

**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**

**SURREBUTTAL TESTIMONY OF  
DUANE K. SIMMONS  
ON BEHALF OF  
VERIZON NORTHWEST INC.**

**FEBRUARY 24, 2003**

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

2 A. My name is Duane K. Simmons. My business address is 750 Canyon Drive, Coppel,  
3 Texas 75019.

4

5 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

6 A. I am employed by Verizon Services Organization Inc. as Manager – Separations Results  
7 with responsibilities for jurisdictional separations processing and results for all Verizon  
8 telephone companies, including Verizon Northwest Inc. (“Verizon” or the “Company”).

9

10 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND**  
11 **EXPERIENCE QUALIFICATIONS.**

12 A. I am a graduate of the University of Northern Iowa with a Bachelor of Arts in Financial  
13 Management. I began my career with GTE/Verizon in 1978 as an outside plant engineer.  
14 In 1982, I joined the Business Relations group that had the primary responsibility for the  
15 development of Part 36 separations studies. Since 1982, I have held a number of  
16 managerial positions of increasing responsibility, including positions in traffic  
17 separations, cost separations and access costs. In 2001, I was named to my current  
18 position, where I am responsible for directing and managing the Part 36 separations  
19 studies, Part 69 access cost studies, and other related cost accounting studies for all  
20 Verizon operating areas.

21

22 **Q. HAVE YOU PREVIOUSLY FILED TESTIMONY IN THIS PROCEEDING?**

23 A. No.

1 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

2 A. My testimony rebuts the February 7, 2003, testimony of Staff witness Betty A. Erdahl.  
3 Specifically, I explain that her proposed “Interstate Growth Mismatch” adjustment  
4 violates the FCC’s Part 36 Separations Rules. I also explain that the alleged “mismatch”  
5 Ms. Erdahl complains about is common in the industry.

6

7 **Q. IN HER DIRECT TESTIMONY, VERIZON WITNESS NANCY HEURING**  
8 **PRESENTS THE COMPANY’S INTRASTATE “RESULTS OF OPERATIONS.”**  
9 **ARE THESE RESULTS BASED ON INTRASTATE COSTS AS DEVELOPED**  
10 **FROM THE FCC’S SEPARATIONS RULES?**

11 A. Yes. Verizon applied the FCC’s Separations Rules to calculate its intrastate costs. Staff  
12 witness Erdahl does not challenge this point; rather, she disagrees with the FCC’s rules.  
13 Specifically, she proposes to adjust Verizon’s earnings by “re-allocating” costs from the  
14 intrastate to interstate jurisdiction supposedly to reflect increased Internet usage. She  
15 does this by developing an allocation factor that assumes Verizon’s interstate expense  
16 and investment increased in proportion to Verizon’s interstate revenues during the period  
17 1998-2001. She then applies this factor to Verizon’s *intrastate* expense and investment to  
18 shift costs from the intrastate to the interstate jurisdiction.

19

20 **Q. IS MS. ERDAHL’S PROPOSED ADJUSTMENT PERMITTED BY THE FCC’S**  
21 **RULES?**

22 A. No. The Separations Freeze Order requires Verizon to freeze certain Part 36 category  
23 relationships and jurisdictional allocation factors. The separations adjustment that Ms.

1 Erdahl has proposed appears to be based on dial-up Internet usage, which is included in  
2 dial equipment minutes (DEM) that are used to allocate traffic-sensitive local switching  
3 costs.<sup>1</sup> The Separations Freeze Order froze the DEM factor for the duration of the freeze  
4 and Ms. Erdahl's adjustment completely ignores this fact.<sup>2</sup>

5  
6 Ms. Erdahl, however, appears to believe she can make her adjustment under Rule 36.1(h),  
7 claiming that the FCC's Part 36 is only a "starting point" for the allocation process. Her  
8 statement is incorrect, and in her testimony she does not quote the entire sentence of  
9 subsection (h), which is "The separations procedures described in this part are not to be  
10 interpreted as indicating what property, revenues, expenses and taxes, or what items  
11 carried in the income, reserve and retained earnings accounts, should or should not be  
12 considered in any investigation or rate proceeding." This does not say a state can *ignore*  
13 the separations rules; instead, it explains that states are not required to include any  
14 specific separated costs in a rate proceeding. If this sentence had the meaning that Ms.  
15 Erdahl ascribes to it, then there would be no need for separations rules, Joint Boards, and  
16 FCC orders on separations.

17  
18 **Q. MS. ERDAHL'S PROPOSED ADJUSTMENT IS BASED ON DIFFERENCES**  
19 **BETWEEN REVENUE GROWTH RATES AND EXPENSE AND INVESTMENT**  
20 **GROWTH RATES FOR THE INTERSTATE AND INTRASTATE**  
21 **JURISDICTIONS. WHY ARE THE GROWTH RATES DIFFERENT?**

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<sup>1</sup> Ms. Erdahl specifically addresses minutes of use associated with Internet traffic but has offered no other examples of supposed mismatches in jurisdictional separations.

<sup>2</sup> We believe this is the basis for her adjustment given her testimony. But in any event, her adjustment clearly is based on Verizon's interstate operations, and therefore is unlawful.

1 A. There are a number of factors that can contribute to differences in growth rates between  
2 revenues, expense, and investment. Losses of major customers and their inherent  
3 ordering and usage patterns, losses of lines; increases in DSL and cable modem usage  
4 versus local dial-up; increases and decreases in expense and investment levels, rate  
5 reductions, rate increases; and regulatory rulings (e.g., depreciation rules) all contribute  
6 to growth rate differences.

7  
8 Ms. Erdahl's testimony gives the impression that Verizon's Washington operation is the  
9 only one that exhibits her alleged mismatch. This is wrong. If she reviews the publicly  
10 available ARMIS data, she will discover that 46 out of 110 study areas that filed ARMIS  
11 reports in 1998 and 2001 have similar intrastate/interstate growth trends. For example,  
12 Qwest Washington experienced a 28% interstate revenue growth rate between 1998 and  
13 2001 while their intrastate revenue only grew 1%. This is in comparison to their  
14 interstate total operating expense that only grew 3% while their intrastate total operating  
15 expense decreased 2%. Their interstate net investment grew 22%, while their intrastate  
16 net investment grew 21%. Like Verizon, Qwest Washington exhibits a significantly  
17 higher growth rate in interstate revenues than in interstate expenses or investment.  
18 Similarly for both companies, the growth rate in interstate revenues, expenses and  
19 investment exceed the growth rates for intrastate revenues, expenses and investment.

20

21 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

22 A. Yes.