BEFORE THE COMMONWEALTH OF KENTUCKY

PUBLIC SERVICE COMMISSION

In the Matter of:

AN INVESTIGATION INTO THE INTRASTATE SWITCHED ACCESS RATES OF ALL KENTUCKY INCUMBENT AND COMPETITIVE LOCAL EXCHANGE CARRIERS	))))	ADMINISTRATIVE CASE NO. 2010-00398

FURTHER REBUTTAL TESTIMONY

OF

CESAR CABALLERO

ON BEHALF OF WINDSTREAM KENTUCKY EAST, LLC AND WINDSTREAM KENTUCKY WEST, LLC

Dated September 30, 2011

FURTHER TESTIMONY OF CESAR CABALLERO

Q. Please state your name and business address.

A. My name is Cesar Caballero. My business address is 4001 Rodney Parham Road, Little Rock, Arkansas 72212.

Q. Are you the same Cesar Caballero that submitted testimony on behalf of Windstream Kentucky East, LLC and Windstream Kentucky West, LLC on July 14, 2010 ("Initial Direct Testimony"), August 13, 2010 ("Initial Rebuttal Testimony"), and July 8, 2011 ("Further Testimony") in the record of this proceeding?

A. Yes.

Q. Prior to turning to your substantive testimony, do you have any preliminary statements?

A. Yes. I submit this testimony with the full reservation of rights as stated in all of my previous testimony and Windstream's December 20, 2010 and April 15, 2011 Comments.

Q. Have you reviewed the testimony filed on July 8, 2011 in this docket?

A. Yes.

Q. Do you have any general observations about such testimony?

A. Yes. AT&T, Sprint, and Verizon do not appear to be making any arguments concerning Windstream's intrastate switched access rates that they did not make last year in the record incorporated into this proceeding and which I did not rebut in my Initial Rebuttal Testimony, which was attached for convenience to my Further Testimony filed on July 8, 2011.

Q. On April 15, 2011, Windstream East and Windstream West filed comments on the plan proposed by AT&T in this proceeding ("AT&T Plan") which were adopted by your Further Testimony. Do you have anything further to add regarding the AT&T Plan?

A. Yes. AT&T witness Dr. Ola A. Oyefusi's July 8, 2011 testimony ("Oyefusi Further Direct") [1] provided a substantial amount of detail regarding the workings of the AT&T Plan. Much of this was generally along the lines that one would expect, but some detail was not. One such detail is very significant and was not made clear previously and therefore, was not discussed in Windstream's April 15, 2011 Comments that I adopted in my Further Testimony.

Q. Please explain.

A. The AT&T Plan proposes to require ILECs' intrastate switched access rates to mirror their interstate switched access rates. Dr. Oyefusi explains that this would be carried out on an element-by-element basis. Dr Oyefusi also discusses that if there is no interstate rate element analog to an intrastate rate element, the intrastate rate element would be eliminated as part of AT&T's proposed mirroring. Dr. Oyefusi also explains that this mirroring would take place 30 days after the establishment of the Kentucky Universal Fund ("KUSF") and funding from such fund becomes available. In other words, ILECs would not begin incurring intrastate switched access losses until they also have the concurrent opportunity to draw from the KUSF so that ILECs incurring intrastate switched access revenue losses as a result of the AT&T Plan would have an opportunity to recover at least a portion of their lost revenue. Such discussion conformed with

[1] Dr. Oyefusi provided Direct and Rebuttal Testimony last year in the record that has been incorporated into this proceeding.

Windstream's understanding of the AT&T Plan. My Further Testimony, both directly and by incorporation and reference to previous testimony, incorporated Windstream's positions on such matters and critiqued AT&T's proposal.

Q. What did Dr. Oyefusi clarify that was not previously addressed in your testimony?

A. On pages 34-37 of his July 8, 2011 testimony, Dr. Oyefusi now recommends that the AT&T Plan make an exception to the timing of intrastate switched access charge reductions for the Non Traffic Sensitive Revenue Rate Requirement (NTSRR) rate element. Specifically, AT&T's witness is suggesting that instead of waiting until establishment of the KUSF, the Commission require mirroring of the NTSRR **immediately** upon adoption of the AT&T Plan, which, as a practical matter, means immediate complete elimination of the NTSRR revenues without any meaningful opportunity to recover them.

Q. What is the NTSRR and why would it be eliminated through interstate rate mirroring?

A. As I explained in my Direct Testimony, the NTSRR is a per-line tariffed charge applied on a per-minute basis that is intended to recover for certain intrastate common line (or loop) functions. It is essentially what is commonly known as a Carrier Common Line Charge, or CCL. The NTSRR would be eliminated because the CCL was eliminated from Windstream East and Windstream West's federal interstate switched access tariffs as part of the CALLS and MAG Plans, respectively.

Q. What are your concerns about AT&T's proposal to eliminate the NTSRR without relief through the KUSF?

A. The proposal being suggested by AT&T's witness could entail months if not years in which carriers would have lost all of their NTSRR revenues, which are significant, while not having any opportunity for relief from the KUSF. What is more troubling is that by Dr. Oyefusi's reasoning, with which Windstream strongly disagrees, AT&T apparently envisions that its plan would not include lost NTSRR revenue in the KUSF distribution calculations described by Dr. Oyefusi on pp. 43-52 of his Further Direct Testimony. Windstream believes that this would be extremely detrimental.

Q. What appears to be the AT&T witness' rationale for his apparent proposal to ignore lost NTSRR revenue?

A. Dr. Oyefusi asserts that there is "absolutely no cost justification for the interconnection functions provided to carriers." Oyefusi Further Direct Testimony at 35.

Q. What is your response to this justification?

A. As I explained in my Initial Rebuttal Testimony,[2] the NTSRR is a compensation mechanism relating to previous Commission-prescribed intrastate switched access (and certain other service) rate reductions, which has been reduced for Windstream by millions of dollars since the NTSRR's inception. The NTSRR is essentially a revenue replacement mechanism just like AT&T's proposed KUSF distributions (and federal Interstate Access Support and Interstate Common Line Support, both described in my Initial Direct and Rebuttal Testimony). Thus, to the extent that the NTSRR is a "subsidy," such subsidy should be treated no differently than the other "subsidies" that AT&T proposes to transition to the KUSF.

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[2] Initial Direct Testimony at 17.

Q. Would eliminating the NTSRR without any transition and without any sort of compensating relief be consistent with how AT&T's NTSRR has been reduced in the past?

A. No. It is my understanding that AT&T's NTSRR was brought to zero in no less than four separate orders over a period of roughly three years. In the first three of those instances, AT&T voluntarily reduced its NTSRR to avoid other required rate reductions.[3] In the fourth of those reductions, AT&T gained pricing flexibility and other related regulatory relief as well as received authority to impose retail rate increases for service then classified as 'non-competitive' under AT&T's price plan.[4] Just as AT&T's NTSRR was phased out over a period of years, so should Windstream East and West's. Also, just as AT&T was provided revenue streams to compensate for lost NTSRR revenue (through avoiding other required rate reductions and rate rebalancing), so should Windstream East and West.

Q. Based on what you discuss, do you have any further specific critiques of the AT&T Plan?

A. Yes. Windstream believes that, to the extent the AT&T Plan is adopted, not only should it be modified in the manner discussed in Windstream's April 15, 2011 Comments (adopted by my Further Testimony), but it should also be implemented so that the NTSRR is treated no differently from other intrastate rates that would be reduced or eliminated by the AT&T Plan.

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[3] Application of BellSouth Telecommunications Inc. d/b/a South Central Bell Telephone to Modify its Method of Regulation, Order, Case No. 94-121 (Oct. 24, 1997); Application of BellSouth Telecommunications Inc. d/b/a South Central Bell Telephone to Modify its Method of Regulation, Order, Case No. 94-121 (Aug. 2, 1999); Application of BellSouth Telecommunications, Inc. d/b/a South Central Bell Telephone Company to Modify its Method of Regulation, Order, Case No. 94-121 (Jul. 31, 2000).

[4] Review of BellSouth Telecommunications, Inc.'s Price Regulation Plan, Order, Case No. 99-424 (Aug. 3, 2000).

Q. Does this conclude your Further Rebuttal Testimony?

A. Yes, at this time.