

**BEFORE THE  
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

**In The Matter Of The Petition Of )  
Verizon Northwest Inc. Seeking )  
Interim Rate Increase )**

**DOCKET NO. UT-**

**DIRECT TESTIMONY OF  
NANCY W. HEURING  
ON BEHALF OF  
VERIZON NORTHWEST INC.**

**APRIL 30, 2004**

**I. INTRODUCTION**

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

A. My name is Nancy W. Heuring. My business address is 600 Hidden Ridge, Irving, Texas.

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

A. I am employed by Verizon Services Organization Inc. as Director-Regulatory Accounting with responsibilities for the former GTE and Bell Atlantic telephone companies, including the Washington operations of Verizon Northwest Inc. (“Verizon NW” or the “Company”). My principal duties and responsibilities include the direction and supervision of the preparation of accounting information associated with financial filings and regulatory reporting, as required by state regulatory commissions.

**Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND BUSINESS EXPERIENCE.**

A. I graduated from Illinois Wesleyan University, Bloomington, Illinois with a Bachelor of Arts degree in Accounting. I received a Masters in Business Administration degree with a concentration in Telecommunications from the University of Dallas in 1995. I am also a Certified Public Accountant and a Certified Management Accountant.

Since 1981, I have been employed by various subsidiaries of the former GTE Corporation, including GTE Service Corporation, GTE Data Services, GTE Sylvania

1 Lighting Services, and GTE Telephone Operations where I held a number of managerial  
2 positions of increasing responsibility, including positions in Audit, Operations Finance,  
3 General Accounting, Regulatory Accounting Policy, Regulatory Accounting, Business  
4 Affiliates Compliance and Regulatory Compliance. I assumed my current position in  
5 June 2000 with the merger of GTE and Bell Atlantic, which formed Verizon  
6 Communications Inc.

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8 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE STATE REGULATORY**  
9 **COMMISSIONS?**

10 A. Yes. I have testified before the Virginia State Corporation Commission, the California  
11 Public Utility Commission, the Indiana Utility Regulatory Commission and the  
12 Washington Utilities and Transportation Commission (“WUTC” or “Commission”). In  
13 addition, I filed testimony before the Hawaii Public Utilities Commission.

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

16 A. My testimony sets forth Verizon NW’s return for the intrastate operations in support of  
17 the request for interim rate relief.

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19 As I discuss in my testimony supporting Verizon NW’s general rate case filing, Verizon  
20 NW’s return for the twelve-month period ending September 2003 is *negative* 3.73%. For  
21 purposes of this interim relief application, however, Verizon NW has agreed with Staff’s  
22 suggestion to assume that the Commission’s current prescribed depreciation lives are  
23 correct. Thus, for purposes of this interim relief application, I have “backed out” Verizon

1 NW's depreciation and pro forma adjustments. This yields a return for the twelve-month  
2 period ending September 2003 of *negative* 0.47%, which still is substantially below the  
3 last return authorized by the WUTC of 9.76%.<sup>1</sup>  
4

5 **Q. WHAT FINANCIAL EXHIBITS ARE YOU PRESENTING IN SUPPORT OF**  
6 **THIS TESTIMONY?**

7 A. I present Exhibit NWH-8, which provides the intrastate results of operations and  
8 associated revenue requirement deficiency for the historical period (1) as restated and (2)  
9 as adjusted to reflect the \$29.7 million access reduction in the AT&T Access Complaint  
10 case, Docket No. UT-020406.  
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12 **Q. DO YOU HAVE WORKPAPERS SUPPORTING YOUR EXHIBITS?**

13 A. Yes. The Company has filed comprehensive supporting workpapers, which present in  
14 detail the Company's revenue requirement deficiency. The workpapers are presented in  
15 accordance with WAC 480-07-510(3) and contain a detailed portrayal of restating actual  
16 adjustments and a representation of the results as calculated in the most recent Company  
17 rate case.  
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19 **Q. WERE THE WORKPAPERS, EXHIBITS AND ASSOCIATED TESTIMONY**  
20 **PREPARED BY YOU OR UNDER YOUR DIRECTION AND SUPERVISION?**

21 A. Yes.

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<sup>1</sup> Cause No. UT-931591

**II. RESULTS OF OPERATIONS**

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3 **Q. WHAT ARE THE FINANCIAL RESULTS FOR THE INTRASTATE**  
4 **WASHINGTON OPERATIONS?**

5 A. The intrastate rate of return for the twelve-month period ended September 2003 is  
6 *negative* 0.47%. This return is below the authorized return of 9.76% and reflects a  
7 revenue requirement deficiency of \$159 million. Exhibit NWH-8 shows this return and  
8 the resulting deficiency.

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10 **Q. PLEASE EXPLAIN THE PROCESS USED TO DEVELOP THE RESULTS OF**  
11 **OPERATIONS.**

12 A. Detailed accounting records for the period October 2002 through September 2003 were  
13 the starting point for the development of the earned rate of return. This historical period  
14 was normalized, through the use of restating adjustments, to modify the results for the  
15 impacts of out-of-period items (items booked in the test year which relate to a prior  
16 accounting period), and one-time or other miscellaneous items. In addition, the test  
17 period was restated to reflect adjustments to financials as required by WUTC accounting  
18 rules. Workpapers documenting the historic results and the associated adjustments are  
19 provided in support of this filing.

20  
21 **Q. IS THE RETURN FOR THE TWELVE-MONTH PERIOD ENDED SEPTEMBER**  
22 **2003 REPRESENTATIVE OF THE ACTUAL RETURN EXPERIENCED OVER**  
23 **THE PAST YEAR?**

1 A. Yes. The return, as filed with this Commission in the Quarterly Surveillance Report, has  
2 consistently been below 2.50% since early 2002. Also, the Commission's decision to  
3 reduce Verizon NW's revenues effective October 1, 2003 in Docket No. UT-020406  
4 further reduced the rate of return.

5

6 **Q. WHY HAS VERIZON NW'S INTRASTATE RETURN CONTINUED TO**  
7 **DECLINE?**

8 A. There are several reasons. First, the Company reduced its intrastate earnings by \$30  
9 million per year beginning in 1999 as a result of the Bell Atlantic-GTE Merger Order.  
10 Second, as noted above, the Commission recently reduced the Company's access charges  
11 by about \$30 million per year. Third, the Company has continued to suffer losses in line  
12 growth. Fourth, the Company's depreciation expense must increase significantly to  
13 better reflect the economic recovery of telecommunications plant. Not all of these issues  
14 are presented for purposes of this interim relief application; rather, they are mentioned  
15 here to show that there is no evidence the Company's financial performance is expected  
16 to improve dramatically in the near term absent relief from this Commission.

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18 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

19 A. Yes.