



Oregon

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October 15, 2007

OREGON PUBLIC UTILITY COMMISSION
ATTENTION: FILING CENTER
PO BOX 2148
SALEM OR 97308-2148

RE: **Docket No. UT125 PHASE II** - In the Matter of the application of QWEST CORPORATION – Public Access Lines Rates.

Enclosed for electronic filing in the above-captioned docket is the Public Utility Commission Staff's Direct Testimony.

/s/ Kay Barnes

Kay Barnes

Regulatory Operations Division

Filing on Behalf of Public Utility Commission Staff

(503) 378-5763

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c: UT 125 Service List - parties

**PUBLIC UTILITY COMMISSION
OF OREGON**

UT 125

STAFF DIRECT TESTIMONY OF

John Reynolds

**QWEST CORPORATION
UT 125 Phase II—Public Access Line Rates**

**REDACTED
OCTOBER 15, 2007**

CASE: Docket UT 125
WITNESS: John Reynolds

**PUBLIC UTILITY COMMISSION
OF
OREGON**

STAFF EXHIBIT 1

**Direct Testimony
In Support of the Stipulation**

OCTOBER 15, 2007

1 **Q. PLEASE STATE YOUR NAME, OCCUPATION, AND BUSINESS**
2 **ADDRESS.**

3 A. My name is John Reynolds. The Public Utility Commission of Oregon
4 (Commission) employs me as a Senior Telecommunications Analyst. My
5 business address is 550 Capitol Street NE Suite 215, Salem, Oregon 97301-
6 2551.

7 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND WORK**
8 **EXPERIENCE.**

9 A. My Witness Qualification Statement is in Exhibit Staff/3.

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

11 A. The purpose of my testimony is to sponsor a stipulated agreement between the
12 Public Utility Commission of Oregon Staff (Staff), Qwest Corporation (Qwest),
13 and the Northwest Public Communications Council (NPCC).

14 **Q. DID YOU PREPARE EXHIBITS FOR THIS DOCKET?**

15 A. Yes. I prepared two exhibits. Confidential Exhibit Staff/2 consists of
16 spreadsheets detailing my calculations and evaluation of Qwest's proposed
17 rates. Exhibit Staff/3 contains my witness qualification statement.

18 **Q. WHY DID STAFF REVIEW QWEST'S PUBLIC ACCESS LINE (PAL)**
19 **RATES?**

20 A. The Court of Appeals of the State of Oregon reversed and remanded to the
21 Commission its final order (No. 01-810) and its reconsideration order
22 (No. 02-009) in Docket UT 125 for reconsideration of the issues related to PAL

1 and CustomNet¹ rates contained in those orders.² The Court found that the
2 Commission did not require Qwest to follow the recent directives of the Federal
3 Communication Commission (FCC) to ensure the proposed rates met the
4 prescribed “new services test”.

5 **Q. WHAT IS THE “NEW SERVICES TEST”?**

6 A. The new services test is a set of criteria to ensure that rates are “cost-based,
7 non discriminatory, and consistent with both section 276 [of the
8 Telecommunications Act of 1996 (the Act)] and the Commission’s [FCC]
9 Computer III tariffing guidelines.”³ The FCC prescribed the new services test
10 as early as 1988.⁴ The FCC issued orders more recently specifically
11 addressing the new services test as it applies to payphone rates.^{5, 6, 7}

12 The new services test requires the following:

13 (a) Proposed rates must not recover more than the direct costs of the
14 service plus “a just and reasonable portion of the carrier’s overhead
15 costs.”⁸

16 (b) Costs must be determined by the use of an appropriate forward
17 looking, economic cost methodology that is consistent with the

¹ CustomNet service is now known as Fraud Protection.

² Court of Appeals of the State of Oregon, 02C-12247; A119640, filed November 10, 2004.

³ FCC Order No. DA 00-347, para. 2.

⁴ FCC Order No. 88-172, Further Notice of Proposed Rulemaking [regarding Price Caps], May 23, 1988.

⁵ FCC Order No. DA 00-347; [“the Wisconsin Order”], March 1, 2000.

⁶ FCC Order No. FCC 02-25, Memorandum Opinion and Order [“New Services Order”], January 28, 2002.

⁷ Telecommunications Act of 1996, Section 276, *Provision of Payphone Service*.

⁸ FCC Order No. DA 00-347, para. 9.

1 principles that the Commission set forth in the Local Competition
2 First Report and Order.⁹

3 (c) Cost study inputs and assumptions used to justify payphone rates
4 should be consistent with the cost inputs used in computing rates
5 for other services offered to competitors.¹⁰

6 (d) LECs must justify the overhead cost methodology, and must not
7 recover a greater share of overhead than in comparable services,
8 such as unbundled network elements (UNEs).¹¹

9 (e) Rates must take into account other sources of revenue that are
10 used to recover the cost of facilities used, e.g., subscriber line
11 charge (SLC), primary interexchange carrier charge (PICC), and
12 carrier common line charge (CCL), in order to avoid double
13 recovery.¹²

14 (f) Certain “retail” costs, although prohibited from inclusion in UNE
15 rates, may be included in payphone rates.¹³

16 **Q. DID QWEST PROPOSE REVISED RATES?**

17 A. Yes. On March 31, 2006, Qwest filed revised rates intended to implement the
18 remand order. Qwest’s proposal incorporated the cost studies filed with Advice
19 1935 on February 28, 2003.

20 ///

⁹ Id, para. 9.

¹⁰ Id, para. 10.

¹¹ Id, para. 11.

¹² Id, para. 12.

¹³ FCC Order No. FCC 02-25, Memorandum Opinion and Order [“New Services Order”],
January 28, 2002, para. 50.

1 **Q. HOW DID YOU EVALUATE QWEST'S PROPOSAL?**

2 A. I reviewed the proposal to ensure the general methodology met the FCC's
3 requirements. To check the reasonability of the assumptions and the accuracy
4 of the calculations, I compared the results of the submitted cost studies with
5 costs I calculated using the UNE costs developed in Dockets UM 773, UM 844,
6 and UT 148. Using the results of the UNE dockets to compare costs avoided
7 the need to evaluate each element of input and computation in great detail, a
8 task which would be equivalent to a complete revision of UNE costs.

9 **Q. DOES QWEST'S METHODOLOGY CONFORM TO THE REQUIREMENTS**
10 **OF THE NEW SERVICES TEST?**

11 A. Yes. The methodology used by Qwest meets the requirements of the new
12 services test as listed earlier:

13 (a) Proposed rates do not recover more than direct costs plus a just and
14 reasonable amount of overhead;

15 (b) The cost studies employ Qwest's Integrated Cost Model (ICM),
16 September 26, 2002 version. The ICM is a forward looking cost model
17 which the company used in current UNE filings. The ICM is consistent
18 with the total service long run incremental cost (TSLRIC) method used
19 in determining UNE costs.

20 (c) Inputs used in the cost study are consistent with those used in other
21 current cost studies. For the supporting studies, Qwest used current
22 (2002) input costs, rather than input costs that were current at the time
23 of the UNE dockets. To account for any difference between current

1 input costs and UNE docket input costs, Qwest weighted the input
2 investment by a “benchmark” ratio of approved UNE rates to the
3 September 2002 study-calculated UNE rates.

4 (d) The overhead cost methodology is the same as is used in other Qwest
5 studies and is consistent with the method used in UNE pricing.

6 (e) To avoid double recovery, Qwest deducted the subscriber line charge
7 (SLC) from the cost calculations to determine the tariff rate.

8 (f) Certain additional “retail” costs, such as billing and sales expense, were
9 appropriately included.

10 **Q. WHY DID YOU USE DOCKETS UM 773, UM 844 AND UT 148 AS COST**
11 **REFERENCES?**

12 A. Dockets UM 773, UM 844, and UT 148 produced total service long run
13 incremental costs (TSLRIC) and UNE rates for all network elements.¹⁴ These
14 costs are the standard that Staff uses for evaluating tariff submissions for
15 conformance to Oregon Revised Statutes (ORS) Chapter 759,
16 *Telecommunications Utility Regulation*. The costs in these dockets were
17 derived after extensive scrutiny, challenge and litigation by many parties.
18 Inputs, assumptions, and various cost modeling approaches were examined in
19 detail in the course of determining the final results. The methods used to

¹⁴ Principal resources for these dockets are (a) UM 773: Order No. 97-145, Adopted “Building Block” [unbundled network element] TSLRIC cost studies; (b) UM 844: Order No. 97-239, Approved “Building Block” [unbundled network element] rates; and (c) UT 148: Order No. 00-481, Established deaveraged UNE loop rates.

1 develop costs in these dockets conform to the FCC's new services test. I
2 used the results of these dockets to check the results of Qwest's proposal.

3 **Q. DID YOU INCLUDE EXTENDED AREA SERVICE (EAS) RATES**
4 **TOGETHER WITH PAL RATES IN MAKING YOUR COMPARISON?**

5 A. Yes.

6 **Q. PLEASE EXPLAIN WHY YOU INCLUDED EAS RATES.**

7 A. Although EAS calls are not local calls, they are essentially treated as local
8 calls.¹⁵ More importantly, where EAS is established, EAS is mandatory, and a
9 choice of interexchange service providers is not allowed. Furthermore, in
10 localities where EAS exists, the EAS rates apply to all types of dialed calls
11 (business, residence, payphone, etc.) between the designated exchanges.
12 Because EAS is mandatory and it is regulated as a local charge, I included
13 EAS. This is consistent with Qwest's UT 125 cost studies, which included EAS
14 traffic in PAL usage.¹⁶

15 **Q. WHAT WAS THE OUTCOME OF YOUR ANALYSIS?**

16 A. I used an overall approach to my evaluation. I compared the overall revenue
17 generated by these rates to the costs developed in the UNE dockets. Because
18 EAS is treated as a local service, as described earlier, I included EAS both in
19 the revenue computation and in the costs of EAS traffic. Since payphone
20 providers pay an end user common line charge, I added the revenue from that
21 charge in order to compare overall revenue to overall cost. This comparison

¹⁵ Order No. 89-815, para. 1.

¹⁶ EAS usage was included by Qwest in the original PAL cost studies submitted in Docket UT 125. (Docket UT 125, Qwest/219, Brigham/20-25.)

1 showed that the annual revenue resulting from Qwest's revised rates is very
2 nearly the same as the forward looking cost that I calculated: 1.7% above.

3 (See Confidential Exhibit Staff/2, Reynolds/1, Line 6.)

4 **Q. WHAT IS STAFF'S RECOMMENDATION?**

5 A. Staff recommends that the stipulation be accepted.

6 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

7 A. Yes, it does.

CASE: UT 125
WITNESS: John Reynolds

**PUBLIC UTILITY COMMISSION
OF
OREGON**

CONFIDENTIAL STAFF EXHIBIT 2

**Direct Testimony
In Support of the Stipulation**

OCTOBER 15, 2007

STAFF EXHIBIT 2

IS CONFIDENTIAL AND SUBJECT TO PROTECTIVE

ORDER NO. 96-045. YOU MUST HAVE SIGNED

APPENDIX B OF THE PROTECTIVE ORDER IN

DOCKET UT 125 TO RECEIVE THE

CONFIDENTIAL VERSION

OF THIS EXHIBIT.

CASE: Docket UT 125
WITNESS: John Reynolds

**PUBLIC UTILITY COMMISSION
OF
OREGON**

STAFF EXHIBIT 3

Witness Qualification Statement

OCTOBER 15, 2007

WITNESS QUALIFICATION STATEMENT

NAME: JOHN REYNOLDS

EMPLOYER: PUBLIC UTILITY COMMISSION OF OREGON

TITLE: SENIOR TELECOMMUNICATIONS ANALYST

ADDRESS: 550 Capitol Street NE, Suite 215
Salem, Oregon 97301-2551

EDUCATION
AND TRAINING: Master of Science in Engineering-Economic Systems—
Stanford University (1993).

Bachelor of Science in Mechanical Engineering – Stanford Uni-
versity (1961).

Certificate -- Duke University Graduate School of Business—
Pacific Bell Management Development Program (1992)

WORK
EXPERIENCE: Employed with the Oregon Public Utility Commission as a Sen-
ior Telecommunications Analyst since September, 1998

Principal of Decision Consulting Associates, performing eco-
nomic decision and risk analyses (1994-1998)

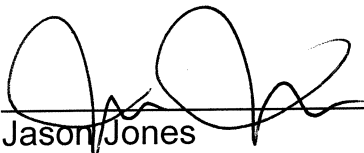
Pacific Bell (1966-1992). Various assignments in cost alloca-
tion design, process redesign, maintenance engineering,
capital budget management, long range planning, transmis-
sion engineering, and equipment cost estimating.

CERTIFICATE OF SERVICE

UT 125

I certify that I have this day served the foregoing document upon all parties of record in this proceeding by delivering a copy in person or by mailing a copy properly addressed with first class postage prepaid, or by electronic mail pursuant to OAR 860-13-0070, to the following parties or attorneys of parties.

Dated at Salem, Oregon, this 15th day of October, 2007.



Jason Jones

Assistant Attorney General

Of Attorneys for Public Utility Commission's Staff

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Salem, Oregon 97301-4096

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UT 125
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