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SUPERIOR COURT OF WASHINGTON FOR SNOHOMISH COUNTY

VERIZON NORTHWEST INC.,  
Petitioner,  
v.  
WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION,  
Respondent.

CASE NO. 03-2-10227-8  
DECLARATION OF  
BETTY A. ERDAHL IN  
OPPOSITION TO VERIZON'S  
MOTION FOR  
SUPERSEDEAS

I, Betty A. Erdahl, declare under penalty of perjury under the laws of the State of Washington that the foregoing statements are true and correct:

1. I am employed by the Washington Utilities and Transportation Commission (WUTC or Commission), as a Regulatory Analyst - Telecommunications. I have been employed by the Commission since 1991. I hold a Bachelor of Arts in Accounting from Washington State University and have attended the New Mexico State University class on the Basics of Regulation and the Rate Making Process Technical Program, and the USTA class on Understanding Separations, Access Charges, and Settlements. As a Regulatory Analyst, I am responsible for auditing the books and records of regulated companies, analyzing cost of

1 service studies, examining affiliated interest transactions, and making policy recommendations  
2 to this Commission. I recommend rates to the Commission that allow for the appropriate  
3 revenue requirement for regulated companies, which includes the preparation of written and  
4 oral testimony and exhibits to support my recommendations. In making my recommendations,  
5 I must implement the mandates of federal and state laws. Accordingly, I am familiar with state  
6 and federal telecommunications law, past rulings of the Federal Communications Commission  
7 (FCC), and the WUTC implementing these federal and state policies as well as efforts  
8 underway both at the FCC and WUTC.  
9

10 2. I was an expert witness in the WUTC proceeding, Docket UT-020406, which is  
11 the WUTC matter underlying Verizon's instant request for supersedeas. I filed testimony that  
12 rebutted Nancy Heuring's presentation of Verizon's earnings by explaining why Verizon's  
13 earnings presentation was flawed and misleading.  
14

15 3. In her declaration supporting Verizon's Motion for Supersedeas, Nancy Heuring  
16 states that her principal duties include directing and supervising the preparation of accounting  
17 information associated with financial and regulatory filing. Despite her claimed knowledge of  
18 regulatory filings, she fails to make several obvious, routine, and well-accepted ratemaking  
19 adjustments to Verizon's earnings and therefore incorrectly states Verizon's rate of return for  
20 ratemaking purposes. Her presentation of Verizon's results of operations would not meet even  
21 the minimum standards for a filing of this nature before the WUTC.  
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23 4. The relative "damage" to Verizon will not be as great as Ms. Heuring implies, if  
24 the order requiring Verizon to reduce its access charges is not stayed pending appeal. By  
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1 failing to make the ratemaking adjustments, Verizon greatly misstates its current rate of return  
2 and the rate of return it will earn when the order goes into effect.

3           5.       Making the proper ratemaking adjustments, I calculate Verizon's current rate of  
4 return to be 11.57%. Based on this analysis, if Verizon lowered its access charge rates as  
5 ordered by the WUTC, Verizon would still earn a 9.24% rate of return. This is slightly below  
6 its authorized rate of return of 9.76%, but it is well within the normal range of fluctuation for  
7 the annual earnings of a regulated company. The authorized rate of return is not a guaranteed  
8 rate of return; rather, a regulated company is entitled to a reasonable opportunity to earn its  
9 authorized rate. Moreover, the specific value is a point within a range of earnings to which a  
10 regulated company is reasonably entitled.  
11

12           6.       Verizon will not suffer irreparable harm as a result of the WUTC's order,  
13 because the company has had the opportunity for more than a year to file a general rate case.  
14 The WUTC provided Verizon with additional time by delaying the required access charge  
15 reductions until October 1, 2003. Verizon has had more than sufficient time to file a rate case  
16 to offset whatever portion of the rate decrease it believes is fair, just, and reasonable,  
17 particularly given Verizon's claim that it earned a return of only 2.42% in 2002.  
18

19           7.       A company actually earning a 2.42 rate of return should prioritize a rate case  
20 filing. By stating that it will not be ready to file a rate case until March 1, 2004, if at all,  
21 Verizon casts doubt on its claim that it is earning only 2.42%. If Verizon truly were earning  
22 only 2.42%, Verizon theoretically would require a rate increase of \$100 million in order to  
23 achieve its authorized rate of return of 9.76%.  
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1           8.       A revenue reduction of \$32 million is significant within the narrow category of  
2 access charge revenues, but it is minor in comparison to the overall revenues of Verizon  
3 Northwest, Inc., and insignificant in comparison to the overall revenues of the parent company.  
4 By limiting her revenue analysis to Verizon’s Washington “intrastate” revenue of \$378  
5 million, Ms. Heuring gives a very narrow and incomplete view of Verizon’s revenue. Ms.  
6 Heuring greatly understates Verizon’s revenue because she includes only the revenue that is  
7 allocated to the Washington intrastate jurisdiction for FCC accounting purposes. The problem  
8 with this approach is that the WUTC historically and lawfully has looked beyond FCC  
9 jurisdictional allocations when looking at a telecommunications company’s revenue for  
10 purposes of setting rates. To the contrary, the WUTC has included all revenue earned by  
11 Verizon through its Washington operations, not just the revenue allocated to the intrastate  
12 jurisdiction for FCC accounting. In fact, when Verizon itself considers the total company  
13 revenue (as the WUTC would do in a rate case), the company shows a rate of return of 8.39%,  
14 prior to making certain necessary ratemaking adjustments. Exhibit 1. The WUTC also has  
15 considered Verizon Northwest’s total revenue (not just Washington revenue) in setting rates.

18           9.       Contrary to Ms. Heuring’s affidavit, Verizon reported to the FCC’s Automated  
19 Reporting Management Information System (ARMIS) that its total operating revenue in  
20 Washington State is \$682,242,000, the total revenue of Verizon Northwest Inc. is  
21 \$1,155,694,000. This information is easily verified at the FCC’s website,  
22 <http://svartifoss2.fcc.gov/eafs/MainMenu.cfm>. This information also is provided as Exhibits 2  
23 and 3 to this declaration.  
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1 10. In reviewing a regulated company’s revenue requirement, I apply the  
2 adjustments the WUTC requires, which are set forth in WAC 480-09-330(2). These  
3 adjustments include adjustments necessary to remove any defects or infirmities with may exist  
4 in actual recorded results that can distort test period earnings, adjustments necessary to reach a  
5 basis that is acceptable for ratemaking, and adjustments to reflect all known and measurable  
6 changes in the test period that are not offset by other factors. To ignore these adjustments and  
7 state a rate of return of 2.42% is simply not accurate.  
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9 DATED and SIGNED at Olympia, Washington, on September 2, 2003.

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