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January 7, 2005

VIA ELECTRONIC MAIL

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

Re: Docket No. UT-023003

Dear Ms. Washburn:

Verizon Northwest Inc. ("Verizon") writes to respond briefly to Staff's response to Bench Request No. 26. Staff's response contains a number of errors that Verizon is compelled to identify in order to ensure that the record upon which the Commission bases its decision is complete and accurate. Indeed, as noted below, these errors -- coupled with the recent announcement by AT&T (the proponent of HM 5.3) that it does not intend to provide substantive responses to any additional requests for information in this docket -- underscore that there would be no valid basis under the Commission's precedents for relying on hm 5.3 to establish UNE rates in this proceeding.

First, Staff's suggestion to change the DEM inputs in the ARMIS folder is incorrect. Changing such inputs would have no impact on the UNE rates calculated by HM 5.3, and thus would not allow "the model to use[] the ratio of 2000 DEMS divided by 2000 access lines when developing traffic sensitive switching costs," as Bench Request No. 26 requests. That is, if a user followed Staff's recommendation, the resulting end-office switch usage costs produced by HM 5.3 would remain the same.[1] The correct procedure for using alternative DEMs inputs was described in Verizon's response to Bench Request 26. That is, a correct manner in which to change HM 5.3's inputs so that the model uses the ratio of 2000 DEMS to 2000 access lines is to change the following HM 5.3 inputs (as defined in the Inputs Portfolio): (1) local DEMS, (2) intrastate DEMS, (3) interstate DEMS, and (4) end-office usage-sensitive cost fraction.[2]

Second, Staff's alternative suggestion -- to update the line counts in the "Investment

[1] More precisely, even if the "End Office Usage Sensitive Fraction" were changed to a value other than zero, the changes Staff recommends would still have no impact on end office switching UNEs.

[2] Verizon's response describes another alternative that explicitly accounts in the decline in usage per line since 2000.

Input" worksheet and change cell C56[3] of the "inputs" worksheet -- is also incorrect. These changes would have no impact on total switching investments, which are calculated in HM 5.3 prior to the production of the file Staff references in its response. More importantly, Staff's proposal would produce incorrect and meaningless results because the total investments (which are the basis for the HM 5.3's switching UNE costs) would be based on different line counts than what Staff's changes would produce. For example, suppose HM 5.3 produced a total switching investment of $20,000, based on 100 lines, or $200 per line. If Staff's procedure resulted in an alternative line count of 125 lines, HM 5.3 would then produce an erroneous investment of $160 per line, which would then flow through to all subsequent calculations.

Third, because the issue at hand appears to be the accuracy of the average usage (DEMs) per line, and not the line counts themselves, Staff's discussion (in the latter part of the first paragraph of their response) of modifying line counts in the cluster database is likely to be irrelevant. In addition, there is no simple way to change the line counts in HM 5.3 without creating inconsistencies throughout the model, unless the entire preprocessing database is recreated and inputs are modified to ensure consistency.

Finally, because Staff was describing a purported correction obtained from Mr. Denney to the results of the wire center *expense* module, Verizon is puzzled by the reference to a "corrected *distribution* module." In any event, Verizon requests an electronic copy of any corrected HM 5.3 module Staff has obtained from AT&T.[4]

Staff's flawed response to this Bench Request also raises a far larger issue, about the compliance of HM 5.3 with the Commission's established requirements for cost models. Although AT&T initially sponsored HM 5.3 in this proceeding, it has now made clear through its letter responses to Bench Request Nos. 23, 24, and 26 that it will not "provide substantive responses to any additional requests for information in this docket."[5] Nor, as noted above, can Staff reliably address those questions. This is not surprising. In submitting its testimony, Staff adopted many inputs straight from an older version of the model (HM 5.2a),[6] and did not review the critical customer clustering source code for HM 5.3 that has been a source of substantial

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[3] Staff's reference to line counts at the wire center level suggests that its proposed changes would be to the output file that produces wire center results. Although changing the contents of cell C56 works as intended when the density zone output file is used, such a change does not work properly with a wire center output file. Further, if only statewide average switching rates are required, the density zone output file produces the required costs.

[4] The Commission should also be aware that the fundamental premise of Bench Request No. 26 appears to be flawed. Correcting the inputs to reflect the appropriate DEMs per line that existed in the year 2000 will probably not reflect the forward-looking usage per line that a TELRIC model should reflect. In fact, with changes such as the shift away from "dial-up" Internet service and losses in ILEC market share, there is likely to be a significantly lower usage per line and a concomitant higher cost per line than the year 2000 usage per line ratio would indicate.

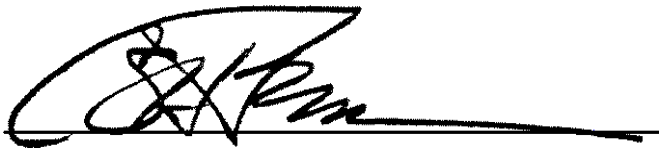
[5] Letter from Gregory J. Kopta to Carole J. Washburn regarding Bench Request No. 26 (dated Dec. 29, 2004). *See also* Letter from Gregory J. Kopta to Carole J. Washburn regarding Bench Request Nos. 23 and 24 (dated Dec. 23, 2004).

[6] Tr. 1010:20-22; 1011:13-15.

dispute in this case.[7] Thus, as noted above, in response to Bench Request No. 26, Staff made clear that it was "Mr. Denney from AT&T [that] . . . provided Staff with a corrected distribution module."[8]

In these circumstances, the Commission is left with a once proposed, but now unsupported, cost model that cannot comply with the requirements of the *Eighth Supplemental Order*.[9] That Order states that a cost model "should be susceptible to modifications and sensitivity analysis," and that it should allow parties "to review and analyze the effect of inputs and outputs, and to modify and model different inputs and assumptions."[10] Quite apart from the model's inherent failure to comply with these requirements, even if it had continued technical support from its proponent,[11] the model clearly fails to do so now. Without AT&T's commitment to support the model, the Commission will be unable to ensure that it runs correctly either when necessary to make further changes to it or to perform any required compliance runs. It thus cannot serve as a candidate for selection in this or any other future proceeding before the Commission.

Sincerely,



Christopher S. Huther

cc: Service List

[7] Tr. 1023:11-12.

[8] Before the Washington Utilities and Transportation Commission, Docket No. UT-023003, Staff's Response to Bench Request No. 26 (Dec. 26, 2004).

[9] *See* Before the Washington Utilities and Transportation Commission, *Eighth Supplemental Order*, Docket Nos. UT-960369, UT-960370, UT-960371 (May 11, 1998).

[10] *See Eighth Supplemental Order* ¶ 25 and n.11.

[11] *See* Initial Post-Hearing Brief of Verizon Northwest Inc. at 45-46, 49-50 (filed July 15, 2004); Post-Hearing Reply Brief of Verizon Northwest Inc. at 21-24 (filed Aug. 12, 2004).