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April 28, 2003

Carole Washburn, Secretary
Washington Utilities and Transportation Commission
1300 S. Evergreen Park Dr. SW
P. O. Box 47250
Olympia, Washington 98504-7250

Re: *AT&T Communications of the Pacific Northwest, Inc. v. Verizon Northwest, Inc.*
Docket No. UT-020406

Dear Ms. Washburn:

Pursuant to the Eighth Supplemental Order, ¶ 17, in Docket No. UT-020406, enclosed originals and 14 copies of replacement pages to Exhibit T-100 (TWZ-T-1) and Exhibit T-130 (GB-T-1) that reflect the Commission's order striking this testimony, and Certificate of Service. I also will provide copies for the bench and counsel prior to the hearing.

Very truly yours,

Shannon E. Smith
Assistant Attorney General

cc: Parties
ALJ Schaer

However, because Verizon is already pricing its toll so close to the Commission's imputation floor, the option to further raise originating carrier access charges should not be seen as in the public interest for the very reason that such increases could, as a result, cause Verizon to fail the Commission's imputation test at this point in time which would create a more difficult and undesirable price squeeze for Verizon's competitors.

~~Q. If Verizon chooses some other form of rate rebalancing will this also be the case?~~

~~A. Not necessarily. Imputation will generally be improved as Verizon lowers its carrier access charges. Additionally, Staff witness Dr. Blackmon's suggestion of a new retail access charge would not have an impact on the Commission's imputation test because the charge would be assessed on retail customers instead of the carriers.~~

Q. Does Staff have any other observations or recommendations regarding imputation at this time?

A. Yes. First, Billing and Collection included in an imputation analysis in Washington should be at Verizon's Long Run Incremental Cost (LRIC) based on the longstanding Commission precedent including the GTE-PTC[11] case discussed above. Second, in Staff's opinion, it is acceptable for Verizon to use Average Revenue Per Minute ("ARPM")[12] <u>by plan</u> (also based on the Commission's GTE-PTC[13] precedent), and even

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[11] Third Supplemental Order in Docket Nos. UT-921462, et al., at page 11.

[12] Although Verizon passed imputation based on ARPM in the past, it is possible that a fresh look at its ARPM by plan, with updated data (with information from 2001 in Verizon's response to Staff's DRs #26 and #27) could fail imputation, even with intrastate carrier access charges at the current tariff levels. Just as costs and cost recovery may change over time, the same can be said for revenue and the demand units from which they stem. However, Verizon's initial responses to Staff's DRs #26 and #27 appear to be incomplete and therefore Staff can not provide

level that Verizon charges for comparable interstate service or to total service long-run incremental cost.

INCREASES IN OTHER RATES TO OFFSET THE ACCESS CHARGE REDUCTION

Q. Should the Commission allow Verizon to increase local rates or other rates to offset the revenue loss from Staff's recommended reduction in access charges?

A. Not necessarily. Staff believes that the Commission can determine that Verizon's access charges are not fair, just, and reasonable for the reasons I have already discussed and, having reached that conclusion, can make a separate decision about whether any offsetting rate increases are appropriate. The Commission should consider any evidence that Verizon may offer about its overall earnings level, but it also should ask why Verizon today is charging both higher access rates and higher local rates than Qwest. The answer should not be Verizon's universal service obligations, because Staff is not including the universal service rate elements of either Verizon or Qwest in calculating the target reduction. Otherwise the comparison is between two similar companies that could be expected to have similar costs.

~~**Q. If the Commission does decide that some portion of the access charge reduction should be offset by other rate increases, what would Staff recommend?**~~

~~A. In that hypothetical scenario, Staff believes that any offset to the access charge reduction should be collected directly from Verizon's local exchange customers as a retail switched access charge. In other words, the full target reduction would be made in the charges~~

~~paid by interexchange carriers, but Verizon would be allowed to impose a per-minute access charge on its own retail local exchange customers. This charge would be assessed on all intrastate long-distance calls made by Verizon customers, whether they use Verizon or another company as their long-distance carrier. This approach would leave that portion of existing access charge revenues on access services, but it would ameliorate the inequities and harmful competitive effects that I discussed earlier. Verizon would still be collecting this money for access services, but it would not export the costs to customers of other companies through the mechanism of statewide long-distance rate averaging.~~

TERMINATING ACCESS RATE DESIGN

Q. Should the Commission impose a specific rate design requirement on Verizon's terminating access service?

A. Yes. Staff recommends that the Commission order Verizon to charge no more for terminating access service than what Verizon charges for local interconnection. The only exception should be to permit Verizon also to collect an interim universal service rate on its terminating access service. This is the same rate design requirement that the Commission imposed by rule on all local exchange companies in WAC 480-120-540. That rule was overturned on appeal based on procedural issues, but the court did not criticize the substantive provision limiting terminating access rates. Staff recommends that the Commission impose these requirements on Verizon for the same reasons that it adopted WAC 480-120-540 in 1998. These reasons are set out in the adoption order, which is attached as Exhibit GB-2.