

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
STEVEN M. BANTA
ON BEHALF OF
VERIZON NORTHWEST INC.

APRIL 30, 2004

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

2 A. My name is Steven M. Banta. My business address is 600 Hidden Ridge Drive, Irving,
3 Texas, 75038.

4
5 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

6 A. I am employed by Verizon as Group President – Northwest and Southwest Regions and
7 have responsibility for public policy and external affairs in Washington, Idaho, Oregon,
8 and Texas. I am testifying on behalf of Verizon Northwest Inc. (“Verizon NW” or
9 “Company”).

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

13 A. I graduated from Central Michigan University in 1975 with a Bachelor of Science Degree
14 in Business Administration. I earned a Master of Science Degree in Accounting from
15 Central Michigan in 1976. In October 1976, I joined General Telephone Company of
16 Michigan as an accounting assistant. I held various positions of increasing responsibility
17 in the Accounting and Regulatory Departments until February 1984, when I was
18 promoted to the position of Regulatory Affairs Manager. In July 1986, I was promoted to
19 State Director – Regulatory and Legislative Affairs in Harrisburg, Pennsylvania for GTE
20 North. In April 1992, I was promoted to Director – Business Matters for GTE Telephone
21 Operations. In March 1996, I took the position of Assistant Vice President – Government
22 Relations for GTE Wireless. In this capacity I was responsible for state and federal
23 regulatory and legislative matters for GTE Wireless in Atlanta, Georgia. In March 1998,

1 I became the Regulatory and Governmental Affairs Vice President, Central, for GTE
2 Service Corporation leading Verizon NW's efforts in 11 central states until being selected
3 as Group President in my present position in July 2000.

4
5 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

6 A. My testimony explains why the Commission should grant Verizon NW \$29.7 million per
7 year in interim rate relief.

8
9 **Q. WHY IS VERIZON NW REQUESTING \$29.7 MILLION IN INTERIM RELIEF?**

10 A. Verizon NW is requesting this interim rate relief pending the resolution of its general rate
11 case because its current intrastate rate of return is well below authorized levels – indeed,
12 it is nonexistent. Interim relief is also needed to avoid gross hardship.

13
14 In its application for interim relief, Verizon NW is requesting only the amount of
15 revenues that the Commission took away from the Company in the AT&T Access
16 Complaint Case (UT-020406) without making any findings on the Company's earnings
17 level. The Company's total revenue requirement deficiency is significantly larger. By
18 limiting its request to \$29.7 million¹ – caused by governmental action beyond Verizon
19 NW's control – Verizon NW believes the Commission can and should approve this
20 application expeditiously.

21

¹ The Commission's Order in Docket No. UT-020406 calculated a \$32 million annual reduction. The \$29.7 million requested here is based on the rate reductions ordered in UT-020406 multiplied by the test year units used in Verizon NW's general rate case filing (Oct. 2002 through Sept. 2003).

1 **Q. DOES VERIZON NW’S INTERIM REQUEST MEET THE COMMISSION’S**
2 **FACTORS FOR GRANTING INTERIM RATE RELIEF?**

3 A. Yes. Verizon NW’s request for interim relief satisfies the six factors the Commission
4 adopted in *WUTC v. PNB*, Cause No. U-72-30.² These factors are:

- 5
- 6 • The relief must be in the public interest.
 - 7
 - 8 • A demonstration that an actual emergency exists or to prevent gross hardship or gross
9 inequity.
 - 10
 - 11 • The failure to not earn the authorized rate of return is not sufficient, standing alone, to
12 justify the grant of interim relief.
 - 13
 - 14 • Examination of key financial indices.
 - 15
 - 16 • Jeopardy to the utility or detriment to ratepayers.
 - 17
 - 18 • An opportunity for adequate hearing.

19 The Commission has made clear that these factors are not “standards” that must be
20 satisfied before interim relief may be granted; nevertheless, Verizon NW satisfies all of
21 them.

22 **Q. IS VERIZON NW’S REQUEST FOR INTERIM RELIEF IN THE PUBLIC**
23 **INTEREST?**

24 A. Yes. It is in the public interest for the Commission to assure that the revenues it regulates
25 are “sufficient.” The Commission regulates Verizon NW under rate-of-return to ensure

² Second Supplemental Order (Oct. 10, 1972). See also *Avista Corporation d/b/a/Avista Utilities, Request Regarding the Recovery of Power Costs Through the Deferral Mechanism*, Docket No. UE-010395 (WUTC Sept. 24, 2001).

1 that (1) customers receive quality service at a reasonable price, and (2) that the Company
2 has an opportunity to recover its costs of, and earn a reasonable return on, its reasonable
3 investment. The Commission's own web page, in the section entitled "What We Do,"
4 makes this very point:

5 By law, the Commission must set rates that are fair, just,
6 reasonable, and sufficient. This means that the Commission must
7 balance the interest of customers, in receiving service at the lowest
8 cost against that of investors, who have the opportunity to earn a
9 rate of return on their reasonable investment used in providing
10 service.
11

12 The testimony of Verizon NW witnesses Nancy Heuring and Dr. James Vander Weide
13 prove that an interim rate increase is in the public interest. For example, Ms. Heuring
14 shows that Verizon NW's current intrastate rate of return is nonexistent. Quite simply,
15 without an interim rate increase, Verizon NW's ability to meet its public service
16 obligations in Washington will be impaired. Indeed, on a Washington intrastate stand
17 alone basis – which are the operations and investment over which this Commission
18 exercises jurisdiction – Verizon NW could not borrow capital at investment grade levels
19 to sustain its operations or make the interest payments on existing debt instruments.
20

21 Also, to put the magnitude of this \$29.7 million revenue reduction in further context, that
22 amount equates to: (1) the elimination of 35.3% of the capital investment Verizon NW
23 made in services subject to the WUTC's jurisdiction in 2003; (2) the elimination of
24 38.7% of the amount Verizon NW spent to maintain and repair the network it used to
25 provide those services; or (3) the elimination of 3.1 months payroll expense for Verizon

1 NW's employees in Washington.³ These facts clearly demonstrate that Verizon NW has
2 a clear and present extraordinary need for interim rate relief.

3
4 **Q. HAS VERIZON NW SUFFERED A GROSS HARDSHIP AND GROSS**
5 **INEQUITY?**

6 A. Yes. Verizon NW's current *negative* intrastate rate of return and *negative* net operating
7 income clearly demonstrate gross hardship.

8
9 This gross inequity results, in part, from the WUTC's decision in the AT&T Access
10 Charge Complaint Case to reduce Verizon NW's intrastate access charges by \$29.7
11 million without a countervailing revenue increase to other services. In other words, the
12 Commission took away a large portion of Verizon NW's total revenues that were needed
13 to support local services. The Commission itself has recognized this fact, noting that:

14 [ILEC's] rates are regulated by the Commission and must be fair, just,
15 reasonable and sufficient. A decrease in access charges will result in
16 either a decrease in their overall profits (which must remain "sufficient")
17 or an offsetting increase in other rates, or some combination of the two.⁴
18

19 Because of the time required to conduct a rate case, Verizon NW will not be able to
20 recover this shortfall even if the Commission determines that every single dollar in access
21 charge reductions should be recovered. Thus, interim relief is required.

22

³ These calculations are based on the test year data included in Verizon NW's general rate case filing. The test year is the twelve months that ended September 30, 2003.

⁴ Docket No. UT-970325, *General Order No. R-450* at 4.

1 **Q. HOW DOES VERIZON NW'S CURRENT RATE OF RETURN COMPARE TO**
2 **ITS AUTHORIZED LEVEL?**

3 A. As explained in the testimony of Nancy Heuring, Verizon NW's intrastate rate of return
4 for the test period is a *negative* .47%, well below the authorized rate of 9.76%.

5

6 **Q. PLEASE SUMMARIZE THE KEY FINANCIAL RATIOS APPLICABLE TO**
7 **VERIZON NW'S INTRASTATE OPERATIONS IN WASHINGTON.**

8 A. As discussed in the testimony of Dr. Vander Weide, Verizon NW examined three key
9 financial ratios: (1) EBIT interest coverage; (2) EBITDA interest coverage; and (3) the
10 funds from operations to total debt. Dr. Vander Weide explains that Verizon NW's
11 current ratios would yield a BB bond rating, which is below investment grade. Such a
12 bond rating would provide insufficient access to the large amounts of capital that are
13 required to fund the Washington intrastate operation's on-going capital expenditure
14 program. In other words, Verizon NW would be in jeopardy of not generating enough
15 capital to fund its construction expenditures for 2004.⁵

16

17 **Q. WHAT ARE THE CONSEQUENCES OF VERIZON NW'S CURRENT**
18 **FINANCIAL CONDITION?**

19 A. Quite simply, Verizon NW's intrastate operations are in jeopardy. Like any company, if
20 Verizon NW's revenues do not cover its costs, then Verizon NW (1) cannot fund planned
21 construction and thus must defer (or forego) capital spending; (2) must restrict spending

⁵Verizon's estimated construction expenditures for year ended December 31, 2004 are \$112,488,000. This estimate was filed with the WUTC pursuant to WAC 480-140-040.

1 on maintenance and repair; (3) must eliminate overtime and implement hiring freezes and
2 other cost-cutting measures; and (4) must revise its internal goals of always *exceeding*
3 service quality standards to simply try to meet the absolute *minimum* requirements. The
4 interim relief Verizon NW seeks here is a helpful “stopgap” measure until the
5 Commission sets a permanent revenue requirement in our general rate case.

6
7 **Q. DOES VERIZON NW’S PROPOSED REQUEST FOR INTERIM RELIEF**
8 **PROVIDE FOR ADEQUATE HEARING?**

9 A. Yes. Verizon NW proposes that an evidentiary hearing be held in approximately three
10 months, with public hearings to be scheduled soon thereafter. Also, in order to help
11 expedite review of this interim relief request, Verizon NW has agreed with Staff’s
12 suggestion to eliminate Verizon NW’s proposed depreciation adjustment and cost of
13 capital from Verizon NW’s financials. In other words, for the sole purpose of obtaining
14 interim relief, Verizon NW will assume that its current Commission-prescribed
15 depreciation lives and cost of capital are correct. This issue is explained further in Ms.
16 Heuring’s testimony.

17
18 Verizon NW’s proposed schedule is more than adequate, especially in light of the fact
19 that the principal issue in any rate case – the sufficiency of the utility’s revenues –
20 already was addressed in detail for Verizon NW in the AT&T Access Charge Complaint.
21 There, Verizon NW proved that its earnings were well below authorized levels. The
22 parties in that case had an opportunity to serve Verizon NW with discovery and present
23 responsive testimony, and a sufficient record was developed. Indeed, Staff counsel stated

1 at a March 7, 2003 hearing before the full Commission in the AT&T complaint case that
2 the type of evidence Verizon NW has provided here is “more information in the record
3 than is required by the [Commission’s rules] in a rate case.⁶ Given this unique set of
4 circumstances, Verizon NW’s request for interim relief can and should be decided
5 expeditiously. Verizon NW’s complete proposed schedule is attached to its application.
6

7 **Q. WHAT IS VERIZON NW’S PROPOSED INTERIM SURCHARGE?**

8 A. Verizon NW is proposing an interim monthly surcharge of \$3.54. This surcharge will
9 apply to basic calling service, premium calling service, premium plus flat service,
10 premium plus measured service, foreign exchange, foreign company, and residential
11 packages. The specific services are identified in Exhibit SMB-3. Also, Verizon NW
12 agrees to make this surcharge subject to refund.
13

14 **Q. WHY IS VERIZON NW PROPOSING INTERIM INCREASES FOR BASIC
15 LOCAL SERVICE RATHER THAN OTHER SERVICES?**

16 A. The Company’s proposal reflects marketplace realities and the Commission’s policy
17 decisions. It also is easier to administer if any refunds are needed as a result of a final
18 Commission order.
19

20 Although Verizon NW provides some long distance service within regions inside the
21 state, the vigorous competition in that market makes it impossible as a practical matter to
22 increase the Company’s long distance prices in order to generate the interim revenue

⁶ WUTC Docket No. UT-020406, Tr. 236 (March 7, 2003)

1 increase. The same is true for the data and other specialized services the company
2 provides to business and governmental customers. Further, it would be impractical to
3 raise interim revenue by increasing prices for ancillary services, such as speed dialing and
4 call waiting. That leaves basic residential and business services for the proposed interim
5 rate increases. This is the most equitable approach since it covers the largest portion of
6 the customer base.

7
8 Also, Verizon NW has no option but to increase basic rates given the Commission's
9 order in the AT&T Access Complaint case. That order appears to prohibit any future
10 increases in access charges.

11
12 **Q. HOW DID VERIZON NW CALCULATE THE SURCHARGE?**

13 A. The surcharge is based on billable lines as of September 30, 2003, and the requested
14 revenue of \$29.7 million.

15
16 **Q. HOW WOULD LIFELINE CUSTOMERS FUNDED THROUGH THE
17 WASHINGTON TELEPHONE ASSISTANCE PROGRAM (WTAP) BE
18 IMPACTED BY THE SURCHARGE?**

19 A. Verizon NW proposes that lifeline customers be exempted from the surcharge.
20

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

22 A. Yes.