

**Exhibit T-\_\_\_ (TWZ-T-1)**  
**Docket No. UT-020406**  
**Witness: Timothy W. Zawislak**

**BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

**AT&T COMMUNICATIONS OF )**  
**THE PACIFIC NORTHWEST, INC., )**  
**)**  
**Complainant, )**  
**)**  
**v. )**  
**)**  
**VERIZON NORTHWEST INC. )**  
**)**  
**Respondent. )**  

---

**DOCKET NO. UT-020406**

**DIRECT TESTIMONY OF**

**Timothy W. Zawislak**

**STAFF OF**  
**WASHINGTON UTILITIES AND**  
**TRANSPORTATION COMMISSION**

**NON-CONFIDENTIAL VERSION**

**September 30, 2002**

1 **Q. Please state your name and business address.**

2 A. My name is Timothy W. Zawislak, and my business address is 1300 South Evergreen  
3 Park Drive Southwest, P.O. Box 47250, Olympia, Washington 98504. My business e-  
4 mail address is [tim@wutc.wa.gov](mailto:tim@wutc.wa.gov)

5  
6 **Q. By whom are you employed and in what capacity?**

7 A. I am employed by the Washington Utilities and Transportation Commission  
8 (Commission) as a Senior Telecommunications Regulatory Analyst.

9  
10 **Q. What are your education and experience qualifications?**

11 A. In December of 1989 I earned a Bachelor of Arts Degree in Accounting from Saint  
12 Martin's College. In January of 1990 I began my career with the Commission which has  
13 included the provision of expert witness testimony on telecommunications issues such as  
14 Access Charges, Universal Service, EAS, the 1995 U S WEST General Rate Case, and  
15 Payphone Deregulation pursuant to the Telecommunications Act of 1996.

16  
17 **Q. What is the scope of your testimony at this time?**

18 A. At this time I am providing an overview of Staff's participation in this case, as well as  
19 specific direct testimony regarding (a) Verizon Northwest Inc.'s (Verizon) Interim  
20 Terminating Access Charge (ITAC), and (b) the concept of imputation in the context of  
21 this complaint proceeding.

22

1 **Q. Please provide an overview of Staff's participation in this case.**

2 A. Staff will advocate balanced recommendations regarding several of the issues that AT&T  
3 Communications of the Pacific Northwest, Inc. (AT&T) and Verizon have raised in this  
4 case. Specifically, Staff has information to provide to the Commission regarding what  
5 Verizon's ITAC should be, based on current data. Additionally, Staff has other  
6 recommendations with regard to Verizon's intrastate carrier access charges (and AT&T's  
7 criticism of such) which will ultimately affect the Commission's imputation analysis.  
8 Finally, Staff will provide a review of AT&T's and Verizon's imputation studies and will  
9 make recommendations regarding imputation in today's environment.

10

11 **INTERIM TERMINATING ACCESS CHARGE ("ITAC")**

12 **Q. What "ITAC" level does Verizon's current tariff indicate?**

13 A. Verizon's Tariff WN U-16 on 12<sup>th</sup> Revised Sheet 346, effective July 15, 2002, reveals  
14 that its ITAC is currently<sup>1</sup> \$0.0323794 per terminating intrastate carrier access minute of  
15 use.

16

17 **Q. What should Verizon's "ITAC" be, based on your analysis?**

18 A. Given that conditions have changed since Verizon first established its ITAC almost four  
19 years ago, my analysis reveals that the ITAC should now be no greater than \$0.0188679  
20 per terminating intrastate carrier access minute of use.

21

---

<sup>1</sup> This is the "base ITAC rate" which excludes cost recovery for service extension activity.

1 **Q. How did you calculate that rate level?**

2 A. I applied the same approach that the Commission used in its 1998 Report to the  
3 Legislature for determining the appropriate total level of support necessary for the  
4 company<sup>2</sup>. Although the Commission's report was focused on the possibility of a new  
5 program that would alter the way universal service support is collected and distributed,  
6 the approach for determining the appropriate level of support that any given individual  
7 company may bill and keep itself is equally applicable in this context. The funding  
8 mechanism is not an issue here<sup>3</sup> - the only issue here is what is the correct amount of  
9 intrastate support for Verizon at this time given current conditions.<sup>4</sup>

10 The approach generally consists of multiplying the difference between the  
11 exchange level costs produced in Docket UT-980311(a)<sup>5</sup> and the revenue benchmarks of  
12 \$31 for residence and \$51 for business, by the respective number of access lines for each  
13 class of service in each exchange. If the cost is greater than the benchmark a positive  
14 amount of support is calculated. If the cost is less than the benchmark or equal to it a  
15 zero amount of support is necessary for that exchange.

16 Access line counts by exchange as of June 30, 2002, were used, which were  
17 provided by Verizon in response to Staff Data Request # 11. The total amount of support

---

<sup>2</sup> See the November 1998 Report to the Legislature ("State Telecommunications Policy and Federal Requirements - Promoting Competition and Reforming Universal Service") at pages 49-A and 49-B.

<sup>3</sup> The Legislature has retained responsibility for intrastate universal service reform.

<sup>4</sup> Staff's calculation recognizes that Verizon's total support requirement has gone up since 1998. However, due to the FCC's increased contribution level through the introduction of the interstate access support ("IAS") mechanism, the intrastate jurisdiction's responsibility has lessened. Although recognition of this is a rate design issue only for purposes of the ITAC, it has no effect on Verizon's overall intrastate revenue requirement.

<sup>5</sup> The Eleventh Supplemental Order in Docket UT-980311(a), Appendix "B".

1 necessary using this current data<sup>6</sup> is [confidential per protective order - \*\*\*\*\*].

2 Exhibit C-\_\_\_\_\_(TWZ-C-2) is a summary of this calculation.

3 Because Verizon receives federal funding from interstate support sources, I have  
4 offset the amount needed in the intrastate jurisdiction by the amount of interstate access  
5 support<sup>7</sup> projected for Verizon, which is presently<sup>8</sup> \$21,465,984. Exhibit \_\_\_\_\_(TWZ-3)  
6 displays USAC's projected amounts for both of Verizon's study areas in Washington.

7 Therefore, the total amount of intrastate jurisdiction support currently required by  
8 Verizon is the difference which is [confidential per protective order - \*\*\*\*\*].  
9 By dividing this amount in the same way that was recommended in Docket UT-990672<sup>9</sup>,  
10 I have arrived at the appropriate ITAC rate level of \$0.0188679 per terminating intrastate  
11 carrier access minute. Exhibit C-\_\_\_\_\_(TWZ-C-4) is a summary of this rate  
12 development.

13 The terminating minutes used in this rate development include not only the  
14 minutes Verizon charges its toll competitors for, but also the equivalent minutes Verizon  
15 itself uses as a "Primary Toll Carrier" for its own intrastate intraLATA toll traffic. This  
16 divisor of total terminating carrier minutes is appropriate to ensure that Verizon does not  
17 disadvantage its competitors relative to itself in violation of RCW 80.36.186.

18  
19 **Q. The rate you recommend is a decrease from the current tariff level. Does Staff**  
20 **recommend that Verizon absorb the resulting decrease in revenue?**

---

<sup>6</sup> The 1998 Report to the Legislature revealed \$33,312,831, at that point in time.

<sup>7</sup> The FCC recently established the additional interstate access support ("IAS") mechanism in its "CALLS" Order (FCC 00-193), released May 31, 2000.

<sup>8</sup> The Universal Service Administration Company (or "USAC") has reported this to the FCC in its 2Q02 report.

<sup>9</sup> See Staff's Testimony and Exhibits in Docket UT-990672.

1 A. That may be a possibility but not necessarily a requirement depending upon how Verizon  
2 responds and how the Commission ultimately rules on the other potential issues in this  
3 case. Staff witness Dr. Blackmon more globally addresses the issue of revenue neutrality  
4 and other associated rate design considerations that we recommend at this time.

5  
6 **Q. Is the "ITAC" the only way for Verizon to recover its intrastate universal service  
7 support needs?**

8 A. No. However, the ITAC is the only explicit rate element that Verizon currently has in its  
9 tariffs to accomplish the necessary cost recovery. As I have shown above, Verizon's  
10 current rate level is excessive given current conditions and should be lowered to reflect  
11 today's realities. If Verizon were to begin collecting universal service costs in the rates it  
12 charges for other services, the ITAC should be reduced even further.

13  
14 **Q. What do you mean by calling Verizon a "primary toll carrier" earlier in this  
15 testimony?**

16 A. The Commission granted Verizon (at that time GTE Northwest Inc. or "GTE-NW")  
17 Primary Toll Carrier (PTC) status in WUTC Docket Nos. UT-921462, et al., through its  
18 Fifth Supplemental Order issued on June 24, 1994.

19  
20 **Q. Please explain the obligations and benefits of being a "PTC".**

21 A. PTCs are typically local exchange companies who are obligated to be the "carriers of last  
22 resort" for intrastate intraLATA interexchange services (including toll) originating within  
23 their exchange areas. The inherent benefit of being a PTC appears to be that one is able

1 to use Feature Group C (FGC) carrier access service, while their competitors must order  
2 Feature Group D (FGD) carrier access service. Although the intrastate carrier access  
3 charges are theoretically the same for both FGC and FGD (through the practice of  
4 imputation), the technical engineering may be more efficient through the use of FGC.  
5 Dr. Selwyn alludes to this at footnote 26 of his affidavit supporting AT&T's petition.

6 A structurally separate affiliate, or a third party interexchange carrier (IXC) such  
7 as AT&T, must order FGD in all end offices where it is available. Verizon is not subject  
8 to this requirement imposed on its competitors due to its status as a PTC. These  
9 arrangements and conditions are described in the utility's tariff, in this case Verizon's  
10 Tariff WN-U-16, 2<sup>nd</sup> Revised Sheet 170.

### 11 12 IMPUTATION

13 **Q. In its complaint and supporting affidavit what does AT&T suggest about Verizon's**  
14 **ability to pass imputation?**

15 A. AT&T suggests that Verizon does not presently pass toll/access imputation and therefore  
16 is placing AT&T in a "price squeeze" in the intrastate intraLATA toll market.

17  
18 **Q. Should Verizon's toll rates be excused from passing an imputation test if the**  
19 **company submitted evidence at the time the toll rates were filed?**

20 A. No. Imputation is a complex area and the telecommunications industry is a dynamic one  
21 to say the least. Costs and prices can change over time and, in particular, the carrier  
22 access rates themselves may change as a result of proposals being made in this  
23 proceeding. Staff advocates that the Commission first determine the correct intrastate

1 carrier access charge rates for Verizon at this time before finding that Verizon's intrastate  
2 toll rates either pass or fail the final imputation test regarding each of its toll plans. This  
3 approach is consistent with that taken by the Commission for Verizon's predecessor  
4 GTE-NW in Docket UT-921462, et al.<sup>10</sup>

5  
6 **Q. Does the competitive nature of Verizon's toll service excuse it from passing an**  
7 **imputation test?**

8 A. No. To the contrary, the fact that Verizon's toll rates are competitive increases  
9 the importance that Verizon's control over access services be supervised closely.  
10 Although Verizon's intrastate toll rates have been classified as competitive and are now  
11 published in a price list, Verizon's intrastate carrier access charges are still tariffed in this  
12 jurisdiction and should still be considered essential for the provision of intrastate toll  
13 service.

14  
15 **Q. What does staff recommend as the correct carrier access charges for Verizon at this**  
16 **time?**

17 A. Staff's recommendation is made in two parts. First, I recommend that Verizon's ITAC  
18 should be lowered to \$0.0188679, for the reasons explained above. Second, Staff witness  
19 Dr. Glenn Blackmon recommends that Verizon's other intrastate carrier access charges be  
20 lowered to approximate Qwest Corporation's (Qwest's) other intrastate carrier access  
21 charges, for the reasons Dr. Blackmon explains in his testimony.

---

<sup>10</sup> Prior to allowing the company to become a PTC the Commission required the company to refile its intrastate carrier access charges and associated imputation studies based on its decisions in earlier phases of that case. See the Fourth Supplemental Order at ordering paragraph 4.



1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23

**Q. Will Verizon's current toll rates pass the Commission's imputation test after correcting its intrastate carrier access charges in the manner recommended by Staff?**

A. Yes, they should. They are already very close to passing or failing depending upon the inputs used, and therefore the intrastate carrier access charge reductions recommended by Staff will only improve this outlook. This is due to Staff's recommendation that originating as well as terminating intrastate carrier access charges should be reduced. Originating carrier access charges have a greater effect on Verizon's imputation because the company (as a PTC) will always originate its own intrastate PTC traffic, whereas it only terminates its own PTC traffic a fraction of the time. On average, Verizon's customers will most likely always call customers of other companies, especially Qwest which is the dominant provider in Washington.

**Q. If intrastate carrier access charges are not corrected and as a result either some or all of Verizon's toll rates do not pass the Commission's imputation test, then what would be some other possible responses?**

A. I can think of two alternative approaches, neither of which are recommended by Staff at this time:

- The Commission could reclassify Verizon's toll services as non-competitive and then order Verizon to raise its toll rates.
- Verizon's parent company could choose to offer intrastate intraLATA toll service out of its long distance affiliate, which would actually "pay" to Verizon the

1 intrastate carrier access charges assessed on competitors such as AT&T and  
2 would use the same configuration of FGD rather than imputing carrier access  
3 charges and using FGC.

4 Although Staff recommends neither of these options, the Commission may choose to  
5 pursue them in combination with Staff's primary recommendation - simply that intrastate  
6 carrier access charges be reduced to more fair, just, and reasonable levels.

7  
8 **Q. Specifically, on page 8, line 4, you recommend that Verizon's "ITAC" be lowered.**  
9 **What impact will this have on imputation?**

10 A. Absent an offsetting increase by Verizon this reduction should improve the outcome of  
11 any toll/access imputation test sponsored in this proceeding.

12  
13 **Q. What if the Commission allows and Verizon chooses to increase originating carrier**  
14 **access charges in order to keep the change in terminating carrier access charges**  
15 **revenue neutral?**

16 A. That would put even more pressure on Verizon's imputation level because, as explained  
17 above, Verizon as a PTC would always incur its own originating access through  
18 imputation, whereas it would only incur terminating access through imputation on traffic  
19 terminated on its own network a percentage of the time. Even a one-for-one swap of a  
20 penny from terminating access to a penny on originating access would cause Verizon's  
21 imputation floor to go up, all other things being equal. This is one reason why it is so  
22 important to have the terminating carrier access charges at the appropriate level (not too  
23 high, but not too low either).

1           However, because Verizon is already pricing its toll so close to the Commission's  
2           imputation floor, the option to further raise originating carrier access charges should not  
3           be seen as in the public interest for the very reason that such increases could, as a result,  
4           cause Verizon to fail the Commission's imputation test at this point in time which would  
5           create a more difficult and undesirable price squeeze for Verizon's competitors.

6  
7   **Q.    If Verizon chooses some other form of rate rebalancing will this also be the case?**

8   A.    Not necessarily. Imputation will generally be improved as Verizon lowers its carrier  
9           access charges. Additionally, Staff witness Dr. Blackmon's suggestion of a new retail  
10          access charge would not have an impact on the Commission's imputation test because the  
11          charge would be assessed on retail customers instead of the carriers.

12  
13   **Q.    Does Staff have any other observations or recommendations regarding imputation**  
14          **at this time?**

15   A.    Yes. First, Billing and Collection included in an imputation analysis in Washington  
16          should be at Verizon's Long Run Incremental Cost (LRIC) based on the longstanding  
17          Commission precedent including the GTE-PTC<sup>11</sup> case discussed above. Second, in  
18          Staff's opinion, it is acceptable for Verizon to use Average Revenue Per Minute  
19          ("ARPM")<sup>12</sup> by plan (also based on the Commission's GTE-PTC<sup>13</sup> precedent), and even

---

<sup>11</sup> Third Supplemental Order in Docket Nos. UT-921462, et al., at page 11.

<sup>12</sup> Although Verizon passed imputation based on ARPM in the past, it is possible that a fresh look at its ARPM by plan, with updated data (with information from 2001 in Verizon's response to Staff's DRs #26 and #27) could fail imputation, even with intrastate carrier access charges at the current tariff levels. Just as costs and cost recovery may change over time, the same can be said for revenue and the demand units from which they stem. However, Verizon's initial responses to Staff's DRs #26 and #27 appear to be incomplete and therefore Staff can not provide

1 more so now because toll has been competitively classified for Verizon and the company  
2 should have the ability to creatively price its toll products as long as its ARPM for each  
3 distinct product surpasses the Commission's imputation floor. Third, AT&T raises some  
4 good points about Advertising, Marketing, and Retailing, and AT&T should be  
5 encouraged to further develop the facts on those issues in this proceeding.

6

7 **Q. Does this conclude your testimony?**

8 A. At this time, yes it does. Thank you.

9

---

this precise information to the Commission at this time. Staff may seek permission to supplement this testimony upon future receipt of such information from Verizon.

<sup>13</sup> Third Supplemental Order in Docket Nos. UT-921462, et al, at page 9, footnote 4.