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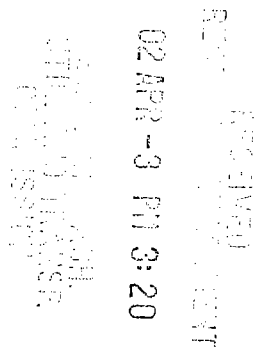


VIA HAND DELIVERY

Ms. Carole J. Washburn
Washington Utilities & Transportation Commission
1300 S. Evergreen Park Drive SW
P.O. Box 47250
Olympia, Washington 98504-7250

Re: AT&T v. Verizon, New Docket

Dear Ms. Washburn:

Enclosed for filing and for initiating a new docket are the originals and 19 hard copies each of the complaint of AT&T Communications of the Pacific Northwest, Inc., against Verizon Northwest, Inc., and accompanying affidavit of Dr. Lee L. Selwyn.

Please contact me if you have any questions about this filing.

Very truly yours,

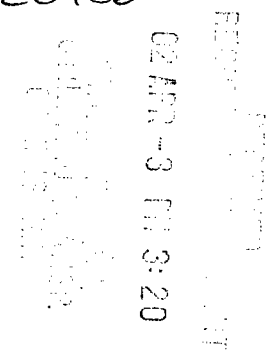
Davis Wright Tremaine LLP

Gregory J. Kopta

Enclosures
cc: Joan Gage

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

AT&T COMMUNICATIONS OF THE PACIFIC NORTHWEST, INC. Complainant, v. VERIZON NORTHWEST INC., Respondent.	)	Docket No. UT- 020406 COMPLAINT



Pursuant to RCW 80.04.110 and WAC 480-09-400, AT&T Communications of the Pacific Northwest, Inc. ("AT&T"), brings the following Complaint against Verizon Northwest Inc. ("Verizon"). In support of its Complaint, AT&T alleges as follows:

INTRODUCTION

1. The federal Telecommunications Act of 1996 ("Act") was heralded as the advent of competition and its attendant consumer benefits in all telecommunications markets. Verizon (formerly GTE) was immediately authorized to provide interLATA services, but in the more than six years since the Act was passed, competing local exchange companies ("CLECs") have yet to gain even a foothold in Verizon's local service territory in Washington. Verizon's entry into the intrastate, interLATA market, in conjunction with its status as a primary intraLATA toll carrier for its local exchange customers, has resulted in an extension of Verizon's local exchange monopoly into Washington intrastate toll markets.

2. Verizon has been able to dominate the provision of intrastate toll services to its local exchange customers primarily because the prices Verizon charges competing providers for access to its network – *i.e.*, switched access charges – far exceed Verizon's costs of providing that access. Verizon has established retail intrastate toll rates that are significantly *lower* than the sum of those switched access charges and the additional forward-looking costs that Verizon incurs to provide competing toll services. Verizon's inflated switched access rates force competitors either to operate at a loss or to price themselves out of the market. Verizon, therefore, is using revenues generated by its excessive switched access rates to fund a "price squeeze" that is designed to force competitors from toll markets in Washington, ***not*** as a contribution to universal service as Verizon has repeatedly maintained in the past.

3. The Affidavit of Dr. Lee L. Selwyn ("Selwyn Aff.") that accompanies this Complaint analyzes Verizon's price squeeze and its anticompetitive impacts. These impacts are not limited to toll markets but extend into the local markets as well. Many consumers want a single provider of both local and long distance telephone service. Verizon can effectively preclude other carriers from offering "one stop shopping" by pricing its retail toll service at a level competitors cannot match. Verizon can also use its excessive profits from switched access and retail toll services to cross-subsidize other offerings. Absent Commission action, therefore, competition will continue to disintegrate in formerly competitive intrastate long distance markets and will not develop in the local exchange market currently controlled by Verizon.

4. The Commission should not deny Washington consumers the ability to obtain long distance telephone service at lower prices. To the contrary, AT&T respectfully submits that the only effective way for the Commission to limit Verizon's monopoly power and to allow *all* Washington consumers to benefit from genuine competition from a variety of market participants is for the Commission to reduce to cost the rates that Verizon charges for intrastate switched access services. The other alternative – raising Verizon's retail toll rates – not only unnecessarily raises the price consumers pay for long distance service but provides Verizon with even greater revenues with which to cross-subsidize services that are subject to competition.

5. Only cost-based pricing of bottleneck facilities like switched access services will enable the Commission to realize its, the legislature's, and Congress' goal of developing and maintaining effectively competitive telecommunications markets in Washington. As demonstrated below and in Dr. Selwyn's accompanying affidavit, Verizon's current market abuses are real, the Commission has jurisdiction to remedy those abuses, and the time for the Commission to take appropriate action is now.

PARTIES

6. Complainant. AT&T is registered and classified by the Commission as a competitive telecommunications company. AT&T is authorized to provide switched and non-switched local exchange and long distance services in Washington.

7. Respondent. Verizon is an incumbent local exchange company ("ILEC"), as defined in 47 U.S.C. § 251(h) and provides local exchange and other

telecommunications services throughout the State of Washington.

JURISDICTION

8. Commission Jurisdiction. The Commission has jurisdiction over this Complaint and Respondent Verizon pursuant to RCW 80.01.040 (general powers and duties of commission), RCW 80.04.110 (complaints), RCW 80.36.140 (rates and services fixed by commission), and RCW 80.36.186 (pricing of or access to noncompetitive services).

FACTS

9. AT&T provides long distance (*i.e.*, interexchange toll) services throughout the state of Washington, including to customers who obtain their local service from Verizon and/or who make calls to Verizon local exchange customers. AT&T must obtain switched access services from Verizon in order to provide long distance service to those customers. AT&T also must obtain switched access services from other local exchange carriers ("LECs") when AT&T's customers make calls to, or receive calls from, those LECs' customers.

10. Verizon provides long distance services, either directly or through a corporate affiliate wholly owned by the parent company Verizon Communications, Inc., throughout the state of Washington, primarily to customers who obtain their local service from Verizon and/or who make calls to Verizon local exchange customers. Verizon must provide itself the same facilities and functionalities that it provides to other carriers as switched access services in order to provide long distance service to those customers, and

must obtain switched access services from other LECs when carrying Verizon's long distance customers' calls to or from those other LECs' customers.

11. Switched access services provide call completion after AT&T delivers the call to a LEC's network and provide call origination when the LEC delivers a call from its local exchange customer to AT&T's network. Switched access services generally are comprised of the following elements: tandem switching, interoffice transport, and end office switching. The rates that Verizon has established for intrastate switched access service are $0.04 per originating minute of use ("MOU") and $0.036 per terminating MOU. Verizon tariff WN U-16; Selwyn Aff. ¶ 6. AT&T, therefore, must pay Verizon switched access charges of $0.0736 per conversation MOU ("CMOU"), *i.e.*, for both originating the call from and terminating the call to Verizon local exchange customers.

12. Verizon offers these same elements (tandem switching, interoffice transport, and end office switching) to competing LECs ("CLECs") as unbundled network elements ("UNEs"). Based on the Commission's determination of Verizon's forward-looking costs, the Commission has established rates for these UNEs of $0.0014151 per MOU for Local Central Office Switching (*i.e.*, end office switching) and $0.0002012 per MOU for Common/Shared Transport.[1]

13. Verizon charges and pays reciprocal compensation to CLECs and wireless

[1] The Commission has not yet established rates for Tandem Switching or Tandem Switched Transport for Verizon. The rates established for those elements when provided by Qwest Corporation are $0.00141 per MOU (Tandem Switching) and $0.00026 fixed and $0.00001 per mile per MOU (Tandem Switched Local Transport). Qwest Tariff WN U-42, Section 3.1(C) & (D), Original Sheet 3 (Effective December 2, 2000).

– *i.e.*, commercial mobile radio service ("CMRS") – providers for terminating and originating calls within a local calling area. Local call origination and termination is functionally indistinguishable from switched access services. The Commission has not yet established per MOU rates for reciprocal compensation for terminating local exchange traffic, but Verizon recently filed comments in which it took the position that those charges should be equal to the sum of the rates for the component UNEs.[2] The highest interim reciprocal compensation rate of which AT&T is aware that Verizon is authorized to charge (and pay) for terminating local traffic is $0.0053157 per MOU. Interconnection, Resale and Unbundling Agreement Between GTE Northwest Incorporated and Electric Lightwave, Inc., Appendix C.[3]

14. In addition, Verizon has elected to implement the provisions of the FCC's April 2001 order on compensation for traffic bound for Internet Service Providers ("ISPs"), which requires that Verizon offer to exchange *all* local and ISP-bound traffic with CLECs and CMRS providers at the currently applicable rate of $0.001 per MOU.[4]

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[2] *In re Petition for Declaratory Order on Reciprocal Compensation Rates*, Docket No. UT-013073, Verizon's Statement of Fact and Law (Oct. 8, 2001).

[3] The "Local Interconnection" rate element of $0.0053157 appears to be for end office switching. Additional rate elements are specified in this agreement which apply to tandem routed local traffic of $0.0015802 (Tandem Switching), $0.0000032 (Common Transport Facility), and $0.0001201 (Common Transport Termination). The sum of these rates is $0.0070192.

[4] *In re Intercarrier Compensation for ISP-Bound Traffic*, CC Docket No. 96-98 & 99-68, FCC 01-131, Order on Remand and Report and Order (rel. April 27, 2001). The FCC established rates in three phases, and the rate during the second phase (from December 13, 2001 through June 13, 2003) is $0.001 per MOU.

That rate, moreover, is applicable to local calling areas for CMRS providers that are significantly larger than the local calling areas for wireline carriers.[5] Thus a CMRS provider originates or terminates calls within the entire MTA boundary as "local" and are subject to reciprocal compensation, while the same calls originated or terminated outside Verizon's local calling area and transported by an IXC are classified as "toll" and are subject to switched access charges. Accordingly, wireless carriers – including Verizon's affiliate, Verizon Wireless – have an enormous competitive advantage over IXCs in completing calls within the MTA yet beyond the boundary of the ILEC/CLEC's local calling area. Selwyn Aff. ¶¶ 11-12.

15. Verizon's intrastate switched access rates far exceed the costs Verizon incurs to provide those services. Commission-established rates for the UNEs that comprise switched access service (exclusive of tandem switching, which the Commission has not yet established for Verizon) total $0.0016163 per MOU[6] at each end of the call or $0.0032326 per CMOU. Verizon's intrastate switched access rates for such a call of

[5] The "local calling area" for CMRS is the Major Trading Area ("MTA") in which the CMRS provider operates, which are substantially larger than an individual Verizon local calling area. *In the Matter of Implementation of the Local Competition Provisions in the Telecommunications Act of 1996*, CC Docket No. 96-98, First Report and Order, released August 8, 1996, 11 FCC Rcd 15499, ¶ 1036; Selwyn Aff. ¶¶ 10-12. There are three separate MTAs in Washington: the Seattle MTA encompasses most of the western two-thirds of the state; the Spokane MTA covers the eastern third of the state (as well as the northeastern corner of Oregon, northern Idaho, a portion of northwestern Wyoming and all of Montana); and the Portland, Oregon, MTA encompasses the southwestern corner of the state (Longview and Vancouver). *See* Rand McNally, Inc., *Commercial Atlas and Marketing Guide, 1994 edition*, at 38-39.

[6] The sum of end office switching plus common/shared transport on a per MOU basis

$0.076 is approximately 23 times the costs as determined by the Commission.[7] Verizon's switched access rates are also 38 times higher than the rates at which the FCC requires Verizon to offer to exchange local traffic with CLECs and CMRS providers and 5 to 7 times higher than the highest interim rates that Verizon currently is authorized to charge to terminate local traffic in Washington.

16. Carriers also incur additional costs to provide toll service, include billing and collection, retailing costs, and costs to query the local number portability ("LNP") database. A weighted average of the access rates an unaffiliated carrier would pay for a call placed by a Verizon local exchange service customer equals $0.0697 per MOU. Selwyn Aff. ¶¶ 23-24. The Commission previously has concluded that the long-run incremental costs an independent carrier incurs for billing and collection is $0.0346 per MOU. *Id.* ¶ 25. Retailing costs, including marketing, advertising, service ordering, and customer service, according to Dr. William Taylor recently testifying on behalf of Qwest Corporation, are approximately $0.03 per MOU. *Id.* ¶ 26. Carriers also incur a cost of $0.0001 per MOU for access to the LNP database. *Id.* ¶ 27.

17. The sum of the tariffed switched access charges and the additional costs incurred to provide intrastate toll service to a Verizon local exchange customer is $0.1344. *Id.* ¶¶ 27-28. This sum represents the "price floor" for Verizon's retail toll

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($0.0014151 + $0.0002012 = $0.0016163).

[7] The addition of tandem switching rates at the level the Commission established for Qwest would increase the total cost figure to $0.0060526, which Verizon's switched access rates exceed by 1,267%.

services, *i.e.*, the level above which Verizon must charge its end user customers for toll service. Retail pricing below the price floor creates a price squeeze in which competing carriers are unable to match Verizon's retail price without pricing their service below cost. The Commission has used such price floors in establishing fair, just, reasonable, and sufficient rates for ILECs' noncompetitive services.[8]

18. All but two of Verizon's intrastate long distance toll calling plans for business and residential customers in Washington range in price (at peak rates when adjusted for uncollectible expenses) from $0.079 to $0.1086 per MOU – significantly less than the price floor of $0.1344 per MOU. *Id.* ¶ 26, Table 2 & 27. Even the two Verizon intrastate rate plans for low volume customers that exceed the price floor exceed cost by only $0.0054 or $0.0224 per MOU. *Id.* ¶ 27, n.34. In order to gain market share and compete with Verizon, therefore, competitors must offer intrastate toll service at rate levels that guarantee a revenue shortfall and a zero or negative profit margin. *Id.* ¶ 28.

19. The Commission has made efforts in the past to reduce Verizon's switched access rates to more reasonable levels. The Commission promulgated WAC 480-120-540, which required reductions and/or adjustments to all LECs' switched access rates. Pursuant to that rule, the Commission permitted Verizon to establish separate rate elements for its switched access service – a "cost-based" rate element and an "interim universal service" rate element. Both of these rate elements, however, comprise Verizon's switched access rates, and Verizon has never demonstrated, nor has the

[8] *See, e.g.*, Selwyn Aff. ¶ 23.

Commission ever found, that revenues Verizon generates from the "interim universal service" switched access rate element are needed or used by Verizon to support universal service. Verizon, moreover, challenged that rule, and the Court of Appeals recently overturned it on procedural grounds.

20. In addition, in Docket Nos. UT-981367, UT-990672 & UT-991164, the Commission approved a settlement agreement in which Verizon agreed to certain revenue reductions, including a reduction in its switched access rates by $7 million. While the settlement agreement contemplated at least the possibility of additional access charge reductions of up to approximately another $7 million, Verizon made only an additional reduction of approximately $1 million.[9] Rather than further reduce switched access charges, Verizon reduced retail rates, which serves only to exacerbate price squeezes on unaffiliated competing carriers. The settlement agreement, moreover, provides that if WAC 480-120-540 is invalidated (which as discussed above it has been), the rate adjustments will apply to Verizon's switched access rates in existence *prior* to Verizon's filing made in ostensible compliance with the rule. Verizon thus may *raise* its switched access charges from current levels, further increasing the price squeeze on competing carriers. Accordingly, the overturning of WAC 480-120-540 has made Commission action to reduce Verizon's inflated intrastate access rates even more urgent.

[9] Pursuant to a recent filing/letter from Alan Thoms of Verizon, the actual reduction was $769,000, effective July 1, 2001. Thus, there is a shortfall of approximately $230,000. *See Compliance Filing of Verizon Northwest Inc.*, Docket No. UT-970658 (February 6, 2002).

CLAIMS FOR RELIEF

A. Violation of RCW 80.36.186 (Pricing of or Access to Noncompetitive Services)

21. AT&T realleges and incorporates by reference the allegations in paragraphs 1-20 above as if fully set forth herein.

22. RCW 80.36.186 provides (with emphasis added):

> Notwithstanding any other provision of this chapter, **no telecommunications company providing noncompetitive services shall, as to the pricing of or access to noncompetitive services**, make or grant any undue or unreasonable preference or advantage to itself or to any other person providing telecommunications service, nor **subject any telecommunications company to any undue or unreasonable prejudice or competitive disadvantage**. The commission shall have primary jurisdiction to determine whether any rate, regulation, or practice of a telecommunications company violates this section.

23. Verizon is not classified as a competitive telecommunications company, nor has the Commission competitively classified Verizon's provisioning of switched access services.

24. By pricing its switched access services (including all rate elements) at a level many multiples above the costs to provide that service, Verizon is granting an undue preference or advantage to itself and subjecting AT&T and other nonaffiliated IXCs to undue prejudice or competitive disadvantage in violation of RCW 80.36.186.

25. By pricing its intrastate toll services at a level below the sum of its tariffed switched access service rates (including all rate elements) and the forwarding-looking costs Verizon incurs to provide those toll services, Verizon is granting an undue

preference or advantage to itself and subjecting AT&T and other nonaffiliated IXCs to undue prejudice or competitive disadvantage in violation of RCW 80.36.186.

B. Violation of RCW 80.36.180 (Rate Discrimination Prohibited)

26. AT&T realleges and incorporates by reference the allegations in paragraphs 1-20 above as if fully set forth herein.

27. RCW 80.36.180 provides in relevant part:

> No telecommunications company shall, directly or indirectly, or by any special rate, rebate, drawback or other device or method, unduly or unreasonably charge, demand, collect or receive from any person or corporation a greater or less compensation for any service rendered or to be rendered with respect to communication by telecommunications or in connection therewith, except as authorized in this title or Title 81 RCW than it charges, demands, collects or receives from any other person or corporation for doing a like and contemporaneous service with respect to communication by telecommunications under the same or substantially the same circumstances and conditions.

28. Verizon provides the same functionality to CLECs and CMRS providers in the form of UNEs and reciprocal compensation for local termination as Verizon provides to unaffiliated IXCs in the form of switched access services. By charging unaffiliated IXCs vastly higher rates (including all rate elements) for a like and contemporaneous service it provides to CLECs and CMRS providers under the same or substantially the same circumstances and conditions, Verizon is in violation of RCW 80.36.180.

C. Violation of Commission Imputation Standard

29. AT&T realleges and incorporates by reference the allegations in paragraphs 1-20 above as if fully set forth herein.

30. The Commission has required ILECs to provide retail services subject to competition at prices that exceed the rates the ILEC charges to competitors for bottleneck monopoly facilities plus the forward-looking costs of other facilities and services used to provide the retail service. Specifically, ILECs must impute their switched access charges and the costs of value-added network and retailing functions into their retail toll rates. *See, e.g., MCI, et al. v. U S WEST, et al.*, Docket No. UT-970658, Final Order Granting Petition (March 1999); *WUTC v. U S WEST*, Docket No. UT-950200, Fifteenth Supp. Order at 96-97 (March 1996).

31. By pricing its retail toll services at a level below its switched access rates (including all rate elements) plus the forward-looking costs of other facilities and services used to provide those toll services, Verizon is violating the Commission's imputation requirements.

D. Violation of Federal Law

32. AT&T realleges and incorporates by reference the allegations in paragraphs 1-20 above as if fully set forth herein.

33. Verizon, like all ILECs, has the duty to provide access to, and interconnection with, its network "on rates, terms, and conditions that are just, reasonable, and nondiscriminatory." 47 U.S.C. § 251(c)(2)(D). Such rates must be "based on the cost (determined without reference to a rate-of-return or other rate-based proceeding)," "nondiscriminatory, and may include a reasonable profit." *Id.* § 252(d)(2). Nevertheless, "[e]very telecommunications carrier that provides intrastate

telecommunications services shall contribute, on an equitable and nondiscriminatory basis, in a manner determined by the State to the preservation and advancement of universal service in that State." *Id.* § 254(f). However, "[n]o State or local statute or regulation, or other State or local legal requirement, may prohibit or have the effect of prohibiting the ability of any entity to provide any interstate or intrastate telecommunications service." *Id.* § 253(a).

34. Verizon's rates for access to, and interconnection with, its network via switched access services are not cost-based, just, reasonable, or nondiscriminatory. Those rates (including all rate elements) far exceed the costs the Commission or the FCC has established for the facilities and functionalities of switched access service when provided to CLECs and CMRS providers as UNEs or local call termination. Pursuant to the recently invalidated WAC 480-120-540, the Commission authorized Verizon to separate its switched access charges into a cost-based element and an "interim universal service" element. Verizon's "interim universal service" rate element bears no demonstrable relationship to the costs Verizon incurs to provide universal service and is imposed solely on AT&T and other IXCs. A federal court recently affirmed that ILECs may not recover universal service costs through switched access charges, and the court's reasoning is equally applicable to interstate and intrastate switched access. *COMSAT Corp. v. FCC*, 250 F.3d 931, 938-940 (5th Cir. 2001). Accordingly, to the extent that Verizon's switched access charges (including all rate elements) are alleged to include a contribution to universal service, such contributions are not cost-based, equitable, or

nondiscriminatory in violation of 47 U.S.C. § 254(f).

35. Verizon's intrastate tariffs and price lists have the effect of law under the filed rate doctrine. Verizon's tariff prices for switched access services (including all rate elements), particularly in conjunction with Verizon's pricing of intrastate toll services, are excessive and establish a price squeeze for the provisioning of intrastate long distance services that has the effect of prohibiting the ability of other carriers to provide intrastate telecommunications services in violation of 47 U.S.C. § 253(a).

PRAYER FOR RELIEF

WHEREFORE, AT&T prays for the following relief:

A. An order from the Commission requiring Verizon to reduce its switched access service rates (including all rate elements) to the sum of the cost-based prices that the Commission has established for the UNEs that comprise that service and tying any future change in switched access rates to those UNE prices; and

B. Such other or further relief as the Commission finds fair, just, reasonable, and sufficient.

DATED this 3rd day of April, 2002.

DAVIS WRIGHT TREMAINE LLP
Attorneys for AT&T Communications of the Pacific Northwest, Inc.

By _____
Gregory J. Kopta
WSBA No. 20519

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

AT&T COMMUNICATIONS OF THE PACIFIC NORTHWEST, INC. Complainant, v. VERIZON NORTHWEST INC., Respondent.	)	Docket No. UT-_____

COMMONWEALTH OF MASSACHUSETTS)
) ss.
COUNTY OF SUFFOLK)

AFFIDAVIT OF LEE L. SELWYN

Introduction and Summary

Lee L. Selwyn, of lawful age, declares and says as follows:

1. My name is Lee L. Selwyn; I am President of Economics and Technology, Inc. ("ETI"), Two Center Plaza, Suite 400, Boston, Massachusetts 02108. ETI is a research and consulting firm specializing in telecommunications and public utility regulation and public policy. My Statement of Qualifications is annexed hereto as Attachment 1 and is made a part hereof.

2. I have presented testimony before the Washington Utilities and Transportation Commission ("WUTC" or "Commission") on a number of occasions dating back to the 1970s. In April, 1978, I submitted testimony on behalf of the Boeing Company and Sears, Roebuck and Company in Dockets U-77-50, U-77-51, and U-77-52. In November 1982, I submitted testimony before the Commission on behalf of the Tele-Communications Association (TCA) in Docket U-82-19 concerning the transfer of Pacific Northwest Bell assets and personnel to AT&T and appropriate pricing of terminal equipment. In September, 1988, I submitted two pieces of written testimony to the Commission in Docket U-88-2052-P regarding the competitive classification of certain of Pacific Northwest Bell's services. My testimony on behalf of Public Counsel in that case addressed competitive classification of Pacific Northwest Bell's intraLATA toll services, whereas my testimony on behalf of Telecommunications Ratepayers Association for Cost-based and Equitable Rates (TRACER) and the State of Washington Department of Information Services addressed competitive classification of Pacific Northwest Bell's private line services. In January 1990, I submitted testimony on behalf of TRACER, Public Counsel, and the State of Washington Department of Information Services in Docket U-89-3031-P regarding GTE-Northwest's proposal for alternative regulation. I also submitted testimony on behalf of TRACER in June 1993, Dockets U-89-2698-F and U-89-3245-P proposing a "Modified Incentive Regulation Plan" for US West Communications (USWC). On April 17, 1995, I submitted direct and supplemental testimony on behalf of the Staff of the Washington Utilities and Transportation Commission in Dockets UT-941464, UT-941465, UT-950-0146 and UT 950265, regarding the cost studies filed by USWC in support of its proposed local transport restructure and expanded interconnection tariffs. On August 11, 1995, I submitted testimony in

Docket UT-950200 on behalf of the Staff of the Washington Utilities and Transportation Commission concerning USWC's request for an increase in its rates and charges. On October 31, 1997, I offered testimony in Docket UT-961638 on behalf of Public Counsel and TRACER in response to USWC's request to be relieved of its obligation to serve. On March 4 and June 28, 1999 I sponsored responsive and surrebuttal testimony, respectively, in Docket UT-980948 on behalf of WUTC Staff regarding USWC's petition and accompanying testimony seeking to end the imputation of "yellow pages" directory advertising revenues to its Washington regulated telephone operations.

3. In addition to the aforementioned appearances, ETI has submitted other filings and reports to the Commission. In October, 1984, ETI prepared a comprehensive evaluation of Local Measured Service (LMS), *A Multi-Part Study of Local Measured Service*, for the WUTC. In 1985, I was co-author, along with Patricia D. Kravtin and Nancy J. Wheatley of ETI, of Reply Comments of the U.S. Department of Energy, Richland Operations Office, regarding cost of service issues bearing on the regulation of telecommunications companies. These Reply Comments were submitted to the Commission in November of that year. In 1987, ETI was engaged by the Commission to undertake an examination of the outside plant construction and utilization practices of USWC Communications and to present recommendations based on that investigation. The final report arising from that assignment, *An Analysis of the Outside Plant Provisioning and Utilization Practices of US West Communications in the State of Washington*, was submitted to the Commission in March 1990. I was co-author of that report, along with Patricia D. Kravtin and Paul S. Keller of ETI.

4. The purpose of this affidavit is to address three fundamental concerns with respect to Verizon Northwest's ("Verizon's" or "the Company's") intrastate switched access rates:

- First, Verizon Northwest's intrastate switched access rates are set at extraordinary multiples of cost.

- Second, Verizon's excessively-priced switched access rates diminish competition for toll services by creating a price squeeze on other toll carriers who are required to purchase the overpriced bottleneck switched access services from Verizon in order to provide toll service to end users.

- Finally, as if oblivious to the excessive intrastate switched access prices that the Company imposes upon its competitors, in setting its own retail rates Verizon Northwest and Verizon Long Distance (its Section 272 long distance affiliate) ignore this Commission's imputation standards by offering retail intrastate toll rates at levels that are well below the imputed price floor for such service.

In order to ensure the continued development of competition in the Washington intrastate toll market and prevent competitive toll carriers from being squeezed out of that market, the Commission should require Verizon to lower intrastate switched access prices so that Verizon's existing retail toll rates will satisfy the access charge imputation requirement, as described in this affidavit. Although the Commission could eliminate the price squeeze by raising Verizon's

retail toll rates to a level at or above the imputation floor, reducing switched access charges to cost is clearly the preferred approach, since it will result in more competition, lower intrastate toll rates overall, minimize the potential for anticompetitive cross-subsidization of other services, and will bring retail end user prices much closer to cost.

Verizon Northwest's intrastate switched access rates are set at extraordinary multiples of cost, the continuation of which provides a competitive advantage for Verizon to the detriment of its toll service competitors.

5. Verizon Northwest's tariffed intrastate switched access rates are $0.04 per originating minute and $0.036 per terminating minute.[1] These prices include all common line, local switching, tandem switched transport, USF and residual charges as they apply to interexchange carriers ("IXCs") seeking to provide intrastate toll service in Washington for calls originating and/or terminating in Verizon Northwest's service territory. Thus, for an intrastate toll call that both originates from and terminates to Verizon Northwest local exchange service subscribers, the total switched access charge would be $0.076.

6. As a wholesale service, switched access should be priced at forward-looking economic cost, including a reasonable allocation of forward-looking joint and common costs and a "competitive return" on investment. Setting switched access prices in excess of cost forces retail long distance prices to be set at above-cost levels, which has the effect of suppressing consumer

1. WN U-16, Verizon Northwest Inc., Facilities for Intrastate Access, Section 4, 4th revised sheet 343, 1st revised sheet 343.A, 3rd revised sheet 344, 10th revised sheet 346, and Section 12.5, 6th revised sheet 560, all of which are effective December 13, 2001.

demand for the service and diminishing competition overall. In addition, to the extent that the provider of switched access service — Verizon WA in this case — is itself also a provider of retail toll services *in competition with the purchasers of its switched access services*, setting those access charges in excess of actual cost provides Verizon with a formidable competitive advantage, in that it *has the ability* to set its retail price at a level that is profitable to Verizon but unprofitable to its competitors, because when the overpriced access services are included in competitors' costs — which they must be — the competing providers would be forced to set their own retail price *below their cost* in order to attract retail customers to their services.

7. Historically, above-cost pricing of switched access was a device that had been used by ILECs and sanctioned by regulators as a means for providing an *implicit subsidy* to basic local exchange service. However, the 1996 federal *Telecommunications Act* prohibits implicit subsidies,[2] a prohibition that has recently been upheld with respect to access charges by the Fifth Circuit Court of Appeals.[3] Maintaining switched access charges above cost-based levels means

2. Section 254(e) of the Telecommunications Act of 1996 (47 U.S.C. § 254(e)) *requires* that all subsidies be made explicit, and that prices for telecommunications services be just, reasonable and cost-based.

3. *COMSAT Corp. v. FCC*, 250 F.3d 931 (5th Cir. 2001).

that some subsidy still remains.[4] Despite the Commission's efforts on this front, intrastate switched access prices for Verizon Northwest remain at levels that greatly exceed their cost.

8. Although the Commission has pursued access charge rate restructuring for ILECs operating in Washington,[5] the rate restructuring has not yet accomplished a rate reduction to cost-based levels. However, in Docket No. UT-960369,[6] a case involving rates for *local* interconnection, unbundled network elements, local transport and termination, and local service resale, the Commission set rates for Verizon's local switching and transport functions that it determined to be cost-based.[7] Local switching , tandem and transport functions furnished to CLECs for transport and termination of CLEC-originated traffic involve exactly the same functionality as the switched access services that Verizon provides to IXCs. In fact, in its *First Interconnection Order*, the FCC expressly recognized "that transport and termination of traffic,

4. If earnings without inclusion of the access charge markup exceed the Company's authorized rate of return, then even the myth that access charges are used to subsidize basic service would need to be replaced by the reality that access charges are used solely to increase ILEC profits. *See*, e.g., *Petition for Investigation into the Cost of Universal Service and to Reform Intrastate Carrier Access Charges*, WUTC Docket No. UT-970325, Comments of AT&T Communications of the Pacific Northwest, Inc., April 8, 1998.

5. Washington Utilities and Transportation Commission, Complainant, v. U S West Communications, Inc., Respondent, WUTC Docket No. UT-941464, October 31, 1995, at 82.

6. *See generally, In the Matter of the Pricing Proceeding for Interconnection, Unbundled Elements, Transport and Termination, and Resale*, WUTC Docket No. UT-960369.

7. Cost-based rates include an allocation of joint and common costs, and permit a fair return on the carrier's investment.

whether it originates locally or from a distant exchange, *involves the same network functions*."[8] Accordingly, where costs are the same, the rates for providing these identical services should also be the same. The Commission's cost-based UNE rates for Verizon's local switching and common transport are $0.0014151 per minute and $0.0002012 per minute, respectively;[9] thus, on the basis of those cost-based UNE rates as determined by the Commission, Verizon's cost to provide switched access service is also $0.0016163 per minute at each end of the call, or $0.0032326 per minute[10] if the call originates from and terminates to a Verizon local exchange

8. *In the Matter of Implementation of the Local Competition Provisions in the Telecommunications Act of 1996*, CC Docket No. 96-98, First Report and Order, released August 8, 1996, 11 FCC Rcd 15499 ("*First Interconnection Order*"), at para. 1033, emphasis supplied.

9. WN U-21, GTE Northwest Incorporated, Unbundled Network Elements, Section 4, original sheet 6, effective December 15, 2000.

10. In providing switched access, Verizon might also incur a cost for tandem switching. However, no such rate has been adopted by Verizon in its UNE tariffs. *See Id.* If one were to assume that the Commission had found Verizon's cost-based rate for tandem switching to be identical to Qwest's, then Verizon would incur an additional $0.00141 per minute per end for tandem switching. *See* WN U-42, Qwest Corporation, Interconnection Services, section 3, original sheet 3, effective December 2, 2000. A two-ended call originating and terminating to a Verizon local exchange service customer would thus increase to $0.0060526.

service customer.[11] As such, Verizon's intrastate switched access rate of $0.076 is set at a multiple of more than 23 times the cost of this service.[12]

9. Verizon also exchanges traffic with Commercial Mobile Radio Service ("CMRS") carriers including its own affiliate, Verizon Wireless, under a reciprocal compensation arrangement that is similar, but not identical, to that applicable to ILEC/CLEC traffic.[13] In the FCC's *First Interconnection Order*, CMRS providers were designated as "telecommunications carriers" as that term is defined at 47 U.S.C. § 153(44).[14] As such, the FCC determined that CMRS providers are eligible to receive reciprocal compensation payments for the transport and termination of traffic handed off to them by LECs and to compensate LECs on that same basis for CMRS-originated traffic handed-off to LECs for termination.[15] However, in designating the *type* of traffic interchanged between a LEC and a CMRS provider that would be subject to reciprocal

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11. It is my understanding that this Commission has not yet established rates for reciprocal compensation for terminating local exchange traffic, and that such compensation is negotiated between carriers and set forth in their interconnection agreements. However, counsel has advised me that current reciprocal compensation charges between Verizon Northwest and other carriers do not exceed $0.0053157 per minute, thus making Verizon's switched access charges about 7 times higher than termination charges for local traffic. *See* AT&T Complaint.

12. ($0.076 / $0.0032326) = 23.51. If one includes the estimate for tandem switching as described in footnote 8 above, then Verizon's switched access rates are set at nearly 13 times the cost for this service.

13. It is my understanding that the Commission has not yet established per MOU rates for reciprocal compensation for terminating local exchange traffic, and that such compensation is negotiated between carriers and set forth in their interconnection agreements.

14. *First Interconnection Order*, 11 FCC Rcd 15499, at para. 993.

15. *First Interconnection Order*, 11 FCC Rcd 15499, at para. 1008.

compensation, the FCC defined the CMRS "local calling area" for reciprocal compensation purposes to be the so-called "Major Trading Area" ("MTA"),[16] the geographic area adopted by the FCC as the territory covered by individual PCS licenses.[17] Specifically, the FCC concluded that "traffic to or from a CMRS network that originates and terminates within the same MTA is subject to transport and termination rates under section 251(b)(5), rather than interstate or intrastate access charges."[18]

10. As a general matter, MTAs are substantially larger than a typical ILEC local calling area. For example, most of Washington State is divided into only two MTAs. The western Washington MTA covers roughly two-thirds of the state, and is larger than the Seattle LATA. The eastern MTA covers the eastern one-third of Washington along with the Idaho panhandle, portions of Wyoming, and all of Montana. A portion of the Portland, Oregon MTA spills over into the southwestern corner of the state, covering Vancouver and Longview and smaller communities on the Washington side of the Columbia River.[19] Washington MTAs cover intrastate distances of up

16. *Id.*, 11 FCC Rcd 15499, at para. 1036.

17. *Implementation of Sections 3(n) and 332 of the Communications Act; Regulatory Treatment of Mobile Services Amendment of Part 90 of the Commission's Rules To Facilitate Future Development of SMR Systems in the 800 MHz Frequency Band Amendment of Parts 2 and 90 of the Commission's Rules To Provide for the Use of 200 Channels Outside the Designated Filing Areas in the 896-901 MHz and 935-940 MHz Band Allotted to the Specialized Mobile Radio Pool*, GN Docket No. 93-252; PR Docket No. 93-144; PR Docket No. 89-553, *Third Report and Order*, FCC 94-212, 9 FCC Rcd 7988, Released September 23, 1994; Adopted August 9, 1994.

18. *First Interconnection Order*, 11 FCC Rcd 15499, at para. 1036.

19. Rand McNally, Inc., *Commercial Atlas and Marketing Guide*, 1994 edition, at 38-39.

to about 200 miles and, in the case of the Spokane MTA, interstate distances of as much as 600 miles.

11. In the case of traffic exchanged between ILECs and CLECs, reciprocal compensation applies for calls that are rated as *local;*[20] calls rated as *toll*, while physically processed by the ILEC in exactly the same way as local calls, are subject to access charges rather than reciprocal compensation. Thus, the intraLATA non-local wireline calls that are subject to access charges would, if carried by a CMRS provider rather than by a CLEC or an IXC, be *exempt* from access charge treatment, with intercarrier compensation based upon the applicable reciprocal compensation arrangement. And because wireless carriers have the ability to exchange traffic without incurring access charges over a wide geographic area, they typically offer their customers much larger local calling areas than wireline carriers, affording the wireless carriers (including Verizon's own affiliate, Verizon Wireless) an enormous competitive advantage vis-a-vis CLECs and IXCs with respect to similar point-to-point calls precisely because the access charges associated with wireline toll-rated calls are so much higher than those applicable to "local calling area" traffic exchanges between ILECs and CMRS carriers.

12. For example, a 130-mile wireline call originated by a customer in Blaine to the WUTC's offices in Olympia would be rated as an intraLATA toll call and would be subject to access

20. The precise terms of reciprocal compensation arrangements and the definitions of what constitutes "local" calls are generally set out in individual interconnection agreements negotiated between the ILEC and the CLEC or determined by the Commission in an arbitration decision made pursuant to 47 U.S.C. § 252.

charges if carried by an IXC. That same call, if originated over a wireless phone in Blaine could be handed-off to the ILEC (Qwest in this case) for termination in Olympia under the terms of the CMRS carrier's interconnection agreement with the ILEC, i.e., under reciprocal compensation or bill-and-keep, as applicable. Whereas the wireline caller would be subject to a toll charge, the same call placed from a wireless phone would be treated as local.[21] Verizon Wireless and other CMRS carriers have in fact been heavily promoting this "no toll charge" feature of their services. Verizon Wireless, for example, has been advertising its "America's Choice" Plan, "Where your home calling area stretches coast to coast."[22] A growing number of consumers are using their wireless phone, and not their wireline phone, to place long distance calls *precisely because the wireless rate plans carry no toll charges.*[23] It is patently unfair for IXCs to be placed at so large a competitive disadvantage vis-a-vis wireless carriers merely because IXCs are forced to pay access charges for many calls for which CMRS carriers are not.[24]

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21. Verizon Wireless "Local DigitalChoice" service provides a local calling area consisting of the entire states of Washington and Oregon and the northern portion of the Idaho panhandle. http://www.verizonwireless.com/ics/plsql/customize.intro. See Attachment 2.

22. See Attachment 2.

23. *See*, e.g., "Some Telephone Subscribers Drop Land Lines for Cellular Phones," *The Dallas Morning News*, September 15, 2001.

24. Even where a CMRS-originated call terminates to a wireline customer outside of the MTA of the calling party, the wireless carrier is subject to ILEC access charges only at the terminating end of the call. Moreover, since CMRS rates are not regulated either by the state commissions or the FCC, CMRS carriers are under no obligation to "impute" any originating access charge into the price they charge for the call. CMRS carriers can thus offer their customers "free" toll calling, whereas IXCs are forced to incur out-of-pocket access charges for the same calls.

13. The competitive benefits of setting switched access prices at cost have been explicitly recognized by the FCC in its *CALLS Order*:

> Finally, the reduction in switched access usage charges will promote competition in the long-distance market between BOC affiliates entering this market and IXCs. To the extent switched access usage charges paid by IXCs are significantly above cost, BOC affiliates would have a competitive advantage because they would obtain switching services from the BOCs at cost. By driving switched access usage charges closer to their actual costs more quickly than would occur under the existing price cap regime, the CALLS Proposal will minimize the competitive advantages BOC affiliates would have over IXCs in offering long-distance services while switched access rates were significantly above cost.[25]

Lowering switched access prices to cost-based levels will assure that incumbent LECs and competitive toll carriers both face identical costs for the underlying wholesale service of providing the first- and last-mile connection between the calling party and the called party, and will thus enhance the opportunity for the development of a competitive market for intraLATA toll services. As discussed in the next section of this affidavit, the existence of switched access rates at levels substantially above cost has permitted Verizon Northwest to implement an anti-competitive price squeeze against other toll providers that, if permitted to continue, will be detrimental to the continued efforts of the Commission to foster competition for intraLATA toll service and may even cause adverse repercussions in the emerging competitive local market.

25. *CALLS Order,* at para. 158.

Verizon Northwestshington's above-cost switched access prices result in an anticompetitive price squeeze for competing intrastate toll carriers.

14. When any carrier *other than Verizon Northwest* provides intrastate toll service to a Verizon Northwest local exchange service subscriber, the interexchange carrier must purchase switched access *from Verizon Northwest* in order to originate and/or terminate the intrastate call from/to a Verizon Northwest local service customer. From the perspective of the competing intrastate toll provider, these access charges are an actual cash out-of-pocket cost. When Verizon Northwest provides retail toll services, it does not utilize its own switched access service *per se*, but does provide the corresponding functionality *for itself* to originate and terminate such calls at its local subscribers' access lines.[26] Unlike Verizon Northwest's competitors, however, Verizon Northwest does not "pay" itself for these pseudo-switched access functions. Hence, whereas the interexchange carriers' profit margin is the difference between the retail toll price and all of its costs, including the out-of-pocket switched access charge, Verizon Northwest's profit margin is the difference between the retail toll price and Verizon Northwest's *actual cost* of providing the

26. Access services are ordinarily provided out of tandem switches known as "Access Tandems." The routing of an IXC-handled call would thus typically involve local switching and common transport from the originating subscriber's serving central office to the Verizon access tandem, where it will be switched to a dedicated interoffice trunk to the IXC's "point of presence." The reverse will typically take place at the terminating end of the call. Thus, when a call is handled by an IXC, Verizon may provide as many as four switching functions (two end office switching operations and two access tandem switching operations). When Verizon Northwest provides the same call end-to-end, the route may involve no or only one tandem switching operation. Thus, where Verizon Northwest is the retail toll service provider, its costs may actually be less than the costs it incurs in furnishing access services to a competitor. This is why Verizon Northwest is required to impute *the access charge* that its competitors pay rather than its own costs for the equivalent functionality in determining whether its retail price satisfies the imputation price floor.

switched access functionality to itself as part of its retail toll service. Thus, Verizon alone has the ability to reap additional profits equal to the difference between the cost and retail rate for switched access functionality.

15. The "cost" of switched access for competitive IXCs consists of the tariffed rates for switched access services, whereas for Verizon Northwest the "cost" of the switched access functionality is the actual cost of providing the switching and transport functions that are bundled into the retail end-to-end toll service. As discussed above, the *functions* that are involved in providing switched access are *identical* in every material respect to the functions associated with *local switching, tandem switching* and *common transport*, which are provided as Unbundled Network Elements (UNEs) by Verizon Northwest at rates that the Commission has determined to be cost-based,[27] as required by Sections 251 and 252 of the *Telecommunications Act of 1996*. As referenced above, this Commission determined the cost of the local switching and transport functions to be only $0.0032 per minute. If the tariffed rates for switched access services (as they apply to IXCs) are set at any level *above* the actual cost of providing the service, and assuming that competitors' retail intrastate toll rates are necessarily set at levels roughly comparable to those being charged by Verizon (something that would be expected to occur in a competitive market), competitors will face higher costs than Verizon Northwest, and will thus be forced to deal with a decidedly lower — or even a *negative* —profit margin.

27. It is my understanding that the Commission has not yet established a tandem switching UNE rate.

16. Consider the following scenario. As discussed above, Verizon Northwest's *cost* of providing switched access is approximately $0.003 per minute (at both ends combined), while the current average per-minute tariffed rate for switched access is $0.076 per minute. As detailed later in this affidavit, non-access retailing functions, including billing and collection, amount to roughly $0.06.[28] Verizon Northwest's cost for its retail toll service is then $0.063, whereas competing carriers confront total out-of-pocket costs (for access and non-access items) of $0.136, more than double Verizon Northwest's cost *for exactly the same intrastate toll service.* If the prevailing retail rate for intrastate toll service is, say, $0.14 per minute, then Verizon Northwest's gross margin (revenue minus costs) would be $0.077 per minute [$0.14 – $0.063], while competing carriers would only realize a margin of $0.004 (i.e., four-tenths of one cent) per minute [$0.14 – $0.136] (assuming that they were able to charge the same retail price as Verizon Northwest).[29]

28. In this scenario, it is assumed that the retailing and billing and collection costs faced by Verizon Northwest and IXCs are identical. In fact, Verizon's *non-access* costs are likely to be considerably lower than those that would be confronted by an IXC for the same non-access functions. As an ILEC, Verizon can include its customers' intraLATA toll calls on their local service bills at near-zero incremental cost, whereas a nonaffiliated IXC would be forced to either purchase billing and collection services from Verizon or, alternatively, perform these same functions on a stand-alone basis for itself. In addition, non-ILEC long distance carriers are likely to incur significantly greater marketing costs than would an ILEC, since the latter has the unique opportunity to "sell" its intraLATA long distance service during the same contact *initiated by the customer* for the purpose of ordering *local* telephone service.

29. Non-ILEC competitors frequently find that in order to attract customers away from the incumbent they must offer consumers a *lower* price than that being charged by the incumbent. If, for example, IXCs were forced to set their price at $0.13 (i.e., one cent lower than Verizon's price), they would then sustain a net *loss* of $0.006 on every minute they sell. It is unreasonable to expect competitors to remain in the market for very long under these conditions.

17. If, in the above example, Verizon Northwest were to lower retail rates to $0.12 per minute, the Company would still have a margin of $0.057 per minute, but it would actually *cost competitors more than they receive in revenues* in order to serve customers at this retail price level. Given the large discrepancy between the cost and price of switched access, Verizon Northwest has the ability and the incentive to impose a price squeeze on its competitors by reducing retail rates towards *or below* the level of the competitors' out-of-pocket costs (including access payments to Verizon itself), thereby minimizing or eliminating altogether the profit margin that would be available to its rivals.

18. Moving the rates for switched access closer to cost-based levels eliminates Verizon Northwest's ability to effect a price squeeze on competitive toll carriers. If access charges are set at cost-based levels, both Verizon Northwest and its rivals will be operating on roughly similar footing: They will each be confronting roughly the same access costs (although Verizon's actual costs would still be lower), and will be able to compete with respect to who can be most efficient in converting the wholesale access services, together with the various value-added components, into the retail intrastate toll offering. There is nothing *per se* wrong with the price/cost margin becoming narrower; what is objectionable is when the effect is disproportionately imposed upon competitors due to above-cost pricing by Verizon Northwest of the essential switched access service. Only after adopting cost-based rates for switched access will Verizon Northwest and its competitors face equivalent costs, revenues and margins in the intrastate toll market, *thus*

eliminating any kind of monopolistic advantage on the part of Verizon Northwest.[30] The likely result would be lower retail rates for consumers from both Verizon and competitive IXCs.

19. However, so long as Verizon Northwest's actual cost for providing switched access to itself is lower than the cost for switched access faced by competitors, Verizon Northwest's gross margin for toll services will *always* be higher than that available to its competitors. Not only does this situation provide Verizon Northwest with a formidable competitive advantage in the toll market, it also affords Verizon Northwest an incentive and the market power to implement a price squeeze. As competition pushes retail toll prices closer and closer to the competing carriers' price floor, the gross margin available to competing carriers is effectively squeezed out. Once the margin is eliminated, other carriers will have no economic incentive to provide toll service, thus permitting Verizon Northwest to remonopolize the adjacent intraLATA (and ultimately interLATA) toll markets. Verizon Northwest's competitive advantage and its ability to implement a price squeeze will remain until switched access rates are reduced to cost-based levels. Only at that time will the playing field be nearly level as between Verizon Northwest and its competitors with respect to toll service. This is a realistic and important goal for this Commission, and one that should be addressed in a formal Commission investigation.

30. Even then, Verizon Northwest will still maintain a significant cost advantage vis-a-vis competing IXCs, in that it will still confront near-zero long distance billing costs and near-zero marketing costs for sales made using the "inbound channel."

Verizon Northwest's retail intraLATA toll rates fail to satisfy the Commission's established imputation standards.

20. The purpose of an imputation test on an ILEC's retail price for a competitive service is to assure that such price fully covers all charges that the ILEC would apply to a competitor for any essential services that are required by the competitor in order to offer a competing retail service. Thus, even though Verizon Northwest does not "pay itself" any access charge, the imputation test is applied to assure that the price that a competitor would pay *to Verizon* for switched access and other essential functions, together with any *non-access costs* that Verizon Northwest incurs in providing retail toll service, is not in excess of the retail price that Verizon Northwest charges its end-user customers for the retail toll service.

21. In performing an imputation test with respect to Verizon Northwest's toll services, it is necessary that each *individual toll service rate plan*, rather than some average of all retail rates or an average revenue per minute, be examined relative to the sum of *imputed* access and actual non-access costs. Verizon Northwest offers a variety of intrastate toll service pricing plans. It is not sufficient for an imputation test to be made across all of these various pricing options; each one must individually and independently satisfy the imputation requirement. Using an average revenue per minute across all toll calling plans would allow some services that may be priced well above the price floor to mask (i.e., subsidize) other services whose retail prices fall below the price floor. Therefore, the imputation test must be performed separately with respect to the retail

rate for each calling plan in order to determine whether or not the price for that particular service is appropriately set above the price floor.[31]

22. The price floor for toll service is comprised of the costs incurred by all carriers for both access-related and non-access functions. Access-related functions include all "bottleneck" access elements, both traffic sensitive and non-traffic sensitive.[32] The non-access functions associated with toll service are the costs associated with actually providing service to end users using the essential functions (e.g., network switching and interexchange transport) supplied by the incumbent LEC. Costs associated with non-access network functions include billing/collection, retailing/marketing, and the use of the Local Number Portability ("LNP") database; these costs are incurred by both Verizon Northwest and its competitors when providing toll service, and as such must also be incorporated into the price floor for toll service.[33] My approach to defining the price floor applicable to Verizon Northwest consists of calculating the costs for switched access,

31. The WUTC reached this conclusion in Docket U-87-1083-T, wherein it rejected Pacific Northwest Bell's ("PNB's") proposal to analyze the average rates of a toll calling plan. As the Commission stated, "[t]he better approach requires that each individual [] rate be priced no lower than the approved imputation rate." *See* Washington Utilities and Transportation Commission v. Pacific Northwest Bell Telephone Company, WUTC Docket No. U–87-1083-T, *Fifth Supplemental Order*, 93 P.U.R. 4th 430, May 25, 1988 ("Docket No. U-87-1083-T *Fifth Supplemental Order*"), at 442. Notwithstanding this notion, as I explain later in this affidavit, TNS data on Verizon Northwest's average revenue per minute across all toll calls fails to satisfy the imputation standard as set forth herein.

32. WUTC Docket No. U–87-1083-T *Fifth Supplemental Order*, Finding of Fact #5.

33. To the extent that the non-access costs may vary from one calling plan to the next, the *plan-specific* non-access costs should be used in determining that the price exceeds the imputed costs. For purposes of this affidavit and because I have no specific information to the contrary, I have assumed that the non-access costs are the same for all calling plans.

as well as all non-access costs, such as billing and collection, retailing and marketing, and using the LNP database, that Verizon Northwest would incur if it were just another interexchange carrier providing toll service.

23. To begin, it is necessary to calculate the average switched access price per billed access minute paid by IXCs, based upon Verizon Northwest's tariffed switched access rates as would be applied to telecommunications carriers seeking to purchase switched access. Tariffed switched access prices are the underlying network costs faced by IXCs in providing toll service, and therefore it is these prices that are relevant in a proper imputation calculation. The Commission agrees with this position, as it stated in its *Fifth Supplemental Order* in Docket No. U-87-1083-T with respect to PNB (but which would apply to all incumbent LECs):

> To dispel any lingering doubts, the Commission clarifies that the access charges to be imputed cover both types of costs, nontraffic sensitive (NTS) costs and traffic sensitive (TS) costs. [The incumbent] should bill itself for access in the same manner as it bills interexchange carriers.[34]

In calculating the TS and NTS access costs for Verizon Northwest, I have modeled the per-minute of use charges an IXC would pay for a call originating in Verizon Northwest's service footprint and terminating elsewhere in the LATA, but not necessarily in Verizon Northwest's footprint. As such, the access charge that would be paid by an IXC for the originating end of the call would be whatever Verizon Northwest's tariffed rates are (i.e., $0.04 per minute). As for the terminating end of the call, what the toll carrier pays depends upon where the call terminates. I have modeled

34. Docket No. U–87-1083-T *Fifth Supplemental Order*, at 441.

all of the terminating access charges for Verizon Northwest, Qwest, Century and Sprint/United, and weighted them according to the number of switched access lines each carrier serves in Washington State.[35]

24. When combined, this rate approximates the weighted average terminating access charge that a toll carrier would face for a call placed from a subscriber in Verizon Northwest's service territory.[36] The final weighted average switched access price per access minute of use was calculated to be $0.0697.[37] Attachment 3 to this affidavit provides the details of this calculation and the associated workpapers that I used in calculating the elements of the price floor.

35. Federal Communications Commission, ARMIS Report 43-08 (Table III. Switched Access Lines by Technology), for year 2000, accessed 2/20/02. For Century Data see, NECA's Overview of Universal Service Fun, 10/00, Submission of 1999 Study Results; http://www.fcc.gov/Bureaus/Common_Carrier/Reports/FCC-State_Link/neca.html.

36. It might perhaps be more accurate to limit the weighting of terminating access lines by ILEC to only those lines outside of the customer's local calling area. However, many non-Verizon exchanges are included within Verizon local and extended area service (EAS) calling areas, and it is not likely that this refinement would materially change the weighted average terminating switched access charge that should be imputed into Verizon-originated intrastate toll calling.

37. Another refinement that could be made to this analysis would be to multiply the per-minute access charge by the ratio of access minutes to billed minutes. IXCs pay for access during portions of a call (e.g., while the phone is ringing and before it is answered) for which no billed revenue is received, and also pay access charges where the ultimate call is not completed (because it encounters a busy signal or no answer). Offsetting this is the fact that some of Verizon's retail toll rates involve full-minute billing, which for *completed* calls typically results in billed minutes being greater than conversation minutes. The net effect of these adjustment likely serves to increase the imputation amount. However, I do not have the necessary data for Verizon Northwest's serving area upon which to base this adjustment at this time.

25. It is also necessary to include the cost of billing and collection in calculating the price floor for imputation purposes. The Commission has repeatedly stated that since billing and collection are competitive services, it is appropriate to impute the Long Run Incremental Cost ("LRIC"), rather than tariffed rates, that an ILEC incurs in performing this function.[38] Although I am not aware of any current LRIC study of Verizon's billing and collection services, a LRIC amount for independent company billing and collection of $0.0346 per minute was adopted by the Commission in its *Fifth Supplemental Order* in Docket No. U-87-1083-T,[39] and to the best of my knowledge the Commission has not revised that figure since that Order was issued.

26. The price floor must also cover all non-access retailing costs incurred by Verizon Northwest to provide retail toll service to its end user customers. Retailing costs include such items as marketing, advertising, service ordering, and customer service. Retailing costs are appropriately included in the development of the price floor, since these represent the costs of functions that must be incurred both by Verizon Northwest and by competitive carriers in order to provide toll service at retail. In a surrebuttal affidavit recently offered by Dr. William E. Taylor on behalf of Qwest Communications, Inc., in Minnesota PUC Docket No. P-421/CI-01-1372 (the "Section 272 compliance" proceeding held in connection with Qwest's Section 271 Application

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38. *See* WUTC Docket No. U-87-1083-T *Fifth Supplemental Order*, at 433; Washington Utilities and Transportation Commission, Complainant, v. U.S. West Communications, Inc., Respondent, WUTC Docket No. UT-950200, *Fifteenth Supplemental Order: Commission Decision and Order Rejecting Tariff Revisions; Requiring Refiling*, 4/11/96, at 97.

39. Even though GTE, an independent carrier, was an intervening party in that proceeding, there is no indication in the Order that GTE objected to the use of $0.0346 per minute as representative of its LRIC for Billing and Collection.

for in-region interLATA authority in Minnesota), Dr. Taylor provided an estimate of "marketing expenses" incurred by IXCs in connection with retail long distance services.[40] According to Dr. Taylor, retailing costs for interexchange carriers are roughly $0.03 per minute, or perhaps even more.[41] For the purposes of this price floor calculation and consistent with Dr. Taylor's estimate, I have employed this $0.03 per minute figure as an estimate for retailing costs.

27. Finally, I add an estimate of the charges incurred by competitive carriers on a per-minute basis for queries to the local number portability ("LNP") database.[42] These queries are performed whenever a customer-dialed NXX code is designated as having a ported number. Once the call is initiated, the query is performed in order to assess whether that particular number has been ported. The frequency with which these queries occur is dependent upon the quantity of ported numbers, and the number of NXX codes containing ported numbers. The tariffed rate for LNP database queries is $0.0006,[43] and these are applied on a per-message basis when the call is initiated by the originating caller, irrespective of whether or not the call is actually completed. I

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40. In the Matter of a Commission Investigation into Qwest's Compliance with Section 272 of the Telecommunications Act of 1996's Separate Affiliate Requirement; PUC Docket No. P-421/CI-01-1372, OAH Docket No. 7-2500-24487-2; Surrebuttal Affidavit of Dr. William E. Taylor on behalf of Qwest Corporation, January 16, 2002, at para. 20.

41. *Id.*

42. Verizon's tariff refers to LNP as "Service Provider Number Portability," or "SPNP." The Verizon Telephone Companies, Tariff FCC No. 1, Section 13.3.16.

43. I have utilized the "SPNP Database Query" rate, which assumes that the toll carrier submits the query to the database over the signaling system, rather than the higher "SPNP Query" rate, which requires Verizon to query the database. *Id.*, at Section 13.3.16.F, original page 13-97, effective April 28, 2001.

have assumed that queries are performed on 67.87% of all originating calls, based on the fact that 67.87% of all NXX codes in Washington are LNP-capable.[44] Since this charge is message-based, it is necessary to apply factors in order to estimate the cost on a per-minute basis. Using TNS Telecom[45] data for calls originating in Verizon Northwest's service territory from the third quarter of 1998 to the first quarter of 2000, I have determined that the Company's average completed call is 4.78 minutes in length. Due to the fact that the LNP database query charge is applied regardless of whether or not the call was completed, it is necessary to apply an "attempts-to-completion" ratio as well. I have utilized a ratio of 1.40 for Verizon Northwest in my calculation.[46] All told, I have estimated the effective per-minute cost for LNP database queries to be $0.0001.[47]

44. Telcordia Technologies; Local Exchange Routing Guide,1/1/02.

45. TNS Telecoms conducts interviews and surveys of telecommunications customers and their phone bills, and has developed a detailed database of consumer purchasing information. AT&T procured Washington-specific data for 3rd quarter 1998 through 1st quarter 2000 from TNS Telecoms, which was relied upon in making my calculation of average minutes per message for Verizon Northwest.

46. An attempts-to-completion ratio of 1.0 (which we know to be extremely unlikely occurrence) has the effect of applying the LNP database charge only to completed calls. As the ratio of attempts per completion increases, the impact of the LNP database query charge increases. I believe a ratio of 1.40 attempts per completion to be reasonable in spreading these incurred costs over completed calls, and should serve as a "rebuttable presumption" for the time being.

47. This value is calculated using the following formula: (tariffed rate for the LNP database query * percent LNP NXX occurrence * average attempts per completion) ÷ average minutes of use per message.

28. Combining these four items (average switched access price, billing and collection cost, retailing costs, and LNP database query cost) determines the price floor for intrastate toll service. Based on my calculations, the price floor for Verizon's intrastate toll services is $0.1344 per minute.

29. To determine whether or not Verizon Northwest's retail toll rates satisfy the $0.1344 imputation threshold, it is necessary to compare that price floor with the current intrastate toll rates being offered by Verizon Northwest and by Verizon Long Distance, its long distance affiliate, adjusted for uncollectible revenue. "Uncollectibles" represent those revenues billed by a carrier but which are unpaid by consumers. In order to appropriately represent the actual revenue received by Verizon Northwest (on average) for a particular service, it is necessary to subtract some amount from the retail rate billed to the customer. According to Verizon Northwest's 2000 annual report filed with the Commission, Washington intrastate uncollectible revenue totaled $6.8-million, or 1.3% of the Company's $523.9-million in Washington intrastate revenue.[48] Accordingly, I have subtracted 1.3% from each of the retail toll rates under review in order to account for uncollectibles. Tables 1 and 2 summarize the intrastate toll rate plans currently being offered by Verizon Northwest and Verizon Long Distance, respectively, to both residential and business toll customers in Washington, and the revenue per minute less uncollectibles for each plan.

48. Verizon Northwest 2000 Annual Report, Schedule I-1, page 2, lines 59 and 60.

Table 1

Verizon Northwest Intrastate Toll Calling Plans

Business			Residential		
Calling Plan	Peak Rate	Less 1.3% Uncollectible	Calling Plan	Peak Rate	Less 1.3% Uncollectible
Business Value Cents	$0.100	$0.0987	Residential Value Cents	$0.080	$0.0790
Easy Savings Flat Rate	0.100	0.0987	One Easy Price	0.100	0.0987
			Easy Savings Plan	0.128	0.1263

Notes:
Business and Residential "Value Cents" plans have $4.95 monthly fee.
Residential "Easy Savings Plan" rates based upon usage over $25/month.
Residential "One Easy Price" plan has no monthly charge.
Off-peak rates are either equivalent to or lower than peak rates.

Sources:
Verizon Northwest Inc. Washington Price List 2, Section 2, Original Sheet 1; Section 4 (entire).

Table 2

Verizon Long Distance Washington Intrastate Toll Calling Plans

Business			Residential		
Calling Plan	Anytime Rate	Less 1.3% Uncollectible	Calling Plan	Peak Rate	Less 1.3% Uncollectible
Simple Options 3-yr term	$0.085	$0.0839	State Saver	$0.080	$0.0790
Firm Rate 3-yr term	0.085	0.0839	Big Deal	0.083	0.0819
Simple Options 1-yr term	0.095	0.0938	SmartTouch	0.090	0.0888
Firm Rate 1-yr term	0.095	0.0938	E-Values	0.10	0.0987
Simple Options no term	0.100	0.0987	Timeless	0.10	0.0987
Firm Rate no term	0.100	0.0987	Best Times	0.11	0.1086

Notes:
"Simple Options and Firm Rate" plans specify monthly usage commitments, but the intrastate toll rates do not vary with usage commitments.
"State Saver" and "Best Times" have $4.75 monthly fee.
Residential "E-Values" and "Timeless" plans have no monthly fee or minimum charge.
"Big Deal" is a prepaid service ($5.00 for 60 minutes) for customers subscribing to Big Deal local service.
Off-peak rates are either equivalent to or lower than peak rates.

Sources:
http://www22.verizon.com/longdistance/business/plan_simpleoptions.jsp, accessed 3/6/02.
http://www22.verizon.com/longdistance/business/plan_firmrate.jsp, accessed 3/6/02.
http://www22.verizon.com/longdistance/residential/plan_comparison_tool.jsp, accessed 3/6/02.
http://www22.verizon.com/ForYourHome/SAS/ProdDesc.asp?id=6100&state=WA, accessed 3/6/02.
Conversation with Verizon Long Distance customer service representative, 1/30/02.

30. Assuming that customers make rational choices in selecting the best pricing plan to meet their usage requirement, each of Verizon's intrastate toll pricing plans appearing in Tables 1 and 2 have retail rates that are below the price floor for intrastate toll service[49] – thus, *each of the*

49. For services with a monthly fee, the amount of that fee must be apportioned across all usage and added to the per-minute usage charge. However, since customers have the ability to purchase no fee/no minimum pricing plans at rates of 10 cents per minute or less, it is reasonable to assume that no rational customer would subscribe to a plan in which the combined monthly

Verizon Northwest residential and business intrastate toll service plans identified in the Tables above fail the imputation test.[50] Moreover, for each of the rate plans above, I have modeled only the "peak" rate and considered that to be the average revenue per minute received by Verizon. If "off-peak" usage had also been included, Verizon's true average revenue per minute within each specific calling plan would undoubtedly be lower, which would push these services even further below the imputation floor.[51]

31. Verizon's predatory pricing practice of setting intrastate toll rates below the price floor is the most extreme example of implementing a price squeeze, because in order to gain market share and compete with Verizon Northwest, competitors must offer intrastate toll service *at or below* the levels offered by Verizon. To do otherwise would provide customers no incentive to purchase the competitor's service. Since most of Verizon Northwest's retail intrastate toll rates are already set below the price floor for intrastate toll service, *competitors are forced to set toll rates at levels that guarantee a revenue shortfall and a zero or negative profit margin.* To the extent that competing carriers are unable to meet Verizon's price for *intrastate* services, their ability to

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and per-minute charges would exceed that level.

50. The only intrastate rate plans offered by Verizon Northwest or Verizon LD that do not fail the imputation test are Verizon Northwest's Easy Savings Plan for Business (with per minute rates ranging from $0.136 to $0.153 per minute, depending upon usage levels) and the Easy Savings Plan for Residence with usage under $25 per month (with a per minute rate of $0.153). *See* Verizon Northwest Inc. Washington Price List 2, Section 2, Original Sheet 1; Section 4, Original Sheets 4-10.

51. Calculating a true revenue per minute for each calling plan requires detailed time-of-day demand data for Verizon's actual customers, which is obviously not available at this time.

compete in the adjacent *interstate* toll market could also be impaired, thereby enhancing Verizon's ability to force its rivals out of this segment as well.

32. It is common for incumbent LECs to contend that their own toll rates are appropriate so long as these rates are set at or above the rates for bottleneck switched access services that are levied upon competitive toll carriers. Such an approach ignores the *non-access costs* faced by any toll service provider, *including the ILEC*, for functions such as billing and collection, retail/marketing costs, and use of the LNP database, as discussed above. As I have demonstrated, these non-access costs are real and verifiable, and as such are incurred by the incumbent carrier. As I have shown, Verizon Northwest's toll rates are not set at sufficient levels to demonstrate recovery of these non-access costs *as well as* the imputed cost of switched access. Accordingly, Verizon Northwest must be recovering these costs through revenues from other services, which constitutes an anticompetitive cross-subsidization of toll service.

33. Because ILECs such as Verizon Northwest provide multiple services, they have the ability to effect such cross-subsidies quite easily. Take, for example, the costs associated with billing and collection. Assume that the cost of providing billing and collection for local exchange service is $1.00 per customer per month, and that the cost of billing and collection for toll service, if performed on a stand-alone basis, is also $1.00 per customer per month. Also assume that if performed at the same time and compiled on the same bill, the cost of providing billing and

collection for local exchange and toll service costs $1.10 per customer per month.[52] An incumbent carrier might then consider the non-access cost of providing billing and collection for its toll service to be the incremental cost for toll billing and collection over and above what it would incur for local exchange billing only (i.e., $0.10).[53] However, a stand-alone IXC that does not provide other services to a captive group of ratepayers would incur the full $1.00 cost per customer per month, and would thus be forced to recover those costs through its retail toll rates.[54]

34. In this example, the ILEC in effect "allocates" $1.00 out of the $1.10 joint cost of local and toll billing to *local*, allocating only the additional $0.10 to toll, allowing the competitive toll service to escape all responsibility for any share of the joint costs of this shared function. While some might argue that such an arrangement does not constitute a cross-subsidy in that the cost of

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52. In the current Sec. 272 compliance proceeding before the Minnesota Public Utilities Commission being held in conjunction with Qwest's Sec. 271 Application for In-Region InterLATA Authority, the Administrative Law Judge has found that "[t]he actual costs incurred by the Qwest BOC in combining its billing with that of QCC [the Sec. 272 long distance affiliate] may be lower than ten cents per bill page." State of Minnesota Office of Administrative Hearings for the Minnesota Public Utilities Commission, *In the Matter of a Commission Investigation Into Qwest's Compliance with the Separate Affiliate Requirements of the Telecommunications Act of 1996 (Section 272)*, OAH Docket No. 7-2500-14487-2, PUC Docket No. P-421/CI-01-1372, Findings of Fact and Conclusions of Law and Recommendations issued March 14, 2002, at FOF 84.

53. Faced with the same situation, one could also conclude that the full cost for toll billing and collection is $1.00, and the incremental cost for local exchange service is $0.10.

54. As the Minnesota ALJ observed in the Qwest Sec. 272 proceeding, footnote 40 *supra*, at FOF 84, "[t]he payment between QCC and the Qwest BOC has no impact whatsoever on the revenues received by QSC (the common parent of QCC and the Qwest BOC) or QCI (the ultimate parent company). But the offering of the "negotiated price" to third parties can make participation in the service too expensive or impair the ability of those third parties to compete in the market."

local service is not increased, there can be no question but that the competitive service is being afforded the entire economy of scope: but for the ILEC's incumbency in the local exchange market, the billing and collection cost of the toll service would be a dollar, not a dime. More importantly, by assigning all joint costs to the monopoly service, or by ignoring these costs altogether, the ILEC further expands the price squeeze to which it subjects its rivals. As such, imputing the full value of non-access costs into Verizon's toll service rates is necessary to prevent Verizon from squeezing profits away from the competitors by virtue of its incumbency advantages.

Lowering switched access prices to cost-based levels is the best mechanism for dismantling Verizon's price squeeze on competitive toll service providers and for encouraging the expansion of intrastate toll competition in Washington state.

35. Although the Commission can, in principle, eliminate the price squeeze in the toll service market by either raising Verizon's retail toll rates or by lowering Verizon's switched access rates, the latter choice is clearly to be preferred and is consistent with the cost-based pricing of essential services foundation of the *Telecommunications Act of 1996*. First, reducing Verizon Northwest's intrastate switched access rates to cost-based levels will mean that Verizon Northwest and competing IXCs will confront roughly the same *actual out-of-pocket costs* for the essential switched access functions, whether these are acquired implicitly by Verizon Northwest as part of its bundled end-to-end retail toll service, or explicitly by an IXC through purchase of switched access services from Verizon Northwest. Indeed, were Verizon permitted to *increase* its retail toll rates as the means for eliminating the existing price squeeze, the effect would be to provide Verizon with an even higher margin on its intrastate toll services, potentially fueling cross-

subsidization of other competitive services and in so doing shifting the price squeeze problem from toll to those services. Second, the competitive nature of the toll market will force carriers to flow through the access cost reductions in their retail prices — an outcome that has clearly occurred in the case of *interstate* toll services (see Figure 1). The result: retail toll rates in Washington State can be expected to decrease by an amount corresponding to the access charge reduction, thereby stimulating additional use of the public switched network and resulting in lower prices for all Washington residential and business consumers. As the Commission has previously noted, "[a] reduction in access rates can be expected to have substantial economic benefit for

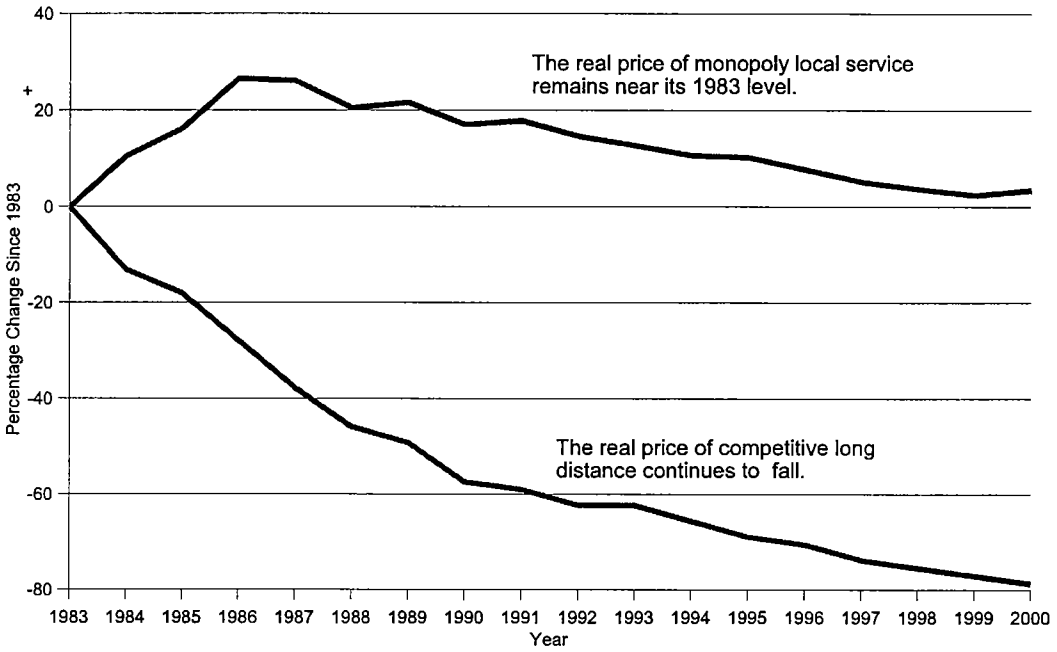


Figure 1: Adjusted for inflation, long distance rates have fallen by nearly 80% since 1983, the last year before the Bell Syatem break up. By contrast, ILEC local rates have remained essentially unchanged over that same period.

Source: FCC, *Trends in Telephone Service*, Table 14.5; FCC, *Statistics of Communication Common Carriers*, 1995/1996 Edition ,Table 8.4 and 2001 Edition, Table 5.6; Bureau of Labor Statistics, Inflation Calculator at: http://www.bls.gov/cpi/.

residential and business customers of this state. Toll calls are a substantial portion of the total telephone bill of many customers, and [a] reduction will make their overall telephone service more affordable."[55] Finally, reducing switched access rates to cost-based levels and adhering to the imputation requirements set forth in this affidavit will provide the best opportunity to hold potential future price squeezes in the intrastate toll service market in check. Overall, reducing

55. Washington Utilities and Transportation Commission, Complainant, v. U S West Communications, Inc., Respondent, WUTC Docket No. UT-950200, 15th Supplemental Order, April 11, 1996, at 112 (footnote omitted).

access charges is a far superior policy than requiring that Verizon Northwest raise its retail toll rates so as to satisfy imputation and eliminate the prevailing price squeeze, as it will allow Verizon Northwest and its intraLATA toll competitors to compete on a more equitable and equal basis.

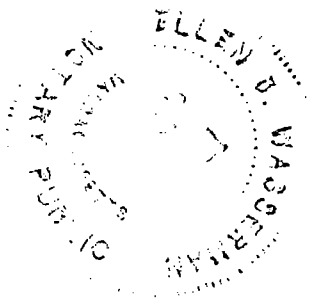
The foregoing statements are true and correct to the best of my knowledge, information and belief.

LEE L. SELWYN

Sworn to before me this 28th day of March, 2002.

Ellen B Wasserman
Notary Public.

My Commission expires 3/31/06.



Attachment 1

Statement of Qualifications

DR. LEE L. SELWYN

Dr. Lee L. Selwyn has been actively involved in the telecommunications field for more than twenty-five years, and is an internationally recognized authority on telecommunications regulation, economics and public policy. Dr. Selwyn founded the firm of Economics and Technology, Inc. in 1972, and has served as its President since that date. He received his Ph.D. degree from the Alfred P. Sloan School of Management at the Massachusetts Institute of Technology. He also holds a Master of Science degree in Industrial Management from MIT and a Bachelor of Arts degree with honors in Economics from Queens College of the City University of New York.

Dr. Selwyn has testified as an expert on rate design, service cost analysis, form of regulation, and other telecommunications policy issues in telecommunications regulatory proceedings before some forty state commissions, the Federal Communications Commission and the Canadian Radio-television and Telecommunications Commission, among others. He has appeared as a witness on behalf of commercial organizations, non-profit institutions, as well as local, state and federal government authorities responsible for telecommunications regulation and consumer advocacy.

He has served or is now serving as a consultant to numerous state utilities commissions including those in Arizona, Minnesota, Kansas, Kentucky, the District of Columbia, Connecticut, California, Delaware, Maine, Massachusetts, New Hampshire, Vermont, New Mexico, Wisconsin and Washington State, the Office of Telecommunications Policy (Executive Office of the President), the National Telecommunications and Information Administration, the Federal Communications Commission, the Canadian Radio-television and Telecommunications Commission, the United Kingdom Office of Telecommunications, and the Secretaria de Comunicaciones y Transportes of the Republic of Mexico. He has also served as an advisor on telecommunications regulatory matters to the International Communications Association and the Ad Hoc Telecommunications Users Committee, as well as to a number of major corporate telecommunications users, information services providers, paging and cellular carriers, and specialized access services carriers.

Dr. Selwyn has presented testimony as an invited witness before the U.S. House of Representatives Subcommittee on Telecommunications, Consumer Protection and Finance and before the U.S. Senate Judiciary Committee, on subjects dealing with restructuring and deregulation of portions of the telecommunications industry.

In 1970, he was awarded a Post-Doctoral Research Grant in Public Utility Economics under a program sponsored by the American Telephone and Telegraph Company, to conduct research on the economic effects of telephone rate structures upon the computer time sharing industry. This work was conducted at Harvard University's Program on Technology and Society,

where he was appointed as a Research Associate. Dr. Selwyn was also a member of the faculty at the College of Business Administration at Boston University from 1968 until 1973, where he taught courses in economics, finance and management information systems.

Dr. Selwyn has published numerous papers and articles in professional and trade journals on the subject of telecommunications service regulation, cost methodology, rate design and pricing policy. These have included:

"Taxes, Corporate Financial Policy and Return to Investors"
National Tax Journal, Vol. XX, No.4, December 1967.

"Pricing Telephone Terminal Equipment Under Competition"
Public Utilities Fortnightly, December 8, 1977.

"Deregulation, Competition, and Regulatory Responsibility in the Telecommunications Industry"
Presented at the 1979 Rate Symposium on Problems of Regulated Industries - Sponsored by: The American University, Foster Associates, Inc., Missouri Public Service Commission, University of Missouri-Columbia, Kansas City, MO, February 11 - 14, 1979.

"Sifting Out the Economic Costs of Terminal Equipment Services"
Telephone Engineer and Management, October 15, 1979.

"Usage-Sensitive Pricing" (with G. F. Borton)
(a three part series)
Telephony, January 7, 28, February 11, 1980.

"Perspectives on Usage-Sensitive Pricing"
Public Utilities Fortnightly, May 7, 1981.

"Diversification, Deregulation, and Increased Uncertainty in the Public Utility Industries"
Comments Presented at the Thirteenth Annual Conference of the Institute of Public Utilities, Williamsburg, VA - December 14 - 16, 1981.

"Local Telephone Pricing: Is There a Better Way?; The Costs of LMS Exceed its Benefits: a Report on Recent U.S. Experience."
Proceedings of a conference held at Montreal, Quebec - Sponsored by Canadian Radio-Television and Telecommunications Commission and The Centre for the Study of Regulated Industries, McGill University, May 2 - 4, 1984.

"Long-Run Regulation of AT&T: A Key Element of A Competitive Telecommunications Policy"
Telematics, August 1984.

"Is Equal Access an Adequate Justification for Removing Restrictions on BOC Diversification?"
Presented at the Institute of Public Utilities Eighteenth Annual Conference, Williamsburg, VA - December 8 - 10, 1986.

"Market Power and Competition Under an Equal Access Environment"
Presented at the Sixteenth Annual Conference, "Impact of Deregulation and Market Forces on Public Utilities: The Future Role of Regulation" Institute of Public Utilities, Michigan State University, Williamsburg, VA - December 3 - 5, 1987.

"Contestable Markets: Theory vs. Fact"
Presented at the Conference on Current Issues in Telephone Regulations: Dominance and Cost Allocation in Interexchange Markets - Center for Legal and Regulatory Studies Department of Management Science and Information Systems - Graduate School of Business, University of Texas at Austin, October 5, 1987.

"The Sources and Exercise of Market Power in the Market for Interexchange Telecommunications Services"
Presented at the Nineteenth Annual Conference - "Alternatives to Traditional Regulation: Options for Reform" - Institute of Public Utilities, Michigan State University, Williamsburg, VA, December, 1987.

"Assessing Market Power and Competition in The Telecommunications Industry: Toward an Empirical Foundation for Regulatory Reform"
Federal Communications Law Journal, Vol. 40 Num. 2, April 1988.

"A Perspective on Price Caps as a Substitute for Traditional Revenue Requirements Regulation"
Presented at the Twentieth Annual Conference - "New Regulatory Concepts, Issues and Controversies" - Institute of Public Utilities, Michigan State University, Williamsburg, VA, December, 1988.

"The Sustainability of Competition in Light of New Technologies" (with D. N. Townsend and P. D. Kravtin)
Presented at the Twentieth Annual Conference - Institute of Public Utilities Michigan State University, Williamsburg, VA, December, 1988.

"Adapting Telecom Regulation to Industry Change: Promoting Development Without Compromising Ratepayer Protection" (with S. C. Lundquist)
IEEE Communications Magazine, January, 1989.

"The Role of Cost Based Pricing of Telecommunications Services in the Age of Technology and Competition"
Presented at National Regulatory Research Institute Conference, Seattle, July 20, 1990.

"A Public Good/Private Good Framework for Identifying POTS Objectives for the Public Switched Network" (with Patricia D. Kravtin and Paul S. Keller)
Columbus, Ohio: *National Regulatory Research Institute*, September 1991.

"Telecommunications Regulation and Infrastructure Development: Alternative Models for the Public/Private Partnership"
Prepared for the Economic Symposium of the International Telecommunications Union Europe Telecom '92 Conference, Budapest, Hungary, October 15, 1992.

"Efficient Infrastructure Development and the Local Telephone Company's Role in Competitive Industry Environment" *Presented at the Twenty-Fourth Annual Conference, Institute of Public Utilities, Graduate School of Business, Michigan State University, "Shifting Boundaries between Regulation and Competition in Telecommunications and Energy"*, Williamsburg, VA, December 1992.

"Measurement of Telecommunications Productivity: Methods, Applications and Limitations" (with Françoise M. Clottes)
Presented at Organisation for Economic Cooperation and Development, Working Party on Telecommunication and Information Services Policies, '93 Conference "Defining Performance Indicators for Competitive Telecommunications Markets", Paris, France, February 8-9, 1993.

"Telecommunications Investment and Economic Development: Achieving efficiency and balance among competing public policy and stakeholder interests"
Presented at the 105th Annual Convention and Regulatory Symposium, National Association of Regulatory Utility Commissioners, New York, November 18, 1993.

"The Potential for Competition in the Market for Local Telephone Services" (with David N. Townsend and Paul S. Keller)
Presented at the Organization for Economic Cooperation and Development Workshop on Telecommunication Infrastructure Competition, December 6-7, 1993.

"Market Failure in Open Telecommunications Networks: Defining the new natural monopoly," *Utilities Policy*, Vol. 4, No. 1, January 1994.

The Enduring Local Bottleneck: Monopoly Power and the Local Exchange Carriers, (with Susan M. Gately, et al) a report prepared by ETI and Hatfield Associates, Inc. for AT&T, MCI and CompTel, February 1994.

Commercially Feasible Resale of Local Telecommunications Services: An Essential Step in the Transition to Effective Local Competition, (Susan M. Gately, et al) a report prepared by ETI for AT&T, July 1995.

"Efficient Public Investment in Telecommunications Infrastructure" *Land Economics*, Vol 71, No.3, August 1995.

Funding Universal Service: Maximizing Penetration and Efficiency in a Competitive Local Service Environment, Lee L. Selwyn with Susan M. Baldwin, under the direction of Donald Shepheard, A Time Warner Communications Policy White Paper, September 1995.

Stranded Investment and the New Regulatory Bargain, Lee L. Selwyn with Susan M. Baldwin, under the direction of Donald Shepheard, A Time Warner Communications Policy White Paper, September 1995

"Market Failure in Open Telecommunications Networks: Defining the new natural monopoly," in *Networks, Infrastructure, and the New Task for Regulation*, by Werner Sichel and Donal L. Alexander, eds., University of Michigan Press, 1996.

Establishing Effective Local Exchange Competition: A Recommended Approach Based Upon an Analysis of the United States Experience, Lee L. Selwyn, paper prepared for the Canadian Cable Television Association and filed as evidence in Telecom Public Notice CRTC 95-96, Local Interconnection and Network Component, January 26, 1996.

The Cost of Universal Service, A Critical Assessment of the Benchmark Cost Model, Susan M. Baldwin with Lee L. Selwyn, a report prepared by Economics and Technology, Inc. on behalf of the National Cable Television Association and submitted with Comments in FCC Docket No. CC-96-45, April 1996.

Economic Considerations in the Evaluation of Alternative Digital Television Proposals, Lee L. Selwyn (as Economic Consultant), paper prepared for the Computer Industry Coalition on Advanced Television Service, filed with comments in FCC MM Docket No. 87-268, In the Matter of Advanced

Television Systems and Their Impact Upon the Existing Television Broadcast Service, July 11, 1996.

Assessing Incumbent LEC Claims to Special Revenue Recovery Mechanisms: Revenue opportunities, market assessments, and further empirical analysis of the "Gap" between embedded and forward-looking costs, Patricia D. Kravtin and Lee L. Selwyn, In the Matter of Access Charge Reform, in CC Docket No. 96-262, January 29, 1997.

The Use of Forward-Looking Economic Cost Proxy Models, Susan M. Baldwin and Lee L. Selwyn, Economics and Technology, Inc., February 1997.

The Effect of Internet Use On The Nation's Telephone Network, Lee L. Selwyn and Joseph W. Laszlo, a report prepared for the Internet Access Coalition, July 22, 1997.

Regulatory Treatment of ILEC Operations Support Systems Costs, Lee L. Selwyn, Economics and Technology, Inc., September 1997.

The "Connecticut Experience" with Telecommunications Competition: A Case in Getting it Wrong, Lee L. Selwyn, Helen E. Golding and Susan M. Gately, Economics and Technology, Inc., February 1998.

Where Have All The Numbers Gone?: Long-term Area Code Relief Policies and the Need for Short-term Reform, prepared by Economics and Technology, Inc. for the Ad Hoc Telecommunications Users Committee, International Communications Association, March 1998.

Broken Promises: A Review of Bell Atlantic-Pennsylvania's Performance Under Chapter 30, Lee L. Selwyn, Sonia N. Jorge and Patricia D. Kravtin, Economics and Technology, Inc., June 1998.

Building A Broadband America: The Competitive Keys to the Future of the Internet, Lee L. Selwyn, Patricia D. Kravtin and Scott A. Coleman, a report prepared for the Competitive Broadband Coalition, May 1999.

Bringing Broadband to Rural America: Investment and Innovation In the Wake of the Telecom Act, Lee L. Selwyn, Scott C. Lundquist and Scott A. Coleman, a report prepared for the Competitive Broadband Coalition, September 1999.

Dr. Selwyn has been an invited speaker at numerous seminars and conferences on telecommunications regulation and policy, including meetings and workshops sponsored by the National Telecommunications and Information Administration, the National Association of

Regulatory Utility Commissioners, the U.S. General Services Administration, the Institute of Public Utilities at Michigan State University, the National Regulatory Research Institute at Ohio State University, the Harvard University Program on Information Resources Policy, the Columbia University Institute for Tele-Information, the International Communications Association, the Tele-Communications Association, the Western Conference of Public Service Commissioners, at the New England, Mid-America, Southern and Western regional PUC/PSC conferences, as well as at numerous conferences and workshops sponsored by individual regulatory agencies.

Attachment 2

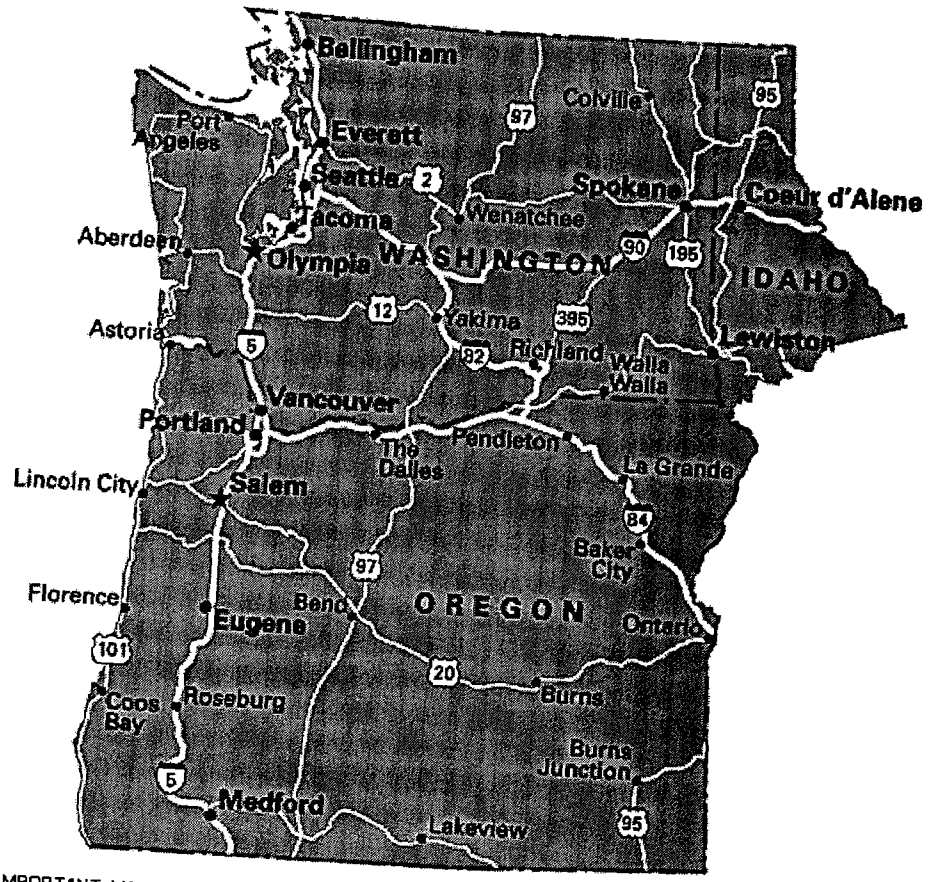
Verizon Wireless

Washington Local Calling Area

Advertisement for Coast-to-Coast Home Calling Area Service

Price Plan Maps: Local DigitalChoice^{R}

Local Home Airtime Rate Area



IMPORTANT MAP DISCLAIMER

This rate map approximates where rates apply and is **not** a depiction of actual service or rate availability or wireless coverage. The mapped territory contains areas with no service. Wireless Service is subject to network and transmission limitations, including cell site unavailability, particularly in remote areas. Alaska has limited service. Customer equipment, weather, topography and other environmental considerations associated with radio technology also affect service.

AMERICA'S CHOICE

Introducing

The America's Choice℠ Plan. Where your home calling area stretches coast to coast.

With the America's Choice calling plan from Verizon Wireless, all your plan minutes are national minutes. You can call from anywhere on the America's Choice network to anywhere coast to coast with no roaming or long distance fees. And when you sign up for America's Choice, the network covering over 248 million people, you'll be a part of the largest wireless network in the nation, connecting more people in more places than any other provider.

Just another way we're working to bring you the best wireless network and the best values. So where will you choose to take your minutes with America's Choice?

Attachment 3

Intrastate Toll Price Floor Calculation

Attachment 3

Intrastate Toll Price Floor Calculation

			Sources:
Weighted Average* Intrastate Access Charges:			
1	Verizon-WA Orig. Access (Zone 1)	$0.0401	Verizon Northwest Inc WN U-16 Facilities for Intrastate Access, Sections 4 and 12.5.
2	Wt'd Verizon-WA Term. Access (Zone 1)	$0.0089	Verizon Northwest Inc WN U-16 Facilities for Intrastate Access, Sections 4 and 12.5.
3	Wt'd QWEST-WA Term. Access	$0.0159	Qwest Corporation, WN U-44 Access Service, Sections 3.8 and 6.8.
4	Wt'd Sprint-WA Term. Access	$0.0005	Sprint Communications Corporation, Washington Price List No. 4, Access Services, Section 8.
5	Wt'd Century-WA Term. Access	$0.0042	CenturyTel of WA, WN U-4 Access Services, Section 16; WECA, WN U-1, Schedule 4.
6	Total Weighted Average Access	$0.0697	Sum (line 1:line 5)
Billing & Collection			
7	LRIC Cost of ICO Billing and Collection	$0.0346	WUTC Docket No. U-87-1083-T, Fifth Supplemental Order, 93 P.U.R. 4th 430, May 25, 1988.
Retailing/Marketing Functions			
8	Estimate of retailing/marketing functions	$0.0300	In the Matter of a Commission Investigation into Qwest's Compliance with section 272 of the Telecommunications Act of 1996's Separate Affiliate Requirement; Minnesota PUC Docket No. P-421/CI-01-1372, OAH Docket No. 7-2500-24487-2; Surrebuttal Affidavit of Dr. William E. Taylor on behalf of Qwest Corporation, January 16, 2002, at para. 20.
LNP Database Inquiry			
9	LNP Query Service, per query	$0.0006	The Verizon Telephone Companies, Tariff FCC No. 1, Section 13.3.16.F, original page 13-97, effective 4/28/2001.
10	Percent Occurence	67.87%	Percentage of NXX codes in Washington that are LNP capable. LERG, January 2001.
11	Attempts per message	1.40	Estimate
12	Average MOU per message for Verizon	4.78	TNS Telecoms Data for GTE-WA 3rd Q 1998 - 1st Q 2000
13	Cost for LNP database inquiry, per MOU	$0.0001	(line 9 x line 10 x line 11) / line 12
14	**Price Floor (Access, B&C, Retailing, LNP)**	**$0.1344**	line 6 + line 7 + line 8 + line 13

* Access charges weighted by switched access lines in service.