

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

AT&T COMMUNICATIONS OF THE
PACIFIC NORTHWEST, INC.,

Complainant,

vs.

VERIZON NORTHWEST INC.,

Respondent.

) Docket No. UT-020406
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)

) **VERIZON'S REPLY TO STAFF'S**
) **PETITION FOR INTERLOCUTORY**
) **REVIEW AND PETITION FOR**
) **CLARIFICATION OF THE FIFTH**
) **SUPPLEMENTAL ORDER**
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1 Verizon Northwest Inc. (“Verizon”) hereby replies to Staff’s “Petition for Interlocutory Review of the Fifth Supplemental Order” and Staff’s “Petition for Clarification of the Fifth Supplemental Order,” which were filed January 24, 2003. In this pleading, Verizon also replies to Staff’s “Response to Verizon’s Motion for Clarification of the Fifth Supplemental Order,” which Staff filed electronically on January 25.

2 In its various pleadings, Staff makes four points. First, Staff explains that Verizon’s access charges may be just and reasonable even if they exceed long run incremental cost (LRIC), and that the Commission should consider, among other things, Verizon’s overall earnings. Staff reads the Commission’s *Fifth Supplemental Order* to exclude (or deem irrelevant) such evidence.

3 Verizon agrees with Staff that access charges may be just and reasonable even if they exceed LRIC, and Verizon has filed testimony on this point. For example, Verizon’s testimony explains that access charges generate significant contribution that helps Verizon recover its total

cost of providing service in Washington. Verizon, however, disagrees with Staff that the *Fifth Supplemental Order* precludes such evidence. Staff's position is based on its assumption that wherever the order speaks of "cost," it means LRIC, and therefore all other costs are irrelevant. Staff expands on this point in paragraph 3 of its Petition for Clarification, where Staff states that the Commission's access charge rule requires that cost be determined on the basis of LRIC. Verizon disagrees. Under the Commission's access charge rule, and under long-standing Commission precedent, access charges recover more than just the LRIC of access. Indeed, the Commission's access charge rule expressly permits -- even requires -- originating access charges to be significantly higher than LRIC, and the Interim Terminating Access Charge is not limited to the LRIC of any access function. Given this, Verizon does not believe the *Fifth Supplemental Order* intended to limit the hearing to address only LRIC. (Verizon also explained this point in its own Motion for Clarification, which was filed electronically on January 24.) Accordingly, all testimony relating to Verizon's earnings and its total cost of providing service in Washington (i.e., Verizon's revenue requirement) is relevant and should be allowed in this phase of the proceeding.

4 Second, Staff seeks review of the imputation test as set forth in the *Fifth Supplemental Order*. Verizon agrees with Staff that the order should be clarified on this point, and Verizon has proposed clarifying language in its Motion for Clarification.

5 Third, Staff suggests that the Commission erred in allowing Verizon to file surrebuttal because Verizon failed to make a proper showing of need. Verizon disagrees. Verizon explained why it needed to file additional testimony in (a) its "Motion to Continue, Determine Scope, and to File Additional Testimony" and (b) its reply to the parties' oppositions to this motion. Moreover, the complainant in this case -- AT&T -- did not object to Verizon's request.

6 Fourth, Staff disagrees with Verizon's statement that, under the *Fifth Supplemental Order*, no access reductions will take place in this phase of the proceeding. As a threshold matter, Verizon does not understand Staff's position. In its "Petition for Interlocutory Review," it explains (correctly) that Verizon's access charges may be just and reasonable even if they

exceed LRIC, and that the Commission should consider other costs and Verizon's overall earnings. Indeed, Staff explains that the Commission should *not* reduce access without considering these other costs. But in its "Response to Verizon's Motion for Clarification," Staff states that the Commission can reduce Verizon's access charges "without further proceedings." Verizon is not sure what Staff's position is.

7 In any event, Staff is incorrect in claiming that the *Fifth Supplemental Order* suggests that access charges could be reduced in this phase. As Verizon explained in its Motion for Clarification, paragraphs 23, 25, 35 and 50 of the *Fifth Supplemental Order* make clear that *this* phase of the proceeding will address the two issues described above, and that *subsequent* phases, if required, will address specific remedies. In explaining this point, the order refers to Verizon's pre-filed issues list, which has a separate "Remedy" section. That list includes as possible remedies an increase in toll rates, or a decrease in access charges accompanied by offsetting increases in other rates. By severing the remedy part of this case and putting it in another phase, the order makes clear that no remedy will be awarded, including access reductions, at the end of this phase.

8 Given all the recent filings and the continued confusion over what issues will be addressed in this phase, Verizon proposes that the Commission clarify if it intended to create a two-phase or three-phase proceeding. For example, a three-phase proceeding could address all the issues as follows:

Phase I, which can begin Monday, can address the threshold question of whether Verizon's toll rates pass imputation; and

Phase II, if needed, can address (a) whether Verizon's access charges are "just reasonable" in light of (i) the cost of access, including the contribution access provides to Verizon's overall earnings and revenue requirement, and (ii) Staff's claim that Verizon should not "export" its costs; and, finally,

Phase III, if needed, can address appropriate remedies, which may include raising Verizon's toll rates, reducing or restructuring access charges, and making offsetting increases to other Verizon rates.

9 Verizon does not object to a three-phase proceeding so long as the Commission makes clear that no remedies – including possible access reductions – will be implemented until the conclusion of Phase III, when *all* relevant evidence has been considered.

Respectfully submitted,

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