

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of the Pricing Proceeding for Interconnection, Unbundled Elements, Transport and Termination, and Resale)	DOCKET NO. UT-960369
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In the Matter of the Pricing Proceeding for Interconnection, Unbundled Elements, Transport and Termination, and Resale for U S WEST COMMUNICATIONS, INC.)	DOCKET NO. UT-960370
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In the Matter of the Pricing Proceeding for Interconnection, Unbundled Elemetns, Transport and Termination, and Resale for GTE NORTHWEST INCORPORATED)	DOCKET NO. UT-960371
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SUPPLEMENTAL REBUTTAL TESTIMONY

OF

DONALD C. EACHUS

June 13, 1997

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WUTC DOCKET NO. UT 960369
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GTE NORTHWEST INCORPORATED
SUPPLEMENTAL REBUTTAL TESTIMONY OF
DONALD C. EACHUS
WUTC UT-960369, 960370, 960371

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A. My name is Donald C. Eachus. My business address is One GTE Place,
3 Thousand Oaks, California.

4 **Q. DID YOU PREVIOUSLY FILE TESTIMONY IN THIS DOCKET?**

5 A. Yes. I filed direct testimony and rebuttal testimony in these dockets.

6 **Q. WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL REBUTTAL**
7 **TESTIMONY?**

8 A. The purpose of my testimony is to point out an incorrect calculation for
9 GTE contained in the supplemental rebuttal testimony of WUTC
10 witnesses Paula M. Strain dated May 16, 1997.

11 **Q. PLEASE EXPLAIN THE CORRECTION.**

12 A. Ms. Strain indicated in her April 24, 1997 rebuttal testimony that
13 “(b)ecause the revenues from nonrecurring charges associated with
14 service ordering had not been identified yet by GTE, I was unable to
15 calculate a discount that excluded them. The discount should be
16 recalculated once the necessary information is available.” (Strain Rebuttal

at 3-4) [Emphasis added] The discount, as calculated by Ms. Strain at that time, was 14.28%. In her supplemental rebuttal testimony, however, Ms. Strain not only excluded the nonrecurring revenues from the revenue base in the denominator but also increased the avoided costs contained in the numerator of the avoided cost discount calculation. Specifically, the revenue base was decreased by \$12,238 from \$296,765 to \$284,527 and the total avoided costs increased by \$6,298 from \$42,372 to \$48,670.

Q. WHAT IS THE IMPACT OF EXCLUDING THE NONRECURRING REVENUES FROM THE DENOMINATOR OF THE AVOIDED COST DISCOUNT?

A. Excluding these revenues correctly adjusts the avoided cost discount factor for services for which no discount is appropriate because there are no avoided costs contained in the retail rates. This adjustment to the denominator of the avoided cost discount calculation increases the discount from 14.28% to 14.89%.

Q. WHAT IS THE IMPACT OF TREATING THESE EXPENSES AS AVOIDED AND INCREASING THE NUMERATOR?

A. Treating these expenses as avoided erroneously inflates the avoided cost discount. The Act states that "a State commission shall determine wholesale rates on the basis of retail rates charged to subscribers for the telecommunications service requested, excluding the portion thereof attributable to any marketing, billing, collection, and other costs that will be avoided by the local exchange carrier." 47 U.S.C. § 252(d)(3) (1996).

1 A proper wholesale discount rate is developed by only including avoided
2 retail costs in the numerator which are associated with the retail services
3 subject to resale at a discount included in the denominator. In other
4 words, there is a positive matching of revenues and expenses in the
5 discount formula. Nonrecurring expenses are not recovered in the retail
6 rates of other services but are recovered entirely in the nonrecurring retail
7 rates. Ms. Strain has excluded the nonrecurring revenue generated from
8 those nonrecurring retail rates. Adding the expenses as avoided costs if
9 the corresponding revenues are excluded from the revenue base inflates
10 the numerator which erroneously increases the avoided cost discount
11 from 14.89% to 17.11%. This results in the rates for all other services
12 subject to resale at a discount being discounted by a percentage
13 equivalent to the nonrecurring expenses. Since nonrecurring expenses
14 are recovered through the nonrecurring rates, excluding the nonrecurring
15 revenues from the denominator of the avoided cost discount means that
16 the remaining revenue base of \$284,527 does not contain any recovery
17 for nonrecurring expenses and therefore no nonrecurring expenses
18 remain to be avoided.

19 **Q. IF THE COMMISSION ADOPTS WUTC'S AVOIDED COST**
20 **METHODOLOGY WHAT ADJUSTMENT SHOULD BE MADE TO**
21 **CORRECT THIS ERROR?**

22 **A.** If the Commission chooses to utilize Ms. Strain's methodology it should
23 utilize the avoided costs as filed on April 24, 1997 and the revenue base

of \$284,527 identified in Ms. Strain's supplemental rebuttal testimony
which produces an avoided cost discount of 14.89%.

**Q. IS THIS CORRECTION CONSISTENT WITH THE TREATMENT OF
OPERATOR SERVICES REVENUES?**

A. Yes. This is the same methodology applied to Operator Services Revenues. The revenues of \$18,067 are excluded from the revenue base and these revenues are the source which GTE utilizes to recover its retail Operator Services expenses. The costs contained in the remaining services offered for resale will not change if Operator Services expenses decline because a reseller chooses to self-provision for this service.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does.