

**I. INTRODUCTION**

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**Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND TITLE.**

A. My name is Terry R. Dye. My business address is 600 Hidden Ridge Drive, Irving, Texas 75038. I am employed by Verizon Services Group as Senior Staff Consultant-Financial Planning and Analysis.

**Q. ON WHOSE BEHALF ARE YOU PRESENTING TESTIMONY IN THIS PROCEEDING?**

A. I am presenting testimony on behalf of Verizon Northwest Inc. (“Verizon” or “Company”).

**Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND WORK EXPERIENCE.**

A. I received a Bachelor of Science degree in Economics and a Master of Arts degree in Economics from the University of Missouri. In 1979, I began working with the Missouri Department of Natural Resources as a Planner. In 1981, I accepted employment as an Economist with the Missouri Public Service Commission, where I was assigned to the Rates and Tariffs Section of the Communications Department. I was responsible for the review and preparation of testimony, exhibits and cost support data submitted in support of tariff filings, and for making recommendations based upon that review.

1 In 1984, I accepted a position as a Rate Manager in the Economics and Rates Department  
2 of the Illinois Commerce Commission. In that capacity I had general rate design  
3 responsibility over telephone utility matters in the Rate Design Section. I joined Contel  
4 Telephone Operations in 1985 as a Senior Financial Analyst in the Pricing Group of the  
5 Revenue Department, and was promoted to Pricing Manager in December 1987. With  
6 the merger of Contel and GTE in 1991, I became a Rate Design Manager for GTE  
7 Telephone Operations. Since that time, I have held various positions within GTE's  
8 Pricing Department, and I assumed my current position upon the merger of GTE and Bell  
9 Atlantic.

10  
11 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE WASHINGTON**  
12 **UTILITIES AND TRANSPORTATION COMMISSION ("WUTC" OR "THE**  
13 **COMMISSION") OR OTHER STATE COMMISSIONS?**

14 A. Yes. I have presented testimony before the WUTC in Phase III of Docket Nos. UT-  
15 960369, et al. and in Parts D and E of Docket No. UT- 003013.

16  
17 Also, I have testified on numerous occasions in the area of telecommunications  
18 ratemaking and cost methodologies in Missouri, Illinois, South Carolina, West Virginia,  
19 New York, Hawaii, Michigan, and Oregon. In addition, I have presented testimony in  
20 public utility commission proceedings dealing with issues related to the  
21 Telecommunications Act of 1996 in Pennsylvania, Ohio, Illinois, Indiana, South  
22 Carolina, Wisconsin, Kentucky, Arkansas, New Mexico, Alabama, Texas, Florida, and  
23 New York.

1 **Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?**

2 A. First, I explain that Verizon's intrastate long distance charges satisfy the Commission's  
3 imputation test. In doing so, I explain why Dr. Selwyn's imputation analysis is incorrect.  
4 Second, I explain that Staff witness Zawislak's re-calculation of Verizon's Interim  
5 Terminating Access Charge (ITAC) is incorrect. In fact, I show that Mr. Zawislak's  
6 calculation – after being corrected – results in an ITAC of \$0.04742 for Verizon, which is  
7 higher than Verizon's current ITAC. Third, I explain Verizon's proposal to offset any  
8 access reductions with increases in basic residential rates, and I set forth the residential  
9 rates that would result if Verizon's access charges were reduced by \$32 million per year  
10 as proposed by Staff.

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12 **II. VERIZON'S TOLL RATES PASS IMPUTATION**

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14 **Q. PLEASE DESCRIBE THE COMMISSION'S IMPUTATION TEST.**

15 A. When the Commission classified Verizon's (then GTE Northwest) toll services as  
16 competitive, it adopted as the applicable cost standard the imputation analysis submitted  
17 by the Company in Docket No. UT-970598. The standard generally requires that average  
18 rates under each toll plan cover imputed access charges and the incremental costs of  
19 service.<sup>1</sup> In the referenced analysis, those incremental costs were billing and collection  
20 and retail marketing and administration expenses.

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<sup>1</sup> Docket No. UT-970767, First Supplemental Order, pages 12 and 13.

1 **Q. HOW HAS THE COMMISSION OR STAFF APPLIED OR INTERPRETED THIS**  
2 **IMPUTATION TEST?**

3 A. As noted in Mr. Zawislak's testimony (p. 10), the proper "Billing and Collection" (B&C)  
4 costs for imputation should be Verizon's TSLRIC "based on long-standing Commission  
5 precedent." Also, he states that it is acceptable for Verizon to use the Average Revenue  
6 Per Minute (ARPM) in its imputation analysis for each plan. The ARPM analysis is a  
7 "plan by plan" analysis.

8  
9 **Q. DID VERIZON PREPARE AN IMPUTATION STUDY THAT REFLECTS THE**  
10 **COMMISSION'S REQUIREMENTS?**

11 A. Yes. Verizon prepared an Imputation Study, which is attached as Exhibit TRD-2C. This  
12 study examines the ARPM generated by each toll plan and compares it to the cost of toll.  
13 The "cost of toll" includes (1) imputed access charges, (2) Verizon's incremental cost for  
14 B&C, and (3) Verizon's incremental cost for retail and marketing expenses.

15  
16 **Q. WHAT DOES THE IMPUTATION STUDY SHOW?**

17 A. The study shows that every Verizon toll plan satisfies the Commission's imputation test.

18  
19 **Q. DR. SELWYN CLAIMS THAT VERIZON'S TOLL PLANS DO NOT PASS**  
20 **IMPUTATION. PLEASE COMMENT.**

21 A. Dr. Selwyn is wrong. First, in determining B&C costs, Dr. Selwyn's study relies on the  
22 prices Verizon New York charges to Verizon Long Distance for B&C services. As noted  
23 earlier, "long standing Commission precedent" requires the use of Verizon's TSLRIC to

1 establish B&C costs. Therefore, Dr. Selwyn's study does not comply with the  
2 Commission's imputation rule.

3  
4 Second, in calculating marketing costs, Dr. Selwyn relies on an *estimate* of the marketing  
5 expenses of other companies (IXCs) that was offered in a Minnesota proceeding. In  
6 contrast, Verizon developed its marketing costs based on a Washington-specific TSLRIC  
7 study.

8  
9 Finally, Verizon's expert witness Carl Danner has reviewed Verizon's *Imputation Study*  
10 and Dr. Selwyn's analysis and has independently verified Verizon's approach. He  
11 explains this is his testimony.

12  
13 **III. STAFF'S ITAC ADJUSTMENT IS WRONG**

14  
15 **Q. WHAT IS THE "ITAC"?**

16 A. The ITAC is a Commission-established minute-of-use (MOU) charge that is added onto  
17 local exchange carriers' (LECs) terminating access charges. The purpose of the ITAC is  
18 to allow carriers to recover their costs of providing universal service as calculated by the  
19 Commission. The ITAC was developed as a part of the Commission's 1998 access  
20 charge rulemaking. In a nutshell, this rulemaking restructured LECs' terminating access  
21 charges so that (1) they are equal to TSLRIC, except that (2) LECs can also recover their  
22 universal service costs via a per MOU adder to terminating access (the ITAC).

1 **Q. HOW WAS VERIZON'S CURRENT ITAC CALCULATED?**

2 A. Verizon's current base ITAC is about \$0.03 per MOU. The Commission used two  
3 computer models to estimate a forward-looking cost of providing universal service (basic  
4 residential service and single-line business service). The Commission then assumed that  
5 Verizon would collect \$31 per month from each residential customer and \$51 per month  
6 from each business customer. If the cost of providing residential or business service in a  
7 given Verizon wire center exceeded these revenue benchmarks, the Commission  
8 concluded that universal service support was needed for that wire center, in the amount of  
9 the difference between the cost estimate and those revenue benchmarks. The resulting  
10 "intrastate support requirement" was used to calculate the ITAC. In this process the  
11 Commission imputes part of the support requirement to Verizon's toll rates.

12  
13 **Q. WITH THIS BACKGROUND, PLEASE DESCRIBE MR. ZAWISLAK'S RE-**  
14 **CALCULATION OF VERIZON'S ITAC.**

15 A. He states that Verizon's current ITAC rate should be reduced from the current  
16 \$0.0323794 to about \$0.0188. He claims his calculation is based on the same  
17 methodology that was used to establish the initial ITAC but updated to reflect current  
18 access line counts and projected interstate support. Specifically, Mr. Zawislak claims  
19 that Verizon has received (or will receive) an additional \$21,465,984 in interstate support  
20 as a result of the FCC's recently established Interstate Access Support (IAS) mechanism  
21 adopted in its *CALLS Order*.<sup>2</sup>

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<sup>2</sup> In the Matter of Access Charge Reform Price Cap Performance Review for Local Exchange Carriers Low-Volume Long Distance Users Federal-State Joint Board On Universal Service. CC Docket Nos. 96-262; 94-1; 99-249; 96-45. Sixth Report and Order in CC Docket Nos. 96-262 and 94-1 Report and Order in CC Docket No. 99-249 Eleventh Report and Order in CC Docket No. 96-45. Released: May 31, 2000 ("*CALLS Order*")

1 **Q. DO YOU AGREE WITH HIS ANALYSIS?**

2 A. No. Mr. Zawislak's analysis assumes that Verizon has received (or will receive) an  
3 *additional* \$21 million in universal service support from the FCC as a result of the  
4 *CALLS Order*. This assumption is demonstrably wrong.

5  
6 As explained by the FCC, the *CALLS Order* did *not* give LECs additional high-cost  
7 support; rather, it simply rebalanced interstate rates by replacing implicit supports  
8 (collected via interstate access charges) with explicit support (the IAS mechanism). The  
9 FCC made clear that this rebalancing was not part of the FCC's high-cost support  
10 mechanism (from which Verizon receives no support for Washington).

11 CALLS proposes the establishment of an explicit interstate universal  
12 service support mechanism that will provide support to *replace* \$650  
13 million of annual implicit support currently collected through interstate  
14 access charges, which is being phased out as part of the CALLS  
15 Proposal's common line restructuring. In contrast to the Commission's  
16 existing high-cost support mechanisms for rural and non-rural carriers,  
17 which provide support to enable states to ensure reasonable comparability  
18 of *intrastate* rates, the purpose of the new federal interstate access  
19 universal service support mechanism is to provide explicit support to  
20 replace the implicit universal service support in *interstate* access charges.  
21 As explained below, the new mechanism provides support to carriers  
22 serving lines in areas where they are unable to recover their permitted  
23 revenues from the newly revised SLCs.<sup>3</sup>

24  
25 Mr. Zawislak's analysis also ignores the fact that \$31 and \$51 revenue benchmarks were  
26 based on the FCC's calculations that relied on 1994 data<sup>4</sup> that included, among other

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<sup>3</sup> CALLS Order, ¶ 195 (emphasis added).

<sup>4</sup> See FCC's Universal Service Order, n. 710 ("Subtracting taxes and surcharges from and adding access revenues to average residential bills results in ILEC revenues per line of \$30.71 in 1994").

1 things, revenues from access charges. The Commission also followed this approach in its  
2 definition of the benchmarks in Docket No. UT-980311(r).

3  
4 Therefore, by continuing the use of the \$31 and \$51 revenue benchmarks, which include  
5 access revenues, and additionally deducting the \$21 million of interstate access charge  
6 rebalancing, Mr. Zawislak double-counts access revenues. This is obviously incorrect.  
7 This flaw could be remedied by reducing the revenue benchmarks to reflect the reduction  
8 of \$21 million in access revenues, but there would be no point in doing that for this case,  
9 as the resulting ITAC would be mathematically the same.

10  
11 **Q. HAVE YOU ESTIMATED WHAT THE ITAC WOULD BE IF MR. ZAWISLAK**  
12 **USED THE CORRECT AMOUNT OF INTERSTATE SUPPORT?**

13 A. Yes. His corrected calculation yields an ITAC of \$0.04742. This calculation is included  
14 in Exhibit TRD-3C.

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16 **IV. VERIZON'S OFFSET PROPOSAL**

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18 **Q. PLEASE SUMMARIZE VERIZON'S OFFSET PROPOSAL.**

19 A. As discussed by Mr. Fulp, if the Commission chooses to reduce Verizon's access  
20 charges, then Verizon proposes to restructure its access charges and make revenue-  
21 neutral increases to its basic residential (R-1) rates. Mr. Fulp explains and quantifies the  
22 access restructuring, and I explain and quantify the proposed increases to basic rates.

1 **Q. WHAT R-1 INCREASES DOES VERIZON PROPOSE?**

2 A. If the Commission reduces access charges by \$32 million, as proposed by Staff, then  
3 Verizon must increase its R-1 flat rate service, which consists of basic access to the  
4 network plus unlimited local calling, from \$13.00 to \$17.56 per month. In addition,  
5 Verizon proposes to increase its R-1 Basic Measured service, which consists of basic  
6 access to the network plus measured usage rates for outgoing local calls to the home and  
7 EAS exchanges, by the same amount, from \$7.25 to \$11.81 per month. (Note that as a  
8 result of the *Merger Order* mentioned by Mr. Fulp, Verizon has no Extended Area  
9 Service (EAS) rate adders. The EAS routes have been incorporated into the local calling  
10 areas covered by the basic rate.)

11

12 **Q. HOW DID VERIZON CALCULATE THESE INCREASES?**

13 A. The increase to the residential rates is based on the billable lines (569,624 R-1 flat and  
14 14,630 R-1 measured as of September 30, 2002 and the required revenue offset. The  
15 resultant increase was calculated to be \$4.56 per line per month.

16

17 **Q. HOW DID YOU DETERMINE THAT ALL OFFSETS SHOULD BE MADE TO**  
18 **VERIZON'S RESIDENTIAL SERVICE RATES?**

19 A. Using the cost information supplied by Verizon witness David Tucek, I compared the  
20 current price of R-1 service to its total service long-run incremental cost (TSLRIC), and  
21 found that the price is significantly below TSLRIC. I also noted that the TSLRIC for  
22 business local service is less than the amount for residential service, while the current B-1  
23 rates are higher than the R-1 rates. Given this situation and the well-established

1 economic principles discussed by Verizon witness Dr. Carl Danner, I concluded that all  
2 offsets should be made to R-1 services.

3

4 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

5 A. Yes, it does.

**BEFORE THE**  
**WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

<b>AT&amp;T COMMUNICATIONS OF</b>	)	
<b>THE PACIFIC NORTHWEST, INC.,</b>	)	
<b>COMPLAINANT</b>	)	<b>DOCKET NO. UT-020406</b>
<b>v.</b>	)	
<b>VERIZON NORTHWEST INC.,</b>	)	
<b><u>RESPONDENT</u></b>	)	

**DIRECT TESTIMONY OF**  
**TERRY R. DYE**

**ON BEHALF OF**  
**VERIZON NORTHWEST INC.**

**SUBJECT: LOCAL RATE DESIGN, IMPUTATION, AND ITAC**

**DECEMBER 3, 2002**