

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

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

WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION

Petitioner,

v.

GTE NORTHWEST INCORPORATED

Respondent.

INFORMAL STAFF INVESTIGATION
OF GTE NORTHWEST'S EARNINGS
AND REVENUE

DOCKET NO. UT-981367

PUBLIC COUNSEL PROPOSAL
FOR FOURTH PHASE RATE
DESIGN

DOCKET NO. UT-990672

DOCKET NO. UT-991164

I. INTRODUCTION

The GTE-Bell Atlantic Merger Settlement Agreement, approved by the Commission in Docket No. UT-981367, provided that GTE Northwest (n/k/a Verizon) would adjust rates in four different phases and that “the sum of the four phases will total, as close as practicable, Thirty Million Dollars (\$30,000,000)” in revenue reductions. Fourth Supplemental Order, Appendix A to Order, Settlement Agreement at 3 (hereafter referred to as “Merger Settlement”). As stipulated in the Merger Settlement, the Fourth Phase rate design would become effective July 1,

2001, and would result in a total net annual revenue reduction of Seven Million dollars (\$7,000,000) for GTE Northwest (n/k/a Verizon). Merger Settlement at 3.

The Merger Settlement provides that “GTE will propose a rate design by January 16, 2001. If the parties cannot reach agreement on an appropriate rate design by March 16, 2001, the parties will, by May 1, 2001, submit their respective rate design proposals to the Commission for decision.” Merger Settlement at 6. Although a number of proposals were discussed, Public Counsel did not reach agreement with Commission Staff and Verizon regarding the appropriate rate design for the Fourth Phase by March 16, 2001. Consequently, in this pleading, Public Counsel submits its proposal for Verizon’s Fourth Phase rate design, for consideration and decision by the Commission.

II. THE PARTIES AGREE ON MANY ELEMENTS OF PHASE IV RATE DESIGN

The Merger Settlement stipulates that in the Fourth Phase, GTE (n/k/a Verizon) will change rates to produce the following aggregate revenue impacts:

Retail and/or Access	(\$5,999,000)
Toll and Originating Access	(\$1,000,000)
Business Rates (B1)	(\$1,131,000)
Residential Rate Increase (G1)	\$ 747,000
Business Rate Increase (G1)	\$ 383,000
Total Reduction	(\$7,000,000)

Merger Settlement at 5.

After Verizon submitted a proposal on January 16, 2001, the Parties conducted negotiations for the subsequent two months. Although the Parties did not reach complete agreement on all aspects of the Fourth Phase rate design, the Parties did reach agreement on many elements of the proposed Fourth Phase rate design. Attachment A to this proposal

provides a complete list of the proposed elements that the Parties agree should be included in the Fourth Phase rate design. This includes the elimination of the additional charge for Extended Area Service (EAS), which would result in an annual revenue decrease of \$3.517 Million, or approximately half of the net revenue reduction for the Fourth Phase. In addition, Public Counsel supports the recommendation made by Commission Staff and Verizon that \$1,019,000 be used toward reductions in originating access rates.¹ As shown in Attachment A, the Parties also agree on several other proposed retail rate adjustments, which would result in a total revenue reduction of \$4,486,000. Thus, the Parties were only unable to reach agreement on the remaining \$1.494 Million of annual revenue reductions. Public Counsel's disagreement with the Joint Motion of Commission Staff and Verizon focuses on the proposed elements referred to as "Item N" and "Item O" of the Joint Motion filed April 16, 2001. Public Counsel's view of the most appropriate rate design for the additional \$1.494 Million is set forth below.

III. THE FOCUS OF PUBLIC COUNSEL'S PROPOSAL: RESIDENTIAL AND BUSINESS RATES

Public Counsel agrees with Commission Staff and Verizon that the remaining \$1.494 Million in net revenue reductions should include adjustments to business and residential rates. However, we were not able to agree upon the specific amount and design of the rate adjustments. Public Counsel proposes \$1,117,137 in residential rate decreases, and \$376,863 in business rate decreases, as described below. This proposal is outlined in further detail in Attachment B.

First, Public Counsel proposes the following residential rate reductions:

¹This reduction is referred to as "Item P" in the Joint Motion of Commission Staff and Verizon, filed April 16, 2001. Specifically, the Joint Motion recommends elimination of the Originating Information Surcharge and a reduction in the Zone 2 and Zone 3 Originating Carrier Common Line Charge.

Reduction in Basic Rate to \$7.25 (C1)	(\$48,537)
Reduction in Community Plus and Premium Rates to \$13.10 (C1, G2A, G3)	(\$1,068,600)
Total Residential Reductions	(\$1,117,137)

Our proposal to lower residential rates would reduce the rate for flat rate local telephone service for three rate groups to \$13.10. One group (C1) is currently at \$14.00, while the other two groups (G2A, G3) are at \$13.25. The remaining four rate groups will pay \$12.75 as of July 1, 2001.²

Second, with respect to business rates, Public Counsel proposes that the balance of the \$1.494 Million be used toward a uniform reduction in business rates for all exchanges. Thus, after reducing residential rates as outlined above, \$376,863 would be available for business rate reductions, which would result in a uniform rate decrease of about \$.20, as indicated in Attachment B.³

In their Joint Motion filed April 16, 2001, Commission Staff and Verizon have proposed a \$13 statewide rate for residential flat rate service, which would result in a net annual revenue reduction of approximately \$950,000 in residential rates, and \$544,000 toward a uniform rate reduction in business rates. Public Counsel does not support such a proposal, as discussed below.

² This includes the G1 rate group, whose rates are already scheduled to increase to \$12.75 as part of the Fourth Phase rate design.

³ A uniform reduction of \$.20 in business rates would result in an annual revenue reduction of \$362,956, somewhat less than the \$376,863 we are proposing to allocate for a reduction in business rates.

A. The Verizon/Staff Proposal is Contrary to the Merger Settlement

As part of the Merger Settlement, the Parties agreed to a series of rate increases for the G1 residential rate group. Prior to the merger, this group had the lowest monthly rate for flat rate service in GTE's service territory.⁴ The Parties agreed to raise these rates, from \$10 to \$12.75 per month, through three increases, beginning July 1, 2000. The third and final increase for the G1 rate group is scheduled to occur in the Fourth Phase, where rates are scheduled to increase from \$11.84 to \$12.75 on July 1, 2001. Public Counsel objects to a further rate increase for this group as being contrary to the clear terms of the Merger Settlement. Creating a statewide average rate of \$13 would result in a total annual increase for G1 of \$947,000, instead of the agreed \$747,000. The intent of the Fourth Phase, by its express terms, was to apportion \$7 Million in reductions, not to offset further increases above those already agreed to and approved. A rate increase to \$13 would result in an increase of \$1.16 for customers in the G1 rate group during the Fourth Phase, and a total increase of \$3 in less than two years. We recognize that for many customers in the G1 rate group, the Fourth Phase rate increase would be offset by the proposed elimination of the \$1.90 mandatory EAS additional charge. However, it is our understanding from Commission Staff that approximately 22,605 customers in the G1 rate group do not currently have an EAS charge, and would therefore face a rate increase of \$1.16.

B. Business Rates Have Decreased Over Four Times As Much As Residential Rates As A Result Of the Merger Settlement

Public Counsel observes that as part of the Merger Settlement approved by the Commission, Verizon's business rates have experienced a net reduction of just over \$12 Million, whereas residential rates have experienced a net decrease of just under \$3 Million. These residential and business rate adjustments, including the previously approved rate adjustments for the Fourth Phase, are summarized below:

⁴ Verizon's 'Community Plus' and 'Premium' plans provide flat rate local telephone service, while the 'Basic' plan offers measured service.

	Net Residential Rate Adjustments	Net Business Rate Adjustments
Second Phase	(\$2,663,000)	(\$5,137,000)
Third Phase	(\$1,001,000)	(\$6,241,000)
Fourth Phase (previously approved)	\$747,000	(\$748,000)
Total	(\$2,917,000)	(\$12,126,000)

Thus, business rates have experienced a net reduction that is four times as large as the net reduction in residential rates. Public Counsel therefore believes that it would be most appropriate to allocate a greater portion of the Fourth Phase retail rate reduction toward residential rate reduction. Our proposal would lower the monthly rate for three residential rate groups, to \$13.10, while four rate groups would remain at \$12.75. In contrast, the joint proposal by Commission Staff and Verizon would increase residential rates for the four rate groups currently at \$12.75, and would lower the rate for three rate groups. Also, while Public Counsel proposes an additional \$376,833 in business rate reductions, Commission Staff and Verizon have proposed a larger reduction in business rates. Given the significant reductions in business rates that have already occurred as part of the Merger Settlement, we believe that our proposal represents a more equitable plan for the Fourth Phase rate design.

C. There is No Evidence That \$13 Is The Correct Statewide Average Rate For Verizon

Although Public Counsel agrees with the goal of establishing a uniform statewide rate for flat rate residential telephone service, we do not believe that there is any evidence indicating that \$13 is the correct rate. Moreover, while customers in three rate groups would experience a rate decrease, establishing a statewide rate of \$13 would result in rate increases for customers in four rate groups, from \$12.75 to \$13. It may well be that \$12.75 is the correct level for a Verizon statewide rate. Although the rate increase would be offset, for many customers, by the proposed elimination of the EAS additional charge, several customers in these four rate groups are not

currently charged an EAS adder, and thus these customers would clearly be made worse off by increasing the rate to \$13. Many of the customers who would experience such a rate increase live in rural parts of the state and may have access to fewer vertical services than urban customers.

IV. CONCLUSION

For the foregoing reasons, Public Counsel respectfully requests that the Commission adopt its Fourth Phase Rate Design.

DATED this 24th day of April, 2001.

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