

Exhibit No. \_\_\_-T (TWZ-1T)  
Docket No. UT-040788  
Witness: Timothy W. Zawislak

BEFORE THE WASHINGTON  
UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION,

Complainant,

v.

VERIZON NORTHWEST INC.,

Respondent.

DOCKET NO. UT-040788

TESTIMONY

OF

TIMOTHY W. ZAWISLAK  
REGARDING INTERIM RATE RELIEF

STAFF OF  
WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION

July 14, 2004

1 I. INTRODUCTION

2

3 Q. Please state your name and business address.

4 A. My name is Timothy W. Zawislak, and my business address is 1300 South  
5 Evergreen Park Drive Southwest, Olympia, Washington 98504-7250.

6 My business e-mail address is [tim@wutc.wa.gov](mailto:tim@wutc.wa.gov).

7

8 Q. By whom are you employed and in what capacity?

9 A. I am employed by the Washington Utilities and Transportation  
10 Commission (Commission) as a Telecommunications Regulatory Analyst.  
11 My participation in this case is on behalf of the Commission's Staff (Staff).

12

13 Q. What are your qualifications?

14 A. In December 1989, I earned a Bachelor of Arts Degree in Accounting from  
15 Saint Martin's College. In January 1990, I began my career with the  
16 Commission.

17 My experience at the Commission has included providing expert  
18 witness testimony on telecommunications matters such as Access Charges,  
19 Universal Service, Extended Area Service, Intercarrier Compensation, the

1 1995 U S WEST General Rate Case, and Payphone Deregulation pursuant to  
2 the Telecommunications Act of 1996.

3

4 **II. SCOPE OF TESTIMONY**

5

6 **Q. What is the scope of your testimony in this case?**

7 A. I address rate design issues, in the event the Commission decides to grant  
8 the Company's interim rate relief request, in whole or in part. I present  
9 Staff's recommendations on rate design, and I respond to the specific  
10 interim surcharge proposed by Verizon Northwest Inc. (Verizon NW or  
11 Company), as sponsored by Company witness Mr. Banta.

12

13 **III. STAFF'S RATE DESIGN RECOMMENDATIONS**

14

15 **Q. If the Commission decides to grant Verizon NW's request for interim rate**  
16 **relief, in whole or in part, what rate design is appropriate?**

17 A. Any revenue the Commission authorizes the Company to collect by way of  
18 interim rate relief should be collected through an equal percentage increase  
19 to all intrastate retail and resale tariffed, price listed, and contracted access

1 lines, except for Unbundled Network Elements (UNEs). The lines the  
2 Company uses to serve customers eligible for the Washington Telephone  
3 Assistance Program (WTAP) would be subject to the surcharge.

4

5 **Q. Please summarize the basis for Staff's rate design recommendation.**

6 A. An equal percentage increase is appropriate because it maintains current  
7 rate relationships during the pendency of the general rate case. These rate  
8 relationships should not be altered before a review of the Company's cost  
9 studies is complete.

10 It is appropriate to apply any interim surcharge broadly to all retail  
11 and resale tariffed, price listed, and contracted access lines (excluding  
12 UNEs), because it results in an equitable sharing of the burden of the  
13 interim increase among all customers.

14

15 **Q. Has Staff been able to complete a review of the Company's cost studies?**

16 A. No. Verizon NW will not file its cost support for any tariff until late  
17 August. Those cost studies, along with revenue requirements issues, will  
18 be reviewed during the general rate case phase of this proceeding. Interim  
19 rate relief is not intended to encompass a thorough review of the utility's

1 revenue requirements and cost studies. Accordingly, a rate design for  
2 interim rate relief should be simple, practical, and equitable. Staff's  
3 recommended rate design satisfies these objectives.

4

5

#### IV. VERIZON NW'S RATE DESIGN PROPOSAL

6

7 **Q. What rate design does Verizon NW propose for implementing its request**  
8 **for interim rate relief?**

9

A. Verizon NW is seeking \$29.7 million (annual amount) in interim rate relief.

10

The Company proposes to collect this amount through a \$3.54 per line, per

11

month surcharge. The Company offers to collect these charges subject to

12

refund. *See Direct Testimony of Mr. Banta, Exhibit No. \_\_\_ (SMB-2T) at 8.* The

13

Company proposes to impose this interim surcharge on most access lines

14

the Company uses to serve residential and business customers. However,

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as I explain later, the Company excludes 20% of these access lines from any

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surcharge.

17

The Company's proposed list of access line services subject to the

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proposed interim surcharge is shown in Exhibit No. \_\_\_ (SMB-3).

19

1 Q. What is the Company's rationale for proposing a fixed amount increase  
2 rather than an equal percentage increase?

3 A. Verizon NW says a fixed amount per line increase rather than an equal  
4 percentage increase will mitigate the rate impact on business customers.  
5 This rationale was provided in Verizon NW's Response to Staff Data  
6 Request No. 14, which is my Exhibit No. \_\_\_\_ (TWZ-2).

7

8 Q. Did Verizon NW support its proposed rate design with any price  
9 elasticity study?

10 A. No.

11

12 Q. What kinds of services does Verizon NW propose to exclude from any  
13 interim rate increase?

14 A. Verizon NW proposes no interim rate increases for access charges,  
15 intrastate long distance services, "data and other specialized services the  
16 company provides to business and governmental customers," ancillary  
17 services (such as speed dialing and call waiting), and WTAP lines (normally  
18 funded through the Washington Telephone Assistance Program (WTAP)).

19 See Direct Testimony of Mr. Banta, Exhibit No. \_\_\_\_ (SMB-2T) at 8-9. This was

1 also explained in Verizon NW's Response to Staff Data Request No. 271,  
2 which is my Exhibit No. \_\_\_\_ (TWZ-3).

3

4 **Q. What is the Company's rationale for these exemptions?**

5 A. Overall, the Company believes its proposed rate design "reflects  
6 marketplace realities"<sup>1</sup> and "the Commission's policy decisions," and that it  
7 is easily administered, if refunds are ordered.

8 The specific reason the Company gives for not increasing access  
9 charges is that "the Commission's order in the AT&T Access Complaint  
10 case ... appears to prohibit any future increases in access charges." *Direct*  
11 *Testimony of Mr. Banta, Exhibit No. \_\_\_\_ (SMB-2T) at 9.*

12 The Company says that "vigorous competition ... makes it  
13 impossible as a practical matter" to increase rates for long distance, as well  
14 as for data and other specialized business services. *Id.* at 8-9.

15 The Company says it is "impractical" to increase ancillary service  
16 rates, such as for speed dialing and call waiting. *Id.* at 9. The Company  
17 gives no reason for exempting WTAP lines from any interim rate increase.

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<sup>1</sup> In Verizon NW's Response to Staff Data Request No. 18, the Company also vaguely describes a "rate arbitrage problem." The Company does not provide a sufficient explanation of this alleged problem.

1     **V.     STAFF’S ANALYSIS OF VERIZON NW’S RATE DESIGN PROPOSAL**

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3     **Q.     If an interim rate increase is allowed, what aspects of Verizon NW’s rate**  
4     **design proposal are appropriate?**

5     A.     The Company’s concept of increasing access line rates is an appropriate rate  
6     design for interim rate relief, because it is relatively simple and, if properly  
7     designed, calls upon most customers to participate. By contrast, a  
8     surcharge applied to all services would be quite difficult to administer, if a  
9     refund condition were also implemented, as Verizon NW offers.

10             Staff also agrees with Verizon NW that any increase in switched  
11             access charges would be inconsistent with the Commission’s decision in  
12             Docket No. UT-020406.

13             Staff also agrees that any interim rate surcharge should not be  
14             applied to ancillary services or long-distance services because applying a  
15             surcharge to these services would also be quite difficult to administer,  
16             assuming the Company’s refund offer is accepted.

17             Finally, Staff agrees that any interim rate surcharge should not be  
18             applied to lines Verizon NW provides to other telecommunications  
19             companies on an unbundled basis (UNE-P or UNE-L), because these lines



1 are subject to the Federal Communications Commission's UNE pricing  
2 rules.

3

4 **Q. What aspects of the Company's rate design proposal are not appropriate?**

5 A. First, it is not appropriate to increase residential rates by a larger percentage  
6 than the increase on business lines. Second, the Company's rate design  
7 proposal excludes many access lines, for no good reason.

8

9 **Q. Why is the Company's proposed fixed amount per line increase  
10 inappropriate?**

11 A. A fixed amount per line increase as proposed by Verizon NW is  
12 inappropriate because it forces one customer class, in this case, residential,  
13 to pay a disproportionate share of the burden. This fact is illustrated in my  
14 Exhibit No. \_\_\_ (TWZ-4), which compares the effects of Staff's  
15 recommendation to the specific rate changes proposed by Verizon NW.<sup>2</sup>

16 As this exhibit shows, the Company proposes a 27.23% increase for  
17 Residential Premium (One-Party Flat) service, but only an 11.92% increase

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<sup>2</sup> My Exhibit No. \_\_\_ -C (TWZ-5-C) provides the underlying confidential calculations which supports Staff's methodology. This calculation is based on Verizon NW's confidential Response to Staff Data Request No. 54 which is provided as my Exhibit No. \_\_\_-C (TWZ-6-C).

1 for Business Premium (One –Party Flat) service. Overall, the Company  
2 proposes increases as high as 48.83% for some residential services, and as  
3 low as 5.93% for some business services, and even zero for other business  
4 services.

5 This demonstrates that the Company’s fixed \$3.54 increase proposal  
6 changes the rate relationship between the residential and commercial  
7 customer classes, as well as the rate relationships between services within  
8 the same customer class, without any cost basis for doing so. The general  
9 rate case is the forum for such rate design changes, not interim rate relief.

10

11 **Q. How does Staff’s proposed equal percentage rate design affect residential**  
12 **services, compared to Verizon NW’s equal amount rate design?**

13 A. As shown on my Exhibit No. \_\_\_ (TWZ-4), for Residential Premium (One-  
14 Party Flat) service, Staff’s rate design would result in an interim rate  
15 increase of \$2.05 per month, which equates to a 15.78 percent increase.

16 Verizon NW proposes an interim rate increase of \$3.54 per month, which  
17 equates to an increase of 27.23 percent. Both calculations assume Verizon  
18 NW’s request for \$29.7 million is granted.

19

1 Q. How does Staff's proposed equal percentage rate design affect business  
2 services, compared to Verizon NW's equal amount rate design?

3 A. As shown on my Exhibit No. \_\_\_ (TWZ-4), for Business Premium (One-  
4 Party Flat) service, Staff's rate design would result in an interim rate  
5 increase of \$4.69 per month, which also equates to a 15.78 percent increase.  
6 Verizon NW proposes an interim rate increase of \$3.54 per month, which  
7 equates to an increase of 11.91 percent. Again, both calculations assume  
8 Verizon NW's request for \$29.7 million is granted.

9  
10 Q. Do these rate comparisons show that an equal percentage increase is  
11 more equitable than a fixed dollar increase?

12 A. Yes. In the above examples, Verizon NW's proposal would increase  
13 residence access line rates about twice the relative increase than what the  
14 Company proposes to assess on simple business access line rates, on an  
15 interim basis. By contrast, using an equal percentage increase, residence  
16 access line rates would increase by the same percentage increase as all  
17 business access line rates.

18 In addition, Verizon NW also excludes many other business access  
19 lines from any increase at all.

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**Q. You just referred to the second reason you gave why the Company's rate design proposal was inappropriate, which was that the Company's proposal excludes many access lines from any interim rate increase. What sorts of access lines does the Company propose to exclude?**

A. The Company's proposal excludes several types of business access lines, lines sold under contract, lines sold to other telecommunications companies for resale to end users, and lines subscribed to through the Washington Telephone Assistance Program (WTAP). One effect of excluding these lines is to increase the surcharge that otherwise would be imposed on residential and simple business exchange customers.

The large scope of these exclusions can best be understood by comparing Exhibit No. \_\_\_ (SMB-3), Exhibit No. \_\_\_ (TWZ-4), and Exhibit No. \_\_\_-C (TWZ-6-C), which is Verizon NW's Confidential Response to Staff Data Request No. 54. The total lines excluded can be found by turning to Exhibit No. \_\_\_-C (TWZ-5-C) and subtracting the number of lines Verizon NW proposes to use at column (b), line (6), from the total number of lines Verizon NW actually serves as of September 30, 2003, at column (b), line (4).

1                    This calculation shows the Company has excluded approximately  
2                    20% of its total access lines from any interim rate increase.

3

4    **Q.    Why is it inappropriate to exclude such a large percentage of access lines**  
5                    **from any interim rate increase?**

6    A.    Excluding this large percentage of access lines places an inequitable burden  
7                    on those customers using access lines that are not exempt from any interim  
8                    rate increase. If Verizon NW is entitled to interim rate relief, it is fair for all  
9                    customers to share in that burden.

10

11   **Q.    Why is it inappropriate for Verizon NW to exclude from application of**  
12                    **any surcharge the access lines used to serve customers receiving**  
13                    **assistance under WTAP?**

14   A.    The Company's proposal to exclude the WTAP lines from any interim  
15                    surcharge increases the surcharge for other customers. This would  
16                    improperly introduce implicit universal service support into the rates of  
17                    Verizon NW.

18                    WTAP already assists in providing affordable basic telephone  
19                    service to low-income households. However, the Legislature has

1 established the mechanism for equitable sharing of the burden of  
2 supporting this program. WTAP is funded by way of a uniform excise tax  
3 levied on all switched access lines provided by all local exchange  
4 companies in the State.

5 Verizon NW's proposal to exclude lines serving WTAP customers  
6 from any surcharge would effectively cause Verizon NW's customers to  
7 contribute twice to WTAP – once in the form of the excise tax, and a second  
8 time through a surcharge that is higher than it would otherwise be if WTAP  
9 customer lines were included.

10

11 **Q. By how much would Verizon NW's interim rate increase be lower per**  
12 **line if WTAP customer lines were included?**

13 A. Assuming the Company's interim annual rate increase of \$29.7 million is  
14 approved, the surcharge would be approximately 11 cents more per month  
15 than if WTAP customer lines were included.<sup>3</sup>

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<sup>3</sup> \$29.7 million annually ÷ 12 = \$2,475,000/month. \$2,475,000/month ÷ \$3.54/line/month surcharge = 699,152 lines subject to surcharge. There are 21,722 WTAP lines (Verizon Response to Staff Data Request No. 271, revised). \$29.7 million ÷ (699,152 + 21,722) = \$3.43/month surcharge, if WTAP lines are included. \$3.54 - \$3.43 = \$.11.

1 Q. Does Verizon NW's proposal excluding WTAP lines affect the rate  
2 WTAP customers pay?

3 A. No. WTAP customers pay the WTAP rate established by the Commission.  
4 Currently that rate is \$8.00 per month. Therefore, WTAP customers would  
5 not be directly affected by a surcharge on WTAP lines. WTAP would be  
6 affected however, if WTAP access lines are included in the lines subject to  
7 any interim surcharge. Verizon NW's proposal simply allows WTAP to  
8 avoid paying the surcharge.

9  
10 Q. Is it fair to exclude WTAP and not other similar entities from paying any  
11 interim surcharge?

12 A. No. WTAP is but one of many governmental or social service entities that  
13 would be affected by any interim surcharge. It is reasonable to assume that  
14 many non-WTAP Verizon NW customers may have trouble affording the  
15 interim surcharge. It is also reasonable to assume that Verizon NW serves  
16 many non-profit organizations, small businesses in economically distressed  
17 areas, schools, senior citizens, and low-income families that do not receive a  
18 WTAP benefit. It is not fair to single out only one of these groups and  
19 apply no surcharge to that group.

1 Q. What additional cost would WTAP incur if the surcharge is applied to  
2 WTAP lines?

3 A. WTAP would pay an additional \$75,000 per month if Verizon NW's  
4 proposed \$3.54 per line per month surcharge were adopted, and WTAP  
5 lines were included. If Staff's proposal of an equal percentage surcharge  
6 were adopted assuming the same \$29.7 million annual revenue, the  
7 additional cost to WTAP would be about \$45,000 per month.<sup>4</sup>

8

9 Q. How is Staff proposing to apply the equal percentage increase rate design  
10 to access lines included in bundled services such as Local Package Extra?

11 A. These services bundle intrastate tariffed access line service with popular  
12 calling features. If any interim rate increase is allowed, the equal  
13 percentage increase should be applied to the entire Local Package Extra  
14 bundled rate and all other such billable lines listed in Exhibit No. \_\_\_-C  
15 (TWZ-6-C), by IOSC.

16 This has the effect of applying the interim rate increase to calling  
17 features as well as the access line, because Verizon NW's tariff combines all

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<sup>4</sup> The interim surcharge drops from \$3.54 to \$3.43 when additional lines are included, as Staff proposes. 21,722 WTAP access lines x \$3.43/line = \$74,506. Staff's equal percentage per line rate design yields a \$2.05 per line surcharge for flat rated residential premium access lines (see Exhibit No. \_\_\_ (TWZ-4)). 21,722 WTAP access lines x \$2.05/line = \$44,530.



1 of these services together in a single price. The application of Staff's  
2 recommendation in this way is still reasonable, simple, and practical.  
3 Otherwise, customers using these packaged services would pay no interim  
4 rate increase, which in Staff's opinion would be unfair.

5

6 **Q. Has the Company offered any rationale for proposing that business**  
7 **access lines, other than those identified in Exhibit No. \_\_\_ (SMB-3), not**  
8 **be affected by Verizon NW's interim rate increase whatsoever?**

9 A. Yes. In the Company's Response to Staff Data Request No. 18, the  
10 Company vaguely describes a "rate arbitrage problem." That response is  
11 included as my Exhibit No. \_\_\_ (TWZ-7). The Company failed to describe  
12 this alleged problem in any detail, despite Staff's request for a complete  
13 explanation. In any event, "rate arbitrage" should not be an issue because  
14 the FCC is addressing UNE-P (unbundled network element – platform)  
15 through its Triennial Review proceeding, where facilities-based  
16 competition has been seen as the preferred approach, if proven.

17

18 **Q. How do you respond to Verizon NW's testimony that "vigorous**  
19 **competition" prevents such tariff increases on "data and other**

1           **specialized services the company provides to businesses and**  
2           **governmental customers” from being effective?**

3    A.     First, Verizon NW has provided no evidence of any such competition.  
4           Verizon NW has not sought competitive classification for any of the access  
5           line services that it now asserts are subject to vigorous competition. If there  
6           were effective competition for such services, presumably, Verizon NW  
7           would have sought competitive classification and would be pricing such  
8           services under price lists. For example, Qwest Corporation (Qwest) has  
9           accomplished such classification for many of its business and high capacity  
10          services in Washington.

11                 Second, even if some of Verizon NW’s services were effectively  
12           competitive, it would still be appropriate to apply any surcharge to those  
13           services. Competitive services are still subject to the regulation in some  
14           form, and Commission classification of a service as competitive should not  
15           imply that a utility has no ability to increase the price of that service,  
16           particularly if the utility is claiming that a financial emergency exists.

17  
18

1           **VI. ADMINISTRATION OF ANY INTERIM SURCHARGE**

2

3   **Q. Is an interim rate increase applied to access lines easily administered?**

4   A. Yes. Any administrative burden is primarily related to the refund  
5       provision as offered by the Company. That burden generally will be the  
6       same under either the Staff's approach or Verizon NW's approach.

7

8   **Q. How should the Company account for any interim revenues, should an**  
9       **interim rate increase be allowed?**

10   A. If the Commission ultimately decides to allow Verizon NW interim rate  
11       relief, the Commission should require the Company to keep track of each  
12       customer subject to such a rate increase, and report on the interim revenues  
13       received by customer class as well as by uniform service ordering code  
14       (USOC)<sup>5</sup> or tariff schedule, respectively. That is, the Company would  
15       account for each individual customer, but it would only report to the  
16       Commission in the aggregate by USOC or tariff schedule on a monthly  
17       basis during the pendency of the general rate case.

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<sup>5</sup> Verizon NW's term for this appears to be "IOSC" as referenced in its Confidential Response to Staff Data Request No. 54, which is my Exhibit No. \_\_\_-C (TWZ-6-C).

1           The Company should accrue interest on any interim rate increase  
2 revenues at the currently authorized return, for the benefit of customers.  
3 Refunds, including accrued interest, should be paid to those customers who  
4 pay the interim rate increase, to the extent rate relief authorized in the  
5 general rate case is less than any interim rate relief that may be granted.

6           This accounting and reporting should help alleviate the  
7 administrative burdens normally resulting from a refund by ensuring that  
8 the relevant information is readily available if refunds are necessary.  
9 Furthermore, these are the same requirements that the Commission  
10 imposed on Avista Corporation, d/b/a Avista Utilities, in Docket No. UE-  
11 010395, Sixth Supplemental Order, dated September 24, 2001.

12  
13 **Q.    What procedures should Verizon NW implement to track its refund**  
14 **liability, consistent with its offer, to accommodate customers who**  
15 **disconnect service during the time an interim surcharge, if any, is in**  
16 **effect?**

17 A.    Verizon NW should be required to obtain a forwarding address (postal or  
18 e-mail) and/or a telephone number where such customers can be reached in  
19 order to facilitate such a refund.

1 Q. Does this conclude your testimony?

2 A. Yes.