Docket No. UT-023003
Verizon Response to Commission Bench Request
June 7, 2004

Bench Request No. 1:

Please provide the model Dr. Vander Weide used to calculate his proposed risk premium.

Response:

Please see the attached response to Staff Data Request 60, originally provided by Verizon to parties on July 24, 2003. The attached response contains a spreadsheet that allows the model inputs to be varied.

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Data Request No. 60: **(VanderWeide Testimony)**

Referring to page 62, lines 1-5, of Exhibit No.___(JHV-1T), please provide the workpapers, assumptions, and calculations underlying the equation. Please include the "value of the option to cancel" and all remaining variables.

RESPONSE:

Please see Dr. Vander Weide's direct testimony beginning at page 50, including the response to the question on p. 50 which reads, "How did you estimate this required risk premium?" and especially at pp. 54 – 64, including the testimony following the question which asks, "Please describe in more detail your methodology for calculating the regulatory risk premium associated with the UNE regime and the TELRIC standard." The testimony at pp. 50 – 64 includes a description of Equation (1), which should be read before considering Equation (2). In addition, please see Exhibit JHV-3, referred to at page 55 of Dr. Vander Weide's testimony. This exhibit is an article by Copeland and Weston, "A Note on the Evaluation of Cancellable Operating Leases," published in the Summer 1982 issue of *Financial Management*, which describes the binomial option pricing methodology utilized by Dr. Vander Weide.

The work papers underlying the calculation of the value of the option to cancel and the regulatory risk premium, which Verizon NW has designated as confidential and proprietary pursuant to the terms of the Protective Order in this proceeding, are provided in the attached document.

See the attached document: PROPRIETARY Staff 60 Att(Lease option).xls.

"PROPRIETARY Staff
60 Att(Lease option).