Exhibit No. _____ (SMB-6T)
Docket No. UT-040788

BEFORE THE

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION,	)	
Complainant,	)	
v.	)	**DOCKET NO. UT-040788**
VERIZON NORTHWEST INC.,	)	
Respondent.	)	
. . . .	)	

REBUTTAL TESTIMONY OF

STEVEN M. BANTA

ON BEHALF OF
VERIZON NORTHWEST INC.

FEBRUARY 2, 2005

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I. INTRODUCTION

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND TITLE.

A. My name is Steven M. Banta. My business address is 600 Hidden Ridge Drive, Irving, Texas, 75038. I am employed by Verizon as Group President – Northwest and Southwest Regions.

Q. DID YOU FILE DIRECT TESTIMONY IN THIS PROCEEDING?

A. Yes. I filed direct testimony on April 30, 2004.

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. The purpose of my testimony is to introduce the other Company witnesses and identify the key issues. My testimony also responds to the direct testimony of Staff witness Dr. Glenn Blackmon. In particular, I respond to his overall approach to this case and to his allegations that Verizon NW has used its corporate structure to shift revenues from the regulated entity to unregulated affiliates.

II. WITNESS INTRODUCTION/KEY ISSUES

Q. WHAT ARE THE SIGNIFICANT REVENUE REQUIREMENT ISSUES PRESENTED BY THE PARTIES' TESTIMONY?

A. All of the revenue requirement issues are listed in Verizon NW witness Nancy Heuring's Exhibit ___ (NWH-17). This exhibit also shows the associated dollar impact of each issue.

In a nutshell, Staff is proposing a $26 million revenue *reduction*, and Verizon NW is proposing a $222 million revenue *increase*. Table One is a summary of the significant issues, and provides a high-level reconciliation of Verizon NW's and Staff's revenue requirement calculations:

Table One
Significant Staff Adjustments

VZNW's Revenue Requirement Deficiency	**$222M**
Rate of Return – Staff proposes 7.71%	($57.7M)
Depreciation rate change	($46.4M)
Affiliate Issues -- directory revenue imputation -- sales & marketing adjustment	 ($38.4M) ($25.2M)
Cash vs. Accrual Benefit Accounting	($25.1M)
Separations	($22.0M)
Revenue Pro Forma	($13.8M)
Alleged Missing Plant	($4.9M)
Others	($14.5M)
Staff's Alleged Overearnings	**($26M)**

Generally, the other parties' revenue requirement adjustments overlap with Staff's. For example, Public Counsel proposes a higher rate of return than Staff (8.26%), and a lower Yellow Page Imputation adjustment ($31 million). Verizon NW's rebuttal witnesses address virtually all parties' adjustments except for Staff's depreciation adjustment – the depreciation issue, which is essential to this case, is being addressed in a separate docket.

Q. WHAT REBUTTAL TESTIMONY HAS VERIZON NW FILED?

A. In addition to my testimony, the following rebuttal testimony has been filed on behalf of Verizon NW:

1. **Dr. James VanderWeide** addresses rate of return.
2. **Messrs. Dennis Trimble and Michael Doane** address Yellow Page (directory) imputation.
3. **Mr. Doug Fulp** addresses Staff's sales and marketing adjustment and linesharing adjustment for Verizon NW's affiliates. Mr. Fulp also addresses the rate design/pricing issues, and responds to the pricing proposals of Staff and the other parties.
4. **Mr. Kevin Collins** responds to Public Counsel and AARP's criticisms of Verizon NW's incremental cost model, the results of which Mr. Fulp uses to guide his pricing proposals.
5. **Mr. Duane Simmons** explains why Staff's proposal to eliminate significant costs from the intrastate jurisdiction violates the FCC's separations rules (this is the "Separations" adjustment identified on Table One).
6. **Mr. Eugene Goldrick** addresses the "missing plant" issue – he explains why Staff's proposal to slash Verizon NW's rate base is not supported by statistically valid studies.
7. **Ms. Nancy Heuring** addresses the bulk of Staff's and other parties' adjustments to Verizon NW's revenue requirement.

8. Finally, **Mr. Carl Danner** is Verizon NW's expert witness on a range of economic matters – he sets forth the proper context of this rate case and the effect of competition on Verizon NW; he, along with Mr. Fulp, rebuts Staff's proposed adjustment to affiliate sales and marketing expenses; he responds to Staff's testimony regarding the role of cost-based retail pricing in a competitive environment; and he briefly responds to Public Counsel and AARP's claims regarding the proper classification of loop costs.

III. RESPONSE TO DR. BLACKMON'S THEORY OF THE CASE

Q. MR. BANTA, PLEASE EXPLAIN THE PURPOSE OF A RATE CASE.

A. The purpose of a rate case is highlighted in the Commission's own web page, in the section entitled "What We Do":

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

To make its determination, the Commission examines a Company's revenues, expenses, and investment. Other parties, including Commission Staff, normally propose adjustments to a Company's filing based on specific issues.

Q. HAS DR. BLACKMON OFFERED ANY CONCRETE ADJUSTMENTS IN HIS TESTIMONY?

A. No.

Q. IN PART II OF HIS TESTIMONY, DR. BLACKMON CLAIMS THAT VERIZON NW "IS ATTEMPTING TO USE THE MONOPOLY-ERA MECHANISM OF A GENERAL RATE CASE AT A TIME WHEN THAT MECHANISM IS SIMPLY INADEQUATE FOR THE CIRCUMSTANCES." (BLACKMON DIRECT AT 9-10.) PLEASE COMMENT.

A. Quite frankly, I do not understand this portion of his testimony. He appears to argue that rate-of-return regulation is no longer appropriate, and that Verizon NW (and, presumably, other telephone companies) should not be entitled to seek increases via rate cases.

As a threshold matter, Dr. Blackmon's claim that a rate case is inappropriate conflicts with the Commission's decision in the AT&T Access Charge Complaint Case, where the Commission specifically invited Verizon NW to file a rate case. *See, e.g.*, Eleventh Supplemental Order, Docket No. UT-020406, at ¶ 140 ("a rate proceeding initiated by Verizon will afford a much greater opportunity" to explore Verizon's earnings), ¶ 171, and ¶187. Indeed, throughout Verizon NW's appeal of the access charge decision, the Commission argued repeatedly that Verizon NW has the right to, and should, file a rate case if it does not think its current rates are legally sufficient.

Furthermore, Dr. Blackmon appears to argue that because the telecommunications market is competitive, Verizon NW should be treated like any other competitor and not be allowed to seek increases on what he claims are "captive" customers. (Blackmon Rebuttal at 12.) His analysis, however, fails to reflect the fact that Verizon NW, unlike its competitors, is regulated – it is required to provide service to any person that requests it at Commission-prescribed rates. For example, Verizon NW cannot unilaterally decline to provide service (or cease providing services) to those customers that Verizon NW does not think are profitable, nor can Verizon NW unilaterally increase most of its prices to such customers. It is precisely because of these regulatory obligations that Verizon NW has a *right* to file a rate case and the Commission has an *obligation* to ensure that any rates it sets are "sufficient."

In short, Dr. Blackmon's claims that rate-of-return regulation is no longer appropriate are irrelevant for purposes of this rate case.

IV. RESPONSE TO DR. BLACKMON'S SPECIFIC CLAIMS

Q. DR. BLACKMON (P. 15) STATES THAT SYNERGIES FROM THE MERGER OF BELL ATLANTIC AND GTE WERE STEERED OR DIRECTED MORE TO THE NON-REGULATED AFFILIATES OF VERIZON NW THAN TO VERIZON NW ITSELF. DO YOU AGREE?

A. No. Dr. Blackmon's allegation is incorrect as a matter of fact, and in any event based only on pure conjecture ("I suspect…It would appear…") on his part. The merger of Bell

Atlantic and GTE was very beneficial to Verizon NW as evidenced by the synergies identified below and quantified in the testimony of Ms. Heuring:

- <u>Procurement</u> – Savings resulting from the implementation of the most favorable vendor contracts and best available volume prices from suppliers.

- <u>Operations</u> – Synergies resulting from staff reduction, repair work, productivity savings, installation rework and productivity savings.

- <u>Information Systems</u> – Cost reduction and lower outside vendor requirements.

- <u>General & Administrative</u> – Force reductions; efficiency gained through system consolidation.

- <u>Sales & Marketing</u> – Force reductions and elimination of duplicate marketing initiatives and attrition.

Additionally, it is irrelevant for Dr. Blackmon to complain about where merger synergies have ultimately occurred, as if such cost reductions were to be considered as an entitlement to a particular jurisdiction. Within Verizon NW, cost savings occur where they may and are not steered or directed towards (or away from) individual business units. It is also true that cost savings benefit the economy and society whether or not they are captured in a particular ratemaking calculation, because service is thus provided through a more efficient use of society's scarce resources.

Q. DR. BLACKMON (P. 24) CLAIMS VERIZON NW HAS USED ITS CORPORATE STRUCTURE TO SHIFT REVENUES FROM THE REGULATED UTILITY TO UNREGULATED AFFILIATES. HOW DO YOU RESPOND?

A. This is a recurring (and unsubstantiated) theme that the Commission Staff introduced in the interim relief case and it has no merit. Unfortunately, the Staff sees the world upside down; it views Verizon NW's attempts to respond to competition as some kind of scheme by which customers are compelled to take their business to affiliates. The opposite is true; customers today are responding to a variety of alternatives and competitive offerings that go well beyond Verizon NW, and which neither the Company nor the Commission can stop. Verizon NW does offer services from other affiliates, but it is in response to competition and the needs of our customers. I will cover each affiliate situation below and explain how these affiliates actually help the regulated utility retain revenue.

Q. AS A GENERAL MATTER, WHY IS DR. BLACKMON WRONG ON THIS ISSUE?

A. Regardless of corporate structure, the revenues and expenses associated with the services Dr. Blackmon discusses are not services that are subject to the jurisdiction of the WUTC. As such, they would not be included on the intrastate books and would not contribute to the intrastate revenue requirement in any respect. For example, even if wireless service was offered somehow by Verizon NW as opposed to Verizon Wireless, those revenues and expenses would not be used for intrastate ratemaking.

Q. IS THERE ANOTHER FLAW IN DR. BLACKMON'S APPROACH?

A. Yes. Dr. Blackmon believes that Verizon NW can somehow control the competitive market or customer needs. This is evidenced through his statements that customers are moving to broadband and wireless services and this is somehow Verizon NW's doing.

To conclude that Verizon NW can keep a person from wanting a cell phone or to remain on a 56K dial-up connection in a broadband world is pure folly and should be dismissed for what it is.

Q. AS DR. BLACKMON HAS SUGGESTED, HAS VERIZON NW SHIFTED TOLL REVENUE TO VERIZON WIRELESS?

A. No. The notion that Verizon NW has shifted toll revenue (away from the regulated entity) to Verizon Wireless is absurd, and reflects a basic misunderstanding of competition and its impacts on wireline local telephone companies. The wireless phenomenon has been driven completely by customer choice. Everyone knows that wireless usage has exploded over the last decade where penetration rates have increased exponentially. Wireless carriers such as Cingular, T-Mobile, Sprint, and Verizon Wireless offer attractive calling plans that allow customers to call anywhere for modest prices.[1] This has had a significant impact on long distance and switched access revenues for all carriers, not just Verizon NW. In addition, complete wireless substitution of wireline services is gaining in prevalence especially among younger customers. Analysts estimate that 7-8 percent of wireless users have given up wireline service entirely.[2] It is estimated that, within three years, more than 33 million access lines – approximately 18

[1] For example, Cingular currently offers 450 anywhere minutes for $39.99.
[2] *See, e.g.*, Adam Quinton, Managing Director & First VP, Co-Head of Global Telecom Services Research, Merrill Lynch, prepared witness testimony before the Subcommittee on Telecommunications and the Internet of the House Energy and Commerce Committee, Washington, DC (Feb. 4, 2004) ("an estimated 7% of telephone users only have a cell phone"); Michael Balhoff, Managing Director, Telecommunications Group, Legg Mason, prepared witness testimony before the Subcommittee on Telecommunications and the Internet of the House Energy and Commerce Committee, Washington, DC (Feb. 4, 2004) ("[W]hile it is clear that there is substitution whereby wireless-only customers may be 8% of the total consumer market today, it is admittedly difficult to calculate precise figures.").

percent of total access lines -- will be displaced with wireless.[3] The notion that Verizon NW is somehow orchestrating or dictating these dynamics is so incorrect as to be inconsistent with any informed understanding of this industry.

Q. WHAT WOULD HAPPEN IF VERIZON WIRELESS DID NOT OFFER SERVICE IN VERIZON NW'S LOCAL SERVICE TERRITORY IN WASHINGTON?

A. If Verizon Wireless did not offer service, the customer would simply find another wireless provider that did. Thus, there would be no benefit to Verizon NW, to customers who would be denied another choice of wireless service, or to rate levels the Commission must authorize to permit Verizon NW to recover its costs of providing service.

Q. HAS VERIZON ONLINE TAKEN REVENUE AWAY FROM VERIZON NW'S INTRASTATE ENTITY BY OFFERING DIGITAL SUBSCRIBER LINE SERVICE (DSL)?

A. No. This assertion is wrong for two reasons. First, even if Verizon NW offered DSL itself the revenues would not be booked to the intrastate jurisdiction. That is because the FCC has determined that DSL is an interstate service. Second, Dr. Blackmon is correct that DSL has become a replacement for dial-up Internet access using voice-grade telephone service. In other words, some customers are giving up their second lines from the regulated entity to get DSL or another similar option. But here again, this is not a

[3] See S. Ellison, IDC, U.S. Wireless Displacement of Wireline Access Lines Forecast and Analysis, 2003-2007 at Table 9 (Aug. 2003); see also C. Wheelock, In-Stat/MDR, Cutting the Cord: Consumer Profiles and Carrier Strategies for Wireless Substitution at 4 (Feb. 2004) (In-Stat/MDR predicts, in its "base scenario forecast", which is the "most likely outcome," that 29.8% of wireless subscribers will not have a landline by 2008.).

scheme or nefarious plot by the Company. Rather, the migration away from dial-up service has been driven by the customer's demand for a broadband connection that is much faster and more convenient for Internet applications, and which may be provided not only by a telephone company, but also by a cable provider or through other technologies and options in various stages of market development. Promotion of higher-speed Internet connections and broadband is a central objective of telecommunications policy at the state and Federal level. Yet, somehow, Dr. Blackmon views success in this critical public policy objective as a problem to be criticized for allegedly skewing state-level ratemaking in Washington. Dr. Blackmon's point of view is not just confused and irrelevant to setting rates, but would be harmful to the public if embraced by the Commission.

Q. WHAT WOULD HAPPEN IF VERIZON ONLINE DID NOT OFFER DSL?

A. Customers would be harmed through losing a valuable competitive option for high-speed Internet access; they would have to move to a second choice for this capability, such as another technology offered by a cable company to gain a broadband connection. To make matters worse, since cable companies now offer digital telephone service, Verizon NW's intrastate operations would also risk losing all the revenue associated with providing local service.[4] In reality, DSL acts as a retention strategy helping Verizon NW retain its local customers as evidenced by the Verizon Freedom with DSL bundle.[5]

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[4] *Comcast Plans Major Rollout Of Phone Service Over Cable*, The Wall Street Journal, January 10, 2005; Page B1; "Comcast plans to market an Internet-based phone service to 15 million homes by the end of 2005 and to practically all 40 million of the households that have access to its systems within 18 months. The company hopes to have eight million phone subscribers within 5 years, or 20% of the homes its cable lines pass by."

[5] Verizon Freedom with DSL gives the customer unlimited local, toll and long distance calling and combines it with high-speed Internet access from Verizon Online for estimated monthly charges of $94.90.

Q. DR. BLACKMON CLAIMS (P. 24) THAT VERIZON NW HAS "SHIFTED" SIGNIFICANT TOLL REVENUES TO ITS AFFILIATE, VERIZON LONG DISTANCE (LD), WHICH HAS SIGNIFICANTY REDUCED VERIZON NW'S REGULATED INTRASTATE EARNINGS. PLEASE COMMENT.

A. This is not true. Verizon LD pays Verizon NW almost as much money for the service as the customer would have if he or she stayed with Verizon NW; and, those revenues show up on the regulated books in the Washington jurisdiction. Verizon LD purchases resold intraLATA toll in its provision of long distance at a 5% discount to the current Verizon NW intraLATA toll rates. Any loss of Verizon NW intraLATA toll revenue to Verizon LD will be replaced by resold toll revenue. Verizon NW intraLATA market share had declined from historical levels of 90+ % to 50% before Verizon LD entered the Washington toll market. Thus, Verizon NW intraLATA toll declines are a function of all IXC's whereas Verizon LD has only a 20+% market share. A Verizon NW data request response[6] shows that as of 2002, Verizon NW's intraLATA market share was 21% and Verizon LD's market share was also 21%. Other IXC's had captured the other 58% market share.

Q. WHAT WOULD HAPPEN IF VERIZON LD DID NOT OFFER LONG DISTANCE SERVICE?

A. Verizon NW's long distance revenue would have decreased by a larger amount, because what is really going on (here again) is that customers are making their own decisions to shift to more comprehensive or economical service offerings regardless of what any

[6] Verizon NW Response to AT&T Data Request No. 17, Docket No. UT-020406, dated January 24, 2003.

Verizon business unit does. While it is possible that Verizon NW might maintain a slightly higher market share of intraLATA long distance minutes if customers were denied the option of a full service offering from Verizon LD, most of the remaining Verizon LD market share would be gobbled up by other long distance providers such as AT&T, who offer the full array of long distance services – intraLATA, interLATA intrastate, and interstate. When long distance market share migrates to long distance providers other than Verizon LD, Verizon NW loses long distance revenue because compensation is in the form of access charges instead of the higher resold toll revenue. But Dr. Blackmon misunderstands and therefore mischaracterizes these market dynamics as some kind of a scheme on Verizon NW's part, rather than just the fallout of choices customers are making – on their own – to seek bundles of long distance service that go beyond simple toll offerings, and to seek them from providers that go well beyond Verizon NW and its affiliates.

Q. DR. BLACKMON (P. 25) CLAIMS THAT IT WOULD NOT BE APPROPRIATE TO RAISE RATES DURING AN ECONOMIC DOWNTURN? DO YOU AGREE?

A. No. First, Dr. Blackmon's facts are outdated, and even somewhat inaccurate. While there was an economic recession in the state, total employment in Washington actually was slightly higher in 2003 by comparison to 2000, not 55,000 lower as Dr. Blackmon claimed.[7] More significantly, the Washington economy has since improved considerably. According to Greg Weeks, director of the Washington State Employment Security

[7] For the year 2003, average employment in Washington was 2,902,900, an increase of 6600 over the 2000 average level of 2,896,300. "Resident Civilian Labor Force and Employment in Washington State: Not Seasonally Adjusted," Washington State Employment Security Department, Labor Market and Economic Analysis Branch, December 14, 2004 (http://www.workforceexplorer.com/admin/uploadedPublications/1886_laus_historical.xls, viewed January 5, 2005). However, the unemployment rate in 2003 was considerably higher than 2000 levels.

Department's Labor Market and Economic Analysis branch "We had a sharp recession in Washington but on the other hand, we've had a sharp recovery."[8] Employment grew in 2004 and the unemployment rate fell to about the national level by the end of the year.[9] There is no need to consider this case in terms of a "downturn," as Dr. Blackmon claimed.

Second, as the above facts illustrate, the general economy does fluctuate and is difficult to predict with any precision. With regard to test-year ratemaking, historical economic conditions are not very helpful for predictive purposes, even if they were relevant to the issues in this case – which they are not. The Commission's obligation is to set rates sufficient to permit the recovery of Verizon NW's costs and prior investment, as well as a reasonable rate of return on that investment which remains in service. This obligation remains applicable whether the economy is booming, or slowing. It also bears repeating that Verizon NW is only asking for a portion of its actual revenue shortfall to be recovered in rates, and that nearly a hundred million dollars of the Company's prior investment would never be recovered in this jurisdiction even if the Commission awarded Verizon NW the entire amount of its revenue deficiency. Additionally, no upturn in the economy will undo the impacts of competition on Verizon NW due to customer use of alternatives to Verizon NW's services.

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[8] (http://www.workforceexplorer.com/article.asp?ARTICLEID=3582&PAGEID=&SUBID=, viewed January 1, 2005).

[9] For November, 2004, Washington's unemployment rate was 5.6% as compared to a national figure of 5.2% (neither figure seasonally adjusted). Comparable figures from a year earlier were 7.2% for Washington, and 5.6% nationally. (http://www.workforceexplorer.com/, viewed January 5, 2005).

Finally, past history has shown that this Commission has upheld its obligation to set reasonable rates (including rate increases, where necessary) in previous rate cases in times of economic downturn.

Q. DR. BLACKMON (PP. 25-26) SUGGESTS THAT STATE AND FEDERAL LAW PROHIBIT VERIZON NW FROM RECOVERING ANY REVENUES LOST AS A RESULT OF COMPETITION. PLEASE COMMENT.

A. Verizon NW will address this issue in its legal brief, but I can briefly point out the fundamental errors in Dr. Blackmon's analysis.

First, with respect to his state law argument, he quotes only a portion of RCW 80.36.330(6). The statue, however, must be read in its entirety. Here are all the relevant portions:

> (1) The commission may classify a telecommunications service provided by a telecommunications company as a competitive telecommunications service if the service is subject to effective competition. . . .
>
> (3) Prices or rates charged for competitive telecommunications services shall cover their cost. The commission shall determine proper cost standards to implement this section. . . .
>
> (4) The commission may investigate prices for competitive telecommunications services upon complaint. In any complaint proceeding initiated by the commission, the telecommunications company providing the service shall bear the burden of proving that the prices charged cover cost, and are fair, just, and reasonable.
>
> (6) No losses incurred by a telecommunications company in the provision of competitive services may be recovered through rates for noncompetitive services. The commission may order refunds or credits to any class of subscribers to a noncompetitive telecommunications service

> which has paid excessive rates because of below cost pricing of competitive telecommunications services.

In sum, under this statute, if the Commission classifies a service as competitive, then the company cannot charge less than the cost floor set by the Commission for that service and try to recover the difference through the rates for non-competitive services. If it does, the Commission may require a refund or credit.

Here, the only significant service that is classified as competitive for Verizon NW under this statute is intraLATA toll service.[10] The "cost standard" for this service, as set by the Commission, is the incremental cost of toll plus the imputed cost of access. The Commission investigated the price of this service in the AT&T Access Complaint Case, Docket No. UT-020406, and specifically found that Verizon NW's prices were *not* below the Commission's cost standard. In short, this statute does not support Staff's claim that Verizon NW is not entitled to its revenue requirement. It applies only to Verizon NW's toll services, and the prices for these services comply fully with the RCW 30.36.330.

For this same reason, Staff's federal law argument also is wrong. Verizon NW's toll service is not being unlawfully "subsidized" under Section 254(k) of the federal Act because, as discussed above, Verizon NW's toll service covers its cost, as the Commission held in UT-020406.

[10] In addition to toll service, WATS and certain directory assistance services are classified as competitive.

Q. DR. BLACKMON (P. 26-27) ASSERTS THAT THE COMMISSION SHOULD HAVE A SPECIAL POLICY REGARDING LOST REVENUES ASSOCIATED WITH UNBUNDLED NETWORK ELEMENTS (UNES). WHAT IS YOUR POSITION?

A. The fact that Congress and the FCC established a separate method for pricing UNEs that potentially causes a shortfall in intrastate revenue has no bearing on how the rate case must be considered and decided. This is further crystallized in the Commission's Line Sharing Order, "In Docket No. UT-960369, et al., the Commission found that the price of unbundled network elements had to be established without any reference to retail rates". (Thirteenth Supplemental Order UT-003013, par. 81) In determining its revenue requirement of $222 million, Verizon NW compared its intrastate revenue for the test period to its needed revenue requirement without special regard to lost revenue associated with UNEs, since the Commission's intrastate ratemaking obligations are unchanged by the fact that the prices for some services are set under federal UNE ratemaking principles.

Q. DR. BLACKMON (P. 27-32) CONCLUDES THAT VERIZON NW'S REVENUE DECLINE IS LARGER THAN IT COULD HAVE BEEN HAD IT DONE A BETTER JOB OF RESPONDING TO COMPETITION. DO YOU AGREE?

A. No. Verizon NW has taken a number of initiatives to respond to competition including: (1) offering Local packages (including unlimited intraLATA toll) designed to increase customer value and act as a retention strategy by allowing customers access to multiple Verizon NW services and providing additional savings to high usage customers; (2) "Winback" programs designed to invite customers back to Verizon NW who had switched to other competitors; (3) term and volume plans for business services, like ISDN/PRI, that allow customers to contract for lower rates when purchasing services in large volumes or for a stated period; (4) obtaining approval from the Commission to price-list certain services competitively such as intraLATA toll, directory assistance services, and billing and collection and; (5) Individual Case Basis (ICB) offerings filed with the Commission for large business customers, allowing Verizon NW to more effectively service this customer segment.

I can assure Dr. Blackmon and the Commission that Verizon NW's management is keenly interested in competing as best as possible to retain customers and revenues in the face of competition. But given the nature of that competition, it is simply not possible for the Company to keep all of its traditional business and customers.

Another irony is evident in Dr. Blackmon's uninformed criticism of the Company's management. Many years of active efforts by regulators to promote competition have, in concert with technology, borne fruit in terms of the pressures Verizon NW now faces. Rather than recognizing this outcome as a measure of success for the pro-competition policy, Dr. Blackmon criticizes the Company for suffering the losses that his efforts (and those of the Commission) were ultimately aimed towards causing.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.