

December 29, 2004

**VIA OVERNIGHT MAIL**

Ms. Carole J. Washburn  
Executive Secretary  
Washington Utilities & Transportation Commission  
1300 Evergreen Park Drive SW  
Olympia, Washington 98504-7250

Re: Docket No. UT-023003

Dear Ms. Washburn:

Enclosed are an original and twelve copies of Verizon Northwest Inc.'s Response to Bench Request No. 26. Please contact me if you have any questions or concerns. Thank you.

Sincerely,



Christopher S. Huther

cc: Service list

**Bench Request 26:**

Please explain which inputs to the HM 5.3 model should be modified so that the model uses the ratio of 2000 DEMs divided by 2000 access lines when developing traffic sensitive switching costs.

**Verizon Northwest Inc.'s Response:**

Verizon Northwest Inc. ("Verizon") understands that this request seeks a recommendation on how HM 5.3's inputs should be changed to correct the mismatch between 2000 DEMs data and 2003 line count data for the sole purpose of producing traffic-sensitive switching costs. In order to accomplish this objective, the following HM 5.3 inputs, which are defined in the *Inputs Portfolio*, should be changed: (1) local DEMs, (2) intrastate DEMs, (3) interstate DEMs, and (4) End office usage-sensitive cost fraction.

The remainder of this response explains how these changes should be made and provides the rationale for Verizon's recommendations. Verizon cautions that the suggested changes only respond to the Bench Request and in no way should it be construed that use of these inputs will correct anything more than the average DEMs per line and percent of switch investment that is usage sensitive. For example, even with these changes, HM 5.3 will still misuse DEMs and incorrectly design the interoffice (transport) facilities that serve switched traffic, ignore the real demands placed on these facilities by other carriers (CLEC, Wireless, IXCs, etc.) for switched interconnection trunks, and HM 5.3's switch investments will still reflect understated equipment prices and undersized equipment configurations.

The referenced portions of the post-hearing briefs appear to deal with the issue of how to estimate minutes of use per line in order to calculate usage-sensitive switching costs with Verizon's model. At the outset, it is useful to note that HM 5.3 does not use DEMs per line as an input. Rather, HM 5.3's DEMs inputs are total DEMs, broken down into local, intrastate, and interstate. However, the conceptual issue raised in Verizon's initial brief (and apparently conceded to in AT&T's brief) still remains: DEMs data has not been updated since 2000.

HM 5.3 assumes that there are no traffic-sensitive costs associated with local switching, i.e., all local switching costs are per-line port costs. Therefore, even though one could change the DEMs inputs to be compatible with what AT&T seems to have conceded in its initial brief, there would be no impact on HM 5.3's traffic-sensitive switching element<sup>1</sup>-- it would still be zero by assumption. Accordingly, the input "end office usage-sensitive cost fraction" needs to be changed to a value that properly represents the traffic-sensitive share of total local switching costs, which Verizon calculates to be 64.17 percent.<sup>2</sup>

Second, although the revised HM 5.3 *Inputs Portfolio* (at p. 103) lists the 2003 ARMIS 43-04 and NECA data as the source for HM 5.3's DEMs inputs, these inputs match neither ARMIS nor NECA data, as shown in the following table:

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<sup>1</sup> See cell Cell F109 of the "unit costs" worksheet of a density zone results file.

<sup>2</sup> Verizon Reply Testimony of Willett Richter, Thomas Mazziotti and Harold West, III on page 6.

	ARMIS/NECA <sup>3</sup>	HM 5.3
Local	25,269,639	28,372,420
Intrastate	2,075,669	2,311,579
Interstate	2,809,305	3,082,000

Therefore, in order to maintain the 2000 DEMs per line ratios, the values in the left-hand column of the preceding table would have to be scaled by the ratio of 2003 switched lines to 2000 switched lines, which is 0.91.<sup>4</sup> The numbers of DEMs resulting from this calculation are as follows:

Local	23,106,193
Intrastate	1,890,569
Interstate	2,558,782

The impact of these alternative inputs on switching traffic-sensitive costs can be obtained by changing the following cells in the "inputs" worksheet of a density zone results file: Cells C17-19 (DEMs) and cell C56 ("EO non-port fraction").<sup>5</sup> For example, if the traffic-sensitive cost share were 64.17 percent, the following table shows how DEMs affect traffic-sensitive costs.

	Default <sup>6</sup>	Alternate DEMs
Port <sup>7</sup>	\$1.01	\$1.01
Usage (per minute) <sup>8</sup>	\$0.00078	\$0.00096

<sup>3</sup> Universal Service Monitoring Report, CC Docket No. 98-202, October 2002, Tables 8-7 to 8-9.

<sup>4</sup> According to the ARMIS 43-08 report, Verizon Northwest's switched lines in Washington decreased from 945,198 to 860,909 between 2000 and 2003.

<sup>5</sup> Note that the usage-sensitive fraction is labeled somewhat differently in the "inputs" worksheet. The changes to these inputs could also be made through HM 5.3's user interface. This approach would also increase the unit cost for other UNEs (e.g., transport elements and tandem switching), which are not addressed by the Bench Request. An attachment shows the screen shots for changing inputs through the user interface.

<sup>6</sup> For purposes of this comparison, Cell C56 of the "inputs" worksheet was changed from 0 to 64.17%.

<sup>7</sup> Cell F108 of the "unit costs" worksheet. If the "EO non-port fraction" input were changed from the 64.17% assumed in the table, the resulting port cost would differ by the ratio of  $(1 - \text{alternative EO non-port fraction})/0.6417$  from the value in the table.

<sup>8</sup> Cell F109 of the "unit costs" worksheet. If the "EO non-port fraction" input were changed from the 64.17% assumed in the table, the resulting port cost would differ by the ratio of  $\text{alternative EO non-port fraction}/0.6417$  from the value in the table.

Finally, adjusting the 2000 DEM counts only for the decrease in lines may not be sufficient to obtain accurate approximations of current DEM levels. ARMIS 43-08 data also show that the number of calls has decreased -- at even a faster rate than the decrease in lines.<sup>9</sup> When DEMs are adjusted proportional to the decrease in calls, the 2003 approximations are as follows:

Local	21,289,263
Intrastate	1,465,916
Interstate	2,323,315

The resulting impact on local switching costs is shown in the following table:

	Default <sup>10</sup>	Alternate DEMs
Port <sup>11</sup>	\$1.01	\$1.01
Usage (per minute) <sup>12</sup>	\$0.00078	\$0.00105

<sup>9</sup> The following table shows the decrease:

	2003	2000	2003/2000
Local	2,736,246	3,247,832	0.842
IntraLATA	42,534	50,129	
InterLATA intrastate	145,872	216,631	
Intrastate	188,396	266,760	0.706
Interstate	307,951	372,368	0.827

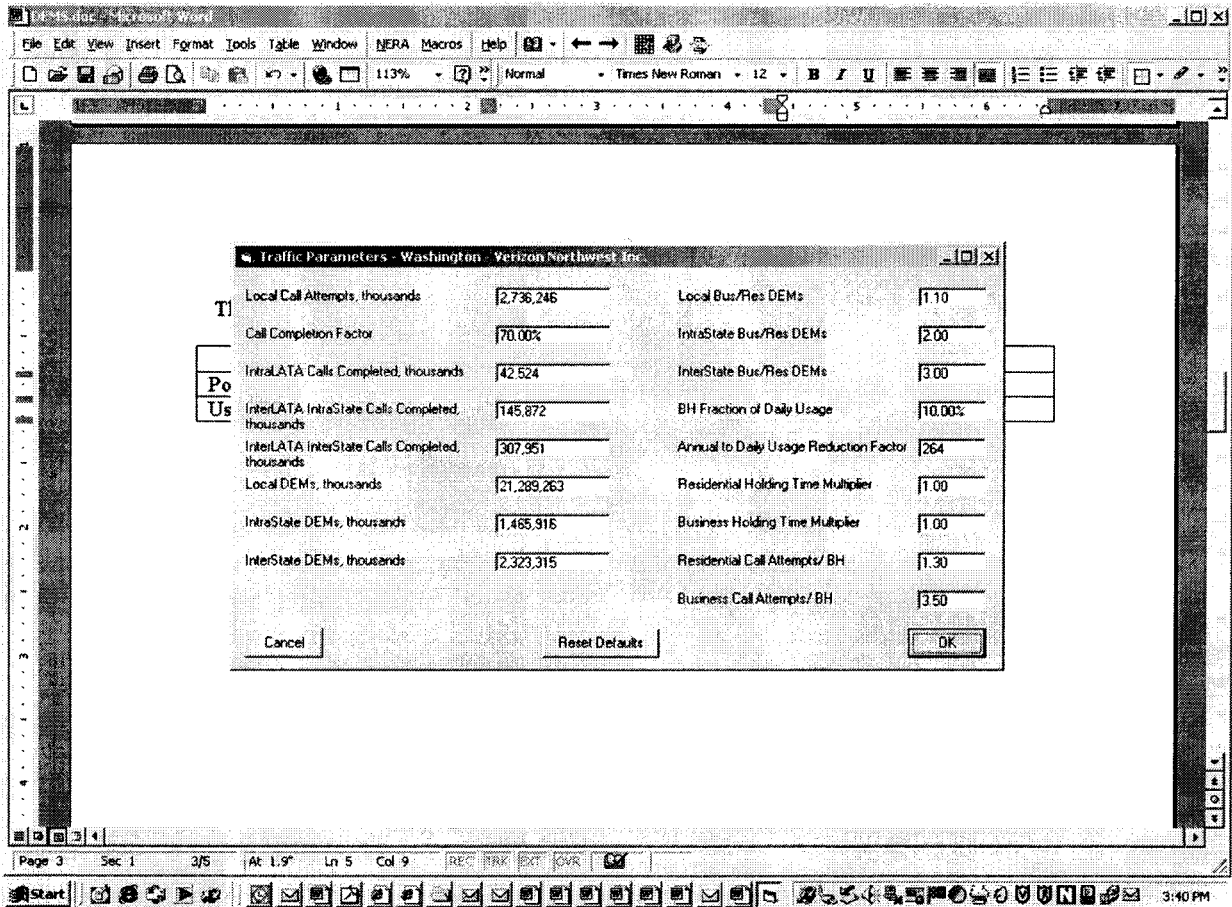
<sup>10</sup> For purposes of this comparison, Cell C56 of the "inputs" worksheet was changed from 0 to 64.17%.

<sup>11</sup> Cell F108 of the "unit costs" worksheet. If the "EO non-port fraction" input were changed from the 64.17% assumed in the table, the resulting port cost would differ by the ratio of  $(1 - \text{alternative EO non-port fraction})/0.6417$  from the value in the table.

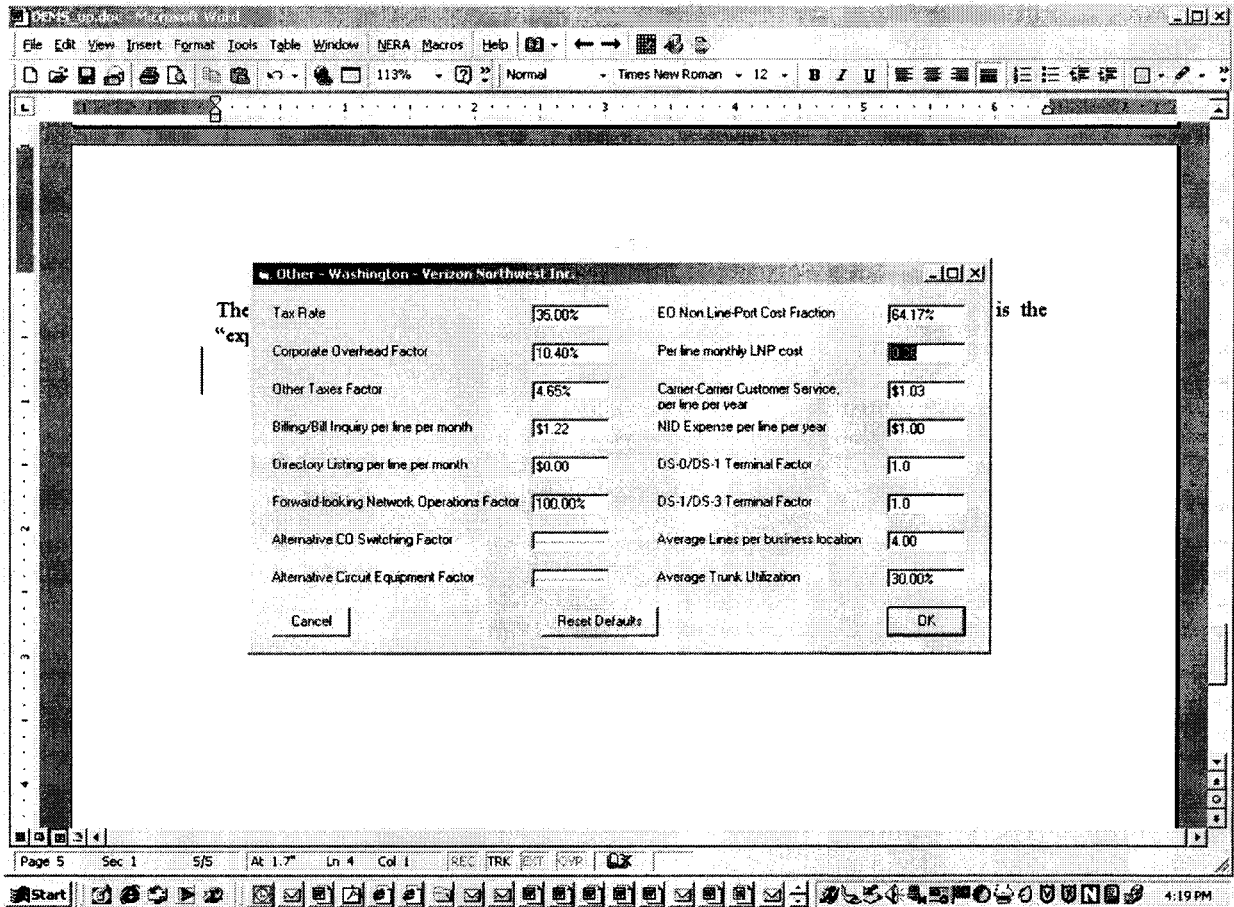
<sup>12</sup> Cell F109 of the "unit costs" worksheet. If the "EO non-port fraction" input were changed from the 64.17% assumed in the table, the resulting port cost would differ by the ratio of  $\text{alternative EO non-port fraction}/0.6417$  from the value in the table.

**Attachment**

The DEMs inputs are the last three entries in the left-hand column. The screen is the “switching inputs”, “traffic parameters” submenu.



The "EO Non-Line Port Cost Fraction" is the upper right-hand entry. The screen is the "expense inputs", "other" submenu.



**BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

In the Matter of the Review of: Unbundled Loop and Switching Rates; the Deaveraged Zone Rate Structure; and Unbundled Network Elements, Transport, and Termination	Docket No. UT-023003
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**CERTIFICATE OF SERVICE**

I hereby certify that I have this 29<sup>th</sup> day of December 2004, served Verizon Northwest Inc.'s Response to Bench Request No. 26 upon all the following parties of record in this proceeding via electronic and overnight mail:

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