

Agenda Date: December 27, 2006  
Item Number: A1

**Docket: UT-061464**

Company Name: Verizon Northwest Incorporated

Staff: Deborah Reynolds, Regulatory Analyst  
Paula Strain, Telecommunications Expert  
Tani Thurston, Regulatory Analyst

### **Recommendation**

Issue an order in Docket UT-061464 setting the matter for hearing.

### **Background**

On September 15, 2006, Verizon Northwest Incorporated (Verizon) submitted a petition for waiver of the commission's extension of service rule<sup>1</sup> for a potential customer (Tamalyn Lively) in the Tonasket Exchange in Okanogan County.

Subsection (2)(a) of the rule requires that, "[s]ervice extensions must be completed within eighteen months after a request is made and the customer makes the initial payment." Subsection (2)(b) also generally requires that, "service is required to occupied premises." However, the commission may determine whether an applicant for service is not reasonably entitled to service and whether the local exchange company is not obligated to provide service to an applicant. Such a determination may be made if the cost of the service extension is found to be unreasonable.

Verizon's petition for waiver gave the reasons and justification for its request to deny service to that customer. Verizon provided the applicant with a copy of the petition and commission staff sent a letter informing her of an opportunity to participate in this process.

### **Factors to Consider**

The commission may consider the following factors (among others) in determining whether granting an exemption is consistent with the public interest under the rule:

- (A) The total direct cost of the extension;

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<sup>1</sup> WAC 480-120-071, "Extension of Service." (Order R-474, Docket No. UT-991737), filed 12/5/00, effective 1/15/01. Specifically, Verizon seeks a waiver of the requirement to extend service under WAC 480-120-071(2)(b) or, in the alternative, seeks a waiver of WAC 480-120-071(3)(a), so that it can charge the applicants the actual cost of the extensions.

- (B) The number of customers to be served;
- (C) The comparative price and capabilities of radio communication service or other alternatives available to customers;
- (D) Technological difficulties and physical barriers presented by the requested extensions;
- (E) The effect on the individuals and communities involved;
- (F) The effect on the public switched network; and
- (G) The effect on the company.

The company's petition addresses most of the factors listed above. However, the Company's analysis of the direct cost of the extensions was limited to estimating the cost of land-line distribution plant; Verizon did not explore the cost, price, and quality of alternative technologies, such as satellite telephone service.<sup>2</sup>

Under WAC 480-120-071 and WAC 480-120-015, the commission can either grant the petition or set the matter for hearing.

### **Analysis**

Commission staff members have reviewed the petition and obtained additional data from Verizon. We have also gathered information from the applicant and from other property owners and residents in the area. We conducted a site visit and met with the applicant during the week of October 23, 2006. We also visited with and obtained information from the Okanogan County Planning Department.

Commission staff members have three areas of concern regarding this petition. First, the commission staff visit discovered differences that have not been adequately explained by the company. Second, staff members are concerned that the cost estimate provided by the company

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<sup>2</sup> WAC 480-120-071(2)(c) provides, "Any company required to extend service under this section may do so by extending distribution plant or by making a service and financial agreement with a radio communications service company or other alternative provider to provide service. The services provided through a radio communications service company or other alternative provider must be reasonably comparable services at reasonably comparable prices compared to services provided through wireline distribution facilities in the area of the exchange where service has been requested. In addition, the services must include all elements of basic service defined in RCW 80.36.600. A company extending service through a service agreement with a radio communications service company or other alternative provider may file a tariff as permitted under subsection (4) of this section to recover the lesser of the actual direct cost to extend the service through the cooperative agreement or the direct cost of extending wireline distribution plant."

is extremely high when compared to similar line extensions in the area. Third, as mentioned above, the company did not explore the cost, price and quality of alternative technologies.

### 1. Additional questions for Verizon

The Lively application is for service to an existing house on Roundabout Road,<sup>3</sup> a loop road off of Frosty Creek Road in the Cobey Canyon area of Okanogan County. The company estimated that service to the location would require 6000 feet of trenching along Roundabout Road from the south side of the Lively driveway. The commission staff visit to the Lively house found that the nearest service is actually 2000 feet north along Roundabout Road from the head of the Lively's driveway. The company stated, in response to a staff member's request for information, that the cost to extend service from the northern location was higher. We are concerned that the increased cost over a shorter distance may involve reinforcement of the network,<sup>4</sup> a cost that should be separately considered because the rule excludes reinforcement as a cost allowable for reimbursement. The company has not provided detailed information regarding reinforcement costs.

In an explanation to staff members, the company suggested that the final loop length for the Lively service will be shorter if service is provided from the south, and that service quality will be better for that reason. The company has not provided a detailed explanation of the variations in service quality or the network configuration before or after the line extension.

### 2. Accuracy of cost estimate

The Lively line extension has the highest estimated cost-per-foot of any other line extension recently reviewed by this commission or performed by Verizon. Staff members compared the current line extension petition to the open meeting memo in Docket UT-060369 concerning CenturyTel and converted the cost-per-mile to cost-per-foot. A Verizon representative told a staff member that the company uses \$8/foot as a rule of thumb. Because the current line

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<sup>3</sup> Verizon's petition stated that the un-named road referred to here as Roundabout Road is a private road. Under Washington law, whether a road is private depends on use. See RCW 36.75.010(11), 070, and 080, and see WAC 480-120-061(1)(h). Many residents on private roads have telephone service.

<sup>4</sup> See WAC 480-120-071(1) "**Cost of service extension**" means the direct and indirect costs of the material and labor to plan and construct the facilities including, but not limited to, drop wire, permitting fees, rights-of-way fees, and payments to subcontractors, and **does not include the cost of reinforcement, network upgrade, or similar costs.**

extension pencils out at almost \$15/foot, we believe the company should re-visit the site and re-evaluate the estimated costs-per-foot for this line extension.

**Table 1 – Comparison of Line Extension Costs in Recent Dockets**

	Verizon Timm Ranch	Verizon Taylor location	CenturyTel	CenturyTel	<u>Current Petition</u>
Result	Service denied	Service denied	Service provided	Service denied	
Docket No.	UT-011439	UT-011439	UT-060222	UT-060369	UT-061464
Total Cost	\$881,497	\$329,839	\$144,131	\$301,040	\$89,225
Cost per customer	\$176,299	\$110,000	\$72,065	\$150,520	\$89,225
Cost per foot	\$5.56	\$3.67	\$4.92	\$10.92	\$14.87

**3. Alternative technologies**

Lastly, Verizon has not provided an analysis of the cost of alternative technologies and whether any of them might be less costly as a means to extend service to these applicants.

WAC 480-120-071(2)(c) provides a company the opportunity either to provide service by extending distribution plant or to contract with an alternative provider to provide service. The Company can then file a tariff to recover the lesser of the actual direct cost to extend the service through the cooperative agreement, or the direct cost of extending wireline distribution plant. In its petition, Verizon states that satellite phone service is “generally available in the area.” We recommend that Verizon be required to explore this option for serving the Lively location before being granted a waiver of its obligation to serve this applicant.<sup>5</sup>

**Conclusion**

The Verizon petition regarding the Lively application for service presents a very expensive line extension. Commission staff members believe that the estimate may not be correct, based on the additional questions and on a comparison with other line extensions. We also believe the company should investigate alternative methods of providing service. Commission staff members recommend that the commission set this matter for hearing to allow further investigation into the facts of the case.

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<sup>5</sup> In another docket, Verizon remarked correctly that there are other ETCs designated for exchanges in Okanogan County, implying that another carrier should be obligated to serve the applicant. However, in Washington, consumers may choose their service provider from among all those obligated to serve by statute or order.