

1 may have also provided the Commission with certain supporting materials in connection with this filing,
2 but on a confidential basis. Since I have not had access to such materials, the analysis presented in this
3 Affidavit is necessarily based upon publicly available information.

4

5 2. I have testified before the WUTC on a number of occasions dating back to the late 1970s. In
6 April, 1978, I submitted testimony on behalf of the Boeing Company and Sears, Roebuck and
7 Company in Dockets U-77-50, U-77-51, and U-77-52. In November 1982, I submitted testimony
8 before the Commission on behalf of the Tele-Communications Association (TCA) in Docket U-82-19
9 concerning the transfer of Pacific Northwest Bell assets and personnel to AT&T as part of the Plan of
10 Reorganization arising out of the break-up of the former Bell System, and appropriate pricing of
11 terminal equipment. In September, 1988, I submitted two pieces of written testimony to the
12 Commission in Docket U-88-2052-P regarding the competitive classification of certain of Pacific
13 Northwest Bell's services. My testimony on behalf of Public Counsel in that case addressed
14 competitive classification of Pacific Northwest Bell's intraLATA toll services, while my testimony on
15 behalf of Telecommunications Ratepayers Association for Cost-based and Equitable Rates (TRACER)
16 and the State of Washington Department of Information Services addressed competitive classification
17 of Pacific Northwest Bell's private line services. In January 1990, I submitted testimony on behalf of
18 TRACER, Public Counsel, and the State of Washington Department of Information Services in Docket
19 U-89-3031-P regarding GTE-Northwest's proposal for alternative regulation. I also submitted
20 testimony on behalf of TRACER in June 1993, Dockets U-89-2698-F and U-89-3245-P proposing a

1 “Modified Incentive Regulation Plan” for US West Communications (USWC). On April 17, 1995, I
2 submitted direct and supplemental testimony on behalf of the Staff of the Washington Utilities and
3 Transportation Commission in Dockets UT-941464, UT-941465, UT-950-0146 and UT 950265,
4 regarding the cost studies filed by US West in support of its proposed local transport restructure and
5 expanded interconnection tariffs. On August 11, 1995, I submitted testimony in Docket UT-950200
6 on behalf of the Staff of the Washington Utilities and Transportation Commission concerning US
7 West’s request for an increase in its rates and charges. On October 31, 1997, I offered testimony in
8 Docket UT-961638 on behalf of Public Counsel and TRACER in response to US West’s request to
9 be relieved of its obligation to serve. On March 4 and June 28, 1999 I sponsored responsive and
10 surrebuttal testimony, respectively, in Docket UT-980948 on behalf of WUTC Staff regarding US
11 West’s petition and accompanying testimony seeking to end the imputation of “yellow pages” directory
12 advertising revenues to its Washington regulated telephone operations. On March 18, 2003, I
13 submitted prefiled direct testimony on behalf of the WUTC Staff in Docket No. UT-021120 addressing
14 Qwest’s proposed Sale and Transfer of Qwest Dex to Dex Holdings, LLC, a non-affiliate.

15

16 3. In addition to the aforementioned appearances, ETI has served as a consultant to the
17 Commission and has submitted other filings and reports to the Commission. In October, 1984,
18 ETI prepared a comprehensive evaluation of Local Measured Service (LMS), *A Multi-Part Study*
19 *of Local Measured Service*, for the WUTC. In 1985, I was co-author, along with Patricia D.
20 Kravtin and Nancy J. Wheatley of ETI, of Reply Comments of the U.S. Department of Energy,
21 Richland Operations Office, regarding cost of service issues bearing on the regulation of

1 telecommunications companies. These Reply Comments were submitted to the Commission in
2 November of that year. In 1987, ETI was engaged by the Commission to undertake an
3 examination of the outside plant construction and utilization practices of US West Communications
4 and to present recommendations based on that investigation. The final report arising from that
5 assignment, *An Analysis of the Outside Plant Provisioning and Utilization Practices of US West*
6 *Communications in the State of Washington*, was submitted to the Commission in March 1990. I
7 was co-author of that report, along with Patricia D. Kravtin and Paul S. Keller of ETI.

8
9 4. My most recent appearance before the Commission, and of direct relevance to the instant
10 matter, was in Docket No UT-020406, the AT&T Complaint proceeding addressing the level of
11 Verizon Northwest's intrastate switched access charges. I submitted an Affidavit accompanying
12 AT&T's Complaint on March 28, 2002, and direct and rebuttal testimony on behalf of AT&T on
13 September 30, 2002 and January 31, 2003, respectively, and appeared before the Commission at a
14 hearing held March 7, 2003. AT&T's Complaint, and my testimony in support thereof, addressed,
15 *inter alia*, the matter of Verizon's noncompliance with the Commission's access charge imputation
16 requirements and Verizon's practice of setting retail intrastate toll prices below the required price floor,
17 thereby imposing a price squeeze on rival interexchange carrier providers of intrastate toll services in
18 Washington.

19

1 5. The WUTC most recently addressed the issue of imputation in the *First Supplemental Order*
2 in Docket No. UT-970767,¹ where the Commission made the following determination:

3
4 The Commission incorporates as the appropriate cost standard for determining whether GTE's
5 prices for intraLATA toll service cover its costs the imputation analysis provided by GTE in
6 Docket No. UT-970598, revisions to its Tariff WN U-12, IntraLATA Toll Services. The June
7 25, 1997 Staff Memorandum on this filing notes at page 2:

8
9 Imputation

10 GTE-NW is required to demonstrate that its rates do not create a "price squeeze for its toll
11 competitors, who must by access from GTE-NW. GTE-NW has provided its imputation
12 analysis as a confidential cost support exhibit with the tariff filing. Staff believes the proposed
13 toll rates do not result in a price squeeze, because the average rates under each toll plan are
14 sufficiently high to cover the access charges that GTE-NW would incur and the incremental
15 cost of toll service...²
16

17 The Commission's ruling is clear in that the proper imputation standard should include both access and
18 non-access costs. Notably absent from the Commission's ruling is any language specifically identifying
19 or limiting what the "incremental cost[s]" associated with toll service are.

20
21 6. On March 25, 2003, Verizon Northwest, Inc. ("Verizon" or "the Company") introduced two
22 new service "bundles" that incorporate basic local exchange dial tone service, various "custom calling"

1. *In the Matter of the Investigation on the Commission's Own Motion Whether the Intra-LATA Toll Services of GTE Northwest Incorporated Should Be Classified as a Competitive Telecommunications Service*, WUTC Docket No. UT-970767, *First Supplemental Order*, September 29, 1997, at 12-13.

2. *GTE-NW IntraLATA Toll Order*, at 12.

1 features, and intraLATA toll into a single flat-rate package. As I shall demonstrate in this Affidavit,
2 Verizon's proposed tariff rates for these bundles do not satisfy the Commission's regulations regarding
3 access charge imputation and the minimum price floor at which such service may be offered and, if
4 permitted to go into effect, will diminish competition for toll services by creating a price squeeze on
5 other toll carriers who are required to purchase switched access services from Verizon in order to
6 provide toll service to end users.

7

8 **Description of the Verizon Variations FreedomSM service**

9

10 7. The Verizon ILECs (the former Bell Atlantic and GTE operating companies) and their long
11 distance affiliate Verizon Long Distance ("VLD") have jointly introduced local/long distance service
12 bundles that are being marketed under the "Variations FreedomSM" brand name. As of the date of this
13 Affidavit, the Variations FreedomSM service is being offered in five former Bell Atlantic states
14 (Pennsylvania, New Jersey, New York, Massachusetts and Virginia) and in one former GTE state
15 (Florida). Verizon describes the Variations FreedomSM package in its marketing information as follows:

16

17 **Talk as much as you want — it's unlimited.**

18

19 Enjoy the freedom to call anytime, to anyone – across town, across the state,
20 or across the country. There are no time restrictions or limits on who you can
21 call. Plus five of our most popular calling services – and more than \$240 a
22 year in savings. All in one great package.³

3. <https://www22.verizon.com/ForYourHome/sas/FreedomLongDesc.asp?ID=FLD&State=MA>
(visited 4/10/03).

1 8. The Variations FreedomSM package consists of two separate service components, one of
2 which is furnished by the Verizon ILEC entity and the other by the Verizon long distance affiliate,
3 Verizon Long Distance (“VLD”). The local component is usually called something like “Local Package
4 Basic” or “Local Package Plus.” (Those are the names given to the offerings by Verizon Northwest in
5 Washington.) Filed with the state commissions in the appropriate local tariff, the Local Package Basic
6 and Local Package Plus plans offer basic local exchange dial tone service with unlimited local calling, a
7 selection of vertical “custom calling” features (usually three or four features for Local Package Basic
8 and either a larger number of features, or all features that are available, for Local Package Plus), voice
9 mail, and unlimited intraLATA toll calling. In Washington, the proposed Local Package Plus plan also
10 includes unlimited directory assistance calling. These packages typically range in price from
11 approximately \$35 to \$50 per month. All normal nonrecurring charges are typically waived. In
12 Washington, Verizon Northwest filed tariffs for these two packages to become effective on April 24,
13 2003, pricing them at \$44.95 and \$49.95 per month, respectively.

14
15 9. The second component of the Variations FreedomSM package is furnished by VLD, and
16 provides unlimited interLATA long distance calling (both intrastate and interstate) as well as unlimited
17 international calling to all of Canada. VLD prices this component at \$15 per month. However, the
18 VLD unlimited long distance calling package is only offered and available to customers who also
19 subscribe to “eligible” local services, which coincidentally correspond precisely with the “Local
20 Package Basic” or “Local Package Plus” (or their equivalent) Verizon ILEC offerings.

1 10. In each of the states in which Verizon offers the Variations FreedomSM bundles, VLD has
2 modified its FCC tariff (and, where required, has filed intrastate interLATA tariffs) to extend the flat
3 rate interLATA offer to customers in the state. Copies of the various Variations FreedomSM tariffs are
4 provided herewith as Attachment 2. The VLD unlimited long distance calling plan is *not* offered or
5 available to customers in any state in which the Verizon Local Package Basic and Local Package Plus
6 (or their equivalents) are not currently being offered, nor is it available to customers who do not also
7 subscribe for the Local Package Basic or Local Package Plus (or their equivalent) services.

8
9 11. Because the intrastate Variations FreedomSM tariff has not yet gone into effect in Washington,
10 the VLD \$15 unlimited interLATA calling offer is not available in Washington state at the present time.
11 However, based upon Verizon's actions in each of the other six states in which the Variations
12 FreedomSM bundle is currently being marketed,⁴ it is reasonable to anticipate that VLD will introduce its
13 interLATA and Canada calling plan concurrently with Verizon's Northwest's roll-out of the Local
14 Package Basic and Local Package Plus service bundles, and that VLD will at that time make the
15 various filings to cover the intrastate aspect of its service that the WUTC may require.

16

4. On March 11, 2003, Verizon Southwest filed its Local Package Plus tariff in Texas, to go into effect on March 21, 2003. As of the date of this Affidavit, VLD has not revised its interstate interLATA tariff FCC No. 1 to reflect the offering of the \$15 "Plan K" unlimited interLATA/Canada calling plan in Texas, and has not posted the current availability of the Variations FreedomSM bundle in Texas on its website. The Verizon Southwest intrastate tariff for Texas is included in Attachment 2.

1 **The intrastate toll rate components of the Verizon Northwest and Verizon Long Distance**
2 **Variations FreedomSM bundles are substantially below the price floor applicable to Verizon**
3 **retail intrastate toll services and thus fall far short of satisfying the Commission’s imputation**
4 **requirements.**
5

6 12. WUTC regulations require incumbent local exchange carriers (ILECs) such as Verizon
7 Northwest to “impute” into the retail price of their intrastate toll services the applicable access charges
8 that would apply to a competing provider of intrastate toll services that is required to obtain switched
9 access services from the ILEC. Moreover, WUTC regulations also establish a “price floor” for the
10 ILEC’s retail intrastate toll services as consisting of the imputed access charges together with the
11 incremental cost of any *non-access* functions that the ILEC incurs in providing the end-to-end service.
12

13 13. When intrastate toll services are combined with services other than intrastate toll and priced
14 on a bundled basis, as is the case with both the Verizon Northwest and Verizon Long Distance
15 components of the Variations FreedomSM package, the precise identification of the “pure” price for the
16 intrastate toll component requires further analysis. Verizon has for some time been offering its
17 Washington subscribers a choice of two service bundles that it calls “Local Package Standard” and
18 “Local Package.” These packages include a selection of custom calling features but do not include
19 Voice Mail or unlimited intraLATA calling. Local Package Standard, priced at \$25.95 per month,
20 includes local exchange dial tone service, unlimited local calling, up to three custom calling features (but
21 not voice mail), and unlimited local directory assistance calling. The Local Package Basic (Variations
22 FreedomSM) bundle carries a proposed price of \$44.95 and includes flat-rate local exchange dial tone

1 service, up to four custom calling features, voice mail, and unlimited intraLATA toll, but *not* unlimited
2 local directory assistance. The voice mail component of the Local Package Basic, if purchased
3 separately, is priced at up to \$8.95 assuming that the Deluxe version of voice mail is selected. Thus,
4 the price of Local Package Standard plus voice mail is \$25.95 plus \$8.95, totaling \$34.90, which is
5 \$10.05 *less* than the proposed price of Local Package Basic, which also includes the unlimited
6 intraLATA toll feature. Unfortunately, the non-toll elements of these two services are not strictly
7 comparable, since Local Package Basic includes up to four, rather than three, custom calling features
8 but does not include unlimited directory assistance.

9
10 14. The Local Package together with the separately-priced voice mail is, however, directly
11 comparable to the Variations FreedomSM Local Package Plus bundle. Both include a local exchange
12 dial tone line, unlimited local calling, up to thirteen custom calling features and unlimited local directory
13 assistance, differing solely with respect to the unlimited intraLATA toll feature. The price of the Local
14 Package together with voice mail deluxe is \$28.95 + \$8.95, totaling \$37.90, or \$12.05 less than the
15 proposed \$49.95 monthly rate for the Variations FreedomSM Local Package Plus bundle. On that
16 basis, we can identify the effective proposed price for the unlimited intraLATA toll calling feature as the
17 difference between these two prices, i.e., \$12.05. That analysis is summarized on the following table,
18 which compares the currently available bundled “Local Package” with the similar Variations
19 FreedomSM “Local Package Plus” bundle that Verizon has now proposed. These two bundles differ in

1 only two respects: The Variations FreedomSM Local Package Plus includes Voice Mail and unlimited
 2 intraLATA calling, whereas the existing Local Package does not include these features.

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Verizon Northwest, Inc. – Washington		
Analysis of Effective Monthly Price for Unlimited IntraLATA Toll Calling		
Rate element	Local Package	Local Package Plus (Variations Freedom SM)
Monthly rate	\$28.95	\$49.95
Basic local dial tone line	Included	Included
Unlimited local calling	Included	Included
Vertical features	Up to 13	Up to 13
Unlimited local directory assistance	Included	Included
Voice mail (deluxe version)	\$8.95	Included
Unlimited intraLATA toll calling	Not included	Included
TOTAL PRICE	\$37.90	\$49.95
Effective price of unlimited intraLATA calling		\$12.05
Verizon Northwest Tariff WN U-17 Sec. 8, 4th Revised Sheet 22, 2nd Revised Sheet 23, Original Sheet 24, all filed March 25, 2003; eff. April 24, 2003.		

20

21

22

23

15. In order to determine whether or not this proposed \$12.05 effective price for unlimited
 intraLATA toll calling satisfies the Commission's imputation and price floor requirements, it is necessary
 to know something about the level of usage that Verizon anticipates customers subscribing to the
 unlimited intraLATA calling feature will make of the service. Verizon Northwest's March 25, 2003

1 Advice Letter and tariff filing were entirely silent with respect to this critically important point, and so it
2 would not be possible, based upon the Verizon Northwest filing itself, for the Commission to ascertain
3 whether or not the proposed tariff complies with its imputation and price floor regulations.

4
5 16. Fortunately, this information is provided on Verizon's corporate website in connection with its
6 marketing of the Variations FreedomSM package. Attachment 3 to this Affidavit contains the Verizon
7 web pages describing the Variations FreedomSM service for each of the six states in which the bundle is
8 presently being offered. In each of these state-specific web pages, Verizon advises its prospective
9 Variations FreedomSM customers that they will realize "more than \$240 a year in savings" (or slightly
10 different words to that same effect) by signing up for the Variations FreedomSM package. Each of the
11 six state web pages contains the very same "fine print" text describing the basis for the \$240 annual
12 savings estimate:

13
14 Savings based on purchasing Variations Freedom Package versus
15 purchasing equivalent Verizon local and long distance services and features
16 at individual, standard rates. *Long distance savings comparison based on 350*
17 *minutes of monthly usage on Timeless Plan; regional toll savings based on*
18 *approximately 300 minutes of monthly usage on Sensible MinuteTM plan.*
19 Savings vary by individual and by state.
20

21 Emphasis supplied. As shown in Attachment 3, the exact same text and, more importantly, the exact
22 same *usage* levels, appear on each of the six state Variations FreedomSM web pages. Note also that,
23 while Verizon does state (in the "fine print") that "[s]avings vary by individual and by state," its large
24 print representation, at the top of each of the web pages, is that customers will realize savings of "*more*

1 *than* \$240 a year.” On this basis, it is reasonable to assume that the 300 minutes of intraLATA
2 (“regional toll”) calling and the 350 minutes of “Timeless Plan” interLATA calling represent *minimum*
3 usage levels that Verizon anticipates for this service. However, to be conservative, for purposes of the
4 imputation and price floor analyses that I have undertaken, I am assuming that the 300 and 350 minutes
5 represent *average* rather than *minimum* usage levels.

6
7 17. Although there is no web page on the Verizon website specifically for Washington (because
8 the Variations FreedomSM bundles are not presently available in Washington), the fact that the exact
9 same \$240 savings figure along with the very same fine print footnote describing the basis for this
10 amount is provided on each *and all* of the other six states’ web pages provides the Commission with a
11 reasonable basis for inferring that Verizon will be making similar marketing claims with respect to the
12 Variations FreedomSM package for Washington when, as and if the service ultimately becomes
13 available in this state.

14
15 18. Testimony offered by myself on behalf of AT&T in support of its Complaint in Docket No.
16 UT-020406 and by Verizon Northwest in response thereto have put forth various values both for the
17 proper level of the Verizon Northwest switched access charge imputation as well as for the additional
18 amount of the incremental non-access cost that should appropriately be included in a price floor
19 calculation. I have submitted testimony in that proceeding supporting a price floor for toll service of
20 \$0.1444 per minute, which is comprised of an access charge component of \$0.0989, a billing/collection

1 cost component of \$0.0155, and a retailing/marketing cost component of \$0.0300).⁵ Based upon this
2 \$0.1444 price floor, the *minimum price* that Verizon Northwest could permissively charge for an
3 unlimited intraLATA toll calling plan with average usage of 300 minutes per month is \$43.32. The
4 \$12.05 effective price that Verizon Northwest has proposed for this service thus *falls short of the*
5 *required price floor by more than \$31.00!*

6
7 19. Verizon Northwest has, however, disputed my \$0.1444 per minute price floor calculation in
8 Docket No. UT-020406. In particular, Verizon differs with AT&T both as to the average per-minute
9 access charge that should be imputed into Verizon's retail toll rates, as well as the magnitude of the
10 various non-access costs that should be included in the price floor for Verizon retail toll service.
11 Verizon Northwest has claimed confidential treatment of certain of its calculations of both the access
12 imputation and non-access cost amounts and, pursuant to the terms of the protective order in that
13 Docket, and so I am not permitted to use or disclose these figures outside of Docket No. UT-020406.
14 For our immediate purposes, however, such use or disclosure is not necessary.

15
16 20. Since the level of non-access incremental cost is in dispute and has not yet been resolved by
17 the Commission, for purposes of the present analysis let us simply ignore these costs and assume them
18 to be zero. (Note that even Verizon does not claim that non-access costs are actually zero.) The
19 nature of the dispute with respect to the level of the switched access imputation relates principally to the

5. Docket No. UT-020406, Direct Testimony of Lee L. Selwyn, September 30, 2002, at 31-40.

1 relative use of tandem-switched vs. direct-trunked transport; in my average access charge calculation, I
2 had assumed 100% tandem routing, since that is the manner in which Verizon provides the switched
3 access functions to itself. Verizon has used a (proprietary) mixture of tandem-switched and direct-
4 trunked transport in its access charge imputation calculation, and in so doing has calculated a slightly
5 lower average (proprietary) per-minute switched access price for imputation purposes. For our
6 immediate purposes here, however, I will use the access charge imputation amount that I had calculated
7 and presented in my testimony in Docket No. UT-020406; the Commission can of course substitute the
8 Verizon proprietary data from the Docket No. UT-020406 record for the purpose of verifying the
9 validity of the overall conclusions that I am presenting in this Affidavit. Using my calculation of \$0.0989
10 for the Verizon access charge imputation (from Docket No. UT-020406⁶) together with Verizon's
11 figure of 300 intraLATA minutes per month for its Variations FreedomSM unlimited calling plan, the
12 price floor for the proposed service would be \$29.67 per month, or about \$17.62 above the \$12.05
13 effective monthly price that Verizon Northwest has proposed. ⁷

6. Docket No. UT-020406, Direct Testimony of Lee L. Selwyn (AT&T), September 30, 2002, at 34.

7. I would draw the Commission's attention to the fact that, as indicated on some of the marketing web pages included in Attachment 3, Verizon is offering customers as a special promotion an "Exclusive Online Offer — Sign up online for Variations Freedom between 3/21 and 6/17 and you'll receive a check equivalent to the Variations Freedom monthly package rate after your third month of service. It's that simple." The total monthly rate for the bundles in Washington (the Verizon Northwest plus the VLD components) will be either \$59.95 or \$64.95. Assuming an average life of a Variations FreedomSM account is approximately 36 months, this "offer" represents a cash marketing outlay of nearly \$2 per month, and that does not even count the costs of advertising, direct mail, telemarketing, and sales expenses. I have not included any of these costs in the \$0.0989 access charge-only price

1 21. In fact, the actual price floor may actually be even greater than the \$0.1444 level than I had
2 calculated and presented in my Docket UT-020406 testimony. Verizon Northwest witness Dr. Carl
3 Danner, in surrebuttal testimony he filed in Docket No. UT-020406 on January 24, 2003, has drawn
4 my attention to two recent industry analyses that contain additional information regarding the non-
5 access costs associated with providing retail long distance service.⁸ One of these is a February 5, 2003
6 investment analyst report issued by Credit Suisse First Boston (“CSFB”) entitled “AT&T Consumer:
7 A Base Case Ahead of The Triennial Review” (“CSFB Report”). A copy of that document is provided
8 herewith as Attachment 4. Accepting the accuracy of the CSFB analysis for the purposes of the
9 present discussion, data contained in the CSFB Report can be used to derive estimates of the non-
10 access billing and collection and retailing/marketing costs, which can then be incorporated into the price
11 floor calculation. With respect to billing and collection, the CSFB Report provides an estimate of
12 costs associated with billing and customer care⁹ at \$3.00 per subscriber per month for 2002.¹⁰ The
13 CSFB report also provides an estimate of average per-customer 2002 long distance usage at 85

floor analysis.

8. Although portions of Dr. Danner’s surrebuttal testimony have been stricken by the Commission, the specific testimony referencing the two analyses was allowed. Docket No. UT-020406, *Seventh Supplemental Order*, April 8, 2003, at 10.

9. “Customer care” consists of billing inquiries and service issues, both of which can be recognized as non-access costs for purposes of establishing a toll price floor.

10. CSFB Report, at 5. The \$3.00 costs are evenly divided between these two cost categories. *Id.*

1 minutes per month,¹¹ which works out to an average per-minute billing/collection/customer care cost of
2 \$0.0353.¹²

3
4 22. Importantly, the billing data presented by CSFB was developed as the avoided cost to AT&T
5 of *not* serving a customer (i.e., the “savings” realized by AT&T when it loses a long distance customer
6 to a competitor).¹³ For that reason, this per-minute billing and customer care cost accurately represents
7 the incremental cost of providing the billing function to a customer as incurred by an interexchange
8 carrier not affiliated with the regulated incumbent LEC, and is thus directly applicable in a toll imputation
9 study.

10
11 23. With respect to the costs of retailing/marketing, CSFB estimates that AT&T’s cost per gross
12 long distance customer addition was \$75.¹⁴ CSFB also estimates annual churn of approximately
13 30%,¹⁵ which suggests that the average customer will stay with the same long distance carrier for
14 approximately three years. The CSFB report provides forecasts of average monthly minutes of use per

11. *Id.*

12. Comparable data provided by CSFB for 2003 generates a per-minute billing/collection/customer care cost of \$0.0370. *Id.*

13. *Id.*

14. *Id.*, at 8.

15. *Id.*

1 customer by year for 2003, 2004 and 2005, at 73, 66 and 63 minutes of use per month, respectively.
2 Multiplying each of these monthly figures by 12 and summing the results for all three years provides an
3 estimate of the average total usage over the three-year life of each customer account at 2,424 minutes.
4 Spreading the \$75 acquisition cost over these 2,424 minutes works out to \$0.0309 per minute.
5

6 24. The other analysis identified by Dr. Danner is a January 14, 2003 securities analyst report
7 issued by Friedman Billings Ramsey (“FBR”) entitled “Bells – More Negatives Than Positives” (“FBR
8 Report”). A copy of the FBR Report is provided herewith as Attachment 5. The FBR Report, among
9 other things, addresses access and non-access costs faced by Bell Operating Companies in their
10 provision of long distance services.¹⁶ This Report specifically identifies several non-access costs that
11 were included in neither my toll price floor calculation nor that of Verizon Northwest, including:

12		
13	Outside plant upgrade	\$0.0100 per minute
14	Outside plant maintenance	\$0.0175 per minute
15	Switch software upgrade	\$0.0100 per minute
16	Total additional non-access incremental cost	<u>\$0.0375 per minute</u>
17		

16. A review of the FBR report reveals that the section containing the additional non-access costs is geared *specifically* towards assessing the profitability of the long distance market for the Bells. There is thus no basis for concluding that the additional costs identified by FBR are not representative of the Washington-specific costs being confronted by Verizon Northwest.

1 25. According to the data provided in the CSFB and FBR reports, which I am advancing here for
2 the sake of discussion, non-access costs associated with providing toll service are broken down as
3 follows: billing and collection costs of \$0.0353 per minute; retailing/marketing costs of \$0.0309 per
4 minute, and additional non-access costs (identified above) of \$0.0375 per minute. Combined with the
5 calculation of the per-minute access charge component of \$0.0989 that I had presented in Docket No.
6 UT-020406, the “upper bound” price floor for Verizon Northwest’s toll service is \$0.2026 per minute.
7 Applying this price floor to Verizon’s 300 minutes per month usage figure indicates a price floor for the
8 Verizon Northwest Variations FreedomSM unlimited intraLATA offering at \$60.78, or *more than five*
9 *times the \$12.05 effective price that Verizon Northwest has proposed in its tariff filing.*

10

11 **The Verizon Long Distance \$15 per month interLATA unlimited calling plan, when introduced**
12 **in Washington, will also fail to satisfy the Commission’s imputation and price floor**
13 **requirements.**

14

15 26. Verizon Long Distance has apparently not yet made any filings with this Commission relating
16 to the interLATA component of the Variations FreedomSM bundle. However, based upon VLD’s
17 actions in the various other jurisdictions in which this same service bundle is currently being offered, it is
18 reasonable to expect that VLD will shortly make whatever filings this Commission may require in order
19 for it to commence providing the service in Washington. The interLATA services to be provided by
20 VLD as its part of the Variations FreedomSM package combine both intrastate and interstate
21 interLATA calling into a single bundled price. That notwithstanding, the *intrastate* portion of the

1 bundle falls squarely within this Commission's jurisdiction and as such should also be subject to the
2 Commission's access charge imputation and price floor requirements.

3
4 27. It is my understanding that the Commission's imputation and price floor requirements have, up
5 to now, been applied solely with respect to incumbent LECs. VLD is nominally a separate affiliate of
6 Verizon Northwest, although both entities have 100% common ownership. I am not aware of any legal
7 requirement that would compel Verizon to provide interLATA long distance services in Washington
8 through an entity other than Verizon Northwest. Indeed, VLD makes extensive use of Verizon
9 Northwest personnel and other resources in the conduct of its business in Washington, such that the
10 two affiliates actually operate on what amounts to a *de facto* integrated basis. Given that fact, and
11 inasmuch as the distinction that Verizon has made between Verizon Northwest and Verizon Long
12 Distance is entirely voluntary on its part, I believe that it is entirely appropriate for this Commission to
13 treat VLD as if it were an ILEC for purposes of satisfying imputation and price floor requirements.

14
15 28. VLD does not unbundle the combined \$15 per month price into separate intrastate and
16 interstate elements, but VLD should nevertheless be required to demonstrate to the WUTC that the
17 effective price for the intrastate interLATA service will satisfy the imputation requirement and that it will
18 equal or exceed the price floor. One way of addressing this question in the absence of separate
19 intrastate and interstate price elements is to develop a *per-minute* price that can be compared with the
20 intrastate price floor. From the Verizon website, we have the per-month combined intrastate plus

1 interstate Variations FreedomSM interLATA usage figure of 350 minutes. At a combined \$15 per
2 month rate, that works out to about \$0.043 per minute. As I have noted at paragraph 20, *supra*, the
3 access charge component of the price floor for Verizon Washington intrastate toll service is \$0.0989
4 per minute, i.e., *more than double the \$0.043 retail price that VLD will be charging for intrastate*
5 *calling in Washington state*. Thus, as with the Verizon Northwest intraLATA service, the VLD
6 intrastate interLATA service fails the Commission's imputation and price floor requirement *even when*
7 *all of the disputed issues pertaining to both the access charge imputation and the non-access*
8 *incremental cost are conceded, for the sake of argument, to Verizon*. With the incremental non-
9 access costs included, the price floor per minute would be somewhere between \$0.1444 and \$0.2026,
10 representing an even greater multiple of VLD's effective per-minute price for intrastate long distance
11 calling.

12

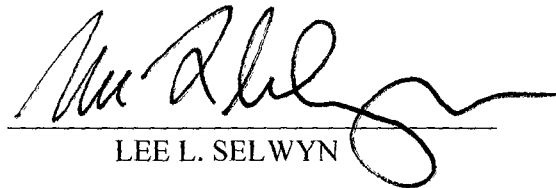
13 **Conclusion**

14

15 29. Verizon's apparent willingness to set the retail prices for both its ILEC-provided intraLATA
16 service and its affiliate-provided interLATA service so enormously far below even the pure access
17 charge, let alone providing for any recovery of the non-access costs associated with its Variations
18 FreedomSM bundle, can only lead to the inescapable conclusion that Verizon simply ignores the
19 intracompany imputations or payments associated with this service in setting its retail prices. Such
20 conduct defeats the purpose of an imputation an price floor requirement and, if permitted, can only

- 1 serve to undermine competition in the state by denying competing IXC's a fair opportunity to compete
- 2 with the incumbent Verizon ILEC on an equal basis.

The foregoing statements are true and correct to the best of my knowledge, information and belief.


LEE L. SELWYN

Sworn to before me this 14th day of April, 2003.



Notary Public.

My Commission expires 3/31/06.

