

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of the Application of	)	
	)	
GTE CORPORATION and BELL	)	DOCKET NO. UT-981367
ATLANTIC CORPORATION	)	
	)	
for an Order Disclaiming Jurisdiction or,	)	
in the Alternative, Approving the	)	
GTE CORPORATION-BELL	)	
ATLANTIC CORPORATION MERGER	)	
	)	
	)	
WASHINGTON UTILITIES AND	)	
TRANSPORTATION COMMISSION	)	DOCKET NO. UT-000672
	)	
Petitioner,	)	
	)	
v.	)	
	)	
GTE NORTHWEST INCORPORATED	)	
	)	
Respondent.	)	
	)	
INFORMAL STAFF INVESTIGATION	)	DOCKET NO. UT-991164
OF GTE NORTHWEST’S EARNINGS	)	
AND REVENUE	)	
	)	

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**JOINT RESPONSE OF  
VERIZON NORTHWEST INC. AND COMMISSION STAFF TO  
PUBLIC COUNSEL PROPOSAL FOR  
PHASE IV RATE DESIGN**

## I. INTRODUCTION

Currently pending before the Commission is the final step of a carefully negotiated settlement process that already has conferred substantial benefits on Verizon Northwest Inc.'s ("Verizon's") ratepayers throughout the state. If anything, the dispute between Verizon and Commission Staff, on the one hand, and Public Counsel on the other, demonstrates the good faith with which all parties have approached this matter. Verizon, Commission Staff and Public Counsel all agree on the large majority of the rate elements that make up this Phase IV rate design. At its core, what separates the parties at this final step is a difference in policy regarding the importance of uniform and cost-based rates versus the importance of avoiding large or inappropriate increases in rates for basic services.

Verizon and Commission Staff recognize that the proposed rate design would, in the course of achieving a uniform rate for Verizon residential service in this state, represent a small increase in the monthly rate for some Verizon customers in the lowest-priced rate groups. But as acknowledged by Public Counsel,<sup>1</sup> the large majority of customers will still receive a reduction because of the lowering of rates in higher-priced rate groups, the elimination of the EAS adders, or the other benefits of the proposed rate design. For the reasons set forth below, as compared to Public Counsel's proposal, Verizon and Commission Staff's Phase IV rate design is in the public interest and should be approved by the Commission.

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<sup>1</sup> Public Counsel Brief at 5.

## II. ARGUMENT

### A. The Phase IV Rate Design Jointly Submitted by Verizon Northwest and Commission Staff is Consistent with the Adoption Order and the Settlement Agreement.

The Phase IV rate design proposed by Verizon and Commission Staff includes a state-wide averaging of residential rates to \$13.00. Public Counsel objects to this design because it requires an additional increase to lower-priced residential rate groups; according to Public Counsel, this would be “contrary to the clear terms of the Merger Settlement.”<sup>2</sup> Public Counsel Brief at 5. Public Counsel asserts that the intent of Phase IV is to “apportion \$7 Million in *reductions*, not to offset further increases above those already agreed to and approved.” *Id.* (emphasis in original.)

Contrary to Public Counsel’s suggestion, the rate design proposed by Commission Staff and Verizon is wholly consistent with the Settlement Agreement and the Adoption Order. This can be seen in three independent sources: the text of the Settlement Agreement itself, the testimony of the settling parties before the Commission in presenting the Settlement Agreement, and the text of the Adoption Order.

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<sup>2</sup> The Commission should keep in mind that this is not, as Public Counsel’s use of the term “Merger Settlement” suggests, simply a settlement of the merger of GTE and Bell Atlantic. If it were, there might be some merit to the notion that no group of customers should see a rate increase because a merger should not result in higher rates. However, the Settlement Agreement also included resolution of a comprehensive earnings review that, in the absence of settlement, likely would have resulted in a general rate case. In that context, the Commission could have been expected to order increases in some rates and decreases in others, as Commission Staff and Verizon are recommending here.

Looking first at the text of the Settlement Agreement, it does not state that rate reductions must occur without rate adjustments. On the contrary, the Settlement Agreement is broadly worded to permit flexibility in the final phase of the rate design to achieve an *overall* rate reduction of \$7 million. According to the Settlement Agreement, “GTE will *change* rates to produce the following *aggregate* revenue impacts . . . . For the changes in this Phase to retail, toll and access rates, GTE will propose a rate design by January 16, 2001.” Settlement Agreement at 5-6. The Settlement Agreement requires Verizon to “change” rates, not only reduce them; it calls for “aggregate” revenue impacts, not only reductions.

Any doubt on this score was removed by the testimony of the settling parties before the Commission when they presented the Settlement Agreement. On November 22, 1999, at the hearing regarding the settlement, it also was acknowledged that Phase IV would be a flexible work in progress. Regarding Phase IV, Ms. Lida Tong stated:

[T]he parties have maintained \$6 million of the committed reductions to be designed in early 2001, and the purpose of this was to preserve the flexibility the parties would have at that time to address any specific rates which may surface as priority rate reductions between now and then that we are not yet prepared to address.

\* \* \*

July 1, 2001, we will complete the reductions in business rates and the residential and business rate increases in the lowest rate group. In addition, a million dollars is targeted to toll and originating access reductions at that time, *although the specific rates have not yet been designed, and then the \$6 million remaining that parties will propose will negotiate a rate design* to be presented for this Commission approval prior to July 1, 2001.

Lida Tong Testimony, Transcript of Proceedings at 29:20-30:1; 31:18-32:3 (emphasis added).

No party disputed that Phase IV was purposefully broadly worded to allow the parties an opportunity to craft an appropriate rate design.

Moreover, at that hearing, the Company clearly expressed its desire to move to a single state-wide average rate:

The goal of the rate design in accomplishing the \$30 million rate reduction is to simplify GTE's very complex rate structure for its basic services. The rate design, as presented in the document before you, achieves a statewide average rate for business customers and collapses the current seven rate bands that we have for residential customers down to three. And by moving in this direction, it necessitated an increase to the rate of the lowest rate band. However, there are many other rate groups that have reductions to offset that.

We did not move to one statewide average rate for residential customers *at this time* to mitigate any possible rate shock that might happen caused by any increases greater than necessary at this time.

The benefit of a state-wide average rate is so that GTE's customers throughout the state can pay the same or similar rates for the same service provided by GTE throughout the state.

Lida Tong Testimony, Transcript of Proceedings at 29:10-13 (emphasis added). Other settling parties emphasized, specifically, that some customers would see slight increases as a result of the rate design resulting from the Settlement Agreement. As Dr. Blackmon testified at the hearing:

Part of what we've attempted to do here is to bring rates closer to what it actually costs to provide service and to charge customers comparable rates for comparable service. And that does mean that, over the next couple of years, some of the rates that GTE charges today will be going up. We also will see even customers in some of the highest cost areas that GTE serves, they will see their rates going down some, and we think that's just as important that those customers also pay comparable rates and we recognize that GTE's rate structure overall allows them to serve those customers and not charge them extraordinarily high rates to do so.

Glenn Blackmon Testimony, Transcript of Proceedings at 37:13-25.

Finally, if there was any doubt as to the consistency of the rate design proposed by Verizon and Commission Staff with the Settlement Agreement and the Commission's Order, a

review of the Order removes that doubt. The Commission recognized the open-ended broad scope of Phase IV and that rate increases could be a component of the overall Phase IV rate design. The Adoption Order provides that “fourth phase rate *adjustments* [will] . . . *net* an annual revenue reduction of \$7,00,000 no later than July 1, 2001.<sup>3</sup> The proposal for the Phase IV submitted by Verizon Northwest and Commission Staff does just that. For these reasons, Public Counsel’s perception that a further rate increase is contrary to the terms of the Settlement Agreement should carry no weight.<sup>4</sup>

**B. Verizon Northwest and Commission Staff’s Joint Proposal for the Phase IV Rate Design is Consistent with Commission Precedent.**

Verizon and Commission Staff recognize the benefits of bringing Verizon’s rates to a single state-wide average. This proposal is consistent with the Commission’s efforts to further the development of local communications.

In 1995, the Commission presided over a rate case involving U S WEST. That rate case was the most recent comprehensive procedure involving one of the state’s two largest incumbent local exchange companies. One of the explicit proposals discussed in that proceeding was the dual-rate system, to price residential service into two zones: “urban” and “rural.” The Commission rejected the proposal, finding that the “average state-wide single

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<sup>3</sup> *In the Matter of the Application of GTE Corporation and Bell Atlantic Corporation for an Order Disclaiming Jurisdiction or, in the Alternative, Approving the GTE Corporation-Bell Atlantic Corporation Merger*, Docket No, UT-981367, Fourth Supplemental Order Approving and Adopting Settlement Agreement, Granting Application, Subject to Conditions (Dec. 16, 1999), at 22 (emphasis added) (“Adoption Order”).

<sup>4</sup> Verizon Northwest and Commission Staff also note that Public Counsel agreed to the LMS Revenue from Basic Service increase by \$13,000, which is inconsistent with Public Counsel’s argument that no rate increases should be a part of the Phase IV rate design. Public Counsel Brief, Attachment A.

flat residential rate is the appropriate level for residential service.” *WUTC v. U S West Communications, Inc.*, Docket No. UT-950200, Fifteenth Supplemental Order, at 100.

The U S WEST decision is an important precedent not only for the fundamental policy direction to establish a single rate for all customers but also for the question of whether this should be accomplished even if it requires some rates to increase. In the U S WEST case referenced above, the Commission adopted the uniform pricing policy even though it resulted in increases of up to \$1.75 for some customers and even though the overall impact of the Commission’s Order was to reduce U S WEST’s rates by \$90 million per year.

As in that case, the elimination of rate groups in Verizon and Commission Staff’s proposal will result in rate increases for some customers. Also as in that case, *id.*, at 101, Verizon and Commission Staff’s proposal phases in the increase for those affected groups. For those customers in the G1 rate group who will not benefit from EAS Adder reductions, Verizon will defer the final \$0.25 increase until January 1, 2002. A single average state-wide rate, implemented as proposed by Commission Staff and Verizon, is in accordance with Commission policy and should be approved.

**C. Public Counsel’s Rate Proposal Promotes an Outdated Rate Design.**

Public Counsel proposes to maintain an outdated multi-rate rate design which would preserve a regime in which rate groups tending to have lower costs would pay higher rates, and rate groups tending to have higher costs would pay lower rates. This inverse relationship should not be maintained or encouraged in today’s environment. When faced with a pre-existing condition that rates are inversely related to cost, the development of a single average rate is an appropriate step.

Public Counsel's complaints about the greater reductions directed to business rates are similarly unfounded. While the parties might disagree over the proper determination of the true "cost" of basic local service, there can be no dispute that business rates exceed cost by a substantial margin. Public Counsel thus seeks to prolong a regulatory pricing regime in which business rates remain comparatively further above cost. It is for this reason that business customers – not residential customers – are targeted by new competitive local service providers. The Commission in the U S WEST case referenced above determined that the need to move toward more cost-based rates required that reductions be targeted at business service, and the same public policy objectives support a similar, though admittedly more modest, change for Verizon's rates.

Finally, Public Counsel complains that there is no proof that the \$13.00 monthly Premium Service rate proposed by Verizon and Commission Staff is the "true" statewide average. Public Counsel's complaints miss the mark. As a matter of mathematics, the \$13.00 rate is the single rate calculated to achieve the rate reductions committed to by the settling parties. It is a reasonable and prudent rate that falls between the rates currently charged in Verizon's different rate bands. Public Counsel certainly offers no further support for either of the rates it proposes. The single statewide average residential rate proposed by Commission Staff and Verizon should be approved.

### **III. CONCLUSION**

The comprehensive rate design proposed by Verizon and Commission Staff for Phase IV of this proceeding is reasonable and in the public interest. It should be approved by this Commission, and the alternative proposal from Public Counsel should be rejected.

Respectfully submitted this \_\_\_\_ day of May, 2001.

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