

Agenda Date: August 11, 2004

Item Numbers: **A1**

Docket: UT-040788

Company: Verizon Northwest Inc.

Staff: Kathy Folsom, Senior Regulatory Analyst

Recommendation:

Issue a Complaint and Order Suspending the Tariff Revisions filed by Verizon Northwest Inc., in Docket No. UT-040788.

Background:

On April 30, 2004, Verizon Northwest Inc. (Verizon NW or Company) filed testimony and exhibits in support of a general rate case. In that filing, the Company stated that it needs additional annual revenues of \$239.5 million. This represents a 71.3 percent increase in its current annual revenue.

However, Verizon NW did not file tariff revisions implementing the revenue requirement identified in that alleged revenue deficiency. Instead, the Company filed a petition for an Order Approving Commencement of Bifurcated General Rate Case and Waiver of WAC 480-07-510(2). In that petition, Verizon NW sought to defer filing tariffs until the Commission had made its determination of the Company's overall revenue requirement. Verizon NW also asked the Commission to waive certain rules regarding information to be contained in a general rate case filing (relating to tariff filing requirements and information based on the tariffs filed).

On June 23, 2004, the Commission issued Order No. 4 denying Verizon NW's petition seeking waivers of rules and "bifurcation" of the revenue requirement and rate design phases of a general rate proceeding. The Commission ordered the Company to file proposed tariffs in this docket within 30 days and its rate design testimony and exhibits in support of those tariffs, as required by WAC 480-07-510, within an additional 30 days.

Tariff Filing:

On July 23, 2004, Verizon NW filed the proposed tariff revisions to reflect a general rate increase. According to the Company, the tariff filing is intended to increase the rates of certain services and is designed to recover \$109.8 million of the \$239.5 million revenue requirement the Company identified previously in this docket.

The Company must file rate design testimony, exhibits and cost studies associated with the proposed tariffs by August 23, 2004.

As proposed by Verizon NW, residential and business line rates will be increased by \$9.80 per month. This represents a 75 percent increase to Premium Flat Residential Service and a 33 percent increase to Premium Flat Business Service.

Verizon NW is also proposing large increases for unlisted phone numbers (355 percent), call waiting (54 percent), and most other optional features. It also is proposing to establish a late payment charge (\$5 or 1.5 percent of the balance, whichever is greater).

Attachment A to this memo is a summary of all current and proposed rates.

Discussion:

The Commission should suspend the effectiveness of these tariffs, as part of the Commission's overall investigation into Verizon NW's revenue requirements in this docket. The investigation should consider all rates charged by Verizon NW, including those rates that Verizon NW is not proposing to change. Depending on the results of the investigation, the Commission should ultimately determine whether Verizon NW's tariff revisions should be accepted, whether rates should be reduced from their current levels, whether rates should be increased more than Verizon NW has proposed, and whether rates other than those proposed by Verizon NW should be modified accordingly.

While the suspension recommendation is routine and was contemplated in the Commission's order denying bifurcation, Staff has other concerns about this filing. Specifically, in its filing Verizon NW did not explain why the Company is proposing

rate increases that would recover only \$109.8 million of the \$239.5 million revenue deficiency alleged by the Company. Staff calculates that the requested increase (\$109.8 million), if granted, would result in a rate of return of about 3.5 percent, assuming no further adjustments to Verizon NW's results of operations and revenue requirement. The Commission ultimately needs to approve rates that it finds to be "sufficient" under RCW 80.36.080, and taken together, the Company's revenue requirement and rate proposals do not appear to produce rates that are sufficient. At least one news report suggested that Verizon NW was reserving the right to ask for the additional revenue requirement at a later time. Since Verizon NW has not filed a formal request as to how to recover the additional \$129.7 million in revenue, Staff is unclear about the Company's plans at this time.

A second concern about Verizon NW's tariff filing is its effect on low-income customers. In announcing its rate proposal, Verizon NW stressed that the increases would not affect customers who participate in the Washington Telephone Assistance Program (WTAP), who currently pay \$8.00 per month for basic service. Staff believes this is inaccurate, because the WTAP fund could not sustain the increase proposed by Verizon NW and remain solvent. An increase of \$9.80 in Verizon NW's residential rate would cost the WTAP fund about \$2.7 million per year. This is more than 50 percent of the entire WTAP annual budget. Staff estimates that if Verizon NW's \$9.80 increase is ultimately approved, the monthly rate paid by WTAP participants for basic service would have to increase by at least \$2.37. This increase would be borne by about 130,000 WTAP participants statewide.

The Commission has received 503 comments from customers, all opposed to the filing.

Conclusion:

The Company has not yet demonstrated that the proposed rates are fair, just, reasonable and sufficient. Therefore, Staff recommends that the Commission issue a Complaint and Order suspending the tariff revisions filed by Verizon Northwest Inc., on July 23, 2004, in Docket No. UT-040788.

Attachment