

DOCKET NO. UT-040788
WUTC V. VERIZON NW, INC.
REVISED Direct Testimony of
Charles W. King
Exhibit ___, CWK-1T

BEFORE THE WASHINGTON UTILITIES & TRANSPORTATION COMMISSION

DOCKET NO. UT-040788

REVISED

DIRECT TESTIMONY OF CHARLES W. KING (CWK-1T)

ON BEHALF OF

PUBLIC COUNSEL, AARP & WeBTEC

REGARDING

INTERIM RELIEF

JULY 14, 2004

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WASHINGTON UTILITIES & TRANSPORTATION COMMISSION

1 A. Verizon claims that its rate of return is negative, and therefore it is relevant to the
2 need for an interim rate increase.

3 **Q. IS THIS A VALID CLAIM?**

4 A. No. This contention is based only on assertion, without any careful analysis of
5 revenues, expenses and rate base. As the Commission is well aware, the amount
6 presented by the utility as its revenue requirement is rarely the amount that the
7 Commission finally approves. At a minimum, the Company's calculation ignores
8 the Commission's practice of imputing directory revenues to intrastate operations.
9 Staff witness Strain estimates that the imputation of directory revenues would
10 come to \$29.24 million,¹⁰ just short of the amount of the interim relief requested.
11 Exhibit ___ (CWK-5) shows the rate of return calculation if this one ratemaking
12 adjustment is made to Verizon's test year financial statement. With Ms. Strain's
13 estimate of directory revenue imputation, the negative 0.47 percent becomes
14 positive 1.464 percent. This exhibit does not include any other Commission
15 ratemaking adjustments which would likely increase the return even more.

16 **Q. WHAT ABOUT MS. HEURING'S CLAIM AT PAGE 4 OF HER**
17 **TESTIMONY THAT VERIZON NEEDS \$159 MILLION TO ACHIEVE**
18 **ITS AUTHORIZED RATE OF RETURN?**

19 A. As the Commission has long recognized, that is an issue for the general rate case.
20 Merely under-earning the authorized level of return is not grounds for an interim
21 rate increase.

¹⁰ Ex. PMS-2, p.1, l.8, col. i.

Verizon Northwest - Washington Intrastate Operations
Results of Operations with Directory Imputation
(Dollars in Thousands)

| | | | |
|----|--|-------------------------------|------------|
| 1 | Operating Revenues w/Access Reduction | (NWH-8), Col d, Ln 8 | \$ 342,470 |
| 2 | Imputed Directory Revenues | Ex. PMS-2, p.1, l.8, col 1. i | 29,241 |
| 3 | Total Revenues | Ln 1 + Ln 2 | 371,711 |
| 4 | Total Operating Expenses | (NWH-8), Col d, Ln 20 | 358,286 |
| 5 | Net Operating Income before Taxes | Ln 3- Ln 4 | 13,425 |
| 6 | Fixed Charges | Sch L4, Col. d, Ln 6 | 19,987 |
| 7 | Earnings Before Income Taxes | Ln 5- Ln 7 | (6,562) |
| | Adjustments to Base: | | |
| 8 | Prior Depreciation Flowthrough | Sch L4, Col. d, Ln 11 | 2,472 |
| 9 | Meals/Entertainment | Sch L4, Col. d, Ln 12 | 104 |
| 10 | Pre-tax Income | Ln 7+ Ln 8 + Ln 9 | (3,986) |
| 11 | Tax Rate | Sch L4, Col. 3, Ln 20 | 35% |
| 12 | Federal Income Tax on Pre-Tax Income | Ln 10 * Ln 11 | (1,395) |
| 13 | Less Flowback of Excess Deferred Taxes | Sch L4, Col. 3, Ln 25 | (398) |
| 14 | Federal Income Taxes | Ln 12 - Ln 13 | (997) |
| 15 | Net Operating Income | Ln 5 - Ln 14 | \$ 14,422 |
| 16 | Rate Base | (NWH-8), Col d, Ln 36 | \$ 985,276 |
| 17 | Return on Rate Base | Ln 15/Ln 16 | 1.464% |