

**BEFORE THE WASHINGTON STATE
UTILITIES AND TRANSPORTATION COMMISSION**

In the Matter of the Review of:) DOCKET NO. UT-023003
Unbundled Loop and Switching)
Rates; the Deaveraged Zone)
Rate Structure; and Unbundled) TWENTY-SECOND SUPPLEMENTAL
Network Elements, Transport,) ORDER
and Termination (Recurring)
Costs)) ORDER APPROVING AND
) ADOPTING SETTLEMENT
.....) AGREEMENT

Synopsis: The Commission approves and adopts the Settlement Agreement establishing deaveraged loop rates for Qwest and removing all Qwest issues from the recurring cost docket.

1 **Proceedings.** Docket No. UT-023003 – also referred to as the “new generic cost case” – is a generic proceeding initiated by the Commission to review Qwest’s and Verizon’s recurring and nonrecurring costs for unbundled network element (“UNE”) loop and switch rates, including the deaveraged loop zone rate structure, previously established by the Commission in other proceedings. On August 5, 2003, in the Twelfth Supplemental Order in this case, the Commission bifurcated the recurring from the nonrecurring cost portions of Docket No. UT-023003. The Commission will consider nonrecurring costs in Docket No. UT-033034. On November 25, 2003, the Commission entered an order removing Qwest cost issues from both proceedings, with one exception. Only Verizon’s costs are now at issue in the cost dockets.

2 **Appearances.** Qwest Corporation (“Qwest”), by Lisa Anderl, attorney, Seattle, Washington; Verizon Northwest Inc. (“Verizon”), by Catherine Ronis, attorney, Washington, D.C.; Covad Communications Company (“Covad”), by Karen Frame, attorney, Denver, Colorado; AT&T of the Pacific Northwest, Inc. (“AT&T”), Pac-West, Inc. (“Pac-West”), and XO Washington, Inc. (“XO”), by Gregory J. Kopta, attorney, Seattle, Washington; MCI/WorldCom (“WorldCom”) by Michel Singer-Nelson, attorney, Denver, Colorado; WeBTEC, by Arthur Butler, attorney, Seattle, Washington; Eschelon Telecom, Inc. (“Eschelon”), by Dennis Ahlers, Minneapolis, Minnesota; and Commission Staff, by Shannon Smith, Senior Assistant Attorney General.

3 **Background.** Qwest recurring cost issues, with one exception, were removed from this case by Commission order on November 25, 2003.¹ The sole remaining issue relates to the rates Qwest can charge for unbundled loops in each of Qwest’s five rate zones.² By means of zone rate deaveraging, rates in wire centers where it costs less to provide a loop are lower than in wire centers where it costs more to provide a loop. However, under deaveraging, all the zone rates taken together equal the statewide average loop rate.

4 On April 20, 2004, Qwest, Commission Staff and AT&T filed a Settlement Agreement in this docket.³ The proposed settlement resolves the remaining Qwest issue in the case. By terms of the settlement, Qwest agrees to implement the five-zone loop-rate deaveraging proposal contained in Staff’s revised

¹ *Seventeenth Supplemental Order.*

² The Commission first authorized deaveraged zone loop rates for Qwest in an earlier cost docket, *In the Matter of the Pricing Proceeding for Interconnection and Termination, and Resale, et al.*, Docket Nos. UT-960369; UT-960370; and UT-960371, Twenty-Fourth Supplemental Order (Phase III), May 4, 2000, ¶ 81.

³ On April 28, 2004, the Commission notified the parties of their opportunity to file comments or objections to the Settlement Agreement on or before May 3, 2004. No party filed an objection to the Settlement Agreement.

testimony filed on April 20, 2004. Staff agrees to withdraw its initial proposal recommending core and fringe deaveraging⁴ of Qwest's loop rates.

5 The rates proposed in Appendix A to the Settlement Agreement are as follows:

Zone 1	\$11.26
Zone 2	\$13.63
Zone 3	\$16.92
Zone 4	\$28.23
Zone 5	\$67.77

6 The statewide average loop rate resulting from the Settlement Agreement, \$14.44, does not significantly alter the current statewide average loop rate of \$14.26.

7 In the testimony of Staff witness Dr. Glenn Blackmon, filed simultaneously with the Settlement Agreement, Dr. Blackmon points out that using five zones increases the accuracy of the prices charged for unbundled loops. The method he used to derive the zone rates is the "weighted sum of squared errors." This method measures the difference between the wire center loop cost and the zone price, squares it and then weights it by the number of loops in that wire center. Dr. Blackmon further states that the greatest variation in loop costs is at the high

⁴ Staff's "core and fringe" deaveraging proposal would have further deaveraged rates in several wire centers where there were a large number of access lines in the urban center, but fewer lines in the rural area surrounding the urban center. The urban center would be assigned to a lower cost zone but the rural surrounding area would be assigned to a higher cost zone. Approximately 15 wire centers, including the cities of Aberdeen and Olympia, for example, were involved in this proposal.

end of the range. The sum of squared errors methodology places fewer loops in the high cost zones and more loops in the lower cost zones. He adds that this increases the accuracy of prices and places the truly high cost loops in high cost zones.

8 Dr. Blackmon indicates that the greater accuracy of pricing that results in higher prices in Zone 5 could be alleviated if more lower-cost wire centers were included in Zone 5. However, this would decrease the accuracy of pricing for those added wire centers. Dr. Blackmon states that the better way to address Zone 5 pricing levels is through universal service policy.

9 **Discussion and decision.** The Commission is persuaded that adopting the proposed Settlement Agreement would serve the public interest. The deaveraged Qwest UNE loop rates contained in the Agreement would move prices for loops toward costs in all zones. Accurate pricing provides carriers the best information to rely on in making decisions whether to invest in facilities to serve a given geographic area.

ORDER

THE COMMISSION ORDERS That:

- 10 (1) The proposed Settlement Agreement, attached hereto and incorporated by reference herein, establishing five-zone deaveraged loop rates for Qwest, is approved and adopted.
- 11 (2) Qwest must file tariff revisions in compliance with the terms of the Settlement Agreement within ten business days of entry of this order.
- 12 (3) The Commission Executive Secretary may approve by letter the compliance filing.

- 13 (4) The Commission retains jurisdiction over the subject matter and the parties to effectuate the provisions of this Order.

DATED at Olympia, Washington, and effective this 11th day of May, 2004.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

MARILYN SHOWALTER, Chairwoman

RICHARD HEMSTAD, Commissioner

PATRICK J. OSHIE, Commissioner