

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of the ) DOCKET NO. UT-003013
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)
) THIRTY-NINTH SUPPLEMENTAL
Continued Costing and Pricing of ) ORDER: CLARIFYING VERIZON'S
Unbundled Network Elements, ) OBLIGATION TO SUBMIT
Transport, and Termination ) COMPLIANCE FILINGS IN THE
) PART B PROCEEDING
..... )

I. SYNOPSIS

1 The Commission in this Order clarifies Verizon's obligation to make compliance filings in accordance with the Thirty-Second Supplemental Order.

II. PROCEDURAL HISTORY AND BACKGROUND

2 On June 21, 2002, the Commission entered the Thirty-Second Supplemental Order (Part B Order) in this proceeding. The Commission concluded that Verizon Northwest, Inc. ("Verizon" or "Company") must file rate tariffs and supporting compliance filings consistent with the Part B Order, including revisions to the company's Integrated Cost Model ("ICM").

3 On July 2, 2002, Verizon, requested a continuance of the filing date for the company's compliance filings required by the Part B Order. According to Verizon, the required modifications affected all of the proposed rates filed by Verizon in Part B of this proceeding. Verizon stated that the company could not separate contested rates from uncontested rates in its compliance filings as contemplated by the Part B Order, and contended that it was unable to make some of the modifications ordered by the Commission absent clarification. Verizon also stated that certain revisions to the company's ICM could not be made absent significant time and effort.

4 Concurrent with its request for continuance, Verizon filed a motion for reconsideration and clarification of the Commission's Part B Order, including reference to several modifications of Verizon's ICM.

5 On July 2, 2002, the Commission granted Verizon's request to postpone the filing date for the company's compliance filings on an interim basis in order to receive additional information in this matter. On August 20, 2002, the Commission on its own motion scheduled an order conference pursuant to WAC 480-09-460(5). The

conference was convened on September 9, 2002, for the purpose of clarifying Verizon's approach to compliance in accordance with the Part B Order, proposing alternative approaches, and discussing how alternatives may expedite compliance and impact the reliability of modeled outputs.

6 On September 23, 2002, the Commission entered its Thirty-Eighth Supplemental Order resolving issues raised by parties in petitions for reconsideration ("Order on Reconsideration").

7 The following Commission-ordered modifications and requirements pertaining to Verizon's ICM are unchanged in the Order on Reconsideration:<sup>1</sup>

- (1) Make Overall 2-wire loop TELRIC plus common cost equal to \$23.94 (\$20.30 before common cost additive), as ordered in UT-960369. [¶ 361]
- (2) Reflect authorized depreciation rates in ICM's cost results. [¶ 361]
- (3) Modify ICM to reflect loop lengths at the wire center level based on data provided in 1998. [¶ 347]
- (4) Use Staff's proposed feeder and distribution ratios when calculating sub-loop element rates. [¶ 415]
- (5) Modify ICM to match the drop lengths ordered in UT-960369. [¶ 353]
- (6) Recalculate ICM's cost estimates to the structure sharing ratios adopted in UT-960369. [¶ 355]
- (7) Adjust ICM to reflect the pole cost estimates adopted in UT-980311. [¶ 357]
- (8) Make sure the stand-alone (outboard) studies for dark fiber and high capacity loops are consistent with the changes ordered for ICM. [¶ 370]
- (9) Change the copper/fiber mix for high-capacity loops to 50/50. [¶ 389]
- (10) Reflect only operations and maintenance costs in dark fiber costs. [¶ 407]
- (11) Make sure the costs for the following elements produced by ICM are consistent with the changes ordered for ICM:

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<sup>1</sup> Paragraph numbers in brackets refer to the Part B Order.

- (a) Switching elements; [¶ 392]
- (b) ISDN Loop Extenders; [¶ 394]
- (c) Dedicated transport; [¶ 398]
- (d) Tandem switching; [¶ 399]
- (e) Drop sub-loop elements; [¶ 416]
- (f) UNE-P elements; [¶ 424]
- (g) Cost for EELs; [¶ 427] and
- (h) Costs fiber-fed loops. [¶ 442]

### III. DISCUSSION

#### 1. Overall 2-Wire Loop TELRIC Plus Common Cost Should Equal \$23.94 (\$20.30 Before Common Cost Additive), as Ordered in UT-960369.

8 The Part B Order, at Paragraph 361, states:

After adjusting ICM to reflect the changes described above, Verizon must show in a compliance filing that the average cost of a DS-0 loop comports with the Commission's prior finding that the monthly cost of an unbundled loop is \$23.94.<sup>2</sup> In the compliance filing, Verizon must provide a detailed explanation indicating the inputs that were adjusted in order to achieve the loop cost estimate that comports with the Commission's prior orders. Verizon must also demonstrate in its compliance filing that all other recurring cost estimates (e.g., sub-loop unbundling, DS-1 and DS-3 loops) were derived using the same input values that were used to obtain the compliance loop estimate of \$23.94.

9 The Part B Order rejects Verizon's arguments that the Commission should rely on ICM's unmodified loop cost output as a measure of reliability, as opposed to relying on the reasonableness of model inputs. Verizon contends that each successive change mandated by the Commission will likely cause a greater deviation from the 2-wire loop cost established in Docket No. UT-960369.

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<sup>2</sup> *Seventeenth Supplemental Order*, UT-960369, at para. 205.

- 10 In other cases, the Commission has addressed the need for parties to make cost adjustments based on a ratio of actual data to estimated data. In Docket Nos. UT-960369 and UT-980311, the Commission multiplied estimated distance-sensitive costs by the ratio of actual distance divided by estimated distance.
- 11 An analogous adjustment in this case would be to multiply estimated costs by a ratio of the established Verizon loop rate (TELRIC + common cost) divided by the estimated loop rate produced by the ICM. This adjustment enables Verizon to comply with the Part B Order within a reasonable time.
- 12 Verizon must make all Commission-ordered changes to the ICM in accordance with the Part B Order, the Order on Reconsideration, and this Order. After making those changes, the new ICM cost estimates should be multiplied by the ratio of the established Verizon loop rate – \$23.94 – divided by the loop cost produced by the modified model plus common cost as part of Verizon’s compliance with paragraph 361 of the Part B Order.

## **2. ICM’s Cost Results Should Reflect Authorized Depreciation Rates.**

- 13 Verizon represents that depreciation rates are an easily adjusted input in the ICM. Thus, no clarification of Verizon’s duty to make compliance filings is necessary. Any resulting increase in the 2-wire loop TELRIC rate is corrected by the adjustment stated in Item 1, above.

## **3. Modify ICM to Reflect Loop Lengths at the Wire Center Level Based on Data Provided in 1998.**

- 14 The Part B Order, at Paragraph 347, states:

We also find Verizon’s method for identifying customer locations problematic. According to Verizon, ICM breaks a wire center into grids that is 1/200<sup>th</sup> by 1/200<sup>th</sup> of a degree in size. There is no indication that Verizon’s customer location methodology takes into account multi-tenant housing units. Therefore, Verizon’s methodology is likely to lead to an overstatement of the average length of the loop. We order Verizon to modify ICM to reflect loop lengths at the wire center level based on data the company developed in 1998.<sup>3</sup>

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<sup>3</sup> Verizon must use data from its “1998 study (set forth in response to Bench Request #19 in Docket No. UT 980311(a))” since the company has stated that this information is “the most accurate actual loop length data available to Verizon at this time.” See Exhibit T-1174, at page 34-35.

15 Verizon states that it would take extraordinary time and effort to modify ICM code to comply with paragraph 347. However, the company represents that it can multiply all distance-sensitive loop costs by a ratio of actual to modeled average loop length for each wire center within six to eight weeks.

16 As noted above, this adjustment was mandated by the Commission as part of the compliance filings made in Docket Nos. UT-960369 and UT-980311. Verizon must multiply all distance-sensitive loop costs by a ratio of actual to modeled average loop length for each wire center, performing a separate run for each wire center. This approach does not expressly account for multi-tenant buildings because it effectively assumes that everyone lives in a stand-alone house. However, for purposes of this docket, the problem is remedied by the adjustment in Item 1, above.<sup>4</sup>

#### **4. Use Commission Staff's Proposed Feeder and Distribution Ratios When Calculating Sub-loop Element Rates.**

17 Verizon represents that this constraint is easy to implement if the requirement applies to rates, and not to model inputs. We clarify that the adjustment to rates is consistent with the other compliance requirements mandated in this proceeding. Verizon must apply Commission Staff's proposed feeder and distribution ratios to the adjusted loop costs that are established in Item 1, above.

#### **5. Modify ICM to Match the Drop Lengths Ordered in UT-960369.**

18 Verizon represents that the ICM does not calculate or report average drop lengths as was done in UT-960369. Verizon reports, however, that relevant data are available and calculations can be made outside of the ICM. According to Verizon, there are two possible bases for calculating density – wire center and “grid” level.

19 Verizon must recalculate average drop lengths outside of the ICM using the relevant data that are available, and must explain in the company's compliance filing how the selected method is most consistent with prior Commission orders.

#### **6. Recalculate ICM's Cost Estimates to the Structure Sharing Ratios Adopted in UT-960369.**

20 The Part B Order, at Paragraph 347, states:

Verizon also fails to mention that *in a subsequent proceeding*, the Commission applied these same structure sharing ratios to

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<sup>4</sup> This may continue to be a problem if Verizon relies on ICM in the new cost docket, and the Commission would expect a more appropriate solution in that proceeding to account for multi-tenant housing.

Verizon's model. Therefore, consistent with our previous decisions, we require Verizon to recalculate ICM cost estimates based on the structure sharing ratios that we previously adopted in UT-960369. (Footnotes omitted).

- 21 Verizon reports that the ICM does not have inputs for structure sharing for a predetermined set of density zones by wire center, because it is not structured around the census block groups ("CBG") as required by UT-960369. ICM utilizes census data to develop core areas and clusters based on an algorithm. Verizon has calculated alternative sharing ratios for distribution/feeder aerial, buried, and underground structures, but the resulting weighted average applies to all density zones. This calculation results, according to Verizon, in average rates that are 26-28% higher for buried and underground structures than would be established if the Commission's prior orders had been implemented.
- 22 The compliance problem that results from these differing approaches is not insurmountable. Verizon must work around this problem by devising a macro that adjusts the inputs for each wire center based on which density zone the wire centers fall into,<sup>5</sup> and then generating a revised "Ordered Structure Fraction – Percent Assigned to Telco" table based on the company's calculation of weighted average by wire center. This approach is consistent with the company's other compliance obligations.

#### **7. Adjust the ICM to Reflect the Pole Cost Estimates Adopted in UT-980311.**

- 23 Verizon's compliance proposal states two alternatives regarding the ICM "cut solid rock" input – either leave the input for cut solid rock unchanged to reflect the actual contract rate, or change the input to \$181.65 as adopted in UT-980311 and modify inputs for rock removal factors for manholes and pull boxes accordingly. The latter alternative appears more consistent with the Part B Order.
- 24 Verizon, in addition to changing the "cut solid rock" input, must identify and explain all other inputs that are modified.

#### **Compliance Items 8 Through 11.**

- 25 Verizon represents that all other remaining changes can easily be made, provided that changes are accomplished by modifying inputs to the ICM, and not by manipulating the model's outputs. We clarify that Verizon may comply with these requirements in Part B Order by modifying relevant inputs to the ICM.

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<sup>5</sup> For example, suppose that the density in a wire center is greater than 10,000 lines, that the cost per foot of conduit is \$10, and that 63% of the underground structure should be assigned to Verizon's telephony operations. The macro could reduce the input price of the conduit to \$6.30 in order to reflect the sharing of the underground facilities.

#### IV. FINDINGS OF FACT

- 26 (1) The Washington Utilities and Transportation Commission is an agency of the State of Washington, vested by statute with authority to regulate rates, rules, regulations, practices, accounts, securities, and transfers of public service companies, including telecommunications companies.
- 27 (2) Verizon Northwest, Inc., is engaged in the business of furnishing telecommunications service within the state of Washington as a public service company.
- 28 (3) Clarifications to Verizon's obligation to make compliance filings in accordance with the Part B Order that are stated in this Order are consistent with the findings of fact made in the Part B Order.

#### V. CONCLUSIONS OF LAW

- 29 (1) Clarifications to Verizon's obligation to make compliance filings in accordance with the Part B Order that are stated in this Order are consistent with the conclusions of law made in the Part B Order.

#### VI. ORDER

The Commission hereby orders as follows:

- 30 (1) As to each proposed network rate element that was rejected in the Part B Order and that has not yet been submitted in a compliance filing in accordance with the Part B Order, at paragraph 455, Verizon must file rate tariffs and supporting compliance filings consistent with this Order no later than eight calendar weeks after the service date of this Order. Other parties may respond to those items no later than eleven calendar weeks after the service date of this Order, unless additional time is specifically requested and granted by letter of the Commission's executive secretary. The Commission will enter an order approving or disapproving the subsequent filings or giving further instructions.
- 31 (2) A copy of each filing with the Commission must be served on counsel for other parties so that it is received on the date filed with the Commission.

- 32 (3) Each compliance filing must be accompanied by a brief description of what is accomplished by the filing, how it complies with the terms of this Order, and specifically must identify each input modified, including the exhibit, page, and line number where the modification was made.
- 33 (4) The Commission retains jurisdiction over all matters and the parties in this proceeding to effectuate the provisions of this Order.

Dated at Olympia, Washington and effective this \_\_\_\_\_ day of September, 2002.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

MARILYN SHOWALTER, Chairwoman

RICHARD HEMSTAD, Commissioner

**NOTICE TO PARTIES: This is a final order of the Commission. In addition to judicial review, administrative relief may be available through a petition for reconsideration, filed within 10 days of the service of this order pursuant to RCW 34.05.470 and WAC 480-09-810, or a petition for rehearing pursuant to RCW 80.04.200 or RCW 81.04.200 and WAC 480-09-820(1).**