Another example is offered to
 20 emphasize this point:

³ The assumed line counts are not taken from actual data in order to avoid revealing confidential data. However, the proportionality of the assumed numbers bears a reasonable relationship to the actual data.

1 Take the same \$2.35 million incremental FUSF shown in the above example but
 2 spread it differently to the zones. The result is quite different, with all other
 3 things being equal.

| | ZONE 1 | | ZONE 2 | | ZONE 3 | |
|------------------------|----------------|----------------|----------------|----------------|----------------|----------------|
| | Current | Illustration | Current | Illustration | Current | Illustration |
| Single Party Rate | \$23.10 | \$23.10 | \$23.10 | \$23.10 | \$23.10 | \$23.10 |
| Zone Charge | \$15.50 | \$15.50 | \$25.50 | \$25.50 | \$46.25 | \$46.25 |
| Current FUSF Credit | (\$6.27) | (\$6.27) | (\$16.27) | (\$16.27) | (\$30.20) | (\$30.20) |
| Additional FUSF Credit | \$0 | (\$4.90) | \$0 | (\$4.90) | \$0 | (\$4.90) |
| WUSF Credit | \$0 | \$0 | \$0 | \$0 | (\$6.82) | (\$1.92) |
| CUSTOMER PAYS | \$32.33 | \$27.43 | \$32.33 | \$27.43 | \$32.33 | \$32.33 |

14
 15 In this example, 20,000 zone one and two customers would have their rates
 16 reduced by \$4.90 per month, instead of the \$1.49 reduction in the prior example.
 17 Zone three customers would pay no more than they would have without the
 18 incremental FUSF. And, the size of the WUSF would be reduced by more than
 19 seventy percent.

20
 21 In order for this more beneficial method (illustrated above) to be utilized, there
 22 has to be a willingness to set prices below the 130% weighted statewide average
 23 price threshold. Resistance to breaking through this artificial floor appears to
 24 have been in place for at least a few years, according to the language of the Notice
 25 and Order, dated July 28, 2003, in Docket No. 70000-TT-103-899. At paragraph
 26 3:

27 In its application, Qwest states that this filing increases the federal
 28 USF credit total to reflect the actual level of federal USF support
 29 for rural customers received during 2002. Currently, Qwest's rural
 30 customers receive a federal USF credit of \$5.05 in zone 1, \$9.60 in
 31 zone 2, and \$15.30 in zone 3 on their monthly bill. The new
 32 schedule reflects the change in the statewide average established at
 33 \$27.72, and the associated support benchmark, which is 130

1 percent of the statewide average or \$35.42, effective July 1, 2003.
2 As a result of the increase in the federal support received in 2002,
3 Qwest will increase the federal credit to \$13.18 in zone 2, and to
4 \$27.10 in zone 3. **However, any increase to the federal USF**
5 **credit to Qwest's zone 1 customers will further reduce their net**
6 **price below the Commission's newly established 130 percent**
7 **state USF benchmark for 2003. Therefore, the monthly federal**
8 **USF to zone 1 customer will remain unchanged, and the full**
9 **amount of the increase will be passed on to the zone 2 and zone**
10 **3 customers.** The changes to the federal USF credits are
11 consistent with the state USF manager's calculation for distribution
12 of state USF support to Qwest. [Emphasis added.]
13

14 **Q. WHAT IS THE JOINT AND COMMON COST PRINCIPLE TO WHICH**
15 **YOU REFERRED EARLIER?**

16 A. Section 254(k) of the 1996 Act directs:

17 ...The Commission, with respect to interstate services, and the
18 States, with respect to intrastate services, shall establish any
19 necessary cost allocations rules, accounting safeguards, and
20 guidelines to ensure that services included in the definition of
21 universal service bear no more than a reasonable share of the joint
22 and common costs of facilities used to provide those services.
23

24 The application of this principle appears to be missing from the proposed method
25 of distributing the FUSF to Wyoming customer groupings. The Qwest proposed
26 distribution method has no apparent tie to the costs underlying the price. No
27 examination of the contribution level to be provided by the various sets of zone
28 customers is provided. If more closely examined, the Qwest proposal actually has
29 zone three customers paying rates that are below TSLRIC, while other zones are
30 paying double digit percentage contributions above their respective TSLRIC.
31

32 As a word of explanation, I have assumed a specific weighting of the business and
33 residential TSLRIC rates to develop an average TSLRIC rate for each zone. This
34 was necessary, as specific residential and business line counts are part of the
35 confidential data to which I did not have access. Yet, when I asked for the
36 TSLRIC for each zone, it was provided by Qwest separately for residential and
37 business services. Thus, I blended the two rates by assuming that 1/3 of the lines

1 in each zone would relate to business and 2/3 to residential. My assumption
2 should have little impact on the result, as the business TSLRIC was, on average,
3 only six percent more than the residential TSLRIC.

4
5 My initial analysis of the contribution provided by each zone shows:

6
7 **BEGIN CONFIDENTIAL**

8

| | | | | | |
|--|--|--|--|--|--|
| | | | | | |
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| | | | | | |
| | | | | | |
| | | | | | |

9

10

11

12 **END CONFIDENTIAL**

13

14 This means that zone three customers, under Qwest’s proposal, do not even pay
15 the portion of their overall price that is associated with the direct cost of the
16 service. Other customers pay not only their own contribution to common costs
17 but also pay a portion of the zone three customers’ direct costs and all of the zone
18 three customers’ portion of common costs. This appears to be a direct violation of
19 the federal directive that “services included in the definition of universal service
20 bear no more than a reasonable share of the joint and common costs of facilities
21 used to provide those services.”

22

23 **Q. WAS THE ISSUE OF CONTRIBUTION LEVELS DISCUSSED AT THE**
24 **TIME QWEST’S (U S WEST’S) PRICE PLAN WAS APPROVED IN 1999?**

25 A. Yes. My review of the transcript in that case (Docket No. 70000-TR-99-480)
26 reminded me of the Commission’s significant concern about the contribution
27 amount that would be provided by the various zone customers. At page 421 of

1 the transcript, the issue of contributions is summarized during my direct
2 presentation in the case:

3 [By Ms. Parrish] I, for one, believe that it was important to look at
4 the contribution levels over the total service long run incremental
5 cost, and I believe if we go all the way back to the beginning of
6 this proceeding, there was discussion by Mr. McNulty and others
7 about that the percentages are somewhat equal, not precise, but in
8 the same range for contributions over and above TSLRIC for the
9 base rate area and for the zones.
10

11 This same concept is discussed by Mr. Teitzel, a witness for U S WEST, at TR
12 375 of the same proceeding:

13 [By Mr. Teitzel] So with all things balanced, we believe this price
14 plan is reasonable relative to basic exchange prices. And also I
15 need to emphasize that the prices as we propose them have about
16 identical markups over TSLRIC, which we think is fair to all
17 customers both in the base rate and in the zones.
18

19 **Q. WHAT RELEVENCE DOES THE INITIAL SETTING OF QWEST'S**
20 **PRICES, INCLUDING THE FUSF CREDIT, HAVE TO THIS**
21 **PROCEEDING?**

22 A. The concept of setting the price based on the direct cost plus contribution minus
23 universal service support is still the method used to determine the amount paid by
24 Qwest's customers. In the 1999 case, there was an examination of costs
25 (TSLRIC, as well as other costs) plus extensive discussion about the contribution
26 to shared and common costs that should be built into the price. There was also an
27 initial set of FUSF credits established in the 1999 case: \$ 2.00 for zone one
28 customers, \$6.50 for zone two customers, and \$12.25 for zone three customers.
29 All of this was for the purpose of determining the justness, reasonableness, and
30 equity of Qwest's prices as proposed in 1999. I am suggesting that a similar
31 process should be used here. While there are a number of ways that the FUSF
32 may be spread, to determine the equitableness of prices, and for the Commission
33 to comply with the 1996 Act, some analysis of contributions to common costs is
34 essential.
35

1 A more proportionate sharing of the contribution to common costs by all zone
2 customers is a cornerstone of the OCA alternative proposal.

3

4 **Q. HAVING SPENT A GREAT DEAL OF TIME CRITIQUING QWEST'S**
5 **PROPOSAL, AND CLEARLY EXPRESSING YOUR DISLIKE FOR IT,**
6 **ARE YOU PREPARED TO OFFER AN ALTERNATIVE FUSF**
7 **DISTRIBUTION PROPOSAL?**

8 A. Yes, I am. The OCA alternative is summarized below:

9

| | QWEST PROPOSED FUSF CREDITS | OCA RECOMMENDED FUSF CREDITS | DIFFERENCE |
|--------------------------------------|-----------------------------------|------------------------------------|------------|
| Base Rate Area | \$0 | \$0 | \$0 |
| Zone One & Local Rate Area One | \$6.27 | \$13.18 | \$6.91 |
| Zone Two & Local Rate Area Two | \$16.27 | \$19.00 | \$2.73 |
| Zone Three | \$30.20 | \$24.60 | (\$5.60) |

10

11 It is plain to see, that the OCA proposal shifts more of the FUSF to zone one and
12 zone two customers, providing less to zone three customers. However, the price
13 of service ultimately paid by the zone three customers would not change, except
14 for a very small increase in the WUSF assessment that is the result of the OCA
15 proposal. The net effect of the proposal on customers is summarized below:

16

17

18

19

20

21

22

| | Base Rate Area | Zone One & Locality Rate One | Zone Two & Locality Rate Two | Zone Three |
|--|----------------|------------------------------|------------------------------|------------|
| Single Party Rate | \$23.10 | \$23.10 | \$23.10 | \$23.10 |
| Zone Charge | \$0 | \$15.50 | \$25.50 | \$46.25 |
| FUSF Credit | \$0 | \$13.18 | \$19.00 | \$24.60 |
| WUSF Credit | \$0 | \$0 | \$0 | \$12.42 |
| (OCA) Customer Bill before SLC and Taxes | \$23.10 | \$25.42 | \$29.60 | \$32.33 |
| (Qwest) Customer Bill before SLC and Taxes | \$23.10 | \$32.33 | \$32.33 | \$32.33 |
| BILL DIFFERENCE | \$0 | (\$6.91) | (\$2.73) | \$0 |

1

2

3 **Q. WHAT IMPACT DOES YOUR PROPOSAL HAVE ON THE WYOMING**
4 **UNIVERSAL SERVICE FUND AND INDIVIDUAL ZONE CUSTOMERS?**

5 A. I estimate that the OCA proposal will increase the WUSF by about \$1,250,000
6 annually. Pursuant to the WUSF Manager’s computations for the 2006-7 year,
7 Qwest’s annual support from the Wyoming fund was estimated at just a little over
8 \$1.5 million. Under my proposal, I estimate total Qwest support from the WUSF
9 of about \$2,760,000 annually, an increase in support for Qwest’s customers of
10 about 83 percent.

11

12 Yet, let’s look at the impact that the additional \$1.25 million will have on various
13 groups of Wyoming customers. First, I estimate that, all other things being equal,
14 this would require an increase in the Wyoming assessment of less than one-half of
15 one percent (about 0.46% increase). This would take the WUSF assessment from
16 its current level of .85 percent to about 1.31 percent. This still compares very
17 favorably to the federal assessment of nearly ten percent, providing some
18 additional stability and predictability in the funding mechanism. For a customer

1 with a monthly intrastate service bill of \$50, the increased impact would be less
2 than \$0.25 per month.

3
4 Second, the annual total of zone one and zone two customers' bill savings would
5 be \$1.25 million. This would be a direct savings to the zone customers – offset
6 only by the \$0.25 or so per customer per month that would constitute the increase
7 in their Wyoming assessment. This \$1.25 million in customer bill reductions
8 comes from redistributing the FUSF receipts and replacing those redirected funds
9 with additional WUSF of the same amount.

10
11 Third, zone three customers pay the same amount as they would have, except for
12 the minimal increase in the Wyoming support assessment.

13
14 Fourth, Base Rate Area customers are unaffected by the proposal except, again,
15 for the minimal increase in the assessment necessary to fund the WUSF.

16

17 **Q. HOW WOULD LIFELINE AND TRIBAL LIFELINE CUSTOMERS BE**
18 **IMPACTED BY THE OCA PROPOSAL?**

19 A. The impact on these customers is summarized in the following table:

20

21

22

23

24

25

26

27

28

29

30

31

| | BASE RATE AREA | | ZONE 1 | | ZONE 2 | | ZONE 3 | |
|--------------------------------------|-----------------------------|------------------|-----------------------------|------------------|-----------------------------|------------------|-----------------------------|------------------|
| | Current Interim (Corrected) | OCA Proposal | Current Interim (Corrected) | OCA Proposal | Current Interim (Corrected) | OCA Proposal | Current Interim (Corrected) | OCA Proposal |
| Single Party Rate | \$23.10 | \$23.10 | \$23.10 | \$23.10 | \$23.10 | \$23.10 | \$23.10 | \$23.10 |
| Zone Charge | \$0 | \$0 | \$15.50 | \$15.50 | \$25.50 | \$25.50 | \$46.25 | \$46.25 |
| Subscriber Line Charge | \$6.50 | \$6.50 | \$6.50 | \$6.50 | \$6.50 | \$6.50 | \$6.50 | \$6.50 |
| Non-Tribal Lifeline Credit | (\$13.50) | (\$13.50) | (\$13.50) | (\$13.50) | (\$13.50) | (\$13.50) | (\$13.50) | (\$13.50) |
| WUSF Credit | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | (\$6.82) | (\$12.42) |
| FUSF Credit | \$0 | \$0 | (\$6.27) | (\$13.18) | (\$16.27) | (\$19.00) | (\$30.20) | (\$24.60) |
| LIFELINE CUSTOMER PAYS | \$16.10 | \$16.10 | \$25.33 | \$18.42 | \$25.33 | \$22.60 | \$25.33 | \$25.33 |
| Tribal Lifeline Credit | (\$15.10) | (\$15.10) | (\$24.33) | (\$17.42) | (\$24.33) | (\$21.60) | (\$24.33) | (\$24.33) |
| TRIBAL LIFELINE CUSTOMER PAYS | \$1.00 | \$1.00 | \$1.00 | \$1.00 | \$1.00 | \$1.00 | \$1.00 | \$1.00 |

1

2

3 As one can see, Tribal Lifeline customers would be unaffected, in that they would
4 continue to pay \$1.00 for their monthly basic service.

5

6 Zone one and zone two non-Tribal Lifeline customers would receive the same
7 benefits as other customers – their bill would decrease. Zone one lifeline
8 customers would see a decrease of about \$6.91 per month while zone two lifeline
9 customers would see a monthly bill decrease of about \$2.73.

10

11 **Q. WOULD WYOMING PRICES PASS THE CURRENT FCC**
12 **COMPARABILITY TEST UNDER THE OCA’S PROPOSAL?**

13 A. No, all but the prices for the base rate area would still fail to meet the current FCC
14 comparability test. However, the proposed rate reductions advocated by the OCA
15 would certainly move zones one and two prices closer to passing the test – unlike

1 the Qwest proposal that does not move prices any closer to passing the urban/rural
 2 comparability mandate in the 1996 Act. The details of the comparability test
 3 computation are shown below, based on the OCA’s FUSF rate credit distribution
 4 proposal.

| | Base Rate Area | Zone One | Zone Two | Zone Three |
|-----------------------------|----------------|-----------------|-----------------|----------------|
| Basic Service Rate | \$23.10 | \$23.10 | \$23.10 | \$23.10 |
| Zone Additive | \$0 | \$15.50 | \$25.50 | \$46.25 |
| Federal USF Credit | \$0 | (\$13.80) | (\$19.00) | (\$24.60) |
| Wyoming USF Credit | \$0 | \$0 | \$0 | (\$12.42) |
| Subscriber Line Charge | \$6.50 | \$6.50 | \$6.50 | \$6.50 |
| Estimated Surcharges /Taxes | \$3.75 | \$3.75 | \$3.75 | \$3.75 |
| TOTAL WYOMING BILL | \$33.35 | \$35.05 | \$39.85 | \$42.58 |
| Safe Harbor Comparability | \$34.16 | \$34.16 | \$34.16 | \$34.16 |
| Pass Comparability? | Yes | No (but closer) | No (but closer) | No (no change) |

6
 7 Certainly, it would be easy to further rearrange the FUSF credits among the zones
 8 such that zones one and/or two did pass the current comparability test. However,
 9 the OCA is not recommending those types of further modifications, at this time.
 10 Instead, we have tried to balance all of the stated principles, including the cost-
 11 based principle, the comparability principle, and others.

12
 13 **Q. IN AN EARLIER RESPONSE, YOU INDICATED THAT A**
 14 **CORNERSTONE OF THE OCA’S PROPOSAL IS A PROPORTIONATE**
 15 **SHARING OF THE CONTRIBUTION TO COMMON COSTS BY ALL**
 16 **ZONE CUSTOMERS. PLEASE EXPLAIN.**

17 **A.** As OCA was making its computations to determine the appropriate level of FUSF
 18 for each of the zone customers, one of the key items examined was the level of
 19 contribution to common costs that each zone customer would provide. It is
 20 important that each price zone at least cover its direct, economic cost (TSLRIC)
 21 and preferably, that each price zone provide a similar contribution to common
 22 costs. The prices that incorporate our recommended FUSF credits meet this goal,
 23 in that they equalize the contribution percentages with the zones, as shown below:
 24

1 **BEGIN CONFIDENTIAL**

2

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7 **END CONFIDENTIAL**

8

9 **Q. UNDER THE OCA'S PROPOSAL, WHY IS THE CONTRIBUTION TO**
10 **COMMON COST SO MUCH MORE FOR THE BASE RATE AREA**
11 **PRICE THAN FOR THE ZONE PRICES?**

12 A. The simple reason is that I made the determination not to place any of the FUSF
13 support with the base rate area customers. This has been a mutually agreed upon
14 decision since the 1999 price case, as it was also part of the Stipulation from
15 Docket No. 70000-TR-99-480, at paragraph 20: "U S WEST and the CAS have
16 agreed that the FUSF payments received by U S WEST for its intraLATA
17 Wyoming operations should be targeted to customers located in U S
18 WEST's zones outside the base rate area. All services that are subject to zone
19 charges will receive the benefit of FUSF credits."

20

21 It would be a relatively simple mathematical computation to equalize the
22 percentage contribution coming from each of the local pricing groups. However,
23 it would require distributing some of the FUSF to base rate area customers.

24

25 **Q. AS A CHECK ON THE REASONABLENESS OF YOUR PROPOSED**
26 **DISTRIBUTION OF THE FUSF SUPPORT, DID YOU LOOK AT ANY**
27 **OTHER RATIOS?**

1 A. Yes, I did. First, I looked at the ratio that measures what portion of the direct
2 costs (TSLRIC) would be paid by the customer or provided from federal support,
3 rather than coming from the Wyoming support mechanism. All but the zone three
4 customers pay an amount more than the direct costs (TSLRIC). Zone three
5 customers are not required to pay all of their direct costs, pursuant to the WUSF
6 directive, since the TSLRIC exceeds the Wyoming maximum payment by
7 customers. Thus, the WUSF provides support for about one-fourth of the zone
8 three TSLRIC.

9
10 Second, I looked at the relationship between the price that each customer would
11 pay if there were neither support from the WUSF or the FUSF, and the customers'
12 out-of-pocket price (the portion of the rate for which the customer is responsible
13 to pay, or net price). This shows that for each of the zone prices, the net price
14 ranges between 46 percent and 65 percent of the gross price (the price without any
15 support).

16
17 In combination, these tests provided me a comfort level that the prices OCA is
18 proposing is in a reasonable range, and balances the many different universal
19 service principles discussed earlier.

20
21 **Q. MS. PARRISH, GIVEN THAT THE COMMISSION APPROVED**
22 **QWEST'S PROPOSAL ON AN INTERIM BASIS EFFECTIVE JULY 1,**
23 **2006, WHAT ARE YOU RECOMMENDING IN TERMS OF AN**
24 **EFFECTIVE DATE FOR IMPLEMENTING THE OCA'S ALTERNATIVE**
25 **FUSF CREDIT PROPOSAL?**

26 A. When a filed tariff request is approved on a Notice and Order basis, the applicant
27 is warned that the approval is still subject to notice, protest, possible hearing,
28 **change, refund**, and further order of the Commission. Similarly, when rates are
29 approved on an interim basis, the applicant is warned that the rates are subject to
30 notice, protest, intervention, opportunity for hearing, **refund**, and further action
31 that the Commission may deem appropriate. (See language from Notice and Order

1 Approving Tariff Filing on an Interim Basis, dated August 29, 2006, Docket No.
2 70000-1247-TT-06.) The risk that the utility takes in implementing changes
3 before the Commission's decision is final is particularly pertinent in a case such
4 as this, where the OCA had intervened and challenged the proposal *prior to* the
5 Commission's interim decision being made.
6

7 It is because Qwest was warned that it may have to make refunds or changes to
8 the rates, the OCA recommends that any changes the Commission adopts as a
9 result of this hearing be made retroactive back to the effective date of the tariff
10 change, July 1, 2006. Failure to do so would harm zone one and zone two
11 customers who are entitled to the full effect of the reduced rates recommended by
12 OCA. Consistent with making whatever rates the Commission orders as a result
13 of this proceeding effective July 1, 2006, Qwest should receive any additional
14 WUSF support that is necessary for it to remain whole within the context of the
15 entire OCA recommendation.
16

17 **Q. ISN'T WHAT YOU ARE SUGGESTING RETROACTIVE**
18 **RATEMAKING?**

19 A. No. It is not retroactive ratemaking to simply implement the proper rates with a
20 proper effective rate while correcting or eliminating an improper rate that was in
21 effect temporarily, while the issues are sorted out.
22

23 Putting a rate that is being challenged by a party into effect, and then denying the
24 correction of that rate when all the evidence is in, is the equivalent of allowing the
25 utility to have its cake and eat it too. There would be no incentive for utilities to
26 file supported and justifiable rates if they thought they could get them on an
27 interim basis and there would never be any true-up between the interim rate and
28 the permanent rate. For example, in this case, the zone one and zone two
29 customers were forced to pay increases in their local service bills beginning July
30 1, 2006, even though if the OCA recommendation had been adopted at that time,
31 those customers would have received rate decreases. The cumulative difference

1 between the rate approved on interim and the final rates must be measured and
2 refunded to customers.

3
4 Not to true-up, refund, and otherwise correct the interim rate disadvantages the
5 intervening parties and essentially forces them to have their full and complete
6 analysis done at the time the Commission first takes up the matter. It would also
7 disincent parties from providing a full technical and professional analysis, instead
8 incenting parties to do a quicker analysis.

9
10 As to the timing of this case: Qwest filed its tariff proposal on June 1st, the OCA
11 intervened on June 20th, the Commission approved interim rates at its open
12 meeting on June 27th (where some initial OCA analysis was provided), interim
13 rates became effective July 1st, and the Notice and Order was not issued until
14 August 29th. It is important to note that the intervention period in this case did not
15 close until September 29th – nearly three months after the interim rates first
16 became effective.

17
18 **Q. HOW DO YOU RESPOND TO THE ARGUMENT THAT MAKING THE**
19 **FINAL RATE EFFECTIVE JULY 1ST, RATHER THAN APPLYING IT**
20 **ONLY ON A GOING FORWARD BASIS, DISADVANTAGES QWEST,**
21 **ESPECIALLY IN LIGHT OF OCA’S ALLEGED FOOT-DRAGGING?**

22 A. First and foremost, I strongly disagree that OCA dragged its feet in any way in
23 this case. While one could get that impression from reading Qwest’s direct
24 testimony in this case, Mr. Grate gave only a partial recitation of the history of
25 this case. For example, although it is true that Qwest did provide the OCA an
26 alternative calculation of a per-line FUSF distribution method on October 27,
27 2006, there was no indication of whether this was intended to be a settlement
28 offer, or even an alternative that Qwest would support in hearing, if the OCA had
29 agreed with the alternative. In several e-mails, over the course of more than a
30 month, the OCA asked Qwest its position relative to its alternative calculation,
31 without receiving a definitive answer. Another piece of the history that is missing

1 relates to the data requests served on the Commission's Technical Staff. We
2 waited thirty days for responses and, near the end of the thirty days, we lead to
3 believe that the Staff was still getting together its responses and they would
4 simply be forthcoming beyond the traditional thirty day response time. In reality,
5 the OCA did not receive either responses from the Commission Technical Staff or
6 notice that a response would not be forthcoming.

7
8 Second, if a correction of the FUSF credits is made back to the effective date of
9 the interim rates, Qwest is no worse off than if the proper rates had been made
10 effective immediately. Qwest should neither be harmed, nor advantaged, by the
11 process of approving rates on an interim basis.

12
13 **Q. HOW SHOULD ANY COSTS OF MAKING REFUNDS OR BILLING**
14 **CHANGES BE CONSIDERED IN THE COMMISSION'S DECISION OF**
15 **THE PROPER EFFECTIVE DATE FOR THE FINAL RATES IN THIS**
16 **CASE?**

17 A. For many years, Qwest has argued that it is difficult for it to change rates without
18 45 or 60 days notice because of internal lead times, particularly billing system
19 lead times. Yet, the OCA is skeptical of that argument when we have spent
20 months in discussions with Qwest about Qwest's need to be relieved of much of
21 its rate oversight by regulators, so it can respond nimbly to the price change of
22 others. One of the regulatory issues for which Qwest sought relief was its current
23 requirement to generally provide a 30 day notice of rate changes. Yet, in past
24 years, it has argued that it is difficult to implement universal service fund related
25 rate changes on less than 45 days notice. This is confusing at best and
26 disingenuous at worst.

27
28
29
30

1 Furthermore, Qwest should have balanced all of the competing costs and benefits
2 at the time that it urged the Commission to implement the rates in spite of the
3 OCA's concerns. These factors should have included both its ability to prevail on
4 its position and the cost of correcting rates should it not prevail. It is not the role
5 of the Commission to reimburse Qwest for each of its expenditures.

6

7 **Q. DOES THAT COMPLETE YOUR PREFILED, DIRECT TESTIMONY?**

8 A. Yes, it does.