

STATE OF NORTH CAROLINA  
UTILITIES COMMISSION  
RALEIGH

DOCKET NO. P-100, SUB 133d

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of  
General Proceeding to Determine )  
Permanent Pricing for Unbundled ) ORDER CONCERNING  
Network Elements ) DEAVERAGING METHODOLOGY  
OF SPRINT AND VERIZON

BY THE COMMISSION: On December 30, 2003, the Commission issued its *Order Adopting Permanent Unbundled Network Element Rates for BellSouth Telecommunications, Inc.* In said *Order*, in its discussion of Finding of Fact No. 12 (What is the appropriate application of the Commission's previously ordered geographic deaveraging methodology to the unbundled network element (UNE) loop costs produced by the BellSouth Telecommunications Loop Model (BSTLM)?), the Commission noted that on March 15, 2001, the Commission issued its *Recommended Order Concerning Geographic Deaveraging*. The Commission observed that in the *March 15, 2001 Recommended Order*, the Commission found that the State should be broken up into geographic zones which should be established at the wire center level by grouping wire centers. The Commission also noted that it found that each incumbent local exchange company (ILEC) should divide up its service territory into zones based on the following bands<sup>1</sup>:

**Zone 1** – All wire centers with UNE costs of 115% or less of the statewide average for that UNE.

**Zone 2** – All wire centers with UNE costs of 115% to 160% of the statewide average for that UNE.

**Zone 3** – All wire centers with UNE costs of 160% or greater of the statewide average for that UNE.

The Commission noted in its *December 30, 2003 Order* that Parties filed Motions for Reconsideration of the *March 15, 2001 Recommended Order* and on August 7, 2001, the Commission issued its *Order Addressing Exceptions Filed to Recommended Order Concerning Geographic Deaveraging*. The Commission stated that in the *August 7, 2001 Order*, the Commission found it appropriate to alter its *March 15, 2001 Recommended Order* to recognize the limitations of the ILECs' cost models by allowing BellSouth Telecommunications, Inc. (BellSouth), Carolina Telephone and Telegraph Company (Carolina) and Central Telephone Company (Central) (collectively Sprint), and Verizon South, Inc. (Verizon) to assign wire centers to

<sup>1</sup> The zone ranges were clarified in the Commission's *August 7, 2001 Order*.

rate zones based on **loop investment** instead of cost at the wire center level, creating a single set of three rate zones. Further, in the *August 7, 2001 Order*, the Commission clarified the zone ranges, as follows:

**Zone 1** - up to 115%

**Zone 2** - above 115% and up to 160%

**Zone 3** - above 160%

The Commission further noted in its *December 30, 2003 Order* that the Commission's *March 15, 2001 Recommended Order* was subsequently altered by the Commission based on representations made by BellSouth that its then-current cost model could not determine UNE cost by wire center. Therefore, the Commission commented that its *August 7, 2001 Order Addressing Exceptions Filed to Recommended Order Concerning Geographic Deaveraging* required BellSouth, Carolina, Central, and Verizon to assign wire centers to rate zones based on loop investment instead of cost at the wire center level.

The Commission notes that at Page 32 of the *August 7, 2001 Order*, the Commission stated:

The Commission notes that there is conflicting evidence about what level of detail the ILECs' cost models will produce. All of the Parties appear to agree that BellSouth's cost model (the BCPM) cannot provide the level of detail necessary to deaverage by specific loop type at the wire center level. The Public Staff asserted that Verizon's cost model (the Integrated Cost Model – ICM) cannot produce results at the wire center level while Verizon maintained that its cost model is capable of producing accurate UNE costs at the wire center level.

Since it appears that at least the BCPM cannot develop specific UNE costs at the wire center level, the Commission does not see an alternative course of action other than altering the Recommended Order to recognize the limitations of the cost models. Therefore, the Commission alters the Recommended Order to allow BellSouth, Carolina, Central, and Verizon to assign wire centers to rate zones based on loop investment at the wire center level.

In BellSouth's current UNE pricing proceeding, BellSouth stated that its new loop model, the BSTLM, could determine UNE cost at the wire center level, as originally ordered by the Commission. Therefore, in the *December 30, 2003 Order*, the Commission concluded that BellSouth should place wire centers into zones based on UNE cost as originally decided by the Commission in its *March 15, 2001 Recommended Order*.

By separate *Order* issued December 30, 2003, the Commission sought a Response from both Sprint and Verizon indicating whether their cost models could be

run to geographically deaverage UNE rates based on UNE cost rather than UNE investment.

On January 29, 2004, Sprint and Verizon each filed a separate Response.

## RESPONSES

**SPRINT:** Sprint noted in its Response that its "model is capable of developing UNE rates based on cost by wire center." Therefore, Sprint stated, it "has the ability to re-run its deaveraged UNE rates by placing wire centers in zones based on UNE cost rather than UNE investment in North Carolina."

**VERIZON:** Verizon stated in its Response that the Commission issued an Order establishing Verizon's permanent deaveraged UNE loop rates on December 11, 2001, after conducting a lengthy proceeding that included sworn testimony, hearings, and briefs by the various parties. Verizon stated that it "is concerned that the Commission may seek to change Verizon's permanent deaveraged UNE rates on the basis of a methodology change in the assignment of wire centers to UNE zones without conducting a hearing, or otherwise ensuring that Verizon's requisite due process rights are protected, prior to evaluating the propriety of such changes."

Verizon further stated that notwithstanding its concerns, Verizon is able to produce geographically deaveraged UNE loop rates based on UNE costs at the wire center level and is willing to do so. Verizon commented that it will take the wire center results from the Integrated Cost Model (ICM) compliance run and perform the zone placement calculations in an Excel spreadsheet outside the model. Verizon noted that if the Commission wishes for Verizon to undertake this task, it will require, at the very least, one full week, after appropriate Commission notification, to input the wire center results in the Excel spreadsheet, run the calculations, and produce the new deaveraged UNE zone rates for its loops.

## DISCUSSION

The Commission notes that no party filed a Motion for Reconsideration concerning the Commission's conclusions in Finding of Fact No. 12 of the Commission's *December 30, 2003 Order* concerning BellSouth's UNE rates.

Further, to address Verizon's comments, the Commission believes that the decision to deaverage based on UNE costs instead of loop investment does not need additional proceedings since this decision actually represents the original decision the Commission made on this issue in its *March 15, 2001 Recommended Order*. The only reason the deaveraging methodology was changed from UNE costs to loop investment was to recognize the limitations of some of the ILECs' cost models.

The Commission believes that it is appropriate to use the same deaveraging methodology for BellSouth, Sprint (Carolina and Central), and Verizon. Therefore, the

Commission finds it appropriate to require Sprint (Carolina and Central) and Verizon to refile their cost models based on UNE cost at the wire center level as outlined in the *March 15, 2001 Recommended Order*. Furthermore, the Commission notes that the break points for the zones were clarified in the *August 7, 2001 Order* to correct the overlap problem reflected in the *March 15, 2001 Recommended Order*.

WHEREUPON, the Commission reaches the following

### CONCLUSIONS

After careful consideration, the Commission concludes that Sprint (Carolina and Central) and Verizon should refile their cost studies reflecting geographic deaveraging based on UNE cost at the wire center level as outlined in the *March 15, 2001 Recommended Order* and in accordance with the clarifications of the break points of the zones as discussed in the *August 7, 2001 Order*. The Commission notes that this will allow Sprint's and Verizon's deaveraging methodology to be consistent with BellSouth's methodology as ordered by the Commission in its *December 30, 2003 Order*.

Sprint and Verizon should refile their cost studies by no later than Monday, October 11, 2004. The Commission requests the Public Staff to review the filings and file comments on whether they conform with this *Order* and the *March 15, 2001 Recommended Order* but with the zone break point clarification reflected in the *August 7, 2001 Order* by no later than Monday, November 1, 2004.

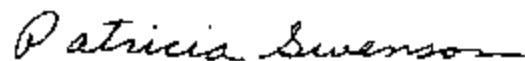
The rates produced from this *Order* are effective as of September 10, 2004.

IT IS, THEREFORE, SO ORDERED.

ISSUED BY ORDER OF THE COMMISSION.

This the 10th day of September, 2004.

NORTH CAROLINA UTILITIES COMMISSION



Patricia Swenson, Deputy Clerk