BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of the Pricing Proceeding for Interconnection, Unbundled Elements, Transport and Termination, and Resale	))))	Docket No. UT-960369
In the Matter of the Pricing Proceeding for Interconnection, Unbundled Elements, Transport and Termination, and Resale for U S WEST COMMUNICATIONS, INC.	))))))	Docket No. UT-960370
In the Matter of the Pricing Proceeding for Interconnection, Unbundled Elements, Transport and Termination, and Resale for GTE NORTHWEST INCORPORATED	)))))	Docket No. UT-960371

RESPONSIVE POST-HEARING BRIEF OF GTE NORTHWEST INCORPORATED

GTE Northwest Incorporated ("GTE"), by counsel, and pursuant to the Commission's Twenty-Third Supplemental Order, hereby submits this brief in response to the post-hearing briefs of MCI WorldCom, Inc. ("MCI") and AT&T Communications of the Pacific Northwest ("AT&T"); NEXTLINK Washington, Inc, Electric Lightwave, Inc., Advanced TelCom Group, Inc., GST Telecom Washington, Inc., and New Edge Networks, Inc. (the "Joint CLECs"); Rhythms Links, Inc., and TRACER (collectively "CLECs").

The Twenty-Third Supplemental Order states that "the greater the number of zones, the less averaging will occur and the more closely the assigned cost and resulting price for wholesale service will track the actual cost of providing the loop." Twenty-Third Supplemental Order at ¶ 3. Standing alone, this indeed is a true statement. But, it is only true if the cost estimates upon which deaveraged rates are based adequately reflect the forward-looking costs of provisioning the loop in the ILEC wire centers. In their respective post-hearing briefs filed March 28, 2000, the CLECs advocate a five-zone proposal that does not achieve this goal.[1] For one thing, the proposal is based on HM 3.1 cost results which bear no relationship to known cost drivers of loop costs, and which are based on a gross misstatement of the area covered by the ILECs' wire centers in Washington. *See* Exhibits 184, 185 and 190. More important, there is an acknowledged imprecision in the wire center cost estimates established in this record. *See* Eighth Supplemental Order at ¶¶ 258-65. By proffering an unsupported increase in the number of zones, the CLECs' proposal reduces the netting of positive and negative errors in the individual wire center cost estimates. This feature of the proposal goes beyond the simple increase from three to five zones since, as noted below, the proposal has crammed four of the five zones into the range of costs falling below the ordered statewide averages for both GTE and U S West. Consequently, the CLECs' five-zone proposal does not produce a set of deaveraged rates that "track the actual cost of providing the loop".

By comparison, the three-zone proposals advocated by GTE in its post-hearing brief are based on wire center cost estimates that bear a strong relationship to known cost drivers. Moreover, these cost estimates do not depend on an estimate of the wire centers' serving area and instead utilize the observed distribution of actual loop lengths within GTE's Washington wire centers. For this reason alone, GTE's proposals are superior to that of the CLECs. In addition, GTE's proposed zones are not crowded into the low end of the range of wire center costs and consequently take advantage of the netting of positive and negative errors. Unlike the CLECs' five-zone proposal, GTE's proposals produce deaveraged rates that "track the actual cost of

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[1] The CLECs' five-zone proposal is based on Exhibits 1T and 2 – the wire center costs developed by AT&T witness Douglas Denney. AT&T/MCI Brief at 5.

providing the loop". The CLECs' proposal is nothing more than a results-oriented deaveraging scheme designed for the sole purpose of achieving the lowest rates possible for a majority of ILEC lines.

The new CLEC proposal proffers a rate in each of zones 1 through 4 that is below the statewide average rate for both GTE and U S WEST. In effect, the new proposal has "deaveraged" the wire centers with costs below the average in an obvious effort to achieve as low a rate as possible in the zones that the CLECs intend to target for competition. The CLECs have focused the bulk of their deaveraging efforts on the low-cost wire centers, ignoring those wire centers with costs greater than the statewide average. For example, all of the GTE wire centers in Zones 1 through 3 have costs less than the statewide average, and all but seven of the wire centers in zone 4 have costs less than the statewide average. The result is a deaveraging proposal in which the rates for four out of five of the zones are less than the ordered statewide average.

The self-serving nature of the CLECs' proposal is underscored by the absence of any support for the zone demarcation between the CLECs' five new proposed zones. As the table below illustrates, the zone-to-zone rate changes in the CLECs' proposal are substantially smaller than the corresponding changes in either of AT&T's prior two proposals:

Zone Break	CLEC 5-Zone Proposal	AT&T Proposal Using HM 3.1	AT&T Proposal Using GTE Costs
Zone 1 - Zone 2	$1.78	$5.65	$4.27
Zone 2 - Zone 3	$3.37	$38.33	$5.50
Zone 3 - Zone 4	$2.25	N/A	$7.15
Zone 4 - Zone 5	$26.49	N/A	N/A

This differential suggests that the CLECs now choose to draw the cut-off between zones much more narrowly than before, without offering any rationale whatsoever for this change in methodology. It is clear that they have simply increased the number of zones and crowded the additional zones into the range of costs below the statewide average with only one purpose – to obtain as low a rate as possible in the wire centers in which they want to compete.

In its brief, AT&T claims that the CLECs selected zones to make each zone "as homogeneous as possible." AT&T/MCI Brief at 5. However, nowhere in the brief or its attachments is there any measure or explanation of homogeneity. Indeed, when GTE crossed Mr. Denney on the criteria used to draw the boundaries between zones, he did not mention homogeneity. Instead, his testimony demonstrated that his cut-off points were arbitrarily designed to produce a particular rate. *See* GTE Brief at ¶¶ 38, 40. AT&T now has failed to explain how this criterion played a role in selecting its the new proposed zones.

Moreover, the CLECs have completely side-stepped the issue of whether the choice of underlying cost estimates matters to the establishment of deaveraged rates. Attachment A demonstrates that the choice of underlying cost estimates does matter. By comparing the CLECs' five-zone proposal using HM 3.1 costs to the same proposal using GTE's cost estimates, Attachment A shows that the deaveraged rates change dramatically based on this change in the underlying cost estimates. As noted above, the HM 3.1 cost estimates are not related to the factors that determine loop costs. AT&T has not refuted this evidence and has chosen instead to ignore it in its brief. Yet, because choice of the cost estimates does matter, the issue of which estimates to use cannot be ignored.

As stated previously, increasing the number of zones based on HM 3.1 costs will frustrate the Commission's stated objective of tracking the actual cost of the loop by losing the benefits of averaging out the errors in underlying wire center cost estimates. As the Commission is aware, the sophistication of cost modeling has increased since this docket first began over three years ago. The Commission will evaluate updated cost models in Docket UT-003013. It may well be that these new models will support a breakdown of wire centers into zones that differ from what is ultimately determined in this docket, and a greater number of zones. The greater number of zones established now, the more difficult it will be to reconcile the ordered zones to new – and presumably more accurate – cost estimates resulting from UT-003013.

Moreover, all parties agree that the purpose of deaveraging UNEs is to facilitate the development of efficient competition. However, any wholesale rate structure must be reasonably aligned with retail rates to maintain competitive neutrality and just and reasonable rates. *See* GTE Brief at ¶¶ 6-16. Any deaveraging proposal, therefore, must be evaluated with an eye towards its impact on retail rates. The Commission itself has indicated wholesale deaveraging is a prelude to retail rate deaveraging and universal service reform. *See Promoting Competition and Reforming Universal Service*, A Report to the Washington State Legislature by the Washington Utilities and Transportation Commission (Nov. 1998) at 98. During this first step, the Commission should establish a rate structure that easily could be adopted to retail rates. Under the CLECs' proposal, two-thirds (ten out of fifteen) of GTE's multiple wire center exchanges are split among different zones, which would result in customers within the same exchange having different rates. The Commission should not adopt such a pricing scheme without serious consideration of the consequences to Washington consumers.

More important, the greater the number of zones, the higher the administrative costs imposed on both ILECs and CLECs to implement deaveraged rates. In the absence of any significant benefit from more zones, three zones are sufficient. Indeed, the CLECs themselves fail to offer any justification for the shift to five zones. Nor does the record, since most parties agreed three zones is a reasonable place to start as the Commission shifts to a deaveraged pricing scheme. *See* GTE Brief at ¶ 66; Tr. 2220 (Denney); Exhibit 1T:4 (Denney); Exhibit 63T:4 (Thompson); Exhibit 141T:5 (Dye). AT&T and MCI simply state that five zones is now the correct number, but do not explain this sudden epiphany. AT&T/MCI Brief at 4-5. In the absence of any evidence to support the CLECs' assertion, the Commission should not blindly establish five geographic zones.

WHEREFORE, for the foregoing reasons, GTE respectfully requests that the Commission disregard the CLECs' new proposal.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that an original and 19 copies of the Responsive Post-Hearing Brief of GTE Northwest Incorporated in Phase III of Docket Nos. UT-960369, UT-960370, and UT-960371 were sent by overnight mail to Carole J. Washburn, Secretary, Washington Utilities and Transportation Commission, 1300 S. Evergreen Park Drive, S.W., Olympia, Washington 98504-7250, and that a copy was mailed to the following parties by over night mail:

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