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 VERIZON NORTHWEST'S RESPONSE TO COMMISSION STAFF'S COMMENTS ON VERIZON'S PROPOSED PRICE FLOOR CALCULATION **NON-CONFIDENTIAL VERSION**

Verizon Northwest Inc. (Verizon) hereby responds to "Commission Staff's Comments on Verizon's Proposed Price Floor Calculation" filed on September 3, 2003. Staff proposes five changes to Verizon's price floor. As discussed below, two of these proposals are moot, and the other three are wrong.

Updated Verizon Originating and Terminating End Office Switching Rates

The first two items Staff discusses have been resolved. Verizon filed a revised price floor calculation on August 29, 2003 updating Verizon's originating and terminating end office switching rates, as well as Qwest's terminating end office switching rate, the ILEC terminating carrier common line, and the ILEC service extension additive.

Staff's Double-counting Reduction to Verizon's Interim Terminating Access Charge (ITAC)

Verizon opposes the ITAC adjustment that Staff advocates for the same reasons that Verizon stated in its Response to Staff's Petition for Reconsideration filed with the Commission on September 3, 2003, and will not repeat them here.

Staff's Improper and Incorrect Access-to-Toll Conversion Factor

Staff suggests that the average holding time used by Verizon to calculate the access-to-toll conversion factors was not in the record. Staff is wrong. Verizon's average holding time of **** CONFIDENTIAL ** ****** is included in the record. (*See* Exhibit 111C, pages 3-4). Staff is correct that the *workpapers* supporting this calculation are not in the record, but they are not required to be. Indeed, if all workpapers supporting every calculation in every case were required to be a part of the record, cases would take much longer and the size of records would be significantly – indeed astronomically – greater.

Given that the holding time Verizon used in its calculation is part of the record, Staff's proposal to change that holding time – and thus change the conversion factors[1] – should have been filed as part of Staff's petition for reconsideration. In other words, the factors Staff now proposes were not in the record. Therefore, Staff's proposal should not be considered here.

But even if the Commission could consider Staff's proposal here, it should be rejected. Staff's proposal would require carriers to use twelve months worth of data to develop all the elements of a price floor calculation. This requirement would impose significant burdens on carriers – the collection and processing of detailed toll billing information is an expensive and time-consuming process, requiring data to be gathered on a month-by-month basis – but would not result in a better or significantly different calculation. For example, Staff's proposed holding time would change the overall price floor by only **** CONFIDENTIAL ** ************ per minute. Also, there is no evidence that Staff's holding time is either more accurate or more appropriate than the holding time used by Verizon.

[1] The holding time is an input to the access-to-toll conversion factor calculations.

In any event, even if we assume Staff's proposed holding time should be used, Staff appears to have applied this holding time incorrectly in calculating the terminating conversion factor. Again, the holding time is an *input to* the access-to-toll conversion factor calculations. Verizon took Staff's holding time and calculated revised conversion factors based on the same methodology Verizon used to calculate its conversion factors in the proceeding, which the Commission upheld. As shown in the attached Confidential Table, the use of Staff's holding time produces an *originating* access-to-toll conversion factor of **** CONFIDENTIAL ** **********,** which is equal to the calculation set forth in Staff's comments. But the use of Staff's holding time produces a *terminating* access-to-toll conversion factor of **** CONFIDENTIAL ** ********,** which is significantly less than Staff's calculation. Verizon has been unable to determine how Staff calculated its terminating conversion factor, but it is clear that Staff either made a significant error or changed the formula that the Commission accepted for calculating the terminating conversion factor. (Eleventh Supplemental Order, ¶ 82). In either case, Staff's proposal must be rejected.

Staff's Double-counted Cost of Marketing and Billing

Finally, Staff proposes that Verizon, in calculating its incremental retail marketing and billing costs, should not be allowed to offset the wholesale marketing and billing costs Verizon avoids. Staff claims its revised approach is "more direct and straightforward," and that the changes are "minor." Although Verizon agrees that the changes are minor *in this case*, Staff's approach is incorrect and should be rejected.

As a threshold matter, Staff's proposal to change the formula for calculating marketing and billing costs – even assuming the proposal is "more direct and straightforward" and that the resulting changes are "minor" – should have been made in Staff's petition for reconsideration. This proposal is inappropriate here and therefore should not be considered.

Turning to the merits of Staff's proposal, it is wrong because it "double counts" certain marketing and billing and collection costs. Here's why:

(1) Verizon incurs marketing, billing and collection costs when it provides wholesale services, e.g., access services.

(2) These wholesale costs are included in Verizon's access charges.

(3) In calculating its toll price floor, Verizon imputes its access charges. Thus, a component of Verizon's toll price floor – the imputed cost of access – already includes Verizon's wholesale marketing, billing and collection costs.

(4) When Verizon calculates its net incremental *retail* marketing, billing and collection costs associated with its toll service – a separate component of the price floor calculation – Verizon subtracts the avoided *wholesale* costs of marketing, billing and collection, which Verizon avoids when providing retail toll service. This avoids the double-counting of such costs.

Staff's proposal should be rejected because it would require Verizon to double-count its costs and therefore set an incorrect price floor.

WHEREFORE, Verizon requests that the Commission reject all of Staff's proposals.

Dated this ________ day of September, 2003

Respectfully submitted,

GRAHAM & DUNN PC

By ________________________________
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