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October 18, 2002

Mr. Dale Hardy Roberts
Missouri Public Service Commission
P.O. Box 360
Jefferson City, MO 65102

Re: TT-2003-0043

Dear Mr. Roberts:

Enclosed for filing on behalf of Spectra Communications Group, LLC d/b/a CenturyTel ("Spectra"), please find an original and eight (8) copies of Testimony of Arthur P. Martinez.

Would you please see that this filing is brought to the attention of the appropriate Commission personnel.

I thank you in advance for your cooperation in this matter.

Sincerely yours,

BRYDON, SWEARENGEN & ENGLAND P.C.

By:



Sondra B. Morgan

SBM/lar

Enclosure

cc: Office of the Public Counsel
Arthur Martinez
Parties of Record

FILED³
OCT 18 2002
Missouri Public
Service Commission

Exhibit No: _____
Issue: Access Tariff Deposit Requirements
Witness: Arthur P. Martinez
Type of Exhibit: Direct Testimony
Sponsoring Party: Spectra Communications
Group, LLC d/b/a CenturyTel
Case No.: TT-2003-0043
Date: 10/18/02

BEFORE THE MISSOURI PUBLIC SERVICE COMMISSION
CASE NO. TT-2003-0043

FILED³
OCT 18 2002
Missouri Public
Service Commission

DIRECT TESTIMONY

OF

ARTHUR P. MARTINEZ

ON BEHALF OF

SPECTRA COMMUNICATIONS GROUP, LLC D/B/A CENTURYTEL

OCTOBER 18, 2002

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

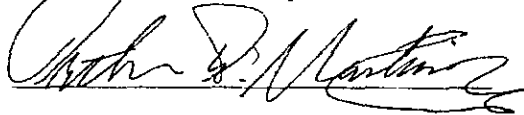
In the Matter of the Tariff of Spectra)
Communications Group, LLC, PSC MO.)
No. 2, Facilities for Intrastate Access.)

Case No. TT-2003-0043
Tariff No. 200300034

County of Cole)
) ss
State of Missouri)

AFFIDAVIT OF ARTHUR P. MARTINEZ

Arthur P. Martinez, being first duly sworn, deposes and says that he is the witness who sponsors the accompanying testimony entitled "Direct Testimony of Arthur P. Martinez"; that said testimony was prepared by him and/or under his direction and supervision; that if inquiries were made as to the facts in said testimony and schedules, he would respond as therein set forth; and that the aforesaid testimony and schedules are true and correct to the best of his knowledge, information, and belief.



Subscribed and sworn to before me this 18th day of October, 2002.


Notary Public

My Commission expires:

BECKY POWELL
NOTARY PUBLIC, STATE OF MISSOURI
COUNTY OF COLE
MY COMMISSION EXPIRES MAY 8, 2005



1 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

2 A. My name is Arthur P. Martinez and my business address is 601 Monroe Street,
3 Suite 304, Jefferson City, Missouri 65101.

4

5 Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

6 A. I am employed as Director of Governmental Relations for CenturyTel of
7 Missouri, LLC, Spectra Communications Group, LLC, and CenturyTel of
8 Northwest Arkansas, LLC. My duties include regulatory and legislative affairs
9 within the state of Missouri.

10

11 Q. PLEASE GIVE A BRIEF DESCRIPTION OF YOUR BACKGROUND IN THE
12 TELECOMMUNICATIONS INDUSTRY.

13 A. I graduated from New Mexico State University with a Bachelor of Business
14 Administration with a major in Managerial Finance and a Masters of Arts Degree in
15 Economics with an emphasis in Regulatory Economics. I began my
16 telecommunications career in 1993 as a staff member with the Telecommunications
17 Division of the New Mexico State Corporation Commission ("NMSCC").¹ After
18 leaving the NMSCC, I worked for two independent rural telephone companies in
19 positions ranging from Operations Manager to General Manager; my duties
20 included, among other things, regulatory and legislative affairs.

21

¹ In 1996 the New Mexico State Corporation Commission was combined with the New Mexico Public Utilities Commission to form the newly created New Mexico Public Regulation Commission.

1 HAVE YOU EVER TESTIFIED BEFORE THE MISSOURI PUBLIC SERVICE
2 COMMISSION?

3 No. I have, however, presented testimony before regulatory agencies in Colorado,
4 New Mexico and Wyoming.

5
6 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

7 A. My purpose is to present testimony on behalf of Spectra Communications Group,
8 LLC d/b/a CenturyTel ("Spectra") in this proceeding in support of its revised
9 tariff sheets filed July 12, 2002, increasing the deposit requirements for its access
10 service customers. On August 7, 2002, Spectra filed substitute tariff sheets to
11 clarify what was meant by an access service customer falling below
12 "commercially acceptable levels." The overall purpose of the filing was to
13 change the security deposit tariff for Spectra to require additional security given
14 the changes in the current financial environment, particularly the deteriorating
15 financial environment existing in the telecommunications industry. Copies of the
16 current deposit tariff and the revised tariff under consideration in this proceeding
17 are attached as Exhibits APM-1 and 2.

18
19 Q. PLEASE DESCRIBE SPECTRA'S POSITION IN THE MISSOURI
20 TELECOMMUNICATIONS INDUSTRY?

21 A. As a local exchange carrier, Spectra provides local exchange service and other
22 telecommunication services to approximately 131,000 of its customers, including
23 those customers within its certificated territory within the state of Missouri. As

1 Spectra's ability to provide safe and adequate service is highly dependent on its
2 revenue stream, the potential for an increasing level of uncollectibles from access
3 service customers could only adversely affect the service it provides and the rates
4 of those customers who pay their statements in a timely fashion. It is contrary to
5 the public interest to disadvantage those customers who pay in a timely manner,
6 only to advantage those customers, including long distance interexchange carriers,
7 that are chronically late in paying or have defaulted on their obligations.

8
9 Q. WHO DETERMINES WHICH COMPANIES SPECTRA MUST
10 INTERCONNECT WITH AND THUS THE LEVEL OF FINANCIAL RISK
11 ASSOCIATED WITH THOSE COMPANIES?

12 A. It is Spectra's end-user customers who ultimately make that decision. Spectra's
13 customers are free to choose on an equal access basis which carriers they wish to
14 carry their long distance calls. They may choose one, or two, static selections for
15 either intraLATA or interLATA long distance carriers and may use an access
16 code to connect with other long distance carriers on a dynamic, or per call, basis.
17 Therefore, and with few exceptions, it is Spectra's end-user customers who decide
18 which companies Spectra must provide access services to and levy access charges
19 upon. The proposed deposit tariff provides Spectra a means of protecting itself
20 from the most troublesome of the carriers with whom our customers may choose
21 to do business.

1 Q. DOESN'T SPECTRA'S EXISTING DEPOSIT REQUIREMENTS PROVIDE
2 ADEQUATE PROTECTION?

3 A. No. The existing deposit provisions were the product of a tightly regulated
4 industry and are thus not an adequate means to address the competitive toll and
5 local markets that have evolved since the 1982 Modified Final Judgment² and the
6 1996 Telecom Act³. Spectra's existing tariff allows for the collection of a deposit
7 in one of two instances: New customers without established credit and existing
8 customers with a history of late payments. There is nothing in the existing tariff
9 to address the situation where an existing IXC customer may be in a position
10 where it may be unable to pay its debts when due.

11
12 Q. PLEASE DESCRIBE THE FINANCIAL ENVIRONMENT THAT HAS
13 PROMPTED SPECTRA TO SEEK ADDITIONAL SECURITY?

14 A. The telecommunications industry has been plagued by several high profile and
15 highly publicized accounting scandals involving national and international
16 companies such as Qwest, WorldCom, and Global Crossing. Both WorldCom
17 and Global Crossing operate in the state of Missouri and have filed for Chapter 11
18 bankruptcy protection. A recent Wall Street Journal article stated, "WorldCom,
19 which filed for Chapter 11 bankruptcy protection in July, has disclosed that it
20 inflated profits by more than \$7 billion over the past three years in a scheme to

² Modified Final Judgment/Consent Decree issued in *United States V. American Telephone and Telegraph Company*, 552 F. Supp. 131 (D.D.C. 1982).

³ Telecommunications Act of 1996, Pub. L. No. 104-104.

1 defraud investors and hide the company's true financial condition.”⁴ This is
2 testament to the increased financial risk faced by Spectra and its customers.
3

4 Q. HOW DOES SPECTRA’S PROPOSED TARIFF REDUCE THE COMPANY’S
5 EXPOSURE TO INCREASED FINANCIAL RISK?

6 A. In light of such bankruptcies, Spectra believes it is appropriate and necessary for
7 an interexchange carrier (“IXC”) to provide additional security deposits at any
8 time following the installation of service when: (1) the IXC has established a
9 history of late payments to Spectra, (2) the customer’s gross monthly billing has
10 increased beyond the amount initially used to estimate a security deposit, (3) the
11 IXC's creditworthiness has fallen below commercially acceptable levels as
12 determined by a reputable, nationally recognized independent credit rating or
13 reporting service. If an existing customer fails to remit a deposit required under
14 such a tariff, services to that customer should be discontinued at the discretion of
15 Spectra.
16

17 Q. HOW WILL SPECTRA ESTABLISH WHETHER AN IXC HAS A HISTORY
18 OF LATE PAYMENTS?

19 A. Spectra will use the standard of two or more late payments during a 12-month
20 period in establishing a history of late payments. Although this is not specifically

⁴ *WorldCom's Yates Pleads Guilty*. The Wall Street Journal. Page A3. Copyright (c) 2002, Dow Jones & Company, Inc. October 8, 2002.

1 identified in the proposed tariff, Spectra will add this provision to the tariff if the
2 Commission prefers.

3 Q. HOW WILL SPECTRA DETERMINE WHEN AN IXC HAS A HISTORY OF
4 LATE PAYMENTS?

5 A. Spectra will consider a doubling in the amount billed for the previous two months
6 as the standard in determining when a customer's gross monthly billing has
7 increased beyond the amount initially used to estimate a security deposit. Again
8 this standard is not specifically addressed in the proposed tariff, but Spectra has
9 no problem with adding it.

10
11 Q. HOW WILL SPECTRA DETERMINE WHEN THE CREDIT WORTHINESS
12 OF AN IXC HAS FALLEN BELOW COMMERCIALY ACCEPTABLE
13 LEVELS?

14 A. Spectra will use a corporate bond rating of BBB or above as the standard to
15 determine the IXC's credit worthiness. If an IXC's bond rating falls below a
16 rating of BBB, it falls below commercially acceptable levels. Institutional and
17 individual investors use bond ratings when identifying or measuring their level of
18 risk when buying secured debt. The establishment of bond ratings requires a
19 good deal of research and is conducted by only a few nationally recognized
20 agencies such as Standard & Poor's and Moody's. These agencies measure the
21 "financial condition of a bond issuer rather than the market appeal of its bonds."⁵
22 Another reason bond rating agencies are used is that corporate bond issuers are

⁵ *The Wall Street Journal Guide to Understanding Money & Investing*. Kenneth M. Morris and Alan M. Siegle. Lightbulb Press, 1993.

1 not likely to publish a poor rating on their own and therefore only top ratings will
2 be willingly disclosed.⁶ In addition to the research and rating services a bond-
3 rating agency provides, they also provide an independent objective measure of
4 risk that is sanctioned by Wall Street. In short, reputable bond ratings provide the
5 best measure of secured debt risk known to the modern financial markets.

6
7 Q. WHY HAS SPECTRA CHOSEN A “BBB” RATING TO DETERMINE A
8 COMMERCIALY ACCEPTABLE LEVEL?

9 A. Standard and Poor’s or Moody’s use bond ratings ranging from AAA to D. The
10 range of AAA to BBB, or Aaa to Baa in the case of Moody’s, is considered
11 “investment grade.”⁷ A bond rating in the range of BB to B, or Ba to B in the
12 case of Moody’s, are considered “speculative” and “at risk of default”
13 respectively.⁸ A bond rating in the range of CCC to C, or Caa to C in the case of
14 Moody’s, are considered “poor” to “highly speculative.”⁹ Therefore, a bond
15 rating of BBB or greater would be considered a fiscally sound investment with a
16 comparative level of risk. Spectra believes that it would not be prudent or in the
17 public interest to, in essence, hold out credit to companies that are considered to
18 be at risk.

19

⁶ Id.

⁷ Id.

⁸ Id.

⁹ Id.

1 Q. IN FINANCIAL TERMS HOW DID THE GLOBAL CROSSING AND
2 WORLDCOM BANKRUPTCIES IMPACT SPECTRA.

3 A. The total pre-petition balances owed Spectra by all bankrupt carriers are
4 approximately \$4,700,000. The pre-petition balance attributable to WorldCom is
5 approximately \$2,677,967 and the balance attributable to Global Crossing
6 approximately \$1,980,462. These losses amount to more than 18 percent of
7 Spectra's 2002 capital budget. For the 12-month period beginning October 2001,
8 WorldCom and Global Crossing account for ** of Spectra's access minutes and,
9 by correlation, ** of its access revenues. AT&T alone accounts for an additional
10 ** of access minutes and revenues.

11 Q. WORLDCOM STATES IN ITS MOTION TO SUSPEND THAT "[T]HE
12 SECURITY DEPOSIT DEMAND WOULD PERMIT SPECTRA TO
13 ENCUMBER FINANCIAL RESOURCES THAT COMPETITORS WOULD
14 OTHERWISE USE TO BUILD OUT THEIR NETWORKS OR DEVELOP
15 OTHER COMPETITIVE SERVICES." DO YOU BELIEVE THIS TO BE SO?

16 A. No. In the case of WorldCom and Global Crossing, they are currently under
17 going reorganization proceedings and are protected by the Bankruptcy Court's
18 "Utility Motion" which is intended to provide adequate assurance to utility
19 companies affected by such bankruptcies.¹⁰ Thus, as long as they are under the
20 jurisdiction of the bankruptcy court, the tariff would not apply. For the remainder
21 of the industry participants, such as AT&T, this argument is debatable in light of
22 other facts. IXC's are constantly arguing against mandatory toll reductions in the

¹⁰ *In re WorldCom, Inc. et. Al., Debtors*, United States Bankruptcy Court, Southern District of New York
Case No. 02-13533 (AJG).

1 various state jurisdictions. Additionally, IXCs have been allowed to impose
2 surcharges on their customers to compensate the IXCs from higher than average
3 access fees. In fact, this Commission has allowed such fees. IXCs have stated
4 that access rates are the main sources of cost in providing in-state toll service. It
5 is Spectra's position that the IXCs are adequately compensated either through
6 reduced access charges of local exchange carriers or the imposition of surcharges
7 to offset high access charges to "build out their networks or develop other
8 competitive services." In the case of WorldCom, it appears their "financial
9 resources" were going to line the pockets of a few executives not build out its
10 networks.

11
12 Q. PLEASE SUMMARIZE YOUR TESTIMONY.

13 A. The Commission should allow Spectra's tariff to become effective. WorldCom's
14 bankruptcy, as well as that of other telecommunications companies, has caused
15 companies such as Spectra to sustain significant losses which they have no means
16 of collecting. These bankruptcies create a "domino" effect and spread the
17 likelihood of financial difficulty to local exchange carriers such as Spectra. This
18 proposed tariff will not affect WorldCom, since all of its dealing with other
19 carriers are now subject to the control of the bankruptcy court. What the tariff
20 will do is protect Spectra, or at least limit its exposure, from other substantial
21 losses from other carriers whose financial position is now, or will become,
22 precarious.

1 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

2 A. Yes. It does.

FACILITIES FOR INTRASTATE ACCESS

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2. GENERAL REGULATIONS (Cont'd)2.3 Obligation of the Customer (Cont'd)

2.3.12 (Reserved for Future Use)

2.3.13 Coordination With Respect to Network Contingencies

MO. PUBLIC SERVICE COMM

The customer shall, in cooperation with the Telephone Company, coordinate in planning the actions to be taken to maintain maximum network capability following natural or man-made disasters which affect telecommunications services.

2.4 Payment Arrangements and Credit Allowances2.4.1 Payment of Charges and Deposits

- (A) The Telephone Company may, in order to safeguard its interests, require a customer, which has a proven history of late payments to the Telephone Company or does not have established credit, to make a deposit prior to or at any time after the provision of the FIA to the customer to be held by the Telephone Company as a guarantee of the payment of rates and charges. No such deposit will be required of a customer which is a successor of a company which has established credit and has no history of late payments to the Telephone Company.

A deposit may not exceed the actual or estimated rates and charges for the FIA for a two month period. The fact that a deposit has been made in no way relieves the customer from complying with the Telephone Company's regulations as to the prompt payment of bills.

At such time as the provision of the FIA to the customer is terminated, the amount of the deposit will be credited to the customer's account and any credit balance which may remain will be refunded. After the customer has established a one-year, prompt payment record, such a deposit will be refunded or credited to the customer account at any time prior to the termination of the provision of the FIA to the customer.

In case of a cash deposit, for the period the deposit is held by the Telephone Company, the customer will receive simple annual interest at the percentage rate specified in the Telephone Company General and/or Local Tariff.

- (B) Where the provision of FIA requires facilities that meet any of the conditions specified in 10.1.1, Special Construction charges in Section 10 will apply.

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FACILITIES FOR INTRASTATE ACCESS

2. GENERAL REGULATIONS (Cont'd)2.3 Obligation of the Customer (Cont'd)

2.3.12 (Reserved for Future Use)

2.3.13 Coordination With Respect to Network Contingencies

The customer shall, in cooperation with the Telephone Company, coordinate in planning the actions to be taken to maintain maximum network capability following natural or man-made disasters which affect telecommunications services.

2.4 Payment Arrangements and Credit Allowances2.4.1 Payment of Charges and Deposits(A) Deposits

In order to safeguard its interests, the Telephone Company reserves the right to require the customer to secure its account prior to the establishment of service and/or at any time after the provision of service in the form of a cash deposit, as described below.

A security deposit may be required prior to the installation of new service or the transfer of existing service, when the customer has a proven history of late payments to the Telephone Company or does not have established credit. Such security deposit will not exceed an amount equal to the estimated total rates and charges for the service(s) ordered for a two-month period.

A security deposit or an additional security deposit may be required from an existing customer at any time following installation of service when: 1) the customer has established a history of late payments to the Telephone Company; 2) the customer's gross monthly billing has increased beyond the amount initially used to estimate a security deposit, if applicable; and/or 3) the Telephone Company becomes aware that the customer's credit worthiness has fallen below commercially acceptable levels as determined by an independent credit rating or reporting service. The Company would use Standard and Poors or another nationally recognized rating agency. Customers would be expected to maintain a rating of a BBB, or equivalent rating, as the measure of a Customer's credit worthiness. Such security deposit will not exceed an amount equal to the total rates and charges for two months of the customer's actual billing for the service(s). In the event an existing customer fails to remit a deposit required under this section, service(s) to that customer may be discontinued in accordance with the terms specified in Section 2.1.8(A), preceding.

If pursuant to this section, the Telephone Company requests a security deposit from a existing customer that has any term plan commitment in and such existing customer accepts the condition that continuation of its service(s) is contingent upon its provision to the Telephone Company of the requested security deposit, then the regulations specified in this section will apply to the customer for the remainder of the term plan commitment to which the customer subscribes.

FACILITIES FOR INTRASTATE ACCESS

2. GENERAL REGULATIONS (Cont'd)2.4 Payment Arrangements and Credit Allowances (Cont'd)2.4.1 Payment of Charges and Deposits (Cont'd)(A) Deposits (Cont'd)

If pursuant to this section, the Telephone Company requests a security deposit from an existing customer that has any term plan commitment in place and such existing customer rejects the condition that continuation of its service(s) is contingent upon its provision to the Telephone Company of the requested security deposit, then upon discontinuance of the customer's service(s) and the resulting termination of the associated term plan commitment(s), the Telephone Company will waive the applicable termination liability charge(s) for each such term plan commitment terminated. (C)

The fact that a deposit has been made in no way relieves the Customer from complying with the Telephone Company's regulations as to the prompt payment of bills. At such time as the provision of the service to the customer is terminated, the amount of the deposit will be credited to the customer's account and any credit balance which may remain will be refunded. (M)

Such a deposit will be refunded or credited to the account when the customer has established commercially acceptable credit as defined above and has established a one-year prompt payment record. For the period the deposit is held by the Telephone Company, the customer will receive simple interest at the same percentage rate as that set forth in the Telephone Company General and/or Local Tariff. (M)

- (B) Where the provision of FIA requires facilities that meet any of the conditions specified in 10.1.1, Special Construction charges in Section 10 will apply. (M)