

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION
COMMISSION

In the Matter of the Review of)
Unbundled Loop and Switching Rates; the) DOCKET NO. UT-023003
Deaveraged Zone Rate Structure; and)
Unbundled Network Elements, Transport,)
and Termination)

**DIRECT TESTIMONY OF
TERRY R. DYE
ON BEHALF OF VERIZON NORTHWEST INC.**

DEAVERAGED UNE RATES

**June 26, 2003
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1 **I. INTRODUCTION**

2 **Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND TITLE.**

3 A. My name is Terry R. Dye. My business address is 600 Hidden Ridge Drive,
4 Irving, Texas 75038. I am employed by Verizon Communications as Senior Staff
5 Consultant - Regulatory Support.

6 **Q. ON WHOSE BEHALF ARE YOU PRESENTING TESTIMONY IN THIS**
7 **PROCEEDING?**

8 A. I am presenting testimony on behalf of Verizon Northwest Inc. ("Verizon NW").

9 **Q. PLEASE DISCUSS YOUR EDUCATION AND EXPERIENCE.**

10 A. I received a Bachelor of Science degree in Economics and a Master of Arts
11 degree in Economics from the University of Missouri. I was previously an
12 Economist with the Missouri Public Service Commission, where I was assigned
13 to the Rates and Tariffs Section of the Communications Department. I was
14 responsible for the review and preparation of testimony, exhibits, and cost
15 support data submitted in support of tariff filings, and for making
16 recommendations based upon that review.

17 In 1984, I accepted a position as a Rate Manager in the Economics and
18 Rates Department of the Illinois Commerce Commission. In that capacity I had
19 general rate design responsibility over telephone utility matters in the Rate
20 Design Section. I joined Contel Telephone Operations in 1985 as a Senior
21 Financial Analyst in the Pricing Group of the Revenue Department, and was
22 promoted to Pricing Manager in December 1987. With the merger of Contel and
23 GTE in 1991, I became a Rate Design Manager for GTE Telephone Operations.

1 Since that time, I have held various positions within GTE's Pricing Department,
2 and I assumed my current position upon the merger of GTE and Bell Atlantic.

3 I have testified on numerous occasions in the area of telecommunications
4 ratemaking and cost methodologies in Missouri, Illinois, South Carolina, West
5 Virginia, New York, Hawaii, Michigan, and Oregon. In addition, I have presented
6 testimony in public utility commission proceedings dealing with issues related to
7 the Telecommunications Act of 1996 in Washington, Pennsylvania, Ohio, Illinois,
8 Indiana, South Carolina, Wisconsin, Kentucky, Arkansas, New Mexico, Alabama,
9 Texas, Florida, and New York.

10 **II. DEAVERAGING**

11 **Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?**

12 A. My testimony identifies and addresses the requirement for deaveraging of
13 Verizon's proposed monthly recurring charges ("MRCs") for unbundled network
14 element ("UNE") loops. Appended to my testimony are the following exhibits:

- 15 (a) Exhibit TRD-2C provides a listing of Verizon NW's wire centers and the
16 two-wire UNE loop costs in each wire center. Exhibit TRD-2C also
17 provides the current rate and zone assigned to each wire center, along
18 with a three-zone and five-zone assignment that is detailed in later in my
19 testimony.
- 20 (b) Exhibit TRD-3 provides a graphical presentation of the current wire center
21 zones reflecting the total element long run incremental costs ("TELRIC") of
22 each wire center as calculated in Verizon's accompanying testimony.
- 23 (c) Exhibit TRD-4 provides a graphical presentation of a three-zone proposal

1 (d) Exhibit TRD-5 provides a graphical presentation of an alternative five-zone
2 approach, and

3 (e) Exhibit TRD-6 provides a summary of the proposed deaveraged rates for
4 each relevant UNE loop category.

5 **Q. HOW HAS VERIZON NW ADDRESSED THE REQUIREMENT OF**
6 **DEAVERAGING UNE LOOP RATES?**

7 A. Verizon NW began with the FCC's premise that "three zones are presumptively
8 sufficient to reflect geographic cost differences in setting rates for interconnection
9 and unbundled elements" and its statement that a state may establish more than
10 three zones only "where cost differences in geographic regions are such that it
11 finds that additional zones are needed to adequately reflect the costs of
12 interconnection and access to unbundled elements."^{1/} Verizon NW also reviewed
13 the Commission's prior determinations in Docket Nos. UT-960369, UT-960370,
14 and UT-960371 on the question of deaveraging, including its conclusion that the
15 goal of this process is not "striving for the lowest possible price" regardless of
16 whether that price correlates with cost, because this "would send the wrong
17 signal to the market and could harm the development of competition in the long
18 run."^{2/}

^{1/} First Report and Order, *Implementation of the Local Competition Provisions in the Telecommunications Act of 1996*, 11 FCC Rcd 15499 ¶ 765 (1996) (subsequent history omitted).

^{2/} *Thirty-First Supplemental Order* in Docket Nos. UT-960369, UT-960370, UT-960371, at ¶ 24 (2000).

1 In light of these principles, Verizon NW’s proposed methodology for
2 developing these zones is fairly straightforward: first, we used the VzCost model
3 to determine the average TELRICs for two-wire loops at a wire center level;
4 second, we identified significant cost differences between wire centers; third, we
5 determined that three zones are sufficient to capture significant cost differences
6 across Verizon NW's Washington service territory and we assigned each wire
7 center to one of three cost-based zones.

8 **Q. HAS THE COMMISSION PREVIOUSLY ADDRESSED THE “UNIT OF**
9 **GRANULARITY” ON WHICH TO BUILD RATE ZONES?**

10 A. Yes. The Commission stated, “With regard to establishing the price of loops,
11 establishing rates that reflect variations in wire-center costs better aligns rates
12 with costs. The use of wire centers would, therefore, better conform to section
13 252(d)(1)(a) of the Act, which requires that UNEs be based on the cost of
14 service. Accordingly, the Commission has decided that the wire center, rather
15 than the exchange, is the appropriate unit for building rate zones.”^{3/}

16 **Q. DOES VERIZON NW SUPPORT THE USE OF WIRE CENTERS AS THE UNIT**
17 **OF COST TO BUILD RATE ZONES?**

18 A. No. Verizon NW continues to support adjusting the grouping of wire centers so
19 the wire centers in the same exchange are in the same zone. This facilitates
20 consistency with the retail structure and, potentially, universal service support.

^{3/} *Twenty-Fourth Supplemental Order* in Docket Nos. UT-960369, 960370, 960371,
at ¶ 61 (2000).

1 However, Verizon NW's deaveraging proposal uses a structure that complies
2 with the Commission's previous decision on this issue.

3 **Q. WHAT HAS THE COMMISSION PREVIOUSLY DETERMINED RELATIVE TO**
4 **THE LEVEL OF AGGREGATION OF WIRE CENTERS INTO RATE ZONES?**

5 A. Based on the evidence presented in a previous proceeding,^{4/} the Commission
6 concluded that a five-zone rate proposal provided the appropriate balance "at
7 that time" among the objectives of cost-based rates, the need to reasonably
8 minimize implementation costs, and the ability of the available cost models to
9 estimate the relative costs of different wire centers.

10 **Q. WHAT IS VERIZON NW'S PROPOSED LEVEL OF AGGREGATION IN THIS**
11 **PROCEEDING?**

12 A. Since deaveraged rate zones must be premised on comparisons of differentials
13 in costs, it is difficult to determine how to implement deaveraging until such time
14 as the Commission determines what the relevant costs are. Based upon Verizon
15 NW's analysis of the appropriate TELRIC costs for two-wire loops, however, as
16 described in the testimony of other witnesses, Verizon NW believes the
17 Commission should establish UNE loop rates for Verizon NW in no more than
18 three cost-based zones. This approach is fairly straightforward, accounts for
19 relevant cost differences, and results in an adequate level of rate deaveraging.
20 Zone 1 is a low-cost zone, which captures all wire centers with a UNE loop
21 TRIC that is below the statewide average. Zone 2 is a medium cost zone, with

^{4/} *Id.* ¶ 75.

1 wire centers above the average but below 150 percent of the average. Zone 3 is
2 a high cost zone with the remaining wire centers. This approach yields the
3 following results for the two-wire UNE loop:

Zone	Cost per line	% of Total Cost	% of Lines	# of Wire Centers
1	\$22.77	49.8%	66.7%	23
2	\$35.78	29.1%	24.7%	28
T	\$75.26	21.1%	8.6%	48

4 The wire centers in Zone 1 have costs up to the statewide average of \$30.07.
5 Zone 2 contains wire centers that range in cost from \$30.08 to \$45.10 (*i.e.*,
6 approximately 1.5 times the statewide average). Zone 3 contains wire centers
7 with cost above \$45.10. Each zone is fairly homogeneous, with the largest
8 variance being in Zone 3, which contains wire centers with costs ranging from
9 \$45.10 to about \$300 per month. A graphical presentation of this scenario is
10 shown in Exhibit TRD-4. If further deaveraging is desired based on this general
11 method (*i.e.*, a four or five zone structure), the most appropriate approach would
12 be to further deaverage Zone 3.

13 **Q. BASED ON COST, WHAT WOULD THE APPROPRIATE BREAK POINT BE IN**
14 **THAT CASE?**

15 A. When the wire centers in Zone 3 in Verizon NW's proposal are stack-ranked
16 based on cost, the largest absolute dollar variance in cost is over \$60 between
17 the wire centers of [BEGIN VERIZON NW PROPRIETARY] XXXX [END
18 VERIZON NW PROPRIETARY] and [BEGIN VERIZON NW PROPRIETARY]
19 XXXX [END VERIZON NW PROPRIETARY]. See Exhibit TRD-2C. However, if

1 we were to establish another “zone-break” within Zone 3 at this point, the
2 resulting new Zone 4 would have only about 500 lines (.05% of the total lines)
3 and a cost of almost \$300 per month.

4 **Q. WOULD CONTINUED USE OF THE CURRENT FIVE ZONES MAINTAIN THE**
5 **OBJECTIVE OF COST-BASED RATES?**

6 A. No. Based on current costs as calculated by Verizon NW, certain wire centers in
7 lower priced zones actually have higher costs than others in higher priced zones.
8 A graphical view of the lack of consistent correlation between current zones and
9 wire center costs is displayed in Exhibit TRD-3.

10 **Q. IF THE COMMISSION WERE TO DECIDE TO MAINTAIN A FIVE ZONE RATE**
11 **STRUCTURE, HOW SHOULD IT ASSIGN VERIZON NW WIRE CENTERS TO**
12 **THOSE ZONES?**

13 A. It should use the approach displayed in the table below. (I have labeled these
14 zones using letters so as to not confuse them with the Zones 1, 2 and 3 that
15 Verizon NW is proposing the Commission adopt.)

Zone	Cost per line	% of Total Cost	% of Lines	# of Wire Centers
A	\$19.64	25.0%	37.8%	10
B	\$24.55	20.6%	24.5%	10
C	\$29.55	20.6%	19.5%	18
D	\$32.97	17.3%	12.6%	22
E	\$52.50	16.5%	5.6%	39
Avg.	\$30.07	100.0%	100.0%	99

16 The wire centers in Zone A have two-wire costs up to \$23.00. Zone B contains
17 wire centers with costs between \$23.00 and \$28.00. Zone C contains wire
18 centers with cost between \$28.00 and \$36.50. Zone D contains wire centers with

1 costs between \$36.50 and \$53.00. Zone E contains wire centers with costs
2 above \$53.00. These zone assignments provide a fairly even distribution of the
3 total loop costs to each zone. A graphical presentation of this scenario is shown
4 in Exhibit TRD-5.

5 **Q. SHOULD ANY OTHER VERIZON NW UNE RATE BE DEAVERAGED?**

6 A. No. At this time, only loop prices should be considered for deaveraging, because
7 only loop costs show significant variation between different geographic areas.
8 Although switching costs do vary based upon the size of switch and traffic
9 volumes, they are not significant enough to warrant deaveraged unbundled
10 switching prices. Additionally, Verizon's proposed rates for interoffice
11 transmission facilities already reflect distance, traffic, and volume characteristics
12 that effectively will result in deaveraged rates for these UNE offerings.

13 However, not all facilities that the FCC defines as "loops" should have
14 deaveraged rates. The FCC's rules include in the definition of a UNE loop:
15 inside wiring, loop conditioning, dark fiber, attached electronics (e.g., multiplexing
16 equipment), and high-capacity loops (e.g., DS-3s). 47 C.F.R. § 51.319(a)(1).
17 Verizon NW is not proposing prices for inside wiring since no material amount of
18 company-owned inside wire exists in Washington. Also the company is not
19 proposing to deaverage prices for dark fiber, loop conditioning, attached
20 electronics, or cross connects, because they do not possess cost characteristics
21 that vary by wire center geography. Currently, only the 2-wire, 4-wire, and
22 various high-capacity loops (which allow for the provisioning of private line and

1 special access facilities) — and all UNE combinations that include these loops —
2 should be considered for geographic rate deaveraging.

3 **Q. WHAT ARE THE DEAVERAGED RATES VERIZON NW IS PRESENTING IN**
4 **THIS PROCEEDING?**

5 A. The geographically deaveraged rate proposal is presented in Exhibit TRD-6.

6 **Q. ARE VERIZON NW'S RATE PROPOSALS FOR UNE LOOPS DEAVERAGED**
7 **BY GEOGRAPHIC AREA?**

8 A. The cost studies indicate that only 2-wire, 4-wire, and DS-1 UNE loops exhibit
9 cost characteristics that support geographic rate deaveraging. The remaining
10 UNE loops exhibit minimal levels of geographic variation. Therefore, the
11 Company only proposes to geographically deaverage rates for 2-wire, 4-wire,
12 and DS-1 UNE loops.

13 **Q. WERE THE DEAVERAGED 4-WIRE LOOP RATES DEVELOPED IN THE**
14 **SAME MANNER AS THE 2-WIRE LOOP RATES?**

15 A. Yes. The 4-wire rates were developed independently of the 2-wire rates, based
16 on cost.

17 **Q. DO THE SAME RATE ZONES APPLY TO ALL DEAVERAGED UNE LOOPS?**

18 A. Yes. As noted above, these zones were established based upon the TELRICs
19 for 2-wire loops, consistent with the Commission's approach in Docket No. UT-
20 960369, UT-960370, and UT-960371.

21 **Q. WHAT RATES IS VERIZON PROPOSING FOR UNE SUBLOOP ELEMENTS?**

22 A. Verizon's proposed TELRIC-derived, deaveraged MRC rates are depicted in
23 Exhibit TRD-6.

1 **Q. HOW WERE THE MRC RATES FOR SUBLOOPS DEVELOPED?**

2 A. The wire center specific TELRIC estimates for 2-wire and 4-wire feeder,
3 distribution, and drop categories were mapped to the three deaveraged rate
4 zones that were established for the total loop UNEs. Based on this mapping of
5 wire centers to deaveraged zones, zone-specific average costs were then
6 developed for feeder, distribution, and the drop similar to the development of the
7 total loop UNE prices.

8 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

9 A. Yes.