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1 BEFORE THE WASHINGTON
2 UTILITIES AND TRANSPORTATION COMMISSION

3))
4 WASHINGTON UTILITIES AND)Docket UT-040788
5 TRANSPORTATION COMMISSION,)Volume VI
6 Complainant,)Pages 399-634
7))
8 v.))
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10 VERIZON NORTHWEST, INC.,)
11 Respondent.)
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9 A hearing in the above-entitled matter
10 was held at 9:39 a.m. on Thursday, August 12, 2004,
11 at 1300 South Evergreen Park Drive, Southwest,
12 Olympia, Washington, before Administrative Law Judge
13 C. ROBERT WALLIS, Chairwoman MARILYN SHOWALTER,
14 Commissioner RICHARD HEMSTAD and Commissioner PATRICK
15 OSHIE.

16 The parties present were as follows:
17
18 COMMISSION STAFF, by Donald T. Trotter,
19 Assistant Attorney General, 1400 S. Evergreen Park
20 Drive, S.W., P.O. Box 40128, Olympia, Washington,
21 98504-1028.

22 VERIZON NORTHWEST, INC., by Judith
23 Endejan, Attorney at Law, Graham & Dunn, Pier 70,
24 2801 Alaskan Way, Suite 300, Seattle, Washington
25 98121 and Thomas R. Parker, Vice President and
General Counsel, 600 Hidden Ridge, HQE03J43, P.O. Box
152092, Irving, Texas 75015-2092.

24 Barbara L. Nelson, CCR
25 Court Reporter

0400

1 WEBTEC, by Arthur A. Butler, Attorney
at Law, Ater Wynne, LLP, Two Union Square, 601 Union
2 Street, Suite 5450, Seattle, Washington 98101.

3 DEPARTMENT OF DEFENSE, FEDERAL
EXECUTIVE AGENCIES, by Stephen S. Melnikoff, Attorney
4 at Law, Regulatory Law Office, U.S. Army Litigation
Center (JALS-RL), 901 N. Stuart Street, Suite 700,
5 Arlington, Virginia 22203-1837.

6 AARP, by Ronald Roseman, Attorney at
Law, 2011 14th Avenue East, Seattle, Washington
7 98112.

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0401

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2

INDEX OF EXAMINATION

3

4

WITNESS:

PAGE:

5

STEVEN M. BANTA (Continuing)

6

Recross-Examination by Mr. Trotter 405

7

Recross-Examination by Mr. Melnikoff 422

8

CHARLES W. KING

9

Direct Examination by Mr. Butler 428

10

Cross-Examination by Ms. Endejan 430

11

Examination by Chairwoman Showalter 446

12

Examination by Commissioner Oshie 470

13

Examination by Chairwoman Showalter 472

14

Recross-Examination by Ms. Endejan 475

15

Redirect Examination by Mr. Butler 478

16

KATHLEEN M. FOLSOM

17

Direct Examination by Mr. Trotter 481

18

Cross-Examination by Ms. Endejan 483

19

Examination by Chairwoman Showalter 497

20

Examination by Commissioner Hemstad 519

21

Examination by Commissioner Oshie 522

22

Examination by Chairwoman Showalter 523

23

Redirect Examination by Mr. Trotter 524

24

Examination by Chairwoman Showalter 527

25

PAULA M. STRAIN

0402

1	Direct Examination by Mr. Trotter	532
2	Cross-Examination by Ms. Endejan	534
3	Examination by Chairwoman Showalter	572
4	Examination by Commissioner Hemstad	591
5	Recross-Examination by Ms. Endejan	594
6	Examination by Chairwoman Showalter	602
7	Redirect Examination by Mr. Trotter	603
8	TIMOTHY W. ZAWISLAK	
9	Direct Examination by Mr. Trotter	610
10	Cross-Examination by Ms. Endejan	613
11	Cross-Examination by Mr. Butler	621
12	Cross-Examination by Mr. Melnikoff	623
13	Cross-Examination by Mr. Roseman	628
14	Redirect Examination by Mr. Trotter	631
15	Examination by Chairwoman Showalter	632
16		
17		
18		
19		
20		
21		
22		
23		
24		
25		

0403

1

2

INDEX OF EXHIBITS

3

4	EXHIBIT:	MARKED:	OFFERED:	ADMITTED:
5	74-C	--	421	422
6	85-C	405	420	421
7	101-T	427	430	430
8	102 through 106	427	430	430
9	107	427	--	--
10	108 through 111	427	479	479
11	121-T	480	483	483
12	122 through 125	480	483	483
13	126 through 133	481	483	483
14	134	481	528	529
15	141-T	531	533	534
16	142 through 145	531	533	534
17	146	531	--	--
18	147 through 149	531	607	608
19	150	531	--	--
20	151	531	607	608
21	152 through 160	531	--	--
22	161	531	607	608
23	162-C	531	607	608
24	163	531	607	608
25	164	531	533	534

0404

1	181-T	609	612	612
2	182	609	612	612
3	183	609	612	612
4	184-C	609	612	612
5	185	609	612	612
6	186-C	609	612	612
7	187	609	612	612
8	188 through 190	609	621	621
9	191	610	621	621
10	192	611	612	612

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0405

1 JUDGE WALLIS: Let's be back on the record,
2 please, for our August 12, 2004 session in the matter
3 of the interim phase of Docket Number UT-040788. In
4 conjunction with his continuing examination of the
5 witness, Mr. Trotter has distributed a document on
6 yellow paper, which is the company's response to
7 Staff Data Request Number 62, and I am marking this
8 as 85-C for identification.

9 I will acknowledge for the record Mr.
10 ffitich's absence. He is ill, and sends word that he
11 will attend if he is able to, and we will continue in
12 his absence. Mr. Trotter, I believe you were to
13 begin re-cross.

14 MR. TROTTER: Thank you, Your Honor.

15 Whereupon,

16 STEVEN M. BANTA,
17 having been previously duly sworn, was recalled as a
18 witness herein and was examined and testified as
19 follows:

20

21 R E C R O S S - E X A M I N A T I O N

22 BY MR. TROTTER:

23 Q. Would you please refer to Exhibit 74-C?

24 A. Yes.

25 Q. And this is an exhibit that was referred to

0406

1 you by Mr. Butler, and it contains three figures
2 resulting from Verizon's cost studies; correct?

3 A. That's correct.

4 Q. You did not prepare this exhibit or the
5 underlying cost studies, did you?

6 A. No, I did not.

7 Q. Are you an expert in cost of service
8 studies?

9 A. No, I am not.

10 Q. Do the figures on Exhibit 74-C reflect the
11 Commission's prior orders on the proper treatment of
12 the following items: Number one, loop cost?

13 A. These figures are updated figures from our
14 Verizon cost model and have not been acted on by the
15 Commission in prior decisions.

16 Q. I would be talking about prior decisions in
17 other cases involving telecommunications companies,
18 not necessarily limited to Verizon. If you know or
19 don't know, feel free to --

20 A. Well, would you restate the question,
21 please?

22 Q. Yes. Do the figures on Exhibit 74-C reflect
23 the Commission's prior orders on proper treatment of,
24 number one, loop cost?

25 A. These figures, the Commission has not made

0407

1 any decision in regard to these figures and loop
2 cost.

3 Q. Based on prior Commission orders on the
4 subject of proper treatment of loop costs in a cost
5 model, is your -- do these figures reflect that?

6 A. No, they do not.

7 Q. Usage levels?

8 A. Do they reflect usage levels?

9 Q. Usage levels that are deemed appropriate
10 under Commission prior orders involving
11 telecommunications cost studies?

12 A. These figures do not represent prior
13 Commission orders.

14 Q. Is your answer the same for fill factors?

15 A. That's correct.

16 Q. And depreciation rates?

17 A. That's correct.

18 Q. And cost of money?

19 A. That's correct.

20 Q. Did the studies assume copper cable would be
21 used for connecting customers to the central office?

22 A. That was one component, yes.

23 Q. If Verizon were building its network today,
24 it would use fiber; correct?

25 A. If we were building a network today, it may

0408

1 be copper and it may be fiber.

2 Q. Verizon does have a program for installing
3 fiber to the home, does it not?

4 A. Verizon has a program called fiber to the
5 premise.

6 Q. Second area I'd like to talk to you about is
7 contract rates. And both the Chairwoman and Mr.
8 Butler asked you about that. And Mr. Butler used the
9 phrase "term commitment provisions." Do you recall
10 that?

11 A. Yes.

12 Q. And what did you understand that to mean in
13 the context of your answers to him?

14 A. The term commitment on contracts?

15 Q. Yes.

16 A. That those contracts are subject to the term
17 commitments, but I represented that it had been my
18 experience that there could be language in there that
19 it would be subject to Commission action.

20 Q. And is it your experience that many of your
21 contracts do have such, shall we call them, escalator
22 clauses?

23 A. I do not have specific knowledge about our
24 contracts in Washington.

25 Q. When Verizon lowered its business rates as a

0409

1 result of the merger, the merger docket, were term
2 commitment customers excluded?

3 A. I don't know.

4 Q. Both Mr. Butler and Mr. Melnikoff asked you
5 about the competitive market for data and other
6 special services and government contracts. Do you
7 recall that?

8 A. Yes.

9 Q. The company has not sought competitive
10 classification for any of those services, has it?

11 A. I think, as a general statement, that is
12 true.

13 Q. Would you refer now to 85-C? And this data
14 request asks for the annual revenue impact, assuming
15 a late payment charge of 1.5 percent per month on the
16 unpaid balance; is that right?

17 A. Yes, it does.

18 Q. And is the response figure there, which is
19 confidential; is that correct?

20 A. This is what was submitted by the -- it was
21 prepared by the product managers, and it's their
22 representation on what it would be.

23 Q. And do you have any doubts about that
24 figure?

25 A. As I indicated yesterday, I would need to

0410

1 look at -- it's actually the assumptions that go into
2 the calculation of that.

3 Q. But as it stands right now, this is the
4 company's current response?

5 A. This is our current response.

6 Q. Now, in my questioning of you earlier, you
7 referred to a prior attempt by GTE Northwest to get a
8 late payment charge, and we had some discussion of
9 that off the record; is that right?

10 A. Yes, we did.

11 Q. Is it your understanding that that effort
12 was in the 1995 to 1996 time frame, and it was a
13 proposal for discussion, rather than a tariff filing
14 with the Commission?

15 A. That is my understanding.

16 Q. Please turn to exhibit -- sorry -- Exhibit
17 134, which is the CenturyTel letter from Public
18 Counsel.

19 A. I don't have that with me.

20 MR. PARKER: Approach the witness, Your
21 Honor?

22 JUDGE WALLIS: Yes, Mr. Parker.

23 Q. And this was a -- just represent for the
24 record, this was filed by the company as a cross
25 exhibit for Staff Witness Folsom. My question to

0411

1 you, Mr. Banta, is this document was discussed
2 between you and your Counsel on redirect; is that
3 right?

4 A. Yes, it was.

5 Q. And you didn't address it in your direct or
6 rebuttal testimony that you filed with the
7 Commission, did you?

8 A. No, I did not.

9 Q. The CenturyTel matter that's discussed in
10 this letter has not come before the Commission for
11 decision, has it? Would you accept, subject to
12 check, it has not?

13 A. Yes.

14 Q. In the access charge complaint case
15 involving Verizon and AT&T, Commission Staff and the
16 company had signed a settlement that contained rate
17 rebalancing, did it not?

18 A. Yes, it did.

19 Q. And because of the dispute over the tariffs
20 the company filed to implement that settlement, that
21 tariff did not -- excuse me, that settlement did not
22 go forward; correct?

23 A. Yes, that -- yes, there was a difference of
24 understanding on how the tariff was to be applied and
25 it did not go forward.

0412

1 Q. Does the company require justification for
2 the projects it decides to include in its capital
3 budget?

4 A. Justification in what regard?

5 Q. Some demonstration that the project is
6 needed and why?

7 A. Yes.

8 Q. Does the company require justification for
9 later deferring projects that were included in the
10 capital budget in the first place?

11 A. I'm not sure what you mean by justification,
12 but an evaluation is done to look at the projects to
13 see, if a project needs to be deferred, what the
14 impact would be.

15 Q. Okay. And the reason why it would be
16 deferred?

17 A. Not -- not necessarily. The directive could
18 be given that we need to further constrain our
19 capital budget, and the individuals responsible for
20 that could take the action without explaining why
21 they were asked to do that.

22 Q. And in this case, there was no written
23 justification for the project deferrals that are
24 identified in your Exhibit 83-C, page seven?

25 A. Well, as I discussed yesterday, I explained

0413

1 how that happened, and the individual I went and I
2 talked to about our situation, and he was the one
3 that initiated it.

4 Q. And when did that discussion occur?

5 A. I don't recall a date.

6 Q. Can you give me a month?

7 A. The initial discussion took place probably
8 in the March time frame.

9 Q. March of 2004?

10 A. Yes.

11 Q. Now, if you look at page seven of Exhibit
12 83, the top of it says Verizon Earnings Recovery
13 Plan, State of Washington, Capital Reduction
14 Initiatives. Do you see that?

15 COMMISSIONER OSHIE: Excuse me for
16 interrupting, Counsel. Did you say Exhibit 83?

17 MR. TROTTER: Yes, I'm sorry.

18 CHAIRWOMAN SHOWALTER: And actually, I'm
19 having a hard time hearing all the words in your
20 questions. If you could just project a little more,
21 I think it would help. Thanks.

22 MR. TROTTER: I'll do my best. Sorry.

23 Q. I was just referring to the title of page
24 seven of Exhibit 83.

25 A. I don't think I have 83.

0414

1 MR. PARKER: Approach the witness, please?

2 JUDGE WALLIS: Yes.

3 THE WITNESS: Yes, I do have that, Counsel.

4 Okay.

5 Q. And just looking at that title implies to me
6 that this and the following page are pages out of a
7 larger document. Is my perception correct?

8 MR. PARKER: I'd like to enter an objection
9 at this point. This is beyond the scope of re-cross
10 or any questions off the bench. I think it's
11 improper.

12 JUDGE WALLIS: Mr. Trotter.

13 MR. TROTTER: The re-cross asked about the
14 process by which these projects were deferred, and
15 I'm now -- I'm going to ask them to produce this
16 document if -- as a record requisition. That's the
17 end of it, if it is a document, or whether this plan
18 consists of two pages. So my question is simply is
19 there a plan, and if so, I want the whole document.

20 MR. PARKER: I'll withdraw the objection.

21 THE WITNESS: It's my understanding that
22 this is the document.

23 Q. This is it?

24 A. Yes.

25 Q. And is this the entirety of the Verizon

0415

1 Earnings Recovery Plan, State of Washington, Capital
2 Reduction Initiatives?

3 A. These -- this represents the steps we took
4 for the additional capital reductions in Washington
5 State.

6 Q. The company did not prepare any document
7 quantifying the impact of these budget reductions on
8 its Washington intrastate cash flow, did it?

9 A. What we did is asked our construction group
10 what projects could you cut and still maintain basic
11 service levels, and what -- this is what they brought
12 back to us.

13 Q. So your answer is no, with your explanation?

14 A. In terms of cash flow, no.

15 Q. Chairwoman Showalter asked you some
16 questions regarding Exhibit 67, which was the merger
17 application. I'm not sure you need to refer to the
18 exhibit. One of the benefits you mentioned of the
19 merger was the funding pool. Do you recall those
20 questions?

21 A. Yes.

22 Q. And that pool is a large line of credit that
23 Verizon Northwest has access to; correct?

24 A. That's correct.

25 Q. And using that funding pool is Verizon

0416

1 Northwest's source of capital for its Washington
2 operations for the next few years; is that correct?

3 A. I'm not sure of the time line.

4 Q. Well, the next two years?

5 A. The funding pool is there for Verizon
6 Northwest.

7 Q. And that's how Verizon Northwest intends to
8 finance its Washington interstate and intrastate
9 operations for the foreseeable future?

10 A. Well, that's beyond my specific knowledge.
11 My comments yesterday were to, by being able to
12 leverage the resources of the Verizon operating
13 companies, it created the opportunity to have lower
14 cost financing, so that's what I was speaking to.

15 Q. And in the near term future, over the next
16 year, that's -- this is going to be the source of
17 capital -- of capital other than internally-generated
18 capital for Verizon Northwest; correct?

19 A. It is one of the sources. I can't say it's
20 the only source.

21 Q. You mentioned that two ILECs do not have
22 access to that pool because they were below
23 investment grade. Do you recall that?

24 A. Yes.

25 Q. And that was measured on a total company

0417

1 basis for each ILEC, was it not?

2 A. These two entities are single-state
3 entities, legal entities, and it was that legal -- it
4 is those legal entities that were not included in the
5 pool.

6 Q. But they're separate companies, are they
7 not?

8 A. They are separate companies.

9 Q. And they were below investment grade based
10 on total company for the state?

11 A. I don't know that specifically.

12 Q. Okay. You mentioned several times in your
13 oral testimony that if Verizon Northwest Washington
14 intrastate was a stand-alone company, its debt would
15 be rated below investment grade; is that right?

16 A. That is the testimony of Dr. VanderWeide.

17 Q. And you support that?

18 A. Yes.

19 Q. If Verizon Northwest Washington intrastate
20 were a stand-alone company, it would have its own
21 dividend policy, would it not?

22 A. Well, it would have a dividend policy
23 consistent with whoever owned it.

24 Q. It would also -- it could also publish its
25 own directory and keep all the revenues for itself,

0418

1 could it not?

2 A. It would be required to publish a directory
3 under the same terms as Verizon Northwest does today.

4 Q. But it could publish its own directory,
5 could it not, on a stand-alone Washington intrastate
6 basis?

7 MR. PARKER: Objection. It's beyond the
8 scope of redirect or any questions from the Bench.

9 MR. TROTTER: It's well within the scope of
10 the concept of stand-alone, which he stated hundreds
11 of times.

12 JUDGE WALLIS: The objection is overruled.

13 MR. TROTTER: I'll withdraw the hundreds.
14 Many, many times. Answer the question, please.

15 THE WITNESS: It -- I'm not sure it would be
16 feasible to be able to do your own publishing of a
17 directory on an intrastate basis, but as a legal
18 entity, they could contract with somebody to publish
19 a directory.

20 Q. But if it were feasible, it could publish
21 its own; correct?

22 A. Theoretically, yes, it could.

23 Q. And it could choose with whom to offer
24 packaged services, could it not?

25 A. Offer what services?

0419

1 Q. Packaged services, like package its own
2 services with some other service, like DSL?

3 A. Again, I think that depends on who owns the
4 company and what type of arrangements that they have.

5 Q. But it's possible to do that, isn't it? If
6 you're a stand-alone company, you can choose with
7 whom you will deal and market products together?

8 A. It would be consistent with Verizon
9 Northwest today.

10 Q. So the stand-alone company could do what
11 Verizon Northwest is doing today?

12 A. Yes, it could.

13 Q. It could do things differently than what
14 Verizon Northwest is doing today, couldn't it?

15 A. As Verizon Northwest is being part of the
16 family and -- being part of the Verizon family, I
17 should say, that company is going to market services
18 in a way that creates the best opportunity to retain
19 or grow revenues on behalf of that entity.

20 Q. And if it's a stand-alone company, it will
21 make its own decision in that regard, wouldn't it?

22 A. Again, it's -- as a stand-alone company, it
23 would be a wholly-owned subsidiary of Verizon, and I
24 would imagine that it would still be to the benefit
25 of that stand-alone company and at a much lower cost

0420

1 and with better arrangements to be able to market in
2 conjunction with affiliated companies.

3 Q. A stand-alone company could have filed a
4 late payment charge tariff in 1997 of one and a half
5 percent and have one just like US West received in
6 that year; correct?

7 A. I do not know that to be true. It may or
8 may not be true.

9 Q. A stand-alone company could choose a merger
10 partner other than Bell Atlantic, couldn't it?

11 A. As a hypothetical, a stand-alone company
12 that was owned with ownership that is different than
13 we have today would make decisions consistent with
14 what its board of directors would direct, and that is
15 a much different arrangement than what we have today.

16 Q. And the arrangement you have today is that
17 Verizon Northwest Washington intrastate is not a
18 stand-alone company; correct?

19 A. Verizon intrastate represents the part of
20 our company that's regulated by this Commission, but
21 it is not a stand-alone company. The regulatory
22 scheme is we have both intrastate operations and
23 interstate operations.

24 MR. TROTTER: Nothing further. Thank you.

25 I move for the admission of 85-C.

0421

1 MR. PARKER: No objection.

2 JUDGE WALLIS: 85-C is received. Is there
3 further re-cross? Mr. Melnikoff.

4 MR. BUTLER: Excuse me. Can I ask about the
5 admission of 74-C?

6 JUDGE WALLIS: You certainly may.

7 MR. BUTLER: Is it admitted?

8 JUDGE WALLIS: Mr. Butler is moving the
9 admission again of Exhibit 74-C. Mr. Trotter, do you
10 have anything to say about that?

11 MR. TROTTER: Thank you, Your Honor. Yeah,
12 we will object. It's not being sponsored by a
13 witness competent to testify on the matter of what is
14 contained in the figures and how it was prepared, and
15 it's quite clear it's not consistent with the
16 Commission's prior orders on the treatment of the key
17 elements of such studies. Accordingly, it has no
18 weight and should not be admitted.

19 MR. BUTLER: May I respond?

20 JUDGE WALLIS: Mr. Butler.

21 MR. BUTLER: Mr. Trotter's arguments all
22 deal with the weight to be given to the document, not
23 to its admissibility. It was offered to identify
24 Verizon's estimates of what the cost of these
25 services are. I intend to try to offer later on a

0422

1 Staff cost document to reflect the Staff's position
2 of what the costs are, and the argument that I will
3 make of it, you know, I will make an argument about
4 what weight to be given to each of the documents and
5 what lessons the Commission can draw from that. But,
6 again, Mr. Trotter's arguments deal only with, and he
7 used the phrase, the weight to be given to it, not
8 the admissibility.

9 JUDGE WALLIS: The objection's overruled.
10 Document is received. And is there anything further
11 for the witness? Mr. Parker.

12 MR. PARKER: No.

13 JUDGE WALLIS: Anything for the Bench? Oh,
14 Mr. Melnikoff.

15 MR. MELNIKOFF: I'm sorry, I have just a
16 couple questions --

17 JUDGE WALLIS: Very well.

18 MR. MELNIKOFF: -- on re-cross.

19

20 R E C R O S S - E X A M I N A T I O N

21 BY MR. MELNIKOFF:

22 Q. Good morning, Mr. Banta.

23 A. Good morning.

24 Q. I want to follow up on the concept and the
25 discussion that you had on -- from the Bench, as well

0423

1 as on the redirect, on a financial emergency or an
2 emergency. Let me give you a hypothetical. If a
3 company has a present need and is trying to raise
4 capital, but is not able to do so because of a low
5 investment grade rating, is that a financial
6 emergency, a financial crisis?

7 A. Those would be components that I would
8 consider elements in an emergency, financial
9 emergency.

10 Q. Okay. Now, let me ask you to plug in
11 Verizon Northwest into that hypothetical. Is it --
12 does it have a present need and is trying to raise
13 capital, but is not able to do so because it has a
14 below investment grade rating?

15 A. Well, what we've been testifying to is when
16 you look at Verizon Northwest on an intrastate basis,
17 it has a negative net operating income, and that
18 represents a situation where we would not meet
19 investment grade status. And that is what we're
20 characterizing as a financial emergency.

21 Q. Okay. Now, let me go back again. Verizon
22 Northwest, not the Washington intrastate portion of
23 it, we'll get to that in the next question, but
24 Verizon Northwest, is it trying to raise -- does it
25 have a present need and is trying to raise capital

0424

1 but is unable to do so because of a below investment
2 bond rating?

3 A. Not Verizon Northwest.

4 Q. Now, going to Washington intrastate
5 operations, does it have a present -- a present need
6 and is trying to raise capital, but cannot raise
7 capital because it has a below investment grade
8 rating?

9 A. Verizon intrastate operations does not have
10 a specific rating. What we're saying is that we've
11 -- we are in a situation, in an environment where, if
12 we were in that situation, it would not have an
13 investment grade rating.

14 Q. Okay. And if it didn't have an investment
15 grade rating, let's assume it's a stand-alone now,
16 does it have a -- does it have a present need and is
17 trying to raise capital now, but cannot -- cannot
18 raise the capital because somebody had said, either
19 its parent or outside investment markets have said,
20 We will not lend you the money because of your below
21 investment grade rating?

22 A. They are saying that if it was a stand-alone
23 company, it would not be able to do so based on its
24 current earnings.

25 Q. But I didn't ask that, whether it would be

0425

1 able to do so; I asked whether it has a present need
2 and is trying to raise capital and can't?

3 A. Verizon intrastate operations is the
4 jurisdiction that we're talking about in terms of how
5 we're regulated and how Verizon is asking the
6 Commission to address our issues, but it is not a
7 legal entity, so it's not trying to raise capital.

8 Q. Has Verizon Washington intrastate
9 operations, has it been denied capital at the present
10 by its parent or anybody else because of its --
11 because of its perceived investment rating?

12 A. As I've stated before, that what we've done
13 in Washington State, due to the earnings and our
14 situation there, is to spend the minimum we can to
15 maintain customer service, but that is what is in
16 jeopardy due to the earnings status in Washington,
17 and that can be customer and will be customer
18 impacting. It is today and it's projected to get
19 worse over time.

20 Q. But the parent has not refused to infuse
21 capital into Washington Verizon intrastate
22 operations?

23 A. The parent is doing the bare minimum to be
24 able to continue the operations here.

25 Q. And my question was has it refused to

0426

1 provide the infusion? Has it said no more, no more
2 investment, no more capital available?

3 A. Well, it has constrained that, so I'm not
4 sure I understand the difference. It has said that
5 we're going to do the bare minimum to get by.

6 Q. But it is providing capital?

7 A. There is capital available.

8 Q. Are you equating -- are you equating a
9 perceived below bond -- excuse me, below investment
10 grade rating, are you perceiving that as, in and of
11 itself, to be a financial crisis, a financial
12 emergency?

13 A. Yes, I am.

14 MR. MELNIKOFF: Thank you. No further
15 questions.

16 JUDGE WALLIS: Mr. Parker.

17 MR. PARKER: None.

18 JUDGE WALLIS: Anything further? It appears
19 that there is nothing. Mr. Banta, thank you for
20 appearing. You're excused from the stand at this
21 time. Let's be off the record while Mr. King steps
22 forward.

23 (Discussion off the record.)

24 JUDGE WALLIS: Let's be back on the record,
25 please. Public Counsel has called to the witness

0427

1 stand its witness Charles W. King. As noted earlier
2 on the record, Mr. ffitich is absent and Mr. Butler
3 will be conducting the examination in the absence of
4 Mr. ffitich.

5 (The following exhibits were marked in
6 conjunction with Mr. King's testimony:
7 101-T, CWK-1T, Direct Testimony, 27 pages,
8 Revised (Redline) During Hearing; 102,
9 CWK-2, Statement of Experience, one page;
10 103, CWK-3, Appearances Before Regulatory
11 Agencies, 13 pages; 104, CWK-4, Verizon
12 NW-WA IAS Free Cash Over Cash Requirements,
13 one page; 105, CWK-5, WA-IAS Results of
14 Operation with Directory Imputation, one
15 page; 106, CWK-6, Verizon NW Interest and
16 Commitment Coverages, one page; 107,
17 (Verizon) VZ Work Paper C6.1.3, Yellow Pages
18 Revenue Imputation, two pages; 108,
19 (Verizon) PC Responses to VZ DRs Nos. 1-6,
20 seven pages; 109, (Verizon) WUTC v. Olympic
21 Pipeline Company, Third Supplemental Order,
22 TO-011472, 22 pages; 110, (Verizon) Sixth
23 Supplemental Order, WUTC v. Avista Corp.,
24 UE-010395, 36 pages; 111, (Verizon)
25 UT-020406, 11th Supplemental Order, AT&T v.

0428

1 Verizon, 59 pages.)

2 JUDGE WALLIS: Mr. King, would you please
3 rise and be sworn.

4 Whereupon,

5 CHARLES W. KING,
6 having been first duly sworn, was called as a witness
7 herein and was examined and testified as follows:

8 JUDGE WALLIS: Please be seated. Mr.
9 Butler.

10 MR. BUTLER: Yes.

11

12 D I R E C T E X A M I N A T I O N

13 BY MR. BUTLER:

14 Q. Mr. King, would you please state your name
15 and address for the record?

16 A. My name is Charles W. King. My business
17 address is 1220 L Street, Northwest, Washington,
18 D.C., 20005.

19 Q. Do you have before you what has been marked
20 for identification as Exhibits 101-T, 102, 103, 104,
21 105 and 106?

22 A. Yes, I do.

23 Q. Were those prepared by you or under your
24 direction and control?

25 A. Yes, they were.

0429

1 Q. Do you have any corrections to be made to
2 any of those exhibits?

3 A. Yeah, I have two typos. Page 10 of the
4 testimony, Exhibit 101-T, at line 19, the year there
5 should be 2002, not 2003, and the total state return
6 should be 8.93, not 9.93. The other correction is to
7 --

8 CHAIRWOMAN SHOWALTER: You're going kind of
9 fast for us.

10 THE WITNESS: I'm sorry.

11 COMMISSIONER OSHIE: That should be 8.39?

12 THE WITNESS: 8.39, rather than 9.39. The
13 other correction is at Exhibit 105, line seven, in
14 the revised version. It was correct in the original
15 version. For some reason, line seven, in the source
16 column now says line five minus line seven. Well,
17 since it is line seven, it can't do that, so it's
18 line five minus line six. And with that, those are
19 the only corrections I have.

20 Q. Could you do the last correction again?

21 A. I'm sorry. It's Exhibit 105 Revised, line
22 seven, the center column, which provides the sources
23 of all of the data. The source should be line five
24 minus line six.

25 Q. With those corrections, are Exhibits 101-T

0430

1 through 106 true and correct, to the best of your
2 knowledge?

3 A. Yes, they are.

4 Q. And if I were to ask you the questions
5 contained in Exhibit 101-T, would your answers be as
6 written?

7 A. They would be.

8 MR. BUTLER: I move the admission of
9 Exhibits 101-T through 106.

10 JUDGE WALLIS: Is there objection? There
11 being no objection, the exhibits are received.

12 MR. BUTLER: Mr. King is available for
13 cross-examination.

14 JUDGE WALLIS: Ms. Endejan.

15

16 C R O S S - E X A M I N A T I O N

17 BY MS. ENDEJAN:

18 Q. Good morning, Mr. King. My name is Judy
19 Endejan. I represent Verizon in this case. As just
20 another minor housekeeping matter to follow up on the
21 corrections that you've just made, could you turn to
22 page 10 of your testimony, which is Exhibit 101?

23 A. Yes, I have it.

24 Q. And I take it that you made the corrections
25 that you've just made based upon your review of Ms.

0431

1 Heuring's testimony, in which she pointed out perhaps
2 what could have been just simply typographical
3 errors?

4 A. Well, that was part of it, yes.

5 Q. Okay. She pointed out a third error in
6 terms of your testimony. On line 17, page 10, you
7 had used the -- you had designated the column, second
8 column, total state, and according to Ms. Heuring's
9 rebuttal testimony, that should be labeled regulated?

10 A. Well, that's implied in total state, but if
11 you would like me to make that additional
12 clarification, what I meant, of course, is total
13 regulated state.

14 Q. Okay. I just want to make sure that,
15 basically, you're agreeing with the corrections that
16 Ms. Heuring pointed out in her rebuttal testimony in
17 responding to your testimony on this page?

18 A. That's correct.

19 Q. Thank you. Could you turn, please, to your
20 Exhibit CWK-4, which is Exhibit 104?

21 A. I have it.

22 Q. And let me ask you, the figure under column
23 six for fixed charges, does this mean interest
24 expense?

25 A. Yes.

0432

1 Q. Okay. And I'm presuming, in preparing for
2 your testimony here, that you reviewed the testimony
3 of all of Verizon's witnesses, including Dr.
4 VanderWeide?

5 A. Yes, I did.

6 Q. Okay. And would you agree -- and I'm happy
7 to show you his testimony if you don't have it in
8 front of you, it would be his rebuttal testimony,
9 Exhibit 3-T. Do you have that, Mr. King?

10 A. I do.

11 Q. Okay. Thank you. If you could turn,
12 please, to page nine?

13 A. Yes.

14 Q. Lines eight through 10?

15 A. Yes.

16 Q. Dr. VanderWeide says that the net cash flow
17 from Washington intrastate operations would equal
18 EBITDA minus interest paid minus capital
19 expenditures. Would you agree with Dr. VanderWeide
20 that that is the proper way, how you determine net
21 cash flow?

22 A. Yes, that's what I've done on Exhibit 104.

23 Q. Thank you. Could you also turn to Dr.
24 VanderWeide's Exhibit Number 3, and -- which appears
25 to be his financial ratio analysis. Do you see that?

0433

1 MR. BUTLER: Which exhibit, please?

2 Q. It was Exhibit Number 2.

3 A. Exhibit 2, and that is in his original
4 testimony?

5 Q. Correct, and I'm happy to show you the page.

6 A. No, it's a different book. That's all.
7 Yes, I have it.

8 Q. And do you see the number that Dr.
9 VanderWeide has for gross interest paid in the first
10 numerical column?

11 A. Yes.

12 Q. And that is what?

13 A. Restated amount is 22.7. I noticed that
14 disparity when I was preparing this testimony, and I
15 was unable to reconcile the two.

16 Q. Okay. Can you also turn to, and I don't
17 know if you have it there, Ms. Strain's testimony,
18 what would be Exhibit 144?

19 A. I have it.

20 Q. Page one of that exhibit.

21 A. I'm sorry, I don't have these marked as they
22 -- is this PM --

23 Q. It's PMS-4, which has been marked as Exhibit
24 144, page one.

25 A. That is an exhibit I do not seem to have.

0434

1 MS. ENDEJAN: Okay. If I might approach the
2 witness, Your Honor, I have an extra copy for him, or
3 if Mr. Parker may approach the witness.

4 JUDGE WALLIS: Yes.

5 Q. If you could turn to page one?

6 A. Yes.

7 Q. And if you would look in the second
8 numerical column, could you state the amount that Ms.
9 Strain reflects for gross interest paid?

10 A. Interest expense is shown here as 20
11 million.

12 Q. I'm sorry. Maybe I'm --

13 A. Test year intrastate before adjustments.

14 Q. If you look under gross interest paid, test
15 year intrastate --

16 A. Oh, I see. Down below, we have 22.7.

17 Q. Okay. Now, does your -- turning back to
18 your Exhibit Number 104 and the interest amount that
19 you used on your chart, does this mean interest
20 expense or actual expense paid?

21 A. I think that is actual expense paid, because
22 the difference appears to be 1.4 million in income
23 taxes.

24 Q. Well, does your amount recognize funds used
25 during construction? Does that amount encompass

0435

1 that?

2 A. I cannot say.

3 Q. And you don't know if your amount includes
4 interest that's capitalized or not?

5 A. Again, I cannot say. I drew that from --
6 that number from Ms. Heuring's work paper, as the
7 source column shows.

8 Q. Would you agree with me, Mr. King -- are you
9 Dr. King or Mr. King?

10 A. Just Mr. King.

11 Q. Mr. King -- that Dr. VanderWeide and Ms.
12 Strain used gross interest paid and that that amount
13 should have been used for purposes of establishing
14 the actual amount of interest to be paid for purposes
15 of cash flow analysis?

16 A. I would agree with that, and I am unclear as
17 to which of these various numbers constitutes the
18 proper quantification. I observe 22.7, and if that
19 is a correct number, it would appear that possibly
20 another two and a half million might be added to --
21 or 2.7 million might be added to the expenditures.

22 Q. So -- thank you, Mr. King. So in other
23 words, your bottom line conclusion of free cash over
24 cash requirements would be reduced if you used the
25 \$22.7 million?

0436

1 A. Yes, it's reduced, but not eliminated.

2 Q. No, but you would be left with, and I would
3 represent to you, subject to check, that that number
4 would -- that the bottom line number on your Exhibit
5 144 would be reduced from 3.9 million to
6 approximately 1.1 million?

7 CHAIRWOMAN SHOWALTER: You said Exhibit 144.
8 Did you mean --

9 MS. ENDEJAN: I meant 104, excuse me.

10 THE WITNESS: No, I wouldn't agree with that
11 calculation. 3.9, and the difference between our
12 figures was two point -- effectively --

13 Q. 2.8?

14 A. -- 2.8. Yes, you're right, 1.1.

15 Q. Thank you.

16 A. Still a positive number.

17 Q. Thank you, yes. And I'm presuming that you
18 don't have in front of you the second financial
19 exhibit to Ms. Strain's testimony, which is PMS-2?

20 A. I do.

21 Q. Oh, you do, okay. Could you turn to that,
22 please? And for the record, that is Exhibit 142.

23 And Mr. King, I take it from -- by virtue of the fact
24 that you revised your testimony based on Ms. Strain's
25 analysis, that you reviewed Ms. Strain's work -- all

0437

1 of her exhibits --

2 A. Yes, I did.

3 Q. -- and her testimony. Would you turn to --
4 actually, excuse me. I intended to ask you a
5 question about PMS-3, not PMS-2.

6 MR. TROTTER: Your Honor, I would request
7 that Counsel refer to the exhibit number, because
8 that's how I have them tabbed and how the record
9 reflects them. I'd make that request if the Bench
10 agrees. Thank you.

11 MS. ENDEJAN: Certainly. What I'm trying to
12 do is do both. So that would -- Mr. Trotter, that
13 would be Exhibit 143.

14 THE WITNESS: I have it.

15 JUDGE WALLIS: Thank you, Ms. Endejan.

16 Q. Okay. If you could turn to page two of this
17 exhibit?

18 A. That's the bar chart?

19 Q. That's correct.

20 A. Yes.

21 Q. Now, can you tell me, with respect to -- and
22 what is this document labeled?

23 A. Verizon Northwest Trends in Revenues and
24 Expenses, Washington Intrastate Basis.

25 Q. Now, looking at this document from the year

0438

1 2000, how would you describe the trend with respect
2 to intrastate revenues?

3 A. It appears to be downward.

4 Q. Would a downward trend in revenues over a
5 four-year period be something that you would consider
6 relevant to assessing the adequacy of cash flow
7 coverage on a going forward basis?

8 A. It could be. A great deal depends on the
9 cause of the downward trend.

10 Q. Okay. Let me turn to a slightly different
11 area and ask you if you have read the Commission's
12 order in Docket Number 020406? It's the Eleventh
13 Supplemental Order, otherwise known as The Access
14 Charge Order.

15 A. I have that. I believe that's Exhibit 111.

16 Q. That's correct. And have you reviewed this
17 order?

18 A. Yes, I have.

19 Q. Would you agree with me that this order was
20 a Commission action and not an action on the part of
21 Verizon?

22 A. It was in response to a complaint by AT&T,
23 as I understand, and it was the Commission's
24 conclusion of that complaint.

25 Q. Correct, but it was issued by the

0439

1 Commission; correct?

2 A. Yes.

3 Q. Okay. Now, I want to ask you some questions
4 about your testimony as it discusses that order.

5 Could you turn to page seven of your testimony?

6 CHAIRWOMAN SHOWALTER: Is that --

7 MS. ENDEJAN: That would be Exhibit 101-T,
8 page seven.

9 THE WITNESS: I have it.

10 Q. All right. And would you agree with me that
11 the consequences of, and I'll just call it the Access
12 Charge Order, was a reduction in revenues to Verizon
13 of approximately \$29.7 million?

14 A. Yes.

15 Q. Okay. And when you reviewed the order, did
16 you see any discussion with respect to whether or not
17 Verizon was over-earning at the time the order was
18 issued?

19 A. I don't believe the order addressed
20 over-earnings or under-earnings.

21 Q. And the order also did not address the
22 financial impact of the reductions on Verizon's rate
23 of return, did it?

24 A. It mentioned it, and that was back at --

25 Q. Paragraph 144?

0440

1 A. -- 144 and 145.

2 Q. And in Paragraph 144, the Commission
3 acknowledged that the order would have a considerable
4 impact on revenues, and I -- I'll get the exact
5 language if you would like, but --

6 A. Considerable reduction in Verizon's
7 revenues.

8 Q. Okay.

9 A. Yes.

10 Q. Thank you. And I'm looking at lines 17
11 through 20 of your testimony on page seven, in which
12 you say, quote, In its order in that case, the
13 Commission expressed sympathy for Verizon's need to
14 assess the consequences of its order to determine
15 whether it needs to increase other rates and to
16 prepare a procedurally proper response to that need.
17 Do you see that?

18 A. Yes.

19 Q. And I don't want to mischaracterize it, but
20 was it your understanding that you -- that the
21 Commission anticipated that Verizon would need to
22 seek some form of rate relief due to the Access
23 Charge Order?

24 A. Well, I think the Commission anticipated --
25 I believe it stated that there are relief

0441

1 opportunities for Verizon, and for that reason, it
2 delayed the effectiveness of its order for two months
3 on the theory that this would give Verizon time to
4 prepare a rate case. It was not prepared, as I
5 understand, to do offsetting revenue adjustments so
6 as to make a revenue neutral decision, because that
7 would be a single issue adjustment and that would be
8 contrary to Commission practice.

9 Q. So in your -- is it your understanding of
10 Commission practice that the Commission typically
11 does not engage in single-issue ratemaking?

12 A. Generally not.

13 Q. Thank you. Would you -- let me ask you
14 this, Mr. King. If the company had filed a petition
15 for interim relief on October 1st, 2004, in your
16 view, would the company have been entitled to interim
17 relief?

18 A. No.

19 Q. Okay. So really, the issue of whether and
20 when -- or when the company filed its petition is
21 irrelevant to your conclusions that you've drawn?

22 A. No, because it -- the failure of the company
23 to file immediately for interim relief and for full
24 relief implies to me, and I hope it implies to the
25 Commission, as well, that the company itself did not

0442

1 consider the loss of \$30 million to constitute a
2 financial crisis. And therefore, it was prepared to
3 wait until the next April to file for its relief and
4 indeed, then, even then, file for a bifurcated
5 proceeding, which would extend the Commission's
6 decision well beyond even the 10-month period. And
7 that's the significance of the timing.

8 Q. Thank you. Let me give you a hypothetical,
9 Mr. King. Assume that I'm a middle-aged male with a
10 heart condition, all right. Let's just assume that.

11 MR. BUTLER: This is hypothetical?

12 Q. This is hypothetical.

13 A. I prefer a middle-aged female, but that's
14 all right.

15 Q. Well, I don't -- it can be either sex, okay.
16 And I start -- and I start experiencing heart
17 distress in October, I don't feel real well, things
18 aren't going real well, and then I have a heart
19 attack in April, and I go to the hospital.

20 Is it your testimony that, because I didn't
21 seek medical attention right away, that I shouldn't
22 get treated for my heart condition in April?

23 A. Of course not, and it's quite irrelevant to
24 this condition, but that's fine.

25 Q. Okay. Let me turn to your testimony on page

0443

1 11, please. At line 11, you state, The interstate
2 and intrastate rates are set totally independently of
3 each other. Do you see that?

4 A. That's correct.

5 Q. And is the reason for that the fact that
6 regulators in the other states set intrastate rates
7 based upon their own intrastate cost and revenues?

8 A. Well, there's two levels of division. There
9 is the jurisdictional division among states and then,
10 within each state, there's the separation between
11 intra and interstate. So the other states would only
12 look at costs and revenues generated in their states
13 and then only for intrastate services.

14 Q. Thank you.

15 A. And there is no ability on the part of any
16 of these Commissions to transfer or reallocate costs
17 among the states or between interstate and
18 intrastate.

19 Q. Thank you. For purposes of your analysis,
20 on page 16, you criticize, basically, Verizon's
21 presentation of its financial information. But you
22 -- and I just want to be clear. The only possible
23 error you've identified in your testimony is a
24 failure to impute directory revenues; is that
25 correct?

0444

1 A. That's the only one I -- it was clear that
2 was a major -- a major weakness in the company's
3 financial presentation. It's one of quite
4 significant dollar value. I will be very surprised,
5 matter of fact, I will --

6 Q. Thank you, Mr. King.

7 A. Yes.

8 Q. I only asked you if that was the only one.

9 A. Yes, you're right, you're right. That's the
10 only one.

11 Q. Thank you. And as a result of the
12 adjustment that you made, your calculations of
13 Verizon's intrastate rate of return, after you
14 revised it per Ms. Strain's numbers, became 1.464
15 percent; correct?

16 A. That's correct.

17 Q. Okay. And do you know what Verizon's
18 currently authorized rate of return is?

19 A. It's up in the nine percent range. I could
20 look it up.

21 Q. Okay. For purposes of preparing your
22 testimony, did you review all of the cases in which
23 the Commission granted interim rate relief?

24 A. I reviewed several, specifically three. The
25 Olympic case, the Avista case, and the Puget Sound

0445

1 case.

2 Q. All right. Is it your testimony that, in
3 order for a company to even be considered for interim
4 rate relief, that the rate of return must be
5 negative?

6 A. No, rate of return could be positive, but
7 very low, if the company was confronted with a cash
8 crunch such that it could not meet its cash
9 obligations.

10 Q. Are you -- having -- I'm sorry, strike that.
11 I believe you just said that you have reviewed the
12 Olympic Pipe Line case?

13 A. Yes.

14 Q. All right. And are you familiar with the
15 fact that, in that case, Staff's recommendation was
16 to have an earnings coverage for interest of
17 approximately 1.5? Were you aware of that fact?

18 A. I'm not aware of that specific number, but I
19 will accept it.

20 Q. And -- well, are you aware, subject to
21 check, that the Commission accepted that interest
22 coverage ratio number of 1.5 in the Olympic case?

23 A. Yes, Olympic being a stand-alone company.

24 Q. Olympic Pipe Line operated in both the intra
25 and interstate jurisdictions, did it not?

0446

1 A. That's correct.

2 Q. Thank you. Mr. King, let me ask you. I
3 looked at your credentials, which are contained in
4 Exhibit 102, and I couldn't tell. Have you ever
5 worked for a privately-owned utility as an employee,
6 as opposed to --

7 A. Not as an employee, no. I've been -- I
8 mean, my life has been as a consultant, so I've been
9 retained by privately-owned utilities, yes.

10 Q. Right, but you've never worked within --
11 inside of a utility, as an employee of that utility?

12 A. No, no, I'm a consultant by profession.

13 MS. ENDEJAN: Thank you. If I may just have
14 a moment, Your Honor, I think I may be done. Thank
15 you.

16 JUDGE WALLIS: Do others have
17 cross-examination? Very well. From the Bench?

18 CHAIRWOMAN SHOWALTER: Okay.

19

20 E X A M I N A T I O N

21 BY CHAIRWOMAN SHOWALTER:

22 Q. Good morning, Mr. King.

23 A. Good morning.

24 Q. I think I'd like to begin by asking you to
25 remember, if you do, my hypothetical Company A and

0447

1 Company B. Do you have those --

2 A. I do indeed.

3 Q. -- facts in mind? I'm not going to repeat
4 all of the elements unless it becomes clear that
5 maybe we're not on the same wavelength. In the case
6 of Company A, which is a stand-alone company in my
7 hypothetical, do you agree that, in that situation,
8 it would be very likely that Company A would be in
9 financial distress?

10 A. Yes.

11 Q. And do you agree that it would be probable,
12 or at least highly plausible, that interim relief
13 would be warranted?

14 A. Yes, Company A resembles the Olympic Pipe
15 Line Company.

16 Q. All right. Although --

17 A. Now, mind you, it did have an interstate
18 component, but even when you divide the two, they're
19 both in terrible straits, and therefore both
20 agencies, federal and state, granted interim relief.

21 Q. Well, that's an interesting thing. I was
22 going to go to this point later. You used the word
23 there for both entities. Well, let's talk about
24 FERC. Is it your opinion that FERC granted interim
25 rate relief because of the financial emergency?

0448

1 A. You know, I did not review the FERC
2 decision. I only saw the reference in this
3 Commission's decision that FERC had granted relief,
4 and that's all I know.

5 Q. Are you familiar with FERC's practices
6 regarding interim rates?

7 A. No, I'm not.

8 Q. So you're not aware that they routinely
9 grant rates pending the general case?

10 A. You know, I'm not that familiar with FERC.
11 Given the extraordinarily slow procedures at FERC, I
12 wouldn't be surprised if that's the case.

13 Q. All right. Back to our hypothetical. Let's
14 go to Company B. In the case that I outlined, is it
15 your opinion that Company B is entitled to no interim
16 rate relief in the example that I gave?

17 A. That's correct. Company B is certainly
18 entitled to a rate case, but they're not entitled to
19 interim relief.

20 Q. All right. And is your main reason that the
21 company, as a whole, is not in financial distress and
22 there is, within some limits, enough money to fund
23 what's necessary in the intrastate part of Company B?

24 A. Yes, there's no financial distress, there's
25 no financial crisis, and the impact of the inadequacy

0449

1 of the intrastate earnings is so small that it does
2 not impose an unreasonable gross hardship or inequity
3 on the owners of the company or its debtors.

4 Q. All right. I would like to --

5 A. I'm sorry, creditors. Beg your pardon.

6 Q. All right. I would like to talk about the
7 word -- the term gross inequity, maybe really the
8 concept of gross inequity. First of all, do you see
9 any possible distinction between the term gross
10 inequity and gross hardship? Doesn't hardship imply
11 -- well, hardship on the company, perhaps not.

12 A. Well, hardship on the company can only mean
13 hardship on the company's owners. I mean, they're
14 the only people who hurt, or at least the company's
15 creditors and owners. And if the condition imposes a
16 measurable hardship on those owners and creditors --
17 example, there is a significant drop in the price of
18 the stock by reason of investment analysts finding
19 out that the company's going to be in terrible
20 straits because it doesn't get -- if it doesn't get
21 interim relief, or there's an impending bond
22 downgrading. That's gross hardship.

23 Inequity relates to the relationship between
24 ratepayers and owners. If, as a result of the
25 failure to grant interim relief, we are really

0450

1 subsidizing ratepayers and forcing owners to
2 effectively eat costs that should be borne by the
3 ratepayers in a gross manner, then that's inequity,
4 but I see neither of those conditions in this present
5 case.

6 Q. Well, all right. Now, you are saying what
7 you think gross inequity means.

8 A. That's correct.

9 Q. And ultimately this Commission will decide
10 its full scope, if that's even the full scope of the
11 concepts we employ here. But as long as we're
12 talking about gross inequity, do you think the
13 concept is reasonable to apply to the inequity
14 between intrastate operations or revenues and the
15 revenues supplied by the ratepayers of other
16 jurisdictions?

17 A. Well, there's no -- that issue doesn't come
18 up, because, as I say in my testimony, there is no
19 way that the inadequacy of -- assuming there is an
20 inadequacy -- of revenue generation in Washington can
21 have any implication on the adequacy or inadequacy of
22 revenues in Oregon or Idaho. And the reason is that
23 this is a segmented cost and revenue analysis. So no
24 matter what you decide or what rates you set here in
25 Washington, they'll have no impact whatever on Oregon

0451

1 and Idaho. They can't.

2 Q. All right. They will have no impact on the
3 rates, but isn't it the case that the revenues that
4 are being produced from those other jurisdictions are
5 the very thing that keeps the company in Company B
6 from going under below investment grade?

7 A. That probably is true, but it doesn't
8 constitute a gross hardship, a gross inequity. It is
9 an inequity, but it is a temporary one that will be
10 resolved in the final rate case.

11 Q. Let me change the --

12 A. There's an element of pre-judgment that
13 bothers me in interim, because we say interim, and
14 then we give money and we haven't really examined
15 whether the money is justified.

16 Q. Well, let's digress to that topic, then,
17 because I think that is an important one. Isn't this
18 proceeding here in the nature of a preliminary
19 proceeding, where preliminary judgments are made
20 about financial figures, entitlement to relief, all
21 of which are subject to fuller evidence and decisions
22 in the general rate case?

23 A. Well, I think the issue that you should
24 examine in this phase of the case is not whether the
25 company is earning minus .4 percent or plus 1.44,

0452

1 depending on whether you include or exclude
2 directory, but whether the company is confronted with
3 a situation where it cannot meet its cash
4 requirements. Now, I've demonstrated that, even on
5 an intrastate basis, it can meet its cash
6 requirements, and that really is as far as it needs
7 -- it should go in this phase of the proceeding,
8 because if you make a determination now based on the
9 very superficial numbers that the company has
10 presented, that there is a severe shortage of return,
11 you are in a way prejudging the final decision in an
12 unfair manner.

13 The Staff and the Intervenors have not
14 presented a full rebuttal case and not had the
15 opportunity to challenge the company's revenue
16 requirement analysis. There's severe problems with
17 its asserted rate of return that I think will be
18 challenged, and you will probably find that its rate
19 of return, on an intrastate basis, is significantly
20 higher than the company has presented here.

21 So I think that, at the interim phase, it
22 should be a question of can they pay their bills, can
23 they get through until we make the decision next May.

24 Q. Are you familiar with court proceedings of
25 temporary injunctions, preliminary injunctions, final

0453

1 injunctions, or temporary proceedings, preliminary
2 proceedings, final proceedings?

3 A. I'm not a lawyer.

4 Q. Well, are you familiar with that concept?

5 A. And I know they exist, yes. And there's
6 irreparable harm and all that good stuff.

7 Q. And are you familiar with the concept that,
8 in preliminary proceedings, a court might make a
9 finding that a certain kind of relief is more
10 probable than not and, based on that, give temporary
11 relief pending a final decision?

12 A. I understand. Yes, I understand.

13 Q. Well, isn't it the case that, in that kind
14 of scheme, all the parties are dealing with less
15 evidence and less time in the temporary or
16 preliminary versus the permanent or general
17 proceeding?

18 A. Yes, you know, and that's a court
19 situation. I discuss a little bit in my testimony
20 the concept of regulatory lag.

21 Q. Yes, and I want to get to that later.

22 A. And you know, that cuts both ways. They're
23 hurting now, but I would point out that, back in
24 1987, '88, no, '80 -- no, '97, '98, '99, the company
25 earned more than its authorized rate of return, and

0454

1 it was not forced to reduce its rates.

2 Q. Well, let me digress to there, then. If a
3 company's earning more than its rate of return, it is
4 likely not going to come in and seek to change those
5 rates?

6 A. It maintains a very low profile.

7 Q. However, it is vulnerable to, for example, a
8 complaint by another party or the Commission --

9 A. Yes.

10 Q. -- to lower those rates?

11 A. And that will take many months to process
12 through the Commission.

13 Q. And in this -- jumping out of the
14 hypothetical into this case, there was, in fact, a
15 complaint by another party to reduce rates; isn't
16 that correct?

17 A. That's right. I believe it took rather a
18 few months for you all to be able to make that
19 decision that, in fact, rates should be reduced.

20 Q. And we had in that case discretion, did we
21 not, to grant relief from the date of the complaint?

22 A. You could have, but you did not.

23 Q. Right, but we had discretion --

24 A. Yes.

25 Q. -- to do so?

0455

1 A. You had the discretion and you have the
2 discretion now to grant interim relief, and I think
3 what we're debating about is whether you should
4 exercise that discretion.

5 Q. Correct. Let me go to another hypothetical.
6 Supposing the -- a company is requesting \$100 million
7 in general rates, in the general rate case --

8 A. Yes.

9 Q. -- revenue requirement, and supposing all
10 parties agree that the company is entitled to at
11 least \$50 million. Maybe one party says 50, another
12 60, another 70, so that -- and now suppose that the
13 company is requesting interim relief of 40 million,
14 and makes a claim that that's necessary to cover --
15 or to reach investment grade on a stand-alone basis.
16 What I'm trying to get to is the example where all
17 parties agree that, in the general, the company will
18 be entitled to at least as much as it's asking for in
19 interim.

20 A. Well, it can --

21 Q. In that situation, would you say it ought to
22 be granted, or not unless it's -- the company's in
23 actual financial distress?

24 A. Well, first of all, I can't imagine a
25 situation in which, in the interim phase, all parties

0456

1 would agree to anything as regards the total amount
2 of company worthwhile, justifiable company revenue
3 shortfall. Certainly, if we took a poll around this
4 table, there would be no -- there would be no
5 agreement that Verizon is entitled to any rate relief
6 at this point. Now, they might be later. So I don't
7 think we get to the all-party agreement until well
8 into the final rate phase, when we've had an
9 opportunity for full discovery and presentation of
10 testimony and so on.

11 Under the hypothetical you state where, for
12 some reason, all parties have agreed that the company
13 is really short, 50 million.

14 Q. Let's -- yes, it's 40 million.

15 A. Whatever the number.

16 Q. Fifty million, but not the whole hundred
17 million.

18 A. Fifty million, not the full hundred million.
19 I think, if all parties also agree that an interim
20 increase of 40 million was appropriate, certainly you
21 should order it, but I'm afraid that's not the
22 condition here.

23 Q. And I'm not suggesting --

24 A. Yeah.

25 Q. -- that it is. What I'm trying to isolate

0457

1 is whether -- whether you think that an amount of
2 interim relief less than all parties agree will
3 ultimately be necessary would be warranted, even if
4 the company is not in actual financial distress
5 because of it's other jurisdictions?

6 A. Well, I just don't agree with that. I think
7 the problem with interim relief is it is based on a
8 very limited record, and the real issue ought to be
9 the ones that were set forth in PNB. Is the company
10 in an immediate financial crisis, I mean, can it pay
11 its bills or can't it. And the other one is is it
12 grossly inequitable and harmful not to grant interim
13 relief.

14 And those conditions should be the sole
15 focus of the interim phase, because other -- not to
16 do that is to sort of prejudge the final phase, which
17 bothers me. It involves -- admittedly, there are
18 refunds, but we heard a little bit ago about the
19 difficulty of granting refunds. They've got to chase
20 down who it is that was overcharged, there's problems
21 with the fact that you may reorient the rates or
22 readjust the rates such that the final rate is lower
23 than the interim amount. You know, things like that.

24 Q. Well, doesn't that point just have to do
25 with refunds? In other words, are you saying that

0458

1 the Commission should either grant interim relief or
2 not, but don't make the interim relief subject to
3 refund?

4 A. Well, it was a suggestion yesterday that
5 maybe the solution would be a deferred account, where
6 the company gets a credit for its interim relief, and
7 that earns interest. And then, when it receives its
8 final decision, there's an amortization of that fund
9 into rates.

10 Q. For --

11 A. That avoids the problem. Now, we're getting
12 off the subject of whether or not interim relief
13 should be granted, but that gets over the
14 difficulties of -- the mechanical difficulties of
15 interim relief.

16 Q. Yes, but on that score, a deferral account
17 would not -- well, let me back up. Isn't it the case
18 that a deferral account, in order to be effective in
19 Wall Street's eyes, must be accompanied by a
20 prediction, more or less, by the company, that it
21 will ultimately recover or has a high probability of
22 recovering those -- the money in the account?

23 A. Well, the probability of recovering the
24 money in the account is the function of the final
25 rate case.

0459

1 Q. Right.

2 A. Which was true -- is true in either case,
3 whether you have refunds or whether you have the
4 deferral account. So I don't know that that makes
5 much difference.

6 Q. So you would say there's no -- in Wall
7 Street's eyes, there's no difference between interim
8 rates versus a deferral account?

9 A. If it was a stand-alone company like
10 Olympic, I think there would be, because the trouble
11 with -- obvious trouble with a deferral account is
12 that there's no green cash to pay the bills with, and
13 in the case of Olympic, they needed the green cash.
14 In the case of Verizon, I think there's a sense of
15 injury from having had a reduction of \$30 million,
16 but certainly they don't need the green cash.

17 Q. When you're talking about cash -- let's go
18 back to Verizon now. Are you talking about cash that
19 Verizon has from its intrastate operations?

20 A. Well, in my exhibits, I -- first exhibit,
21 which number is -- I've got to get my exhibit numbers
22 right. First exhibit is 105, where I look solely at
23 intrastate, and then the other exhibit is 107 -- no,
24 I'm sorry, 104, where I look at solely intrastate,
25 and then I have 106, where I look at it from the

0460

1 standpoint of total Washington operations and total
2 company.

3 And the reality, of course, is it's really
4 total company that determines whether there is or is
5 not cash available to fund operations in Washington,
6 both interstate and intrastate, but the also reality
7 is, that even if you just look at intrastate, there
8 is still money available to cover the bills and fund
9 the construction.

10 Q. All right. Now, this is a hypothetical. If
11 cash is available -- if there was zero cash available
12 from intrastate, but there is cash available from the
13 other jurisdictions, you see no inequity in allowing
14 that to continue for some period of time?

15 A. Well, if it were a permanent condition, it
16 would be inequitable, but if we're talking about
17 eight and a half months until we can determine what
18 additional cash is justified from the intrastate
19 jurisdiction, and the answer is I do not find that
20 inequitable because -- well, first of all, because
21 the reality is there is cash from the intrastate
22 operations, and second, because of the regulatory lag
23 situation, which, as I say, seems inequitable when
24 costs are increasing, but it also was inequitable to
25 ratepayers when costs were decreasing and the company

0461

1 was enjoying returns in the order of 12 percent.

2 Q. And if there were a perfect symmetry between
3 the good times and the bad and the lag times,
4 everything would come out even; right?

5 A. Yeah, and in fact, it has over the last
6 decade. Most telephone companies did very well and
7 most utilities did very well throughout the '90s, and
8 earned returns well above their authorized level.
9 It's true throughout the utility industry. And it's
10 because productivity combined with demand growth
11 permitted them to enjoy reduced unit costs. And
12 there were very few rate reduction orders. There
13 were some, but not very many, and most utilities
14 earned more than their return, including this one.

15 Q. So you think that -- well, let's take this
16 situation. Supposing there had been declining
17 returns for the last nine years, instead of the last
18 three years, as represented by the company, and a
19 projection of a further decline over the next year
20 for the intrastate part. Would you say then, even
21 then, that unless the company is in actual financial
22 distress, it should not get interim rate relief?

23 A. Yes, again, interim rate relief is based on
24 an insufficient record to determine what rate relief
25 is justified. It should be solely a function of

0462

1 financial distress.

2 Q. So the lag issue, if the lag simply did not
3 apply in this symmetrical way to the company in this
4 case or in the hypothetical I gave of a 10-year
5 decline, that is not a controlling factor in your
6 view? It could be a bad situation for a long time,
7 which might be the case, say, if intrastate
8 operations were a small part of a big company, you
9 would still say that the lag isn't what justifies no
10 interim relief; it's simply the lack of financial
11 distress --

12 A. Well --

13 Q. -- company-wide?

14 A. -- we had that situation in the '70s and
15 early '80s, when there was a very significant
16 increase in costs throughout the utility industry,
17 phones, everything, electric, gas. And the solution
18 was not interim relief; the solution was future test
19 years, and that's what most commissions adopted. And
20 that anticipated further increases in cost, in unit
21 costs, in a way that offset regulatory lag. The lag
22 was still there, but we attempted to adjust for it.
23 But the solution generally was, except in cases of
24 financial distress, was not interim relief.

25 CHAIRWOMAN SHOWALTER: Let's take a

0463

1 15-minute break.

2 JUDGE WALLIS: We'll be back on the record
3 shortly after 11:15.

4 (Recess taken.)

5 JUDGE WALLIS: Let's be back on the record,
6 please.

7 Q. Let me switch to the subject of directory
8 revenues. It appears to me that you are basing your
9 facts and figures on imputation of directory
10 revenues. Am I correct?

11 A. Well, I'm following the Commission practice
12 of imputing directory revenues, which, as I
13 understand, has been the practice here and in most
14 states that still have revenue rate-based rate of
15 return regulation for telephone companies.

16 Q. Are you familiar with our orders on the
17 Qwest Yellow Pages imputation issue?

18 A. Yes, I represented the Department of Defense
19 in the Qwest Dex acquisition case, so I'm fairly
20 familiar with the issues there. Remember when Qwest
21 sold its --

22 Q. Yes.

23 A. -- directory? I'm sure you remember it.

24 Q. I do, but I was actually not referring to
25 that proceeding as much as prior ones in which we

0464

1 determined that imputation would continue until there
2 was an appropriate sale and accounting of the sale?

3 A. Yes, and I remember that, and they were
4 appealed all the way to the Supreme Court, and so
5 there's quite a history on that, particularly with
6 respect to Qwest.

7 Q. Well, in that case, are you aware that the
8 Commission found that the regulated company owned the
9 directory business and had never fully sold it in a
10 way that the ratepayers of the regulated utility were
11 appropriately compensated?

12 A. Compensated. And there was a principle
13 established, and it was established way back when
14 Judge Green presided over the breakup of the Bell
15 System, that the directory business should be --
16 which is highly profitable -- should be directed to
17 and incorporated into the local telephone companies.

18 And as a consequence, as you may recall, I
19 don't know whether you do or not, AT&T, the long
20 distance company, wanted to keep the directory
21 business, because it was a tidy piece of change for
22 them, and Judge Green said, No, it would go to the
23 local companies, and the very reason for that is the
24 directory profits should support local exchange
25 service. And that established what I think is a

0465

1 national pattern of using directory profits to offset
2 local exchange rates.

3 Now, that didn't apply to GTE, because GTE
4 wasn't part of the Bell System, but I think the
5 concept of using directory profits to support local
6 exchange rates was a correct one and should still be
7 applied.

8 Q. Do you think it is an issue -- well, are you
9 familiar with the principle of reward follows risk?

10 A. Yes.

11 Q. Do you agree that ownership carries with it
12 some risk?

13 A. Well, ownership --

14 Q. Well, maybe --

15 A. The answer's yes.

16 Q. Does non-ownership -- do you agree that
17 non-ownership does not carry risk?

18 A. If, for example, Qwest will spin off its
19 directory business and it will devolve or lose the
20 risk or avoid the risk associated with whatever there
21 is risk in the directory business.

22 The difference between PNB -- I'm sorry,
23 between Verizon owning or not owning or never having
24 owned the directory business I think is irrelevant.
25 I think the issue is they're all owned by the parent

0466

1 company. And the profits from the Yellow Pages
2 business, which I understand, according to the 10-K,
3 were \$1.2 billion last year, should still accrue to
4 the local exchange service under the principle
5 established by Judge Green and acknowledged by almost
6 all commissions that had rate-based rate of return
7 regulation for phone companies, that this is a
8 highly-profitable spinoff or subsidiary activity
9 related to the fact that the phone company is the
10 ubiquitous provider of telephone service, and
11 therefore, the profitability of the Yellow Pages
12 advertisement is a profitability that should be
13 spread back to local exchange ratepayers.

14 Q. Are you aware of any Commission that has
15 imputed directory revenues where the regulated
16 company did not own or at one time owned the revenue
17 business, the directory business?

18 A. You know, I can't say one way or another.
19 The answer is no, I'm not familiar, but then I'm not
20 all that familiar with directory imputation in
21 non-Bell companies, which is where that would be the
22 case.

23 Q. And that is this case?

24 A. That's true here, right. So I can't tell
25 you whether, in the GTE companies, there has been

0467

1 directory imputation. I have been in Hawaiian
2 Telephone cases, and I believe, I wouldn't want to
3 swear to it, that they impute directory revenues
4 there, and that's another GTE company.

5 Q. If revenue -- if directory revenues are
6 excluded from the calculations of intrastate
7 operations for Verizon in this case, does that change
8 your opinion, first, on the intrastate-only health of
9 the company; that is, the regulated section?

10 A. It doesn't change my opinion as regards the
11 propriety of interim relief at all because it has no
12 effect on whether the company will or will not be
13 able to cover its cash requirements, whether you look
14 at it from the intrastate basis or from a total
15 company basis. It certainly will go to the issue of
16 the final rate relief you give this company in the
17 rate case next year, and that's really where it ought
18 to be argued. And possibly I'm unnecessarily
19 complicating my presentation by throwing in the
20 directory revenues.

21 Q. Let me go back to the comparison of Company
22 A and Company B. I think that you granted that
23 Company A was most probably entitled to interim rate
24 relief, and that Company B, under almost any
25 circumstance that I put to you, is not, because I did

0468

1 not put to you the case of the whole company being in
2 financial distress?

3 A. That's correct.

4 Q. If the -- if a commission were to grant
5 Company A relief and also to grant Company B relief
6 under the -- with the exact same conditions, from the
7 ratepayers' point of view, there would be no
8 difference financially; am I correct?

9 A. I don't know. Well, that's true. Both
10 ratepayers would be paying up-front money in interim
11 relief, yes.

12 Q. Just one last question. Can you turn to
13 Exhibit 104? I'm sorry, 105.

14 A. I have it.

15 Q. Well, let's see. I realize I'm -- I'm
16 sorry. Turn back to 104. 104 has the caption at the
17 top, Test Year Ending September 30th, 2003. My
18 question is have you done this type of calculation
19 for any later period, that is, a period ending, for
20 example, December 31st, 2003, or some later period?

21 A. Well, to some extent, there is a later
22 period recognition here, because if you will look at
23 the capital additions, they are not 2003 capital
24 additions; they are 2004 capital additions. And the
25 reason for that is that presumably the company

0469

1 collects the money in 2003 that it will spend in
2 2004, so there is a feature of future
3 acknowledgement.

4 As for the operating -- net operating
5 revenue and the depreciation expense, I don't have
6 the data for any forecast period, although I'm told
7 it will be supplied in response to a bench request.

8 Q. Okay.

9 A. So you'll be able to do this calculation
10 once you get that bench request.

11 Q. And what time period will that be? You
12 don't -- I don't know, you don't know, that's okay.
13 So is Exhibit 105 the same period?

14 A. Yeah, it's the same period.

15 Q. All right.

16 A. Again, all we have is test period, and we
17 also have calendar year 2003 data, but only on a --
18 at least on a -- for the income statement, only on a
19 total Washington or -- and a total company basis.

20 Q. So you have not done a calculation of
21 Exhibit 105 for any later period?

22 A. I can't, but as I point out, the
23 construction expenditure is for a later period, so to
24 that extent, we do have next year data in here.

25 CHAIRWOMAN SHOWALTER: All right. Thank

0470

1 you. I have no further questions.

2 COMMISSIONER HEMSTAD: I don't have any
3 questions.

4

5 EXAMINATION

6 BY COMMISSIONER OSHIE:

7 Q. I just have a couple of questions to
8 clarify, Mr. King. And that is, in your Exhibit 104
9 and 106, they appear, of course, to be different than
10 105, and one of the reasons they are different is
11 that in 105 you had included imputed directory
12 revenues as part of the calculation. It doesn't
13 appear that you've done that in Exhibit 104 and 106,
14 and I just want to clarify for the record that
15 Exhibits 104 and 106 do not include an imputation for
16 directory revenues --

17 A. That is correct.

18 Q. -- in the analysis?

19 A. That's correct.

20 Q. And one -- and this is my final question,
21 and that has to do with what you consider to be a
22 reasonable amount of free cash over cash requirements
23 to cover any contingencies that Verizon Washington
24 may have during the interim period. I think, in your
25 analysis, it's taken to perhaps an extreme and could

0471

1 be as long as free cash flow covered the cash
2 requirements by a dollar, that would be sufficient,
3 but shouldn't we be looking at perhaps another -- an
4 amount of money that would provide some cushion, if
5 you will, for the company, more than either zero or a
6 dollar?

7 A. Well, were this a stand-alone company, and
8 of course, the great debate here is whether we're to
9 view this as a stand-alone company, I would agree
10 with you that there probably should be a cushion of
11 cash resources. And they could be from short-term
12 borrowing, they could be from -- principally, it
13 would be short-term borrowing, but we're not looking
14 at a stand-alone company. We're looking at a piece
15 of company in one of the three states that the
16 overall company operates, and the issue is whether
17 there is financial distress.

18 I suggest that if the company can cover its
19 cash expenditures, and of course the contingency
20 could go the other way. They could have a good year
21 and make extra money, but if they can cover their
22 financial obligations for construction and for
23 operating expenses and for interest, it does not
24 constitute a financial emergency. And given the
25 small size of Washington intrastate operations

0472

1 overall, there is no impact on the owners of the
2 company from delaying for a period of eight and a
3 half months the recovery of about \$20 million in
4 revenue.

5 COMMISSIONER OSHIE: No further questions.

6 Thank you.

7 JUDGE WALLIS: Chairwoman Showalter.

8 CHAIRWOMAN SHOWALTER: I forgot to ask a
9 different topic.

10

11 E X A M I N A T I O N

12 BY CHAIRWOMAN SHOWALTER:

13 Q. Are you familiar with the interim rate
14 relief practices of the FCC, either now or
15 historically?

16 A. Yes, but the FCC has backed away from
17 rate-setting altogether, so it would have to be a
18 long time ago.

19 Q. Well, we still have rate-based rate of
20 return regulation here, cost-based regulation, at one
21 point, I believe the FCC did. Are you familiar with
22 their practices at that time, or let's just say --

23 A. Well, the answer is --

24 Q. -- 10 years ago?

25 A. -- I should be, but I really can't recall an

0473

1 instance of the FCC granting interim rate relief,
2 but it doesn't mean they didn't. I really -- it's a
3 long time ago. They've been out of the rate-setting
4 business now for well over a decade and a half.

5 Q. Are you familiar with any other state
6 commissions' practices on interim rate relief?

7 A. Yes, I'm involved in Michigan cases where
8 routinely the company submits for interim and then
9 for final rate relief. And these are not phone
10 companies; these are electric and gas companies. And
11 they have a somewhat different situation. There the
12 company files for, effectively, the present year, and
13 establishes or attempts to establish that it has a
14 revenue shortfall in the present year, and so we have
15 hard data. And then they have a future year, which
16 is the final adjustment.

17 It becomes a two-phased rate case, but it is
18 a full rate case in each case. The interim is
19 accompanied by full discovery, full development of
20 the revenue requirement, full adjustments by the
21 Staff and the whole schmear, and it becomes
22 effectively two rate cases, one based on -- well, the
23 one I'm in in Michigan now, based on 2004, and then
24 the final rates will be 2005. And that's a kind of
25 different environment than we have here.

0474

1 Q. Take me through the sequence of that. If a
2 company in Michigan, an electric company files on
3 January 1 of 2004 for interim rate relief, what year
4 is its evidence based on?

5 A. It will be 2004.

6 Q. So it's projecting forward its 2004 year?

7 A. Yeah, because it takes six to nine months to
8 prosecute the case, by the time all the evidence is
9 in, it's pretty certain what the actual results for
10 2004 are going to be, and also the company files
11 simultaneously for 2005. And then we have a second
12 phase where we do the final relief, and that's based
13 on 2005, but by that time, you've really gone through
14 all the rate-making adjustments, so everybody's
15 established -- and there's an interim decision, which
16 helps the final decision, because the Commission
17 accepts or rejects this, that, or the other
18 rate-making decision -- or rate-making adjustments.

19 Q. And typically, when do interim rates go into
20 actual effect, beginning in the January time period
21 or nine months later?

22 A. Oh, no, it will be nine months later. It's
23 not a retroactive process. There's no establishment
24 of a deferred account or a temporary refundable.
25 When the -- the so-called interim rates are, in

0475

1 effect, permanent rates, but they're permanent only
2 until we make the decision on the next phase, the
3 final phase, and then they become
4 permanent-permanent. But as I say, it's -- the
5 interim phase is a whole schmear. It's the full rate
6 case rate of return finding. Oh, not rate of return.
7 That's the one thing they don't consider in the
8 interim phase.

9 Q. Are there any other states you're familiar
10 with?

11 A. Not with -- I've been in a bajillion states,
12 but that's the only one that comes to mind that I'm
13 currently quite familiar with as regards the issue of
14 interim versus final.

15 CHAIRWOMAN SHOWALTER: Okay. Thank you.

16 JUDGE WALLIS: Mr. Butler, would you like to
17 do redirect now or wait until Ms. Endejan asks some
18 questions?

19 MR. BUTLER: I can wait. That's fine.

20 JUDGE WALLIS: Ms. Endejan.

21 MS. ENDEJAN: Thank you. Just a couple of
22 questions.

23

24 R E C R O S S - E X A M I N A T I O N

25 BY MS. ENDEJAN:

0476

1 Q. Mr. King, are you aware that there are
2 statutes in Idaho, Illinois and Florida that prohibit
3 directory imputation?

4 A. I'm not aware of that at all.

5 Q. Okay. Let me also ask you -- you were
6 talking about the Olympic Pipe Line case with
7 Chairwoman Showalter.

8 A. Yes.

9 Q. Do you recall that? And isn't it true that
10 Olympic, in fact, was owned by separate corporations,
11 Equilon And Arco/BP?

12 A. Yes.

13 Q. And isn't it also true that the bulk of
14 Olympic's financing was provided internally by those
15 owners, Equilon and Arco/BP?

16 A. Yeah, but they had -- they had put so much
17 money into it that the debt to those two owners
18 exceeded the net book value of the company, and the
19 evidence cited in the decision is that the companies
20 had run out of patience with it.

21 First of all, Equilon couldn't afford to put
22 any more money into it, and BP said it looked like an
23 impossible situation unless they got interim relief.

24 Q. So basically, Arco said why should we -- I
25 believe there's a question in there, why should we

0477

1 loan money to a money-losing proposition. Isn't that
2 sort of what it said?

3 A. That's right.

4 Q. Thank you. Okay.

5 A. And incidentally, that was based on the
6 total company operation. There's no reference there
7 to intrastate only.

8 Q. On page 18 of your testimony, let me -- I
9 want to clarify what you say at lines eight through
10 10. You say, Assuming the validity of the data shown
11 in Exhibit CWK-6, intrastate earnings and cash flow
12 coverage should improve when the Commission reaches a
13 decision on permanent rates on May 15th, 2005.

14 By that statement, would you agree that the
15 company's earnings and cash flow coverage would only
16 improve if, in fact, they were granted an increase in
17 rates and some rate relief?

18 A. Well, and that's why I say assuming the
19 validity of the data that's shown in CWK-6, or
20 whatever it is.

21 Q. So is it your testimony that you anticipate
22 that the company will, in fact, get some rate relief
23 from this Commission?

24 A. I'm not going to express an opinion on that.
25 I will say what I said here, is that assuming that

0478

1 what the company presents is what is found by the
2 Commission, they will get rate relief, but I have no
3 idea whether that's going to happen.

4 MS. ENDEJAN: Okay. That's all. Thank you.

5 JUDGE WALLIS: Mr. Butler.

6

7 R E D I R E C T E X A M I N A T I O N

8 BY MR. BUTLER:

9 Q. Yes. Mr. King, I have a few questions with
10 regard to Olympic Pipe Line. Is it the case that
11 Olympic Pipe Line met the default conditions on its
12 debt?

13 A. I believe it's in the Commission order,
14 Paragraph 31, that while it hadn't defaulted yet, it
15 would appear that it had met the conditions for
16 defaulting.

17 Q. And was Olympic Pipe Line's actual capital
18 structure a hundred percent debt?

19 A. Oh, it was worse than that. It was sort of
20 150 percent debt. It had more debt than it had net
21 book value in plant.

22 Q. Did Olympic Pipe Line need to finance
23 externally?

24 A. Yes, because it had had a major accident
25 that killed a couple of people and they needed to

0479

1 raise money to improve the safety of the pipeline
2 operation.

3 Q. And can you compare these circumstances with
4 Verizon Northwest?

5 A. Well, there's no remote chance that Verizon
6 is going to default on its debt. There is a very
7 healthy capital structure, which I believe is a
8 majority equity for Verizon Northwest. And finally,
9 there is no need to generate capital externally. The
10 company can generate all its capital internally, even
11 when you just look at Washington intrastate.

12 MR. BUTLER: Thank you. I have no further
13 questions.

14 MS. ENDEJAN: Your Honor, I forgot to move
15 for the admission of some exhibits that I had marked
16 in connection with Mr. King, and I will withdraw one
17 exhibit, but would move for the admission of 108,
18 109, 110 and 111. Technically, 109, 10 and 11 are
19 Commission orders, but it's more convenient to have
20 them marked as exhibits.

21 JUDGE WALLIS: Is there objection?

22 MR. BUTLER: No.

23 MR. TROTTER: Your Honor, 108, I believe,
24 was addressed in cross, so I don't --

25 MS. ENDEJAN: 108 is the DR responses from

0480

1 Public Counsel.

2 MR. TROTTER: I won't object at this time,
3 Your Honor.

4 JUDGE WALLIS: Mr. Butler has no objection,
5 so 108 through 111 are received in evidence. Is
6 there anything further of the witness? Let the
7 record show that there's no response. Mr. King,
8 thank you for appearing today, you're excused from
9 the stand. Let's be off the record momentarily.

10 (Discussion off the record.)

11 JUDGE WALLIS: Let's be back on the record,
12 please, following a brief break. Staff has called to
13 the stand at this time its witness Kathleen Folsom.
14 In conjunction with her appearance, documents have
15 been marked as Exhibits 121 through 134, and I would
16 ask the reporter to identify those in the record at
17 this time.

18 (The following exhibits were marked in
19 conjunction with Ms. Folsom's testimony:
20 121-T, KMF-1T, Direct Testimony, 40 pages;
21 122, KMF-2, Response to Data Request No. 32,
22 21 pages; 123, KMF-3, Response to Data
23 Request No. 29, three pages; 124, KMF-4,
24 Response to Data Request No. 30, three
25 pages; 125, KMF-5, Supplemental Response to

0481

1 Data Request No. 35, 10 pages; 126, KMF-6,
2 Response to Data Request No. 33, one page;
3 127, KMF-7, Response to Data Request No. 49,
4 one page; 128, KMF-8, Response to Data
5 Request No. 50, one page; 129, KMF-9,
6 Response to Data Request No. 46, five pages;
7 130, KMF-10, Response to Data Request No. 43
8 (with supplement), five pages; 131, KMF-11,
9 Response to Data Requests Nos. 7a and b,
10 five pages; 132, KMF-12, Response to Data
11 Request No. 39 (supplement), four pages;
12 133, KMF-13, Response to Data Request No.
13 11 (including supplement), three pages; 134,
14 (Verizon) Letter of 3/24/04 from Public
15 Counsel re: Rate Rebalancing.)

16 JUDGE WALLIS: Ms. Folsom, would you stand
17 and be sworn, please?

18 Whereupon,

19 KATHLEENM. FOLSOM,
20 having been first duly sworn, was called as a witness
21 herein and was examined and testified as follows:

22

23 DIRECT EXAMINATION

24 BY MR. TROTTER:

25 Q. Please state your name for the record.

0482

1 A. My name is Kathleen M. Folsom.

2 Q. What is your business address?

3 A. 1300 South Evergreen Park Drive, S.W.,
4 Olympia, Washington, 98504.

5 Q. You're employed by the Washington Utilities
6 and Transportation Commission?

7 A. Yes, I am.

8 Q. What is your position?

9 A. I'm a senior regulatory telecommunications
10 analyst.

11 Q. And in that capacity, did you prepare
12 testimony and exhibits in this case?

13 A. Yes, I did.

14 Q. Referring you to Exhibit 121-T, is that your
15 direct testimony?

16 A. Yes, it is.

17 Q. If I asked you the questions that appear
18 there, would you give the answers that appear there?

19 A. Yes, I would.

20 Q. In the course of that testimony, you refer
21 to various exhibits, which have now been marked
22 Exhibit 122 through 133; is that correct?

23 A. Yes, it is.

24 Q. And are all of those company responses to
25 Staff data requests?

0483

1 A. Yes.

2 Q. And are those true and correct copies of the
3 what the company's response was, to the best of your
4 knowledge?

5 A. Yes.

6 MR. TROTTER: Your Honor, I move for the
7 admission of Exhibits 121-T and 122 through 133.

8 JUDGE WALLIS: Is there objection? Let the
9 record show that there's no objection, and those
10 documents are received in evidence. Let's be off the
11 record for a scheduling discussion.

12 (Discussion off the record.)

13 JUDGE WALLIS: Let's be back on the record,
14 please.

15

16 C R O S S - E X A M I N A T I O N

17 BY MS. ENDEJAN:

18 Q. Good morning, Ms. Folsom. I'm Judy Endejan,
19 representing Verizon in this case.

20 A. Good morning.

21 Q. I take it, in connection with your work in
22 this docket, that you have reviewed the 11th
23 Supplemental Order, which, in Docket 020406, we've
24 been calling it the Access Charge Order.

25 A. I've read it.

0484

1 Q. Okay. Was the issuance of that order a
2 matter that affected Verizon's revenues by reducing
3 them by 29.7 million?

4 A. I believe that's the company's position in
5 this case, is that revenues were reduced by an amount
6 of 29.7 million.

7 Q. And is it your understanding that Verizon is
8 asking for interim relief in this case to make up for
9 that \$29.7 million revenue shortfall caused by the
10 Access Charge Order?

11 A. I believe that Verizon's position in this
12 case is that the only reason that it is asking, at
13 least in the petition, is to make up for the access
14 charge reduction that was ordered to Verizon as a
15 result of Verizon having excess access charges as a
16 result of the complaint case.

17 Q. Okay. Now, are you aware that the 11th
18 Supplemental Order found that Verizon's rates had
19 been set according to the Commission's Access Charge
20 rule, WAC 480-120-540? And I can direct you to
21 Paragraph 28 of the 11th Supplemental Order, which I
22 believe is Exhibit 111.

23 MR. TROTTER: I'm going to object to the
24 question on relevance grounds, Your Honor.

25 MS. ENDEJAN: It's foundational.

0485

1 JUDGE WALLIS: Very well.

2 MR. TROTTER: Could I have the paragraph
3 number again, please?

4 MS. ENDEJAN: Paragraph --

5 JUDGE WALLIS: Twenty-eight.

6 MR. TROTTER: Twenty-eight. Thank you.

7 THE WITNESS: I have read the paragraph.

8 Q. Okay. And does that confirm that the
9 Commission concluded in the order that Verizon's
10 current access charges appear to comply with the
11 rule?

12 A. The paragraph says what the paragraph says.

13 Q. All right. And also continuing on to
14 Paragraph 39 in the Order, if you would, do you find
15 that the Commission found that they did not accuse
16 Verizon of any wrongdoing in connection with its
17 access charge rates? Do you see that in the second
18 -- or in the last sentence?

19 A. Again, I see what the paragraph states.

20 Q. Okay. And having reviewed the Order, the
21 Order reduced Verizon's access charges, but did not
22 allow for offsetting rate rebalancing; isn't that
23 true?

24 A. When you say reviewed, to start out with,
25 I've read the order once, I wasn't a party to

0486

1 anything in the case, so I'm not really familiar with
2 what went on.

3 Q. Okay.

4 A. But the general understanding is that
5 there's definitely a Paragraph 145 that's been
6 discussed earlier today that speaks to --

7 Q. Okay.

8 A. -- offsetting rates.

9 Q. Okay. So you're -- just to clarify your
10 answer, your understanding is that there was no rate
11 rebalancing allowed as a result -- or in the 11th
12 Supplemental Order; correct?

13 A. My understanding is, in the 11th
14 Supplemental Order, there was not a revenue neutral
15 finding, in the context of adjusting other rates to
16 make up for the access charge reduction.

17 Q. Okay. And in the reductions to Verizon's
18 access charge rates, they were then set at a level of
19 Qwest's intraLATA access charges. Do you recall?

20 A. No. I don't have that much familiarity with
21 it.

22 Q. Okay. So if you turn to Paragraph 104 of
23 the Order --

24 A. 104?

25 Q. Paragraph 104. Well, would you accept,

0487

1 subject to check, that Verizon's rates were reduced
2 to the level of Qwest's as a result of the 11th
3 Supplemental Order?

4 A. Yes.

5 Q. Okay. And do you have any understanding of
6 how Qwest's access charge rates had been set?

7 A. No.

8 Q. Okay. Would you again accept, subject to
9 check, in reviewing the Order, the 11th Supplemental
10 Order which discusses it, that Qwest's access charge
11 rates were set in Qwest's last general comprehensive
12 rate case back in 1995, '96?

13 A. I don't know. Subject to check. I mean, I
14 don't have -- I've read the order once.

15 Q. Okay. All right. And you read the order to
16 sort of gain an understanding of --

17 A. I read the order because it was listed as a
18 cross exhibit.

19 Q. Okay. Did you also read what has been
20 marked as Exhibit 134 for you, which is a letter from
21 Simon ffitich to Don Dennis?

22 A. Just a minute.

23 Q. Sure.

24 A. I have read it.

25 Q. Okay. And you're the Staff policy witness

0488

1 in this case, are you not?

2 A. I'm the Staff policy witness in regards to
3 Verizon's need or not for interim rate relief.

4 Q. Okay. Well, as the, I guess, only Staff
5 policy witness I get to ask questions about in this
6 area, did you do any investigation, among the Staff
7 who are in charge with dealing with
8 telecommunications matters, to determine what Staff
9 was recommending in connection with access charge
10 reductions for other carriers?

11 A. In regards to the specific exhibit, I had a
12 brief conversation with Dr. Blackmon.

13 Q. Okay. And is it your understanding that,
14 with respect to CenturyTel, the Staff was
15 recommending that there be rate rebalancing
16 commensurate with access charge reductions for
17 CenturyTel?

18 A. Our discussion didn't really -- that wasn't
19 the focus. The focus was what is -- what a third
20 party, the Public Counsel stated in the letter, so
21 the specific points of the letter. It wasn't -- it
22 wasn't the particulars of any rate rebalancing scheme
23 or method.

24 Q. Okay. Was there -- is there any reason, or
25 did Dr. Blackmon tell you anything about the

0489

1 circumstances surrounding this letter that indicates
2 that this letter was not accurate in terms of
3 conveying a position that was at least under
4 consideration between CenturyTel and Commission
5 Staff?

6 A. My recollection is that talks had been going
7 on with CenturyTel in regards to this particular
8 topic, but nothing's been filed and the Commission
9 hasn't acted on anything, because there isn't a
10 filing.

11 Q. Okay. I understand, but those talks that
12 you've just referred to, they dealt with the issue of
13 access charge reductions and rate rebalancing;
14 correct?

15 A. Yes.

16 Q. Now, let me just ask you if you have read
17 Order Number Five in this case?

18 A. Yes.

19 Q. And would you agree with me -- or strike
20 that.

21 Could you read the last sentence of
22 Paragraph 20, please?

23 A. Could you give me the exhibit number?

24 Q. Actually, this is -- because it's in this
25 case, this has not been marked as an exhibit.

0490

1 A. I have it. Just a moment. Which
2 paragraphs?

3 Q. Paragraph 20.

4 A. Do you want me to read it; is that --

5 Q. The very last sentence, please, if you can
6 just read it into the record.

7 A. Okay. Sure. We find it appropriate to
8 consider the company's need for interim rate relief
9 based on a Washington intrastate basis only and to
10 determine whether the level of its intrastate
11 revenues constitutes a gross inequity justifying
12 interim relief.

13 Q. Okay. I take it, then, that the Commission
14 -- strike that.

15 Given that pronouncement, then, with respect
16 to your testimony and your exhibits, the Commission
17 should only consider what you state with respect to
18 Verizon's intrastate operations; isn't that true?

19 A. No, I don't agree with that, because you
20 asked me earlier if I read the whole order, and I
21 did, and if you look at Paragraph 31, it suggests
22 that financial distress is one factor to consider,
23 but so is gross inequity, based on intrastate
24 operations, and that all relevant factors should be
25 determined.

0491

1 Q. Okay. And so -- but you don't disagree with
2 the Commission's statement at Paragraph 20 that
3 you've just read, do you?

4 A. It says what it says in the order.

5 Q. Okay. Now, on page 15, you do talk a lot
6 about this concept of gross hardship and gross
7 inequity.

8 MR. TROTTER: Excuse me, Counsel, page 15 of
9 her testimony?

10 MS. ENDEJAN: Yes, page 15 of her testimony,
11 which is Exhibit 121.

12 THE WITNESS: Yes, I do.

13 JUDGE WALLIS: 121.

14 CHAIRWOMAN SHOWALTER: Oh.

15 MS. ENDEJAN: It's her direct testimony.
16 Well, it's her only testimony.

17 THE WITNESS: 121, 121.

18 Q. Right. Page 15, Exhibit 121. All right.
19 On page -- starting on line nine, you state, quote,
20 The analysis could include looking at non-regulated
21 or non-jurisdictional operations if events or
22 activities at those corporate levels would adversely
23 affect the utility's ratepayers. Do you see that?

24 A. Yes.

25 Q. Now, would you agree with me that Verizon's

0492

1 -- Verizon Wireless's operations are
2 non-jurisdictional? They're not subject to the
3 jurisdiction of this Commission?

4 A. For the purpose of setting rates, yes.

5 Q. Okay. Well, the Commission -- all right.
6 Would it be your testimony that -- assume a
7 hypothetical for me. Assume that Verizon Wireless's
8 financials are very bad and that Verizon Wireless is
9 not making any money whatsoever. Is it your
10 testimony that the Commission could consider raising
11 Verizon Northwest's rates if Verizon Wireless was in
12 a financial crisis?

13 A. It's my testimony that the Commission should
14 consider the realities of how a multijurisdictional
15 company finances, and to the extent that the total
16 company is the company which is doing the financing
17 and it has, say, for example, a debt coverage ratio
18 of, say, two times interest, and that's based on
19 earnings from all the jurisdictions within that
20 company, and if it's significant enough that Verizon
21 Northwest now cannot meet a significant construction
22 need for its intrastate ratepayers and not provide
23 service because it can't get debt because part of
24 that earnings that goes toward that interest coverage
25 ratio is not being met, then I think the Commission

0493

1 should at least consider what the Washington
2 intrastate ratepayers share when it comes to setting
3 rates might be for such an emergency.

4 Q. Okay. But if I understand your answer
5 correctly, really, the Commission's emphasis should
6 be on intrastate rates and intrastate ratepayers.
7 Would that be correct?

8 A. I think the Commission's emphasis in interim
9 relief is to see if there has been a need that is
10 greater than a need that's generally put in a general
11 rate case and evaluate that with an objective
12 criteria like the need to finance, and this is just
13 an example of how, in the real world, with this
14 company, it's not as simple as carving out just
15 intrastate.

16 Q. Would it be simpler if Verizon simply spun
17 off Verizon's Washington intrastate operations and
18 just said, Go, you're on your own?

19 A. Verizon could do that, but they choose to
20 have it as part of the company that it's in.

21 Q. Well, assume, for a hypothetical, that
22 Verizon Communications did that.

23 A. Mm-hmm.

24 Q. And even -- and assume, under that scenario,
25 that Verizon's stand-alone company is earning the

0494

1 rate of return that Verizon claims of negative
2 four-seven.

3 A. Okay.

4 Q. Under those circumstances, do you think it
5 would be appropriate for the Commission to grant the
6 stand-alone company interim relief?

7 A. And when you say the stand-alone, just the
8 intrastate operations?

9 Q. Right. We've spun it off. We've made it
10 easy for the Commission to decide this issue.

11 A. Again, you're not looking at it in a vacuum
12 of just what the return is. The Commission has said
13 in many orders that a negative return is not
14 sufficient. You are looking to see if the need is,
15 in the near term, is greater than the need that you
16 would prove in a general rate case, you're evaluating
17 it with an objective criteria, such as the need for
18 financing in the short term, and then, the thing that
19 hasn't been done here, you aren't -- you are tying
20 the result of what the interim relief brings you,
21 higher rates, to the ability to do that financing to
22 put the project in place that keeps service to the
23 ratepayer. So you would have to meet other factors
24 besides just the negative return --

25 Q. Okay.

0495

1 A. -- on a stand-alone basis, as well.

2 Q. You've read Dr. VanderWeide's testimony, I
3 take it?

4 A. Yes, I have.

5 Q. Okay. And Dr. VanderWeide discusses a
6 number of financial factors for Verizon's intrastate
7 operations; correct?

8 A. He does.

9 Q. And consider -- and were those -- those
10 financial indicators for Verizon's intrastate
11 operations indicated that, on a stand-alone basis,
12 the company would not qualify for investment grade
13 bonds; correct?

14 A. That's his conclusion. I think that Staff
15 might have a different conclusion.

16 Q. Okay.

17 A. Certainly, not all of those indicators fall
18 --

19 Q. Okay.

20 A. -- within those median ratios. Plus he
21 doesn't mention that Verizon, on a stand-alone basis,
22 he imputed or took a share of the debt -- or of the
23 equity at 62 percent equity. This is a company, even
24 on a stand-alone basis, that has a lot of equity in
25 its capital structure.

0496

1 Q. So basically, is it your testimony in this
2 case that, given the financial ratios and the
3 financial indicators before this Commission, that if
4 Verizon were on a completely separate stand-alone
5 intrastate basis, it still shouldn't qualify for
6 interim rate relief?

7 A. Yes.

8 MS. ENDEJAN: Thank you.

9 JUDGE WALLIS: Does that conclude your
10 examination?

11 MS. ENDEJAN: That concludes my examination.

12 JUDGE WALLIS: Very well. Let's be in
13 recess, please.

14 (Lunch recess taken.)

15 JUDGE WALLIS: Let's be back on the record,
16 please. I would like to acknowledge a couple of
17 administrative matters before we get into the
18 questions from the Bench. One is that I have asked
19 the parties to be sure that they have provided the
20 records center with a copy of the documents that they
21 have provided during the hearing as exhibits on
22 cross, and by that I mean a single original for the
23 file and, if it is a confidential document, the full
24 original on yellow paper, plus a redacted version.

25 I've also asked the parties to begin

0497

1 discussions among themselves relating to the parties'
2 recommendations for an outline for the briefs that
3 will be due on the 27th.

4 With that, let's return to the examination
5 of Ms. Folsom, and I believe we are starting now with
6 questions from the Bench.

7

8 E X A M I N A T I O N

9 BY CHAIRWOMAN SHOWALTER:

10 Q. Okay. I'd like to pick up with the question
11 that was just read and responded to. My question is
12 why did you -- why would --

13 A. Verizon?

14 Q. -- a stand-alone intrastate company that
15 looked just like Verizon's intrastate operations not
16 be entitled or likely to be entitled to interim
17 relief?

18 A. First of all, I think, when you say looked
19 just like, I would look at it the way Staff presents
20 the way the stand-alone company looks just like. I
21 just want to make sure I'm on the same basis. Or do
22 you want me to -- I mean --

23 Q. Well, let's take both.

24 A. Okay.

25 Q. Do you have an exhibit that you want to

0498

1 refer to?

2 A. Mine would be -- the way Staff has presented
3 it is in Ms. Strain's testimony, with PMS Exhibit --
4 I can give you a reference in just a second.

5 Q. Let me direct you to Exhibit 143, page four.
6 Do you have that exhibit?

7 A. Yeah, just a sec. It actually doesn't make
8 a large amount of difference either way; I just
9 wanted to make sure what your question -- which way
10 -- when you stated the question, if you meant the way
11 the company presented it or the way Staff presents
12 it.

13 Q. Well, let's just take both of them, or each
14 of them.

15 A. And it's actually -- I have it referred to
16 Exhibit 142. And Ms. Strain's Column L shows a
17 positive return of 2.09 percent.

18 Q. All right. So --

19 A. And then, additionally, she speaks to cash
20 flow analysis that she did on the results for the
21 intrastate operations.

22 Q. Is Exhibit 142 intrastate only, page one?

23 A. Yes.

24 Q. It is, okay. All right. So --

25 A. Coupled with her analysis of cash flow that

0499

1 she speaks to in her testimony as being adequate at
2 the intrastate level.

3 Q. Okay. And by adequate, then, is it your
4 testimony that, as long as -- well, if rate of return
5 is above zero and there is adequate cash flow, is
6 that your threshold for whether interim relief is
7 owed or due?

8 A. My threshold would be if there isn't a need
9 for financing in the short term pending the general
10 rate case and if there's sufficient cash flow to meet
11 operational needs, construction needs, and pay your
12 current interest expense, then there is -- and there,
13 in this case, hasn't been a demonstration that the
14 relief gets -- alleviates what the distress is, there
15 hasn't been that connection either, then relief isn't
16 warranted.

17 And you know, I can direct you to PNB Four,
18 for example, where it talks about discussing all
19 financial indicators together with the utility's need
20 to obtain financing to construct, you know, necessary
21 plant for telecommunications service, for example.

22 Q. All right. Are you taking the PNB standards
23 as prescriptive, that is, those factors haven't been
24 met; therefore, interim relief is not appropriate?

25 A. No.

0500

1 Q. Okay. Are you taking the PNB factors as the
2 correct factors that we should be applying in this
3 case?

4 A. I think the PNB factors have been used a
5 lot, along with other analysis, and it makes sense in
6 this case to at least review them. The company's
7 entire case went point-by-point through each factor
8 and Staff responded appropriately to their case, as
9 well as I think it makes sense that, in my mind, the
10 hardship is that the need that needs to be
11 demonstrated has to be greater than the need that you
12 would otherwise prove in a general rate case, and
13 what is the objective criteria that you might use to
14 determine that.

15 And certainly the PNB factor suggests a need
16 to finance in the short term that you can't otherwise
17 do because of your financial indicators, such as a
18 debt or a debt coverage ratio that you can't meet,
19 that you need to have additional earnings to do that
20 for a project that can't be deferred, because you're
21 asking ratepayers to give up sort of the full, as
22 we've heard a lot of discussion by Mr. King earlier,
23 the full, you know, thorough analysis that you might
24 get in a general rate proceeding.

25 Q. Yes, but on that score, that because --

0501

1 because interim rate relief could be subject to
2 refund, that final determination can still be made,
3 or do you not regard the refundability as meaningful?

4 A. I don't think the refund -- my opinion is
5 the refundability is not a meaningful, in a sense,
6 mitigating factor. If an emergency exists or a
7 significant gross hardship exists, the Commission
8 might very well just order the rates to be in place
9 to meet that emergency.

10 Q. All right. Now, I want to -- the cases
11 we've had in the past have been about -- or the claim
12 is that the company --

13 A. Mm-hmm.

14 Q. -- the regulated company is in financial
15 distress. And in this case, I don't think the
16 company is claiming that, overall, Verizon Northwest
17 is in that kind of distress, although it's claiming
18 that different parts of it are in distress.

19 A. I think the other case is the total company
20 also is in distress.

21 Q. Yes.

22 A. That's all of them.

23 Q. That's my point, that's my point. That
24 those cases did involve a claim of total company
25 distress. Now we have in front of us a different

0502

1 type of claim, and so I think one question is that
2 type of claim, which has been variously characterized
3 here, but let's say the aspect that I am interested
4 in is this issue of gross inequity. That is, whether
5 Washington intrastate is not paying its fair share,
6 however one might characterize that, and whether that
7 and that alone ought to be. Not in light of past
8 cases, because past cases have not been about that,
9 but whether if this were the first interim case we
10 had ever seen that walked in the door and the claim
11 was Washington intrastate is well below its
12 authorized rate of return, has been, has downward
13 trends, we're not paying our fair share, I would like
14 to isolate that.

15 And what I seem to understand from you is
16 that you would think, No, you would not grant that
17 type of relief, really under any circumstances,
18 absent a showing of company financial distress of
19 some degree?

20 A. Or absent the intrastate operation's
21 financial distress, coupled with a need for
22 financing, and also a demonstration that the relief
23 that is granted to the company cures whatever the
24 financial distress is, or whatever the gross
25 inequity, and how it does that. And to the extent

0503

1 that an investment grade rating -- I've heard a lot
2 of discussion about that, that it's not achieving
3 that. If you don't need to finance, and we're only
4 talking about the nine months or eight and a half
5 months, then I don't see the connection between what
6 the relief that is granted, how that cures --

7 Q. Well, but --

8 A. -- the gross inequity.

9 Q. But isn't it -- in the discussion that you
10 just had, you were positing that the relief needed to
11 cure the financial distress, but my example does not
12 involve financial distress, so I would like -- what I
13 take from you is that you think financial distress of
14 a whole company is a necessary -- not necessarily
15 sufficient, but a necessary element. Am I correct
16 there?

17 A. I don't think it's absolutely necessary, no.

18 Q. You don't?

19 A. But I guess my confusion is what is the
20 gross inequity, then?

21 Q. No. Well, we're -- I understood you to say
22 that you believe not only is financial distress of
23 the company a necessary element, but so is a remedy
24 tied to that financial distress?

25 A. Let's start over, maybe. I think that there

0504

1 needs to be a demonstration of the need and how
2 everyone characterized that. If that's gross
3 hardship, gross inequity, et cetera.

4 Q. I don't want to use those words.

5 A. Yeah, that's why I'm trying not to use the
6 -- so a need.

7 Q. Financial need.

8 A. Okay, financial need that is more than the
9 need that you would otherwise see in a general rate
10 case. And certainly, in a general rate case, you
11 would see a company earning less, potentially, than
12 what its authorized return is. So all that what I'm
13 trying to say is that I think you need to tie that to
14 some objective criteria. In this case, I was using a
15 need to finance or an inability to finance based on,
16 for example, financial indicators or a coverage ratio
17 or a variety of other things, that if you granted
18 relief, you would then cure that particular need.

19 Q. Okay. I would like to focus, if you would
20 --

21 A. Okay.

22 Q. -- simply on the element of financial need.

23 A. Okay.

24 Q. Not the remedy --

25 A. Right.

0505

1 Q. -- to serve a financial need; simply
2 financial need.

3 A. Okay.

4 Q. Do you -- is it your opinion that some
5 degree of financial need is necessary -- is a
6 necessary element for interim relief?

7 A. Yes.

8 Q. All right. Now, then you said that you
9 thought the need had to be greater than the need in a
10 general rate case. Did you say that?

11 A. The need including that aspect of financial
12 need, yes.

13 Q. And what do you mean by greater than? What
14 would be an example of a need that was greater than
15 what was then obtained in the general rate case?

16 A. An example, and I hate to go back to the
17 same example, but -- might be that you have a
18 construction project that you need now. This is
19 extraordinary, because you need it now, rather than
20 -- you can't wait for the rate case, for all of the
21 elements of analysis to be done that are normally
22 done, and that -- or certainly that you've had a
23 disaster strike. I mean, I'm -- sort of in the
24 continuum, it could be the emergency is going to
25 happen or has happened. That's obviously bigger than

0506

1 a normal rate case.

2 Q. So the need needs to be remedied before the
3 rate case can be completed. Is that one way to put
4 it?

5 A. For interim?

6 Q. Yes.

7 A. Yes.

8 Q. Okay.

9 A. It would be remedied before the general rate
10 case was completed. The granting of the interim
11 relief, at least -- at least lessens the need or the
12 gross hardship. It may not be -- even the company is
13 not proposing that it's completely cured, for want of
14 a better word, but -- it's because it's bridging that
15 gap between now and then, so it's, I think Staff's
16 proposal would be characterized.

17 Q. So you've -- so assume there is no need that
18 -- well, strike that question.

19 I guess the heart of my question is why is
20 -- why should this Commission deny any interim relief
21 if there is no, you know, pressing need for it, even
22 if, and here's the second part of my question, even
23 if it appears likely that the amount requested will
24 be granted ultimately. This is -- here's an example.
25 The company asks for \$100 million. All parties,

0507

1 under this hypothetical, think that at least 50
2 million will be necessary, and the company asks for
3 40. Why wait in that hypothetical?

4 A. Assuming that all parties agree?

5 Q. Mm-hmm.

6 A. If all parties agree today and it's -- if
7 all parties agree before the rate case even starts,
8 there certainly could be -- it could be stipulated to
9 whatever that agreement is. I mean, I don't think it
10 -- I don't think that their agreement is necessarily
11 predicated on whether the need for interim relief is
12 necessary or not.

13 Q. Well, okay. But if there were a case where
14 the company asks for 100 million, and all parties,
15 having filed their responsive testimony, thought that
16 50 million were appropriate, would you then think,
17 not that the parties should agree or did agree, but
18 would you think that then it would be appropriate to
19 give interim relief of up to \$50 million?

20 A. Not necessarily.

21 Q. Okay. And is the reason that -- would the
22 reason be the company was not in financial distress?

23 A. I think so. I think it's still -- in the
24 general rate case proceeding, even with agreement,
25 you're still going to have to have a presentation of

0508

1 what that means. I mean, there's going to be some
2 evaluation done. I don't -- just having parties say
3 that it should be X amount I don't think's
4 sufficient, whatever that may be, if there's --

5 Q. All right. And so what we're getting down
6 to, I think, is that in your eyes, truly only
7 company-wide financial need of a pressing sort that
8 can only be remedied with interim relief and where
9 there's a need for that prior to general justifies
10 interim relief? Is that --

11 A. Generally, yes.

12 Q. Okay. For a minute, try to think, put your
13 shoes in the -- put your shoes -- your feet in the
14 shoes of other states here. Supposing -- or we could
15 look at it a different way. Supposing we are looking
16 over to Oregon or Idaho or some other state, Utah,
17 where we share a utility, and we see that that
18 commission is not granting relief because the overall
19 utility has enough money to get along without that
20 interim, but that money is, largely speaking,
21 somebody's other than, say, Utah or Oregon. What is
22 -- what is or should be our sense of relationship or
23 harmony to other states with which we share a
24 utility?

25 A. I don't think it really matters in the

0509

1 analysis that I've done. I looked at the ability of
2 this, Verizon Northwest Washington intrastate, I
3 looked at it at all levels, but I also looked at it
4 on a stand-alone basis and basically followed through
5 what we've just previously been discussing, and if it
6 doesn't need relief in the same way, I don't think it
7 matters what's going -- what Oregon and Idaho, Utah,
8 whatever the other state is.

9 I think the same situation, you know, exists
10 if it's a general rate case and they're earning one
11 percent and they didn't come in for interim relief in
12 the -- in that case, as well.

13 Q. Another question on the exhibit you gave,
14 Exhibit 142, this showed the rate of return of 2.09
15 percent. Does this include or not include the Yellow
16 Pages imputation?

17 A. I believe it does, but, really, Ms. Strain
18 created it, so it shows the line on it.

19 Q. What line is that?

20 A. In Column I, and then you follow down.

21 Q. So it appears to.

22 A. Yes.

23 Q. Well, it says directory imputation if you
24 look at that.

25 A. It does.

0510

1 Q. If that column is removed, do you know what
2 the percentage results, i.e., if there is no
3 imputation?

4 A. I could guess, but I didn't do the chart.

5 Q. I'll try to remember to ask Ms. Strain. You
6 said, in a response to a question, that the
7 Commission has stated many times that a negative
8 return does not justify interim relief. I wonder if
9 you meant return below authorized level?

10 A. That's what I meant.

11 Q. Isn't there quite a difference?

12 A. Yes.

13 Q. Doesn't it make a difference to you how far
14 below authorized level, or is it simply as long as
15 the cash is there, the company's fine, or interim
16 relief is not warranted?

17 A. It's that position. I don't -- whether --
18 the magnitude isn't as important to me.

19 Q. What do you say about trends? If the trend
20 is downward, and say we're at zero or close to it and
21 the trend is going further negative, does that make a
22 difference, or should we simply look at the
23 projection of cash flow through a certain period?

24 A. I would say that we would look at the
25 projection of cash flow. Cash is really what the

0511

1 company needs to actually fund operation. I mean,
2 earnings -- obviously, for example, depreciation is a
3 non-cash expense. There are other things in
4 earnings, and you really need to know what the cash
5 is going forward in order to pay your interest on
6 your debt, pay your operational needs, and fulfill
7 your construction budget.

8 Q. So can I reduce this to the proposition that
9 as long as there is cash to cover expenses during the
10 pending rate case, you do not think interim relief is
11 warranted?

12 A. I would say as long as there is not a need
13 to obtain financing in the short term between now and
14 the rate case, and there is sufficient cash, then
15 that would be correct.

16 Q. Okay. And does the cash side of that -- of
17 your statement relate only to intrastate cash or cash
18 from anywhere?

19 A. We've shown it anywhere, but I think it
20 holds true at all -- all levels.

21 Q. I guess I mean to say if there is not cash
22 on an intrastate basis, but there is cash on a
23 company-wide or Washington State inter/intra, then
24 does that -- does that cash suffice?

25 A. It certainly would be a factor that I think

0512

1 would, you know, in this sort of group of factors
2 that we've been looking at that would probably attain
3 a higher level of consideration, certainly.

4 Q. That is, if there were no cash at the
5 intrastate?

6 A. If there were no cash.

7 Q. At the intrastate level?

8 A. Yes.

9 Q. And the reason you feel that that is fair is
10 that, as long as the company doesn't need the money
11 for financing or has the money for financing, that
12 the company and everyone else should await the
13 outcome of the general rate case to make funding and
14 rate and revenue decisions?

15 A. Because I think it's fair -- it's fair to
16 the ratepayers, as well. I mean, I think this is a
17 high bar, higher certainly than -- there's only been
18 20 some cases for interim. It's meant to be, I
19 believe, personally, not easy. It shouldn't just be
20 a matter of routine granting, or at least it hasn't
21 been in this state. We haven't routinely, you know,
22 come in with a lower return, you get interim relief.

23 Q. Well, that's looking at custom and
24 tradition. I'm trying to ask sort of in principle.

25 A. Mm-hmm.

0513

1 Q. Is that it is fair to make the company wait
2 for the outcome of the --

3 A. Yes.

4 Q. -- general rate case in order to get any
5 ultimately justified revenue relief?

6 A. Yes, just like it was fair when they were in
7 an over-earnings position and they weren't -- and
8 they were allowed to keep those revenues, as well. I
9 think it's a balance.

10 Q. Do you think that that balance of above and
11 below, that is, above in times when the company is
12 not coming in, but doing well, and the lag in a
13 general rate case are even and symmetrical in all --
14 in all companies?

15 A. Probably not perfectly, no.

16 Q. Shouldn't we look at an individual company
17 and see how it's been doing? That is, supposing a
18 company came in and it has one month of below zero
19 return, but it expects to make up the difference
20 soon, that that's the extreme case that you think
21 would not justify it, but supposing the company's
22 been in the hole for a few years. Aren't those two
23 situations different when it comes to this offset of
24 --

25 A. I guess --

0514

1 Q. Excuse me.

2 A. Sorry.

3 Q. You need to wait till I finish.

4 A. I'm sorry.

5 Q. When it comes to the offset of the lag
6 versus the stay-out -- that's not the right phrase.
7 No, I can't think of a phrase for when the company's
8 staying out because it's doing well. But isn't it --
9 won't it be the case that sometimes one outweighs the
10 other or that time has worked well, either remotely
11 or in the near term, on one side or the other of that
12 equation?

13 In other words, why is it so compelling to
14 say the company's ability not to come in for a rate
15 case when it does well offsets a lag, and therefore,
16 you know, we should not have interim relief absent
17 the financial need?

18 A. I don't think -- hopefully, that's not
19 exactly what it -- what my preposition was, but it
20 was just simply that that's one of the balancing
21 factors, is that there are times when this -- when
22 companies, all companies -- hopefully, all companies
23 do well at certain periods of time, do higher than
24 what their authorized return is, and then there are
25 many times where they don't do as well and they come

0515

1 in and file a general rate case.

2 And it's that issue of trying to figure out
3 when an interim, without the full analysis that
4 ratepayers will, in fact, have to pay more per month,
5 presumably for higher rates, when that's warranted.
6 And my only point was that there should at least be
7 some weight given to the balance of the over-earning
8 periods and the under-earning periods.

9 Q. Okay.

10 A. That's all I meant.

11 Q. Okay. All right. But if the over-earning
12 periods have been at least four years ago, is that a
13 factor that we should look at?

14 A. We're looking at a variety of factors, and
15 that might be one of the factors.

16 Q. Well, do you agree that the longer the
17 company has been earning, say, well below its
18 authorized rate of return, the less compelling the
19 argument that regulatory lag offsets times, the good
20 times?

21 A. I think it's difficult to say, because you
22 don't know what the magnitude of the over-earning was
23 versus the magnitude of the under-earning. And what
24 we're looking at is the time component. I could
25 probably -- you know, we probably could find examples

0516

1 where the over-earning was huge and the
2 under-earning, while it might have been longer in
3 duration, wasn't nearly to the magnitude that they
4 were when they were over-earning. It's just meant to
5 show that there are times when one happens and times
6 when others happen.

7 Q. Do you think it's appropriate, then, for
8 this Commission to look at what actually has happened
9 to a particular company? That is, how long has it
10 been under-earning, what is the magnitude, what are
11 the projections? Is that appropriate to look at in
12 terms of whether it is or is not an offset for
13 regulatory lag?

14 A. I think you could look at that, certainly.

15 Q. For the purposes of interim rate relief?

16 A. I think it could be a factor, but it's not
17 the factors that I would suggest are the important
18 ones that we should look at.

19 Q. So it's something we can consider, but it's
20 not anywhere near as important as the financial need
21 factor?

22 A. Yes.

23 Q. In a question or an answer to Ms. Endejan, I
24 think you said it was your opinion that the company's
25 only reason, was your words, for asking for interim

0517

1 relief was the Commission's order in the access
2 charge case, and -- first of all, is that what you
3 said?

4 A. I'll agree it's something along the lines of
5 -- a more accurate characterization would have been
6 the main reason the company filed for interim relief.

7 Q. I mean, did you hear Mr. Banta's testimony
8 that it was the triggering event, that is, it was the
9 access charge order that, in the company's view,
10 brought or triggered the intrastate returns to go
11 negative?

12 A. Mm-hmm.

13 Q. And doesn't that imply there were some other
14 events that --

15 A. And that's why --

16 Q. -- upon which the triggering event built or
17 reduced?

18 A. And that's why I correct myself to say I
19 think it's the main reason, but there have been other
20 reasons that have been brought up.

21 Q. Would you characterize it as the proximate
22 event or proximate cause?

23 A. If I was sure what proximate meant.

24 Q. All right. Well, I think the triggering
25 event may be --

0518

1 A. Okay, yes.

2 Q. -- may be the better way to put it. Is it
3 -- I'm not sure if I've asked you this already, and
4 just tell me if I have. Is it your opinion that, for
5 purposes of this preliminary proceeding, which we're
6 in now, we should consider the Yellow Pages revenue
7 when we calculate the company's intrastate financing
8 -- financial figures?

9 A. Yes, I believe Ms. Strain makes an
10 adjustment for that. In her testimony, she states an
11 explanation of why she did that.

12 Q. I'm -- I need to know which witness to ask
13 about the policy issue of whether that's appropriate
14 to include. Is that you or is that Ms. Strain?

15 A. That would be Ms. Strain.

16 Q. Okay. I don't want to miss the questions.
17 I will ask Ms. Strain about Yellow Pages imputation
18 and whether it is appropriate to do so in this case.

19 A. Yes.

20 Q. All right. Oh, I wanted to ask you a little
21 bit about Mr. Butler's creative idea of a deferral
22 account. Do you agree that were we to establish a
23 deferral account, keeping track of potential relief
24 effective at the conclusion of this -- our order in
25 this hearing, but not paid until the general rate

0519

1 case determined that it should be, that that at least
2 takes care of the refund issue?

3 A. It might. I think probably Mr. -- not to
4 point to another witness again, but probably Mr.
5 Zawislak would -- he speaks to rate design and
6 potential different ways you might deal with the
7 refund or -- in that case.

8 Q. Okay. But I assume that you would not think
9 such a deferral was warranted because of your opinion
10 that --

11 A. Right.

12 Q. -- the financial need is not present?

13 A. Right, that's right.

14 CHAIRWOMAN SHOWALTER: Okay. Thank you. I
15 have no further questions.

16

17 E X A M I N A T I O N

18 BY COMMISSIONER HEMSTAD:

19 Q. I have just a few follow-up questions.
20 First, there have been conversations here about the
21 impact of interim relief, whether granted or not
22 granted on the company. Of course, interim relief
23 has an impact on ratepayers who have to pay it now
24 and, if ultimately in the general rate case, if the
25 conclusion is that the interim relief was not

0520

1 justified, as proposed here, there would be a refund.
2 Do you consider that remedy as ultimately making the
3 ratepayers whole?

4 A. Not entirely, because I think that as --
5 refunds are difficult to administer, they're hard to
6 find all ratepayers. I mean, I think experience has
7 shown us it's not that easy to, you know, truly
8 refund everyone, and then the other thing, that they
9 can't -- they've lost the income that they spent for
10 the increased rate during those months that they paid
11 it, and they may get that back eight months from now,
12 but it does mean that they didn't need it in each
13 month up until that point in time.

14 Q. Sure. It reduces their otherwise available
15 discretionary income --

16 A. Exactly.

17 Q. -- because it's a direct extraction from it,
18 even though, ultimately, it may or may not be
19 determined to be justified?

20 A. Right.

21 Q. There have been various questions asked
22 about imputation. I'm correct, aren't I, that
23 however that issue is ultimately decided, that would
24 have no effect upon the cash of the company?

25 A. Right.

0521

1 Q. And that will be an issue, I assume, to be
2 explored in the general rate case?

3 A. There are several witnesses speaking to
4 Yellow Pages in the general rate case.

5 Q. And on that issue, there is now a legitimate
6 dispute?

7 A. Yes.

8 Q. And I assume, in the general rate case, the
9 issue of the allocation of costs between interstate
10 and intrastate Washington will be an issue to be
11 addressed?

12 A. Yes.

13 Q. If that issue is decided different from the
14 position of the company, that would increase the
15 amount of cash that would -- at least as this
16 Commission would see the appropriate books of the
17 company?

18 A. That's right.

19 Q. And we don't know the answer to that now?

20 A. No, we don't.

21 Q. Finally, you were asked by the Chair the
22 question, I'm paraphrasing it, if the company has
23 been in a hole for a few years, shouldn't that be
24 taken into account. Well, if the company is, over
25 some period of time, quote, in the hole, end quote,

0522

1 wouldn't they normally come in for a rate case?

2 A. One would expect them to have come in for a
3 rate case sooner, rather than later.

4 Q. Unless there's some requirement that they
5 have to stay out?

6 A. That certainly might be a mitigating factor,
7 yes.

8 Q. And it would be rather irrational behavior
9 not to come in for a rate case if they are not making
10 their authorized rate of return?

11 A. Yes.

12 COMMISSIONER HEMSTAD: I don't have any
13 other questions.

14

15 E X A M I N A T I O N

16 BY COMMISSIONER OSHIE:

17 Q. Ms. Folsom, just one question. If a company
18 has been over-earning for a number of years and comes
19 in for a general rate case because of a period in
20 which it believes it needs it, is it, under general
21 rate-making principles to the Commission, would this
22 Commission look at those past years of over-earning
23 to decide what its -- what the ultimate rate should
24 be in the general rate case? Do we use, in other
25 words, the over-earnings to offset rates going

0523

1 forward?

2 A. You'd look at the test year, whatever that
3 particular period of time was. So presumably not.

4 Q. And why would that be? Why don't we -- why
5 wouldn't the Commission look at the past historical
6 years to decide future rates?

7 A. That's -- you're setting future rates based
8 on a particular period of time, as near as you can
9 get to the point in time those rates will be in
10 effect.

11 COMMISSIONER OSHIE: No further questions.

12

13 E X A M I N A T I O N

14 BY CHAIRWOMAN SHOWALTER:

15 Q. I forgot to ask you the question I forgot to
16 ask other people. Are you familiar with interim rate
17 doctrine or practices in other state commissions or
18 the FCC or FERC?

19 A. No.

20 CHAIRWOMAN SHOWALTER: Thank you.

21 JUDGE WALLIS: Mr. Trotter, would you prefer
22 to redirect now or after Ms. Endejan asks some
23 questions?

24 MR. TROTTER: I will wait.

25 MS. ENDEJAN: I can make this easy, Your

0524

1 Honor. I don't have any questions.

2 JUDGE WALLIS: Very well. Didn't have to
3 wait very long.

4 MR. TROTTER: Thank you, Your Honor.

5

6 R E D I R E C T E X A M I N A T I O N

7 BY MR. TROTTER:

8 Q. Ms. Folsom, you were asked some questions
9 from Chairwoman Showalter regarding financial
10 distress at the total company level and financial
11 distress at the intrastate level. Do you generally
12 recall those questions?

13 A. Yes.

14 Q. And did Staff, in its testimony and
15 exhibits, look at both?

16 A. Yes.

17 Q. And with respect to the cash flow analysis
18 on the intrastate level, does that -- did Ms. Strain
19 conduct that analysis?

20 A. Yes, she did.

21 Q. And you cite to her conclusion in your
22 testimony, do you not?

23 A. Yes, I do.

24 Q. Could you just tell us what that conclusion
25 was?

0525

1 A. She concluded that, on an intrastate basis,
2 there was sufficient cash available.

3 Q. And does the company have access to the line
4 of credit that's been referred to? I think it's
5 called the fund --

6 A. Funding pool.

7 Q. Funding pool?

8 A. The total company does, yes.

9 Q. And can it use money from that pool to fund
10 its Washington operations, both intra and inter?

11 A. Yes, and in fact, it has been its practice
12 for at least the last couple of years.

13 Q. And is that its anticipated practice --

14 A. Yes.

15 Q. -- in the next couple years?

16 A. Yes.

17 Q. And I'd like to go back now to Exhibit 134,
18 which was the CenturyTel letter, and I think you
19 testified that you're not very familiar with this
20 situation; is that correct?

21 A. Yes.

22 Q. Do you understand that this letter is a
23 letter from Public Counsel?

24 A. Yes.

25 Q. And do you understand that it is in

0526

1 opposition to an alleged proposal for rebalancing?

2 A. Yes.

3 Q. Can you state that Public Counsel's
4 description of the proposal that's contained in this
5 letter is a full and complete and accurate account or
6 description of that proposal?

7 A. No, I cannot.

8 Q. This letter does relate to discussions with
9 CenturyTel by Staff. Are you aware of any similar
10 discussions between Staff and Verizon?

11 A. It's my understanding that there was a rate
12 rebalancing settlement proposal in the access charge
13 complaint case between Verizon and Staff that both
14 parties had entered into that was ultimately not --
15 it was ultimately terminated.

16 Q. Is CenturyTel and -- are CenturyTel and
17 Verizon similarly situated companies?

18 MS. ENDEJAN: Object to the form, Your
19 Honor. I mean, what does similarly situated mean?
20 That covers the waterfront.

21 JUDGE WALLIS: Mr. Trotter.

22 MR. TROTTER: Well, I'll ask the general
23 question, and if the answer requires parameters, I'll
24 supply them.

25 THE WITNESS: It's my understanding, from

0527

1 the conversation that I had with Dr. Blackmon
2 regarding the letter, that Staff doesn't believe that
3 CenturyTel and Verizon are similarly situated.

4 Q. Now, had Verizon included this as part of
5 their direct case, would Staff have had an
6 opportunity to present a witness dealing specifically
7 with this situation?

8 A. Yes.

9 MR. TROTTER: Okay. Those are all my
10 questions. Thank you.

11 CHAIRWOMAN SHOWALTER: I forgot to ask one,
12 I'm sorry, and you may -- Mr. Trotter might wish to
13 take another turn if he needs to.

14

15 E X A M I N A T I O N

16 BY CHAIRWOMAN SHOWALTER:

17 Q. In your opinion, is it more probable than
18 not that Verizon, in the general rate case, will be
19 entitled to at least \$30 million in relief?

20 A. I don't think you can make that conclusion
21 one way or another based on the information today.

22 Q. Are you going to be a witness in that case?

23 A. No.

24 CHAIRWOMAN SHOWALTER: Thank you.

25 MR. TROTTER: May I ask one follow up?

0528

1

2 R E D I R E C T E X A M I N A T I O N

3 BY MR. TROTTER:

4 Q. What will your role be in the general rate
5 case?

6 A. I will be the case manager.

7 Q. So you'll be responsible for assisting other
8 Staff --

9 A. Yes.

10 Q. -- in putting together the case?

11 A. Yes.

12

13 E X A M I N A T I O N

14 BY CHAIRWOMAN SHOWALTER:

15 Q. So are you saying today you have no opinion
16 as to whether the Staff will be recommending at least
17 \$30 million in relief?

18 A. Yes.

19 CHAIRWOMAN SHOWALTER: Thank you.

20 MS. ENDEJAN: Your Honor, I would move for
21 the admission of Exhibit 134 into the record.

22 MR. TROTTER: We're going to object to this
23 document, Your Honor. Number one, it's a Public
24 Counsel letter, not a Staff letter. It refers to
25 discussions that are not described in any detail and

0529

1 that this witness cannot vouch for the accuracy of
2 the description, and I'm advised that the description
3 is wrong, or at least -- I shouldn't say wrong, just
4 not complete or not full and accurate.

5 Secondly, the evidence shows that there was
6 no -- or has to date, at least, been no proposal
7 filed with the Commission that the Commission has had
8 an opportunity to act upon. So its relevance has not
9 been established, and we'll object on that basis.

10 JUDGE WALLIS: The document has been
11 referred to in the testimony of the witnesses,
12 questions have been asked regarding it. I'm
13 wondering, Ms. Endejan, if it would be sufficient for
14 your purposes if the document were received not for
15 the truth of the content, but for the context in
16 which the questions were asked and answered?

17 MS. ENDEJAN: That would be fine.

18 JUDGE WALLIS: Mr. Trotter, would that meet
19 your interests?

20 MR. TROTTER: We can accept that, Your
21 Honor.

22 JUDGE WALLIS: Very well. The document is
23 received. Is there anything further for Ms. Folsom?
24 It appears that there is not. Let's be off the
25 record momentarily while Ms. Strain comes to the

0530

1 stand.

2 (Discussion off the record.)

3 JUDGE WALLIS: Let's be back on the record,
4 please. Commission Staff has called to the stand at
5 this time its Witness Paula M. Strain for examination
6 on her proposed exhibits, and in conjunction with her
7 appearance, the Commission Staff and the company have
8 submitted documents which have been pre-numbered as
9 Exhibits 141 through 163. I'm going to ask the court
10 reporter to identify those documents in the record at
11 this point in the record.

12 (The following exhibits were marked in
13 conjunction with Ms. Strain's testimony:
14 141-T, PMS-1T, Direct Testimony, 40 pages,
15 Including Revised Page 13 (8/4/04); 142,
16 PMS-2, Accounting Exhibit, eight pages; 143,
17 PMS-3, Comparison of Revenues and Expenses,
18 eight pages; 144, PMS-4, Staff Calculation
19 of Financial Ratios, Capital Structure,
20 Summary of Results of Operations, six pages;
21 145, PMS-5, Verizon Response to Staff DR No.
22 203, two pages; 146, (Verizon) Heuring
23 Workpapers, Schedules Page 1-12, 11 pages;
24 147, (Verizon) Strain Workpapers PMS-2, five
25 pages; 148, (Verizon) Direct Testimony of

0531

1 Dennis Trimble, 29 pages; 149, (Verizon)
2 Staff Responses to Verizon DR Nos. 1-17, 65
3 pages; 150, (Verizon) Verizon Responses to
4 PC DR No. PC-3, 48 pages; 151, (Verizon)
5 Interim Rate Relief Chart, one page; 152,
6 (Verizon) Verizon Response to Staff DR No.
7 7, 11 pages; 153, (Verizon) Verizon Response
8 to Staff DR No. 11, one page; 154, (Verizon)
9 Verizon Response to Staff DR No. 18, one
10 page; 155, (Verizon) Verizon Response to
11 Staff DR. No. 19, one page; 156, (Verizon)
12 Verizon Response to Staff DR No. 41, one
13 page; 157, (Verizon) Verizon Response to
14 Staff DR No. 66, four pages; 158, (Verizon)
15 Verizon Response to Staff DR No. 221, one
16 page; 159, (Verizon) Verizon Response to
17 Staff DR No. 204i, 16 pages; 160, (Verizon)
18 WAC 480-07-510, three pages; 161, (Verizon)
19 Excerpt from FCC 99-227, three pages; 162-C,
20 (Verizon) Attachment B, VZ WA IAS Toll
21 Market Share (Confidential), two pages; 163,
22 (Verizon) Exhibit No. 165, UT-020406, ARMIS
23 Analysis, four pages; 164, (Staff) Errata to
24 Ms. Strain's testimony.)
25 JUDGE WALLIS: In addition, Commission Staff

0532

1 today distributed a document relating to Ms. Strain's
2 testimony entitled Errata, which contains corrections
3 to her Exhibit Number 141-T and to Cross-examination
4 Exhibit Number 43. I'm marking that document as 165
5 for identification. Mr. Trotter.

6 MR. TROTTER: Your Honor, I think that was
7 164.

8 JUDGE WALLIS: 164, thank you.

9 MR. TROTTER: Has the witness been sworn?
10 Whereupon,

11 PAULA M. STRAIN,
12 having been first duly sworn, was called as a witness
13 herein and was examined and testified as follows:

14

15 DIRECT EXAMINATION

16 BY MR. TROTTER:

17 Q. Please state your name for the record.

18 A. My name is Paula M. Strain.

19 Q. State your business address.

20 A. 1300 South Evergreen Park Drive, S.W.,
21 Olympia, Washington.

22 Q. And you are employed by the Commission in
23 what capacity?

24 A. I'm employed by the Commission as a
25 telecommunication expert on the telecom staff.

0533

1 Q. And in that capacity, did you have cause to
2 prepare testimony and exhibits in this case?

3 A. Yes, I did.

4 Q. Exhibit 141-T is your direct testimony?

5 A. Correct.

6 Q. And assuming the -- that exhibit is changed
7 to reflect the changes in Exhibit 164, your errata,
8 if I asked you the questions that appear there, would
9 you give the answers that appear there?

10 A. Yes, I would.

11 Q. In the course of that testimony, you refer
12 to Exhibits 142 through 145, which you are sponsoring
13 as exhibits?

14 A. Yes, I am.

15 Q. And to the extent you prepared those
16 exhibits, are they true and correct, to the best of
17 your knowledge?

18 A. Yes.

19 Q. And to the extent they are company responses
20 to Staff data requests, is it a true and correct copy
21 of the response?

22 A. Yes.

23 MR. TROTTER: I move for the admission of
24 Exhibit 141-T and Exhibits 142 through 145, and the
25 errata, 164.

0534

1 JUDGE WALLIS: Is there objection?

2 MR. TROTTER: The witness is available for
3 cross-examination.

4 JUDGE WALLIS: There being no objection, the
5 exhibits are received. Ms. Endejan.

6 MS. ENDEJAN: Thank you, Judge Wallis.

7

8 C R O S S - E X A M I N A T I O N

9 BY MS. ENDEJAN:

10 Q. Good afternoon, Ms. Strain.

11 A. Good afternoon.

12 Q. I think you know me, but my name is Judy
13 Endejan, I represent Verizon. Let me just ask you
14 some threshold questions here. Do you understand
15 here that Verizon is only asking for interim relief
16 in an amount equal to the access charge reductions
17 ordered in the access charge order?

18 A. Yes.

19 Q. Okay. And do you understand -- strike that.

20 Were you here to hear Mr. Banta's testimony
21 this morning with respect to -- in response to
22 questions from Chairwoman Showalter about the fact
23 that the access charge order was, quote, the
24 triggering event that precipitated Verizon coming in
25 here to ask for rate relief?

0535

1 A. I understand that that's his position.

2 Q. Okay. And is it -- is that your
3 understanding of the company's position with respect
4 to why it is here before the Commission asking for
5 relief?

6 A. That's my general understanding, yes.

7 Q. All right. On page five, lines four through
8 six of your testimony, which is Exhibit 141, I'll let
9 you get to that.

10 A. I'm there.

11 Q. Thank you. You state that your analysis
12 also indicates that there may be reasons for the
13 decline in Verizon Northwest's intrastate revenues
14 and return that are within the control of the company
15 and its corporate parent. Do you see that?

16 A. That's correct, yes.

17 Q. Okay. Do you understand that the company is
18 not asking for interim rate relief to address
19 intrastate revenue reductions that may be due to,
20 quote, other reasons for the decline of their
21 revenues that would be within the control of the
22 company, as you state on page five of your testimony?

23 A. I understand what the amount is that the
24 company is requesting. And whether that amount goes
25 toward curing the access charge reduction deficiency

0536

1 or any other deficiency is up to the company.

2 Q. Okay. Now, you are basically the finance
3 witness here, in terms of presenting the numbers for
4 the Staff; correct?

5 A. That's correct.

6 Q. Okay. And you did a calculation of what you
7 thought would be the company's rate of return based
8 on some adjustments that you made; correct?

9 A. That's correct.

10 Q. And that rate of return was 2.09 percent?

11 A. That's correct.

12 Q. All right. And let me ask you if your
13 Exhibit 142, page one, would reflect your analysis
14 with respect to how you got to that 2.09 percent rate
15 of return. It would be PMS-2, Exhibit 142, page one.

16 A. And you're asking me whether it shows my
17 analysis?

18 Q. Right. Does this show your analysis in
19 terms of how you ultimately calculated the 2.09?

20 A. I don't have the formulas shown here. The
21 electronic copy did have all my formulas in it.

22 Q. Okay. But this document, and I'm referring
23 to Exhibit 142, page one, reflects Verizon's restated
24 results of operations as adjusted by you; correct?

25 A. That's correct.

0537

1 Q. Okay. So would it be fair to say that, as a
2 starting point, you accepted Verizon's restated
3 results of operation, but then you just went on and
4 made five additional adjustments?

5 A. That's correct.

6 Q. All right. And --

7 A. For purposes of the interim. Let me just
8 make that really clear.

9 Q. Okay. But in the course of your work for
10 the interim, you had available to you the company's
11 entire April 30th, 2004 filing, did you not?

12 A. Yes, I had their filing and their work
13 papers.

14 Q. Okay. So you did have an opportunity to
15 examine the financial data submitted in connection
16 with the general rate case; correct?

17 A. I had an opportunity to review the work
18 papers that were submitted by the company, which, in
19 the case of the restating adjustments, were somewhat
20 cursory.

21 Q. Okay.

22 A. And we will be having further conversations
23 with the company as the general rate case proceeds in
24 order to further analyze those adjustments.

25 Q. Sure, I understand. And the Commission has

0538

1 had the -- or the Staff has had the opportunity to
2 submit data requests to Verizon in the interim case,
3 has it not?

4 A. That's correct.

5 Q. And would you accept, subject to check, and
6 this may have changed since yesterday, that the Staff
7 has asked 97 data requests to date in the interim
8 case of Verizon?

9 A. I'll accept it subject to check.

10 Q. Okay. And to date -- again, I haven't
11 checked it since yesterday -- the Staff has asked 160
12 data requests for the general case?

13 A. I'll accept that subject to check.

14 Q. Okay. Let's go back to the first page of
15 Exhibit 142, and I want to ask you some questions
16 about the adjustments that you made, okay. Now, the
17 first adjustment that you made appears in Column F;
18 correct?

19 A. Right.

20 Q. And the net effect of that was to reduce
21 Verizon's operating expenses; correct?

22 A. That's right.

23 Q. Okay. And the second adjustment that you
24 made, which is in Column G, increased Verizon's
25 operating revenues; correct?

0539

1 A. It decreased the uncollectable provision,
2 which is an offset to revenues, so the ultimate
3 effect of it was an increase to the revenue amount.

4 Q. Okay. And if you go to the next adjustment,
5 which appears in Column I, that's the directory
6 imputation adjustment. And just so we can clarify
7 it, does that mean the Yellow Pages adjustment?

8 A. That's right.

9 Q. Okay. And that adjustment also increased
10 the company's operating revenues; correct?

11 A. Right.

12 Q. And the third adjustment basically also
13 contributed to net operating income?

14 A. Are you talking about Column J?

15 Q. Column J, yes.

16 A. Column J increases net operating income, it
17 also increases rate base substantially.

18 Q. Right.

19 A. I think the net effect of that adjustment
20 would be in a decrease in return.

21 Q. Okay. Now, the final one is the only one
22 where, in effect, you made an adjustment that -- or
23 maybe I'm reading this backwards. I apologize here.
24 You have made an adjustment that reduces net
25 operating income; correct?

0540

1 A. That's right.

2 Q. Okay. So you selected five adjustments, but
3 when you did that, in the course of that, did you
4 have available to you the company's work papers that
5 indicated, quote, pro forma adjustments for the
6 general rate case?

7 A. Yes.

8 Q. And if you could turn to Exhibit 146,
9 please? Now, page one of 146 indicates, or it says
10 in the upper left-hand corner it's a pro forma
11 summary. Does this appear to be the summary of the
12 pro forma adjustments made by the company in the
13 general case?

14 A. Yes.

15 Q. And it shows several pro forma adjustments.
16 Now, did you take any of the type of pro forma
17 adjustments from this page and use it in connection
18 with your analysis that appears on page one of
19 Exhibit 142?

20 A. No, I did not.

21 Q. So you did not consider any of the pro forma
22 adjustments, but you just made what you considered --
23 what would you consider them? You called them,
24 quote, smoothing out adjustments?

25 A. Well, I considered the adjustments that I

0541

1 made restating adjustments.

2 Q. Okay. And so is there a difference between
3 a smoothing out and a restating adjustment?

4 A. The purpose or the result of a restating
5 adjustment is to smooth out the test year.

6 Q. Okay. With all of your adjustments, you
7 come up with a 2.09 percent rate of return. Do you
8 know what the company's authorized rate of return is?

9 A. 9.76.

10 Q. And how many basis points? What's the
11 difference in basis points between authorized and
12 your calculation of rate of return?

13 A. That would be 7.67.

14 Q. Okay. Or 767?

15 A. 767 basis points.

16 Q. Correct. Now, are you familiar with the
17 cases where the Commission has granted interim relief
18 in other rate cases? Let me rephrase the question.
19 Have you read the other cases where the Commission
20 has granted interim rate relief?

21 A. I've read some of the other cases.

22 Q. So --

23 A. I don't think I've read all 20 or 21 of
24 them.

25 Q. Okay. Well, if I could direct you to

0542

1 Exhibit Number 151?

2 A. I'm there.

3 Q. Okay. And I would state that this is
4 subject to check. This reflects a listing of all of
5 the interim rate relief decisions where relief was
6 granted. Do you see that?

7 A. I'll accept that subject to your check.

8 Q. Thank you. And just -- can you tell me, if
9 you can, which cases you might have reviewed in
10 connection with your work in this case?

11 A. I reviewed all of these cases.

12 Q. Okay. So would it be fair to say, from
13 looking at Chart Number 151, that there have been
14 instances where the Commission has granted interim
15 relief where the rate of return has been positive?

16 A. Yes, they considered the rate of return
17 along with numerous other factors in those cases.

18 Q. Now, it's not Staff's position, is it, that
19 there has to be a negative rate of return in order
20 for a company to qualify for interim rate relief, is
21 it?

22 A. It's not my position.

23 Q. Okay. And so would it be your position that
24 a slightly positive rate of return might be something
25 that could warrant granting interim rate relief?

0543

1 A. Well, I think Ms. Folsom ably told you what
2 the Staff position is on the issue and what factors
3 are important to look at for interim rate relief.

4 Q. Okay.

5 A. And all I can do is just, you know, endorse
6 the factors that she testified to.

7 Q. Okay. Would you agree with me, though, even
8 by your calculations, 2.09 percent is a pretty low
9 rate of return for a company to earn on an intrastate
10 basis?

11 A. It's definitely below their authorized rate
12 of return, yes.

13 Q. Okay. Now, you made an adjustment in Column
14 I for directory imputation. Was your calculation
15 based on the Yellow Pages formula that was developed
16 for US West in the last rate case?

17 A. Yes, it was.

18 Q. Okay. And have you read Exhibit 148, which
19 is the testimony of Dennis Trimble that was filed in
20 the general rate case by Verizon?

21 A. I know I looked through it once. I've not
22 -- you know, I looked through it once. It was a
23 cross exhibit for me, and I think I read through it
24 when it was filed.

25 Q. Okay. And I understand that you've got

0544

1 quite a bit of background with respect to at least US
2 West's Yellow Pages imputation; correct?

3 A. I'd say that's correct.

4 Q. All right. Now, would it be fair to say
5 that, from your understanding of the US West Yellow
6 Pages imputation, that the Commission included Yellow
7 Pages revenues in US West's revenue requirement for
8 several reasons, and I'll go through them sort of
9 seriatim.

10 Would you agree that the first reason was
11 that the Commission considered US West's directory
12 operations to have been part of US West's regulated
13 operations that had been included historically in the
14 rate base?

15 A. I think that's one reason.

16 Q. Okay. Was it fair to say that the
17 Commission considered US West's directory operations
18 to be, quote, a regulatory asset?

19 A. I would have to take a look at what their
20 order is or ask you to refer me --

21 Q. Okay.

22 A. -- to a Commission document where they said
23 that.

24 Q. Well, I'm just asking you, because I believe
25 you've testified that you've worked on several of

0545

1 these Yellow Pages rate cases, and I'm just asking
2 you for your general recollection of the rationale
3 that the Commission put forth with respect to
4 imputing Yellow Pages revenues?

5 MR. TROTTER: Your Honor, I'm going to
6 object. In fairness to the witness, if she has an
7 order, she should present it. This shouldn't be
8 cross-examination by stealth, and she should be
9 afforded the chance to look at the document if she's
10 going to get into specific reasons. I'll object
11 unless and until the document's provided.

12 Q. Okay. Just bear with me. Well, for the
13 sake of moving on, I can't find it at the moment, but
14 are you aware that US West spun off its directory
15 operations?

16 A. Yes, I'm aware that -- I'm aware that there
17 are some distinctions between US West and Verizon, or
18 former GTE.

19 Q. Okay. And would you say that the -- or a
20 key distinction was that Verizon directory companies
21 was never part of Verizon Northwest or its
22 predecessor?

23 MR. TROTTER: I'll object to the question.
24 The key for -- the question is ambiguous. Key for
25 what purpose? Because imputation may be appropriate

0546

1 under, for example, the affiliate interest statute,
2 which does not require prior ownership by a utility,
3 and so the word key is key here. So if Counsel could
4 please explain what key means. We certainly can
5 grant there is a distinction, but whether it is key
6 or not is the critical point.

7 JUDGE WALLIS: Ms. Endejan.

8 MS. ENDEJAN: Your Honor, in response to Mr.
9 Trotter's speaking objection, let me point out that
10 I'm questioning the witness clearly about the area of
11 Yellow Pages imputation, and if it's not clear to the
12 witness, I'll be happy to rephrase the question. I
13 use the term key in connection with Yellow Pages
14 imputation. You think you understand that?

15 JUDGE WALLIS: Does the witness understand
16 the question?

17 THE WITNESS: Yes.

18 Q. Okay. So would it be fair to say that a key
19 distinction between the situation of US West and
20 Verizon is -- for Yellow Pages imputation purposes,
21 is the fact that Verizon Directory Company was never
22 part of Verizon Northwest or its predecessors?

23 A. No. To me, that's not at all a key
24 distinction.

25 Q. Okay. I believe you said that you looked at

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1 Exhibit 148. And if I could direct your attention to
2 what has been -- page 23?

3 A. Is this the circled numbers at the bottom
4 there?

5 Q. That's what I'm trying to figure out. I
6 think I may have, in my attempt to try to make things
7 helpful, I may have made things more confusing here.

8 CHAIRWOMAN SHOWALTER: Just tell us whether
9 you're referring to the circled numbers or the typed
10 numbers.

11 MS. ENDEJAN: I'm referring to the typed
12 number, and I apologize.

13 THE WITNESS: Twenty-three?

14 MS. ENDEJAN: Yes.

15 CHAIRWOMAN SHOWALTER: That's circled number
16 25, for the record.

17 Q. Right, circled number 25, typed page number
18 23. And if I could read what it says there, it says,
19 Beginning with the creation of this organization in
20 1936, VDC, through its precursor companies and
21 operations in Washington, has been totally distinct
22 and separate from any affiliated company providing
23 telephone service. Do you see that?

24 A. I see that testimony.

25 Q. Okay. Do you have any reason to question

0548

1 the factual validity of that statement?

2 A. In terms of organizational structure of the
3 two companies, I don't. In terms of -- when you say
4 totally distinct and separate, there are -- and I
5 guess maybe we can -- you asked me another question
6 about what my opinions are about imputation, and I
7 guess maybe we could go there, but the reason that I
8 don't think there's a distinction is that imputation
9 is a mechanism for recognizing inadequate
10 compensation from one affiliate to the other, and
11 whether the regulated company owns the assets and is
12 not getting compensated for use of those assets or
13 whether the separate affiliate owns the publishing
14 assets but is not compensating the regulated company
15 for the unrecognized intangibles that the regulated
16 company imparts to the publishing company, you would
17 still need to impute to somehow recognize that the
18 compensation is not adequate to the regulated
19 company.

20 Q. Well, let me ask you this, Ms. Strain. Is
21 it your understanding that the directory's publishing
22 business is deemed, at least by the FCC, to be a
23 fully competitive business?

24 A. Yes.

25 Q. Okay.

0549

1 A. Yes.

2 Q. And do you understand that Verizon has a
3 contract now with its directory affiliate whereby it
4 charges subscriber line information by the charges
5 established by the FCC?

6 A. Yes, I do understand that the subscriber
7 listing rates are imposed by the FCC. I'm talking
8 about other -- other benefits that aren't being
9 recognized in the current agreement.

10 Q. Okay. Just let me ask you this. Have you
11 reviewed the directory's contract between Verizon
12 Northwest and Verizon Directories?

13 A. Yes, I have.

14 Q. Okay. And that's -- and there are two
15 agreements; correct? A billing and collection
16 agreement and a subscriber line --

17 A. The listing agreement?

18 Q. The listing agreement.

19 A. Yeah, I reviewed the listing agreement, I
20 know, and I'm not sure about the B&C agreement.

21 CHAIRWOMAN SHOWALTER: What is B&C?

22 THE WITNESS: Billing and collection.

23 Sorry.

24 Q. You're not saying that -- or are you saying
25 that somehow Verizon Northwest could force Verizon

0550

1 Directory Companies to be in a contract whereby
2 Verizon Directory Companies would pay to Verizon
3 Northwest more money than it would have to pay to
4 them under the FCC's rules, are you?

5 A. Not as long as they're both owned by the
6 same parent, no. I would like to add that --

7 Q. Well, you know, Ms. Strain, and I'm sure --

8 MR. TROTTER: Your Honor.

9 MS. ENDEJAN: I believe, Counsel, you can
10 redirect her in this area.

11 MR. TROTTER: No way. May I be heard on
12 this, Your Honor?

13 JUDGE WALLIS: Mr. Trotter.

14 MR. TROTTER: Every witness up until now,
15 and particularly the company's witnesses, were given
16 full latitude to give full answers, and I strongly,
17 strongly urge the Commission to allow Staff the same
18 courtesy.

19 JUDGE WALLIS: Ms. Endejan.

20 MS. ENDEJAN: Your Honor, and maybe this is
21 something that should be addressed at some point, but
22 I asked a question and I wanted an answer. And I --
23 if she wants to explain it further, my understanding
24 of the practice is Counsel is free to redirect her on
25 redirect examination if the witness feels that her

0551

1 answer is inadequate.

2 JUDGE WALLIS: In general terms, it's been
3 my experience that the Commission does allow a
4 witness to explain the answer, and I believe that
5 that would be appropriate in this setting, and will
6 overrule the objection and allow the witness to
7 continue.

8 CHAIRWOMAN SHOWALTER: Before you do, I was
9 a little unclear as to what your answer was, because
10 I think the form of the question was you aren't
11 saying, are you, and you said no. And I'm not really
12 sure which way that no went, so perhaps you could
13 just explain what your actual position is.

14 THE WITNESS: My -- and maybe I could get
15 the court reporter to read the question back for me.

16 JUDGE WALLIS: Would the reporter, please?

17 (Record read back.)

18 THE WITNESS: Okay. My answer is that
19 Verizon Northwest, in the current contract, is not
20 compensated for the fact that Verizon Directories is
21 their official publisher or is the publisher of their
22 official Yellow Pages, and that the fact that Verizon
23 Northwest doesn't compete with them is not recognized
24 in the compensation, and my view is that the
25 subscriber -- the publishing fees that the FCC sets,

0552

1 that are definitely at parity with what other
2 publishers pay are one matter, and that these other
3 items are not addressed in that contract and are not
4 prohibited from being addressed by the two companies.

5 And I stand by my statement that Verizon
6 Northwest will never force Verizon Directories to pay
7 it for those items, as long as they're both owned by
8 Verizon Corporation.

9 Q. If Verizon Northwest picked an unaffiliated
10 directory provider, Acme Directories, and it derived
11 the FCC -- or the FCC set rates in payment, would you
12 still insist that Verizon Northwest impute directory
13 revenues to itself?

14 A. Well, if they were -- if they had a contract
15 with them, an arm's length contract with a third
16 party, I'd be shocked if they didn't try and extract
17 from that publisher the value of being the official
18 publisher and the value of not competing with that
19 publisher.

20 And the basis for that is that when we look
21 at other third party transactions that have recently
22 occurred, in which telephone company owners have sold
23 Yellow Page directory publishing businesses, there
24 has been compensation paid in those cases for the
25 rights to publish and for the noncompete agreements.

0553

1 Q. But I didn't hear an answer to my question,
2 Ms. Strain, which was would you still impute
3 directory revenues of some amount to Verizon
4 Northwest if Verizon Northwest had, as its publisher,
5 a completely unaffiliated company doing the
6 publishing, Acme Directories?

7 MR. TROTTER: Your Honor, I'll object to the
8 question until -- because it's ambiguous. It does
9 not say that that contract does not pay -- compensate
10 Verizon Northwest for the things that Ms. Strain is
11 talking about, so we need a further factor, if that
12 contract compensates the company, that's perhaps one
13 thing, if it doesn't, that's perhaps another. So the
14 question's ambiguous, and I'll object on that basis.

15 JUDGE WALLIS: Ms. Endejan, do you want to
16 clarify the question?

17 Q. Let me clarify that. Assume that it was a
18 contract that complied with the FCC's rules and it
19 said that the rates that were to be paid by the
20 unaffiliated Acme publisher and it would be simply a
21 subscriber listing, you know, transaction, and the
22 unaffiliated company would publish the directory, pay
23 the proper FCC charges, and Verizon would distribute
24 it.

25 So under those circumstances, would you

0554

1 still impute directory revenues to Verizon?

2 CHAIRWOMAN SHOWALTER: I'm sorry, but I --
3 maybe this is butting in, but is there or isn't there
4 in this contract a non-compete clause, and is there
5 or isn't there in this contract that this is the
6 official Verizon Yellow Pages?

7 MS. ENDEJAN: Well, could I try it under
8 both scenarios?

9 Q. Assuming that the clauses that Chairwoman
10 Showalter just addressed were in the contract, would
11 that change your analysis, and assume that they
12 weren't in the contract?

13 A. If they were in the contract, then I would
14 look at whether the compensation was adequate for
15 what the company is giving away, and if I were in a
16 rate case and I did not believe that the company was
17 asking for a proper amount of compensation for what
18 it was -- for the value of what it's giving to that
19 publisher, then I would have to question the
20 company's actions in that regard and perhaps make
21 some sort of an adjustment, whether it be based on
22 imputation or whether it be based on comparable fees
23 paid by other publishers to regulated telephone
24 companies that they're not affiliated with, I don't
25 know, but that would be something I would definitely

0555

1 consider.

2 Q. Do you know if today Verizon Directories
3 Company needs the permission of Verizon Northwest to
4 use the Verizon name?

5 A. I don't know if it does or not.

6 Q. And if it did not need Verizon's permission,
7 Verizon Northwest's permission, would that alter your
8 analysis?

9 A. I don't think it would. I think the name
10 Verizon is associated with the local company, and
11 it's associated more with the local company than it
12 is with the Yellow Pages. I don't even think
13 Verizon's Yellow Pages say Verizon in them, but
14 that's not something that I have in front of me here.
15 I didn't expect to have to testify on that today.

16 Q. Did you know -- do you know which company of
17 the Verizon family of companies was the first entity
18 to use the Verizon name?

19 A. I do not.

20 Q. Okay. And would you accept, subject to
21 check, that it was Verizon Wireless?

22 A. I can --

23 Q. Okay. Let me ask you this. Over time,
24 would it be fair to say that the regulated local
25 exchange companies have lost various revenue streams

0556

1 as a result of regulatory changes? And let me give
2 you a for instance. For instance, as a result of
3 regulatory changes, companies that used to sell
4 customer premises equipment, or CPE, no longer book
5 CPE revenues as regulated revenues. Would you agree?

6 A. Oh, yeah.

7 Q. And similarly, for instance, regulated
8 companies used to book inside wire revenues as
9 regulated revenues, didn't they?

10 A. Right, and they had to make adjustments to
11 rate base and expenses to remove those below the
12 line, too.

13 Q. Right, but today they're not regulated
14 revenues; right?

15 A. Right.

16 Q. Okay. Now, the revenues that you impute to
17 Verizon on your Exhibit 142, page one, of
18 twenty-nine-two-forty-one, now, those aren't --
19 that's not actual cash; correct? That's not money
20 that Verizon Northwest will ever receive as a cash
21 payment; correct?

22 A. Not unless Verizon Directories pays it for
23 what it's getting.

24 Q. And to the best of your knowledge, the
25 current contractual arrangement between Verizon

0557

1 Northwest and Verizon directories does not provide
2 for such a payment in that amount; correct?

3 A. No, it does not. It does not.

4 MS. ENDEJAN: Okay. Your Honor, before I go
5 into another line of questioning that will take a
6 bit, would it be appropriate to have an afternoon
7 break?

8 JUDGE WALLIS: Yes, let's take a 15-minute
9 break. We'll return approximately 3:25.

10 (Recess taken.)

11 JUDGE WALLIS: Let's be back on the record,
12 please, following a brief afternoon recess.

13 MS. ENDEJAN: Thank you.

14 Q. Ms. Strain, could you please turn to page 19
15 of your testimony? The bottom half of the page,
16 starting on line 12, you discuss line loss -- line
17 growth losses and the reasons therefore. Do you see
18 that?

19 A. Yes.

20 Q. Okay. And let me also direct your attention
21 to what has been marked as Exhibit 149. Those are
22 Staff's responses to Verizon's Data Requests. Do you
23 see those?

24 A. Yes.

25 Q. Okay. And if you turn to page three, which

0558

1 is Data Request Number 2?

2 A. Okay.

3 Q. Did you prepare this response?

4 CHAIRWOMAN SHOWALTER: I'm kind of lost.

5 Where are you?

6 MS. ENDEJAN: I apologize.

7 CHAIRWOMAN SHOWALTER: You're going kind of

8 fast, especially for this hour.

9 MS. ENDEJAN: Okay. I'll try to go slower.

10 Q. Exhibit 149, and for identification
11 purposes, that's Staff's responses to Verizon's Data
12 Requests. And if you could turn to page three of
13 that exhibit, which is Data Request Number 2, and I
14 just want to ask you, Ms. Strain, did you prepare
15 this response?

16 A. Mr. Trotter wrote it, but it was -- you
17 know.

18 MR. TROTTER: Your Honor, just for the
19 record, this is in the nature -- the response is in
20 the nature of an objection, and that is legal in
21 nature, so that was my responsibility in discussion
22 with Staff.

23 Q. Ms. Strain, but you provided the factual
24 information that is contained within this response?

25 A. The factual information?

0559

1 Q. Being that Staff has not yet fully formed
2 its methods of analysis, the data upon which the
3 analysis, it says --

4 A. Right.

5 Q. And that's your input; correct?

6 A. Yes.

7 Q. Thank you. Now, Verizon Northwest doesn't
8 offer wireless services, does it? Verizon Northwest?

9 A. Not to my knowledge.

10 Q. And would you agree with me that the
11 wireless market is a fully competitive market with
12 many providers?

13 A. It's my knowledge as a lay person, sure,
14 yeah.

15 Q. Okay. So there are other providers in the
16 wireless market other than Verizon Wireless, to the
17 best of your knowledge?

18 A. To the best of my knowledge.

19 Q. Could I also ask you to turn to what's
20 marked as Exhibit 159?

21 A. Okay.

22 Q. And that is a partial response to Staff Data
23 Request Number 204, and let me ask you if you had an
24 opportunity or have read what is attached to Data
25 Request Number 204?

0560

1 A. I scanned it. I didn't read it real
2 thoroughly or carefully.

3 Q. Okay. But did you read this at any time
4 prior to the preparation of the testimony that you
5 filed in the interim case?

6 A. No, I don't think I did.

7 Q. Okay. Okay. If I could direct you back to
8 Exhibit 149, and if you would go to page four of
9 that?

10 A. I'm there.

11 Q. Okay. As with my prior question, did you
12 provide the factual input into the response to
13 Verizon Data Request Number 4?

14 A. Yes.

15 Q. Okay. Now, on page 22, you discuss whether
16 Verizon may be losing revenues due to its toll
17 customers switching service to its affiliate Verizon
18 Long Distance?

19 A. Is that page --

20 Q. Page 22 of your testimony?

21 A. Of 140 --

22 Q. Exhibit 141.

23 A. Okay. Yes, I discuss whether Verizon
24 discussed that in its case.

25 Q. Okay. Well, in your testimony, you're not

0561

1 suggesting that Verizon Northwest has in any way
2 violated its affiliate interest reporting obligations
3 under the law, are you?

4 A. No.

5 Q. Okay. Let me direct your attention to
6 Exhibit Number -- never mind. I asked you that.

7 A. And if I could just qualify that answer,
8 that I haven't made a determination that they have or
9 have not violated their requirements under the law.
10 I haven't looked at it from that aspect. So just to
11 make that clear.

12 Q. Okay. Fair enough. Now, you referenced
13 Docket Number UT-020406, the access charge proceeding
14 in your testimony; correct?

15 A. Right, on page 23?

16 Q. Right.

17 A. Yes.

18 Q. And have you had an opportunity to read the
19 11th Supplemental Order in that case?

20 A. Yes, I have.

21 Q. And did you read it in connection with
22 preparing your testimony?

23 A. I had read it before then, as well.

24 Q. Okay.

25 A. And I did read it in -- I did read it before

0562

1 I prepared my testimony.

2 Q. Okay. And in preparing your testimony, did
3 you do any inquiry to determine if Verizon
4 Northwest's market share for intraLATA toll was --
5 strike that. Let me rephrase the question.

6 In preparing your testimony, did you do any
7 inquiry to ascertain Verizon Northwest's market share
8 for intraLATA toll prior to the time that Verizon
9 Long Distance entered the market?

10 A. Not to prepare this testimony, no.

11 Q. Okay. Would you agree with me that
12 intraLATA toll is a competitive service?

13 A. Yeah, that's my understanding for Verizon.

14 Q. Well, and there are multiple providers in
15 this state who offer intraLATA toll service; correct?

16 A. That's my understanding.

17 Q. Okay. And if you could turn to Exhibit 162,
18 which is a confidential exhibit that was attached to
19 Verizon's opening brief in the access charge
20 proceeding?

21 A. Okay.

22 Q. Let me ask you if you've seen this document
23 before in connection with maybe your work on the
24 access case or this docket?

25 A. The first time I saw this document was when

0563

1 it was submitted as a cross exhibit for me.

2 Q. Okay. And would it be fair to say, without
3 revealing any confidential information, that Verizon
4 had lost a significant share of the intraLATA toll
5 market prior to the year 2000?

6 MR. TROTTER: I guess I'll ask, since this
7 witness only saw this exhibit, she cannot vouch for
8 the accuracy of the numbers thereon, so I'll object
9 -- just qualify if there is an understanding on the
10 record that she is not attesting to the veracity of
11 those figures.

12 MS. ENDEJAN: No, Your Honor, that's
13 acceptable to us. It's just really more a question
14 of asking relationships here.

15 JUDGE WALLIS: Very well.

16 Q. In terms of if you would accept these
17 numbers subject to check that -- do you see anything
18 on this document that indicates the percentage of the
19 intraLATA toll market that Verizon might have had
20 prior to the year 2000?

21 A. The percentages aren't on the copy of this
22 that I have. I'm not sure exactly how much I can say
23 about what's on this sheet, because I think -- but
24 there are no percentages on my sheet prior to 2000,
25 but if you're asking me whether the proportion of --

0564

1 Q. Well, let me ask -- let me see if I can
2 summarize this or synthesize it into a more succinct
3 question. Would it be fair to say that, for the
4 years 2000, 2001 and 2002, the total Verizon
5 intraLATA toll market share was less than 50 percent?

6 A. I see that, and I also see that it remained
7 almost the same for those three years.

8 Q. Okay. And you don't see any evidence -- or
9 strike that.

10 Do you know when Verizon Long Distance
11 entered the intraLATA toll market in this state?

12 A. I don't know exactly when that happened, no.

13 Q. Okay. Thank you. Let me ask you some
14 questions about your discussion of the disparity
15 between inter and intrastate revenues discussed on
16 page 27 of your testimony, if you could turn to that.

17 A. Okay.

18 Q. Now, have you read Ms. Heuring's rebuttal
19 testimony, which is Exhibit 23-T?

20 A. Yes, I have.

21 Q. Okay. And are you familiar with Ms.
22 Heuring's testimony with respect to Verizon's
23 compliance with FCC's Part 36 separation rules that
24 would appear on, I believe, pages 12 and 13?

25 Let me just ask you this. You're not

0565

1 suggesting in your testimony here today that Verizon
2 in any way did not comply with the FCC's Part 36
3 separation rules in developing its intrastate
4 revenues, expenses, and rate base?

5 A. I haven't investigated whether it did or did
6 not. And my testimony doesn't go to whether it
7 violated Part 36. I just -- I don't know.

8 Q. Okay. Did you -- you mentioned the concern
9 about the discrepancy between intra and interstate
10 revenues with respect to Verizon. Did you conduct
11 any investigation to determine if other local
12 exchange carriers suffered a similar sort of
13 discrepancy?

14 A. I know that -- I know that it's true in
15 Oregon, and I did not do an extensive evaluation of
16 other carriers. I think I answered a data request in
17 that regard that's an exhibit, in which I stated that
18 what we were -- what we are aware of is that other
19 companies that report to us that file compliance
20 reports like yours demonstrate lower returns for
21 intrastate than they do for interstate, and that's
22 what we know right now.

23 Q. Did you do any investigation with respect to
24 ARMIS reporting companies in terms of analyzing if
25 there's any discrepancy between inter and intrastate

0566

1 jurisdictions?

2 A. That's going to be part of our investigation
3 for the permanent case. We're working on it.

4 Q. Okay. And could you turn to Exhibit 163,
5 please?

6 MR. BUTLER: 153?

7 Q. 163, 163.

8 A. I have that.

9 Q. Thank you. And this was an exhibit in
10 Docket UT-0406, and let me ask you if you've ever
11 seen this exhibit before?

12 A. I had not seen this exhibit before.

13 Q. Okay. And would you accept, subject to
14 check, that this document lays out reported ARMIS
15 4301 revenue expense and investment growth rate
16 analysis that is prepared by ARMIS reports submitted
17 to the FCC? And I recognize there's a lot of numbers
18 there, but my purpose in asking you to take a look at
19 this is to see if you can tell me if there appears to
20 be a discrepancy between intrastate and interstate
21 revenues for companies other than Verizon Northwest,
22 as depicted on this document?

23 A. From looking at this document -- well, I
24 guess your question's a compound question. In answer
25 to the first part, I am assuming that this document

0567

1 takes source data from the ARMIS reports and then
2 computed the percentages. My --

3 Q. That's correct.

4 A. Okay. So you know, I don't know that we
5 would see these percentages in any ARMIS report. I
6 don't think we would. And my answer is yes, from
7 looking at these percentages, there appear to be --
8 and what this chart shows is growth percent, so I'm
9 assuming that what it's comparing is revenues from
10 one year to the next.

11 Q. Correct.

12 A. And looking at the growth percentage, so
13 what it's showing me is that interstate operating
14 revenue growth percentages are higher than intrastate
15 operating revenue growth percentages.

16 Q. Thank you. Now, the Part 36 separation
17 rules, they apply to basically all, I guess, ARMIS
18 reporting companies, do they not, if you know?

19 A. I don't know. There may be average schedule
20 companies that need to report, but I'm not sure about
21 that. I'm not sure if they have to report in ARMIS
22 or not.

23 Q. Okay. Let me ask you a final area of
24 inquiry with respect to Exhibit Number 144, which was
25 PMS-4 to your testimony.

0568

1 A. I'm there.

2 Q. Okay. And does this document reflect --
3 page one of this document reflect your cash flow
4 analysis with respect to Verizon Northwest on an
5 intrastate basis?

6 A. Yes.

7 Q. Okay.

8 A. I didn't do a separate one, if that's what
9 you're asking.

10 Q. Okay. Well, I just wanted to ask you some
11 questions about how you came up with these numbers.
12 If you would turn to page three of this exhibit, and
13 if you -- okay. And Column D under line two, local
14 network service, there is a figure of
15 seventy-eight-oh-nine-two. Do you see that?

16 A. I'm looking -- I'm trying to find page three
17 of --

18 Q. PMS-4 or --

19 A. 144.

20 Q. Correct.

21 A. Page three, which is titled?

22 Q. It is titled Request for Interim Relief,
23 Staff's Summary of Results of Operations Without
24 Restatements, 12 Months Ended September 30th, 2003.

25 A. Okay. That's the deal. Just -- I don't

0569

1 have it in my binder. Just a minute. Okay. I'm
2 ready now. Sorry.

3 Q. Okay. Line two, Column D, the figure
4 78,092, that figure does not include or reflect the
5 impact of the 29.7 access charge reduction, does it?

6 MR. TROTTER: Excuse me, Your Honor. That
7 number is on line three. I guess the question would
8 be are you referring to line two or line three?

9 Q. Oh, I'm sorry, it's called --

10 A. Network access revenues?

11 Q. Right, network access revenues, and it is
12 late in the day and I think I'm getting cross-eyed.
13 Yes. The question relates to network access
14 revenues. There's a number of 78,092. Does that
15 number reflect the reductions associated with the
16 access charge order of 29.7 million?

17 A. I don't think it does.

18 Q. Thank you.

19 A. I'll accept that subject to your check.

20 Q. Okay.

21 A. I don't think so.

22 Q. And you -- the figures on page three of this
23 document, they don't reflect any of the restatements
24 made by Ms. Heuring, do they?

25 A. No, they don't. The purpose of this was to

0570

1 try and present apples and apples comparison, so none
2 of these columns reflects her restatements.

3 Q. Okay. And so if we go to page one,
4 basically, if you could explain what the first column
5 means, as opposed to the second column, it says here,
6 Test Year Intrastate with Staff Adjustments, and then
7 there's a second column that says Test Year
8 Intrastate Before Adjustments?

9 A. The first -- Column A would be the source
10 for those numbers, if I did this right, would be the
11 earnings before interest and taxes that are from
12 Exhibit 142 in the last column, so that would include
13 all of the adjustment -- that would include all of
14 the adjustments that I proposed, as well as the
15 restated adjustments Ms. Heuring included, and Column
16 B would be -- would be based on the numbers in page
17 three of Exhibit 144, which is the Washington
18 intrastate totals before any adjustments.

19 Q. Okay. Thank you. And let me ask you a
20 question about your trend analysis, which is Exhibit
21 Number 143. If you could turn to page two of that?

22 A. Okay.

23 Q. And could you tell us how would you describe
24 the trend with respect to Verizon's intrastate
25 revenues starting in the year 2000?

0571

1 A. Declining.

2 Q. Okay. And how would you describe the trend
3 with respect to expenses?

4 A. Increasing.

5 Q. Okay. And do you have any reason to
6 believe, in the next 12 months, that either one of
7 those trends will be reversed?

8 A. Yes, Verizon is currently -- we're working
9 on a general rate case right now, so I'm assuming
10 that if the Commission finds that Verizon's revenues
11 should increase, that they will.

12 Q. Okay. So that would be as a result of the
13 rate case?

14 A. I would think so. I have not investigated
15 whether there would be other reasons. One reason I
16 can think of is if UNE-P prices rise, for some reason
17 --

18 Q. Okay.

19 A. -- that could generate revenues.

20 MS. ENDEJAN: Okay. One moment, please.

21 That's all. Thank you.

22 THE WITNESS: Thank you.

23 JUDGE WALLIS: Other Counsel still have no
24 questions for the witness? Very well. From the
25 Bench, Chairwoman Showalter.

0572

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2

E X A M I N A T I O N

3

BY CHAIRWOMAN SHOWALTER:

4

5

6

Q. Do you think it's more probable than not that Verizon is entitled to at least \$30 million increased revenue in the general rate case?

7

8

9

10

11

12

A. At this point, I don't have an opinion on that. I really don't. I worked on the last US West rate case, which ended up in a negative award of revenue, and so I really can't say, at this point in our investigation, whether they would be entitled to that much or something less or something more.

13

14

Q. And are you working on that general rate case?

15

16

17

A. Yes, I am.

18

19

20

21

Q. I see. Ms. Endejan asked you about a number of charts and tables, and I'm certain I'm probably confused about what represents what, but maybe we could just start with something.

22

23

24

A. Okay.

Q. How about -- well, how about Exhibit 142, page -- well, it's the first substantive page.

25

A. All right. Would that be the page with the

0573

1 -- of the results of operations?

2 Q. Yes, yes.

3 A. Okay.

4 Q. First of all, does this -- let's go with the
5 Yellow Pages first. This includes imputation for
6 Yellow Pages; correct?

7 A. Yes, it does, yes.

8 Q. And as I understood it, you, for purposes of
9 this proceeding, have imputed revenues to reflect --
10 well, maybe you should define it. How would you put
11 it? I understood what the subjects were, which is
12 the official Verizon Directory and the -- and the
13 ability of the overall company to cause Verizon
14 Northwest not to compete with the Yellow Pages?

15 A. Right, this adjustment is to reflect
16 adequate compensation from an affiliate for the
17 benefits the affiliate is receiving from the
18 regulated company. So imputation is the mechanism to
19 make that adjustment, because we don't have a
20 contract or revenue stream or something else to
21 compare it with.

22 Q. All right. And is the amount that you
23 assign for those two reasons -- this is not
24 confidential, is it?

25 A. Oh, this number here?

0574

1 MS. ENDEJAN: No.

2 Q. Right.

3 A. What this --

4 Q. The first question, is this confidential?

5 Doesn't appear to be.

6 MR. TROTTER: No.

7 MS. ENDEJAN: No.

8 Q. All right. Is the amount approximately 19
9 million? Am I right there?

10 A. That's after tax.

11 Q. Okay. Then, before tax is how much?

12 A. Twenty-nine-million-two-forty-one.

13 Q. All right. Well, let's -- supposing we're
14 taking the 29 million before tax. How did you arrive
15 at that amount as appropriate?

16 A. The way that's calculated is -- okay. I
17 thought I had a work paper. I'm sure there's
18 somewhere in this record a work paper on this. I'll
19 just explain it pretty quickly. The way this is done
20 is to take the net income of the directory company
21 and --

22 Q. Say that again. I'm sorry.

23 A. I'm sorry, the net income of the directory
24 company and --

25 MS. ENDEJAN: If I might interrupt there, it

0575

1 is in the record, and it might be easier if you look
2 at Exhibit 147, page two.

3 THE WITNESS: Thank you. I knew it was
4 here. Okay. What this adjustment does is it takes
5 the investment base of the directory company and
6 looks at what return would be, and in this case we
7 used the Verizon Northwest return as a surrogate for
8 what a reasonable return would be and compute what
9 operating revenue would be and then the difference
10 between that and what the directory revenue net
11 income before interest and taxes actually is is then
12 subtracted out. So that what you're trying to look
13 at is what the -- what the revenue in excess of a
14 reasonable return would be from the directory
15 operations, which then gets allocated using a factor
16 that looks at what Washington directory revenues are
17 compared to the total directory revenues.

18 Q. So what you're saying is that if the
19 directory were making a reasonable, not excess rate
20 of return, the excess on the directory side would be
21 going to the regulated side had the regulated side
22 charged an adequate price; is that what you're
23 saying?

24 A. Right, and the genesis of this is that when
25 directory -- if the directory business were totally

0576

1 in the regulated company's books, you're looking at
2 -- you know, you're looking at what return would it
3 earn if it were in the regulated books, and then this
4 compares that return to what return it actually
5 earns, being in a separate affiliate.

6 Q. Are you familiar with the FCC order setting
7 prices for directory services?

8 A. For the subscriber listings, yeah, I did
9 read that.

10 Q. Is it explicit or not on whether the prices
11 do or don't cover more than the listing?

12 A. My reading of it, from my reading of it, it
13 appeared to talk about the price of listings and that
14 the price of listings need to be at parity between --
15 so that anyone publishing directories pays the same
16 price for the listings and there's no difference
17 there. So my reading of it, it seemed to look at
18 subscriber listing prices.

19 Q. Did it explicitly say that it does not cover
20 those other issues, such as noncompete or official
21 publishing?

22 A. I did not see those mentioned in that order.

23 Q. Okay. Do you know of any other Commissions
24 or orders that address that question as to whether
25 the FCC order does or doesn't include those?

0577

1 A. The one order that I am aware of is the New
2 Hampshire decision that came out on July 9th of this
3 year.

4 Q. Okay.

5 A. Verizon New Hampshire, and it was an order
6 addressing treatment of Yellow Page revenues, so it
7 was kind of the single issue.

8 MR. TROTTER: Your Honor, could the Witness
9 be permitted to read the docket number?

10 CHAIRWOMAN SHOWALTER: That would be great.

11 MR. TROTTER: We could provide a courtesy
12 copy to the Bench.

13 CHAIRWOMAN SHOWALTER: That would be better.

14 MR. TROTTER: Could you just read the docket
15 number, please?

16 THE WITNESS: Docket Number is DT 02-165.

17 MR. TROTTER: We'll provide a copy.

18 Q. All right. Now, still sticking with this
19 page, does this page include the effects of the
20 access charge reduction? I believe it does under
21 Column E, but I wanted to make sure.

22 A. Okay. And this page, are we back at Exhibit
23 142?

24 Q. Yes, I'm sorry.

25 A. Okay. Yes, Column E, so it does incorporate

0578

1 the access charge reduction.

2 Q. And I think the reason I asked this question
3 is it sounded to me as if, on some other pieces of
4 paper, it might not be included, and I -- really,
5 ultimately, all I want to know is if in your bottom
6 line recommendations or calculations you have
7 included it, or whether there's some places where you
8 haven't?

9 A. In my calculation of return for purposes of
10 comparing return to the authorized return, it's
11 included. The only place that I did not include that
12 would be in Exhibit 143, page three, where I was --
13 where I had a Staff summary of results of operations
14 without restatements.

15 MR. TROTTER: Could you give the exhibit
16 reference again? You may not have said it correctly.

17 Q. Are you sure it's not page two? That's what
18 we were looking at before.

19 A. I'm sorry, it's 144. I'm sorry, 144, page
20 three, which shows three columns of results of
21 operations without restatements, and that sheet of
22 paper takes numbers from the company's results of
23 operations at the three jurisdictional levels without
24 any restatements, including the access charge
25 reduction.

0579

1 Q. And also, there's no adjustment for Yellow
2 Pages in this one?

3 A. No adjustments at all, so what the
4 right-hand column of that exhibit page shows is
5 Washington intrastate before any adjustments.

6 Q. All right. Is there a comparable page to
7 this one that does include the adjustments? Is that
8 what we just went over, or is it something else?

9 A. That's Exhibit 142, page one.

10 Q. All right. So that is the page we were
11 looking at just previously?

12 A. That's correct.

13 Q. So this is a more complete page than --

14 A. It's more of a before and after view with
15 kind of all the steps in between, so it has more
16 information on it.

17 Q. All right. Okay. Could you turn to Exhibit
18 141, and I'm going to ask you to compare this to
19 Exhibit 104. So Exhibit 141, page 38, lines nine to
20 15, you are talking about some of the financial
21 factors, and then I'm -- hold that in your mind. And
22 also on Exhibit 104 --

23 A. Chairwoman, just so I'm clear, on page 38 of
24 Exhibit 141, we're looking at the lines nine through
25 15, so where it starts the levels of EBITDA and funds

0580

1 from operations?

2 Q. Yes.

3 A. Okay.

4 Q. Now, if you go to Exhibit 104?

5 A. Okay.

6 Q. And look at -- just a minute here. I've got
7 a correction here. 144. Sorry.

8 A. Okay.

9 Q. All right. This will make sense. Exhibit
10 144, look at Columns A and B.

11 A. Okay.

12 Q. All right. Now, my questions are these.

13 Did you include cash flow from the directory
14 business?

15 A. Column B will not have that in it. That is
16 test year intrastate before adjustments, so that will
17 not have Yellow Page in it.

18 Q. Column B. But Column A will?

19 A. Yes.

20 Q. So B is yes, A is -- wait a minute. A is
21 yes and B is no; is that right?

22 A. Right, and Column A does include other
23 adjustments that -- the result of those two columns
24 is not going to be real different because other --
25 the other adjustments that I made offset the Yellow

0581

1 Page adjustment to some extent, so --

2 Q. Okay. What level of interest or financing
3 cost did you include?

4 A. I included what the -- for Column A, I
5 included more than the company did, and that's
6 because I recognized my adjustment for the
7 synchronized interest expense.

8 Q. So what level is it?

9 A. So 25.7 million for gross interest paid, and
10 23 million for interest expense.

11 Q. All right. And what level of capital
12 expenses did you consider?

13 A. The capital expenses I looked at were the 84
14 -- it was the 112 million times 75 percent,
15 recognizing that 75 percent of them would be the
16 intrastate portion.

17 Q. All right. And so after expenses, how much
18 free cash is left?

19 A. And this is on Column A, you want?

20 Q. Give it for both.

21 A. Okay. Well, if I were to look at that
22 number, I would be comparing the earnings before
23 interest, taxes, depreciation and amortization, the
24 EBITDA, of 148.3 million, and comparing --
25 subtracting from that the gross interest paid of

0582

1 25.7.

2 Q. Mm-hmm.

3 A. And then comparing that to the -- to the
4 capital expenditure need. And I just want to also
5 point out that, because the company supplemented its
6 -- it has changed what its capital expenditure budget
7 was. They had -- I used the 112 million as the
8 starting point. Now it's a lower number than that,
9 based on Mr. Banta's testimony.

10 Q. Is this based on the 11.5 million?

11 A. The reduction.

12 Q. Yes.

13 A. So what I calculated was that the company
14 would need to cover capital expenditures of \$75.7
15 million and then the gross interest paid, which would
16 be \$101.4 million, and that the cash earnings
17 available for that would be 148.3 million.

18 Q. And I'm not sure I understand that
19 distinction, but 148.3 is what number, and then the
20 other was 100 -- something less?

21 A. The 148.3 million is the income, is the net
22 income from cash sources that the company has.

23 Q. Okay. And there was a lesser number?

24 A. The lesser number would be the sum of the
25 gross interest paid and the capital expenditure needs

0583

1 for intrastate.

2 Q. That came out to --

3 A. That came out to, according to my little
4 calculator here, 101.4.

5 Q. Okay. And is that the amount, on an
6 annualized basis, that is available for -- let me ask
7 it this way. How much free cash -- free cash. How
8 much cash, I guess --

9 A. No such thing.

10 Q. Yeah -- is appropriate to cover expenses,
11 interest and capital costs on an annual basis? And I
12 think I'm trying to get at --

13 A. Is the -- are you asking is there some
14 amount in excess of expenses, interest and capital
15 expenses?

16 Q. Maybe put it this way. Should some of this
17 be available to cover contingencies? Is there some
18 amount that -- some amount more than zero for -- that
19 should be available for contingencies or not? You
20 get right down to zero for all the necessary expenses
21 that the cash needs to cover, or should there be
22 something?

23 A. Typically, a company is going to have cash
24 flow available after that. That's what it pays its
25 dividends out of. So they do have cash in -- if we

0584

1 look at cash flow statements, typically there's cash
2 after all those expenses are -- and costs are
3 covered.

4 Q. Well, and I understood your -- well, I don't
5 know if it's your testimony or Ms. Folsom's, but the
6 combination of the two is there is enough cash to get
7 through to the interim?

8 A. That's correct.

9 Q. Through to -- into the general. And when we
10 say -- when you say the word enough, I'm wondering
11 what that is covering. And --

12 A. Well, what I'm concerned about is does it
13 cover what they need to fund their construction, does
14 it cover their interest cost, and does it cover their
15 cash expenses. And according to my calculation, they
16 have cash in excess of the amounts needed to cover
17 those three things.

18 Q. All right. And how much in excess?

19 A. For column -- for the Column A, with the
20 Staff adjustments, 46.9 million.

21 Q. Okay. That was Column A?

22 A. Right. And I'll do the Column B right now.
23 46.7 million for Column B.

24 Q. All right. In your judgment, is that a
25 comfortable amount to have for, let's say,

0585

1 contingencies or some unexpected things that may
2 arise, recognizing that unexpected is just that?

3 A. Well, I guess my answer would depend on if
4 this were a -- you know, to me it would be a
5 comfortable amount if it were a stand-alone company.
6 Given that it's not a stand-alone company and has
7 access to financing in the 1.15 percent cost range, I
8 think it's more than adequate.

9 Q. But you feel that it's comfortable even on a
10 stand-alone basis?

11 A. Not being a company manager, I mean, just as
12 an accountant, I would -- if the cash flow covered
13 all the necessities and there was a cushion left
14 over, I think that would be adequate.

15 Q. Okay. I want to clarify one thing that you
16 just alluded to, but if you go to Exhibit 104, which
17 is --

18 A. Mr. King's?

19 Q. -- Mr. King's.

20 A. Okay.

21 Q. He uses 84.9 million in Washington
22 intrastate capital expenses.

23 A. Right.

24 Q. Given that Mr. Banta has planned reductions
25 of 11.5 million, taking his document on its own

0586

1 terms, is it your opinion that that should be reduced
2 by 11.5 million down to 73.4 or not?

3 A. I think what happens is the 11.5 million is
4 subtracted from the 112 million Washington capital
5 additions that's on line seven of Mr. King's
6 schedule.

7 Q. Uh-huh.

8 A. So the resulting number, if you subtract the
9 11 and a half million from that number and then
10 multiply that by the allocator that he used. So in
11 other words, what you want to do is apply the
12 allocator to the 11 and a half million before you
13 subtract it.

14 Q. Or would I -- would I do an operation of 112
15 million minus the 11.5, and I'm going to get
16 something in the range of 101 million.

17 A. Right.

18 Q. I don't have a calculator.

19 A. Yeah, I was just calculating that right now,
20 because I had a slightly different capital expense
21 ratio that I was looking at.

22 Q. And then you were going to multiply that by
23 the 75.5366 percent?

24 A. Okay. Here's what I get, and everybody else
25 -- anyone else with a calculator can check me on

0587

1 this. I get 76.230 -- 76,238 --

2 Q. Instead of 84,924?

3 A. Yep.

4 Q. Okay. I think the only other question I
5 have is if you could turn to Exhibit 63-T, it's Mr.
6 Banta's rebuttal. It's going to be page seven.

7 A. Okay.

8 Q. And this is where he is rebutting parts of
9 your testimony, so I'm assuming you have looked at
10 this rebuttal?

11 A. Yes.

12 Q. And have thought about it. And my ability
13 to formulate questions at this hour is declining. So
14 I will simply ask you if you feel that -- if you
15 think there is any point that he has made that you
16 would like to rebut that you haven't -- that hasn't
17 already been covered in today's testimony?

18 A. I think the only thing that I -- in which I
19 would not characterize my testimony the way he did is
20 that he says, I claim that Verizon Northwest is
21 shifting toll revenue. And I don't know that I
22 actually say it in those words. I think what is
23 happening is that the -- is that revenues are
24 shifting. I don't know that Verizon Northwest is,
25 you know, the one shifting them. I think Verizon --

0588

1 I think the parent company is making decisions about
2 who sells what and that the revenues shift because of
3 who offers the bundled packages and how they're
4 offered and at what prices.

5 Q. Okay. That's covered on the next page, page
6 eight.

7 A. Okay.

8 Q. Lines 15 through 21. And it looks to me as
9 if perhaps you agree with him on lines 18 to 21, that
10 customers are migrating and revenues are migrating
11 accordingly?

12 A. Right, I guess I would disagree that it's
13 through customer choice, because Verizon Northwest
14 doesn't offer some of these services, they don't have
15 that choice. In other words, they cannot -- they
16 cannot purchase DSL from Verizon Northwest.

17 Q. They're choosing to get DSL, but they can't
18 choose to get it from Verizon Northwest?

19 A. Right.

20 Q. I see. All right. I don't want to forget
21 my question. Are you familiar with any other states
22 or the FCC or FERC on any commission's interim relief
23 practices?

24 A. Well, as it happens, I worked for the Alaska
25 Public Utilities Commission, which is a commission

0589

1 that does grant interim rate relief on a routine
2 basis, at least when I worked there, it did. It's
3 now called the Regulatory Commission of Alaska, and I
4 have not looked at their statutes to see if they
5 changed when the agency changed.

6 Q. What was the practice at -- what years did
7 you work there?

8 A. I worked there from 1981 to 1992.

9 Q. And let's say, at the time you left, what
10 was the practice at that time? What was the process?

11 A. Well, there was a statutory -- they had a
12 statute that allowed interim rate increases. The
13 commission -- they were usually refundable and they
14 would be -- typically, the practice was to grant them
15 on a percentage across the board basis to all
16 recurring rates, and refunds were made in the same
17 way, so that refunds didn't depend on what ultimate
18 rate design was.

19 Q. And what was -- what were the substantive
20 criteria, if any, that the Commission needed to
21 consider in order to grant the interim relief?

22 A. I know that when -- I don't -- I don't
23 remember exactly what they had to file. I know that
24 what they usually filed was a general rate case and
25 then asked for interim -- they asked for an increase

0590

1 on an interim basis at the time that the filing went
2 to their equivalent of the open meeting. But I do
3 want to point out that Alaska, at that time, and I
4 don't know if they do now, the Commission had
5 show-cause authority, and so when companies were
6 over-earning, they could call them in and say, It's
7 your burden to prove that your rates are reasonable
8 and that you're not over-earning, and so there was
9 kind of a quid pro quo that interim rate increases
10 were more routine, but there were also mechanisms in
11 place to look at rates when they weren't -- when they
12 were perhaps earning more than the authorized rate of
13 return, so a different regulatory scheme.

14 Q. And by routine, I take it you mean there
15 were no special requirements to demonstrate financial
16 stress. I wonder --

17 A. Not like here.

18 Q. Okay.

19 A. Yeah, not like the case law that is in
20 Washington, as I recall it.

21 Q. Was there any requirement that the amount
22 requested was plausible on its surface or --

23 A. Well, they had to have filed the revenue
24 requirement.

25 Q. I see.

0591

1 A. I mean, the ones I looked at -- I was a
2 staffer there and, you know, worked on these, and you
3 know, they had to submit revenue requirement
4 information so that you had something to look at so
5 that you, you know, could conduct some analysis.

6 Q. Okay. Are you familiar with any other
7 states or federal agencies?

8 A. I know that Illinois allows interim
9 increases, but I don't think it's in the same fashion
10 as ours, and I think they also have rules and
11 statutes, but I'm not completely familiar with that.

12 Q. Any others?

13 A. I know there are others, but I couldn't list
14 them for you right now.

15 CHAIRWOMAN SHOWALTER: Okay. I think that's
16 all my questions. Thank you.

17 THE WITNESS: Thank you.

18 JUDGE WALLIS: Commissioner Hemstad.

19

20 E X A M I N A T I O N

21 BY COMMISSIONER HEMSTAD:

22 Q. Well, there's been considerable testimony
23 here dealing with the directory issues. I assume, in
24 the general rate case, that Staff would intend to
25 explore this and fully develop that issue in the

0592

1 general proceeding?

2 A. Oh, yes, very definitely.

3 Q. I take it the contract between Verizon
4 Northwest and the affiliate, well, would have to be
5 considered not an arm's length transaction?

6 A. That's -- in my view, that's correct.

7 Q. And if that kind of contract were entered
8 into with a third party, that would be arm's length,
9 and if the Staff felt that Verizon Northwest were not
10 sufficiently compensated for that arrangement,
11 wouldn't it follow that the Staff would at least
12 raise the issue of whether it was an imprudent
13 transaction?

14 A. Yes, and I think that our statute for
15 affiliated interests includes -- I think, under the
16 scope of that, is included contracts for services
17 that I think include companies other than affiliates.

18 Q. So --

19 A. So we would look at it either from a
20 prudence standpoint or under that statute.

21 Q. So whether an affiliate or whether a third
22 party, the question would still be presented as to
23 whether the company was -- were, in fact, receiving
24 appropriate value for the arrangement?

25 A. Yes, Staff would address that.

0593

1 Q. Ms. Folsom made reference to the equity
2 ratio, but I think she said the 62 percent?

3 A. That's correct.

4 Q. Will that be a potential issue in the rate
5 case, as to whether that equity ratio is too high?

6 A. Well, the company's requesting 75 percent
7 equity in the general rate case.

8 Q. I see. All right. So that will be an issue
9 in determining what is the appropriate rate of
10 return?

11 A. Capital -- yes, it will, the capital
12 structure will be part of that investigation.

13 COMMISSIONER HEMSTAD: That's all the
14 questions I have.

15 COMMISSIONER OSHIE: And I don't have any
16 questions. Thank you.

17 JUDGE WALLIS: Before we turn it back to Mr.
18 Trotter or Ms. Endejan, I'm wondering if I could make
19 another Bench Request, Number 7, and that would be
20 that Verizon provide for the record the current
21 Yellow Pages contract, directory contract between the
22 directory publisher and Verizon Northwest?

23 MR. PARKER: Sure.

24 JUDGE WALLIS: Thank you. Ms. Endejan, do
25 you have follow-up questions for Ms. Strain?

0594

1 MS. ENDEJAN: I do.

2 JUDGE WALLIS: Please proceed.

3 MS. ENDEJAN: I do, thank you.

4

5 R E C R O S S - E X A M I N A T I O N

6 BY MS. ENDEJAN:

7 Q. Ms. Strain, Chairwoman Showalter asked you
8 some questions about what I will call, and correct me
9 if it's not correctly called this, your cash flow
10 analysis?

11 A. Right.

12 Q. Which was Exhibit 144?

13 A. Okay.

14 Q. And I want to make sure. You claim, based
15 on your Column A figures, that, by your calculations,
16 Verizon would have a \$46.9 million cash flow
17 available to it between now and next May with which
18 to operate. Is that what you've told her?

19 A. That's by -- yeah, that's what I told her.

20 Q. Okay. Now, that amount does not reflect the
21 fact that Verizon is no longer going to receive \$29.7
22 million in access charge revenues, does it?

23 A. Yeah, that number does not, so if you wanted
24 to --

25 Q. Okay.

0595

1 A. -- adjust for that, it would be a lower cash
2 flow available amount.

3 CHAIRWOMAN SHOWALTER: Which number are we
4 talking about?

5 Q. The Column A number of 46.9 million, okay.
6 So you'd have to take off 26. -- I'm sorry, 29.7
7 million, and also your Column A, 46.9 million, does
8 that reflect your Yellow Pages imputation of
9 revenues?

10 A. Well, first, just the first question about
11 whether you take the 29.7 million away from the cash
12 flow, I'm not sure that that's correct, because I
13 think you have to take the after-tax amount, just --
14 well, which is a substantially lower amount.

15 Q. Right, okay. But the point is that this
16 number doesn't reflect the fact that Verizon won't be
17 getting access charge revenues?

18 A. Yeah, the intrastate before adjustments does
19 not include that. The test year intrastate with
20 Staff adjustments does include the access charge
21 reduction. Let me correct -- let me correct if I
22 answered that wrong.

23 Q. It is confusing here.

24 A. I'm sorry.

25 Q. I think we're going to have to go over this,

0596

1 because you put forth two figures for potential cash
2 flow, 46.9 million for Column A?

3 A. Right.

4 Q. And you say that that amount includes
5 recognition of the access charge reductions?

6 A. Yeah, and all the other adjustments.

7 Q. And including the directory revenues?

8 A. Right, mm-hmm.

9 Q. Now, the directory revenues adjustment that
10 you make, that you made, Verizon won't get any
11 dollars from anybody for that; correct? Won't get
12 real cash dollars to spend?

13 A. Not unless its affiliate pays it.

14 Q. Okay. And as far as you know, under the
15 contractual arrangement today, that ain't going to
16 happen?

17 A. As far as I know.

18 Q. Okay. So then your Column B, \$46.7 million
19 figure, that also doesn't reflect -- I mean, that
20 does not reflect the access charge reductions?

21 A. That's correct.

22 Q. And it also does not reflect any of the
23 restating adjustments made by Ms. Heuring that serve
24 as the -- that you used in preparing Exhibit 142,
25 page one, which is your, you know, restating results

0597

1 of operations; correct?

2 A. Yeah I did not do a cash flow calculation
3 based on Ms. Heuring's position on the case, no.

4 Q. Okay. I just want to be clear that the 46.7
5 million doesn't reflect the access charge reductions
6 and doesn't reflect any restatements that Ms. Heuring
7 may have made?

8 A. No, and I didn't go through each one of the
9 adjustments to see what other expenses might not be
10 non-cash in nature.

11 Q. Okay. Now, you said --

12 CHAIRWOMAN SHOWALTER: I'm sorry, but before
13 you leave this, since this was to clarify for me, if
14 you were looking at Column B, at the 46.7?

15 THE WITNESS: Mm-hmm.

16 CHAIRWOMAN SHOWALTER: But if I wanted to
17 make a single adjustment, which is the access
18 charges, is it appropriate to subtract an entire
19 year's amount because this is annualized or, more
20 precisely, is it approximately two million a month,
21 which would allow me to think about between now and
22 the end of the rate case?

23 THE WITNESS: All of these numbers are
24 annual. So this column reflects an annual number.
25 So if you want to subtract that amount, you should

0598

1 subtract the after-tax amount and should do so on a,
2 you know, using the 12 months, using the annual
3 amount. So starting with the 29.7 million, and then
4 taking it net of tax.

5 CHAIRWOMAN SHOWALTER: All right. What is
6 that number?

7 THE WITNESS: That's the question. Let's
8 see. That shows up on Exhibit 142, Column E, and
9 that would be 18.9 million. Rounded up, it would be
10 19 million.

11 CHAIRWOMAN SHOWALTER: Thank you.

12 Q. Let me ask you a question about your Column
13 B figures on Exhibit 144.

14 A. Oh, wait. No, it would be the -- I'm sorry,
15 let me correct myself. It's the before tax number.
16 I'm sorry. I'm tired, too.

17 Q. Okay. So let me just say that the 145.1
18 figure in Column B that appears to be EBITDA,
19 E-B-I-T-D-A --

20 A. Right, that's right.

21 Q. -- that number, you should reduce it by the
22 29.7?

23 A. Yes.

24 Q. Thank you.

25 A. You're right. I stand corrected. Thank you

0599

1 very much.

2 Q. I may be an accountant after all.

3 CHAIRWOMAN SHOWALTER: Can somebody just
4 give me the bottom line and define both the dollar
5 amount and what that amount is? What is it?

6 MS. ENDEJAN: Your Honor, I think that that
7 may be a source of dispute in the sense that -- in
8 the sense that Column B doesn't reflect any of the
9 restating adjustments. And so I think that we
10 probably won't be able to calculate it.

11 CHAIRWOMAN SHOWALTER: That's fine. You
12 don't need to give it to me. I simply want -- I'm
13 simply trying to make comparisons, so all I would
14 like from Ms. Strain is a number from from Column B
15 that does nothing other than take Column B, but
16 incorporate the reduction in access charges, and I
17 recognize it doesn't have other adjustments.

18 THE WITNESS: Right, okay. For Column B,
19 what I'm getting, and I'm taking the -- I'm taking
20 the operating revenue number from Column E of my
21 Schedule 142, so that's the access charge reduction
22 minus uncollectible percentage, okay.

23 CHAIRWOMAN SHOWALTER: Okay.

24 THE WITNESS: So taking that out of the
25 46.9.

0600

1 CHAIRWOMAN SHOWALTER: Well, what amount is
2 that, since I'm going to stick with one document?

3 Q. Excuse me, Ms. Strain. To mix apples and
4 apples, if you're going to do the test year
5 intrastate before adjustments, then you wouldn't use
6 your uncollectible adjustment, would you, for Column
7 B? Column A is where that would be reflected.

8 A. No, I'm just talking about revenues have an
9 uncollectible percentage to them, and I'm assuming
10 that Ms. Heuring's adjustment did, too.

11 MR. TROTTER: Your Honor, I would just ask
12 that the Witness be given an opportunity to give her
13 calculation and then a question be done on that.

14 MS. ENDEJAN: I apologize. I'm just
15 confused.

16 THE WITNESS: So for Column B, if I take the
17 46.7 million that I gave you and then subtract 29.2
18 million from that, I get 17. -- 17.5. My
19 calculator's not working.

20 CHAIRWOMAN SHOWALTER: 17.5 million on an
21 annualized basis?

22 THE WITNESS: Right.

23 CHAIRWOMAN SHOWALTER: Okay. Thank you.

24 Q. Chair Showalter, Chair -- oh, God.
25 Chairwoman Showalter --

0601

1 CHAIRWOMAN SHOWALTER: Do what Commissioner
2 Hemstad once did, it's a contraction, Chairwalter.

3 Q. Well, it's helpful. You said that you never
4 -- you do not consider any arrangement between
5 Verizon Directories and Verizon Northwest to be an
6 arm's length transaction. Why not?

7 A. Because they're owned by the same parent.

8 Q. So under your theory, no contract between
9 Verizon Northwest and any Verizon entity could be
10 ever deemed an arm's length transaction?

11 A. No.

12 Q. Okay. And the Verizon Northwest, Verizon
13 Long Distance contract for Directories, that was
14 filed with the Commission; correct?

15 A. Verizon Long Distance?

16 Q. I'm sorry, Verizon Directories, Verizon
17 Northwest?

18 A. Yeah, that was filed here as a docket, and
19 we -- yeah, that was filed here.

20 Q. Okay. And at that time, at that time and up
21 until now, the Commission basically did nothing with
22 that contract; right? It didn't take any action
23 about it --

24 A. Under our statutes, it's file in use. It
25 does not need to be approved prior to being

0602

1 implemented.

2 Q. Correct, but you have looked at these, and
3 as far as you can tell, does that contract filing
4 comply with Verizon's affiliate interest filing
5 obligations under the state?

6 A. They filed it in accordance with that
7 statute.

8 MS. ENDEJAN: Okay. Nothing further.

9 CHAIRWOMAN SHOWALTER: I have one follow-up.

10 JUDGE WALLIS: Chairwoman Showalter.

11

12 E X A M I N A T I O N

13 BY CHAIRWOMAN SHOWALTER:

14 Q. Okay. A follow-up now that the number --
15 one number is 17.5 million. Well, I will ask you
16 this question, recognizing one of the problems with
17 the question, which is if the company had 17.5
18 million cash after dealing with necessary coverage of
19 other things to deal with contingencies, et cetera,
20 would you be comfortable -- and the reason I put that
21 in the hypothetical is I recognize that 17.5 million
22 does not include some of the other adjustments,
23 including the Yellow Page adjustment.

24 But if we are simply looking at that amount
25 of money on a stand-alone basis, would you be

0603

1 comfortable, and then I take it, in a company-wide
2 basis as part of a big company would be for the same
3 reasons you answered that on a prior question?

4 A. I would be comfortable.

5 CHAIRWOMAN SHOWALTER: Okay. Thank you.

6 MS. ENDEJAN: Your Honor, could I -- and I
7 don't know if you want to do it now or after
8 redirect, I would move for the admission of some, but
9 not all of the cross-examination exhibits that I've
10 marked.

11 JUDGE WALLIS: Let's do it after redirect.

12 MS. ENDEJAN: Thank you.

13 MR. TROTTER: Thank you.

14

15 R E D I R E C T E X A M I N A T I O N

16 BY MR. TROTTER:

17 Q. Starting with affiliate interest, does the
18 fact that an affiliate interest contract has been
19 filed in compliance with the Commission's laws and
20 rules mean that the payment or other compensation
21 under it is appropriate?

22 A. Not necessarily.

23 Q. Are you familiar with affiliated interest
24 adjustments in Commission regulation?

25 A. Yes.

0604

1 Q. Is an affiliated adjustment -- affiliate
2 interest adjustment appropriate even if the utility
3 does not or did not at one time own the business that
4 is now in the affiliate?

5 A. Yes.

6 MS. ENDEJAN: I'd like to lodge an objection
7 to that question to the extent it calls for a legal
8 conclusion.

9 MR. TROTTER: That's fine. I'm going with
10 her experience.

11 JUDGE WALLIS: We will understand the answer
12 to reflect the Witness's opinion as a lay person, not
13 a lawyer.

14 Q. You may answer the question. Did you answer
15 the question?

16 A. I answered the question yes.

17 Q. Okay. You were referred by Ms. Endejan to
18 Cross Exhibit 146, which was a list of the company's
19 pro forma adjustments in the general rate case; is
20 that correct?

21 A. Right.

22 Q. Did Verizon include any of those pro forma
23 adjustments in its interim rate relief presentation?

24 A. No.

25 Q. Those adjustments are for the general rate

0605

1 case?

2 A. Yes.

3 Q. Is it fair to say there may be other
4 restating and pro forma adjustments in addition to
5 the ones the company is proposing?

6 A. Yes.

7 Q. And will those affect the ultimate revenue
8 requirement and rate of return before rates of
9 Verizon Northwest in this docket?

10 A. If they are accepted by the Commission, yes,
11 they would.

12 Q. You also stated that you, for purposes of
13 the interim rate relief presentation, accepted the
14 company's restating adjustments. Do you recall that?

15 A. Yes.

16 Q. Is Staff reserving the right to further
17 investigate and challenge any of those adjustments in
18 the general rate case?

19 A. Yes.

20 Q. You were referred to Exhibit 142, page one.
21 Ms. Endejan went through the -- I believe they were
22 five adjustments shown there. Do you recall that?

23 A. Yes, yes, I do.

24 Q. Make that six adjustments.

25 A. Five, actually.

0606

1 Q. Five, okay. Five, thank you. In Column K,
2 she asked whether that adjustment was the only one
3 that reduced net operating income. In other words,
4 was an adjustment favorable to the company. Is there
5 another adjustment that you made that was favorable
6 to the company?

7 A. Yes, the adjustment in Column J, the
8 flow-through income tax adjustment also was favorable
9 to the company.

10 Q. And you were referred to Exhibit 159, which
11 dealt with some competitive analysis from another
12 docket. Do you recall that?

13 A. Yes.

14 Q. That was Data Request 204. Is that a
15 general rate case data request?

16 A. Yes, it was.

17 Q. And the company also asked you whether you
18 -- Staff has had an opportunity to review the
19 company's general rate case. And what has been the
20 Staff's primary focus in terms of preparation of
21 testimony and exhibits this summer?

22 A. The interim rate case. We've focused on
23 that almost exclusively.

24 Q. Now you have issued data requests in the
25 general rate case?

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1 A. Yes.

2 Q. And is Staff reviewing those?

3 A. Yes, in the process.

4 MR. TROTTER: I believe that's all I have.

5 Thank you very much.

6 JUDGE WALLIS: Is there anything further of
7 the witness?

8 MS. ENDEJAN: Your Honor, I would just move
9 for the admission of Exhibits 147, 148, 149, 151,
10 158, 159, 161, 162-C, and 163.

11 JUDGE WALLIS: Is there objection?

12 MR. TROTTER: Just a moment. Exhibit 148,
13 Your Honor, is the direct testimony filed by the
14 company in the general rate case, Mr. Dennis Trimble.
15 The company cross-examined on that testimony, I
16 believe on one sentence, and now the exhibit is
17 coming in in its entirety, and I want to make sure
18 it's not coming in for factual assertions that we
19 have not had a chance to cross-examine.

20 JUDGE WALLIS: Ms. Endejan.

21 MS. ENDEJAN: Your Honor, I used it only for
22 purposes of cross-examination, and I'm presuming that
23 the Commission would view it in that context for
24 purposes of putting Ms. Strain's testimony in
25 context. I understand that Mr. Trimble's not been

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1 cross-examined on it.

2 JUDGE WALLIS: Does that satisfy your
3 concern, Mr. Trotter?

4 MR. TROTTER: As long as it's used in
5 briefing to the extent it was used in hearing, I
6 don't have a problem.

7 JUDGE WALLIS: Ms. Endejan, is that --

8 MS. ENDEJAN: That's fine.

9 JUDGE WALLIS: Very well.

10 MR. TROTTER: I will note that some of these
11 others are duplicated in the record, but Exhibit 161
12 is an excerpt from an FCC order that was not
13 discussed with Ms. Strain. It's an excerpt, and it
14 is what it is, but I won't object on that basis.
15 It's really not an exhibit. So I guess I won't
16 object, with the qualifications that I've identified.

17 JUDGE WALLIS: Very well. Exhibits 147,
18 148, 149, 151, 158, 159, 161, 162-C, and 163 are
19 received with the qualifications as discussed by
20 Counsel.

21 MR. TROTTER: One other, Your Honor. Of
22 course, 151 was accepted subject to check, and so
23 we'll have to add that condition. And just one
24 moment. May I speak with my witness very briefly?
25 There may be one other.

0609

1 JUDGE WALLIS: Yes.

2 (Discussion off the record.)

3 JUDGE WALLIS: Let's be back on the record,
4 please. The Commission Staff has called its third
5 and final witness to the stand, Timothy W. Zawislak,
6 and in conjunction with his appearance, the
7 Commission Staff and others have submitted documents
8 to be marked as exhibits, as Exhibits Number 181
9 through 191, and I will ask the court reporter to
10 identify those exhibits in the record at this point.

11 (The following exhibits were marked in
12 conjunction with Mr. Zawislak's testimony:
13 181-T, TWZ-1T, Direct Testimony, 20 pages;
14 182, TWZ-2, Verizon Response to DR 14, one
15 page; 183, TWZ-3, Response to DR No. 271,
16 two pages; 184-C, TWZ-4, Rate Comparison
17 with Staff Recommendation, one page; 185,
18 TWZ-5C, Equal Percentage Calculator and
19 Workpaper, two pages; 186-C, TWZ-6C,
20 Confidential Response to DR 54, 13 pages;
21 187, TWZ-7, Response to DR 18, one page;
22 188, (Verizon) Excerpt, 10th Supplemental
23 Order, UT-970766; 189, (Verizon) Seattle
24 Times Editorial (Glenn Blackmon), 12/12/97;
25 190, (WeBTEC) Excerpt, 15th Supplemental

0610

1 Order, UT-950200, WUTC v. USWC, pages 1,
2 101-104, 107, six pages; 191, (WeBTEC)
3 Excerpt, Direct Testimony of Thomas Spinks
4 (3d Rev. Ed. May 10, 2004, pages 1, 13-16),
5 five pages.)

6 JUDGE WALLIS: Mr. Zawislak, would you
7 please stand and be sworn.

8 Whereupon,

9 TIMOTHY W. ZAWISLAK,
10 having been first duly sworn, was called as a witness
11 herein and was examined and testified as follows:

12

13 DIRECT EXAMINATION

14 BY MR. TROTTER:

15 Q. Mr. Zawislak, please state your name for the
16 record?

17 A. Timothy W. Zawislak, spelled Z, as in zebra,
18 a-w-i-s-l-a-k.

19 Q. And what is your business address?

20 A. It's 1300 South Evergreen Park Drive, S.W.,
21 Olympia, Washington, 98504.

22 Q. And you're employed by the Commission in
23 what capacity?

24 A. Telecommunications regulatory analyst.

25 Q. And in that capacity, did you have cause to

0611

1 prepare testimony and exhibits in this case?

2 A. Yes.

3 Q. Turning to Exhibit 181-T, is that your
4 direct testimony?

5 A. Yes, it is.

6 MR. TROTTER: Your Honor, I had distributed
7 an errata sheet. If you don't have it, I have extra
8 copies.

9 JUDGE WALLIS: Yes, Mr. Trotter has
10 distributed an errata sheet for Mr. Zawislak's direct
11 testimony, Exhibit 181-T, and I will mark that as 192
12 for identification.

13 Q. Mr. Zawislak, if I ask you to assume that
14 the changes indicated in Exhibit 192 are made to your
15 testimony, if I ask you the questions therein, would
16 you give the answers stated there?

17 A. Yes, I would, in all material respects.

18 Q. In that testimony, you refer to Exhibits
19 182, 183, 184-C, 185, 186-C and 187; is that right?

20 A. Correct.

21 Q. Are those exhibits true and correct, to the
22 best of your knowledge?

23 A. They are, to the extent the data was based
24 on data responses from the company and my analysis
25 performed therein.

0612

1 Q. Now, some of those data responses that you
2 relied on for purposes of developing your testimony,
3 there have been some changes to those data responses,
4 some amendments or supplements that might not be
5 reflected in your exhibits at this point?

6 A. Yes, there were some recent revised data
7 responses, within the last week or so, and other
8 documents that I wasn't able to reconcile at the
9 time.

10 Q. Okay. And did any of those materials
11 materially change the testimony that you're
12 submitting in this case?

13 A. No. Actually, in the last day or two, I
14 have been able to reconcile and the end result is
15 still the same.

16 MR. TROTTER: Your Honor, I move for the
17 admission of Exhibit 181-T, 182, 183, 184-C, 185,
18 186-C and 187.

19 JUDGE WALLIS: And 192.

20 MR. TROTTER: And 192, thank you.

21 JUDGE WALLIS: Is there objection? Let the
22 record show that there is no objection and those
23 documents are received.

24 MR. TROTTER: The Witness is available for
25 cross-examination.

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1

2 C R O S S - E X A M I N A T I O N

3 BY MS. ENDEJAN:

4 Q. Good afternoon, Mr. Zawislak. Judy Endejan,
5 for Verizon.

6 A. Good afternoon.

7 Q. Good afternoon. Could you turn your
8 attention to page four of your testimony, Exhibit
9 181, lines one and two? Do you see that?

10 A. Yes, I do.

11 Q. And on those lines, your testimony reads,
12 Accordingly, a rate design for interim rate relief
13 should be simple, practical, and equitable. And
14 that's your testimony; correct?

15 A. Correct. I testified that it should be all
16 three.

17 Q. Right. And for simplicity's sake here,
18 would you agree with me that the difference between
19 Staff's proposal and the company's proposal with
20 respect to interim rate design is that you would
21 assess the same percentage increase, whereas Verizon
22 would assess the same amount in a surcharge?

23 A. I would have to disagree with that
24 statement. I can let you know why. The Staff
25 proposal here that I present is based on more access

0614

1 lines than the company proposes.

2 Q. Just in -- conceptually, though, in terms of
3 the rate design, Staff is proposing the same
4 percentage increase, whereas Verizon is proposing the
5 same amount in a surcharge; correct?

6 A. Generally, I think that's correct. I do
7 also need to preface the fact that the Staff proposal
8 here is based on the event that the Commission finds
9 a need for interim relief. If the Commission finds
10 there is not a need, then this, you know, wouldn't
11 apply.

12 Q. I understand that. We'll accept that. Now,
13 would you agree with me that both proposals, both
14 types of surcharges, your proposal and Verizon's
15 proposal, would be simple to administer?

16 A. Yes.

17 Q. Okay. And would you agree that both
18 proposals would be practical?

19 A. Assuming there's a need, yes.

20 Q. Okay. So would it be fair to say that,
21 where the company and the Staff part ways is on the
22 question of which rate design proposal is more
23 equitable than the other? I'm just trying to
24 identify our differences.

25 A. Yeah, I believe so. And again, I have to

0615

1 state that the -- that my understanding of the
2 company's proposal is that the amount be only applied
3 to residential customers and simple business
4 customers, really not applying to the larger amount
5 of lines that I propose.

6 Q. Okay. Would you agree with me that Staff's
7 --

8 A. That's part of the equity, equitable issue,
9 as well.

10 Q. Okay. Would you agree with me that Staff's
11 proposal requires business customers to pay more than
12 residential customers on an absolute dollar basis,
13 because your percentage increase would be applied to
14 the higher rates paid by business customers?

15 A. I think that is generally true. I'd like to
16 refer to my response to the Company Data Request
17 Number 14, and I think I've further clarified that,
18 and I think it would be helpful to refer to you if I
19 can at this time.

20 Q. Is that -- Mr. Zawislak, is that in any way
21 a portion of your testimony or an exhibit?

22 A. It refers directly to my testimony. In
23 fact, I could refer you to my testimony if you'd
24 like.

25 Q. Well --

0616

1 A. The general proposition is --

2 Q. If I might?

3 MR. TROTTER: Wait a second, Your Honor. I
4 think he's trying to explain his answer, so if we
5 could just have the answer, I'd appreciate it.

6 THE WITNESS: The general proposition is
7 that the rate relationships between the various
8 access line rates of the company remain the same
9 during the interim phase of the docket. Staff's
10 position is that, in the general rate case, that
11 would be the appropriate time to make any
12 relationship changes between the rates, and that's
13 why Staff recommends that the equal percentage
14 surcharge application would be more equitable than
15 the Company's fixed amount per line on only specific
16 lines, rather than all lines.

17 CHAIRWOMAN SHOWALTER: The hour is late, and
18 the only question that was asked is is an equal
19 percentage applied to a higher dollar amount and a
20 lower dollar amount result in a higher dollar amount
21 coming from the higher earlier rate. That's -- in
22 other words, does an equal percentage applied to
23 residential and business result in a higher dollar
24 amount coming out of the business. Isn't that a
25 matter of mathematics?

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1 THE WITNESS: Of course.

2 CHAIRWOMAN SHOWALTER: So isn't the answer
3 yes?

4 THE WITNESS: The answer is yes, although I
5 heard the attorney --

6 CHAIRWOMAN SHOWALTER: Isn't that the only
7 question that was asked here? What we want to do is
8 get to the hard questions or the substantive
9 questions. And Ms. Endejan, I'm not even sure you
10 need to ask that question, since it's a mathematical
11 certainty.

12 MS. ENDEJAN: Okay. Well --

13 THE WITNESS: I think she prefaced it that
14 the Company's proposal. That was my only --

15 Q. Now, do you know Verizon's current business
16 and residential rates?

17 A. Yes.

18 Q. Okay. And would you agree that the premium
19 one party flat residential rate is \$13?

20 A. Yes.

21 Q. And would you agree that the premium one
22 party flat business rate is 29.70?

23 A. Yes.

24 Q. Okay. Now, isn't it true that Staff
25 believes that the costs for business and residential

0618

1 services are similar?

2 A. We haven't testified to that in this
3 proceedings.

4 Q. Well, let me ask you this. Do you know Dr.
5 Glenn Blackmon?

6 A. Yes, I do.

7 Q. Okay. And Dr. Blackmon was head of the
8 Commission's Telecommunications Staff before he
9 assumed his current position; isn't that true?

10 A. Yes.

11 Q. Okay. And would you agree that Dr. Blackmon
12 is in a position to articulate Staff's view as to
13 whether costs for business and residential services
14 are similar?

15 A. In this proceeding, no.

16 Q. Well, as a matter of policy, for the Staff,
17 is Dr. Blackmon in a position to articulate Staff's
18 view as to whether business and residential costs are
19 similar?

20 A. I don't really know what you mean by the
21 question.

22 Q. Could you please turn to Exhibit 189,
23 please? Did you read this exhibit in preparation for
24 today's testimony because it was designated as a
25 cross-examination exhibit for you?

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1 A. Oh, yes.

2 Q. Okay. And if you could, would you please
3 turn to page two of this exhibit, the second to last
4 paragraph, which reads, Business rates currently are
5 more than twice as much as residential rates for
6 essentially the same service. We think it's time to
7 move those rates closer together, and this is a very
8 modest step in that direction. Do you see that?

9 A. Yes, I do. And I'd just state that this
10 exhibit, referring to --

11 Q. Excuse me, there's not a question. There's
12 not a question yet, Mr. Zawislak.

13 A. Okay.

14 Q. Okay.

15 A. I'm sorry. I'm very sorry.

16 Q. My question, Mr. Zawislak, is you wouldn't
17 disagree with Mr. Blackmon's statement that I have
18 just read to you, would you?

19 A. I think the article states what it states.

20 Q. And would you agree that Dr. Blackmon,
21 speaking on behalf of the Staff in this article,
22 articulated a position with respect to moving
23 business and residential rates closer to cost?

24 A. This article is in the context of a US West
25 rate case. It was subsequent to 950200, which was a

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1 full general rate case, and the subsequent Docket
2 970766 was already concluded at the time this article
3 was written. Therefore, Mr. Blackmon -- Dr.
4 Blackmon, excuse me, conclusions were based on a full
5 record of the analysis of US West's costs throughout
6 the full proceedings that had occurred prior to that
7 point.

8 Q. You just referenced the US West rate case,
9 and I would ask you to turn your attention to Exhibit
10 Number 188, please. And if you could turn to page
11 five, which is handwritten and circled. Okay. In
12 the last full paragraph on the page, this order
13 reads, We share the perspective stated by Dr.
14 Blackmon. The just affirmed earlier order will
15 operate to move long distance rates, including access
16 charges, down, and to narrow the gap between business
17 and residential local service, whose underlying costs
18 are similar. Do you see that? Do you see that, Mr.
19 Zawislak?

20 A. Yes, I do. And I think the just affirmed
21 earlier order was referring to Docket UT-950200, the
22 US West general rate case.

23 Q. Okay. Do you have any reason to disagree
24 with this policy of moving business and residential
25 local service closer together because their

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1 underlying costs are similar, as a matter of policy?

2 A. No, I don't. I think that the need to look
3 at the cost is very important, and that would be a
4 fine policy.

5 MS. ENDEJAN: Thank you. I have no further
6 questions.

7 JUDGE WALLIS: Mr. Butler.

8 MR. BUTLER: Yes. Mr. Trotter can jump in
9 if I'm going to misstate this, but I believe we have
10 a stipulation that Exhibits 190 and 191 would be
11 admitted. Is that correct?

12 MR. TROTTER: I'm willing to stipulate that,
13 as long as I -- I may have a follow-up question with
14 my witness on one of the exhibits.

15 JUDGE WALLIS: Very well.

16 MS. ENDEJAN: Your Honor, I apologize. I
17 meant to move for the admission of Exhibits 188 and
18 189 prior to the conclusion of my testimony -- of my
19 cross-examination.

20 MR. TROTTER: No objection.

21 JUDGE WALLIS: The exhibits are received.

22

23 C R O S S - E X A M I N A T I O N

24 BY MR. BUTLER:

25 Q. Good afternoon, Mr. Zawislak.

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1 A. Good afternoon, Mr. Butler.

2 Q. Can you just confirm for me that Exhibit 191
3 is an excerpt from the testimony of Staff Witness
4 Thomas Spinks in the UNE Cost Docket, Number
5 UT-023003?

6 A. That looks to be correct.

7 Q. And that states the Staff position on the
8 proper costs for determining Verizon's unbundled
9 network element cost; is that correct?

10 A. That appears to be correct.

11 Q. Are you aware of any Commission order that
12 states that Verizon's business rates should be a set
13 percentage above its residential rates?

14 A. The order that Ms. Endejan had referred to,
15 970766, referred to Qwest, and I'd done some
16 calculations after the testimony of Mr. Banta, I
17 believe it was yesterday. But to answer your
18 question regarding Verizon, I'm not aware of any, so
19 --

20 Q. Thank you. Can I direct your attention to
21 Exhibit 190, and it's page 107, labeled page 107 at
22 the top. And specifically, if I could direct your
23 attention to the first sentence of the third
24 paragraph?

25 A. Okay. This goes from 104 to 107.

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1 Q. Yes, it's just the page numbered 107, yes.

2 A. Okay. I have that.

3 Q. Do you see that sentence, The Commission has
4 no target ratio in mind when it establishes rates.

5 Did you have any basis for believing that that is not
6 a correct statement of the Commission's practice in
7 setting rates?

8 A. I don't have any reason to believe that's
9 not the case.

10 MR. BUTLER: Thank you. That's all the
11 questions I have.

12 JUDGE WALLIS: Mr. Melnikoff.

13 MR. MELNIKOFF: Thank you, Your Honor.

14

15 C R O S S - E X A M I N A T I O N

16 BY MR. MELNIKOFF:

17 Q. Good evening, Mr. Zawislak.

18 A. Good evening.

19 Q. Let me take you to your testimony on Exhibit
20 181, page five. This is your direct testimony, lines
21 eight through 10. You criticize Verizon, or you seem
22 to criticize Verizon for not providing a price
23 elasticity study with its proposal; is that correct?

24 A. Simply stating the fact.

25 Q. Did you conduct a price elasticity study

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1 with your proposal?

2 A. No, I did not.

3 Q. Would you take it subject to check, would
4 you agree, subject to check, your proposal increases
5 for residential the differential between residential
6 premium and business premium the -- I'm sorry.

7 Would you take, subject to check, agree,
8 subject to check, that the company's proposal -- the
9 differential between the residential premium and
10 business premium is \$16.70 in terms of a -- the
11 surcharge, after the surcharge is applied?

12 CHAIRWOMAN SHOWALTER: After whose
13 surcharge?

14 Q. The company's surcharge is applied.

15 A. I've prepared an exhibit, it is Exhibit 184,
16 and I believe that would be helpful to refer to in
17 order to answer that question. I think the math
18 would be easy to do.

19 Q. Okay. In general, you are increasing, in
20 absolute terms, the differential between business and
21 residential, are you not?

22 A. No. The company's proposal is changing the
23 relationship, but the Staff's proposal is not
24 changing the relationship. Staff's proposal would
25 keep the relationship exactly as it exists today.

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1 Q. I'm saying in absolute dollar amounts, you
2 were increasing the differential between business and
3 residential rates?

4 A. Okay. I may have misunderstood you. I
5 thought you were referring to the company proposal.
6 Staff's proposal would, in absolute dollar terms,
7 raise the price of premium business one party flat by
8 \$4.69, and residential premium one party flat by
9 \$2.05, and so the increase is more for the business
10 than it is for the residential. That's true on an
11 absolute basis.

12 Q. And in general, for all rates, that would be
13 the fact?

14 A. Yeah, the lower the rate, the lower the
15 absolute dollar amount. The higher the rate, the
16 higher the absolute dollar amount. But overall, on
17 an equitable basis, it would affect customers 15.78
18 percent, based on the price they pay, so it would be
19 equitable from that point of view.

20 Q. From a percentage point of view, but you are
21 increasing the differential in absolute dollar terms;
22 correct?

23 A. Sure, I would agree with that.

24 Q. Have you conducted any study that shows that
25 the cost of serving a business customer versus a

0626

1 residential customer is increasing?

2 A. The company has not provided cost studies --

3 Q. No, I didn't --

4 A. -- for us to review yet in this proceeding.

5 Q. I didn't ask that. I asked have you
6 conducted any study that shows that there is an
7 increase in cost?

8 A. No, my -- this analysis is not based on
9 cost. It's only if the Commission finds a need for
10 an interim relief that my proposal is strictly based
11 to allow the company to recover that on a equal
12 percentage basis from all of its customers. The cost
13 issue hasn't been addressed yet, and it should be
14 addressed in the general rate case.

15 Q. On the basis of your experience and
16 knowledge, is it your belief that elasticities for
17 business and residential access lines are the same
18 for Verizon's Washington operations?

19 A. I didn't perform an elasticity study, so I
20 don't --

21 Q. On the basis of your knowledge and
22 experience, do you believe that the elasticities of
23 demand for business and residential customers are the
24 same for Verizon's Washington operations?

25 A. I don't know.

0627

1 Q. Assuming that there are differences in
2 elasticities for business and residential services,
3 would you agree that the Commission should ensure
4 that the interim increases do not drive away
5 customers that have a higher elasticity of demand or
6 should -- or have greater competitive options?

7 A. I would agree to that with the caveat that
8 competitive options are available. Most all of these
9 services, 84 percent of them are -- well, excuse me,
10 all the services that I'm looking at here are non --
11 not competitively classified, and so there hasn't
12 been proven effective competition, so I'm not sure
13 that customers even have a choice.

14 Q. Does the fact that a service has been
15 competitively reclassified, does that mean that there
16 are no competitive options?

17 A. Not necessarily.

18 Q. Do you believe that there is competitive
19 options for business service customers in Verizon's
20 Washington operations?

21 A. There may be. Verizon hasn't brought forth
22 a petition for a competitive classification, so those
23 --

24 Q. Based upon your --

25 A. -- haven't been performed.

0628

1 Q. I'm sorry. I didn't mean to cut you off.

2 A. The analysis hasn't been performed, to my
3 knowledge.

4 Q. Based upon your knowledge and experience, do
5 you believe that there are competitive options in
6 Verizon's operational territories in Washington State
7 for business customers?

8 A. I would assume so, and I know of one
9 particular case in Eastern Washington that I can
10 think of, but I would assume that there probably are
11 various degrees of --

12 Q. Do you believe that the business market is
13 more competitive than the residential market in
14 Washington in Verizon's area?

15 A. I don't -- I don't know. I don't have any
16 information to base that conclusion on.

17 MR. MELNIKOFF: I have no further questions,
18 Your Honor.

19 JUDGE WALLIS: Mr. Roseman.

20

21 C R O S S - E X A M I N A T I O N

22 BY MR. ROSEMAN:

23 Q. I think I only have three, but I'm going to
24 ask you about the program in Washington that assists
25 low-income persons with their telecommunications

0629

1 service. Are you familiar with that program?

2 A. Generally, yes.

3 Q. Do you know -- first, what is the name of
4 the program?

5 A. The Washington Telephone Assistance Program.

6 Q. And do you know who established that
7 program?

8 A. I believe the legislature.

9 Q. That's correct. Do you know of any other
10 programs that are available to assist seniors,
11 distressed areas, schools, and others with the cost
12 of their telecommunications service?

13 A. Not specifically. Schools and libraries, I
14 know the FCC has a fund in their universal service.

15 Q. Are there any programs established in the
16 state of Washington to help these other groups,
17 senior citizens?

18 A. I'm not aware -- explicitly aware of any
19 specific ones, although I assume that there are
20 agencies or other -- like DSHS that might have other
21 programs that are not based on financial need. This
22 is a low-income program.

23 Q. That's right.

24 A. There might be other programs out there
25 that, you know, that I just don't know.

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1 Q. But you don't know of --

2 A. No.

3 Q. -- you don't know of those. And that leads
4 me to this question, and I'm interested in your
5 answer. You appear to say in your testimony, where
6 you discuss WATAP, that it's not fair to single out
7 only one of these groups and apply no surcharge to
8 that group. I guess I was interested in why you were
9 opposed to exempting this low-income program from the
10 surcharge?

11 A. Well, my testimony at page 14, I did discuss
12 this, and the assumption was that there are -- you
13 know, governmental and social service entities out
14 there. I'm thinking of possibly shelters, other
15 things where they purchase telephone service from
16 Verizon and, in turn, make that available to people
17 in need. And they're on budgets, as well, I would
18 assume.

19 Q. But to your knowledge, there's only one
20 program established in the state of Washington to
21 specifically assist low-income people, and that's the
22 Washington Telephone Assistance Program; is that
23 correct?

24 A. I would agree with that. You know,
25 explicitly established by the legislature, that's the

0631

1 only one I'm aware of.

2 MR. ROSEMAN: Thank you. I have nothing
3 further.

4 JUDGE WALLIS: Questions from the Bench? It
5 appears that there are none.

6

7 R E D I R E C T E X A M I N A T I O N

8 BY MR. TROTTER:

9 Q. Mr. Zawislak, Ms. Endejan asked you whether
10 you would agree with the policy of moving residential
11 and business rates closer together. Do you recall
12 that question?

13 A. Yes.

14 Q. Do you have an opinion as to whether that
15 should occur in an interim rate relief proceeding,
16 and if so, can you state that opinion?

17 A. Yes, I have an opinion, and that opinion is
18 that it should not occur in an interim relief
19 proceeding. It would be an issue for a general rate
20 case.

21 Q. Verizon's cost studies are to be filed on
22 the 23rd of this month; is that right?

23 A. That is true.

24 Q. With respect to competitive alternatives for
25 certain customers, is the fact that an alternative

0632

1 provider exists, does that mean that the market is
2 effectively competitive?

3 A. No.

4 MR. TROTTER: That's all I have. Thank you.

5 JUDGE WALLIS: Is there anything further of
6 the witness?

7

8 E X A M I N A T I O N

9 BY CHAIRWOMAN SHOWALTER:

10 Q. I have one follow-up on Mr. Trotter's first
11 question. If, in an interim proceeding, we do grant
12 relief on a straight percentage basis, as you have
13 suggested, but later, in a general case, alter the
14 rate design so as to bring business and residential
15 rates much closer together on the theory that, if
16 proved, the underlying costs are much closer
17 together, then won't there be a greater degree of
18 rate shock for the residential customers and a
19 probable refund necessary for the business customers,
20 depending on what ultimate amount a general produces?

21 A. I would agree with that. And I wanted to
22 also point out in my testimony the issue about the
23 refund depending on, like you say, the level of
24 ultimate revenue deficiency. I think the Staff
25 proposal actually could help transition both

0633

1 residence and business in the right direction if
2 Verizon's asserted revenue deficiency is as big as it
3 says it is.

4 Q. In other words, they would both be increased
5 and then have more to go?

6 A. Yes, I believe they proposed \$9.80 in the
7 general rate case and will need \$3 here. Staff's
8 proposal is \$2 and 4.69, so they're both below what
9 the company ultimately proposes, and they would both
10 be transitioning in the right direction, assuming the
11 company's case has merit.

12 CHAIRWOMAN SHOWALTER: Thank you.

13 JUDGE WALLIS: Is there anything further of
14 the Witness? Let the record show that there's no
15 response. Mr. Zawislak, you are excused from the
16 stand at this time.

17 THE WITNESS: Thank you.

18 JUDGE WALLIS: Is there anything further
19 this evening before we adjourn?

20 MR. PARKER: I'd just like to thank Your
21 Honor, the Chairwoman, and the Commissioners For
22 staying the extra hour to get the case done. I
23 appreciate it.

24 MS. ENDEJAN: Ditto.

25 JUDGE WALLIS: Very good. Thank you all.

0634

1 CHAIRWOMAN SHOWALTER: Thank you all.

2 (Proceedings adjourned at 5:44 p.m.)

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