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June 18, 2008

Frances Nichols Anglin  
Oregon Public Utility Commission  
550 Capitol St., NE  
Suite 215  
Salem, OR 97301

Re: UM 1354

Dear Ms. Nichols Anglin:

Enclosed for filing in the above entitled matter please find an original and five (5) copies of the following:

- 1.) Joint Testimony;
- 2.) Witness Qualification Statements for David Teitzel (Qwest), Bob Jenks (CUB), Bryan Conway (PUC) and Fred Peterson (TRACER); and
- 3.) Stipulation with Price Plan as Exhibit A.

Also enclosed is a certificate of service.

If you have any questions, please do not hesitate to give me a call.

Sincerely,

A handwritten signature in black ink that reads "Carla".

Carla M. Butler

**CMB:**  
Enclosures

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**BEFORE THE PUBLIC UTILITY COMMISSION  
OF OREGON**

UM 1354

In the Matter of

QWEST CORPORATION

Petition for Approval of Price Plan  
Pursuant to ORS 759.255

**JOINT TESTIMONY OF QWEST, STAFF, CUB, AND TRACER**

**IN SUPPORT OF STIPULATION**

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1 **I. INTRODUCTION**

2 **Q. Please state your names and positions.**

3 A. My name is David L. Teitzel. I am a Staff Director in the Public Policy department of  
4 Qwest Corporation (“Qwest”). My witness qualifications statement is included as an  
5 attachment to this testimony.

6 My name is Bryan Conway. I am Program Manager, Economic & Policy  
7 Analysis Section of the Public Utility Commission of Oregon. My witness qualifications  
8 statement is included as an attachment to this testimony.

9 My name is Bob Jenks. I am Executive Director of the Citizens’ Utility Board  
10 (“CUB”). My witness qualifications statement is included as an attachment to this  
11 testimony.

12 My name is Fred Peterson. I am Executive Director of Telecommunications  
13 Ratepayers Association for Cost-based and Equitable Rates (“TRACER”). My witness  
14 qualifications statement is included as an attachment to this testimony.

15 **Q. What is the purpose of your testimony?**

16 A. The purpose of our joint testimony is to describe<sup>1</sup> and support the stipulation  
17 (“Stipulation”) among Qwest, Staff of the Public Utility Commission of Oregon  
18 (“Staff”), CUB, TRACER, XO Communications Services, Inc. (“XO”), Time Warner  
19 Telecom of Oregon LLC (“TWT”), Covad Communications Company (“Covad”),  
20 Integra Telecom of Oregon, Inc. (“Integra”), and McLeodUSA Telecommunications  
21 Services, Inc. (“McLeod”) (XO, TWT, Covad, Integra, and McLeod are collectively  
22  
23  
24

25 \_\_\_\_\_  
26 <sup>1</sup> To the extent there are discrepancies between the description of the Plan and the Stipulation and Plan, the Stipulation and Plan should be relied upon.

1 referred to as the “Joint CLECs”), filed in Docket UM 1354 with this joint testimony.

2 Docket UM 1354 was opened to consider Qwest’s Petition for Approval of a Price Plan  
3 Pursuant to ORS 759.255, filed on October 26, 2007. Qwest filed an amended petition  
4 on February 11, 2008. The term “Petition” as used in the Stipulation and in this joint  
5 testimony refers to Qwest’s petition for approval of the price plan in the form attached to  
6 the Stipulation as Exhibit A (the “Price Plan” or “Plan”).  
7

8 **Q. Does the Stipulation resolve all of the issues in this proceeding?**

9 A. Yes. Qwest, Staff, CUB, and TRACER (the “Parties”<sup>2</sup>) agree that approval of Qwest’s  
10 Petition, the Stipulation, and the Price Plan is in the public interest, and that the  
11 Commission should issue an order approving the Petition, the Stipulation, and the Price  
12 Plan. The Joint CLECs signed the Stipulation and agreed not to oppose Commission  
13 approval of the Petition, the Stipulation, and the Price Plan, but are not sponsoring this  
14 testimony.  
15

16 **Q. Are all parties to the proceeding included in the Stipulation?**

17 A. All parties are joining the Stipulation except Verizon Northwest Inc. (“Verizon”).  
18 Although Verizon has not joined in the Stipulation, it does not object to the terms of the  
19 Stipulation or approval of the Stipulation as the basis for settling the contested issues in  
20 this proceeding.  
21  
22  
23  
24

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25 <sup>2</sup> In the Stipulation, these four Parties are referred to as the “Stipulation Parties” because the term “Parties”  
26 in the Stipulation refers to these four Parties, who support approval of the Price Plan, plus the Joint CLECs, who simply do not oppose approval of the Price Plan.



1 **Q. Is it correct that ORS 759.052(1)(a)(A) authorizes the Commission to exempt from**  
2 **regulation those telecommunications services for which the Commission finds “price**  
3 **or service competition exists” and ORS 759.052(2) similarly allows the Commission**  
4 **to exempt from regulation those telecommunications services for which the**  
5 **Commission finds “price and service competition exists.”**

7 A. Yes, that is a correct reading from part of what is commonly known as the “deregulation”  
8 statute. However, ORS 759.052 is a complex statute that has other criteria the  
9 Commission must consider, all revolving around the notion of “competition,” before it  
10 may authorize the deregulation of a telecommunications service. The Commission has  
11 previously summarized ORS 759.052 (formerly known as ORS 759.030) as follows:

12 “In brief, the relevant statute provides that the Commission must deregulate a  
13 service if price and service competition exist (ORS 759.030(3)) and may  
14 deregulate a service if price or service competition exist, if the service is found to  
15 be subject to competition, or if the public interest no longer requires regulation  
16 (ORS 759.030(2)). Under either provision, the Commission must consider the  
four factors listed under ORS 759.030(4), which are reiterated in OAR 860-032-  
0025.” See Order No. 03-609 (UX 28) at 5.

17 **Q. In this testimony generally, and in the Section VII discussion specifically (which**  
18 **addresses market options and substitutability), are the parties applying the ORS**  
19 **759.052 concept of “competition,” or advocating that it is appropriate to analyze the**  
20 **concept of “competition” under ORS 759.052 and ORS 759.255(2)(c) in the same**  
21 **manner?**

23 A. The answer to each part of the question is “no.” In a proceeding under ORS 759.052, the  
24 petitioning party must show that “price competition exists,” thus justifying price  
25 deregulation of the services at issue. The present testimony is not offered to demonstrate  
26



1 that price competition exists as would be required in a proceeding under ORS 759.052.

2 Rather, the point of the present testimony is to demonstrate that the Price Plan, not  
3 competition per se, will create just and reasonable rates for the telecommunications  
4 services at issue.<sup>3</sup> As such, it would be inappropriate to rely upon the present testimony  
5 to justify a possible future deregulation request under ORS 759.052.  
6

7 **III. DESCRIPTION OF THE STIPULATION**

8 **Q. Please describe the terms of the Stipulation.**

9 A. In the Stipulation, the Parties agree that approval of the Price Plan is in the public interest  
10 and recommend that the Commission approve Qwest's Petition, the Stipulation, and the  
11 Price Plan.  
12

13 **Q. Please generally describe the Price Plan.**

14 A. The Price Plan comprehensively addresses how Qwest's regulated intrastate  
15 telecommunications services will be priced following approval of the Plan. The Price  
16 Plan also provides for both ongoing and periodic review of Qwest's performance under  
17 the Plan to ensure that Qwest's operation under the Plan is in the public interest. In  
18 addition, Qwest makes several commitments to ensure that approval of the Plan is in the  
19 public interest. This section provides an overview of the key components of the Price  
20 Plan; the Price Plan is described in more detail later in Section VIII of this testimony.  
21

22 **Q. Please generally describe the pricing components of the Price Plan.**

23 A. The Price Plan establishes price caps for all services subject to the Plan. Certain services  
24 will be capped at their current rates. This includes "primary line basic service," which is  
25

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26 <sup>3</sup> TRACER takes no position on whether the Price Plan will produce just and reasonable rates for any services other than those purchased by its members.

1 the first line of basic service for an individual residential or business account at a single  
2 location. For residential customers, the rates for primary line basic service are capped at  
3 current rates for at least five years, and subsequently as well until the Commission grants  
4 a request by Qwest to adjust or remove the price cap. For business customers, the price  
5 cap for primary line basic service will increase by \$1.00 over current rates in Rate Groups  
6 1 and 2 after three years, and the Commission may allow a larger or earlier increase, if  
7 requested by Qwest.  
8

9 **Q. What other services will be price-capped at current rates?**

10 A. The Plan will also cap the rates for intrastate switched access services, extended area  
11 service (EAS), toll restriction, call trace (\*59), and unlisted numbers at current rates.  
12

13 **Q. How will DS-1 and ISDN-PRI rates be treated under the Plan?**

14 A. The rates for all elements of these business services, with one exception, will be subject  
15 to a price cap equal to the average of Qwest's current rates for each element in the 13  
16 other states in Qwest's ILEC region. The exception is the recurring rates for the transport  
17 mileage elements for DS-1 service, for which the initial price caps will be 125 percent of  
18 Qwest's current Oregon rates. The price cap for each of these services will increase  
19 annually by the amount of increase in the Portland Consumer Price Index.  
20

21 **Q. How will Public Access Lines be treated under the Plan?**

22 A. The rates for Public Access Lines will continue to be regulated by the Commission  
23 pursuant to federal requirements.

24 **Q. How are other services treated under the Price Plan?**

25 A. Qwest has the flexibility to adjust the rates for the remaining services ("Other Services")  
26

1 upwards or downwards. Qwest may not increase the rate for any of the Other Services by  
2 more than 50 percent in any year, or by more than 200 percent in a five-year period. For  
3 example, a service whose price is currently \$10, could not increase by more than \$20  
4 over a five-year period, resulting in a total price of \$30. The initial price increase could  
5 be as high as \$5. These rates are also subject to a price floor. Qwest may adjust the rates  
6 for packages and bundles subject to a maximum price, equal to the sum of the retail  
7 prices of the services available in the package or bundle, and a price floor. The five-year  
8 period is any five-year period, and as such represents a rolling five-year period.

9  
10 **Q. You referred earlier to “services subject to the Plan.” Will any of Qwest’s regulated**  
11 **intrastate services not be subject to the Plan?**

12 A. Yes. Certain basic business services in Rate Group 3 will not be subject to the Plan.  
13 ORS 759.255(4) establishes a price floor for services subject to a price plan, except for  
14 residential local exchange service. Application of the price floor to basic business  
15 services in Rate Group 3 would require large increases to those rates. In order to avoid  
16 such increases, Qwest agreed that these services would not be subject to the Plan.  
17 Instead, the Commission will continue to establish the rates for these services under ORS  
18 759.425(2)(a). Qwest will continue to charge its current rates for these services unless  
19 and until those rates are adjusted by the Commission.

20  
21  
22 **Q. What commitments does Qwest make in the Price Plan?**

23 A. First, Qwest agrees to implement a service performance guarantee program which  
24 includes guaranteed appointments and guaranteed commitments backed by a promise to  
25 provide a credit to customers for each missed commitment. Second, Qwest commits to  
26

1 invest \$4 million in network improvements and other projects, as a shareholder expense.

2 One of the projects identified in the Plan is the establishment of an independent consumer  
3 center to assist Oregon consumers in understanding the nature and pricing of  
4 telecommunications services offered by a variety of providers. Qwest is committing to  
5 provide up to \$2 million to fund the center. The details of this and other investments are  
6 subject to Commission approval. Third, Qwest commits not to seek an exemption from  
7 the Commission's service quality reporting requirements.  
8

9 **Q. Please describe the conditions for review of Qwest's performance under the Plan.**

10 A. The Price Plan includes several methods for both ongoing and periodic review of Qwest's  
11 performance under the Plan. Together, these provisions ensure that the Commission has  
12 effective oversight over Qwest's performance and that Qwest's operating under the Price  
13 Plan will continue to be in the public interest.  
14

15 The Commission will comprehensively review Qwest's performance under the  
16 Plan every five years. Qwest will file a detailed report regarding its performance as  
17 compared to the objectives of the Plan. The Commission may order modifications to the  
18 Plan to provide Qwest with additional regulatory flexibility or to ensure that the Plan is in  
19 the public interest. If the Commission finds that Qwest has not substantially satisfied the  
20 objectives, it may enter into an agreement with Qwest to achieve compliance with the  
21 objectives. If Qwest and the Commission cannot reach such an agreement, the  
22 Commission may order modifications to the Plan or commence a proceeding to terminate  
23 the Plan.  
24  
25  
26

1 **Q. Please describe the Commission's oversight of Qwest's service quality.**

2 A. The Commission may review Qwest's service quality at any time. If Qwest does not  
3 meet the Commission's service quality standards, then, in addition to the remedies  
4 already available, the Commission may suspend Qwest's authority to increase prices until  
5 it meets the goals of a performance plan. The Commission may also open a proceeding  
6 to terminate the Plan if Qwest proposes a performance plan which is disapproved or if  
7 Qwest does not meet the goals of an approved performance plan within six months.

9 **Q. Please describe the Commission's oversight of Qwest's rate increases.**

10 A. The Commission retains oversight over all of Qwest's rates and rate increases through the  
11 five-year review (Section V) and also through section V.B.3 to ensure the plan is  
12 operating in the public interest. For Other Services, there is a third review envisioned by  
13 the Stipulation under V.B.2. The Commission may investigate the rate for any of  
14 Qwest's Other Services upon receiving a complaint or on its own motion. The standard  
15 for deciding the complaint will be whether the market has produced a rate that is just and  
16 reasonable. The Plan includes the Parties' agreement about the appropriate rate  
17 adjustments the Commission should make if it sustains a complaint.

19 **Q. Is the Commission bound by the Parties' agreement?**

20 A. No. The Parties did not think that they could bind the Commission to any of the specific  
21 remedies they have agreed are appropriate. Accordingly, in addressing the appropriate  
22 remedies if the Commission sustains a complaint about a rate increase, as in several other  
23 places, the Plan sets forth the Parties' agreement to recommend certain Commission  
24 actions; however, the Parties do not purport to limit the Commission's actions or options.  
25  
26

1 **Q. What other oversight of the Plan will the Commission have?**

2 A. The Commission may open an investigation at any time to determine whether further  
3 adjustments to the Plan or termination of the Plan are required by the public interest.

4 **Q. If the Commission rejects any part of the Stipulation, are the Parties entitled to**  
5 **reconsider their participation in the Stipulation?**

6  
7 A. Yes. Paragraph 15 of the Stipulation provides that if the Commission rejects all or any  
8 material portions of the Stipulation or imposes additional material conditions in  
9 approving the Stipulation and Price Plan, any Party that is disadvantaged by such action  
10 shall have the right, upon written notice to the Commission and all Parties within 15  
11 business days of the Commission's order, to withdraw from the Stipulation, pursue its  
12 rights under OAR 860-0140-0085, and/or seek reconsideration or appeal of the  
13 Commission's order; provided, however, that any Party seeking to withdraw from the  
14 Stipulation must, prior to such withdrawal, engage in good faith negotiations with the  
15 other Parties.  
16

17 **Q. What other terms does the Stipulation include?**

18 A. The Stipulation represents negotiated compromises among the Parties. Thus, the Parties  
19 agree in paragraph 16 of the Stipulation that no Party shall be deemed to have approved,  
20 admitted, or consented to the facts, principles, methods, or theories employed by any  
21 other Party in arriving at the terms of this Stipulation, and that the terms incorporated in  
22 the Stipulation should not be viewed as precedent in subsequent proceedings.  
23

24 **Q. Please explain paragraph 10 of the Stipulation.**

25 A. Paragraph 10 of the Stipulation was included at the request of the Joint CLECs and  
26

1 provides that nothing in the Price Plan or the Commission's approval thereof limits the  
2 rights of Competitive Local Exchange Carriers ("CLECs") to raise any issues regarding  
3 products and services CLECs purchase from Qwest.

4 **Q. When would the Plan be effective if the Commission approves it?**

5 A. Qwest has committed in paragraph 11 of the Stipulation that, upon entry of a  
6 Commission order approving the Plan which does not require any material changes to the  
7 Plan or Stipulation or impose any additional material conditions, Qwest will provide  
8 notice: (1) accepting the Commission's order approving the Plan and, (2) indicating  
9 Qwest's election to no longer be subject to ORS 759.405 to 795.410. The Plan would be  
10 effective immediately following the provision of such notice. In addition, consistent with  
11 paragraph 14 of the Stipulation, the Parties request that the Commission approve the Plan  
12 as soon as possible, and in no event later than July 31, 2008. While there is no statutory  
13 time period applicable to a Commission decision in this proceeding, Qwest would like to  
14 begin operating under the Plan at the earliest possible time and the other Parties agree  
15 that it is in the public interest for Qwest to begin delivering its commitments at the  
16 earliest possible time.  
17  
18

19 **IV. PROCEDURAL HISTORY**

20 **Q. When did Qwest file its original and amended petitions in this proceeding?**

21 A. Qwest filed its original petition on October 26, 2007. On February 11, 2008, Qwest filed  
22 an amended petition which included revisions to the price plan in response to comments  
23 received from the other parties at the workshop/settlement conference on January 11,  
24 2008.  
25  
26

1 **Q. CUB, TRACER, and the Joint CLECs filed a motion to dismiss Qwest's petition on**  
2 **January 10, 2008. What is the impact of the Commission's decision denying that**  
3 **motion?**

4 A. As discussed in the Commission's order denying the motion to dismiss, Order No. 08-  
5 132, there were essentially two grounds for the motion. First, the moving parties argued  
6 that Qwest's election to be regulated under ORS 759.405 to 759.410 was irrevocable and  
7 the Commission, therefore, lacks jurisdiction to approve a price plan under ORS 759.255.  
8 The Commission rejected that argument, which now allows the Commission to consider  
9 and approve the Price Plan. Second, the moving parties argued that Qwest was  
10 essentially seeking deregulation of its services with its proposed price plan, and that  
11 Qwest could pursue that sort of relief only under ORS 759.052, not under ORS 759.255.  
12 After reviewing the price plan Qwest proposed in its amended petition, the Commission  
13 found that Qwest proposed some form of regulation for every service in the Plan and,  
14 therefore, Qwest was not improperly seeking deregulation.<sup>4</sup>

15  
16  
17 **Q. Do the Parties agree that Commission approval of the Plan would not deregulate**  
18 **any services?**

19 A. Yes. The Plan which the Parties request that the Commission approve has been  
20 substantially revised from the version that Qwest proposed in its original petition, which  
21 was the plan at issue when various parties moved to dismiss, as well as from the version  
22 that Qwest presented in its amended petition. For example, and significantly, every  
23 service under the Plan would be subject to a price cap. In addition, these services remain  
24

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25 <sup>4</sup> Qwest had originally proposed that new services introduced after the effective date of the Plan be exempt  
26 from regulation, but removed that proposal from its amended price plan.



1 subject to the Commission's service quality standards, and price increases are subject to  
2 Commission review. Under these circumstances, the Parties agree that the Plan does not  
3 deregulate any Qwest service.

4  
5 **V. MODIFICATIONS TO THE ORIGINAL PLAN**

6 **Q. Please describe the settlement discussions among the parties.**

7 A. On January 11, 2008, the Commission held a workshop/settlement conference. The  
8 Commission held further settlement conferences, both in person and via teleconference,  
9 following issuance of Order No. 08-132, denying the motion to dismiss. These additional  
10 conferences were held on March 19, 2008, April 25, 2008, April 29, 2008, May 2, 2008,  
11 May 7, 2008, and May 15, 2008. The settlement conferences have been open to all  
12 parties to this docket.

13  
14 **Q. Please describe some of the major modifications that have been made to the Price**  
15 **Plan.**

16 A. In a case as important as this, with parties representing a variety of different interests,  
17 many significant issues were raised and discussed, each of which resulted in revisions to  
18 the terms of the Price Plan and the Stipulation. One major issue that was discussed  
19 throughout the process was how to ensure that the Plan is in the public interest. This is a  
20 fundamental issue because that is the standard the Commission must apply in approving a  
21 price plan under ORS 759.255(2). While each Party has its own view as to why approval  
22 of the Plan is in the public interest (and this is discussed in more detail later in this  
23 testimony), the Parties agree that the "public interest" includes the interests of Qwest's  
24 customers, the interests of other Oregon citizens, and the interests of Qwest and other  
25  
26

1 market participants.

2 The Parties agree that the following components of the Plan contribute to the  
3 conclusion that approval of the Plan is in the public interest:

- 4 • Capping the rates for primary line basic service, EAS, switched access  
5 services, toll restriction, call trace, and unlisted numbers at current rates;
- 6 • Allowing only modest increases in the rates for DS-1 and ISDN-PRI service;
- 7 • Capping the level of price increases for other services on an annual and  
8 overall basis;<sup>5</sup>
- 9 • Qwest's commitment to no further de-averaging of rates, so customers in all  
10 parts of the state will benefit from rate reductions taken under the Plan;
- 11 • Restrictions on the pricing of packages and product and service bundles;
- 12 • Qwest's commitment to establish a service performance guarantee program  
13 backed by credits to customers for missed commitments;
- 14 • Qwest's commitment to invest in network improvements which may not  
15 otherwise be economical;
- 16 • Qwest's commitment to fund the establishment of an independent consumer  
17 information center to provide information to all Oregon consumers to help  
18 them understand the service offerings of telecommunications carriers and  
19 alternative providers;
- 20 • A robust level of ongoing and periodic review and oversight by the  
21 Commission of Qwest's performance under the Plan;
- 22 • Reducing the level of government regulation in a competitive market; and
- 23 • Lessening the burden of regulation on the Commission.

22 **Q. Did Qwest originally propose to cap the rates for primary line basic service at**  
23 **current rates?**

24 A. No. Qwest had proposed an immediate increase in the price cap for primary line basic

---

25 <sup>5</sup> TRACER takes no position on whether the price caps called for in the Price Plan will help ensure prices  
26 are just and reasonable for any services other than those purchased by its members.

1 service of \$2.00 per month. Qwest had also proposed that the price caps for primary line  
2 basic service would be eliminated after five years, unless the Commission determined  
3 that price caps were still required.

4 The Plan reflects a collaborative resolution which caps the rate for primary line  
5 basic service for residential customers at current rates for at least five years, and allows a  
6 price cap of \$1.00 over current rates for most business customers, but only after three  
7 years. Thus, Qwest would waive for several years its right to seek an increase in these  
8 rates under ORS 759.425. The Plan also does not provide for the automatic elimination  
9 of the price caps for primary line basic service. Instead, Qwest may petition the  
10 Commission to adjust or remove the price caps for primary line basic service; however,  
11 any increase approved by the Commission for residential customers may not take effect  
12 until after the fifth year of operation under the Plan.  
13

14  
15 **Q. The Plan includes price caps for all services. Did Qwest originally propose that all**  
16 **services would be price-capped?**

17 A. No. Qwest had proposed capping the rates for only primary line basic service, EAS, and  
18 switched access services. Under Qwest's original proposal, other services would be  
19 price-listed, and Qwest would have the flexibility to increase or decrease those rates,  
20 subject only to a price floor.  
21

22 **Q. Why are DS-1 and ISDN-PRI services treated differently in the Plan from other**  
23 **advanced services to business customers?**

24 A. TRACER thought that these are among the most important services for its members and  
25 questioned whether there is sufficient competition in the market for these services to  
26

1 ensure that the rates would remain just and reasonable if Qwest had the same pricing  
2 flexibility as for Other Services. TRACER proposed that having tighter price caps for  
3 these two services would be in the public interest, and Qwest and the other Parties  
4 agreed.

5  
6 **Q. Please describe the treatment of directory listings.**

7 A. Qwest agrees to continue to provide free directory listings, and to cap the price of  
8 unlisted numbers at current rates. This helps serve the privacy and safety concerns of  
9 many Qwest customers.

10 **Q. Please describe the treatment of packages and bundles.**

11 A. Qwest originally proposed that it be permitted to offer packages at any price, subject only  
12 to a price floor. Qwest also proposed that primary line basic service would continue to be  
13 offered on a stand-alone basis so no customer would be required to take a package to  
14 obtain telephone service. Following extensive discussions, Qwest and the other Parties  
15 agreed to several restrictions and conditions for packages and bundles.  
16

17 First, Qwest must offer all services included in a package or bundle for purchase  
18 separately. Second, the price of a package or bundle may not exceed the sum of the retail  
19 prices of all services available in the package or bundle. Third, in recognition of the fact  
20 that the sum of some combinations of services available in a package or bundle may be  
21 lower than the package or bundle price, Qwest agreed to continue to advise customers  
22 when the total price for the specific services they select from those available in a package  
23 or bundle would be lower if the services were purchased separately.  
24  
25  
26

1 **Q. Did Qwest originally propose to implement a service performance guarantee**  
2 **program?**

3 A. No. This program was added to provide a direct benefit to customers that would support  
4 a conclusion that approval of the Plan is in the public interest.

5 **Q. Was establishment of an independent consumer information center in Qwest's**  
6 **original proposal?**

7  
8 A. No. Similarly, this program was added to provide a direct benefit to customers that  
9 would support a conclusion that the Plan is in the public interest. The intent of the  
10 independent consumer information center is to provide meaningful information to all  
11 Oregon citizens about the nature of different offerings in the telecommunications market,  
12 and the prices of each. The Parties agreed that these issues may be confusing to some  
13 consumers and that establishing this resource would benefit all Oregon citizens and be in  
14 the public interest. Qwest also agreed to increase the level of its funding for network  
15 investments and other projects from \$2 million to \$4 million.

16  
17 **Q. Please describe the nature of the discussions regarding the review provisions in**  
18 **Section V of the Plan.**

19 A. All of the Parties agreed that having robust provisions for timely and effective  
20 Commission review and oversight of Qwest's performance under the Price Plan is  
21 essential to having a price plan that the Parties could support and recommend the  
22 Commission approve as being in the public interest. Accordingly, the Parties spent a  
23 significant amount of time and effort negotiating the terms of Section V of the Plan. The  
24 result addresses several specific areas that the Commission would need to oversee:  
25  
26

1 Qwest's performance as compared to the objectives of the Plan, maintenance of excellent  
2 service quality, review of rate increases, and ensuring the Plan continues to be in the  
3 public interest. The negotiation of each of these parts focused on establishing clear,  
4 measurable criteria for evaluating performance, developing appropriate remedies to  
5 recommend to the Commission to address any identified problems, and maintaining the  
6 Commission's flexibility to promptly and adequately address any perceived problems.  
7

8 These discussions resulted in numerous modifications to Qwest's proposals. For  
9 example, with respect to the review of rate increases, the revisions included a substantial  
10 change to the standard of review the Commission would apply to a complaint about a rate  
11 increase, the elimination of a "safe harbor" (which would have granted Qwest protection  
12 from Commission review of certain rate increases), and increased flexibility for the  
13 remedies the Parties would recommend the Commission should order, including rolling  
14 rates back to "pre-Plan" levels.  
15

16 In addition, the Plan now includes the possibility for the Commission to open an  
17 investigation at any time to ensure the Plan is still operating in the public interest, and to  
18 make adjustments to or terminate the Plan, if required. If the Commission were to decide  
19 to terminate the Plan, it may also adjust Qwest's rates, and the Parties agree that the  
20 Commission should not lower them below pre-Plan levels. Qwest also agreed to waive  
21 certain objections if the Commission were to decide to require Qwest to undergo a  
22 traditional, general rate case in the event the Commission terminates the Plan.  
23

24 **Q. Are there other changes to the plan that are not apparent in the final document?**

25 A. Yes. Qwest removed from its initial proposals a provision from the Plan that would not  
26

1 be apparent from reviewing only the final document. For example, Qwest's earlier  
2 proposals included a waiver of OAR 860-022-0042, the Commission's rule regulating the  
3 recovery of municipal taxes, fees, and other charges. Under this rule, the aggregate  
4 amount of such fees that does not exceed 4 percent of local access revenue is recovered  
5 from all customers as a general operating expense, and the balance is billed to customers  
6 within the cities imposing the charges. Accordingly, customers within cities will  
7 continue to be billed only the amount exceeding 4 percent of local access revenue.  
8

## 9 VI. QWEST'S RECENT RATE REGULATION

10 **Q. Please briefly describe the form of retail rate regulation under which Qwest**  
11 **currently operates in Oregon.**

12  
13 A. On December 29, 1999, Qwest elected to be subject to price cap regulation under  
14 ORS 759.405 to ORS 759.410, and Qwest is currently regulated under those statutes. In  
15 essence, this is a form of "price cap" regulation that provides Qwest with pricing  
16 flexibility for most retail services (with the exception of certain services classified as  
17 "basic") between specified maximum prices and price floors. Based upon its election,  
18 Qwest non-basic service is subject to regulation only under ORS 759.405 to ORS  
19 759.410, and Qwest is not subject to any other retail rate regulation, including any form  
20 of earnings-based, rate-based, or rate-of-return regulation. ORS 759.410(2).

21  
22 Under ORS 759.410(3), intrastate retail telecommunications services that the  
23 Commission has defined as "basic" are established at rates that the Commission sets  
24 under ORS 759.425. The Commission set Qwest's basic service rates in September 2001  
25 in Order No. 01-810 in Docket UT 125. Qwest's rates for "non-basic" intrastate retail  
26

1 and switched access services are subject to price caps (maximum prices) equal to the  
2 rates the Commission established in Docket UT 125 (*see* ORS 759.415), and are also  
3 subject to price floors (minimum prices) equal to the sum of the total service long-run  
4 incremental cost (“TSLRIC”) of providing the nonessential functions of the service and  
5 the price that is charged to other telecommunications carriers for the essential services.  
6 ORS 759.410(4). Basic telephone service, however, is not subject to a price floor. *Id.*

7  
8 **Q. In establishing Qwest’s rates in Docket UT 125, did the Commission determine that**  
9 **Qwest’s rates were just and reasonable?**

10 A. Yes. In Order No. 01-810 (page 1), the Commission cites the legal standard that Qwest  
11 must achieve to gain approval of rates: “In the rate design phase, as in the revenue  
12 requirement phase, Qwest has the burden to demonstrate that its rate design proposal  
13 creates rates that are ‘just and reasonable.’” With the issuance of this rate design order,  
14 which resolved a variety of disputed rate issues, the Commission established just and  
15 reasonable rates.  
16

17 **Q. Have the rates set by this 2001 order changed since they were established?**

18 A. The rates established by this 2001 order have remained largely unchanged since that  
19 time.<sup>6</sup> As noted earlier, the rates the Commission approved established price caps for  
20 most services, and thus the rates could not be raised.  
21

22 **Q. Since Qwest opted in to price cap regulation in 1999, have there been any changes to**  
23 **the regulatory status of any Qwest services?**

24 A. Yes, during the eight-year period that Qwest has been operating under price cap  
25

---

26 <sup>6</sup> One notable exception is the rates for Public Access Lines, for which the Commission approved lower rates in Order No. 07-497 in Docket UT 125.



1 regulation, the Commission has approved several Qwest petitions to deregulate services,  
2 thus removing these services from price regulation. Qwest services that have been  
3 deregulated since 1999 include Centrex Prime (Order No. 00-228 in Docket UX 23),  
4 intraLATA toll services (Order No. 03-609 in Docket UX 28), ATM and Frame Relay  
5 (Order No. 06-399 in Docket UX 29), and certain business lines in the Portland and  
6 Clackamas rate centers (Order No. 06-399 in Docket UX 29).

7  
8 **Q. Have there been other changes that resulted from the implementation of price cap  
9 regulation for Qwest?**

10 A. Yes. During the period in which Qwest has been operating under ORS 759.405 to  
11 759.410, it has obtained Commission orders, and entered into several agreements with the  
12 Commission, that have simplified Qwest's regulatory obligations and the Commission's  
13 regulatory oversight responsibilities, consistent with the fact that Qwest is not subject to  
14 earnings-based regulation. In Order No. 00-382 in Docket UI 182, for example, the  
15 Commission suspended and/or modified filing requirements for Qwest for affiliated  
16 interest contracts and related reports. In Order No. 06-514 in Docket UM 1274, the  
17 Commission simplified Qwest's obligations with respect to certain depreciation and  
18 accounting issues (OAR 860-027-0050).

19  
20 In addition, on September 9, 2003, Qwest and Commission Staff agreed to certain  
21 "Guidelines" which clarified, modified, and/or waived Qwest's obligations under various  
22 statutes or Commission rules. The subjects addressed include: withdrawal/abandonment  
23 of service (OAR 860-032-0020); special contracts (ORS 759.250); calculation of price  
24 floors; promotions (ORS 759.182, OAR 860-026-0025(2)); affiliate interest filings (ORS  
25  
26

1 759.385, *et seq.*); and financial reporting (*former* ORS 759.100 to 759.115; ORS 759.120  
2 to 759.130). Further, in correspondence with the Commission in 2004, the Commission  
3 agreed to modify certain of Qwest's reporting obligations with respect to financial  
4 information. (See Attachment A to the Price Plan.)

5  
6 Further still, Qwest entered into additional agreements with Staff in November  
7 2004. Among other things, these agreements reduce and/or simplify Qwest's reporting  
8 obligations with respect to the filing of Form O and Form I and other financial reports  
9 (OAR 860-027-0070), construction budgets (OAR 860-027-0005 and -0015), and  
10 affiliated interest transactions (OAR 860-027-0040, -0041, and -0100). Finally, in a  
11 Memorandum of Understanding ("MOU") between Qwest and Staff dated May 26, 2004,  
12 and approved by the Commission in Order No. 04-404 in Docket UP 212, Qwest and  
13 Staff agreed to guidelines regarding accounting for the sale of assets and the imposition  
14 of municipal charges.  
15

16 **Q. Did these changes in reporting and regulation put Qwest on the same basis as some**  
17 **of the other providers of telecommunication services in Qwest's service territory?**

18 A. No, as a telecommunications utility, Qwest continues to have reporting responsibilities  
19 beyond those required of its competitors. However, the steps taken since 1999 to reduce  
20 Qwest's reporting requirements and the Commission's regulatory oversight  
21 responsibilities, primarily as they relate to rate-of-return regulation, have simplified and  
22 reduced regulation for both Qwest and the Commission.  
23

24 **Q. Would these reduced regulatory reporting requirements continue under the Plan?**

25 A. Yes, as addressed in more detail later in Section VIII.E. of this testimony, these reduced  
26

1 regulatory reporting requirements would largely be continued under the Plan, consistent  
2 with the goals to simplify regulation and balance the need for regulation and competition.  
3 ORS 759.255(2)(c) and (d).

4  
5 **VII. MARKET OPTIONS AND SUBSTITUTABILITY**

6 **Q. What significant changes have occurred in the telecommunications market in**  
7 **Oregon since 2000?**

8 A. The telecommunications market in Qwest's service territory in Oregon has undergone a  
9 number of changes in the past several years. In 2000, the wireline telecommunications  
10 industry was in the midst of an era of unprecedented growth, and Qwest's total retail  
11 access lines in service appear to have reached their peak. Many of Qwest's Oregon  
12 customers now have intramodal options from both wireline CLECs and independent  
13 telephone companies overbuilding Qwest's facilities, as well as intermodal options from  
14 cable service providers, fixed and mobile wireless carriers, and stand-alone Voice over  
15 Internet Protocol ("VoIP") service providers. It appears that preferences of many  
16 customers are shifting away from traditional landline services that Qwest and its CLEC  
17 competitors offer towards wireless, cable, and VoIP services for residential and business  
18 landline services.  
19

20  
21 **A. Quantification of Oregon Telecommunications Market Changes**

22 **Q. Have Qwest's retail access lines declined significantly in Oregon?**

23  
24 A. Yes. Since 2000, Qwest's local access lines have declined substantially, as follows:  
25  
26

**Qwest Local Exchange Access Lines – Oregon<sup>7</sup>**

	December 2000	December 2007	Change	Percent Change
Business	466,960	259,276	(207,684)	(44.5)%
Payphone	14,827	5,455	(9,372)	(63.2)%
Residence	978,382	626,711	(351,671)	(35.9)%
Total	1,460,169	891,442	(568,727)	(38.9)%

Since these data reflect Qwest’s operations statewide in Oregon, the rate of Qwest’s access line losses is higher than the percentages above indicate in certain areas of the state, such as where cable-based providers and CLECs focus their efforts, and lower in others. Also, these data are strictly comparisons of Qwest’s access lines at two particular points in time and thus do not reflect customers who chose a non-Qwest service provider without first having been a Qwest customer.

**Q. Are other segments of the telecommunications industry in Oregon experiencing growth?**

A. Yes. The following table shows the change in quantities in service for CLEC access lines, mobile wireless, and high-speed internet lines in service in Oregon between December 2000 and June 2007 (the most current FCC data available as of the filing date of this joint testimony):

---

<sup>7</sup> FCC ARMIS Report 43-08, Table III, 12/2000 and 12/2007 editions. Note: ARMIS data excludes Qwest Official Company Service (“OCS”) lines, and includes resold lines.

**Oregon In-Service Quantities December 2000 versus June 2007<sup>8</sup>**

	<u>Dec. 2000</u>	<u>June 2007</u>	<u>Change</u>	<u>Percent Change</u>
CLEC Lines <sup>9</sup>	99,326	325,293	225,967	227.5%
Mobile Wireless Subscribers	1,201,207	2,781,196	1,579,989	131.5%
High-Speed Lines <sup>10</sup>	76,839	1,285,947	1,209,108	1,573.6%

**Q. What does this data show?**

A. The telecommunications market in Oregon has evolved substantially since 2000. Intramodal service options from CLECs and network overbuilders have grown since 2000, and wireless and high-speed broadband-based services present rapidly-growing intermodal service options for some of Qwest's customers. A number of customers in Oregon appear to be using CLEC wireline, wireless, and broadband-based internet voice services as alternatives to Qwest's traditional wireline services. These categories of intramodal and intermodal service options are discussed in greater detail in the following sections of this joint testimony.

**B. CLEC Activity**

**Q. Which CLECs are currently active in Oregon?**

A. There are more than 40 CLECs currently active in Oregon. These CLECs include carriers such as AT&T, BendBroadband, Charter FiberLink, Comcast, Eastern Oregon Telecom, Integra (including Eschelon, Electric Lightwave, Oregon Telecom and Unicom,

---

<sup>8</sup> The source for the data in this table regarding ILEC lines, CLEC lines, and mobile wireless subscribers is the FCC Local Telephone Competition Report, Tables 9, 10, and 14. The source for the data in this table regarding high-speed lines is the FCC High-Speed Services for Internet Access Report, Table 10.

<sup>9</sup> Current FCC rules do not require cable-based CLECs, such as Comcast and Bend Broadband, to report in-service access line quantities to the FCC, and thus the CLEC access line counts may be understated.

<sup>10</sup> High-speed access lines, such as coaxial lines, fiber or DSL, are used to support VoIP telephone services.

1 which have all been acquired by Integra), Verizon/MCI, Rio Communications, XO  
2 Communications and others.

3 **Q. In which Oregon markets do these CLECs provide service?**

4 A. CLECs generally serve business, not residential, customers, although cable-based CLECs  
5 are actively serving both markets. CLECs are also more active in larger cities such as  
6 Portland, Salem, and Eugene, although many business customers in smaller communities  
7 typically also have a choice of telecommunications providers. For instance,  
8 BendBroadband and Rio Communications serve business customers, as well as  
9 residential customers, in the greater Bend area in central Oregon, and Rio also serves  
10 other communities such as Roseburg, Grants Pass, and Medford.

11 **Q. What significant events have occurred in the recent past that may affect the level of**  
12 **CLEC competition in Oregon in 2008 and beyond?**

13 A. Four very significant mergers (SBC and AT&T, Verizon and MCI, Eschelon and Integra,  
14 and McLeodUSA and PAETEC) have occurred within the past few years. These four  
15 mergers have created fewer CLECs but the remaining CLECs will presumably have  
16 greater scale and scope than had existed in the past.

17 **C. Wireless Service Activity**

18 **Q. Which wireless carriers are now active in providing services in Qwest's service**  
19 **territory in Oregon?**

20 A. Mobile wireless service is available in Qwest's service territory in Oregon from various  
21  
22  
23  
24  
25  
26

1 major carriers such as AT&T, Alltel, Cricket,<sup>11</sup> Sprint/Nextel, T-Mobile, and Verizon.<sup>12</sup>

2 At least one of these wireless providers is offering wireless services in each of Qwest's  
3 exchanges in the state.

4 **Q. Do the wireless services currently available in Oregon provide functions and**  
5 **features similar to Qwest's local exchange services?**

6  
7 A. Yes. Wireless services now provide functions similar to (and in some instances, in  
8 addition to) traditional local exchange services. Both types of services provide switched  
9 voice communication capability, access to directory assistance, access to popular calling  
10 features (such as call waiting, Caller ID, voice messaging, and others), access to operator  
11 services, number portability, and access to E911 service. Wireless services provide the  
12 additional function of mobility which traditional wireline local exchange services lack.

13  
14 **Q. Do some customers view wireless service as an alternative to traditional wireline**  
15 **services?**

16 A. Yes. On May 13, 2008, updated National Health Interview Survey ("NHIS") results were  
17 released, and show that 15.8 percent of all U.S. households relied solely on wireless  
18 services as of December 2007.<sup>13</sup> The reported percentage from the same survey in June  
19 2004 was 5.0 percent. In Oregon, the number of wireless subscribers has increased by  
20 more than 130 percent from 1.2 million in December 2000 to 2.8 million as of December  
21

---

22 <sup>11</sup> Cricket currently serves more than 60 cities in Oregon, including communities such as Albany,  
23 Clackamas, Corvallis, Cottage Grove, Eugene, Independence, Oregon City, Portland, and Salem. Cricket offers flat-  
24 rated wireless telephone service specifically designed as a direct substitute for traditional landline telephone service.  
25 See <http://www.mycricket.com/cricketcoveragemaps>.

26 <sup>12</sup> Other smaller wireless carriers, including Snake River PCS, Unicel and U.S. Cellular, also serve various  
areas of Oregon. See e.g., <http://www.mountainwireless.com/cellor.shtml>.

<sup>13</sup> Wireless Substitution: Early Release of Estimates From the National Health Interview Survey, July-  
December 2007, rel. May 13, 2008, Table 1.

1 2007—a number that significantly exceeds the combined total of ILEC and CLEC  
2 telephone lines in the state.

3 **Q. Can wireless services currently be considered direct substitutes for wireline services**  
4 **in every application?**

5 A. No. A certain number of customers may never switch from wireline services to wireless  
6 services, no matter how attractive wireless services become. However, a subset of  
7 telecommunications customers is using wireless services as direct substitutes for  
8 traditional wireline local exchange access line services, and this number has been  
9 increasing.  
10

11 **Q. Are wireless services currently available in Oregon priced comparably to some of**  
12 **Qwest's local exchange services?**

13 A. Yes. Specific pricing comparisons between Qwest's current Oregon retail local exchange  
14 service and competitive wireless services in Oregon are provided in Section IX.B.4.b(ii)  
15 of this joint testimony.  
16

17 **Q. Are wireless service options in Oregon limited to the services offered by mobile**  
18 **wireless service providers?**

19 A. No. The Oregon Economic and Community Development Department has identified at  
20 least 30 companies providing “fixed wireless” services in the state. These fixed wireless  
21 companies include Clearwire, Ash Creek Wireless, Eastern Oregon Network,  
22 OregonFAST.net, SawNet, and others.<sup>14</sup> These wireless services are typically marketed  
23 as alternatives to accessing the internet through traditional landline facilities such as DSL  
24

25  
26 

---

<sup>14</sup> <http://www.oregon4biz.com/index.htm>



1 or cable modem services.

2 **D. Voice over Internet Protocol (“VoIP”) Activity**

3  
4 **Q. Are VoIP telephone services now available to Qwest’s traditional residential and**  
5 **business landline services in Oregon for some customers?**

6 A. Yes. Multiple VoIP providers are now actively offering various forms of telephone  
7 services to residential and business customers with broadband internet access in  
8 Oregon.<sup>15</sup> For customers with a pre-existing broadband internet connection, there is no  
9 incremental cost for broadband when they elect to add VoIP services. Specific VoIP  
10 service prices now available to Oregon subscribers are discussed in Section IX.B.4.b(iii)  
11 of this testimony.

12  
13 **Q. Are internet-based VoIP services becoming more prevalent throughout the State?**

14 A. It appears so. Since VoIP services are not currently regulated at the state or the federal  
15 levels, VoIP providers are not required to report in-service subscriber quantities to any  
16 agency and, therefore, the Parties are not able to provide the specific number of VoIP  
17 subscribers in Oregon. However, various independent researchers have released national  
18 studies regarding subscriber growth rates for VoIP services. For instance, in May 2008,  
19 TeleGeography Research (a division of PriMetrica, Inc.) released a study showing the  
20 increase in consumer VoIP subscribership in the U.S. from 2004 through fourth Quarter  
21 2007, as shown in the chart below:<sup>16</sup>

22  
23  
24  
25 <sup>15</sup> Broadband internet access is now available from a number of sources, including cable modem service,  
digital subscriber line (DSL), fiber-based providers, wireless broadband, and satellite services.

26 <sup>16</sup> *U.S. VoIP Research Service: Market Analysis and Forecasts*, p. 2, TeleGeography Research, 2008.

U.S. VoIP Subscribers and Revenues, 2004-2007



© 2008, PriMetrica, Inc.

This chart shows that the number of VoIP subscribers nationwide has increased from almost zero in January 2004 to approximately 15 million in December 2007. In Oregon, the number of high-speed internet access lines stood at more than 1.2 million as of June 2007. Since each high-speed internet access customer represents a potential VoIP subscriber, the pool of potential VoIP subscribers appears to be increasing.

**Q. Do Qwest DSL service subscribers have the option of utilizing the DSL connection to subscribe to VoIP service instead of traditional Qwest local exchange services?**

A. Yes. Residential and business customers within Qwest’s service territory may subscribe to Qwest DSL service on a “stand-alone” basis (i.e., they are not required to subscribe to standard Qwest local exchange services as a precondition to subscribing to Qwest DSL service). Customers choosing to subscribe to stand-alone Qwest DSL service are able to utilize non-Qwest VoIP residential and business services if they so choose.

1 **Q. Which providers are now offering VoIP services in Oregon?**

2 A. In addition to cable-based service providers such as Comcast,<sup>17</sup> Charter,<sup>18</sup> and  
3 BendBroadband<sup>19</sup> (each of which provide VoIP-based services to customers through  
4 cable broadband connections), there are currently more than 50 “stand-alone” VoIP  
5 service providers available to any Oregon customer with access to a broadband internet  
6 connection. These VoIP providers include 1TouchTone.com, AT&T CallVantage,  
7 Broadvoice, Lingo, myPhoneCompany Net2Phone, Packet8, Verizon VoiceWing,  
8 Voip.com, Vonage, and others.<sup>20</sup>

10 **Q. Please describe the nature of VoIP offerings currently available in Oregon.**

11 A. VoIP services available in Oregon include many features, and typically include unlimited  
12 long distance calling in the standard service price. The VoIP services now available also  
13 utilize standard telephone sets connected through special modem adapters (typically  
14 called “Analog Telephone Adapters”) to the Internet, and VoIP users place and receive  
15 voice telephone calls in the same manner as they otherwise would with traditional local  
16 exchange telephone services.  
17  
18  
19

---

20  
21 <sup>17</sup> Comcast serves many of Oregon’s largest cities, such as Portland, Salem and Eugene, and virtually all of  
22 Qwest’s service territory along Interstate 5 between Portland and Salem. *See*  
23 <http://www.comcast.com/shop/buyflow/default.ashx>.

24 <sup>18</sup> Charter serves virtually all of Qwest’s service areas in southern Oregon (with the exception of Ashland),  
25 the northern Oregon coast (including Astoria, Seaside and Cannon Beach), and Pendleton and Baker City in eastern  
26 Oregon. *See* <http://www.charter-business.com/Charter-Business-SiteLocator.aspx>

<sup>19</sup> BendBroadband has deployed VoIP services in central Oregon (including Sisters, Redmond and Bend).  
*See*  
[http://www.bendbulletin.com/apps/pbcs.dll/article?AID=/20060102/BIZ0102/601020315/1011&nav\\_category=](http://www.bendbulletin.com/apps/pbcs.dll/article?AID=/20060102/BIZ0102/601020315/1011&nav_category=)

<sup>20</sup> <http://www.voip-info.org/wiki/view/VOIP+Service+Providers+Residential#NorthAmerica>

1 **Q. In 2006, the Commission denied parts of Qwest’s petition to deregulate business**  
2 **services in Docket UX 29. Does that decision have a bearing on whether the**  
3 **Commission should approve the Price Plan now?**

4 A. No.<sup>21</sup> The Commission’s decision in Docket UX 29 does not bear upon its consideration  
5 of the Price Plan for several reasons.

6  
7 First and foremost, the petition in Docket UX 29 sought an exemption from  
8 regulation for many business services; however, the Price Plan would not exempt any  
9 Qwest service from regulation for the reasons discussed in Section IV. Therefore, the  
10 analysis the Commission undertook in Docket UX 29 to determine whether Qwest met  
11 the standards of ORS 759.052 simply does not apply in this proceeding. Instead, as noted  
12 on pages 2 and 3 of this testimony, ORS 759.255 contains a different legal standard and  
13 permits the Commission to consider a variety of factors – many of which, such as  
14 Qwest’s commitments to investments and the service performance guarantee program,  
15 were not present in Docket UX 29 – in deciding whether approval of the Price Plan is in  
16 the public interest.  
17

18 Second, to the extent the Petition in this case is premised at least conceptually on  
19 the potential for price-constraining competition, the Parties recognize that the  
20 telecommunications market in Oregon has continued to evolve from the time period  
21 considered in Docket UX 29.  
22

23 Third, whereas the Commission thought it was unable to consider competitive  
24 data from a variety of sources in Docket UX 29, the Parties agree that it is appropriate for  
25

---

26 <sup>21</sup> TRACER does not join in the response to this question.

1 the Commission to consider a broader array of alternative services in the context of this  
2 proceeding.

3 For all these reasons, the Parties agree the decision in Docket UX 29 does not  
4 bear upon the Commission's consideration of the Stipulation and Price Plan in this  
5 proceeding.  
6

### 7 **VIII. DETAILED DESCRIPTION OF PRICE PLAN**

#### 8 **A. Objectives**

##### 9 **Q. Please describe the Plan's objectives.**

10 **A.** The Parties agreed to eight key objectives. (Plan, § II.A.) Some of these objectives are  
11 directly based on the statutory criteria set forth in ORS 759.255, while others were added  
12 based on requests from individual Parties.  
13

14 The first objective is to ensure the Plan is operating in a way that is in the public  
15 interest. This is the cornerstone of the Plan, as all Parties recognize that Oregon law  
16 requires that before the Commission can approve a price plan under ORS 759.255(1), it  
17 must find that the plan is in the public interest. ORS 759.255(2). In determining whether  
18 a price plan is in the public interest, the Commission is required to consider, among other  
19 matters, four specific criteria, all of which are addressed in the other seven Plan  
20 objectives. ORS 759.255(2)(a) – (d).  
21

22 The second objective of the Plan is to produce prices for Qwest's retail  
23 telecommunications services that are just and reasonable. ORS 759.255(2)(a) requires a  
24 price plan to ensure that prices for telecommunications services are just and reasonable,  
25 and this objective is another important aspect of the Plan.  
26

1           The third Plan objective is to ensure that Qwest's service quality for existing  
2 telecommunications services will stay at or above current high service quality levels. In  
3 that regard, Qwest commits it will meet or exceed the Commission's applicable retail  
4 service quality standards, as well as continue its current reporting practices. This is  
5 another important objective of the Plan, and is one of the criteria the Commission is  
6 required to consider pursuant to ORS 759.255(2)(b). This objective is also one of the  
7 reasons the Parties negotiated and agreed to a service performance guarantee program  
8 (Plan, § II.B.1.) and ongoing conditions for review of its service quality (Plan, § V.B.1.).  
9

10           The fourth Plan objective is to maintain the availability of primary line basic  
11 service at affordable rates. The Plan does so by capping at current rates Qwest's rates for  
12 primary line basic service for residential customers for at least five years, and for  
13 business customers for three years after which the cap would increase by only \$1.00 over  
14 current rates. The Commission must approve any other increase in the cap for primary  
15 line basic service.  
16

17           The fifth objective of the Plan is to allow Qwest to price other services  
18 competitively with services offered by alternative providers, including those using  
19 landline, wireless, cable, and VoIP technologies.  
20

21           The sixth Plan objective is to increase Qwest's pricing flexibility to meet  
22 changing market conditions, as described in Section VII of this joint testimony. This  
23 objective serves the statutory criterion that a price plan should maintain the appropriate  
24 balance between the need for regulation and competition. ORS 759.255(2)(c). The Plan  
25 provides Qwest with the flexibility to adjust prices and service offerings to compete more  
26

1 effectively against alternative providers in an increasingly-changing telecommunications  
2 market in Oregon.

3 The seventh objective is to make new telecommunications services available to  
4 Qwest customers in Oregon. The Plan is designed to allow Qwest to make new  
5 telecommunications services available to best position itself in the market as competition  
6 continues to evolve.  
7

8 Finally, the last objective of the Plan is to simplify and reduce the burden of  
9 regulation for both Qwest and the Commission. This is one of the criteria the  
10 Commission is required to consider pursuant to ORS 759.255(2)(d). The Plan does so by  
11 eliminating the need for the Commission to review and approve every price change, and  
12 reducing the number and extent of regulatory filings and reports that Qwest must make  
13 and the Commission must review.  
14

15 **B. Network and Service Performance Commitments**

16 **Q. Please explain Qwest's commitments regarding service quality.**

17 A. First, Qwest commits to continuing to file its monthly service quality reports with the  
18 Commission in the same format in which such reports are currently provided. These  
19 reports would provide the Commission with an excellent means of monitoring Qwest's  
20 service quality and comparing that quality against historical performance. In making this  
21 commitment, Qwest is waiving its right to seek an exemption from monthly reporting  
22 under OAR 860-023-0055(16)(d). (Plan, § II.B.3.)  
23

24 Second, Qwest will implement a service performance guarantee program that will  
25 include guaranteed appointments and guaranteed commitments for specific types of  
26

1 services. This program will be backed by a promise to credit customers \$25.00, at  
2 shareholder expense, for each missed commitment. The types of services included in this  
3 program will be: 1) reconnection of an existing service following move-out/move-in, or  
4 disconnection for non-payment; 2) connection of a new or additional service or a change  
5 of an existing service; and 3) repair of an existing service when a customer is unable to  
6 receive and/or place a telephone call. (Plan, § II.B.1.)  
7

8 **Q. Does the Plan contain provisions for correction of service quality problems?**

9 A. Yes. If Qwest were not to meet the objective service levels for one or more individual  
10 standards in OAR 860-023-0055 for three months out of a twelve-month sliding window,  
11 the Commission may require Qwest to submit a performance plan pursuant to  
12 ORS 759.450(5). In addition, the Commission may suspend Qwest's authority under the  
13 Plan to increase retail prices until such time as Qwest has met all the goals of the  
14 performance plan. If the Commission were to determine after notice and an opportunity  
15 for hearing that Qwest had not met the goals of a performance plan within six months, or  
16 if the Commission were to disapprove the performance plan, then, in addition to the  
17 remedies set forth in ORS 759.450(5)–(7), the Commission may open an investigation to  
18 consider further adjustments to, or termination of, the Plan. (Plan, § V.B.3.)  
19

20 **Q. What other commitments has Qwest made under the Plan to provide additional**  
21 **network services or other customer benefits?**

22 A. Qwest has committed to incremental investments of \$4 million in network improvements  
23 and other projects, and it will do so as a shareholder expense. Specific network  
24 infrastructure projects will be agreed to by Qwest and the Commission (or its designee),  
25  
26



1 and are to be made during the first three years of the Plan. The types of projects may  
2 include additional DSL deployment in specific geographic areas where it would not  
3 otherwise be economically feasible, expansion of redundant fiber rings, or other network  
4 enhancements that would not otherwise be done. (Plan, § II.B.2.)

5  
6 **Q. Please describe the commitment regarding establishment of an independent  
7 consumer information center.**

8 A. One specific project requested by CUB and included in the Plan will be the establishment  
9 of an independent consumer information center. This center will provide information to  
10 Oregon consumers to assist them with understanding the nature and pricing of service  
11 offerings by telecommunications carriers and alternative providers through the state. Of  
12 the total network investment commitment, Qwest will commit up to a total of \$2 million  
13 toward this project. Establishment and operation of this center will be overseen by the  
14 Commission, and the specific details, including the actual amount of the investment and  
15 the timing of the investment, will be discussed among the Parties and established by the  
16 Commission following approval of Plan. (Plan, § II.B.2.a.) This center will be a  
17 resource to all Oregon consumers, and not only Qwest customers.

18  
19  
20 **C. Stabilization of Customers' Rates**

21 **1. Primary Line Basic Service**

22 **Q. Please describe how customers of primary line basic service are protected from rate  
23 increases.**

24 A. The Plan protects customers of Qwest's primary line basic service, for both residential  
25 and business applications, by capping prices at current levels, which the Commission  
26

1 found to be just and reasonable in its 2001 order (Order No. 01-810) in Qwest's last  
2 general rate case, Docket UT 125. Section III.B.1. of the Plan caps all non-recurring  
3 charges for primary line basic services at current rates. Section III.B.2. caps recurring  
4 charges for primary line basic service for residential customers at current rates. Section  
5 III.B.3. caps recurring charges for primary line basic service for business customers at  
6 current rates. Qwest may increase primary line basic service rates for business customers  
7 in Rate Groups 1 and 2 by up to \$1.00 over pre-Plan rates after the third year of the Plan.  
8 Qwest may petition the Commission to adjust or remove the price caps for primary line  
9 basic service and must show that removal or adjustment of the price caps would still  
10 result in rates that are just and reasonable, considering the various factors set forth in  
11 Section V.B.2.b. of the Plan. No change in the price cap for residential customers may be  
12 effective before the fifth anniversary of the effective date of the Plan. The Commission  
13 may also consider whether removal or adjustment of the price caps is in the public  
14 interest, considering the factors set forth in ORS 759.255(2). (Plan, § III.B.3.)

17 **2. Additional service rates stabilized under the Plan.**

18  
19 **Q. What other services are capped at current rates?**

20 A. These services include Switched Access (although the Commission may adjust these  
21 price caps if required by FCC action), EAS,<sup>22</sup> Toll Restriction, Call Trace (also known as  
22 \*59), and Unlisted Numbers.

23 **Q. What other rates are protected under the Plan?**

24 A. Pursuant to Section III.C. of the Plan, certain basic business services in Rate Group 3 will  
25

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26 <sup>22</sup> The Plan also provides that Qwest will not be required to establish any new EAS routes. (Plan, § III.G.)

1           *not* be included in the Plan. The Parties agreed to exclude these services in Rate Group 3  
2           from the Plan to avoid any requirement that Qwest increase those prices to comply with  
3           the price floor of ORS 759.410(4). Prices for these services in Rate Group 3 will  
4           continue to be established by the Commission pursuant to ORS 759.425(2)(a).

5                         The Commission will also continue to regulate rates for Public Access Line  
6           service (lines that Qwest provides to payphone service providers) pursuant to federal  
7           requirements. (Plan, § III.D.)

8                         Qwest will continue to offer current Telephone Assistance Plans (i.e., TAP, Tribal  
9           Lifeline, and Link-Up) pursuant to state and federal requirements. (Plan, § III.E.)

10                        Qwest will also continue to include directory listings with basic service. (Plan, §§ III.F.  
11           through III.J.)

12           **Q. How does the Plan stabilize rates for complex digital services for business**  
13           **customers, DS-1 and ISDN-PRI?**

14           **A.** Qwest and TRACER negotiated rate protections for these services, and all Parties agreed  
15           that rates for both intrastate DS-1 service and intrastate ISDN-PRI service will be subject  
16           to agreed-upon price caps. With the exception of the recurring rates for the transport  
17           mileage elements, the initial price cap for each rate element (for both recurring and non-  
18           recurring charges) for these intrastate services will be the average of the rates charged for  
19           each such rate elements in Qwest's 13 other ILEC states as of May 1, 2008. The Parties  
20           also agree that the initial price cap for each recurring transport mileage element will be  
21           125 percent of pre-Plan rates. Each of these price caps will increase annually by the  
22           amount of increase in the Portland Consumer Price Index ("CPI") for that particular year.  
23             
24             
25             
26

1 **Q. Please provide an example of how to calculate the annual increase in the price cap**  
2 **for DS-1 service and ISDN-PRI service.**

3 A. Assuming the initial price cap for DS-1 service and ISDN-PRI service is set on August 1,  
4 2008, then the annual increase tied to the CPI could occur on August 1, 2009. The CPI  
5 measure we have chosen does not currently provide monthly data, so we would use the  
6 most recent two years of annual data to calculate the percentage increase, if any. By July  
7 1, 2009, the annual CPI for the Portland area will be available for 2008. Qwest would  
8 calculate the percentage increase in the CPI from 2007 to 2008 and that result would  
9 represent the increase in the price cap beginning August 1, 2009, for DS-1 and ISDN-PRI  
10 services.  
11

12  
13 **Q. Other than the lack of availability of monthly data as you discuss immediately**  
14 **above, is there another reason annual CPI data should be used?**

15 A. Yes. Because the series we have chosen is not seasonally adjusted, it is important to use  
16 the annual numbers to help smooth out changes in the CPI due to the influences of  
17 weather, holidays, the opening and closing of schools, and other recurring seasonal  
18 events from economic time series.  
19

20 **D. Pricing Flexibility for Qwest's New Services, Other Services, and Packages and**  
21 **Bundles**

22 **Q. What does the Plan provide in terms of pricing flexibility for services other than**  
23 **those discussed above?**

24 A. The Plan provides Qwest with limited pricing flexibility for existing services other than  
25 those discussed above, new services, and packages and bundles.  
26

1           Section III.N. of the Plan provides that all other residential and business services  
2 not discussed above are subject to a price cap under which Qwest may not raise the rate  
3 for any specific service by more than 50 percent per year, or more than 200 percent over  
4 any rolling five-year period. Under Section III.M of the Plan, the rates for all new  
5 services introduced after the effective date of the Plan are subject to the same caps.  
6

7           Section III.P. of the Plan provides Qwest with flexibility for the pricing of  
8 packages and bundles. Qwest would be allowed to combine any regulated  
9 telecommunications service with any other service(s) to offer packages and bundles at  
10 any price, subject to certain conditions. One of those conditions is that customers can  
11 purchase any regulated telecommunications service included in a package or bundle on a  
12 “stand-alone” basis. (Plan, § III.P.1.) Other conditions are that a package or bundle price  
13 may not be lower than the sum of the price floors of the regulated telecommunications  
14 services included in the package or bundle, and that the package or bundle price may not  
15 be higher than the sum of the retail prices of all individual services available in the  
16 package or bundle. (Plan, § III.P.1. – 2.) Qwest will also continue to advise customers  
17 when the price for any specific services they select from those available in a package or  
18 bundle would be lower if the service were purchased separately. (Plan, § III.P.5.)  
19

20 **Q. What other rate protections are included in the Plan?**

21 **A.** Despite having pricing flexibility, Qwest agrees it will not geographically “de-average”  
22 rates for any services under the Plan any further than such rates are already  
23 geographically de-averaged. (Plan, § III.O.) For example, the existing flat business  
24 recurring access line prices are \$26.00 in Rate Group 1, and \$28.50 in Rate Group 2. If  
25  
26

1 Qwest were to exercise pricing flexibility under the terms of the Plan to increase flat  
2 business line prices for additional lines by \$1.00 in Rate Group 1, the comparable prices  
3 for Rate Group 2 would be increased by no more than \$1.00.

4 Similarly, if Qwest were to decrease the price of a service that is currently  
5 uniformly priced, such as its Choice Home feature package, by \$1.00, that same decrease  
6 would apply throughout Qwest's service territory. Thus, customers in all parts of the  
7 state will benefit from the price-constraining effects of competition that may not be as  
8 robust in one area of the state as it is in others.

9  
10 Further, Qwest commits that it will not introduce during the term of the Plan  
11 additional Rate Groups nor will it subdivide existing Rate Groups for services that are  
12 currently priced differently, such as local exchange services and Private Line services, in  
13 different parts of the state.

14  
15 **Q. How is Directory Assistance treated under the Plan?**

16 A. The Plan allows Qwest to remove the two monthly free-call allowance for Directory  
17 Assistance service, and to increase such rates subject to the price caps for "Other  
18 Services" discussed above.

19  
20 **E. Waiver of Statutes and Rules**

21 **Q. Does ORS 759.255 provide for the waiver of any statutory requirements?**

22 A. Yes. Under ORS 759.255(5), the Commission may, if it approves a plan under  
23 ORS 759.255(1), waive, in whole or in part, a telecommunications utility's compliance  
24 with the following statutes: ORS 759.120 (accounting requirements); ORS 759.125  
25 (accounts and records); ORS 759.130 (accounts, balance sheets and audits); ORS 759.135  
26

1 (depreciation accounts); ORS 759.180 to ORS 759.205 (hearing on reasonableness of  
2 rates, promotions, suspension of rates, notice of schedule changes, price listing,  
3 amortizations, and filed rates); ORS 759.215 (public access to schedules); ORS 759.220  
4 (joint rates and classifications); ORS 759.285 (charging rates based on cost of property  
5 not presently providing service); and ORS 759.300 to ORS 759.393 (issuance of  
6 securities and use of proceeds, transactions of utilities).  
7

8 **Q. Does the Plan include Commission waiver of any of these statutes?**

9 A. Yes. The Plan would waive, either in whole or in part, Qwest's compliance with each of  
10 these statutes, with three exceptions: 1) ORS 759.182, pursuant to which Qwest may  
11 offer service promotions; 2) ORS 759.205, pursuant to which Qwest is required to charge  
12 rates that conform to schedules; and 3) ORS 759.215(1), pursuant to which Qwest shall  
13 make its rate schedules available to the public. (Plan, § IV.A.)  
14

15 Many of the waivers are limited, as identified in Section IV.A. of the Plan.

16 Waiver of these requirements provides for continuation and, in some cases, a logical  
17 extension of the manner in which Qwest has operated since 2000 under ORS 759.405 to  
18 759.410, and would permit a level of regulatory oversight that is consistent with non-  
19 earnings based regulation. Waivers of these statutes also balance the need for regulation  
20 and competition and simplify regulation. ORS 759.255(c) and (d).  
21

22 **Q. Please provide a brief description of the statutes that would be waived, and explain  
23 the rationale for their full or partial waiver.**

24 A. The Plan provides for the waiver of statutory requirements, in whole or in part, for three  
25 primary reasons.  
26

1           First, in several instances, Qwest would continue to operate in a manner similar to  
2 how it is currently operating based on prior Commission orders or agreements. For  
3 example, in Commission Order No. 06-514 in Docket UM 1274, ordering clause (5)  
4 states: “Qwest Corporation is permitted to utilize depreciation and salvage rates that it  
5 utilizes now, and will utilize in the future, for the Monthly Reporting basis of accounting  
6 with updates filed with the Commission.” Qwest is complying with the requirements of  
7 Order No. 06-514 under its current form of regulation, and Qwest would continue to  
8 comply with the requirements of this order after implementation of the Plan. Thus, the  
9 partial waiver of ORS 759.120, ORS 759.125, and ORS 759.135 included in the Plan  
10 simply means that the current compliance regime would remain unchanged. Several full  
11 or partial statutory waiver requests fall into this general category, and include the  
12 following statutes: ORS 759.120 – ORS 759.125 (accounting requirements, accounts and  
13 records); ORS 759.130 (accounts, balance sheets and audits), ORS 759.135 (depreciation  
14 accounts), ORS 759.385 – ORS 759.390 (contracts with affiliated interests), and ORS  
15 759.393 (utility property and affiliate contracts).  
16  
17

18           Second, the Plan would render moot the requirements of certain statutes, since  
19 Qwest would not be operating under historical filing practices or rate-of-return  
20 regulation. For instance, ORS 759.180 delineates Commission requirements for  
21 investigating the reasonableness of telecommunications prices, the timing of such  
22 investigations, etc. The Plan outlines how Qwest may change its rates, and provides clear  
23 guidelines regarding how the Commission should proceed if someone complains that a  
24 particular Qwest retail price is not reasonable; thus, application of this statute, which  
25  
26



1 applies to traditional rate-of-return regulation, would not be necessary. Several statutes  
2 for which Qwest is seeking a waiver fall into this category, including: ORS 759.180  
3 (hearing on reasonableness of rates), ORS 759.185 (suspension of rates pending hearing),  
4 ORS 759.190 (notice of schedule changes), ORS 759.215(2) (public access to rate  
5 schedules 30 days prior to price changes) and ORS 759.220 (joint rates and  
6 classifications). Additionally, ORS 759.195 (price listing/alternative form of regulation),  
7 provides an alternative form of regulation which is different from the Plan.  
8

9 Finally, several statutes relate to how a company must operate under rate-of-  
10 return regulation. For example, ORS 759.200 specifies how amortizations of capital  
11 investments must be accounted for in telecommunications rates. Since retail service  
12 prices under the Plan are not established under a rate-of-return regulatory regime, this  
13 statute would not be relevant to the manner in which rates are set. Several statutes fall  
14 into this same general category, including: ORS 759.200 (amortizations), ORS 759.285  
15 (charging rates based on cost of property not presently providing service), ORS 759.300  
16 through ORS 759.360 (issuance of securities), ORS 759.375 (approvals of sale or  
17 mortgage of property) and ORS 759.380 (purchase of stock or property of another  
18 utility).  
19

20 **Q. Please explain why the Commission should waive, in whole or in part, the rules**  
21 **identified in Sections IV.B. of the Plan.**  
22

23 A. As previously discussed regarding waiver of certain statutes, certain Oregon  
24 Administrative Rules are inconsistent (in whole or in part) with the regulation of services  
25 under this Price Plan. These rules are:  
26

1 OAR 860-023-0055 (15)(a);

2 OAR 860-027-0015 (annual report on new telecom construction);

3 OAR 860-027-0050 (application of Uniform System of Accounts);

4 OAR 860-027-0052 (cost allocation);

5 OAR 860-027-0070 (annual submission of Form O Annual Report);

6 OAR 860-032-0190 (definition of basic telephone service).

7  
8 The Plan calls for the waiver of OAR 860-023-0055(15)(a) because the service  
9 quality remedy in Section V.B.1 of the Plan is based on Qwest's not meeting a service  
10 quality level for three months out of twelve, whereas the rule provides for a performance  
11 plan if a company misses for only one month.

12 Several other rules fall into the general category of Qwest continuing to operate as  
13 it has been operating under ORS 759.405 to 759.410, with partial waivers of certain rules.  
14 These rules include OAR 860-027-0015 (annual report on new telecom construction),  
15 OAR 860-027-0050 (application of Uniform System of Accounts), OAR 860-027-0052  
16 (cost allocation), and OAR 860-027-0070 (annual submission of Form O Annual Report).

17 Finally, the Plan calls for a partial waiver of OAR 860-032-0190, which defines  
18 "basic telephone service," so that the Commission will establish the rates for only certain  
19 basic business services in Rate Group 3, which are retail services specifically not  
20 included in the Plan. In other words, only business single-party flat-rate local exchange  
21 service, business single-party measured local exchange service, private branch exchange  
22 ("PBX") trunk services, and multiline or "complex" business local exchange service  
23 provided in Rate Group 3 would be considered "basic telephone service" for purposes of  
24  
25  
26

1 applying ORS 759.425(2)(a). Thus, these specific Rate Group 3 services would continue  
2 to be tariffed services as they are now, with pricing under full purview of the  
3 Commission. For all other purposes involving application of the rules, including  
4 administration and distribution of the Oregon Universal Service Fund, Qwest would still  
5 be subject to the definition of “basic telephone service” found in OAR 860-032-0190.  
6

7 **Q. Are the waivers of these statutes and rules consistent with demonstrating that the**  
8 **Plan is in the public interest?**

9 A. Yes. In combination, these waivers result in a simplification of regulation  
10 (ORS 759.255(2)(d)) and also a balancing of the need for regulation and competition  
11 (ORS 759.255(2)(c)).

12 **F. Five-Year Review of Qwest’s Performance under the Plan**

13  
14 **Q. Please describe the conditions in Section V.A. of the Plan requiring a comprehensive**  
15 **review of Qwest’s performance under the Plan every five years.**

16 A. The Parties agreed that Qwest’s performance under the Plan should be comprehensively  
17 reviewed by the Commission every five years to ensure that the Plan is working well and  
18 that the Plan remains in the public interest. To commence this review, Qwest will file a  
19 detailed report regarding its performance under the Plan, in comparison to the Plan’s  
20 objectives. The report will review how the Plan’s objectives are being met, and will  
21 include a number of key data items and results. These items and results include: (a) a  
22 summary of Qwest’s retail service quality performance, (b) an analysis of current market  
23 conditions for various Qwest services and for functionally equivalent and substitutable  
24 services of these alternative providers (if publicly available), (c) data regarding Qwest  
25  
26

1 access line gain or loss (by wire center), (d) a discussion of how the Plan's pricing  
2 flexibility has allowed Qwest to meet the Plan's objectives, (e) a detailed description of  
3 Qwest's network and project investments to which Qwest has committed to in the Plan,  
4 (f) identification of any new services that Qwest has introduced, and (g) identification of  
5 any ways in which the burden of regulation has been simplified or reduced for both  
6 Qwest and the Commission. (Plan, § V.A.1.) Qwest will promptly respond to data  
7 requests related to information contained in Qwest's detailed report. (Plan, § V.A.)

9 **Q. How will the Commission evaluate Qwest's performance?**

10 A. The Commission will evaluate Qwest's performance as compared to the Plan's  
11 objectives. If the Commission determines after such evaluation that Qwest has not  
12 substantially satisfied the Plan's objectives, the Commission may enter into discussions  
13 with Qwest about establishing an agreement, including a timeline and a process, under  
14 which Qwest will achieve compliance with the Plan's objectives. The Commission may  
15 also order modifications to the Plan or open an investigation to modify or terminate the  
16 plan if the Commission and Qwest were not able to reach such an agreement within a  
17 reasonable time.

19 **Q. What would the Commission do with the information regarding market conditions?**

20 A. The Commission would review the data that Qwest submits regarding the  
21 competitiveness of the market for functionally equivalent or substitutable services, and  
22 any other relevant evidence. (Plan, § V.A.3.) The Commission may then determine to  
23 make other modifications to the Plan to provide Qwest with additional regulatory  
24 flexibility beyond that included in the original Plan, or to better ensure that the Plan is in  
25  
26

1 the public interest.

2 **Q. How does the Plan provide for the Commission’s ongoing oversight of Qwest’s**  
3 **service quality?**

4 A. Section V.B.1. of the Plan provides that the Commission may review Qwest’s retail  
5 customer service quality at any time. The Plan also provides that if Qwest does not meet  
6 the service quality objectives for a specified period of time, the Commission may require  
7 Qwest to submit a performance plan to achieve compliance with the Commission’s  
8 service quality rules. Under such circumstances, the Commission may also suspend  
9 Qwest’s authority to increase retail prices until Qwest has met all of the goals of such  
10 performance plan. Further, if the Commission were to determine that Qwest has not met  
11 the goals of its performance plan within six months, or if the Commission disapproves  
12 the performance plan, the Commission may also open an investigation and make  
13 additional modifications or terminate the plan in addition to its remedial authority under  
14 its service quality standards (ORS 759.450(5) – (7)). (Plan, § V.B.1.)

17 **Q. Can the Commission review Qwest’s allowable rate increases to ensure that Qwest’s**  
18 **rates are just and reasonable?**

19 A. Yes. The Commission may investigate any allowable rate increase for the Other  
20 Services, based either on its own motion or on a complaint filed by any affected person.  
21 The Commission will follow its ordinary hearing procedures, and the party(ies) bringing  
22 any such complaint will have the burden to show that the market has not produced a just  
23 and reasonable rate for the service at issue. (Plan, § V.B.2.a. – b.)

26

1 **Q. What is the remedy if the Commission were to sustain such a complaint?**

2 A. If the Commission were to sustain such a complaint, it may adjust the price cap to ensure  
3 that the rate for that service is just and reasonable. The Parties have agreed to  
4 recommend certain specific remedies to the Commission in Section V.B.2.c. of the Plan.  
5 The Parties agree the Commission should first consider a price cap which is no lower  
6 than the rate in effect before the most recent price change for that service (if that prior  
7 rate was in effect for at least six months). The rationale for this recommendation is that  
8 the prior rate should be presumed reasonable if it had been in effect for six months and  
9 the Commission had not sustained a complaint regarding that rate. If the prior rate had  
10 *not* been in effect for at least six months, the Parties agree the Commission should then  
11 consider a price cap which is no lower than the rate in effect immediately before that  
12 prior rate. Finally, the Parties agree that the Commission may order a different price cap,  
13 but the Parties will not advocate for a price cap that is lower than the pre-Plan rate (i.e.,  
14 the rates currently in effect today). The Parties also agree that the new price cap after any  
15 such adjustment would continue to be subject to the Plan's price increase restrictions,  
16 unless the Commission orders otherwise. (Plan, § V.B.2.c.)

17  
18  
19 **G. Public Interest**

20  
21 **Q. Does the Plan include any other means to ensure that Qwest's operating under the**  
22 **Plan remains in the public interest?**

23 A. In addition to the procedures and remedies discussed above relating to the five-year  
24 review, review of service quality, and review of rate increases, the Plan also provides that  
25 the Commission may open an investigation at any time to determine whether the public  
26

1 interest requires further adjustments to the Plan, or termination of the Plan. (Plan,  
2 § V.B.3.) The Commission may also suspend Qwest's authority to increase prices  
3 pending the conclusion of such an investigation. (Plan, § V.B.3.a.) The Parties agree,  
4 however, that if the Commission were to open such an investigation, it should first  
5 attempt to identify and require adjustments to the Plan to ensure that continuation of the  
6 Plan is in the public interest, before it were to order termination of the Plan. (Plan,  
7 § V.B.3.a.)  
8

9 **Q. What would happen if the Commission were to order termination of the Plan?**

10 A. Under Section V.B.3.b. of the Plan, the Parties agree that if the Commission were to  
11 order termination of the Plan, the Commission may in the same proceeding also adjust  
12 Qwest's rates to ensure such rates are just and reasonable, although the Parties agree not  
13 to advocate for rates that are lower than pre-Plan rates. If the Commission were to  
14 terminate the Plan, Qwest would no longer be able increase its rates as it had been  
15 previously permitted to do under the Plan, although it would still be allowed to decrease  
16 its rates subject to any applicable price floor.  
17

18 Termination of the Plan would not prejudice Qwest's ability to pursue any other  
19 form of price regulation or relief permitted at that time by Oregon law. (Plan, § V.B.3.c.)  
20 In addition, the Commission could initiate a general rate case pursuant to ORS 759.175 –  
21 759.190, and Qwest would not object on the ground that it would not be subject to  
22 earnings-based or rate-of-return regulation because of either its 1999 election of price cap  
23 regulation pursuant to ORS 759.405 – 759.410 or the Commission's approval of the Plan  
24 in this proceeding. The Parties agree that the Commission should not commence any  
25  
26

1 proceeding for 120 days following termination, to allow Qwest time to pursue an  
2 alternative option. Qwest agrees to maintain records sufficient to create a Form O and  
3 Form I, and associated detail, and to maintain other data sufficient for use in such a  
4 general rate case. (Plan, § V.B.3.d.)  
5

6 **Q. Are any parts of the Stipulation severable from the rest of the Stipulation? In other**  
7 **words, do any sections survive if the Commission were to terminate the Plan?**

8 A. Yes. As set forth in Section V.B.3.e. of the Plan, the Parties agree that if the Commission  
9 were to order termination of the Plan, the Commission should further order that Sections  
10 V.B.3.b. (ensuring Qwest's rates are just and reasonable and the Parties not advocating  
11 for rates lower than preplan rates), V.B.3.c. (Qwest's ability to pursue alternate forms of  
12 regulation), and V.B.3.d. (the Commission commencing a rate case pursuant to ORS  
13 759.175 – 759.190) of the Plan are severable from the rest of the Plan, and thus will  
14 remain in effect after the Plan were to be terminated.  
15

16 **Q. Finally, in the event of any ambiguity or discrepancy between the testimony and the**  
17 **stipulation, which document prevails?**

18 A. As noted in footnote 1 on page 1 of this joint testimony, to the extent there are any  
19 discrepancies (or ambiguities) between this testimony describing the Plan and  
20 Stipulation, and the Plan and Stipulation themselves, the Plan and Stipulation should  
21 prevail.  
22  
23  
24  
25  
26



1           **IX. APPROVAL OF THE PRICE PLAN IS IN THE PUBLIC INTEREST**

2           **A. Standard for Approval of Price Plan Under ORS 759.255**

3  
4           **Q. What criteria must the Commission consider when evaluating whether a price plan**  
5           **is in the public interest?**

6           A. In considering whether a price plan is in the public interest, the Commission must  
7           consider four specific criteria, among other matters. The specific criteria set forth in ORS  
8           759.255(2) are whether the plan:

9                           “(a) Ensures prices for telecommunications services that are just and  
10                           reasonable;

11                           “(b) Ensures high quality of existing telecommunications services and makes  
12                           new services available;

13                           “(c) Maintains the appropriate balance between the need for regulation and  
14                           competition; and

15                           “(d) Simplifies regulation.”

16           **Q. How can the Commission be assured that each of these criteria are satisfied in the**  
17           **Plan as it is proposed?**

18           A. The Parties have carefully considered each of the statutory public interest criteria and are  
19           comfortable that the attributes of the Plan support a finding that the Plan is in the public  
20           interest.<sup>23</sup> A discussion of the four public interest criteria is provided in the following  
21           testimony.  
22

23  
24  
25           \_\_\_\_\_  
26           <sup>23</sup> TRACER takes no position on whether the Price Plan will ensure that prices are just and reasonable for  
services other than those purchased by TRACER members.

1 **B. The Plan Ensures Just and Reasonable Prices**

2 **Q. Please explain why the Plan ensures that prices for services governed by the Plan**  
3 **will be just and reasonable.**

4 A. The Plan ensures that Qwest's retail prices addressed by the Plan are and will be just and  
5 reasonable because 1) the Commission has already approved most of the initial Plan  
6 prices as being just and reasonable, 2) the prices for many services are capped at current  
7 prices, 3) prices for services that are not capped at current prices are governed by specific  
8 price limitations,<sup>24</sup> 4) the prices of competitive options in Oregon may constrain Qwest's  
9 ability to increase prices for some of those services not capped at existing prices, and  
10 5) the Commission retains the authority to review price increases for services covered by  
11 the Plan and make modifications to the plan as necessary, at any time.  
12  
13

14 **1. Initial Plan prices are just and reasonable**

15 **Q. What will be the initial prices on the effective date of the Plan?**

16 A. The current prices for retail services covered by the Plan will be the initial prices for  
17 those services when the Plan becomes effective.  
18

19 **Q. Has the Commission found that most of Qwest's current retail telecommunications**  
20 **prices are just and reasonable?**

21 A. Yes. Virtually all of Qwest's current retail prices for regulated services were established  
22 by the Commission in Docket UT 125. By virtue of Qwest's 1999 election to be  
23 regulated under ORS 759.405 to 759.410, those prices were capped at the levels found to  
24 be just and reasonable by the Commission in that docket and have not been increased  
25

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26 <sup>24</sup> See footnote 23.

1 since that time. Those prices are presumed to continue to be just and reasonable unless  
2 otherwise determined by the Commission. New services introduced subsequent to the  
3 conclusion of Docket UT 125, such as Qwest Metropolitan Optical Ethernet, are priced at  
4 the market-based levels communicated to the Commission when they were introduced,  
5 have not been increased since their introduction, and have not been subject to any pricing  
6 complaints.  
7

8 **2. Prices for certain key services are capped at pre-Plan prices.**

9 **Q. What services are capped at current prices under the Plan?**

10 A. The prices for primary line basic service, intrastate switched access services, extended  
11 area service (EAS), toll restriction, call trace (\*59), and unlisted numbers are initially  
12 capped at current prices. The Parties agree for purposes of this proceeding that certain  
13 customers, such as residential and business customers who subscribe only to a single  
14 stand-alone access line and use no calling features or long distance services, may have  
15 fewer competitive options than customers who have multiple lines and/or are heavy users  
16 of calling features and long distance. The Plan addresses these customers by capping the  
17 primary residential line at current prices for at least five years and capping the primary  
18 business line at current levels for three years; the price cap for only the primary business  
19 line will increase by \$1.00 over pre-plan rates after three years. The Plan also addresses  
20 these customers' interests by capping EAS prices at current levels. Switched access  
21 prices are capped at current prices because it is a wholesale service fundamental to  
22 competition in the switched long distance service market. Toll restriction, call trace  
23 (\*59), and unlisted numbers, which have public safety and privacy aspects, are also  
24  
25  
26

1 capped at current prices.

2 **3. Pricing for Other Services is subject to limited flexibility.**

3  
4 **Q. Please recap the specific pricing limitations for services other than those that are**  
5 **capped at pre-Plan prices.**

6 A. Section III(N) of the Plan addresses price limitations for “Other Services,” which consist  
7 of any services not specifically identified as having a unique pricing limitation in the  
8 Plan, such as features, packages, various Private Line service elements, etc. The price for  
9 any Other Service may be increased by no more than 50 percent annually and no more  
10 than 200 percent over any rolling five-year period. Sections III(K) and (L) of the Plan  
11 identify specific price limitations for DS-1 and ISDN-Primary Rate service which are  
12 indexed to Qwest’s pricing for these services in Qwest’s other 13 in-region states.

13  
14 **Q. Why does the Plan allow the prices for Other Services to increase?**

15 A. The Parties agree that customers who are regular users of calling features, packages, and  
16 other services typically enjoy a greater range of telecommunications alternatives.<sup>25</sup> For  
17 those services, the Plan provides a greater measure of upward and downward pricing  
18 flexibility, subject to the specific pricing limitations.

19  
20 **Q. How does the Plan ensure just and reasonable prices for Qwest’s customers in areas**  
21 **of the state that may not have as many competitive options as other areas?**

22 A. An important element of Qwest’s Plan is that Qwest has agreed not to de-average its  
23 retail service prices, including packages, further than they were de-averaged as of January  
24 2008. (Plan, § III(O).) This means that if Qwest is required to lower prices to respond to

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26 

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<sup>25</sup> TRACER does not join in the response to this question.

1 competitive offerings, Qwest subscribers across the state will enjoy those lower prices,  
2 even if the competitors' services that triggered Qwest's competitive response are not  
3 available throughout Qwest's service area. This is a key feature of the Plan that helps  
4 ensure Qwest's retail prices will remain just and reasonable for all customers.  
5

6 **4. Competitive alternatives constrain Qwest's pricing.<sup>26</sup>**

7 **Q. What types of service options exist for Qwest's Oregon customers?**

8 A. As described earlier in this testimony, many of Qwest customers have "intramodal"  
9 options from landline-based CLECs and independent telephone companies that have  
10 extended their networks into certain Qwest service areas and "intermodal" options using  
11 non-traditional telephony service delivery means such as cable television facilities,  
12 wireless, and broadband (for VoIP services).  
13

14 **Q. Can you provide examples of current retail prices of Qwest's competitors in Oregon  
15 that fall into these general categories?**

16 A. Yes. While these competitors' retail pricing is often not publicly available information  
17 (such as instances in which pricing is governed by private contract, offered under terms  
18 not posted on the providers' public websites, etc.), certain competitive pricing  
19 information is available for review.  
20

21 **a. Intramodal service options**

22 **Q. What public information sources are available that can provide insights into the  
23 telecommunications prices offered by CLECs operating in Oregon?**

24 A. Since CLECs are not required to file tariffs and price lists with the Commission, the  
25

---

26 <sup>26</sup> TRACER does not join in the responses to the questions in this section.

1 availability of current CLEC pricing information is limited to sources such as public  
2 websites, promotional materials, custom pricing offers, etc. In some instances,  
3 competitors provide non-confidential pricing offers to individual customers for certain  
4 telecommunications services that can be a source of such information. For example, a  
5 Qwest business customer located in Pendleton provided Qwest a non-confidential copy of  
6 a pricing proposal from Eastern Oregon Telecom showing recurring pricing for Centrex  
7 lines at \$20.50, data T-1 at \$229.00, and Primary Rate T-1 at \$495.00. Similarly, a  
8 customer in Hubbard provided Qwest a redacted copy of an invoice from Rio  
9 Communications showing a T-1 voice service and a 512 kilobit data T-1 service, both  
10 priced at \$150. Direct pricing comparisons for T-1 services are not straightforward, since  
11 T-1 services are often offered with term and volume discounts as well as incremental  
12 mileage charges that vary by circuit distance. However, as a point of comparison, Qwest  
13 offers intrastate DS-1 service in Oregon (comparable to a T-1 service) at a monthly rate  
14 (before discounts which can provide significant savings depending upon term of contract  
15 and circuit volume) of \$280, plus mileage. These are just a few examples of the types of  
16 competitive services available in Oregon, which also show that alternative services are  
17 available beyond the major metropolitan areas of the state.  
18  
19

20 **Q. Can you provide an example of prices of a CLEC that is serving both the residential**  
21 **and business markets?**  
22

23 A. Yes. Cordia Communications is an Oregon CLEC whose website shows residential and  
24 business standard switched telephone service is currently available in Portland, starting at  
25 \$26.95 and \$29.95 per month respectively (which each include calling features such as  
26

1 Call Waiting, Caller ID and Speed Dialing), with long distance calling provided at an  
2 incremental charge).<sup>27</sup>

3 **Q. Is information available about CLECs' pricing in other states for services that are**  
4 **alternatives to Qwest retail services covered by the Plan that may provide general**  
5 **insights into competitors' pricing for these services in Oregon?**

6  
7 A. Yes. Unlike Oregon, some states require CLECs to file tariffs and/or price lists that can  
8 be referenced to identify price points for services that the same CLECs may be offering  
9 in Oregon. For example, CLECs in Utah are required to file public price lists with the  
10 Utah Public Service Commission. Based on economic and market conditions in Utah and  
11 in Oregon, it would be reasonable to conclude that CLEC pricing in Utah would not be  
12 materially different from CLEC pricing in Oregon.<sup>28</sup> Since CLECs seek to differentiate  
13 their services from Qwest's and other CLECs' services to better position those services to  
14 meet unique customer needs, CLEC services are often uniquely packaged, named, and  
15 priced, which renders direct comparisons across providers difficult. However, CLECs  
16 often provide certain services that are similar across providers. The following table  
17 contains a sampling of retail business services, and associated prices, provided by three  
18 CLECs that operate in both Oregon and Utah. This table provides a sense of competitive  
19 market pricing for the business services shown, where such pricing is publicly available  
20 for similar services:  
21  
22  
23

---

24 <sup>27</sup> <https://www.cordia.us/default.asp?ix=5&ix1=2&id=13935&xplan=>.

25 <sup>28</sup> According to the U.S. Census Bureau, the estimated population as of 2007 in Utah is 2.7 million,  
26 compared to 3.7 million in Oregon, and both states have a relatively similar mix of urban and rural areas.  
<http://factfinder.census.gov/>.

**Examples of Utah Monthly Business Service Prices**

	Integra <sup>29</sup>	AT&T <sup>30</sup>	XO <sup>31</sup>
Local Directory Assistance, per call	\$1.75	\$1.25	\$1.99
Basic Business Line	\$29.95	\$24.95	\$22.20
Three Way Calling	\$3.60	\$6.00	\$5.00
Caller ID	\$3.60	\$8.50	\$7.50
ISDN-PRI	\$900.00	\$905.00	\$1,200.00
DS-1 Facility	\$884.99 <sup>32</sup>	\$770.00	<sup>33</sup>

While each of the CLECs' price lists reflect varying pricing practices and structures of telecommunications services, the examples provide at least a sense of the prevailing retail market prices for these services, especially since these providers are not subject to regulatory pricing constraints in Utah. Since these same three CLECs are also serving business customers in Oregon, this information provides some insight into the potential for price-constraining competition for Qwest's retail business services in Oregon.

**b. Intermodal service options**

**Q. Should the Commission consider intermodal service options to be an important factor in the Oregon telecommunications market?**

A. Yes. Intermodal services such as digital cable telephone services, wireless, and Voice over Internet Protocol services typically are packaged to include features and long distance services as core attributes. They are therefore comparable to the Qwest retail

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<sup>29</sup> Integra Telecom of Utah, Tariff No. 2.

<sup>30</sup> AT&T Communications of the Mountain States, Inc., Local Exchange Services, Utah Price List.

<sup>31</sup> XO Communications Services, Inc., Utah Local Exchange Services Price List.

<sup>32</sup> Price shown is from Eschelon price list. Eschelon has now been acquired by Integra (Eschelon Telecom of Utah, Price List No. 3).

<sup>33</sup> The price is not shown in XO's Price List.



1 offerings that include features, long distance, and other advanced services. To the extent  
2 intermodal services are now available in Oregon at attractive prices, those services may  
3 represent price-constraining competition for Qwest's retail prices for similar services.

4  
5 **(i) Digital cable telephone services**

6 **Q. Is digital cable-based telephony an option for Qwest customers in Oregon?**

7 A. Yes. Various cable-based carriers, such as Comcast, Charter, and BendBroadband are  
8 providing telecommunications services in many areas of the state.<sup>34</sup>

9 **Q. Can you provide publicly-available examples of the current pricing of these cable-**  
10 **based carriers?**

11 A. Yes. Comcast provides non-confidential Oregon price lists at its website<sup>35</sup> for its Oregon  
12 residential and business telecommunications services, showing its current standard  
13 pricing. Comcast's prices shown as being effective as of March 19, 2008, for residential  
14 services and features, include local exchange service ranging from \$10.00 per month for  
15 a stand-alone additional residential line with no features to \$44.95 for a residential  
16 service package with features and unlimited long distance calling. Comcast's prices for  
17 business digital voice services and features include local exchange business service  
18 ranging from \$24.95 for a stand-alone business "fax" line with no features to \$49.95 for a  
19 business line package with calling features and unlimited long distance calling. Comcast  
20  
21  
22

---

23 <sup>34</sup> Precise categorization of these types of competitors is not straightforward, since each is a certified CLEC  
24 in Oregon that is using internet-based technology to deliver telecommunications services over cable-based networks.  
25 Therefore, while they are CLECs, they are utilizing intermodal forms of telecommunications technologies to deliver  
26 telephone services to their customers.

<sup>35</sup><http://www.comcast.com/Corporate/About/PhoneTermsOfService/ComcastDigitalVoice/CDVBStatePricingLists/Oregon.html>.

1 offers frequent promotions with prices lower than those listed.<sup>36</sup> BendBroadband (which,  
2 like Comcast, provides VoIP-based telephone service through its local cable facilities)  
3 offers basic, stand-alone residential telephone service, without calling features, in Sisters,  
4 Black Butte, Redmond, and Bend at \$18.95 per month. BendBroadband also offers a  
5 “basic” package consisting of six calling features plus local calling at \$29.95 per month,  
6 and an “unlimited” package consisting of unlimited local and long distance calling plus  
7 fifteen calling features at \$38.95 per month.<sup>37</sup> Charter, which now serves many Qwest  
8 service areas in southern Oregon, the northern coast areas of Astoria, Seaside, and  
9 Cannon Beach, as well as Pendleton and Baker in eastern Oregon, actively promotes  
10 residential and business service bundles (including cable television, internet and  
11 telephone service), with its residential bundle priced at an introductory rate of \$69.97 per  
12 month for one year and its business bundle priced at a promotional rate of \$66.00 per  
13 month.<sup>38</sup>

14  
15  
16 **Q. Could these services represent price-constraining competition for similar services**  
17 **offered by Qwest?**

18 A. Yes. Qwest currently offers similar service packages, such as the “Qwest Choice” family  
19 of packages. Qwest’s “Choice Home” residential package is priced at \$32.49 (including  
20 the \$6.50 End User Common Line charge, but excluding the variable EAS rate), and is  
21 \$52.49 with unlimited long distance calling. The Qwest Choice Business package is  
22

---

23 <sup>36</sup> For example, as of the date of preparation of this testimony Comcast was conducting a promotion of its  
24 Digital Voice service in Portland, offering a promotional price of \$19.99 per month for twelve months. This  
25 promotion expired on June 3, 2008.

26 <sup>37</sup> [http://www.bendbroadband.com/residential\\_phone.cfm](http://www.bendbroadband.com/residential_phone.cfm).

<sup>38</sup> Source: Charter promotional mailings. Residential offer expired May 31, 2008. Business offer expired  
April 30, 2008.

1 priced at \$46.49 (including the \$6.50 End User Common Line charge, but excluding the  
2 variable EAS increment), and is \$71.49 with unlimited long distance calling.

3  
4 (ii) **Wireless services**

5 **Q. Are wireless service options available for customers who demand calling features**  
6 **and “bundled” long distance calling in addition to the ability to place and receive**  
7 **local telephone calls?**

8 A. Yes. Certain customers have a preference for a packaged service consisting of local  
9 calling and a fixed range of calling features. Since wireless providers do not assess  
10 certain charges such as a Subscriber Line Charge (“SLC”) or EAS charges, it is important  
11 when comparing prices between wireless services and Qwest retail services to account for  
12 such differences in pricing structures. In Oregon, for example, Qwest offers its Choice  
13 Home residential package at \$32.49 (including the \$6.50 single-line SLC charge, but  
14 excluding the variable Extended Area Service charge) designed for this type of customer.  
15 Qwest also offers an unlimited long distance calling option at an incremental charge of  
16 \$20.00 per month, bringing the net price of a local service package, plus the unlimited  
17 long distance option, to more than \$50.00 per month.  
18  
19

20 A variety of wireless service plans are available that provide similar attributes and  
21 that are priced very competitively with these Qwest services. For example, T-Mobile’s  
22 “Individual Plus” plan, which includes 1,000 anytime minutes, free long distance,  
23 unlimited night and weekend minutes and Call Waiting, Caller ID, 3-way calling, and  
24 Voice Messaging, is available in Oregon at \$39.99 per month.<sup>39</sup> Cricket offers its  
25

26 <sup>39</sup> www.T-Mobile.com.

1 “Unlimited Choice” service for \$45.00 per month, which includes unlimited local and  
2 long distance calling, Call Waiting, Caller ID, 3-Way calling and Voice Messaging.<sup>40</sup>  
3 Sprint offers its Fair and Flexible America Option 2 plan at \$39.99, which includes 450  
4 anytime minutes, unlimited night and weekend minutes, Call Waiting, Caller ID, 3-Way  
5 Calling, and Voice Messaging.<sup>41</sup>  
6

7 In addition, because of FCC action years ago, wireless “free” local calling areas  
8 are much larger than Qwest’s local calling areas (i.e., many calls that are classified as  
9 long distance in Qwest’s network are considered “local” on wireless carriers’ networks).  
10 The fact that “long distance” is not separately charged by many wireless carriers can  
11 represent a significant savings to customers as compared to landline telephone services.  
12 While there is a wide range of additional calling plans available from the wireless  
13 providers currently serving Oregon, this small sampling of plans shows that many  
14 packaged wireless plans directly competitive with Qwest’s Choice Home package prices  
15 are now available.  
16

17 (iii) **Voice Over Internet Protocol services**

18 **Q. What types of VoIP service providers are now offering retail services in Oregon?**

19 A. As discussed previously, cable-based providers are utilizing VoIP technology to deliver  
20 retail telephone service. Another form of VoIP competitor is the category often  
21 referenced as “over-the-top” VoIP providers, which are carriers that provide VoIP  
22 service as a stand-alone application relying upon a preexisting broadband internet  
23

24 \_\_\_\_\_  
25 <sup>40</sup> www.mycricket.com.

26 <sup>41</sup> [http://nextelonline.nextel.com/NASApp/onlinestore/en/Action/DisplayPlans?filterString=Individual\\_Plans\\_Filter&id12=UHP\\_PlansTab\\_Link\\_IndividualPlans](http://nextelonline.nextel.com/NASApp/onlinestore/en/Action/DisplayPlans?filterString=Individual_Plans_Filter&id12=UHP_PlansTab_Link_IndividualPlans).

1 connection at the customer's home or business. As discussed in Section VII of this  
2 testimony, services offered by more than 50 such VoIP providers are now available in  
3 Oregon.

4 **Q. How are VoIP prices comparable to Qwest's retail service prices in Oregon?**

5 A. A Qwest residential local exchange customer in Rate Group 1 currently pays the net price  
6 of \$21.50 per month (including the flat residential line rate of \$12.80, the SLC of \$6.50,  
7 and the EAS rate for Portland EAS Band B of \$2.20), with charges for any optional  
8 features and long distance services used by the customer additive to that amount. For  
9 instance, addition of only the popular Qwest Voice Messaging feature, currently priced at  
10 \$7.95 per month, would result in a net monthly price of over \$29.00 per month. In  
11 comparison, Vonage offers a "Premium Unlimited" package, which includes a range of  
12 features (including Voice Mail and others) and unlimited local and long distance calling  
13 for \$24.99 per month.<sup>42</sup> Vonage also offers a "Basic 500" plan which includes 500 local  
14 or toll minutes per month and a package of features including call waiting, Caller ID, 3-  
15 way calling, and Voice Mail for \$14.99 per month.<sup>43</sup> Verizon VoiceWing offers an  
16 unlimited calling option – the VoiceWing Unlimited plan – for \$24.95 per month, and the  
17 Verizon VoiceWing 500 plan, which provides 500 minutes of local or long distance  
18 calling, plus a range of calling features (including Voice Mail and others) for \$19.95 per  
19 month. Verizon also offers to business customers the VoiceWing MultiLine plan at  
20 \$44.95 per month.<sup>44</sup> Finally, Lingo/Primus offers an unlimited residential VoIP plan at  
21  
22  
23

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24 <sup>42</sup> VoIP service subscribers are not required to pay either an End User Common Line or an EAS charge.

25 <sup>43</sup> <http://www.vonage.com>.

26 <sup>44</sup> <https://www22.verizon.com/ForYourhome/voip/HowMuch.aspx>.

1 \$21.95 per month and a “Small Talk” plan providing a range of calling features and 500  
2 minutes of local or long distance calling for \$14.95 per month.<sup>45</sup>

3 **Q. What conclusion can be drawn from the information discussed above?**

4 A. The information described above provides evidence, coupled with the discussion of  
5 telecommunications market provided earlier in this testimony, that there are various  
6 options currently available to consumers in Qwest’s Oregon service area. The Parties  
7 believe that these options,<sup>46</sup> in addition to the protections specified in the Plan, will be  
8 sufficient to ensure that Qwest’s retail prices governed by the Plan will be just and  
9 reasonable on the effective date of the Plan, and will continue to remain just and  
10 reasonable in the future and thereby align with the public interest.

11  
12 **5. The Commission retains the power to review price increases.**

13  
14 **Q. If Qwest were to increase prices under the Plan, how can the Commission be  
15 assured that those prices would be just and reasonable?**

16 A. The Plan includes specific provisions for Commission review of price increases at any  
17 time to ensure that the prices for Qwest services remain just and reasonable. Section  
18 V.B.2 of the Plan outlines the process whereby the Commission may investigate claims  
19 that Qwest’s prices for Other Services may not be reasonable, and any affected person  
20 (including the Commission) may bring such a complaint. The Plan sets forth a standard  
21 for review, and the Parties also recommend the levels to which the Commission should  
22

23  
24 

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<sup>45</sup> [http://www.lingo.com/voip/residential/unlimited\\_internet\\_phone\\_service.jsp](http://www.lingo.com/voip/residential/unlimited_internet_phone_service.jsp).

25 <sup>46</sup> TRACER does not believe that these competitive options are effective substitutes for or are sufficient by  
26 themselves to constrain Qwest’s pricing for the two services that are most important to TRACER members, which is  
why the Parties agreed to the specific caps for DS1 and ISDN-PRI services and the Commission-review protections  
in the Plan to resolve such concerns.

1 adjust prices if it were to find that an increased rate is not just and reasonable, including  
2 adjusting the rate in question back to the pre-Plan level.

3  
4 **C. The Plan Ensures High Service Quality and Makes New Services Available.**

5 **Q. Does the Plan satisfy the public interest by ensuring that Qwest maintains service at**  
6 **high quality standards and makes new services available?**

7 A. Yes. One of the main objectives of the Plan is that the quality of Qwest's retail services  
8 will "stay at or above current high levels," and "Qwest will meet or exceed the  
9 Commission's applicable retail service standards and will continue its current reporting  
10 practices." In addition, the Plan introduces a service performance guarantee program,  
11 whereby Qwest agrees to provide a \$25.00 customer credit every time that Qwest fails to  
12 meet an installation or repair commitment. Further still, Qwest agrees to make  
13 incremental investments of \$4 million in network improvements and other projects that  
14 benefit the public interest during the first three years of the Plan.

15  
16 The Plan also contains a specific objective that Qwest will make new  
17 telecommunications services available to Oregon customers. Evolving competition may  
18 drive Qwest to respond by introducing an innovative, IP-based service to better respond  
19 to competitive pressures from cable service providers. Qwest may also wish to bundle or  
20 package such a new service with existing services in creative ways. The Parties believe  
21 that the Plan will better enable Qwest to introduce such innovative services to meet  
22 customer needs, and that it may also better enable Qwest to continue to seek  
23 opportunities to deploy new services and capabilities, such as DSL and fiber-based  
24 services, that may presently be available in only selected Qwest service areas, to  
25  
26

1 additional geographic areas of the state. This objective will be specifically assessed in  
2 the five-year review.

3 **Q. How do the various elements of the Plan work together to ensure high quality of**  
4 **telecommunications services as required by ORS 759.255(2)(b)?**

5  
6 A. Qwest has committed to continue regular monthly reporting of service quality results, and  
7 the Commission thereby has a monitoring tool available, in addition to its Consumer  
8 Services complaint tracking, to judge Qwest's service quality. The service performance  
9 guarantee program provides customers with remuneration for missed commitments for  
10 which they may have been inconvenienced. If Qwest were to be out of compliance with  
11 individual service quality standards, the Plan provides for the development of a corrective  
12 action plan, and the suspension of Qwest's ability to increase prices, in addition to further  
13 penalties available under the statutes. If such service problems are not rectified, the  
14 Commission may consider modifying or terminating the Plan. These elements together  
15 provide a logical, phased approach to ensuring that high-quality telecommunications  
16 services are delivered to Qwest's customers.

17  
18 **Q. What additional commitments has Qwest made under the Plan to provide additional**  
19 **network services or other consumer benefits, and why are these commitments in the**  
20 **public interest?**

21  
22 A. Qwest has committed to incremental investments of \$4 million in network improvements  
23 and other projects, and it will do so as a shareholder expense. These investments will  
24 drive the availability of advanced telecommunications services to a greater number of  
25 Oregonians and thereby serve the public interest.

26



1           Additionally, the independent consumer information center discussed earlier in  
2 this testimony, to which Qwest has committed to invest up to \$2 million as a component  
3 of the overall \$4 million investment, will provide an information asset available to all  
4 Oregonians to assist in determining the benefits and pricing options of the various  
5 telecommunications services available to them. The Parties agree that these investment  
6 elements of the Plan are in the public interest.  
7

8 **D. The Plan Maintains Appropriate Balance Between Regulation and Competition**

9  
10 **Q. Does the Plan strike an appropriate balance between the need for regulation and**  
11 **competition?**

12 A. Yes. As described earlier in this testimony, the Parties agree that the Oregon  
13 telecommunications market has been changing and evolving, and that for many  
14 customers there are many alternatives to Qwest's services. These alternatives may be  
15 more prevalent in certain market segments than others. In such an evolving market,  
16 historical pricing controls may no longer be appropriate. Rather, the Parties agree that  
17 the variable price controls of the Plan provide strict price cap protections for market  
18 segments that may have fewer options, such as single-line residential customers that use  
19 no features or long distance services, while affording Qwest greater pricing flexibility in  
20 markets where more options are present, subject to the Commission's ability to review  
21 Qwest's rates and rate increases to ensure that they are just and reasonable.  
22

23 **Q. Does the Plan address markets other than the retail telecommunications market?**

24 A. No. Beyond the specific price cap limitation regarding switched access services, nothing  
25 in the Plan addresses prices, terms, or conditions for wholesale services that Qwest offers  
26

1 to other carriers. As paragraph 10 of the Stipulation makes clear, nothing in the Price  
2 Plan or the Commission's approval thereof limits the rights of CLECs to raise any issues  
3 regarding products and services CLECs purchase from Qwest.

4 **Q. Does the Commission retain regulatory oversight if it were to determine that**  
5 **competitive forces were not sufficient to protect the public interest?**

6  
7 A. Yes. Section V.B. of the Plan contains various provisions that would enable the  
8 Commission to investigate and take remedial action if it were to find that Qwest's service  
9 quality had fallen below established standards, or that competitive forces had not kept  
10 Qwest's retail prices at just and reasonable levels. The Commission could initiate such  
11 investigations at any time. Through these mechanisms, the Commission would have a  
12 clear means to ensure that the Plan is operating in the public interest and modify or  
13 terminate the Plan if it were to determine that the Plan was no longer operating in the  
14 public interest.  
15

16 **E. The Plan Simplifies Regulation**

17  
18 **Q. Does the Plan reduce regulatory burdens on the Commission and on Qwest?**

19 A. Yes. As outlined in Section IV of the Plan, the Plan provides for the waiver (in whole or  
20 in part) of certain statutes and/or rules. In many instances, these statutes and rules  
21 involve the reporting of information by Qwest that would no longer be useful to either the  
22 Commission or to Qwest and that simply represents a continuing and unnecessary  
23 administrative burden for both parties.  
24  
25  
26

1 **Q. Why are waivers of a statute or rule, either in full or in part, consistent with the**  
2 **public interest?**

3 A. As described earlier in this testimony, waiver of these requirements provides for  
4 continuation and, in some cases, a logical extension of the manner in which Qwest has  
5 operated since 2000 under ORS 759.405 to 759.410, and would permit a level of  
6 regulatory oversight which is consistent with non-earnings based regulation. Waivers of  
7 these statutes also balance the need for regulation and competition and simplify  
8 regulation. ORS 759.255(c) and (d).

10 **Q. How will the Commission know whether the Plan has actually resulted in tangible**  
11 **simplification of regulation, and that the public interest has thereby been satisfied?**

12 A. In its report submitted in the fifth year after implementation of the Plan, Qwest would  
13 identify and report any regulatory burdens that have been reduced, both for Qwest and  
14 the Commission, as a result of implementation of the proposed Plan.

16 **X. CONCLUSION**

17 **Q. What do the Parties recommend regarding the Stipulation?**

18 A. The Parties recommend that the Commission adopt the Stipulation as the basis for  
19 resolving all the contested issues in this proceeding, and that the Commission approve the  
20 Petition and the Price Plan.

22 **Q. Does this conclude your joint testimony?**

23 A. Yes.

24

25

26

UM 1354

# WITNESS QUALIFICATION STATEMENTS

DAVID TEITZEL (QWEST)

BRYAN CONWAY (PUC)

BOB JENKS (CUB)

FRED PETERSON (TRACER)

## **Curriculum Vitae of Mr. David L. Teitzel**

David L. Teitzel  
Staff Director  
Qwest Corporation

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Seattle, WA 98191

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### **EDUCATION**

B.S., Industrial Psychology, Washington State University, Pullman, WA

### **PRESENT POSITION**

Staff Director, Qwest Public Policy, Seattle, WA.  
March 1998 to present.

- Responsible for development and presentation of company advocacy in matters relating to the manner in which Qwest Corporation is regulated for retail services. These matters include regulatory reform in dockets before state Commissions and the FCC.

### **PRIOR PROFESSIONAL EXPERIENCE**

#### **Qwest Communications and predecessor entities**

- 1997 to 1998: Product Manager, U S West Building Owner/Developer Market.
- 1995 to 1997: Market Manager, U S West Dex Directories
- 1994 to 1995: Lead Product Manager for U S West Long Distance Services
- 1988 to 1994: Lead Product Manager for U S West Basic Exchange, Centrex and Wire Maintenance Services
- 1987 to 1988: U S West Federal Regulatory Affairs Manager
- 1986 to 1987: U S West Telecommunications Competition Analyst
- 1980 to 1985: U S West Rates and Tariffs Manager
- 1979 to 1980: Residential Installation/Maintenance Budget Analyst
- 1974 to 1979: Pacific Northwest Bell Network Technician

**PARTIAL LIST OF TESTIMONY IN REGULATORY AND LITIGATION  
PROCEEDINGS**

<u>Jurisdiction</u>	<u>Docket No.</u>	<u>Topic</u>
<u>Arizona</u>	T-1051B-99-105	Arizona Rate Case
	T-01051B-03-0454	Arizona Price Cap Plan
	T-00000-97-0238	State Section 271 docket
	T-01051B-06-0091	State Triennial Review
	Litigation	Arizona Property Tax
<u>Colorado</u>	971-198T	State Section 271 docket
	99A-577T	Cost proceeding
	99S-110T	Local Primary Interexchange Carrier (LPIC) Charges
	00A-201T	Long Distance imputation
	99A-161T	Rate Rebalancing
<u>Idaho</u>	USW-T-97-14	State 271 docket
	QWE-T-02-25	Deregulation of Basic Exchange Services
<u>Iowa</u>	RPU-98-1	Residential Win Back
	RPU-00-1	Loop rate deaveraging
	INU-00-3	DA Deregulation
	INU-04-1	Deregulation of local Exchange service in Competitive markets

	WRU-99-7-272	WATS/800, Long Distance, Op. Services, DA pricing flexibility
	INU-00-2	State Section 271 docket
<u>Minnesota</u>	P-999/M-97-909	Universal Service
	P-421/CI-01-1373	State Section 271 docket
	P-421/C-02-197	Qwest Unfiled Agreements
<u>Montana</u>	D2000.5.70	State Section 271 docket
	D2002-12-153	Long Distance pricing flexibility
	D96.12.200	Rate Rebalancing
	D2000.2.21	Competitive Response
	D2002.2.22/2.14	Investigation of Qwest's local carrier freeze option
<u>Nebraska</u>	Multistate Workshop	State Section 271 docket
	C-1874	Rate Rebalancing
<u>New Mexico</u>	98-159-TC	Long Distance Pricing/imputation
	98-134-TC	Residential/Business Win Back
	No. 3007	Earnings Investigation
	No. 3215	Alternative Form of Regulation
	TC 3269, 3537	State Section 271 docket

	No. 05-00094, 05-00466	Alternative Form of Regulation (2006)
<u>No. Dakota</u>	PU-314-97-193	State Section 271 docket
<u>Oregon</u>	UX-27	DA Deregulation
	UX-28	Long Distance price flexibility
	UT-125	Rate Case/Earnings Investigation
	UM-1251	State Triennial Review
<u>So. Dakota</u>	TC 00-011	State Section 271 docket
	TC 03-057	Local Exchange Deregulation
<u>Utah</u>	98-049-24	Toll/Operator Services deregulation
	99-049-10	DA deregulation
	00-049-08	State Section 271 docket
	06-049-40	State Triennial Review
	03-049-49	Local Exchange pricing flexibility (residence)
	03-049-50	Local Exchange pricing Flexibility (business)
	01-2383-01	AT&T Broadband application for certificate of public convenience and necessity (CPCN)
<u>Washington</u>	UT-980630	Calling Card regulation



UT-90-311(a)	Universal Service
UT-990021	Long Distance regulation
UT-970300	State Section 271 docket
UT-061625	Washington Alternative Form Of Regulation Plan
UT-033044	State Triennial Review
UT-030614	Competitive Classification of Business Services
UT-013097	Operator Services/DA Billing Dispute with TelWest
UT-991358	Modification of Service Quality Program
Litigation	Washington Property Tax

Wyoming

70000-TT-98-379	Residential Win Back
70000-TA-98-442	Long Distance regulation
TA-00-542	State Section 271 docket

FCC

WC Docket 02-314	Section 271: interLATA long distance market reentry
WC Docket 04-223	Petition for forbearance from Section 252 unbundling requirements in the Omaha, NE MSA
Unassigned	Petition for waiver of certain FCC depreciation requirements
WC Docket 05-333	Petition for forbearance from

	Dominant carrier rules post- Section 272 sunset
WC Docket 07-97	Section 251 Forbearance in Denver, Minneapolis, Phoenix and Seattle MSAs
Various	Multiple ex parte presentations to FCC Staff on various issues

## WITNESS QUALIFICATION STATEMENT

**NAME:** Bryan A. Conway  
**EMPLOYER:** Public Utility Commission of Oregon  
**TITLE:** Program Manager, Economic & Policy Analysis Section  
**ADDRESS:** 550 Capitol Street NE Suite 215, Salem, Oregon 97301-2115.

**EDUCATION:** B.S. University of Oregon, Eugene, Oregon  
Major: Economics; 1991  
M.S. Oregon State University, Corvallis, Oregon  
Major: Economics; 1994

In addition, I have completed all of the required and elective coursework for a Ph.D. in economics from Oregon State University. My fields of study were Industrial Organization and Applied Econometrics.

**EXPERIENCE:** Starting in October 1998, I have been employed by the Public Utility Commission of Oregon. I am currently the Program Manager of the Economic & Policy Analysis Section. My responsibilities include leading research and providing technical support on a wide range of policy issues for electric, telecommunications, and gas utilities. I have testified before the Commission on policy and technical issues in UG 132, UE 115, UE 116, UE 170, UE 179, UE 180 and have been the Summary Staff Witness in UP 158, UP 168, UP 165/170, UX 27, UX 28, UM 967, UM 1041, UM 1045, UM 1121, UM 1206, UM 1209, and UM 1283.

From December 1994 to October 1998, I worked for the Oregon Employment Department as a Research Analyst in their Research Section. Duties included leading research projects on various policy issues involving labor economics and information systems.

**OTHER EXPERIENCE:** I am currently an adjunct faculty member Chemeketa Community College teaching principles of economics.

From September 2002 through June 2006, I was a faculty member of the University of Phoenix teaching various economics courses.

From January 1998 through September 2000, I was a part time instructor at Linn-Benton Community College teaching principles of economics.

From July 1992 through June 1994, I was a graduate teaching assistant at Oregon State University teaching introductory principles of economics.

## WITNESS QUALIFICATION STATEMENT

**NAME:** Bob Jenks

**EMPLOYER:** Citizens' Utility Board of Oregon

**TITLE:** Executive Director

**ADDRESS:** 610 SW Broadway, Suite 308  
Portland, OR 97205

**EDUCATION:** Bachelor of Science, Economics  
Willamette University, Salem, OR

**EXPERIENCE:** Provided testimony or comments in a variety of OPUC dockets, including UE 88, UE 92, UM 903, UM 918, UE 102, UP 168, UT 125, UT 141, UE 115, UE 116, UE 137, UE 139, UE 161, UE 165, UE 167, UE 170, UE 172, UE 173, UG 152, UM 995, UM 1050, UM 1071, UM 1147, UM 1121, UM 1206, and UM 1209. Participated in the development of a variety of Least Cost Plans and PUC Settlement Conferences. Provided testimony to Oregon Legislative Committees on consumer issues relating to energy and telecommunications. Lobbied the Oregon Congressional delegation on behalf of CUB and the National Association of State Utility Consumer Advocates.

Between 1982 and 1991, worked for the Oregon State Public Interest Research Group, the Massachusetts Public Interest Research Group, and the Fund for Public Interest Research on a variety of public policy issues.

**MEMBERSHIP:** National Association of State Utility Consumer Advocates  
Board of Directors, Environment Oregon Research and Policy Center  
Telecommunications Policy Committee, Consumer Federation of America  
Electricity Policy Committee, Consumer Federation of America

**FRED H PETERSON**  
**Education and Work Experience**

**Education:**

Bachelor of Science Degree: Electrical Engineering - 1957

Oregon State College, Corvallis OR

Masters Degree: Business Administration – 1970

Auburn University, Auburn AL

Graduate, Air Command & Staff College, United States Air Force- 1970

Maxwell AFB AL

Graduate, Industrial College of the Armed Forces – 1973

Fort McNair, DC

Graduate, Air War College, United States Air Force – 1976

Maxwell AFB AL

**Work Experience:**

Currently: Executive Director, TRACER

Portland OR

1982-1998: Telecommunications and Information Technology Management

Kaiser Permanente, Portland OR

1980-1982: General Manager of Intereconnect Telecommunications Company

Executone of Oregon, Portland OR

1974-1980: Telecommunications and Electronics Systems Operations and Planning

Colonel, United States Air Force, Pentagon and Langley AFB VA (HQ

Tactical Air Command)

1957-1974: Telecommunications and Electronic Systems Operations, Planning, and

Flight Operations

2<sup>nd</sup> Lieutenant-Lieutenant Colonel, United States Air Force, Various  
Locations

**CERTIFICATE OF SERVICE**

**UM 1354**

I hereby certify that on the 18<sup>th</sup> day of June 2008, I served the foregoing **QWEST CORPORATION'S JOINT TESTIMONY WITH WITNESS QUALIFICATION STATEMENTS FOR DAVID TEITZEL (QWEST), BOB JENKS (CUB), BRYAN CONWAY (PUC) and FRED PETERSON (TRACER); and STIPULATION WITH PRICE PLAN AS EXHIBIT A** in the above entitled docket on the following persons via U.S. Mail, by mailing a correct copy to them in a sealed envelope, with postage prepaid, addressed to them at their regular office address shown below, and deposited in the U.S. post office at Portland, Oregon.

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DATED this 18th day of June, 2008.

**QWEST CORPORATION**



By: \_\_\_\_\_

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