

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

AT&T COMMUNICATIONS OF THE)	Docket No. UT-020406
PACIFIC NORTHWEST, INC.)	
)	
Complainant,)	VERIZON'S RESPONSE TO
)	STAFF'S PETITION FOR
vs.)	RECONSIDERATION
)	
VERIZON NORTHWEST, INC.)	
_____)	

**VERIZON'S RESPONSE TO STAFF'S
PETITION FOR RECONSIDERATION**

Verizon Northwest Inc. (Verizon), pursuant to the Commission's Notice of Opportunity to File Answer, hereby responds to Staff's Petition for Reconsideration of the Eleventh Supplemental Order (Order).¹

Staff asks the Commission to reconsider its decision to reduce Verizon's interim terminating access charge (ITAC) by 25%. Verizon agrees that this decision is wrong, but it does not agree with Staff's reasoning. Also, Verizon opposes Staff's proposal to reduce Verizon's ITAC even further.

I. THE COMMISSION'S DECISION IS WRONG

The Commission ordered Verizon to reduce its ITAC by 25% based on an FCC determination "that the federal share of universal service support should be 25% and the state share 75%." (Order at 39-40, paras. 135, 137).

¹ On August 27, Verizon filed a Petition for Appeal and a Motion for Supersedeas with the Superior Court in Snohomish County, and therefore the Commission does not have jurisdiction to review Staff's petition. Nevertheless, Verizon files this response as requested by the Commission.

The Commission's decision is wrong for two reasons. First, this decision conflicts with the Commission's access charge rule, WAC 480-120-540. In its order adopting the rule, the Commission explained that each company's ITAC will equal "the subsidy necessary to maintain universal service for each company" based on "the decisions and determination made in UT-980311(a)." (General Order R-450 at 14). Verizon's current ITAC complies with the access charge rule because it was based on "the decisions and determination made in UT-980311(a)." The Commission has never changed its rule, nor has the Commission changed any decision or determination made in UT-980311(a).

Given that the Commission's new methodology – the 75/25 allocation factor – conflicts with the access charge rule and the "decisions and determination made in UT-980311(a)," it is unlawful. The Commission cannot establish a rule and then ignore it, or apply it to some companies but not others. Staff shares this view, noting that the Commission's 75/25 allocation methodology "would apply equally to other cases" and "might result in under-recovery" for some companies. (Staff Petition at 5-6, paras. 10, 12).²

Second, the Commission's 75/25 allocation factor is wrong because the Commission *already accounted for this factor* in UT-980311(a). In that docket, the Commission established a formula for sizing each carrier's ITAC. This formula was

² Staff notes that in crafting the rule "the Commission sought to create an access charge system that would be favorable to competition," and that the Commission's 75/25 allocation "has the potential to upset the policy behind this rule." (Staff Petition at 6, para. 13). Verizon agrees that the Commission's decision conflicts with the access charge rule. Unfortunately, Staff's concern for the access charge rule and the policy behind it extends only to the ITAC. Staff urged the Commission to *ignore* the rule and its underlying policies in the context of Verizon's originating charges. For example, the rule is supposed to be revenue-neutral to ensure that a regulated carrier's revenues are legally "sufficient" (General Order R-450 at 4), but Staff's position is that this particular policy underlying the rule is irrelevant.

based on (1) the monthly cost of providing service as determined by the Commission's cost model, minus (2) a specific revenue benchmark that included both intrastate and interstate revenues. As Verizon explained in its post-hearing brief:

the reason *interstate* revenues are included in a revenue benchmark used to calculate *intrastate* support (i.e., the ITAC) is because the cost of providing service, as calculated by the Commission's cost model, is "unseparated." Approximately 25% of a regulated carrier's loop costs are allocated to the interstate jurisdiction under the FCC's Separations Rules. Because the Commission's cost model does not separate these costs when calculating the cost of basic service, the revenue benchmark includes interstate revenues and interstate high-cost support. In this way, interstate loop *costs* (25% of which are allocated to the interstate jurisdiction) are accounted for by the interstate *revenues* included in the revenue benchmark.³

Thus, the Commission calculation of a carrier's ITAC already reflects – by application of the revenue benchmark – the 75/25 allocation factor. The Order improperly double counts this factor by applying it again.

II. STAFF'S "CALLS ORDER" ANALYSIS IS WRONG

Although Verizon agrees with Staff that the Order is wrong, it does not agree with Staff's argument concerning the effect of the FCC's CALLS Order.

In its petition, Staff argues that the Commission's 75/25 allocation factor is incorrect because the FCC "rejected the 75/25 allocation in the CALLS Order." (Staff Petition at 2, para. 3). Staff is wrong. Nowhere in the CALLS Order does the FCC reject the 75/25 allocation factor, which the FCC established for purposes of determining

³ Verizon Post-hearing Brief at 10, n.10.

federal *high-cost support*. Once again Staff confuses high-cost support with interstate access supports (IAS), a point Verizon made repeatedly in its briefs and at the hearing.

Verizon will not repeat all its arguments here, but instead summarizes them in three points:

First, the Commission is correct that the FCC, in calculating the federal high-cost support mechanism, held that “the federal share of the difference between a carrier’s forward looking economic cost of providing supported services and the national benchmark will be 25 percent.” (FCC First Report and Order, CC Docket No. 96-45, at para. 269). As the FCC explained, this factor is based on “the current interstate allocation factor applied to loop costs in the Part 36 separations process.” (*Id.*). Contrary to Staff’s argument, the FCC did not change this allocation in the CALLS Order.⁴

Second, as explained above, Verizon’s current ITAC already reflects this 75/25 allocation factor through the application of the Commission’s revenue benchmark.

Third, the IAS support at issue in the CALLS Order has nothing to do with the 75/25 allocation factor for high-cost support. As discussed in Verizon’s post-hearing brief,⁵ the FCC itself explained the difference between its high-cost support mechanism and its IAS support mechanism in its CALLS Order: “In contrast to the [FCC’s] existing high-cost support mechanism for rural and non-rural carriers, which provide support to

⁴ The FCC revised its allocation formula in its Seventh Report and Order in CC Docket No. 96-45, et seq. There, the FCC held that states are entitled to federal high-cost support where the cost of providing service in a particular state exceeds the national benchmark costs by a certain percentage. Under this new formula, Washington State does not receive *any* federal high-cost support. Given this, Staff’s argument that Verizon’s ITAC should be *reduced* based on non-existent “additional” high-cost support is simply wrong.

⁵ Verizon Post-hearing Brief at 10, n.9.

enable states to ensure reasonable comparability of *intrastate* rates, the purpose of the new federal [IAS] is to provide explicit support to replace the implicit universal service support in *interstate* access charges.” (*CALLS Order* at para. 195). Staff continues to confuse these two mechanisms.

In sum, the federal jurisdiction is responsible for 25% of a carrier’s loop costs, and the state jurisdiction is responsible for the other 75%. Prior to the *CALLS Order*, carriers like Verizon recovered a significant portion of the federal share of loop costs (i.e., the 25%) through interstate access charges; after the *CALLS Order*, a portion of these interstate revenues are now recovered through the federal IAS and federal subscriber line charges. But again, the IAS has nothing to do with the FCC’s high-cost fund.

III. STAFF’S PROPOSAL IS WRONG

Staff urges the Commission to reject its adjustment to Verizon’s ITAC based on the 75/25 allocation factor and instead adopt Staff’s proposal to reduce Verizon’s ITAC even further. Staff’s proposal is wrong for the reasons set forth in Verizon’s post-hearing briefs, which will not be repeated here.

Assuming the Commission believes it has the power to revise Verizon’s ITAC using the formula the Commission adopted in UT-980311(a), then the record evidence shows that Verizon’s ITAC must increase, not decrease. This point also is discussed in Verizon’s post-hearing briefs. Of course, the Commission concluded that it will *not* update Verizon’s ITAC according to the current formula, e.g., it will not update access line counts, because “it will not consider Verizon’s revenue needs in this docket.” (Order

at 41-42, para. 136).⁶ Thus, if the Commission reverses its decision to apply the newly-created 75/25 allocation factor, Verizon's ITAC must remain at its current level.

Respectfully submitted,

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⁶ Although the Order states it "will not consider Verizon's revenues," it expressly *reduces* Verizon's revenues by more than \$30 million per year. Thus, the Commission admits it reduced Verizon's revenues without considering them.