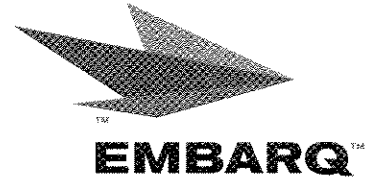


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Embarq Corporation
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November 9, 2006

Chairman Sara Kyle
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, Tennessee 37243

filed electronically in docket office on 11-9-06

Re: Pre-filed Direct Testimony of Laura Sykora - Docket No. 06-00207

Dear Chairman Kyle:

Enclosed for filing in the above-referenced docket is the original and four (4) copies of the pre-filed Direct Testimony of witness Laura Sykora. Please note that Embarq has already filed Ms. Sykora's testimony electronically and this letter is the required follow-up to that filing.

An extra copy of this letter is enclosed. Please stamp it "Filed" and return to me in the enclosed self-addressed stamped envelope. Should you have questions or concerns with this filing, please do not hesitate to contact me at your convenience.

Sincerely yours,

Edward Phillips

HEP:sm

Enclosures

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DIRECT TESTIMONY OF
LAURA SYKORA
ON BEHALF OF
UNITED TELEPHONE-SOUTHEAST, INC.
DOCKET NO. 06-00207

1 Q. Please state your name and business address.

2

3 A. My name is Laura Sykora and my business address is 14111 Capital Boulevard, Wake
4 Forest, NC, 27587.

5

6 Q. By whom are you employed and what is your position?

7

8 A. I am employed by Embarq Corporation as the Regulatory Affairs Manager for
9 Tennessee and Virginia and I am testifying in this proceeding on behalf of United
10 Telephone-Southeast, Inc. d/b/a Embarq (referred to as "UTSE", "the Company" or
11 "Embarq").

12

13 Q. Please briefly outline your education and experience in the telephone industry.

14

15 A. My educational background includes a Bachelor of Business Administration degree in
16 Accounting from East Tennessee State University. After completion of my degree, I
17 worked in public accounting and in private industry also with accounting responsibilities.
18 I joined United Telephone-Southeast, Inc. in 1984 in the accounting department. In
19 1986, I began working in the regulatory area with responsibilities for cost of service
20 studies and became manager of that work group in 1988. Management of tariff

1 development and docketed issues for Tennessee, Virginia and South Carolina were my
2 responsibilities beginning in 1990. In 1993, I focused my attention for these
3 responsibilities on Tennessee when I joined Sprint Mid-Atlantic, a regional operating
4 company with management responsibilities for UTSE. In 2000, I began as Regulatory
5 Affairs Manager for Tennessee and Virginia with responsibility for regulatory interface
6 for the Company with the Tennessee Regulatory Authority ("TRA") and the Virginia
7 State Corporation Commission.

8
9 Q. Do you have experience with the Tennessee Price Regulation Plan?

10
11 A. Yes, during 1996, I was part of the team from UTSE that worked with the TRA Staff
12 and other interested parties to develop the Price Cap Annual Filing Methodology dated
13 January 23, 1997 ("Methodology"). I have also supervised the completion of the Price
14 Regulation Models for the first few years and have reviewed as well as provided input for
15 the Annual Filings prior to submission for approval the last several years. In 2005, the
16 legislature passed a bill that modified Tenn. Code Ann. § 65-5-109. I provided
17 information to legislators concerning that bill.

18
19 Q. What is the purpose of your testimony?

20
21 A. My testimony will support Embarq's filings to reinitialize the base year prices in its
22 price regulation model and the Company's 2006 Annual Price Regulation Filing. I will

1 also explain why the reinitialization of the base year prices at this time is in the public
2 interest.

3

4 Q. When were these filings made?

5

6 A. The filings I am supporting were made on August 11, 2006 and revised September 13,
7 2006 for the reinitialization. The Annual Price Regulation Filing (“Annual Filing”) was
8 made on October 11, 2006. Also, the TRA Staff issued a data request on September 27,
9 to which Embarq replied on October 2, 2006.

10

11 Q. Why is it important to reinitialize the base year revenues now?

12

13 A. On December 1, 2005, the Company regrouped its exchanges and, on a revenue
14 neutral basis, expanded its local calling scopes and eliminated the residential touch tone
15 charge. The revenue neutral rebalancing shifted approximately \$5 million nonbasic
16 revenues to the basic service category. Without reinitialization, the price regulation
17 model would make it appear that the Company had merely increased access line rates in
18 the basic services category by \$5 million without any offsetting revenue reductions.

19

20 Q. What is a layman’s definition of reinitialization?

21

22 A. In the Methodology, the base year prices within the Service Price Index (“SPI”) are
23 June 1995 prices. The Methodology provides for reinitialization which resets the base

1 year prices to a more current year. However, by maintaining the relationship of the SPI
2 with the Price Regulation Index (“PRI”), the base year prices remain tied to 1995. The
3 reinitialization merely reduces the amount of mathematical calculations necessary for the
4 preparation each year of the Company’s Annual Filing and thereby streamlines the
5 review process for the TRA Staff.

6
7 Q. What is the purpose of reinitialization?

8
9 A. Reinitialization allows for the resetting of the indices to accommodate major changes
10 in pricing structures without skewing the relationship of the 1995 to the more current
11 period prices and inflation. A major change in pricing structure was anticipated when the
12 Methodology refers to the Universal Service Fund (“USF”). The rebalancing described
13 above is another major change in the pricing structure for the Company.

14
15 Q. How does the Methodology allow for reinitialization?

16
17 A. Section IV, H states, “The initial index prices are the service prices in effect on June 6,
18 1995 or as reset by the Tennessee Regulatory Authority under Tenn. Code Ann. § 65-5-
19 207 [current Tenn. Code Ann. § 65-5-107]. If the PRI and SPI are reset by the Authority,
20 the same proportional relationship will exist between these two indexes before and after
21 the resetting process.”

1 The Methodology outlines the process for reinitialization, and when developed in 1997,
2 the Methodology referenced reinitialization for USF. The Company has been operating
3 under price regulation since October 15, 1995 and has filed its eleventh Annual Filing in
4 accordance with the Methodology. Since entering price regulation, the
5 telecommunications industry has changed significantly affecting the way the Company
6 offers services to its customers and what the customers expect from their
7 telecommunications provider. An example of the types of change to which I refer would
8 be the offering of bundled services and the expansion of local calling areas.

9

10 Q. Is Embarq requesting that the TRA change the Methodology?

11

12 A. No. There is no proposed change in the Methodology that Embarq uses in calculating
13 the SPI and the PRI, nor is there a change in how the price cap levels would be
14 determined. In fact, the reinitialization in this docket is calculated in accordance with the
15 Methodology in that the proportional relationship between SPI and PRI before and after
16 reinitialization remains constant. Embarq is merely restating the base year revenues to
17 simplify calculations and more efficiently reflect the relationship of prices to inflation
18 from 1995 to 2006.

19

20 Q. The Staff's Data Request uses the term headroom. What is headroom?

21

1 A. Headroom is the amount of cumulative price increases that the company may make in
2 the basic or nonbasic service category. Headroom is calculated by multiplying the
3 difference in the SPI and PRI times the base year revenues.

4
5 Q. Does reinitialization on its own affect headroom?

6
7 A. No. As explained more fully in Embarq's response to the Staff's September 27, 2006
8 Data Request, the changes in the level of headroom between the 2005 Annual Filing and
9 the reinitialization filing are attributable to regrouping and the rebalancing associated
10 with expanded calling and touchtone elimination.

11
12 Q. Please explain why there are more revenues in the reinitialized model than in the 2005
13 Annual Filing in Embarq's response to the Staff's Data Request.

14
15 A. In accordance with Tenn. Code Ann. § 65-5-109 (f), the Company regrouped its
16 exchanges to equalize the rate levels for exchanges with similar calling scopes, which had
17 not been done since the early 1980s. While this statutory provision requires revenue
18 neutrality for touch tone elimination, access rebalancing and expansion of local calling
19 scopes, rate regrouping is not required to be revenue neutral. The regrouping calculations
20 were based upon the calling scopes in the Company's approved tariffs immediately prior
21 to the expansion of the local calling areas which was effective on December 1, 2005.

22
23 Q. Is there another way to handle this revenue shift between categories?

1

2 A. Besides reinitialization, the only way I could think to handle this significant
3 movement between categories would be to use line item adjustments in the model.
4 Because these line item adjustments would be purely “make-whole numbers” held
5 constant based upon a point in time using the 2005 access line, toll and intralata access
6 quantities, the relationship between service prices and inflation is not maintained going
7 forward. I see this as contrary to the intent of the Methodology and possibly even Tenn.
8 Code Ann. § 65-5-109.

9

10 Q. Please summarize your testimony.

11

12 A. By reinitializing the base year revenues within the Company’s Annual Filing process,
13 Embarq will maintain the price and inflation relationship intended in the Methodology
14 and in Tenn. Code Ann. § 65-5-109 as well as provide for more efficiency for the
15 Company and the TRA Staff. Therefore, the TRA should find Embarq’s filings to be in
16 the public interest and approve the reinitialization and the 2006 Annual Filing.

17

18 Q. Does this conclude your testimony?

19

20 A. Yes, it does.