Further Testimony of Cesar Caballero
on Behalf of Windstream Kentucky East, LLC and Windstream Kentucky West, LLC

Administrative Case No. 2010-00398

July 8, 2011

Exhibit A

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

MCI COMMUNICATIONS SERVICES, INC., BELL ATLANTIC COMMUNICATIONS, CIN., NYNEX LONG DISTANCE COMPANY, TTI NATIONAL, INC., TELECONNECT LONG DISTANCE SERVICES & SYSTEMS COMPANY AND VERIZON SELECT SERVICES, INC.	)
Complainants	) CASE 2007-00503
v.	)
WINDSTREAM KENTUCKY WEST, INC., WINDSTREAM KENTUCKY EAST, INC. – LEXINGTON AND WINDSTREAM KENTUCKY EAST, INC. – LONDON	)
Defendants	

DIRECT TESTIMONY

OF

CESAR CABALLERO

- PUBLIC REDACTED VERSION -

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

Dated July 14, 2010

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DIRECT TESTIMONY OF CESAR CABALLERO

I. BACKGROUND AND PURPOSE OF TESTIMONY

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. By whom are you employed and in what capacity?

A. I am employed by Windstream Communications, Inc. as Vice President – Regulatory Strategy and am authorized in this capacity to testify on behalf of Windstream Kentucky West, LLC ("Windstream West") and Windstream Kentucky East, LLC ("Windstream East") (collectively for purposes of this testimony, "Windstream"). In this capacity, I support the reform efforts by Windstream before the Federal Communications Commission ("FCC"), including oversight of wholesale access, universal service programs, interconnection services and policy reform.

Q. Please describe your experience in the telecommunications industry.

A. I have been employed with Windstream Communications since its inception on July 17, 2006 and formerly was with Alltel Communications since 1992. For over the past decade, I have held several positions in the wholesale billing and access tariff departments as well as federal regulatory advocacy and compliance.

Q. What is the purpose of your testimony in this proceeding?

A. The purpose of my testimony is to demonstrate as a threshold procedural matter that Windstream West and Windstream East are alternatively regulated carriers in the Commonwealth, pursuant to KRS 278.541 et seq., and statutorily exempt from this rate complaint proceeding. In fact, those statutory provision state that a carrier such as Windstream's intrastate switched access rates are deemed to be just and reasonable, without potential for subsequent interpretation, and their intrastate switched access rates are deemed by Kentucky law to be just and reasonable. Further, I will demonstrate that, as the moving parties in this complaint case, MCI Communications Services, Inc., Bell Atlantic Communications, CIN., NYNEX Long Distance Company, TTI National, Inc., Teleconnect Long Distance Services & Systems Company, and Verizon Select Services, Inc. (collectively, "Verizon"), these long distance carriers have failed to meet their burden of proof. Specifically, Verizon's petition is legally without merit, particularly to the extent that it alleges that the intrastate switched access rates of Windstream West and Windstream East are unjust and unreasonable for the reason that they do not mirror the switched access rates of AT&T Kentucky. Finally, I explain why Verizon's petition is without merit from a public policy perspective. Rather than serving the public interest, reducing intrastate switched access rates in the manner proposed by Verizon would only serve to significantly harm the Windstream companies, their customers, and employees without any significant corresponding benefit other than expense reductions for Verizon (and the other interexchange carrier intervenors). Proper intrastate switched access reform must include appropriate transitions and meaningful revenue replacement opportunities.

II. THRESHOLD PROCEDURAL ISSUE

Q. Is this complaint proceeding procedurally appropriate?

A. No, it is not. The Windstream companies have been and continue to be significantly harmed by being denied their statutory rights to be exempt from this type of a rate complaint proceeding.

Q. Can you please explain why Windstream believes this proceeding is not procedurally appropriate?

A. This procedural issue is a strictly legal issue involving interpretation of the Kentucky alternative regulation statutes. Although I am an attorney, I am not testifying in this proceeding as an attorney and defer the detailed legal discussions to the attorneys representing the parties for briefs. I can state, however, that both Windstream West and Windstream East elected to operate under the alternative regulation provisions of KRS 278.541, et seq. on or about July 12, 2006 when the statutes took effect. As set forth in more detail in the corresponding court appeals on this procedural issue, KRS 278.543(6) expressly states that an electing utility's rates, charges, earnings and revenues "shall be deemed just and reasonable under KRS 278.030 and administrative regulations promulgated thereunder upon election." Windstream's legal arguments before the courts on this threshold procedural issue are incorporated herein by reference and will be addressed in more detail in the parties' legal briefs. I should note, however, that the Kentucky Legislature granted certain rights under those statutes in recognition that wireline carriers like the Windstream companies need to be able to focus their resources on competitive issues just as their competitors do instead of regulatory rate-making proceedings.

Q. Why did you include this procedural issue in your testimony?

A. It is my understanding that one of the issues currently pending before the courts is the Commission's claim that this threshold procedural issue should have been appealed by Windstream after the conclusion of the entire proceeding. While Windstream and the trial court disagreed with that position, if the appellate court were to overrule the trial court's decision on that point, then Windstream needs to ensure that the record in this case preserves this issue in the event of a subsequent appeal. The issue of Windstream's rights as an alternatively regulated carrier is vital to the Windstream companies and extends beyond the issues in this proceeding, so we want to adequately preserve all of our rights.

Q. Why is it so important to Windstream West and Windstream East that they preserve their statutory rights as alternatively regulated carriers?

A. As I noted above, by granting certain statutory rights to carriers in Kentucky, the Legislature recognized that, to be able to survive and thrive in today's competitive marketplace, wireline carriers like Windstream East and Windstream West must be permitted to devote their resources to competitive issues – not regulatory ratemaking proceedings – just as their competitors are permitted to do. To require traditionally-regulated wireline carriers to continue to be subject to these types of regulatory ratemaking proceedings while also expecting them to fully compete in today's marketplace results in significant harm to the wireline carriers and places them at a significant disadvantage over their competitors.

Q. Have Windstream West and Windstream East encountered this type of harm as a result of being denied their statutory rights in this proceeding?

A. Yes. While it may sound somewhat innocuous that these proceedings simply strive to give a complainant its "day in court," such an approach overlooks the significant resources that traditionally regulated wireline carriers must devote to each one of these types of regulatory proceedings. For example, the Windstream companies estimate that just to provide the more than two thousand data request responses in this proceeding, they had several employees internally devoted to expending extraordinary amounts of time to gather and compile the information. We estimate roughly that the discovery responses alone comprised well over four hundred hours of work for just the business contacts compiling and reviewing the information. Put another way, this is the equivalent of one employee working a 40-hour work week doing nothing other than working on regulatory discovery responses for 10 weeks or 10 employees being consumed by this regulatory proceeding for an entire week. Either way, in this type of competitive industry it is vital that employees concentrate on competitively-focused initiatives and not traditional regulatory proceedings. Additionally, I would also estimate that in-house counsel for the Windstream companies expended substantial resources helping to coordinate just the discovery responses discussed above. In turn, that means that the hours spent by Windstream's in-house attorneys on this case was time that they could not spend reviewing numerous customer business sales contracts, new promotional tariffing ideas, and proposals for new product initiatives. These are significant and critical resources that have been concentrated only on this regulatory proceeding at the risk of other vital competitive projects, including meaningful participation in federal reform initiatives. This is a luxury that our competitors have over traditionally-regulated wireline carriers like Windstream East and Windstream West and arguably one reason that the Legislature attempted to level the competitive parity playing field.

III. VERIZON'S PETITION IS LEGALLY WITHOUT MERIT

Q. Setting aside the threshold procedural issue discussed above and assuming that this ratemaking proceeding is procedurally appropriate, is it your understanding that Windstream East and Windstream West have the burden to prove that their intrastate switched access rates are just and reasonable?

A. No. Assuming for argument sake that this proceeding were procedurally proper, it is my understanding that, as the moving complaining party in this proceeding, Verizon has the burden to prove that the intrastate switched access rates of Windstream East and Windstream West are unjust and unreasonable. As discussed in detail below, Verizon has not satisfied its burden, and its petition is wholly unsubstantiated.

A. VERIZON'S INCOMPLETE INTRASTATE ACCESS RATE COMPARISON IS FLAWED.

Q. Has Verizon set forth allegations sufficient to lay the groundwork for its claims that Windstream's intrastate switched access rates are not just and reasonable?

A. No, Verizon has not. To the contrary, the crux of Verizon's allegations is that the intrastate switched access rates of Windstream East and Windstream West are unjust and unreasonable for the reason that they do not mirror the intrastate switched access rates of AT&T Kentucky.[1] Verizon does not explain why AT&T Kentucky's rates are the just and reasonable rates for Windstream East and Windstream West. Verizon's petition, instead, focuses on dubious claims that the long distance market in Kentucky is harmed by Windstream while also acknowledging that the same long distance market is competitive.

[1] Verizon's petition requests in numerous places that the Windstream rates be reduced to the levels of AT&T Kentucky's intrastate switched access rates. Yet, in its prayer for relief on page 14 of its petition, Verizon requests that Windstream East and Windstream West mirror the "CALLS-level rates that BellSouth already maintains." Those CALLS rates refer to AT&T Kentucky's interstate switched access rates. It is unclear, therefore, exactly what rates Verizon is proposing that the Windstream companies mirror.

Verizon suggests incorrectly that because Windstream East and Windstream West charge rates higher than AT&T Kentucky, that that fact skews competition in the long distance market. For this reason, Verizon suggests that Kentucky law should be ignored and Windstream East and Windstream West's intrastate switched access rates should be lowered. This makes no sense and contradicts other claims made by Verizon in its petition.

Q. Why does Verizon's argument concerning the supposed skewing of long distance competition make no sense and contradict other statements in Verizon's petition?

A. At the same time that Verizon's petition alleges that the Windstream intrastate switched access rates are unjust and unreasonable, Verizon's petition also establishes that the long distance market is highly competitive (even with interexchange carriers ("IXCs") like Verizon paying Windstream's existing intrastate switched access rates). In particular, on page 9 of its petition, Verizon states, "Indeed, there is no debate that Kentucky's long-distance market is competitive, which by definition means that Kentucky consumers will benefit as carriers respond to improving conditions." If the long distance market is already competitive as Verizon agrees that it is, then there should be no doubt that the existing switched access rates paid by the long distance carriers to compete in that market are just and reasonable. This single contradiction in Verizon's petition <u>alone</u> is sufficient to defeat Verizon's allegations. The Windstream rates simply cannot be unjust and unreasonable if the long distance carriers paying those rates, including Verizon, Sprint, and AT&T, are successfully competing in the marketplace.

Q. Is there evidence beyond the blatant contradiction in Verizon's petition as discussed above that suggests that Verizon's complaint is not just an issue as to the reasonableness of Windstream's rates?

A. Yes. Verizon's petition asserts that this is a case regarding the unreasonableness of the Windstream switched access rates and the supposed effect of such allegedly unreasonable rates on the structure of the long distance market as a result of payments that long distance providers unaffiliated with Windstream pay, but Verizon nevertheless refused to answer discovery designed to fully examine the switched access rates paid by Verizon in Kentucky. Windstream East and Windstream West sought discovery from Verizon and the intervening IXCs to compare the level of access minutes that the IXCs are terminating in the Windstream territories with the minutes the IXCs are terminating in the territories of other Kentucky RLECs – many of whom have access rates higher than those of the Windstream companies. The intervening IXCs answered the discovery questions, although Verizon – the complaining party with the burden of proof in this case and the party asserting that this is a case about rates – did not answer the discovery. Windstream West and Windstream East believe that the Verizon data may have shown that the Verizon IXC is actually terminating <u>more</u> access minutes in other Kentucky rural local exchange carrier ("RLEC") territories at <u>higher</u> access rates. Therefore, if Verizon is terminating <u>more</u> access minutes in the territories of other Kentucky ILECs that have higher rates than those of the Windstream companies, then Verizon's suggestion that the Windstream rates are unjust and unreasonable is wholly without merit. <u>This case cannot be, as Verizon suggests, merely an issue of the Windstream rates being too high if Verizon and the other IXCs are shown to be doing more business in other locations where</u>

they are paying higher switched access rates. Nevertheless, Verizon opposed Windstream's discovery and argued that this comparison of the RLEC rates/minutes to those of the Windstream companies is somehow irrelevant. Because the Commission denied Windstream's motion to compel and the opportunity for Windstream East and Windstream West to explore these critical facts, Verizon was not required to provide the information. The result is that Windstream East and Windstream West are unable to fully develop the factual record on this issue. In any event, the partial discovery response that was provided by the intervening interexchange carriers ("IXCs") generally fails to contradict that the result may be exactly as Windstream suggests – that this proceeding has nothing to do with the reasonableness of the intrastate switched access rates of Windstream East and Windstream West. Rather, the data may very likely have proven that Verizon's petition is strictly about Verizon desiring to garner expense reductions to bolster its national business interests without the corresponding revenue replacement considerations that typically accompany switched access reform efforts.

Q. Other than the contradictory allegations discussed above, does Verizon set forth any basis for its claim that the intrastate switched access rates of Windstream West and Windstream East are not just and reasonable?

A. Verizon's petition and its discovery responses in this matter present no sufficient factual allegations on this point. Instead, the crux of Verizon's allegations is a simple rate comparison between the intrastate switched access rates of Windstream East and Windstream West and the switched access rates charged by AT&T Kentucky. Based on that incomplete comparison, Verizon concludes erroneously that the Windstream intrastate switched access rates are not just or reasonable. In making this incomplete comparison, Verizon sets forth that interstate switched access rates have fallen dramatically, that AT&T Kentucky has mirrored its interstate switched access rates and that the Windstream companies have not done so. Additionally, Verizon makes unsubstantiated assertions regarding the impact of Windstream's intrastate switched access rates on the long distance market and how reducing those rates to the levels charged by AT&T Kentucky would somehow be beneficial to Kentucky's long distance customers. Yet, when asked in discovery to provide facts supporting these broad assertions, Verizon produced no meaningful details.

Q. Although incomplete, is Verizon's comparison of the Windstream rates to the switched access rates of AT&T Kentucky otherwise accurate?

A. No, it is not. Most remarkably, Verizon's petition (page 12) suggests AT&T Kentucky's rates as a reasonable benchmark for the reason that they "have been subject to the closest regulatory scrutiny and the strictest economic discipline." Verizon further states the Commission previously reduced AT&T Kentucky's switched access rates in 1995 which resulted in a $9.9 million reduction in AT&T Kentucky's annual switched access revenues, and Verizon states on page 6 of its petition that to its knowledge "Windstream has made no significant access reductions." Verizon is in error. As I will discuss later in my testimony, Windstream East's Verizon ILEC predecessor made switched access rate reductions between 2000 and 2001 which yielded more than a $30 million reduction in intrastate switched access revenues. These substantial reductions resulted in reduced switched access tariffed rates for Windstream East's predecessor, which rates the Commission ordered Windstream East to adopt when it acquired the Kentucky properties in 2002. The key allegations, therefore, set forth by Verizon's are erroneous and fatal to its petition.

Q. Does a more complete comparison of all ILECs in Kentucky reveal that the ILECs do not charge the same intrastate switched access rates?

A. Yes. It is interesting that Verizon's petition is lacking in a complete comparison of the Windstream rates to all carriers in Kentucky. A complete comparison (to the extent such a comparison is even relevant) reveals that the intrastate switched access rates of Windstream West and Windstream East differ among those two companies, differ from the rates charged by AT&T Kentucky, and also differ from the rates charged by other RLECs and CLECs in the Commonwealth. In fact, the complete comparison of Kentucky's switched access rates shows that the Windstream intrastate switched access rates are <u>lower</u> than those charged by the other RLECs in the Commonwealth. Verizon also fails to take into account in its incomplete rate comparison that the Commission's records show that one of the last ILECs in Kentucky to undergo substantial (*i.e.*, in the tens of millions of dollars) of reductions in intrastate switched access rates was Windstream East's predecessor as I mentioned above.

Q. Is there any precedent in Kentucky establishing that because one company's rates do not mirror those of a wholly separate, unaffiliated company that the applicable rates may be deemed unjust and unreasonable?

A. I am certainly not aware of any. In fact, I am aware of precedent in Kentucky establishing just the opposite. Several years ago, the Commission decided to set the payphone rates of several of the Commonwealth's larger ILECs pursuant to the FCC's New Services Test. However, despite using a common approach to establishing the rates among the three companies, that process still did not result in the Commission establishing identical payphone rates for the three companies. Verizon's notion, therefore, that the intrastate switched access rates of Windstream East and Windstream West are unjust and unreasonable merely because they do not mirror the switched access rates of AT&T Kentucky is unfounded.

Q. By comparison, do all ILECs charge the same interstate switched access rates?

A. No. For instance, with respect to those carriers subject to price-cap regulation, the FCC established three different target rates depending on the size of the ILEC. For rate-of-return regulated companies, the FCC determined that those companies charge their individual switched access rates or the NECA pool rates if the companies are members of the NECA pool. Therefore, even in the interstate jurisdiction, there is no support for Verizon's rate comparison rationale it has used in this proceeding.

Q. Based on the foregoing, is Verizon correct in asserting that the intrastate switched access rates of Windstream West and Windstream East are not just and reasonable because they are higher than those charged by AT&T Kentucky?

A. No. In fact, using Verizon's rationale, the Commission should conclude that the Windstream rates are undoubtedly just and reasonable for the reason that they are <u>lower</u> than all other RLECs in the Commonwealth and were already the subject of extensive prior rate reductions. Contrary to Verizon's baseless allegations, LECs maintain different intrastate and interstate switched access rates. In truth, the FCC has never required any ILEC to mirror the switched access rates of another ILEC and, to my knowledge, neither the FCC nor this Commission has ever deemed any carrier's switched access rates unjust or unreasonable simply because they differ from another carrier's rates.

B. **<u>VERIZON CANNOT SEEM TO DECIDE WHETHER WINDSTREAM'S RATES SHOULD BE COST-BASED OR MERELY SET AT ANOTHER CARRIER'S RATES WITHOUT REGARD TO COST.</u>**

Q. Has Verizon suggested in this proceeding that the intrastate switched access rates of Windstream West and Windstream East should be cost-based?

A. It appears so. Verizon's petition establishes merely that the Commission need only compare the intrastate switched access rates of the Windstream companies to the switched access rates of AT&T Kentucky to find the Windstream rates unjust and unreasonable. At the same time, however Verizon also later seems to suggest that the intrastate switched access rates of Windstream West and Windstream East should be cost-based in order to be shown to be just and reasonable. Verizon fails to reconcile the fundamental inconsistency of its position – *i.e.*, the Windstream rates cannot be established according to the costs of the Windstream companies if they are merely established by mirroring the rates of a wholly separate company (AT&T Kentucky). Additionally, Verizon overlooks that none of the rates for Windstream East were ever established according to its costs for the reason that when Windstream East acquired the Kentucky assets from Verizon's ILEC affiliate in 2002, the Commission ordered Windstream East to adopt the existing tariffed rates of its Verizon ILEC predecessor.

Q. What do you believe is the implication of Verizon's discovery questions asking whether Windstream East and Windstream West intend to introduce a cost study supporting their switched access rates?

A. The implication of Verizon's discovery question seems to be that Verizon believes that, despite the law deeming the rates to be just and reasonable, Windstream East and Windstream West have the burden to prove that their rates are just and reasonable and should do so through submission of a cost study. Verizon is mistaken. Verizon is the complaining party in this proceeding and bears the burden of proof – not Windstream. Further, the intrastate switched access rates of Windstream East and Windstream West are not only deemed just and reasonable as a matter of law but further were initially tariffed and approved by the Commission and remain capped at those previously approved levels. Additionally, when Verizon's ILEC affiliate sold its Kentucky assets to Windstream East in 2002, those rates were ordered to be adopted by Windstream East without regard to Windstream East's particular costs as I discussed above.

Q. Are the rates of alternatively regulated companies like Windstream East and Windstream West required to be cost-based?

A. No. Alternative regulation breaks the linkage between costs and rates. As alternatively regulated companies, Windstream East and Windstream West are not required to maintain switched access rates that are cost-based.

Q. Please explain a bit further the significance of electing alternative regulation on Verizon's indication that Windstream East and Windstream West should submit a cost-study to support the reasonableness of their intrastate switched access rates.

A. When a carrier elects alternative regulation, it chooses to have its rates governed by price caps, which, after the election, do not necessarily track costs. The whole point of such regulation is to offer an alternative to traditional ratemaking jurisdiction and to create incentives for carriers to operate efficiently in a competitive marketplace. At the same time, the carrier bears the risk of costs increasing, particularly on a per-minute basis. This was part of the regulatory bargain created by the Legislature and precisely why the statutes deem the rates of Windstream East and Windstream West to be just and reasonable without reference to costs. It is worth mentioning again, that with particular respect to Windstream East, the break between costs and rates was actually accomplished at least in 2002 prior to the time that it elected alternative regulation in 2006 at the time that the Commission required Windstream East to adopt the tariffed rates of its Verizon ILEC predecessor. Those rates had no relationship to the actual costs of Windstream East and may not have reflected the costs of its much larger predecessor.

Q. Are AT&T Kentucky's intrastate switched access rates cost-based?

A. No they are not. In fact, AT&T Kentucky acknowledged that fact in its Data Request Response to Windstream's First Set of Data Request No. 2.

Q. Based on the foregoing, what are the conclusions reached as a result of Verizon's incomplete rate comparison and its suggestion that the Windstream rates must be cost-based?

A. Verizon's flawed analysis seems to be that (i) not only are the Windstream intrastate switched access rates unjust and unreasonable for the reason merely that they do not mirror the switched access rates of AT&T Kentucky but further that (ii) the only way to support that the previously approved Windstream rates are just and reasonable is to show that they are cost-based despite the Commission establishing in 2002 that the rates of Windstream East could not be cost-based and further despite that AT&T Kentucky's rates themselves are not even established pursuant to AT&T Kentucky's own costs. Verizon's analysis on these points is irrational. Indeed, the only logical conclusions to be reached are that the Windstream rates are just and reasonable, that IXCs including Verizon are successfully competing at those existing rates, and that this proceeding is not about just and reasonable rates at all but rather about targeted expense reductions for Verizon without corresponding access reform considerations.

C. VERIZON'S FACTUAL CLAIMS ABOUT THE NTSSR ARE INCORRECT AND ITS RELATED POLICY ARGUMENTS ARE UNPERSUASIVE.

Q. Does Verizon complain in particular about certain Windstream intrastate switched access rate elements?

A. Yes. Verizon's petition in particular calls out Windstream's assessment of the NTSRR.

Q. What is the NTSRR and what it is meant to recover?

A. The Non-Traffic Sensitive Revenue Requirement ("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. In an order released May 6, 1991 in Administrative Case No. 323 (page 28), the Commission stated that the NTSRR "is the sum of interLATA and intraLATA carrier common line revenues, ULAS [Universal Local Access Service] revenues, and the revenue impact of changing interLATA access service rates and intraLATA toll services rates to mirror current interstate access service rates." In other words, assessment of the NTSRR charge is intended in part to recover for functions associated with the loop which itself is used to provide intrastate switched access service to IXCs like Verizon.

Q. Does the assessment of the NTSRR by Windstream East and Windstream West differ from AT&T Kentucky?

A. Yes, but as I mentioned previously there has never been a requirement that the switched access rates of ILECs be identical, and the NTSRR, in fact, was developed based on revenue streams received by the individual ILECs. Therefore, the resulting NTSRR assessments reflected those individual ILEC revenue streams. If Verizon, nevertheless, wants to compare companies' assessment of the NTSRR, then it is notable that the majority of the RLECs in Kentucky assess the NTSRR. Therefore, it is more accurate that, with respect to assessment of the NTSRR, Windstream West and Windstream East are more comparable to the majority of the ILECs in the Commonwealth and that AT&T Kentucky is the outlier. With respect to the Windstream ILECs and AT&T Kentucky, the primary difference in these companies' intrastate switched access rates is the application of the NTSRR rate. Windstream West and Windstream East have lawful rates in their tariffs for the NTSRR, and AT&T Kentucky no longer assesses this charge.

Q. Is the NTSRR element recovering for network functions performed by Windstream East and Windstream West?

A. Yes. Contrary to Verizon's incorrect assertion that the NTSRR is "an anachronistic charge, which was imposed over 15 years ago as a mechanism to help transition to 'equal access' and a competitive intraLATA toll market", the NTSRR is a rate element designed to recover loop functions, which loops again are used to provide switched access service. In fact, in its separate access petition, AT&T Kentucky also recognized that the NTSRR recovers non-traffic sensitive costs, *i.e.* loop functions, and is not intended solely to recover for functions associated with implementing equal access.

Q. Therefore, is Verizon correct that the NTSRR is an out-dated charge meant only to recover equal access conversion costs?

A. No. As I discuss above, the NTSRR recovers for a much broader set of functions, including functions associated with the loops which are used to provide intrastate switched access service to IXCs like Verizon.

Q. Do the interstate access tariffs of Windstream East and Windstream West contain a charge similar to the NTSRR?

A. No, currently they do not. Previously, Windstream East and Windstream West assessed a carrier common line ("CCL") charge out of their interstate access tariffs. However, the FCC, as part of its interstate switched access reform efforts, phased out implicit subsidies associated with the CCL charge and replaced them with explicit funding. Later in my testimony I will explain in more detail the access reform efforts implemented by the FCC, but it is important to note here that the FCC allowed ILECs to recover the revenues previously derived from the CCL charge from reasonable end user price increases and the implementation of new universal service mechanisms. More importantly, contrary to what Verizon would have this Commission believe, the FCC never found that the CCL charges were unjust or unreasonable. Instead, the FCC simply concluded that the rate element contained implicit subsidies that should be recovered through other explicit revenue recovery mechanisms.

Q. What conclusions can be drawn with respect to Verizon's allegations regarding the NTSRR?

A. Verizon's suggestion that Windstream East and Windstream West should simply eliminate their assessment of the NTSRR is without merit. Verizon misrepresents the purpose and origin of the NTSRR. Additionally, Verizon continues its inadequate rate comparison and overlooks the fact that assessment of the NTSRR is actually more in line with all other RLECs in the Commonwealth and that AT&T Kentucky is an exception. Finally, Verizon's misrepresentation that the NTSRR should be simply ceased for the same reason that the FCC eliminated the CCL charges ignores the extensive work the FCC did to not simply eliminate the charge but rather to replace implicit subsidies with explicit revenue replacement mechanisms. Once again, Verizon merely suggests the simplest path to achieve its targeted expense reductions – reduce rates without any meaningful consideration of actual reform mechanisms. The issue is not that the NTSRR should be eliminated as Verizon suggests but more accurately that the rate may contain implicit subsidies that, if removed and made explicit, must be done in a meaningful and rational manner.

D. WINDSTREAM EAST AND WINDSTREAM WEST'S INTRASTATE SWITCHED ACCESS RATES HAVE BEEN HELD BY COMMISSION TO BE JUST AND REASONABLE AND SINCE DEEMED BY STATUTE TO BE JUST AND REASONABLE.

Q. How were the intrastate switched access rates of Windstream East and Windstream West established?

A. Verizon's attempts in this proceeding to paint Windstream's switched access rates as unjust and unreasonable are based on inaccurate factual allegations and are unpersuasive, self-serving, and disingenuous. Verizon's allegations not only overshadow the fact that Verizon and other IXCs are successfully operating at those rates, but the allegations further overlook the genesis of how the Commission itself established the rates in question. For example, as I mentioned previously, when Windstream East acquired certain Kentucky assets from its Verizon ILEC predecessor, the Commission ordered Windstream East to adopt the tariffed rates of the Verizon ILEC, including the intrastate switched access rates in effect at the time of the purchase. There were no adjustments in those rates to reflect Windstream East's costs, and those rates already reflected millions of dollars in intrastate switched access rate reductions. As for Windstream West, its rates were established pursuant to Commission rules like other RLECs in the Commonwealth. Windstream East and Windstream West's intrastate switched access rates are included in lawful tariffs previously reviewed and approved by the Commission, were not the subject of rate complaints by IXCs before the companies elected alternative regulation in 2006, and are capped according to Kentucky statutes.

Q. Did Windstream East's Verizon ILEC predecessor reduce its intrastate switched access rates prior to the 2002 acquisition?

A. Yes, as I stated above, the rates were previously significantly reduced by tens of millions of dollars by Windstream East's Verizon ILEC predecessor between 2000 and 2001. Windstream's records show that the reductions to switched access may have been approximately $34 million, including in particular elimination of the RIC in 2000 (approximately $5.6 million) and decreases in the NTSRR in 2001 (approximately $10 million).

Q. Were the intrastate switched access rates of Windstream East considered just and reasonable at the time of Windstream East's acquisition of the Verizon ILEC properties in 2002?

A. Yes, according to the Commission which found the rates of the Verizon ILEC predecessor to be so just and reasonable that it ordered Windstream East to adopt the rates.

E. VERIZON'S ARGUMENTS CONCERNING LONG DISTANCE COMPETITION, PARTICULARLY THOSE RELATING TO WINDSTREAM'S LONG DISTANCE AFFILIATE, ARE NONSENSICAL.

Q. Does Verizon's petition include assertions regarding Windstream Communications, Inc.?

A. Yes, and like the other allegations noted previously, Verizon's allegations on this point are also without merit and do not support its contention that Windstream East and Windstream West's switched access rates are unjust and unreasonable. For instance, around page 7 of its petition, Verizon implies that it is troubled from a "competitive standpoint" that Windstream Communications, Inc. ("WCI") has benefited in ways that other IXCs like Verizon have not. Verizon's allegations are unfounded.

Q. Is the long distance market in which Verizon and WCI compete highly competitive?

A. Yes. Despite Verizon's allegations that Windstream East and Windsteam West should be required to reduce their intrastate switched access rates to long distance carriers, all parties to this proceeding appear to agree that the IXCs are successfully competing in the long distance market at existing rates. It is indisputable that the long distance market has a multitude of national facilities-based providers like AT&T, Verizon, Sprint and Qwest, among others. The market also encompasses a significant number of resellers that cater primarily to regional areas of the nation. In addition, wireless national plans also have been a formidable competitor to the traditional long distance carriers. In fact, long distance providers like Verizon and Sprint continue to develop new calling plans with expanded foot prints, expanded minutes and, in some cases, "all you can eat" plans for a fixed monthly price which are designed primarily to compete with the national plans offered by wireless providers. With the elimination of incremental long distance charges on wireless usage more than ten years ago and these dramatic decreases in per-minute wireless rates, wireline long distance (and switched access) minutes have declined dramatically.

Q. Does WCI compete with Verizon and other long distance carriers in the Commonwealth?

A. Yes.

Q. Does WCI provide some of the calling plans and extended foot prints discussed above?

A. Yes as noted in Windstream's responses to Verizon's first set of data requests (questions 1-4).

Q. Given its affiliate relationship with Windstream West and Windstream East, does WCI receive any price benefit over other IXCs like Verizon or Sprint?

A. No, WCI pays the same tariffed switched access rates that other IXCs are charged.

Q. Is Verizon correct on Page 6 of its petition that "Windstream has the unfair advantage of recovering a substantial amount of its costs from competing interexchange carriers rather than its own long distance customers"?

A. Absolutely not. The intrastate switched access charges of Windstream East and Windstream West at issue in Verizon's petition recover for functions associated with the deployment and maintenance of the Windstream East and Windstream West local networks in the Commonwealth. None of the costs recovered through switched access charges are related to WCI's long distance network and, therefore, are not recovered from WCI's long distance customers.

Q. Is Verizon correct when it asserts that WCI has benefited from AT&T Kentucky's access rate reductions and that allowing Windstream West and Windstream East to charge their established switched access rates raises competitive concerns?

A. No, and Verizon's assertions are nonsensical. To begin, WCI pays the appropriate tariffed switched access charges when it terminates traffic to Windstream West or Windstream East just as it does when it terminates traffic to AT&T Kentucky or any other ILEC. Further, WCI is not a facilities-based long distance provider and therefore resells long distance service provided by national facilities-based long distance carriers like Sprint. WCI is assessed by the underlying long distance carriers for all switched access charges assessed by the ILECs, including Windstream West or Windstream East. Thus, WCI pays the same access charges as any other long distance provider, and Verizon's suggestion otherwise is in error.

Q. Verizon also takes issue with certain WCI long distance offers that are available only to Windstream West and Windstream East customers. Are these types of offers unusual?

A. No. These types of offerings are quite common and important to remaining competitive with the offers and promotions delivered by wireless and cable companies. For example, Insight Communications, a key competitor of Windstream in the Commonwealth, offers bundled telephony and video services to all of its customers. Similarly, Verizon's ILEC affiliates also provide these type of bundled offers with their Verizon IXC affiliate to remain relevant in the market place as does AT&T Kentucky in conjunction with its wireless and long distance affiliates. It is illogical for Verizon to suggest that these types of competitive bundled offerings among affiliates provide any justification for Verizon's erroneous assertion that the intrastate switched access rates of Windstream West and Windstream East are unreasonable. These affiliate offerings do not support the allegations in Verizon's petition with respect to the Windstream switched access rates and, in fact, are arguably wholly irrelevant to such claims.

F. CONCLUSIONS ABOUT THE LEGAL INVALIDITY OF VERIZON'S PETITION.

Q. Based on the foregoing discussions, what conclusions can you draw about the validity of Verizon's allegations that the Windstream rates are unreasonably high?

A. Based on the inconsistencies and erroneous allegations I have discussed above, Verizon's petition is wholly without merit. The crux of Verizon's petition focuses on its claim that the Windstream switched access rates must be unjust and unreasonable because they do not mirror those of AT&T Kentucky. There is no precedent supporting that carriers must maintain identical rates, and history demonstrates quite the opposite. Further, Verizon's rate comparison is incomplete and ignores critical facts such as that the Windstream rates are lower than all other RLECs in Kentucky and that the rates of Windstream East were previously subjected to substantial decreases similar to that of the AT&T Kentucky rates which Verizon uses as the benchmark. Further, Windstream West and Windstream East need not produce a cost study to prove that their tariffed rates, previously approved by the Commission, are just and reasonable (and in fact deemed just and reasonable under Kentucky law). In fact, the Commission itself broke the link between rates and costs for Windstream East in 2002 (four years prior to it electing alternative regulation) when it ordered Windstream East to adopt the rates of its Verizon ILEC predecessor, which rates bore no relation to Windstream East's actual costs. Moreover, the particular switched access rate difference between AT&T Kentucky and the Windstream companies ("NTSRR") about which Verizon complains is not an out-dated charge as suggested by Verizon and continues to be assessed by the majority of RLECs in the Commonwealth for loop functions. The Commission's establishment and approval of the switched access rates for Windstream West and Windstream East further attest to their legitimacy and reasonableness. Finally, Verizon's attempts to support its allegations with vague claims regarding its "competitive troubles" regarding packages bundled with WCI also provide no support for its petition. All things considered, Verizon fails to satisfy its burden in this matter, and its petition legally is without merit.

IV. VERIZON'S PETITION IS NOT IN THE PUBLIC INTEREST

Q. Should Verizon's petition also fail as a matter of public policy?

A. Yes. Even if one disregards the legal flaws discussed in the previous section of my testimony, Verizon's petition amounts to nothing more than targeted expense reductions and sets forth bad policy for the Commonwealth. For example, although its petition boasts that the requested rate reductions will somehow benefit end user customers, Verizon's petition and its discovery responses do not provide any firm commitment or factual explanation of how expense reductions will be flowed through by Verizon to end users. Further, despite its unsubstantiated rhetoric like that at page 14 of its petition where it suggests that Verizon is proposing to "rationalize rate structures," there is nothing rationale or prudent about Verizon's requested relief. To the contrary, Verizon proposes merely that "Windstream [may] undertake any rate rebalancing it may deem appropriate after access rates are reduced" and may do so by exercising retail pricing flexibility for nonbasic rates and toll rates. These rates, to be clear, are now deemed so competitive in Kentucky that they are completely deregulated which also means that the markets likely would not sustain the associated levels of rate rebalancing. There is nothing rational about Verizon's proposed "relief" which is nothing more than targeted expense reductions thinly disguised as "access reform."

A. <u>VERIZON PROPOSAL, UNLIKE THE FCC'S PRIOR CALLS AND MAG INTERSTATE SWITCHED ACCESS REFORM EFFORTS, IS UNREASONABLY MYOPIC.</u>

Q. Is it appropriate or even prudent for Verizon to request such extensive rate reductions in this proceeding without discussing or understanding the FCC's switched access rate reform efforts?

A. Not at all. Windstream East and Windstream West have expressed repeatedly that, in addition to acknowledging the Kentucky statutes for alternatively regulated carriers, any proceeding regarding switched access rates also should explore meaningful, comprehensive access reform such as that conducted by the FCC. Curiously, although Verizon has opposed such efforts to explore meaningful access reform, at the same time, Verizon's petition appears to suggest that its requested relief is warranted in some respects because the Commission has not previously conducted widespread reform of such intrastate switched access rates. To be clear, the type of "relief" Verizon advocates in this proceeding in no way resembles the type of meaningful reform undertaken by the FCC.

Q. Do you agree with assertions in Verizon's petition that interstate switched access rates have fallen dramatically since the 1990s?

A. Yes.

Q. Why have interstate switched access rates declined over this time period?

A. With the passage of the Telecommunications Act of 1996, the FCC became obligated to make implicit subsidies explicit. As a result, the FCC over a period of time removed implicit subsidies inherent in interstate switched access rates and made them explicit. These extensive efforts by the FCC resulted in lower interstate switched access rates and increased end user rates (through increases in the federal subscriber line charge or "SLCs"). Additionally, such efforts resulted in increased federal universal service support to carriers reducing their interstate switched access rates. The difference between interstate and intrastate switched access rates is the result of careful and rational access reforms efforts undertaken by the FCC. However, those efforts did not involve, as

Verizon has suggested in this proceeding, that switched access rates be reduced with carriers left to make up any revenue recovery through increases to nonbasic rates, which are deemed so competitive in the Commonwealth that the Legislature determined that they should be completely deregulated for all carriers in Kentucky. Put another way, these nonbasic rates are so competitive that it is unlikely that any carrier, including Windstream East or Windstream West, would be able to increase them to levels sufficient to make up for any displaced intrastate switched access rate revenues.

Q. Specifically, what reform efforts did the FCC undertake in order to avoid the very scenario Verizon proposes in this proceeding?

A. The FCC conducted separate interstate access reform proceedings for price-cap carriers ("CALLS") and rate-of-return carriers ("MAG"). I will first discuss the CALLS proceeding in which the FCC established three target rates for interstate switched traffic sensitive access services. The Regional Bell Operating Companies ("RBOCs") like AT&T Kentucky and the former GTE companies had a target rate of $0.0055 per minute of use. The most rural price-cap companies had a target rate of $0.0095, and the remaining price-cap companies had a target rate of $.0065. The FCC also provided for increases in the residential and single line business SLC rate from $3.50 per line per month to a new cap of $6.50 and increases in multi-line business SLCs from $6.00 to $9.20. The SLC increases took place over a three-year period to minimize impacts to end user customers. The FCC also provided for reductions in the CCL charge (equivalent to the NTSRR in Kentucky) and established a new universal service support mechanism to replace the implicit subsidies in the CCL charge not recovered through the allowed SLC increases. This new mechanism is called Interstate Access Support, or IAS. Based on the foregoing, it is readily apparent that the FCC's brand of access reform was comprehensive and took into account the impact to carriers from removing implicit subsidies. The FCC did not, however, simply order rate reductions and leave it to carriers to try to recover the displaced revenues from the most highly competitive of all their service offerings which is exactly what Verizon has proposed to do to Windstream East and Windstream West in this proceeding.[2]

Q. As part of CALLS, did the FCC require price-cap carriers to immediately reduce their traffic sensitive rates to the established target rates as Verizon has suggested that Windstream East and Windstream West do in this proceeding?

A. No. Price-cap carriers continued to use the FCC's price-cap formulas to reduce their traffic sensitive rates. Depending on their starting interstate switched access rates, some companies may take close to five years to reach their target rates.

Q. As part of CALLS, did the FCC require price-cap carriers to immediately eliminate their non-traffic sensitive rates?

A. No. These rates also were reduced in accordance with the price cap formulas established in the CALLS plan, and some carriers took several years to eliminate these charges.

Q. As part of CALLS, did the FCC look at the costs of price-cap carriers such as AT&T Kentucky before moving forward with access reform?

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[2] As an aside, I should explain that Verizon's proposal is based on its recognition that the Kentucky statutes cap the basic and access rates of alternatively regulated carriers like Windstream East and Windstream West. While recognizing such rate caps, Verizon nevertheless ignores the corresponding rate-making exemptions granted to alternatively regulated carriers. The illogical result, therefore, is that Verizon asserts that intrastate switched access rates should be reduced, and the Windstream companies may simply try to recover the displaced revenues through increases to nonbasic rates which are the only remaining rates not capped by the Legislature. Verizon ignores the fact that the nonbasic rates were not capped because the Legislature recognized that they were subject to natural caps occurring as a result of the market being highly competitive.

A. No. The FCC had previously approved the tariffed switched access rates, and such rates were deemed just and reasonable and lawful by the FCC very similar to the case with intrastate switched access rates in Kentucky. The FCC, as well as price cap carriers, recognized that interstate switched access rates contained implicit subsidies that needed to be made explicit. As a result, the FCC allowed price cap carriers to increase their SLCs and provided additional explicit support (IAS) to recover the implicit subsidies previously recovered through interstate switched access rates.

Q. Did GTE in Kentucky (Windstream East's ultimate predecessor operating in Kentucky at the time CALLS was implemented) and AT&T Kentucky's predecessor receive any support from the FCC's IAS mechanism?

A. Yes. According to USAC filings from the first quarter of 2001 with the FCC, GTE received approximately $9.2 million annually from the fund, approximately $16.57 annual per line support at that time. Further, AT&T Kentucky's predecessor received approximately $8.8 million annually, approximately $7.05 annual per line support at that time. In other words, the interstate CALLS switched access rates of AT&T Kentucky that Verizon now suggests should be mirrored by Windstream West and Windstream East without any true access reform considerations were actually the result of meaningful reform including millions of dollars of revenue replacement mechanisms. Nevertheless, Verizon would have this Commission believe that implicit subsidies in intrastate switched access rates should be removed without any similar considerations.

Q. Do Windstream East as GTE's ultimate successor and AT&T Kentucky similarly continue receiving support from the IAS fund in return for the implicit subsidies previously removed from their predecessors' interstate switched access rates?

A. Yes. Based on USAC's third quarter 2010 reports, Windstream East will receive approximately $5.7 million annually ($14.82 per line), and AT&T Kentucky will receive approximately $5.6 million annually ($8.86 per line) in recognition of the prior interstate switched access rate reductions made by their Kentucky predecessors. Yet, Verizon would have this Commission ignore all such meaningful access reform considerations and simply reduce the Windstream rates to the rates of a separate company merely to achieve its targeted expense reductions.

Q. Why has the level of federal support for Kentucky carriers which reduced their interstate switched access rates been declining since the inception of the CALLS plan?

A. The declining level of federal support is attributed to the increase in competition in the Commonwealth. According to the 2001 USAC reports, when the CALLS plan was established, Windstream East's predecessor served over half of a million access lines (approximately 555,000) and AT&T Kentucky's predecessor served approximately 1.26 million access lines. In 2010, however, Windstream East now serves 393,502 access lines, and AT&T Kentucky serves approximately 638,000 access lines. In addition, competitive eligible telecommunications carriers have been receiving support from the IAS fund, which, dramatically reduced per-line IAS receipts on an increasing basis until the FCC relatively-recently "froze" CETC receipts, but still left in place past significant reductions in the pool of IAS funds available to ILECs. To summarize, then, the FCC provided for comprehensive revenue replacement mechanisms for CALLS companies in return for the required interstate switched access rate reductions, and the levels of the declining replacement revenues evidences the increased levels of competition in the Commonwealth.

Q. What were the FCC's efforts undertaken in the MAG proceeding?

A. The FCC's MAG proceeding affected carriers operating under rate-of-return regulation in the interstate jurisdiction like Windstream West. In the MAG proceeding the FCC concluded that carrier common line charges were an implicit subsidy which should be eliminated and replaced with explicit funding mechanisms. To allow rate-of-return carriers to recover the displaced revenues, the FCC increased the SLC caps to the levels established in the CALLS plan and also established a new federal universal service support mechanism (Interstate Common Line Support, or ICLS) to provide recovery on a revenue neutral basis to rate-of-return carriers like Windstream West.

Q. In summary, what are the key components of the FCC's access reform efforts with respect to interstate switched access rates?

A. The main goal of the FCC was to remove implicit subsidies in interstate switched access rates and make them subject to explicit funding mechanisms. Specifically, the FCC reduced interstate switched access rates and allowed carriers a meaningful opportunity to recover the revenues displaced from the removal of the implicit subsidies through increases in the SLC rates and establishment of new federal universal service mechanisms. In addition, the FCC provided reasonable transitions to minimize impacts to end user customers and to allow carriers to adapt their business plans.

Q. Is Verizon's requested "relief" in this proceeding similar to the FCC's access reform efforts?

A. Verizon's proposal is a far cry from the comprehensive, rationale approach employed by the FCC to reform interstate switched access rates. In contrast to the FCC's efforts, Verizon has proposed an immediate reduction in the intrastate switched access rates of Windstream West and Windstream East to the level of AT&T Kentucky's switched access rates without any rational basis for using a wholly separate company's rates as a baseline. Further, Verizon proposes such immediate rate decreases without any meaningful opportunity for Windstream East or Windstream West to recover any of the displaced revenues resulting from Verizon's proposed switched access rate reductions. Indeed, Verizon proposes to launch such reductions without the slightest regard for the fact that Kentucky law deems the existing Windstream rates to be just and reasonable. At the same time, however, Verizon all too willingly recognizes that the Kentucky law does not allow for increases to certain rates capped under the statutes. Thus, Verizon merely suggests that all rate rebalancing may be done by increasing nonbasic rates which are so competitive the Legislature already determined that the market would control the rates and not likely result in significant rate increases. Simply put, Verizon proposes such drastic measures not only without proposing any meaningful reform but further without any allegation sufficient to suggest that the existing rates even merit such drastic decreases. Verizon's proposal is nothing more than an effort on its part to garner extensive expense reductions for its operations without regard to the corresponding impacts to Windstream East, Windstream West, the customers they serve or communities in which they operate.

B. <u>THE FCC'S NATIONAL BROADBAND PLAN CONTINUES THE AGENCY'S TRADITION OF CONSIDERING MEANINGFUL OPPORTUNITIES TO RECOVER REVENUE, UNLIKE VERIZON'S IRRATIONAL PROPOSAL TO THE COMMONWEALTH.</u>

Q. Are you familiar with the FCC's National Broadband Plan ("NBP")?

A. I am, and it encompasses the FCC's current efforts to further reform intercarrier compensation including intrastate switched access rates. Specifically, the FCC, at the request of Congress, developed a plan to deploy broadband service to the unserved areas of the country and to increase broadband subscription rates. The NBP is a comprehensive set of recommendations to be implemented by the FCC through various rulemakings. The FCC already has issued a schedule outlining the dates in which the various proceedings will begin and to date, the FCC has adhered to its published schedule.

Q. Is intercarrier compensation reform a key component of the NBP?

A. Yes, it is. The FCC recognized that the current intercarrier compensation mechanism was not established to promote broadband investment. The NBP also recognized that the current intercarrier compensation mechanism includes implicit subsidies and recognizes that the rate differentials create significant arbitrage opportunities. Furthermore, the FCC recognized that intercarrier compensation revenues perpetuated by the implicit subsidies are critical to some carriers.

Q. How is the FCC addressing intercarrier compensation reform?

A. The FCC proposes to reduce intrastate switched access rates to carriers' corresponding interstate rate levels over a reasonable transitional period. Furthermore, the NBP states that "the FCC also should provide carriers the opportunity for adequate cost recovery." (Recommendation 8.7). Similar to the FCC's prior access reform actions, the NBP seeks increases in the federal SLCs and additional universal service to offset the corresponding intrastate switched access rate reductions. The NBP supports the establishment of a local rate benchmark to ensure affordability and also to ensure that universal service is not supporting unreasonably low local rates.

Q. Does the NBP encourage states to address intercarrier compensation?

A. Yes, but in a very rational and limited way. The NBP simply states that "[t]he FCC should also encourage states to complete rate rebalancing of local rates to offset the impact of lost access revenues." It is apparent from even the most cursory review of the FCC's extensive prior interstate access reform efforts, its current comprehensive switched access reform proposals, and Verizon's petition in this proceeding that the type of so-called "reform" being pitched by Verizon in no way rises to the level of meaningful and comprehensive reform advocated by the FCC to be considered by the states.

Q. Can you provide examples of ways in which the proposed FCC reforms are inconsistent with Verizon's petition?

A. For starters, the FCC recommends reasonable transitions and adequate recovery of displaced intrastate switched access revenues. Furthermore, the FCC protects consumers from unreasonable rate increases by recommending a local rate benchmark that encourages carriers to recover a certain portion of their lost intercarrier revenues from their end users but sets a reasonable level beyond which a carrier is not expected to raise its retail rates. These are just a few ingredients missing from Verizon's requested "relief."

In fact, granting Verizon's petition would be completely at odds with the FCC's national goals, not to mention against the public welfare of the Commonwealth. The FCC was specific about the role it is asking the states to play, and nowhere does the FCC encourage state commissions to do what Verizon proposes in this proceeding. Similarly, nowhere does the FCC encourage state commissions to permit carriers to recover displaced revenues in the form of increases to nonbasic rates or to ignore service affordability. Clearly, Verizon's petition strays significantly from what the FCC has done in its prior reform proceedings and with what the FCC has encouraged states to do. Verizon's petition in no way sets forth any sort of meaningful reform. Granting Verizon's petition would produce exactly the kind of result that the FCC is seeking to prevent.

C. VERIZON'S PETITION WOULD HAVE DIRE CONSEQUENCES FOR THE COMMONWEALTH.

Q. If Verizon's petition were to be granted, what would Windstream expect the result to be?

A. As I mentioned at the onset of my testimony, Windstream East and Windstream West have already suffered significant harm resulting from Verizon wholly disregarding the Kentucky statutes and pursuing this petition seeking targeted expense reductions. However, those impacts would be minimal compared to the impacts that would result if even portions of Verizon's requested relief were actually granted. Ultimately, Verizon's petition requests that the Windstream rates mirror the rates of AT&T Kentucky. As a transitional alternative, Verizon proposes that the intrastate switched access rates of Windstream East and Windstream West mirror the companies' corresponding interstate switched access rates without any alternative regulation considerations or meaningful rate rebalancing and support mechanisms. The consequences of Verizon's proposal would be dire.

Q. Before describing such consequences, can you please describe the Windstream East and Windstream West properties?

A. Collectively, the Windstream companies serve approximately 400,000 lines throughout the Commonwealth. The majority of their customers are located in rural areas where the costs of providing service are arguably higher. Windstream's density is approximately 36 lines per square mile. As the carriers of last resort, Windstream East and Windstream West provide high quality voice services to any requesting customer within their franchised areas. Collectively, they serve a total of 97 exchanges in the Commonwealth of which 76% have less than 5,000 lines, 15% have between 5,000 and 10,000 lines and just 8% have more than 10,000 lines. In addition, Windstream East and Windstream West have deployed broadband to almost 80% of their customers.

Q. What is Windstream East and Windstream West's presence in the Commonwealth?

A. Windstream East and Windstream West together employ approximately 640 people in the Commonwealth. Further, Lexington serves as the headquarters for Windstream corporate eastern operations. Total compensation paid by the Windstream companies in the Commonwealth totaled approximately $____(Confidential Information) in 2009. Windstream East and Windstream West pay a total of $____(Confidential Information) in state and local taxes, and their capital expenditures in the Commonwealth are approximately $____(Confidential Information). All in all, they maintain an extensive presence in the Commonwealth, which is the only state in which they are licensed to and do in fact operate.

Q. What are Windstream East and Windstream West's total intrastate revenues, and what percentage are derived from intrastate switched access services?

A. In 2009, Windstream East and Windstream West generated approximately $____(Confidential Information) in intrastate revenues of which $____(Confidential

Information), or ____(Confidential Information), were derived from switched access charges.

Q. What do you estimate would be the revenue reduction if Windstream East and Windstream West were forced to reduce their intrastate switched access rates to their own interstate switched access rates which Verizon proposes as a mere "transitional alternative" to mirroring the rates of AT&T Kentucky?

A. The estimated result would be an annual reduction of approximately $____(Confidential Information) or ____(Confidential Information) of the Windstream companies' intrastate switched access revenues.

Q. What would be the corresponding result of rate reductions without Windstream East and Windstream West being afforded a meaningful opportunity to recover the displaced revenues?

A. Windstream East and Windstream West would have to reduce operating expenditures, capital expenditures, or a combination of both. A reduction of $____(Confidential Information) in combined revenues represents ____(Confidential Information) of total Windstream East and Windstream West capital expenditures and ____(Confidential Information) of their payroll in the Commonwealth.

Q. Would reductions in operating and capital expenditures affect the ability of Windstream East and Windstream West to adequately perform their carrier of last resort obligations?

A. Yes, that is likely. If Windstream East and Windstream West were relegated to reducing their operating and capital expenditures to make up for displaced intrastate switched access revenues, then network improvements and upgrades would have to be delayed or canceled affecting rural consumers in the Commonwealth. For example, on May 2, 2010, torrential rains flooded Windstream East's central office in Olive Hill (population 1,800). Approximately 5,200 lines were out of service. Windstream East employees in the Commonwealth worked around the clock to replace the central office and restore service to these customers within seven days; typically, it usually takes approximately six months to replace a 5,000 line switch. If Windstream East's switched access revenues were reduced without a meaningful opportunity for recovery as proposed by Verizon, however, then Windstream East likely would not have been able to respond in such a fashion due to the likely reductions in human and capital resources.

Q. Should Verizon be familiar with these types of considerations?

A. Yes, I would expect so. In late March 2010, Verizon's operations announced that it was terminating approximately 250 jobs in its Lexington, Kentucky call center due to cited decline in call volumes. (The related press article is attached hereto as Attachment A.) Windstream East and Windstream West empathize with these types of difficult operational decisions that are exacerbated by today's competitive marketplace. Those concerns, however, would be compounded exponentially if Verizon's petition were to be granted.

V. CONCLUSION

Q. Please summarize your testimony.

A. Verizon's Petition is not only procedurally inappropriate but also legally without merit. It proposes drastic rate decreases to intrastate switched access rates of Windstream East and Windstream West based on inconsistent and erroneous allegations that do not support that the existing rates are unjust or unreasonable. Further, the drastic rate reductions are proposed to be accomplished in an irrational manner that is contrary not only to the FCC's advocated reform efforts but also to the public interests of communities and customers in the Commonwealth. The Commission should recognize Verizon's petition for what it actually is – merely a request for targeted expense reductions without regard to the impacts to the rural customers or communities which Verizon's ILEC predecessor chose to vacate in 2002 – and deny the requested relief. The single and undeniable fact remains that Verizon and other IXCs are successfully competing in Kentucky's long distant market at the existing rates about which they now complain. This fact alone is fatal to Verizon's petition which is otherwise unfounded and ill-advised. Given the fatal flaws in Verizon's petition, if the Commission is going to take any action in this proceeding it should be to stay the entire matter pending the FCC's current actions to reform intercarrier compensation including intrastate switched access rates.

Q. Does this conclude your testimony at this time?

A. Yes.

CASE 2007-00503

AFFIDAVIT

STATE OF ARKANSAS :
: ss
COUNTY OF PULASKI :

Cesar Caballero, being duly sworn according to law, deposes and says that he is Vice President, Regulatory Strategy; that he is authorized to and does make this Affidavit for Windstream Kentucky East, Inc. and Windstream Kentucky West, Inc.; and that the facts set forth in the foregoing Testimony are true and correct to the best of his knowledge, information and belief.

Cesar Caballero

Cesar Caballero

Sworn to and subscribed before me this 14th day of July, 2010.

SANDRA JEAN GRIFFIS NOTARY My Comm. Expires SEPT. 1, 2011 PUBLIC SALINE COUNTY, ARK.

Sandra Jean Griffis

Notary Public

My Commission Expires: September 1, 2011

Date: July 15, 2010

Respectfully submitted,

Robert C. Moore

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And

Kimberly K. Bennett
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CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing has been served upon Douglas F. Brent and C. Kent Hatfield, Stoll, Keenon Ogden, PLLC, 2000 PNC Plaza, 500 West Jefferson Street, Louisville, Kentucky 40202, Dulaney L. O'Roark III, Vice President and General Counsel - Southern Region, Verizon, 5055 North Point Parkway, Alpharetta, Georgia 30022, John N. Hughes, 124 West Todd Street, Frankfort, Kentucky, 40601, Mary K. Keyer, General Counsel/AT & T Kentucky, 601 West Chestnut Street, Room 407, Louisville, Kentucky, 40203, Mr. Douglas C. Nelson, Sprint Nextel, 3065 Akers Mill Rd., SE, Mailstop GAATLD0704, Atlanta, GA 30339, by placing same in the U.S. Mail, postage pre-paid, ~~and by hand~~ delivery upon Tiffany Bowman, Public Service Commission, 211 Sower Boulevard, P.O. Box 615, Frankfort, Kentucky 40602-0615, this the 15th day of July, 2010.

Robert C. Moore

Robert C. Moore

VERIZON COMMUNICATIONS INC

(VZ:NYSE)

The McClatchy Company 01/13/2010 9:24 AM ET

Nearly 250 Verizon workers to lose jobs: LEXINGTON CALL CENTER WILL CLOSE MARCH 27 [The Lexington Herald-Leader, Ky.]

Jan. 13--Verizon told employees Monday at its call center on Harrodsburg Road that it intends to close the facility in March, putting nearly 250 people out of work.

The call center, which provides directory assistance, employs 225 hourly workers and 16 managers, said Verizon spokesman Harry Mitchell. It's become a victim of rapidly expanding technology, he said.

"Call volumes for directory assistance have decreased significantly due to alternatives that people have like free Internet sites through your PC or wireless devices or free 411 directory assistance options available out there," Mitchell said.

It might also be driven by the company's decision to sell a network switch near Fort Wayne, Ind., that transferred operator assistance calls to Lexington, said Joey McCar ty, president of the Communications Workers of America Local 3372, which represents hourly workers there.

"Whenever that deal goes through, they would have to spend the money to get a backbone through another switch," he said.

Mitchell acknowledged Ver izon is selling certain operations in several states but said the decline in call volumes is the predominant reason.

Workers will be offered two types of severance packages under their union contract, McCarty said, though he declined to go into detail about the types of compensation that will be given.

The facility's final day of operation will be March 27, Mitchell said. He added that employees would not be able to transfer to other facilities because there aren't any near Lexington and others are also suffering from low call volumes.

ATTACHMENT A

The call center began operations in Lexington about 1993, when the company was still GTE. The building, near Turfland Mall, dates from before that time. As recently as 2001, it employed about 600.

McCarty said the union has spoken with the state Cabinet for Economic Development and asked whether tax incentives could be used "to change Verizon's mind."

"That's going to be a big, big impact on not just our 230 people out there faced with losing their jobs and insurance but also for the state as a whole," he said. "These were $14-, $15-, $16-an-hour jobs that had good benefits with them.

"Those are hard to replace in today's economy."

Monday, Feb 8, 2

Posted on Wed, Jan. 13, 2010

Nearly 250 Verizon workers to lose jobs

LEXINGTON CALL CENTER WILL CLOSE MARCH 27

By Scott Sloan
ssloan@herald-leader.com

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Reach Scott Sloan at (859) 231-1447 or 1-800-950-6397, Ext. 1447.

WHAS11.com

Verizon call center closing, 250 jobs to be terminated

by Joann Dickson

Posted on January 13, 2010 at 5:03 PM

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(WHAS11) - 250 Lexington workers will soon be looking for new jobs after Verizon has decided to close a call center.

The company told the employees this week and says it will close March 28th.

The facility has 230 hourly workers represented by Communications Workers of America and about a dozen managers.

The workers will be offered severance packages.

Add another comment
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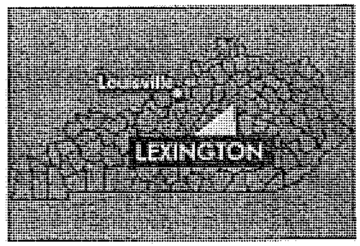
Verizon closing Lexington call center



Nearly 250 Lexington workers will be losing their jobs when Verizon closes its call center there in March.

The company told employees at the center about its plans on Monday. Communications Workers of America Local 3372 President Joey McCarty says the facility has 230 hourly workers represented by CWA and about a dozen managers.

McCarty says workers will be offered two types of severance packages under their contract. He says the facility's final day of operation will be March 28.

Updated: 11:28 AM Feb 5, 2010

Lexington call center closing, leaving hundreds without a job

Verizon will close its call center on Harrodsburg Road in March.

Posted: 6:31 PM Jan 12, 2010

Hundreds of people will be losing their jobs when a Lexington call center closes its doors.

Verizon plans to shut down its Harrodsburg Road facility in March.

230 people who work there will be laid off.

Union officials say they were told Verizon is closing the call center as part of reorganization within the company.

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