

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

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

Complainant,

v.

VERIZON NORTHWEST, INC.,

Respondents.

DOCKET NO. UT-020406

COMMISSION STAFF'S
COMMENTS ON VERIZON'S
PROPOSED PRICE FLOOR
CALCULATION

**NON-CONFIDENTIAL
VERSION**

1 Pursuant to the Washington Utilities and Transportation Commission's (Commission) notice dated August 25, 2003, the Commission Staff (Staff) files these comments regarding Verizon Northwest Inc.'s proposed price floor calculation. The Commission should order Verizon to correct its price floor calculation submitted as part of its compliance filing dated August 22, 2003.

2 Verizon's new price floor calculation should be consistent with the results of the Commission's decisions and should include accurate data and correct calculations. Staff has identified five problems (two of which the Commission identified "in particular" in its notice). Staff discusses separately each of the five problems with Verizon's proposed price floor calculation below.

1. Verizon's Originating End-Office Switching Rate in Column (B) Should Be Post-May 24, 2003, to Reflect Verizon's Current Tariff Rate Allowed in UT-030569.

3 In its compliance filing, Verizon used the originating end-office switching rate of 0.0151497. The Commission should reject the use of this rate and instead order Verizon to use its currently effective post-May 24, 2003, originating end office switching rate of \$0.0158172. This rate is consistent with the rates set forth in Table 2 of the Eleventh Supplemental Order. Verizon appears to have corrected this element in its *revised recalculation*, filed on August 29, 2003.

2. Verizon's Terminating End-Office Switching Rate in Column (C) Should Be Post-May 24, 2003, to reflect Verizon's Current Tariff Rate Allowed in UT-030569.

4 Likewise, Verizon should use its currently effective post-May 24, 2003, terminating end-office switching rate of \$0.0014151. This rate is consistent with the rates set forth in Tables 1 and 2 of the Eleventh Supplemental Order. Verizon should use this rate instead of the \$0.0021080 rate set forth in the compliance filing. Verizon appears to have corrected this element in its *revised recalculation* filed on August 29, 2003.

3. If the Commission Grants Staff's Petition for Reconsideration, Verizon's Interim Terminating Access Charge Should Be Updated.

5 If the Commission grants Staff's request for reconsideration of Verizon's Interim Terminating Access Charge (ITAC), then Verizon should use the lower rate of

\$0.0188679 in its price floor calculation. If the Commission does not grant Staff's petition, then Verizon's price floor calculation contains the correct ITAC.

4. Verizon's Access to Toll Conversion Factors Are Not Based on Record Evidence and Should Be Modified.

6 At page 2 of its proposed price floor calculation, Verizon identifies an average holding time of CONFIDENTIAL ***[]*** minutes, which is used in the derivation of its originating and terminating access to toll conversion factors at lines 34 and 35. Verizon apparently provides page 4 of its workpapers to justify this *average* holding time. However, page 4 was not part of the record in this proceeding and conflicts with record evidence. Additionally, where Verizon claims that page 4 justifies an *average* holding time, it is only based on one month. Page 3 of Exhibit 112C sets forth annualized data, which is a more representative basis for determining an *average* holding time. By dividing the total annualized minutes (total minute units) by the annualized messages (initial minute units) one arrives at a different, but more appropriate, holding time of CONFIDENTIAL ***[]*** minutes. Exhibit 112C, at 3. The resulting access to toll conversion factors as a result of this correction should be CONFIDENTIAL ***[]*** for originating wireline and CONFIDENTIAL ***[]*** for terminating wireline. Terminating wireless conversion would remain unchanged at CONFIDENTIAL ***[]***. This result is consistent with the Commission's decision to use Verizon's formula. See Eleventh Supplemental Order, ¶

82. The only difference is that record evidence (including a full twelve months worth of data) would be used in populating the formula at a more reasonable annualized average level for a more representative sample of average holding time.

5. The Commission Should Direct Verizon to Refine its Cost of Marketing and Billing.

7 While Staff does not believe Verizon's proposed cost for marketing and billing is improper, Staff suggests the Commission direct Verizon to impute **CONFIDENTIAL** *****[\$]***** as the cost of marketing (retail) toll service, without offsetting any amount that may or may not be recovered through the access charge (or wholesale) portion. This is a more direct and straightforward cost of marketing, and it is confirmed through Verizon's workpapers. If the Commission chooses this more straightforward approach to the cost of marketing at row 39, Staff likewise would recommend that the cost of billing and collection at row 38 be adjusted as well to the level of **CONFIDENTIAL** *****[\$]***** to be consistent with that decision.¹ Although minor, these corrections to Verizon's approach will make the calculation of Verizon's price floor more straightforward and precise.

¹ The Commission may wish to update this again if the Commission orders Verizon to change the average holding time as noted above. If the Commission were to order the average holding time of **CONFIDENTIAL** *****[]***** minutes, then the billing and collection cost would be **CONFIDENTIAL** *****[\$]***** by following Verizon's calculation on page 3 of its workpapers, just above the wholesale cost calculation; which is also available on the record in this proceeding in Exhibit 111C.

III. CONCLUSION

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The Staff respectfully requests that the Commission order Verizon to change its proposed price floor calculation as discussed above. Staff supports the limited corrections² described by Verizon in its August 29, 2003, cover letter transmitting its “revised recalculation,” and requests that the Commission order Verizon to make the additional changes set forth herein.

Dated: September 3, 2003.

Respectfully submitted,

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² Staff notes that CenturyTel may increase its Service Extension Additive as the result of a filing made in Docket UT-031299. For this reason, the Commission may wish to permit Verizon to update column (E) at row 8 with the new rate of \$0.002038. Verizon’s Service Extension Additive expired on July 15, 2003.