

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

**In The Matter of the Petition Of            )**  
**Verizon Northwest Inc. Seeking            )**  
**Interim Rate Increase                        )**

**Docket No. UT-040788**

**REBUTTAL TESTIMONY OF**  
**STEVEN M. BANTA**  
**ON BEHALF OF**  
**VERIZON NORTHWEST INC.**

**JULY 30, 2004**

1 I. INTRODUCTION

2

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

4 A. My name is Steven M. Banta. My business address is 600 Hidden Ridge Drive, Irving,  
5 Texas, 75038. I am employed by Verizon as Group President – Northwest and Southwest  
6 Regions.

7

8 **Q. DID YOU FILE DIRECT TESTIMONY IN THIS PROCEEDING?**

9 A. Yes. I filed direct testimony on April 30, 2004.

10

11 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

12 A. My testimony and the rebuttal testimony of Verizon Northwest Inc. (“Verizon NW” or  
13 the “Company”) witnesses Heuring and Vander Weide respond to the direct testimony of  
14 Staff witnesses Folsom, Strain, and Zawislak and Public Counsel/AARP/WeBTECH  
15 witness King (“the opposition”).

16

17 The opposition makes three principal arguments. *First*, it claims that Verizon NW is not  
18 entitled to interim relief because Verizon’s non-jurisdictional operations – i.e., its  
19 interstate operations and operations in other states – indicate that Verizon NW, as a  
20 whole, does not face a financial emergency. But this is the same argument the opposition  
21 made in seeking to dismiss Verizon NW’s interim case. The Commission expressly  
22 rejected this argument in Order No. 5:

23 We conclude that it would be inappropriate to say, as the joint parties  
24 seem to argue, that Verizon should be ineligible for interim rate relief

1 because the non-jurisdictional operations are sufficiently healthy that  
2 intrastate customers should not bear the responsibility to sustain their own  
3 capital needs in the same way they would if the company operated in a  
4 single jurisdiction. We find it appropriate to consider the Company’s need  
5 for interim rate relief based on a Washington intrastate basis only, and to  
6 determine whether the level of its intrastate revenues constitutes a “gross  
7 inequity” justifying interim relief.

8  
9 **Second**, the opposition claims that Verizon NW’s intrastate revenues and cash flow –  
10 standing alone – are sufficiently healthy. Therefore, interim relief is not needed. Verizon  
11 NW witnesses Heuring and Vander Weide explain the errors in the opposition’s  
12 calculations and analyses. But even if we accept all the opposition’s calculations, they  
13 yield an intrastate rate of return of only 2.09%, which is \$119 million *below* the  
14 authorized rate of return of 9.76%. In short, the financial indicators that result from the  
15 opposition’s own testimony confirm that Verizon NW’s request for interim relief should  
16 be granted.

17  
18 **Third**, the opposition claims that Verizon NW’s request for \$29.7 million in interim relief  
19 should be denied because this amount is insufficient to solve our financial problems; i.e.,  
20 we should have asked for *more* money in our interim case. We agree that \$29.7 million  
21 is not sufficient to make Verizon NW whole. But making Verizon NW whole is the  
22 subject of our *permanent* case. Here, we have limited our request to only those revenues  
23 that were reduced as a result of the AT&T Access Complaint case. This revenue  
24 reduction was caused by the unilateral action of the Commission, which further  
25 aggravated Verizon NW’s Washington intrastate financial health. Moreover, that Order  
26 invited Verizon NW to take actions to seek immediate relief for this loss. As such,  
27 Verizon NW viewed the amount of this loss as the logical amount to request in interim

1 relief. Also, as Verizon NW witness Vander Weide explains, this additional \$29.7  
2 million would likely justify an investment-grade bond rating, although just barely.  
3 Verizon NW’s request should not be denied simply because the Company took a  
4 conservative approach in seeking interim relief and did not ask for all that it could have.  
5 Verizon NW has attempted to simplify the case, ease the review of its financials, and  
6 only ask for the bare minimum required to maintain an investment grade bond rating  
7 based on its intrastate operations.

8  
9 Part II of my testimony addresses these (and several other) issues in greater detail.  
10 Finally, Part III explains why Staff witness Zawislak’s alternative surcharge proposal  
11 should be rejected.

12  
13 **II. THE NEED FOR INTERIM RELIEF**

14  
15 **Q. THE OPPOSITION CLAIMS THAT VERIZON NW HAS NOT MET THE**  
16 **REQUIRED SHOWING TO OBTAIN INTERIM RELIEF. DO YOU AGREE?**

17 A. No. Verizon NW has addressed all factors used by the Commission at various times.  
18 The Commission has made clear that these factors are not “standards” that must be  
19 satisfied before interim relief may be granted. This point is reiterated in the  
20 Commission’s Order No. 5 in this docket, paragraph 13, “Verizon’s petition correctly  
21 identifies the Commission’s view of the six “PNB” factors: “The Commission is not  
22 bound by any specific criteria for granting interim relief . . .” Further, Factor No. 2 is an

1 either/or test; it does not require a demonstration that both an actual emergency exists and  
2 that interim rates are necessary to prevent gross hardship or gross inequity.<sup>1</sup>

3  
4 **Q. MR. KING (P. 7) CLAIMS THAT VERIZON ITSELF DOES NOT BELIEVE AN**  
5 **EMERGENCY EXISTS BECAUSE VERIZON DID NOT REQUEST INTERIM**  
6 **RELIEF UNTIL APRIL 2004. PLEASE COMMENT.**

7 A. Mr. King is wrong. The mere passage of time does not demonstrate “delay.” And even if  
8 it did, it should not be given much weight in this case, if at all, when examining the need  
9 for interim relief. A financial emergency *does* exist as we demonstrate through the  
10 testimony of Ms. Heuring and Dr. Vander Weide. More important, Verizon NW did not  
11 delay and has good reasons for the timing of its filing for interim and general rate relief.

12  
13 **Q. WHAT DID VERIZON NW DO AFTER THE ACCESS ORDER BECAME**  
14 **FINAL?**

15 A. First, we attempted to stop the access reduction by pursuing relief in court. We believed  
16 that this was the best forum and that we had a very good chance of obtaining a stay based  
17 on then-existing Washington law. Our decision to seek such relief was reasonable. We  
18 also began preparing a case for interim relief in the fall of 2003. But when we discussed  
19 this filing with Staff and the Commission, we were urged not to file such a case unless it  
20 was part of a *permanent* rate case filing. We accepted this advice and began preparing a  
21 rate-case filing. During this time, we also met with Staff on several occasions to discuss  
22 both our interim and permanent filings, including whether it was possible to file a  
23 bifurcated case to resolve the revenue requirement as a threshold matter. We also

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<sup>1</sup> Order No. 5, paragraph 4

1 discussed possible procedural schedules prior to filing to ensure our request for interim  
2 and permanent relief could be handled as efficiently as possible.

3  
4 Furthermore, as Ms. Heuring explains, a rate case cannot be prepared and filed in the  
5 time allotted by the Commission. Significant time and effort is required to put together  
6 such a complicated, comprehensive filing. Indeed, the other parties to this case have  
7 asked for *more than six months* just to review our filing before their testimony is due.  
8 This fact reinforces our point that rate case preparation cannot be done quickly. Verizon  
9 NW should not be penalized for taking an appropriate amount of time to do its filing.

10  
11 **Q. DID MS. STRAIN AND MR. KING PERFORM AN ANALYSIS OF VERIZON  
12 NW'S NEGATIVE 0.47% RATE OF RETURN FILED IN THE INTERIM CASE?**

13 A. Yes. Ms. Strain suggests the correct intrastate rate of return is 2.09%, whereas Mr. King  
14 increases the intrastate rate of return to 1.085%.

15  
16 **Q. WHAT IS YOUR REACTION TO THESE RETURNS?**

17 A. Company witness Heuring addresses the flaws in their proposed adjustments. The point I  
18 want to make is that even if the Commission accepted the highest return, it would still be  
19 767 basis points, or \$119 million in revenue shortfall, below the authorized rate of return  
20 of 9.76%, which represents a gross inequity to the Company.

21 .  
22 **Q. MS. FOLSOM, MS. STRAIN, AND MR. KING PRESENT ANALYSIS SHOWING  
23 VERIZON NW'S FINANCIAL CONDITION AND ITS ABILITY TO OBTAIN**

1           **FINANCING FROM A TOTAL COMPANY AND WASHINGTON STATE**  
2           **STANDPOINT. ARE THESE VIEWS RELEVANT FOR DETERMINING IF**  
3           **VERIZON NW SHOULD BE GRANTED INTERIM RELIEF?**

4    A.    No. The only relevant view is Verizon NW’s Washington intrastate operations under the  
5           jurisdiction of the Commission. This is underscored by the Commission’s Order No. 5 at  
6           page 7 in this docket: “We find it appropriate to consider the Company’s need for  
7           interim relief on a Washington intrastate basis only, and to determine whether the level of  
8           its intrastate revenues constitutes a “gross inequity” justifying interim relief.”

9  
10   **Q.    MS. FOLSOM CLAIMS THAT VERIZON NW HAS NOT TAKEN ANY**  
11           **ACTIONS TO COMBAT ITS POOR FINANCIAL CONDITION FOR**  
12           **WASHINGTON INTRASTATE OPERATIONS. IS THIS TRUE?**

13   A.    No. Verizon NW has undertaken several actions to reduce personnel related expenses.  
14           There were 209 Washington employees that left the Company’s payroll through  
15           programs and attrition in the test year.<sup>2</sup> In addition, there were 158 Washington  
16           employees representing a 35% reduction in management ranks that left Verizon under the  
17           Management Voluntary Separation Plan (MSVP) in November 2003.<sup>3</sup> As Verizon NW  
18           stated in its supplemental response to Staff Data Request No. 11, the Company waited for  
19           the results of the program before deciding if further action was required. The Company  
20           decided, given the MSVP’s results, further action was not required at this time. Had the  
21           MSVP not been in place, Verizon NW would have had to take more direct action to  
22           address the poor financial condition for Washington intrastate operations.

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<sup>2</sup> Heuring workpaper WP P12

<sup>3</sup> Heuring workpaper WP P20

1 **Q. HAS VERIZON NW TAKEN ANY STEPS TO REDUCE ITS CAPITAL**  
2 **BUDGET?**

3 A. Yes. As Verizon NW stated in its supplemental response to Staff Data Request No. 11,  
4 the 2004 budget planning process ran during the last several months of 2003. This  
5 resulted in a budget that was 13% lower than 2003. Verizon NW has taken action to  
6 further reduce spending by an additional \$11.4 million. These cuts were based on the  
7 most discretionary projects with the least possible impact on service results.

8  
9 **Q. MS. STRAIN CLAIMS (P. 10) THAT THE ACTIONS OF THE COMPANY AND**  
10 **ITS PARENT HAVE CONTRIBUTED TO THE DECLINE IN REVENUES AND**  
11 **THEREFORE THE COMPANY SHOULD NOT OBTAIN INTERIM RELIEF.**  
12 **PLEASE COMMENT.**

13 A. Ms. Strain's testimony appears to make four distinct arguments. First, she claims that  
14 Verizon NW caused part of its revenue problem by signing a settlement in the GTE-Bell  
15 Atlantic merger case which among other matters, reduced rates by \$30 million over  
16 several periods. Second, she speculates that the Company might be shifting revenue from  
17 regulated, local exchange service to its affiliate's wireless service or other non-regulated  
18 services. Third, she claims that Verizon NW might be shifting its intraLATA toll  
19 revenues to Verizon Long Distance. Fourth, she has preliminary concerns regarding the  
20 use of required separation factors mandated by the Federal Communications Commission  
21 ("FCC") that are used to book costs between the intrastate and interstate jurisdictions.  
22 This latter claim appears to be the same argument on the FCC's separations factors that



1 Staff raised in the AT&T Access Complaint case. As Ms. Heuring and Dr. Vander  
2 Weide discuss in their testimony, Ms. Strain is wrong on these issues.

3  
4 The point I want to emphasize is that the most appropriate place for consideration of  
5 these claims, if at all, is in the general rate case.

6  
7 **Q. PLEASE DISCUSS THE \$30 MILLION REDUCTION IN THE MERGER CASE.**

8 A. Verizon NW's intrastate financial condition was more favorable in 1999 when it agreed  
9 to reduce its revenues. Also, the settlement resolved an access charge complaint and an  
10 informal earnings review,<sup>4</sup> so the reduction cannot be attributed entirely to the merger.  
11 The merger reduction has benefited our customers, but the fact that the rate case "stay  
12 out" period in that settlement was only two years indicates that this was not an evergreen  
13 reduction and that Verizon may need to seek relief in the future.

14  
15 **Q. IS VERIZON NW SHIFTING REVENUE FROM ITS REGULATED LOCAL**  
16 **EXCHANGE SERVICES TO ITS NON-REGULATED AFFILIATES?**

17 A. No. Ms. Strain produces no proof, just sheer speculation to substantiate this claim, which  
18 is unfounded. When Verizon NW customers migrate to any competitive carrier,  
19 including Verizon Wireless or Verizon Online ("VOL") for DSL, it is driven completely  
20 by customer choice. Verizon NW works to be responsive to the needs of our customers,  
21 but has no control over their decisions.

22  

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<sup>4</sup> See Staff Data Request No. 23

1 **Q. IS THE RELATIONSHIP BETWEEN VERIZON NW AND VERIZON LONG**  
2 **DISTANCE (LD) RELEVANT TO THIS CASE?**

3 A. No. The relationship of Verizon LD and Verizon NW is not relevant to the interim relief  
4 case. Verizon LD purchases resold intraLATA toll in its provision of long distance as  
5 can any other IXC. It is purchased at a discount to the current Verizon NW intraLATA  
6 toll rates. Any loss of Verizon NW intraLATA toll revenue to Verizon LD is replaced by  
7 resold toll at ninety-five cents on the dollar. Thus, the loss of intraLATA toll revenue to  
8 Verizon LD is a “red herring” raised by Staff.

9  
10 Indeed, Verizon NW intraLATA market share had declined from historical levels of  
11 higher than 90% to 50% before Verizon LD entered the Washington toll market. Thus,  
12 Verizon NW intraLATA toll declines are a function of competition among all IXC’s. In  
13 addition, Verizon NW complies with all state and federal affiliate transaction rules  
14 including FCC 47 C.F.R. § 32.27. A summary of the transactions between Verizon LD  
15 and Verizon NW for the test year is provided in the testimony of Nancy Heuring (NWH-  
16 1T) filed in the general rate case. Finally, Verizon NW has a joint marketing agreement  
17 with Verizon LD in which Verizon NW recovers fully distributed costs for services  
18 provided to its long distance affiliates in full compliance with the FCC pricing rules.  
19 This agreement is on file with the Commission.

20

1 **III. STAFF INTERIM SURCHARGE PROPOSAL**

2

3 **Q. DOES VERIZON NW AGREE WITH STAFF’S SURCHARGE PROPOSAL?**

4 A. Verizon NW does not agree to Staff’s surcharge proposal, especially the equal percentage  
5 application and the treatment of bundles/packages.

6

7 **Q. PLEASE SUMMARIZE STAFF’S INTERIM SURCHARGE PROPOSAL.**

8 A. Staff witness Zawislak proposes an alternative interim surcharge in the event the  
9 Commission decides to grant the Company’s interim rate relief request, in whole or in  
10 part. Staff proposes that interim relief should be collected through an equal percentage  
11 increase to all intrastate retail and resale tariffed, price listed, and contracted access lines,  
12 except for Unbundled Network Elements (“UNE”). The lines the Company uses to serve  
13 customers eligible for the Washington Telephone Assistance Program (WTAP) would be  
14 subject to the surcharge. In order to collect Verizon NW’s \$29.7 million interim relief  
15 request, all line services mentioned above would be increased by 15.78%.

16

17 **Q. UNDER STAFF’S PROPOSAL, HOW MUCH WOULD TYPICAL R1 AND B1**  
18 **RATES INCREASE?**

19 A. Based on Staff’s equal percentage increase of 15.78%, Residential Premium (One-Party  
20 Flat) currently tariffed at \$13.00 would increase by \$2.05 while Business Premium (One-  
21 Party Flat) currently tariffed at \$29.70 would increase by \$4.69.

1 **Q. WOULD A HIGHER INCREASE TO B1 SERVICE BE A CONCERN FOR THE**  
2 **COMPANY?**

3 A. Yes. The current rate and cost relationship between residential and business rates and  
4 cost is already out of alignment. The Commission makes this very point in a US West  
5 order, “The just-affirmed earlier order will operate to move long distance rates (including  
6 access charges) down and to narrow the gap between business and residential service,  
7 whose underlying costs are similar”.<sup>5</sup> A higher increase to business rates would  
8 exacerbate this rate disparity discrepancy.

9  
10 **Q. WHAT OTHER CONCERN DO YOU HAVE WITH STAFF’S PROPOSAL?**

11 A. Staff proposes to apply the equal percentage increase to calling features as well as the  
12 access line for bundled services such as Local Package Extra. The equal percentage  
13 increase applied to the total bundle/package (which includes other products as well as the  
14 line rate) inflates the bundle/package price relative to the access line rate. This defeats  
15 the purpose of the bundle/package offering.

16  
17 **Q. HAS THE COMPANY CHANGED ITS POSITION ON ITS INITIAL**  
18 **SURCHARGE PROPOSAL?**

19 A. No. Verizon NW still proposes an interim monthly surcharge of \$3.54 applied to the  
20 basic local residential and business services as identified in Exhibit SMB-3C.

21  
22 **Q. WHAT IF THE COMMISSION FINDS THAT THE INTERIM SURCHARGE**  
23 **SHOULD BE SPREAD ACROSS MORE ACCESS LINES?**

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<sup>5</sup> Docket No. UT-970766, Tenth Supplemental Order, p. 30, dated January 16, 1998.

1 A. Verizon NW could support a proposal which would apply the interim surcharge to all  
2 intrastate retail and resale tariffed, price listed, and contracted access lines, except for  
3 UNEs on a fixed amount per line basis. Verizon NW could also agree to apply the  
4 surcharge to WTAP lines. As shown in Exhibit SMB-5C, this scenario would lower  
5 Verizon's initial surcharge from \$3.54 to \$2.98.

6

7 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

8 A. Yes.