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August 14, 2003

MARY S. HOBSON  
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**VIA HAND DELIVERY**

Jean D. Jewell, Secretary  
Idaho Public Utilities Commission  
472 West Washington  
Boise, ID 83702-5983

**RE: Docket No. QWE-T-02-25**

Dear Ms. Jewell:

Enclosed for filing with this Commission are the following:

1. An original and seven (7) copies of **QWEST CORPORATION'S MOTION TO RE-OPEN THE RECORD**;
2. An original and nine (9) copies of the **AFFIDAVIT OF JAMES M. SCHMIT**. In addition, Qwest is providing an original and nine (9) copies of Exhibit 1 to the Affidavit (one of which is designated the "Reporter's Copy"). Qwest is also providing a disc of the testimony contained in Exhibit 1.

If you have any questions, please contact me. Thank you for your cooperation in this matter.

Very truly yours,

  
Mary S. Hobson

:blg  
Enclosures  
cc: Service List

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Attorneys for Qwest Corporation

**BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION**

**IN THE MATTER OF THE APPLICATION  
OF QWEST CORPORATION FOR PRICE  
DEREGULATION OF BASIC LOCAL  
EXCHANGE SERVICES**

**Case. No. QWE-T-02-25**

**QWEST CORPORATION'S MOTION TO  
RE-OPEN THE RECORD**

Qwest Corporation ("Qwest"), by and through its undersigned counsel, hereby moves the Commission to re-open the record to permit Qwest to file the supplemental testimony of James M. Schmit. A copy of Mr. Schmit's proposed supplemental testimony is attached as Exhibit 1 to the Affidavit of James M. Schmit submitted herewith. Although Mr. Schmit's testimony is sworn by virtue of the use of the Affidavit, Qwest recognizes that the Commission and parties have not had the opportunity to question Mr. Schmit on the matters contained in his proposed testimony. Therefore, Qwest will promptly respond to any questions concerning Mr. Schmit's testimony in writing and will

make no objection should the parties wish to file affidavits or written comments, in response to the supplemental testimony.

On April 21, 2003, Idaho President James Schmit filed rebuttal testimony in this case. That testimony was admitted to the record on June 4, 2003. *Tr. 515-531*. In addition to discussing customer input received during the course of the docket, Mr. Schmit's rebuttal testimony outlined several commitments Qwest was willing to make in order to mitigate certain concerns expressed by members of the public, Commission Staff and the Intervenors Meierotto. Those commitments included:

- A commitment to maintain Qwest's status as an Eligible Telecommunications Carrier in the seven exchanges that are the subject of Qwest's application in this case.
- A commitment to continue providing Idaho Telephone Service Assistance Program (ITSAP) support for low-income customers.
- A commitment to continue offering stand-alone (i.e., unpackaged) measured and flat-rated residence and business service.
- A price cap on basic local exchange residential and business recurring rates at current levels through the end of 2004.
- A one-third increase in the block of time included in the monthly price for residence measured service.
- A price cap on the per-minute usage rate associated measured service through the end of 2004.
- A commitment to the deployment of DSL service to at least 10 additional communities during the three years following approval of Qwest's application.

Having attended the hearings, heard the questions and statements of the Commissioners and parties and their representatives and having read the legal briefs and analysis, Qwest is aware that the other parties remain hesitant to support Qwest's request for price deregulation in the seven exchanges primarily out of a concern that competition will not adequately constrain Qwest's pricing. While Qwest remains convinced that the record developed in this case strongly supports a finding such

concern is unfounded and that price deregulation is appropriate under Idaho Code § 62-622(3)(b), Qwest is sensitive to the other parties' continuing concerns. Consequently, Qwest now proposes that the Commission approve Qwest's application in the form of a provisional Pilot Project, the terms of which are more fully set out in Mr. Schmit's proposed testimony. The Pilot Project constitutes a win-win proposition, in that it grants Qwest the pricing flexibility it seeks, while providing the Commission sufficient oversight authority to allay any potential concerns that Qwest may use its new flexibility irresponsibly.

The admission of Mr. Schmit's proposed supplemental testimony into the record will not cause prejudice to any other party in this proceeding. Qwest will agree with any reasonable procedure to allow the parties to understand this proposal and to voice their views. While this may delay ultimate resolution of this case, no party's interests, with the possible exception of those of Qwest, are adversely impacted by such delay. Meanwhile, the proposed Pilot Project holds the potential to provide all of the benefits of market-based pricing while minimizing any potential risks associated with price deregulation. Qwest respectfully submits such a proposal deserves consideration.

Submitted this 14<sup>th</sup> day of August, 2003.

**Qwest Corporation**



---

Mary S. Hobson  
Stoel Rives LLP

Adam L. Sherr  
Qwest  
Attorneys for Qwest Corporation

**CERTIFICATE OF SERVICE**

I hereby certify that on this 14<sup>th</sup> day of April, 2003, I served the foregoing **QWEST CORPORATION'S MOTION TO RE-OPEN THE RECORD** upon all parties of record in this matter as follows:

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Brandi L. Gearhart, PLS  
Legal Secretary to Mary S. Hobson  
Stoel Rives LLP



2. In my capacity as Qwest's Idaho President, I prepared the Supplemental Testimony that is attached hereto as Exhibit 1. To the best of my knowledge and belief, the facts and statements contained in that testimony are true and correct.

This concludes my affidavit.

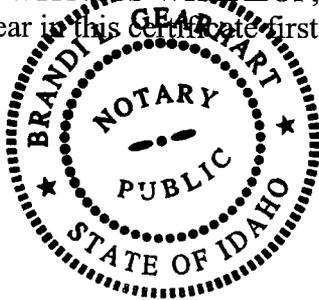
DATED This 14<sup>th</sup> day of August, 2003.

James M. Schmit  
James M. Schmit

State of Idaho            )  
                                  ) ss.  
County of Ada            )

On this 14<sup>th</sup> day of August, 2003, before me, the undersigned, a Notary Public in and for said State, personally appeared James M. Schmit, known or identified to me to be the person whose name is subscribed to the within and foregoing instrument, and acknowledged to me that he executed the same.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal the day and year in this certificate first above written.



Brandi L. Gearhart  
Notary Public for Idaho  
Residing at Middletown  
My commission expires: 9/4/07

**CERTIFICATE OF SERVICE**

I hereby certify that on this 14<sup>th</sup> day of April, 2003, I served the foregoing **AFFIDAVIT OF JAMES SCHMIT** upon all parties of record in this matter as follows:

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<b><i>Executed protective agreement</i></b>		

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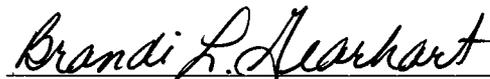
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Attorneys Representing Qwest Corporation

**BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION**

**IN THE MATTER OF THE APPLICATION )**  
**OF QWEST CORPORATION FOR PRICE )**  
**DEREGULATION OF BASIC LOCAL )**  
**EXCHANGE SERVICES )**  
**\_\_\_\_\_ )**

**CASE NO. QWE-T-02-25**

**SUPPLEMENTAL TESTIMONY OF**

**James M. Schmit**

**on behalf of**

**QWEST CORPORATION**

**August 14, 2003**

**EXHIBIT 1**  
**TO AFFIDAVIT OF JAMES M. SCHMIT**

1 Q. PLEASE STATE YOUR NAME, ADDRESS AND POSITION WITH  
2 QWEST.

3 A. My name is James M. (Jim) Schmit. My office is  
4 located at 999 Main Street, Boise, Idaho. I am the  
5 President of Qwest in Idaho.

6 Q. DID YOU PREVIOUSLY SUBMIT TESTIMONY IN THIS CASE?

7 A. Yes. I previously submitted rebuttal testimony,  
8 which was admitted into the record on June 4, 2003, during  
9 the hearing in this case.

10 Q. WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL  
11 TESTIMONY?

12 A. The purpose of my supplemental testimony is to  
13 offer additional conditions to which Qwest would  
14 voluntarily agree concerning how it would exercise the  
15 pricing flexibility requested in this case and to provide  
16 the Commission authority to "claw back" the flexibility  
17 granted if it determines the public interest has been  
18 harmed.

19 Q. DOES THE FACT QWEST IS OFFERING AN ALTERNATIVE AT  
20 THIS STAGE OF THE PROCEEDINGS MEAN THAT QWEST BELIEVES THE  
21 STATUTORY REQUIREMENTS FOR PRICE DEREGULATION OF BASIC  
22 LOCAL EXCHANGE SERVICE HAVE NOT BEEN MET?

1           A. No, not at all. Qwest believes the evidence in  
2 the record is substantial and unrefuted that wireless  
3 services are effectively competing with Qwest's traditional  
4 land-line telephone service. Wireless services are  
5 functionally equivalent to basic local exchange service in  
6 each of the seven exchanges. Wireless services are  
7 reasonably available from at least six providers  
8 unaffiliated with Qwest in each of the seven exchanges.  
9 Wireless services are competitively priced in each of the  
10 seven exchanges. Thus, Qwest strongly believes that the  
11 requirements of Idaho Code § 62-622(3)(b) have been met and  
12 price deregulation should be granted.

13           **Q. IF YOU BELIEVE THE STATUTORY REQUIREMENTS HAVE**  
14 **BEEN MET, WHY THEN ARE YOU PROPOSING ADDITIONAL CONDITIONS?**

15           A. While Qwest believes the record overwhelmingly  
16 supports its application, I also recognize that there is  
17 some element of uncertainty in the Commission granting  
18 Qwest's application. The depth of the concern about the  
19 unknown and about Qwest's possible behavior if the  
20 Commission grants Qwest's application became more evident  
21 to me as I observed the evidentiary hearings and reviewed  
22 the other parties' post-hearing briefs.

1 Qwest is asking this Commission to find that wireless  
2 services represent effective competition thereby price  
3 deregulating basic local exchange service. No other  
4 regulatory commission in the country (to my knowledge) has  
5 done that.<sup>1</sup> While I strongly believe the evidence in the  
6 record demonstrates that the present level of competition  
7 will effectively regulate Qwest's pricing and behavior,  
8 what I am proposing here is an option that significantly  
9 limits the potential risk of approving Qwest's application  
10 by providing for additional prices caps and Commission  
11 oversight that will virtually guarantee the availability of  
12 affordable basic local exchange service for the foreseeable  
13 future.

14 Q. PLEASE DESCRIBE THE ADDITIONAL CONDITIONS QWEST  
15 IS PROPOSING.

16 A. First let me put these new conditions in context.  
17 Through my rebuttal testimony, Qwest has already  
18 volunteered substantial commitments meant to address

---

<sup>1</sup>While recognition of wireless services as effective competition would be unique, retail price deregulation is not. In fact, Qwest's retail prices for basic local exchange service have been price deregulated in Nebraska since the mid-1980's. Most recently the South Dakota commission this week granted retail price deregulation throughout Qwest's service area in that state.

1 specific concerns raised in this case and in the prior  
2 *Burley* case. These include committing to continue to act  
3 as an Eligible Telecommunications Carrier, to offer basic  
4 measured and flat-rated residence and business service on a  
5 stand-alone basis, and to keep rates at their current level  
6 through year's end 2004. We believe those commitments  
7 provide substantial consumer protections and benefits.  
8 However, because of the precedent-setting and untested  
9 nature of this case, Qwest is willing to operate under a  
10 "Pilot Project" with the following additional conditions:

- 11 • First, price deregulation for basic local  
12 exchange service would be granted on a  
13 conditional, "Pilot Project" basis in the seven  
14 exchanges of Boise, Nampa, Caldwell, Meridian,  
15 Twin Falls, Idaho Falls, Pocatello.<sup>2</sup>

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<sup>2</sup> These seven exchanges represent a reasonable group for the Pilot Project for several reasons. First, they are the largest exchanges in Qwest's southern Idaho territory and therefore offer the most attractive markets for all competitors. In fact, all of the Zone 1 (i.e., lowest priced ) wire centers are included within these seven exchanges for purposes of the deaveraged UNE rates. In addition, the seven exchanges contain a sufficient number of lines to allow Qwest to operate efficiently in making the marketing, billing and product changes that may be introduced in response to competition. Further the size of this group of customers means that the Pilot Project will

1           • Second, the Pilot Project would cover an  
2           approximate 54-month timeframe, divided into two  
3           periods. During the first period (through the  
4           end of 2004), as I previously committed, prices  
5           for basic local exchange services will be capped  
6           at current rates. During the second period  
7           (three full years from January 2005 through  
8           December 2007), the competitive market will  
9           regulate prices. However, any concern that the  
10          market would not offer adequate constraint of  
11          basic local exchange service prices would be  
12          mitigated by a "universal service assurance cap"  
13          that will guarantee prices in the seven exchanges  
14          remain below a level already determined  
15          affordable for Idaho basic local exchange  
16          customers by the Commission, i.e., the rates  
17          established by the Commission for Idaho's  
18          regulated independent companies.<sup>3</sup>

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offer a meaningful "test" of the impacts of competition and pricing flexibility.

<sup>3</sup> In orders dating back as far as 1998, the Commission found that rates of \$24.10 for residence and \$42.00 for business basic local exchange customers were fair, reasonable and in the public interest. See, e.g., *In the*

1           • Third, the Commission may determine at any time  
2           during the 54-month timeframe that price  
3           deregulation in the Pilot Project exchanges  
4           should be made permanent. Similarly, Qwest may  
5           terminate the plan at any time during the term of  
6           the Pilot Project – at which point basic local  
7           exchange service will revert to price regulation  
8           under the then current Idaho statutes. If the  
9           Pilot Project is terminated by Qwest, Qwest  
10          agrees that rates will revert to the pre-Pilot

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*Matter of Direct Communications Rockland, Inc.'s Application for Authority to Increase Rates and Disbursements From the Idaho USF, Case No. ROR-T-97-1, Order No. 27450 (April, 1998).* The conditions that Qwest is agreeing to here would guarantee that from now until January 2008, the maximum rate Qwest customers would be paying would remain affordable and be no more than that other Idahoans have been paying since 1998. While Qwest has said this case is not about raising rates and that it has no plans to increase rates at this time, Qwest cannot guarantee that rates will never increase. Likewise, neither Qwest nor the Commission can make such a guarantee under rate of return regulation. In addition, Qwest asks that the Commission keep in mind that the seven exchanges primarily represent Zone 1 (lowest cost) for purposes of unbundled loop rates. The current unbundled loop rate of \$15.65 thus serves as an additional constraint on Qwest's pricing. This belt (competitive market) and suspenders (unbundled loop rate) approach already provides tremendous constraints on Qwest's pricing in the seven exchanges. In the unlikely event that both of these mechanisms fail, the universal service assurance cap will protect consumers.

1 Project rates unless other rates are found by the  
2 Commission to be just and reasonable.

3 • Fourth, basic local exchange services in the  
4 seven exchanges would be subject to "claw back"  
5 to price regulation under the following  
6 conditions:

7 During the term of the Pilot Project, upon  
8 complaint to the Commission and after notice  
9 to Qwest and hearing, if the Commission  
10 finds that the quality, general availability  
11 or terms and conditions for basic local  
12 exchange service in the seven exchanges are  
13 adverse to the public interest, the  
14 Commission shall have authority to negotiate  
15 or require changes in how such service is  
16 provided. In addition, if the Commission  
17 finds that such corrective action is  
18 inadequate, it shall have the authority to  
19 require that the Pilot Project be  
20 terminated. Exercising pricing flexibility  
21 within the range established by price caps

1                   is not, in itself, grounds for corrective  
2                   action or terminating the Pilot Project.

3           • Fifth, at the conclusion of the Pilot Project,  
4           assuming claw-back has not occurred, price  
5           deregulation in the seven exchanges would become  
6           permanent.

7           • Sixth, Qwest will not seek expansion of the Pilot  
8           Project beyond the seven exchanges during the  
9           initial twelve months of the Pilot Project.

10           **Q. PLEASE EXPLAIN HOW THE PILOT PROJECT ADDRESSES**  
11 **CONCERNS THAT WERE EXPRESSED DURING THE PRIOR PROCEEDINGS.**

12           A. Although the concerns tended to be expressed  
13 indirectly by, for example, focusing on "applications" of  
14 wirelines that may not be as readily adaptable as voice  
15 communications to a wireless alternative, I believe that  
16 ultimately the concern is that Qwest will abuse the pricing  
17 freedoms it is seeking here by increasing rates—  
18 particularly for customers who may not want to change  
19 (e.g., some elderly customers) or customers using access  
20 lines for purposes other than basic local exchange service.  
21 While Qwest has offered testimony that the competitive  
22 market will protect those customers and in fact that those

1 customers will benefit from the competitive market, the  
2 Pilot Project approach I am suggesting provides the  
3 Commission and all customers with the comfort of limiting  
4 the potential risk of price deregulation over the next 54  
5 months, while preserving all of the potential benefits of a  
6 competitive market. Given the pace of change in the  
7 industry, and the current trend in access line loss, that  
8 is a great deal more certainty than customers (including  
9 the elderly and those with fewer perceived choices) have  
10 today under price regulation.

11 **Q. DOES THIS MEAN THAT CUSTOMERS WILL PAY MORE FOR**  
12 **BASIC LOCAL EXCHANGE SERVICE UNDER THE PILOT PROJECT THAN**  
13 **THEY DO TODAY?**

14 A. Not necessarily. As I stated, the market will  
15 control prices subject to the upper limits described above.  
16 Customers will choose their provider on the basis of price,  
17 service, quality and features—just as they do today. Qwest  
18 will need to be competitive on all fronts in order to  
19 retain existing customers and attract new customers.

20 I have already testified that it is my opinion that  
21 wireless competition constrains Qwest from making large  
22 price increases and I have testified that Qwest has no

1 plans to increase prices. By offering the Pilot Project,  
2 those facts do not change. But, just like the Commission,  
3 I do not know exactly what the future will hold. The  
4 benefit of the Pilot Project approach is that the  
5 Commission and customers will know the upper limit of any  
6 potential price increase, but customers may still enjoy any  
7 stabilizing or downward pressure competition brings to  
8 prices for basic local exchange service.

9 **Q. PLEASE SUMMARIZE YOUR TESTIMONY.**

10 A. These conditions, together with all of the  
11 conditions previously offered, provide significant and  
12 substantial consumer benefits and protections that  
13 otherwise cannot be guaranteed in a continued rate-of-  
14 return regulatory structure. At the same time, the terms  
15 of the Pilot Project give Qwest the ability to more fully  
16 compete in the marketplace today. As compared to the  
17 *status quo*, Qwest believes the Pilot Project proposal is  
18 better for consumers, better for the State of Idaho, and  
19 better for the company, while at the same time minimizing  
20 any potential risk of an adverse result or unintended  
21 consequence of granting Qwest's application.

22 **Q. DO YOU HAVE ANY FINAL THOUGHTS?**

1           A.   Yes.   Qwest appreciates the long history of the  
2 Commission and the Company working together creatively and  
3 proactively   to   address   emerging   issues   in   the  
4 telecommunications industry. I believe Idaho has benefited  
5 and is better positioned for future economic growth because  
6 of it. What I have attempted to do here is continue that  
7 tradition.

8           **Q.   DOES THIS CONCLUDE YOUR TESTIMONY?**

9           A.   Yes.   Thank you.

10