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July 1, 2005

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OFFICE OF THE ATTORNEY GENERAL

Carole J. Washburn, Secretary
Washington Utilities and Transportation Commission
1300 S. Evergreen Park Dr. SW
P. O. Box 47250
Olympia, Washington 98504-7250

Re: *In the Matter of the Review of Unbundled Loop and Switching Rates and Review of the Deaveraged Zone Rate Structure, Docket No. UT-023003*

Dear Ms. Washburn:

Enclosed for filing are the original and 14 copies of Commission Staff's Response to Verizon's Motions Regarding the 27th Supplemental Order, and Certificate of Service.

Very truly yours,

SHANNON E. SMITH
Assistant Attorney General
(360) 664-1192

SSE/emd
Enclosures
cc: All parties



BEFORE THE WASHINGTON STATE
UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of Review of
Unbundled Loop and Switching Rates and
Review of the Deaveraged Zone Rate
Structure.

DOCKET NO. UT-023003

COMMISSION STAFF'S
RESPONSE TO VERIZON'S
MOTIONS REGARDING THE
27th SUPPLEMENTAL ORDER

1

Pursuant to the Washington Utilities and Transportation Commission's (Commission) notice dated June 21, 2005, the Commission affords parties an opportunity to respond to Verizon Northwest Inc.'s request for clarification of the 27th Supplemental Order¹ in this docket and its motion to incorporate into this docket the depreciation lives approved in Docket No. UT-040520.² The Commission Staff (Staff) responds as follows.³

¹ *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, 27th Supplemental Order Denying Petitions For Reconsideration And Granting Requests For Clarification of the 24th Supplemental Order (June 10, 2005) (27th Supplemental Order).

² *Washington Utils. & Transp. Comm'n v. Verizon Northwest Inc. / In the Matter of the Petition of Verizon Northwest Inc. for Approval of Revised Depreciation Rates*, Docket Nos. UT-040520 & UT-040788, Order No. 15 Approving and Adopting Proposed Settlement; Rejecting Filed Rates; Accepting Proposed Settlement Rates & Order No. 3 Approving and Adopting Proposed Settlement (April 12, 2005).

³ In its Notice, the Commission also afforded parties an opportunity to respond to Verizon's request to extend the compliance filing deadline. The Commission addressed this issue in its June 24, 2005, Notice of Continuance of Compliance Filing Deadline. Therefore, Staff does not respond to Verizon's request for extension of time.

2 Staff agrees with Verizon that further clarification of the 27th Supplemental Order is proper in order for Verizon to make a correct and complete compliance filing. The Commission has directed Verizon to apply certain cost estimates derived by the Commission for non-switching unbundled network elements (UNEs). Verizon requests clarification as to what cost estimates from the two cost models to use for other UNEs. Both Verizon and Staff would benefit from a technical conference to clarify the Commission's intent regarding other UNEs, including the NID, 4-wire loops, and transport. Staff supports Verizon's request for clarification.

3 In the 24th Supplemental Order in this docket, the Commission stated that it did not have a sufficient record upon which it could determine the proper rates for DS-1 and DS-3 UNEs.⁴ Therefore, Staff does not understand why Verizon requests clarification with respect to DS-1 rates.

4 Verizon also has filed a motion to incorporate revised depreciation rates authorized by the Commission in the settlement agreement in Dockets UT-040788 and UT-040520. In the 24th Supplemental Order in this docket, the Commission permitted parties to petition the Commission to incorporate revised depreciation rates after the

⁴ *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, 24th Supplemental Order Establishing Recurring Costs and Rates for Unbundled Network Elements, Transport, and Termination; Establishing Deaveraged Zone Loop Rates, ¶ 491 (Feb. 9, 2005) (24th Supplemental Order).

Commission entered a final order in the depreciation docket.⁵ For the reasons set forth below, Staff recommends that the Commission not permit Verizon to incorporate the revised depreciation rates into this docket at this time.

5 In order for the revised depreciation rates to be incorporated into the UNE cost calculations, the Commission would need to produce revised UNE rates.⁶ Staff does not know how long that process may take and in the meantime, CLECs would continue to pay the currently higher UNE rates. If the Commission cannot produce the revised rates without additional delay, Staff recommends that the Commission order Verizon to make an initial compliance filing using the depreciation rates upon which the Commission based the UNE rates in the 24th Supplemental Order so that CLECs can begin to benefit from the reduced UNE rates sooner rather than later.

6 In addition, Staff is concerned about the age of some of the factors and the absence of a process for updating UNE rates in general. For example, under the terms of the joint settlement in the rate case and depreciation dockets, Verizon will be permitted to further increase depreciation rates for the switching and circuit accounts on January 1, 2007. Nothing would preclude Verizon from asking for further revisions to UNE rates at that time, despite the fact that many of the other factors used in the calculation of UNE rates also would require updating. Switching rates currently rely on

⁵ 24th Supplemental Order, ¶ 97.

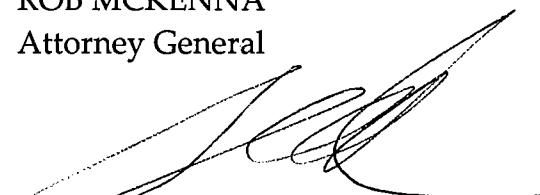
⁶ Verizon stated in its first Motion for Clarification that it would not perform runs of the HAI model.

minutes-of-use and line counts from the year 2000, and UNE expense factors are based on data from 2002. At the time Staff filed testimony raising the idea that revised depreciation rates could be included in UNE rates in this proceeding, Staff had not envisioned that it would be the summer or fall of 2005 before such rates would be incorporated into the cost estimates.

7 Also, the proposed merger of Verizon and MCI will (if approved) result in additional access lines for Verizon in Washington, which generally will result in lower cost estimates in the cost models. Therefore, Staff believes the Commission should provide some guidance regarding the issue of updating factors used in the cost models at this time.

Dated: July 1, 2005.

ROB MCKENNA
Attorney General

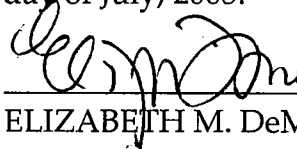


SHANNON E. SMITH
Assistant Attorney General
Counsel for Commission Staff

Docket No. UT-023003
CERTIFICATE OF SERVICE

I hereby certify that I have this day served a copy of Commission Staff's Response to Verizon's Motions Regarding the 27th Supplemental Order to the entities listed on the Service List below via e-mail and by depositing a copy of said document in the United States mail, addressed as shown on said Service List, first class postage prepaid.

DATED at Olympia, Washington this 1st day of July, 2005.



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