

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION

Complainant,

v.

VERIZON NORTHWEST INC.,

Respondent.

DOCKET NO. UT-040788

ANSWER ON BEHALF OF  
COMMISSION STAFF TO  
VERIZON'S PETITION FOR AN  
ORDER APPROVING  
COMMENCEMENT OF A  
BIFURCATED GENERAL RATE  
CASE AND WAIVER OF  
WAC 480-07-510(2)

1           The Commission Staff files this Answer to the April 24, 2004 "Errata" version of the "Amended Petition of Verizon Northwest Inc. for an Order Approving Commencement of Bifurcated General Rate Case and Waiver of WAC 480-07-510(2)."<sup>1</sup>

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<sup>1</sup> As discussed below in footnote 5, Staff believes the May 24, 2004 "Errata" version of the Amended Petition for Bifurcation and Waivers needs to add WAC 480-07-510(4)(c) to the list of required rule waivers. This Answer assumes Verizon will make that correction.

2 Commission statutes and rules involved are RCW 80.36.110, WAC 480-07-110,  
WAC 480-07-500, WAC 480-07-505, and WAC 480-07-510.

### I. Summary of Staff's Position

3 Commission Staff does not oppose the relief sought by Verizon, on condition  
that: 1) the Company provides adequate additional customer notice substantially in  
the form of Exhibit 1 attached to this Answer; 2) the Company agrees that the  
Commission provide an additional opportunity for interested parties to participate  
in this docket in response to that notice; and 3) the Company understands it is  
responsible for adverse consequences, if any, from any deficiencies in the additional  
notice it issues.

### II. Nature of Verizon's Amended Petition for Bifurcation and Waivers

#### A. What Verizon Has (and Has Not) Filed

4 On April 30, 2004, Petitioner Verizon Northwest Inc.<sup>2</sup> filed testimony, exhibits  
and workpapers purporting to establish a revenue deficiency of \$239.5 million.<sup>3</sup>  
Verizon did not file tariffs to implement that revenue deficiency, as required by

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<sup>2</sup> The Petitioner, Verizon Northwest Inc., is referred to herein by that name, as well as "Company" and "Verizon."

<sup>3</sup> Commission Staff had some issues initially as to whether the Company's revenue requirement presentation was accompanied by sufficient workpapers and supporting documents in compliance with WAC 480-07-510(3). Those issues have been resolved, except, of course, there are no workpapers associated with any Company rate design proposal for its general rate case.

WAC 480-07-510(2),<sup>4</sup> nor did it state the proposed changes in revenue by source, as required by WAC 480-07-510(3)(c); nor did it state pertinent revenue and rate information by customer class, as required by WAC 480-07-510(4)(c), (d), and (e).

5 To address these deficiencies, Verizon has petitioned for Commission approval of a “bifurcated” rate case and waivers of Commission rules.<sup>5</sup> For purposes of this Answer, Staff will address the May 24, 2004 “Errata” version of the Company’s petition, which is referred to herein as the “Amended Petition for Bifurcation and Waivers.”

**B. Nature of the Relief Sought in the Amended Petition for Bifurcation and Waivers**

6 The Company’s primary objective is for the Commission to approve a “bifurcated” rate case procedure in this docket. In brief, the Company proposes to litigate revenue requirements first, and then rate design.<sup>6</sup>

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<sup>4</sup> The Company also filed on April 30, 2004, a tariff designed to recover \$29.7 million in interim rate relief, accompanied by a separate Petition for Interim Rate Increase. That is a separate matter; it is not addressed in this Answer.

<sup>5</sup> Staff believes WAC 480-07-510(4)(c) needs to be added to the list of rules that are necessary to be waived. WAC 480-07-510(4)(c) requires Verizon to state its “requested revenue change in percentage, in total, and by major customer class.” Because Verizon general rate case filing contained no proposed tariffs or other evidence of rate design, that filing fails to satisfy this requirement, and a waiver is required. This deficiency does not impair Staff’s ability to address the relevant issues. Staff assumes the Company will add WAC 480-07-510 (4)(c) to its list of rules to be waived.

<sup>6</sup> The Company uses the term “rate design” (which can mean only the structure of particular tariff rates) to encompass “rate spread” as well (*i.e.*, the revenue requirement apportioned across all customer classes and services). Staff will use the term “rate design” in this Answer to include rate spread.

7 As the Company envisions it, the Commission would determine the Company's revenue requirement in an order issued in March 2005. The Company would then file tariffs to implement that revenue requirement, along with supporting cost studies, testimony, exhibits *etc.* *Amended Petition for Bifurcation and Waivers at pages 2-3, ¶ 5.*<sup>7</sup> Rate design would then be litigated, and the Commission would decide the appropriate rate design in an order to be issued in early September 2005. *Id.*

8 To accomplish this objective, the Company requires waivers of certain rules. WAC 480-07-510(2), WAC 480-07-510(3)(c), and WAC 480-07-510(4)(c), (d), and (e) require Verizon to provide copies of its proposed new or revised tariff sheets, and/or specific information based on those proposed tariff changes.<sup>8</sup> Commission Staff believes these are the rules that need to be waived if the Company's proposed "bifurcation" is permitted.

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<sup>7</sup> The Company's proposed order dates and other procedural dates are outlined in the Company's "Proposed Rate Case Schedule," attached to its Amended Petition for Bifurcation and Waivers.

<sup>8</sup> WAC 480-07-510 applies because this docket is a "general rate proceeding filing." WAC 480-07-510, *first ¶*. A "general rate proceeding filing" is defined as a "filing by any regulated company specified in WAC 480-07-500, for an increase in rates that meets [specific criteria]." As a telecommunications company, Verizon is a "regulated company specified in WAC 480-07-500." *See WAC 480-07-500(1)*. The criteria include a an annual revenue increase of three percent or more in gross revenues, or a filing that includes a request for a change in authorized rate of return or capital structure. WAC 480-07-505(1)(a), (c). Verizon's filing meets both of these criteria. The Company is seeking to increase its revenues 71%; to increase its authorized return from 9.76% to 12.03%; and to change its capital structure for ratemaking purposes from 37.224% long term debt, 7.165% short term debt, .09% preferred equity, and 55.521% common equity, to 25% debt and 75% equity

### III. Standards for Waiver of Commission Procedural Rules

9 The Commission may “modify the application” of its procedural rules “in individual cases if consistent with the public interest, the purposes of the underlying regulation, and applicable statutes.” *WAC 480-07-110(1)*.

### IV. Argument

#### A. Summary

10 Commission Staff has carefully reviewed the Company’s proposal to “bifurcate” this rate case into a revenue requirement phase followed by a rate design phase. While the Company does not offer compelling support for its proposal, Staff’s main concern is that customers have not been adequately notified of the likely effects of the revenue increase the Company is requesting. Accordingly, if an adequate and informative notice is issued, Staff does not oppose the Amended Petition for Bifurcation and Waivers.

#### B. Verizon’s Bifurcation Proposal Does Not Appear To Violate Any Statute or Rule

11 The procedure proposed by Verizon does not appear to violate any statutes,<sup>9</sup> nor would it violate any Commission rules, if the appropriate waivers were granted.

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<sup>9</sup> The statutes relating to changes in rates require a tariff filing and publication and posting of the proposed changes. *RCW 80.36.110 (1)(a)*. However, Staff presumes that Verizon would make such a tariff filing at the end of the revenue requirement phase and that the requirements of this section would be satisfied before the Commission issued its decision in the rate design phase.

Accordingly, this matter is addressed to the Commission's discretion, subject to the waiver standards in WAC 480-07-110(1).

**C. The Company's Reasons for Bifurcation Are Not Compelling**

12 The Company has presented a weak case in support of its proposal. One reason the Company advances is that "it is more efficient to decide the revenue requirement issue first and only then proceed to develop a rate design." *Amended Petition for Bifurcation and Waivers at page 3, ¶ 6.* This is based on the Company's expectation that other parties will propose "significant[ly] different revenue requirements," and if so, this would require the parties to offer alternative rate design proposals based on different revenue requirements. *Id.*

13 The other reason the Company offers reflects its belief that no party is prejudiced by its proposal. According to Verizon, "each party will have the opportunity to address all issues in this case in a more focused, efficient manner." *Id. at ¶ 7.* The Company argues its proposed 15-month schedule allays any prejudice. *Id.*

14 Staff observes that no general rate case in memory has been handled in the manner the Company has proposed. Rather, utilities have filed tariffs to initiate a general rate case, notice of those changes is duly given, and revenue requirements and rate design are then litigated.

15           Moreover, it is not apparent that the Company's "efficiency" concerns are justified, because it is unclear whether the rate design issues will be complicated. For its part, the Company has testified (in its interim rate relief testimony) that "marketplace realities" give the utility few rate design options. *See testimony of Mr. Banta, Exhibit No. \_\_\_ (SMB-2T) at page 8, line 14, to page 9, line 10.*

16           Accordingly, while Staff concedes there are some advantages if all parties address rate design using the same revenue requirement, the task of addressing rate design issues using alternative revenue requirements does not appear to be particularly burdensome.

**D.     The Commission Should Require Additional Notice to Customers**

17           On balance, Staff does not oppose the petition so long as Verizon provides adequate customer notice. Verizon's first attempt at a customer notice,<sup>10</sup> which was included in customer bills beginning in early May, fails to provide an adequate explanation of the effect on customer rates if the full increase is granted. That notice refers to the aggregate amount of the request, but this information alone is insufficient for individual customers or customer groups to understand the potential effect on their telephone bills.

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<sup>10</sup> The Company included a copy of this first customer notice under the "Customer Notification and Verification" tab at the back of rate case Notebook 1 of 6, which the Company filed on April 30, 2004.

18 Without adequate information, Verizon’s customers are likely unaware of the potential significance of the \$239.7 million revenue increase proposed by Verizon, if granted. That is because customers will not see the Company’s rate design until the revenue requirement is determined, but by then, it will probably be “too late” for those customers to intervene to address revenue requirements issues.

19 Accordingly, without adequate notice, one cannot say no one is “prejudiced” by the Company’s proposal.

20 Staff has worked with the Company on a form of customer notice that satisfies Staff’s concerns. A form of notice acceptable to Staff is attached as Exhibit 1 to this Answer. If the Company issues an additional notice, another opportunity for interested parties to intervene will be required. The Company should be responsible for the consequences resulting from any deficiencies in the notice, if any should arise.

21 If the Company agrees to issue the additional customer notice on this basis, the Commission Staff does not oppose the Amended Petition for Bifurcation and Waivers.

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## V. Conclusions

22 For the reasons stated above, Commission Staff does not oppose the relief sought in the Amended Petition for Bifurcation and Waivers,<sup>11</sup> if the Company agrees to the conditions stated in ¶ 3 above.

DATED this 2<sup>nd</sup> day of June, 2004.

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<sup>11</sup> As stated above in footnote 5, Staff assumes the Petition for Bifurcation and Waivers will be corrected to add WAC 480-07-510(4)(c) to the list of rules to be waived.