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BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON

UT 148
UM 963

In the Matter of the Revised Tariff Sheets Filed)
by QWEST CORPORATION, formerly known)
as U S WEST COMMUNICATIONS, INC.,¹)
for Telecommunications Service.)
Advice No. 1808.)
)

ORDER

DISPOSITION: GEOGRAPHIC BOUNDARIES FOR DEAVERAGED
UNE RATES DELINEATED; PRICE STRUCTURE
UTILIZING CURRENT RATES ADOPTED

This proceeding concerns two, interrelated issues: first, the determination of the prices that incumbent local exchange carriers (ILECs) charge competitive local exchange carriers (CLECs) that wish to purchase the unbundled network elements (UNEs) designated as loops; and, second, the determination of the geographic areas for which the ILECs' UNE cost-based prices will be calculated for the purpose of deaveraging rates that are currently calculated on a statewide basis.

The order we adopt today is one result of a series of intersecting governmental actions. Prior Commission decisions, orders adopted by the Federal Communications Commission (FCC), and several federal judicial decisions in various jurisdictions, have all either influenced or directed our actions to some degree. However, it is the recent opinion of the United States Court of Appeals for the 8th Circuit in *Iowa Utilities Board, et al., v. Federal Communications Commission and United States of America*, Case No. 96-3321, decided July 18, 2000 (8th Circuit decision), that, for the reasons described below, causes us to issue an order that only partially resolves the matters we intended to conclude in these dockets.

¹This name change officially occurred at the close of business on June 30, 2000. Except where the former name is part of an official citation, "Qwest" shall be used throughout this order.

I. UT 148: LOOP UNE PRICING

Background. The issue first noted above, the price that Qwest Corporation (Qwest) charges CLECs for the loop UNE,² has been the subject of previous proceedings under which we examined all of Qwest's UNE costs and prices. In UM 351 Order No. 96-188, entered July 19, 1996, we unbundled the telecommunications services offered by Qwest and Verizon Northwest, Inc., formerly known as GTE Northwest Incorporated (Verizon)³ into network building blocks to be offered by tariff. We also adopted a set of prices for those building blocks and resolved a number of issues relating to jurisdiction, imputation, network access channel deaveraging (that we determined, both at that time and in several subsequent orders, to defer), use and user restrictions, resale, wholesale rates and revenue requirement calculation.

Shortly thereafter, the FCC issued Order No. 96-325, which promulgated regulations to implement interconnection and pricing provisions of Sec. 251 and 252 of the Telecommunications Act of 1996 (Act). On October 15, 1996, the United States Court of Appeals for the Eighth Circuit issued a judicial stay regarding certain portions of those rules. In light of those actions, we revisited our decision in Order No. 96-188, and in Order No. 96-283, issued November 1, 1996, and made modifications to certain UNE prices.

The costs that we initially adopted in UM 351, were, however, based upon cost estimates that were subsequently revised in docket UM 773. On November 1, 1996, we issued Order No. 96-284 in docket UM 773, which adopted a stipulation (Stipulation) entered into by Qwest and the Commission staff (Staff). The Stipulation resolved several issues relating to the determination of the costs of telecommunications services. Our order directed Qwest to file new cost studies conforming to the policies set out in the Stipulation.

After Qwest filed those studies, it, Staff and other parties reached agreement on all issues but one: the meaning of paragraph 16 of the Stipulation. Staff computed the costs of the loop UNE in accordance with its interpretation of that paragraph, which we affirmed in subsequent orders. We then opened docket UM 844 to investigate the pricing of UNEs pursuant to the cost studies adopted in UM 773 and on June 25, 1997, we issued Order No. 97-239 adopting UNE rates based upon revised cost study results approved in UM 773.

As part of an appeal of an interconnection arbitration⁴ to the U. S. District Court, Qwest challenged the UM 844 unbundled loop price itself, based upon the disagreement regarding the meaning of the Stipulation's paragraph 16. On December 10, 1998, the United States District Court for the District of Oregon issued its decision in that case, *U S WEST Communications, Inc., v. TCG Oregon, et al.*, 31 F. Supp. 2d 828. While

² The loop UNE is equivalent to the Oregon "building blocks" formerly known as the Network Access Channel (NAC) and NAC Connection.

³ This name change became effective August 1, 2000.

⁴ ARB 2, Order No. 96-325, issued November 8, 1996.

rejecting most of Qwest's arguments, the Court remanded to the Commission for further exploration and consideration the matter that was the subject of the paragraph 16 dispute: the "fill factor" used in calculating the 2-wire and 4-wire loop costs. We were asked to consider the appropriateness of applying existing fill factors, that are based on historical drop designs, to the new three-pair drop designs, and determine whether the resulting price provides Qwest "just and reasonable compensation" as required by the Act. The Commission was instructed "...to resolve these issues by applying its expertise and the principles delineated in the Act, instead of relying upon the [S]tipulation as a binding contract. As part of that reconsideration process, the PUC may reopen the record to accept additional evidence on this issue." *Id.* at 833.

As noted by the District Court, this recalculation of the "fill factor" would necessarily cause a change to loop UNE prices. Qwest triggered that reconsideration process by filing tariff sheets in Advice No. 1808 to be effective December 1, 1999. By our Order No. 99-733, November 30, 1999, we suspended the tariff for six months and instituted the instant UT 148 proceeding and, by Order No. 00-269, issued May 30, 2000, we further suspended the effective date an additional three months until September 1, 2000. The docket thus required the examination of complex issues in a highly-compressed timeframe, and, in keeping with the tight schedule, a hearing was held on May 24-25, 2000.

Shortly thereafter, we issued our Order No. 00-316, June 19, 2000, in dockets UT 138 and UT 139. Consistent with the District Court's decision in *U S WEST Communications, Inc., v. TCG, et al.*, we held that CLECs could not purchase UNEs without having executed an interconnection agreement with the incumbent LEC. We also adopted a series of policies, set forth in that order at pages 7-8, describing how costs and prices set by the Commission should be treated. As a result of our action in those dockets, the "initial" or "default" rates that had previously been or might yet be established for UNEs, are no longer tariffs; instead, they are prices that "shall be incorporated in interconnection agreements arbitrated by the Commission under the terms of the Act, unless (a) the parties agree to different UNE prices, or (b) one of the parties to the arbitration demonstrates that there are "special costs" warranting a UNE price different from that established by the Commission (*Id.* at p. 8)." ⁵

The Impact of the 8th Circuit Decision. Our consideration of cost and cost model evidence gathered in this docket was profoundly affected by the recent opinion of the 8th Circuit, cited above. That decision invalidated 47 C.F.R. §51.505(b)(1), according to which the evidence submitted by the parties was shaped.

The Court's most serious complaint with that FCC rule was its use of a hypothetical network standard in developing forward-looking cost methodologies. The portion of the rule, which the Court found defective, states that:

⁵ Another result of our action in those dockets is to change the essential nature of these proceedings: no *tariff rates* are being established here and therefore the proceedings in this docket are not subject to the provisions of ORS 757.215 and 759.175-759.190.

“[t]he total element long-run incremental cost of an element should be measured based on the use of the most efficient telecommunications technology currently available and the lowest cost network configuration, given the existing location of the incumbent LEC’s wire centers.”

The Court rejected the use of such a method as being contrary to the Act’s plain language:

[B]asing the allowable charges for the use of an ILEC’s existing facilities and equipment (either through interconnection or the leasing of unbundled network elements) on what the costs would be if the ILEC provided the most efficient technology and in the most efficient configuration available today utilizing its existing wire center locations violates the plain meaning of the Act.... Congress intended the rates to be “based on the cost...of providing the interconnection or network element,” not on the cost some imaginary carrier would incur by providing the newest, most efficient and least cost substitute for the actual item or element.... (*Slip Opinion*, p. 7, emphasis by the Court).

The 8th Circuit opinion also has affected the “fill factor” remand from the District Court in *U S West Communications, Inc., v. TCG Oregon, et al.* We find that our mandate thereunder can no longer be fulfilled because all of the evidence at the hearing, including evidence developed on the fill factor, used methods rejected by the 8th Circuit. Therefore, this order will not address Issues 1 through 9.

The issues that were brought before the 8th Circuit are far from settled. Although the Court’s Opinion vacated 47 C.F.R. §51.505(b)(1) in its entirety, that action does not preclude the FCC from adopting rules in the future that would allow us to use a forward-looking costing methodology in setting default prices. The Court also noted:

We respectfully disagree with the petitioners’ contention that cost, as it is used in the statute, means historical cost.... Forward-looking costs have been recognized as promoting a competitive environment that is one of the stated purposes of the Act.... It is apparent that the FCC explained in detail its reason for selecting a forward-looking cost methodology to implement the new competitive goals of the Act, and any past rejection of forward-looking methodologies was made in a monopoly, rather than a competitive, environment. (*Id.*, p. 9-10.)

The FCC has indicated its intention to promptly respond to the current situation.⁶ We also expect further clarification through continued litigation and FCC rulemaking proceedings in the months and years ahead. We will resume our examination of ILEC cost model methodologies and inputs at the earliest practical opportunity.

II. UM 963: GEOGRAPHIC DEAVERAGING OF UNES

While issues regarding the development of acceptable forward-looking cost methodologies are being resolved, the public interest requires that, consistent with the Act, local exchange competition proceed in Oregon to the greatest extent possible.

Geographic Deaveraging of UNE prices is a key element to fostering local exchange competition in Oregon. We conclude from the 8th Circuit's opinion that, even in the absence of detailed FCC rules on forward-looking cost methodologies, we may still proceed with geographically deaveraging our *existing statewide average loop prices* in accordance with those FCC rules that have not been affected by the 8th Circuit ruling. This action, which we take today, is discussed below.

Background. In August, 1996, the FCC adopted a rule that requires each state commission to establish different prices for UNEs "in at least three defined geographic areas within the state to reflect geographic cost differences." See 47 C.F.R. §51.507(f). A number of judicial appeals were taken relative to the interconnection rules promulgated by the FCC, including 507(f), during which time the effective date of the rule was stayed. In *AT&T Corp. v. Iowa Utilities Board*, 525 U.S. 366 (1999), the U.S. Supreme Court affirmed the validity of that rule.

By its Order No. 99-306, the FCC lifted the stay of the rule's effectiveness and ordered that the states comply with the rule by May 1, 2000. In order to meet the FCC-imposed deadline, the Commission opened a proceeding in docket UM 963, which would develop rates utilizing the costs and prices approved in dockets UM 773 and UM 844, respectively. UM 963, if timely implemented, was expected to provide interim rates for only a four-month period. It was our intention that, after that time, the costs and prices derived in this UT 148 proceeding would go into effect. Therefore, at a special public meeting on March 2, 2000, we directed that the issue of geographic rate deaveraging for unbundled network elements be investigated as part of docket UT 148. By Ruling of March 10, 2000, the ALJ added the UM 963 issues to the UT 148 Issues List as Items 13 and 14.⁷ We requested and received a temporary waiver of 47 C.F.R.

⁶ "We will take immediate steps to minimize any uncertainty created by this decision while continuing to foster competition and customer choice in local telephone service." Statement of William E. Kennard, Chairman, FCC, July 18, 2000.

⁷ All of the parties in docket UM 963 agreed that loop plant, as the significant majority of an ILECs' capital investment, was the only component with economically meaningful geographic variability. They further agreed that loop costs, which—for Qwest, at least—were being explored in docket UT 148, should be used to determine the geographic areas for which common UNE prices would be established. They also agreed

§51.507(f) from the FCC until August 31, 2000, by which time we would issue an order in docket UT 148, bringing Oregon into compliance with the federal rule.

With the issuance of the decision in the 8th Circuit, the loop cost and price development goals of UT 148 have been suspended and the goals of UM 963—geographically deaveraging the UM 844 prices now in effect—have been revived. However, as a result of that part of our decision in Order No. 00-316 quoted above, the “initial” or “default” deaveraged rates we establish here are no longer mandatory tariffs.

FINDINGS AND DECISIONS

FCC Rule 51.507(f) sets out the requirements for geographic deaveraging of UNEs as follows:

State commissions shall establish different rates for elements in at least three defined geographic areas within the state to reflect geographic cost differences.

- (1) To establish geographically deaveraged rates state commissions may use existing density-related zone pricing plans described in §69.123 of this chapter, or other such cost related zone plans established pursuant to state law.
- (2) In states not using such existing plans, state commissions must create a minimum of three cost-related zones.

The rule thus has two variables: (1) the *number* of geographic areas and (2) the cost inputs to determine the *boundaries* of each area. The intent of the rule is clear: wire centers with similar costs per line are to be grouped into a single geographic area, (or “zone”) with a calculated average price. Furthermore, if a state does not utilize the §69.123 methodology, it must establish at least three different pricing zones based on cost input calculations.

With the merging of the UM 963 investigation of loop UNE geographic deaveraging into UT 148, the following deaveraging-related issues were designated as questions to be explored in the docket:

Issue 10.: What is the Appropriate Method for Deaveraging the Loop, e.g., MSA, Wire Center, Density, Distance from CO, etc.?

Issue 11.: Can LoopMod Calculate Deaveraged Costs for the Various Deaveraging Methods?

that three zones would be sufficient to adequately reflect the level of telecommunications market diversity in the State of Oregon.

Issue 12.: What Markup is Appropriate? Should it be the same as UM 844?

Issue 13.: What are the Correct Statewide Average and Deaveraged Prices of the Loops (2-Wire, 4-Wire & ISDN)?

Issue 14.: Do the Parties in UT 148 Adopt the Consensus Reached in UM 963 that: (A) Prices Shall Be Deaveraged to Only Three Geographic Areas; and (B) the Loop is the Only UNE whose Costs will be Explored for Ratemaking Purposes?

Issue 15.: What are the Geographic Areas and How are Their Boundaries to be Determined?

Issues 10, 14 and 15 are interdependent; we address them first and together in our discussion. Issues 11, 12 and 13 are then dealt with sequentially.

Issue 10.: What is the Appropriate Method for Deaveraging the Loop, e.g., MSA, Wire Center, Density, Distance from CO, etc.? Issue 14. : Do the Parties in UT 148 Adopt the Consensus Reached in UM 963 that: (A) Prices Shall Be Deaveraged to Only Three Geographic Areas; and (B) the Loop is the Only UNE Whose Costs Will be Explored for Ratemaking Purposes? Issue 15.: What are the Geographic Areas and How are Their Boundaries to be Determined?

Positions of the parties. All of the parties agreed on Issue 14(B): the loop was the only element with geographic variability sufficient to warrant deaveraging. Indeed, it was the only issue about which there was unanimous agreement.

The number of different pricing zones into which the geographic areas should be grouped is the subject of Issue 14(A). Qwest, Verizon and Staff propose that rates be deaveraged into three zones for each company. The Western States Competitive Telecommunications Coalition (WSCTC), although believing that a greater number of zones would be a superior choice, accepts the three-zone consensus as a short-term solution. WorldCom, Inc. (WorldCom), and AT&T Communications of the Pacific Northwest, Inc., and AT&T Local Services on behalf of TCG Oregon (AT&T) contend that five zones will tend to more accurately reflect forward-looking costs. Although the number of zones is identical in the Qwest/Verizon and Staff submissions, the groups of wire centers that constitute each zone are different.

Qwest and Verizon propose to utilize a “community-of-interest” standard based upon United States Department of Commerce Metropolitan Statistical Areas (MSAs).⁸ Thus, the Qwest MSA with the lowest cost per line becomes Zone 1, in this case, Portland. The other three MSAs served by Qwest—Salem, Eugene and Medford—become Zone 2. Wire centers located outside of the four Qwest-served Oregon MSAs

⁸ Qwest and Verizon both propose a Metropolitan Statistical Area (MSA) approach for the three pricing tiers. The Portland MSA includes Multnomah, Columbia, Washington, Yamhill and Clackamas counties; the Salem MSA includes Marion and Polk counties; the Eugene MSA consists of Lane County; and the Medford MSA is Jackson County.

are designated Zone 3. Qwest argues that “...this avoids a situation where different customers within a general community-of-interest would experience unbundled loop rates that are significantly different.” (Opening Brief, p. 25.) Verizon makes similar arguments (GTE/3, Trimble/7).

Staff and the CLEC intervenors oppose the use of MSAs for deaveraging. They claim that the MSA-based zones do not group wire centers by cost similarity and contend that the Qwest/Verizon proposal violates both the letter and pro-competitive intent of the FCC’s rules and our own previous orders.

Staff and intervenors’ proposals group wire centers without consideration as to their contiguity or “community-of-interest.” The groupings are based solely upon *average per line costs in each wire center*.⁹ There was, however, even before the 8th Circuit decision, a significant question as to how those wire center costs were to be derived. In docket UM 773, statewide average costs were developed using Qwest’s RLCAP cost model. That model used stereotypical wire center serving area configurations derived from Qwest’s experience throughout its region and sorted Qwest’s Oregon wire centers into each of the groups of wire center types. LoopMod is Qwest’s recently updated version of RLCAP and the only model that was to be utilized in deriving costs in the UT 148 proceeding, although other models could be introduced by Staff or intervenors to demonstrate LoopMod’s deficiencies and suggest means to modify LoopMod’s outputs.

Staff asserts that LoopMod, by itself, is not capable of providing the data necessary to obtain wire-center specific costs for deaveraging purposes. Staff therefore proposed that Oregon statewide average costs, as determined by using LoopMod in the UT 148 proceeding, be “scaled,” using the FCC’s Hybrid Cost Proxy Model (HCPM) to obtain the average loop cost for each wire center.¹⁰ WSCTC, WorldCom and AT&T contend that LoopMod is incapable of producing a proper deaveraging method but, given the constraints of the proceeding, concur with Staff’s proposal to utilize cost-based zones with HCPM scaled pricing on an interim basis.

Discussion. The Qwest/Verizon “community-of-interest” approach for setting zone demarcation lines based upon MSAs, is undermined by the necessary arbitrariness of the political boundaries that define them. As a result, glaring weaknesses arise in implementation. For example, the Albany and Corvallis exchanges include wire centers that serve large communities and are among the lowest in average cost per line. Furthermore, they are contiguous to each other and to the Salem MSA’s exchanges. One would be hard-pressed to find that a community of interest was lacking among the populations of those exchanges. For example, the Jefferson exchange in the Salem MSA has EAS service to Albany. However, Corvallis and Albany are on the other side of the

⁹ No parties recommended the use of density or distance-from-central-office as the criterion for establishing geographic zones.

¹⁰ None of the parties disputed the mechanics of the way that Staff has proposed to apply the HCPM to statewide average costs in order to derive wire center-specific per-line average costs. The method is briefly described in Staff/1, Reynolds/27.

Marion and Polk county lines and, being excluded from the Salem MSA under the Qwest/Verizon plan, fall into the highest cost zone.¹¹

At the other extreme, the Rainier and St. Helens wire centers' average per line costs are twice those of Albany's, and a record of EAS cases¹² has shown there to be more localized communities-of-interest, rather than ties to the city of Portland. Indeed, in UM 466, Order No. 98-316, August 31, 1998, we specifically found no community-of-interest between Portland and St. Helens sufficient to satisfy our standards for ordering the provision of extended area service between the exchanges. Nevertheless, Qwest's proposal places these wire centers in the Portland MSA, the lowest cost zone.

Finally, the Qwest/Verizon proposal will do little to accomplish the goals that the FCC anticipated would be achieved by geographic deaveraging. The variation in cost per line among Qwest's Oregon wire centers spans a factor of 10.¹³ Yet, in applying the Qwest/Verizon methodology to the costs established in UM 773, the variation of the both the least cost and highest cost zones from the statewide average is minimal.¹⁴ In Verizon's case, the result of using the MSA method is directly contrary to the expectation of deaveraging: Zone 2's deaveraged costs are greater than Zone 3's.¹⁵

Disposition. The Qwest/Verizon proposal to use MSA-based zones fails to do a meaningful job in deaveraging costs. We find that the Staff recommendation that: (1) wire centers should be grouped into three zones by cost similarity, and (2) a weighted average loop rate should be established for each zone (Staff/1, Reynolds/27), is a reasonable course of action based upon the record, and it is adopted. Indeed, in light of our findings regarding LoopMod's shortcomings under Issue 11, below, Staff's method is the only reasonable approach available consistent with the procedural stipulation in this docket that limited the presentation and examination of alternative cost models.

We establish three rate zones because we find that they will adequately account for the cost differences between wire centers, yet be less complex than the 5-zone WorldCom/AT&T proposal. We find that it will therefore be easier both for use by customers and administration by telecommunications carriers' sales staffs.

In adopting the Staff's recommendation, we are required to determine the cost breakpoints between groups of wire centers constituting each zone. We find from our review of the evidence presented¹⁶ that, in the case of both Qwest and Verizon, large incremental jumps in per-line average costs occur between major groupings of wire centers at approximately one and one-half and at three times each company's calculated

¹¹ Staff/6, Reynolds/1.

¹² See, e.g., UM 287, Order No. 91-883, July 11, 1991; UM 843, Order No. 97-285, February 19, 1997; UM 850, Order No. 98-333, August 7, 1998.

¹³ Staff/7, Reynolds/1.

¹⁴ Staff/6, Reynolds/1.

¹⁵ Staff/17, Reynolds/28.

¹⁶ See Qwest data in Staff/7, Reynolds/1, and Verizon data in Staff/20, Reynolds/1, which consists of charts showing wire centers ordered by per-line costs.

statewide average cost. We further find that it is reasonable to establish cost breakpoints between zones near these common multiples of the statewide average per-line cost where large incremental jumps between groupings exist. The wire center groupings by zone for Qwest Corporation are set forth in Appendix A. The wire center groupings by zone for Verizon Northwest, Inc., are set forth in Appendix B.

Issue 11.: Can LoopMod Calculate Deaveraged Costs for the Various Deaveraging Methods?

Discussion. Qwest asserts that “[LoopMod] results can be used to develop average investments for different mixes of wire centers without great effort.... The model had flexibility to address a variety of deaveraging formats.” (Opening Brief, p. 28.) Staff argues that LoopMod cannot calculate costs of an individual wire center and, instead, calculates cost using wire center size groupings, varying the business/residence line mix and applying probability factors for feeder and distribution. It further claims that LoopMod does not consider issues of lot size, terrain, distances within communities, natural features and the like. (Post Hearing Brief, p. 41.) Qwest does not deny these assertions.

Disposition. Although Qwest notes that LoopMod may “address a variety of deaveraging formats,” it does not claim that it is able to calculate estimated forward-looking costs for *individual* wire centers. In light of our determination to group wire centers by average per-line costs in each wire center, as noted above, we find that the LoopMod methodology is not useful in deaveraging Qwest’s UM 773 costs in the manner we require. The record demonstrates that the HCPM model is capable of performing this function. Therefore, we find that applying the HCPM model to Qwest’s and Verizon’s¹⁷ statewide average costs is the most reasonable way to calculate an estimate of each wire center’s average per-line costs. In docket UM 731, Order No. 00-312, June 16, 2000, we found that Verizon’s statewide average per-line costs exceeded those of Qwest by 12.84 percent. In order to avoid Verizon being prejudiced in its interconnection agreement negotiations, we find that it is reasonable to increase the UM 773 wire center costs by 12.84 percent in setting Verizon’s default loop UNE prices.

Issue 12.: What Markup is Appropriate? Should it be the same as UM 844?

Discussion. WorldCom and AT&T proposed a markup approximately one-third smaller than the UM 844 percentage, contending that: (1) UM 844 does not take into account that the sale of UNEs should not involve as many joint and common costs as retail services, (2) a lower markup would stimulate competition and (3) Qwest did not meet its burden of proof with respect to forward-looking costs as the FCC rules require (Opening Brief, p. 22-23). However, the AT&T/WorldCom witness acknowledged at the hearing that his proposed markup was incorrect and too low (Tr. 364).

¹⁷ Verizon has been using Qwest’s UM 733 and UM 844 UNE prices until now. Verizon had also agreed to utilize the default prices emerging from docket UT 148 until such time as the Commission completed its decision on Verizon-specific costs in docket UM 874.

WSCTC claims the UM 844 markup is unlawful because it violates 47 U.S.C. §252(d)(1)(A). The basis of its claim resides in a reference to a Staff memorandum in UM 844 that rates should enable recovery of a contribution to joint and common costs. Neither AT&T nor WorldCom concurred in WSCTC's argument in rebuttal. We find WSCTC's legal argument unpersuasive. As noted earlier, we significantly altered the nature of the prices expected to be derived from these dockets by our actions in UT 138/UT 139. There is no longer even a tenuous connection between Staff's testimony in UM 844 and the use of UM 844 prices as a reference point for these proceedings. Furthermore, WSCTC fails to cite any empirical evidence to support the markup percentage that it proposes as an alternative.

Qwest, Verizon and Staff agree that the markup adopted by the Commission in docket UM 844 is still appropriate. Staff also recommends that the UM 844 markup be applied as a *uniform dollar amount per line* rather than as a percentage of the deaveraged cost per line. None of the parties objected to Staff's proposal.

Disposition. In our UM 844 Order No. 97-239, pages 2-5, we concluded that the loop should have the same markup as other UNEs until such time as there is a general examination of Qwest's costs in another proceeding. We find no reason to disturb our prior conclusion, particularly in light of the impact of the 8th Circuit's ruling.

We further find that utilizing a percentage markup would cause significantly larger increases in proposed Zone 3 loop UNE rates than in Zones 1 and 2. We therefore reject the use of a percentage in this instance, because it will produce a burdensome distortion in the interconnection agreement negotiation process in those high-cost areas. We find that applying a markup of a uniform dollar amount per-line to the UM 773 costs, which we deaverage in this order, will avoid this price distortion.

Issue 13.: What are the Correct Statewide Average and Deaveraged Prices of the Loops (2-Wire, 4-Wire & ISDN)?

Discussion. Both average and deaveraged prices for loops are derived by applying markups to costs. Each of the parties in UT 148 offered evidence to support different loop UNE costs. However, due to the 8th Circuit decision, as described above, we find that using UM 773 average loop costs is the only reasonable method currently available to geographically deaverage the loop. By applying the UM 844 markup to the UM 773 costs, as we find appropriate under Issue 12, the average loop prices remain unchanged. Our decisions with respect to Issues 10, 11, 14 and 15 enable the deaveraged loop default prices to be calculated. The Qwest loop UNE prices are set forth in Attachment C to this order. The Verizon loop UNE prices are set forth in Attachment D. Qwest loop UNE costs, markup and prices are set forth in Confidential Attachment C. Verizon loop UNE costs, markup and prices are set forth in Confidential Attachment D.

ORDER

IT IS ORDERED that:

1. The Qwest and Verizon Loop UNE prices are revised consistent with the findings set forth herein and in accordance with the Attachments to this order.
2. Qwest and Verizon shall amend their existing and future interconnection agreements consistent with this order.
3. The tariffs filed on October 25, 1999 in Advice No. 1808 are permanently suspended.

Made, entered, and effective _____.

Ron Eachus
Chairman

Roger Hamilton
Commissioner

Joan H. Smith
Commissioner

A party may request rehearing or reconsideration of this order pursuant to ORS 756.561. A request for rehearing or reconsideration must be filed with the Commission within 60 days of the date of service of this order. The request must comply with the requirements in OAR 860-014-0095. A copy of any such request must also be served on each party to the proceeding as provided by OAR 860-013-0070(2). A party may appeal this order to a court pursuant to applicable law.

Deaveraged Loop Zones
OWEST - Oregon

Zone 1

CLLI
PTLDOR69*
PTLDOR13
PTLDOR12
PTLDOR14
PTLDOR11
MLWKOR17
PTLDORI B
EUGNOR53
MDFDOR33
NWPOR35
PTLDOR02
PTLDOR17
PTLDOR08
LKOSOR62
ORCYOR18
SALMOR58
CRVSOR65
SALMOR59
EUGNOR28
SPFDOR01
ALBYOR63
WDBNOR59
CNPOR29
HMTNOR56
RSBGOR57
BENDOR24
SESDOR64
ASTROR64
KLFLOR54
ASLDOR55
PNTNOR56
GRPSOR29
STHNOR40
PHNXOR55
RDMDOR01
FLRNOR53
DLLSOR58
BAKROR23
WRTNOR64
INDPOR58

.....Zone 2

.....CLLI
.....CTGVOR53
.....MDRSOR52
.....JNCYOR51
.....MLTNOR56
.....JFSNOR63
.....UMTLOR57
.....WNTNOR57
.....TOLDOR66
.....PRVLOR53
.....LAPIOR52
.....RGRVOR55
.....VENTOR54
.....ADAROR21
.....RANROR01
.....SPRVOR02
.....STHROR58
.....NPLNOR62
.....BURLOR62
.....GLHLOR55
.....SSTROR01
.....STFDOR59
.....FLCYOR58
.....CNBHOR64
.....JCVLOR56
.....LWLLOR53
.....CLVROR01

Zone 3

CLLI
LEBGOR54
ATHNOR56
OKRGOR01
SLTZOR66
BLRVOR53
MRCLOR53
MPTNOR54
BLBTOR01
WSPTOR64
CLCKOR53
WRSPOR52

Appendix B

Deaveraged Loop Zones

Verizon Northwest

Zone 1
CLLIZone 2
CLLIZone 3
CLLI

VYVWORXA
 TGRDORXA
 BVTNORXB
 TULTORXA
 WIVLORXA
 GRHMORXB
 ALOHORXX
 HLBOORXB
 SMRWORXA
 TGRDORXC
 MMVLORXX
 NWBRORXA
 STFRORXX
 FRGVORXX
 NBNDORXX
 SHWDORXA
 LAGRORXB
 EMPRORXX
 SNSDORXX
 ORNTORXA
 CSBYORXX
 SNDYORXA
 BKNGORXX

RDPTORXX
 SLTNORXA
 TRNRORXA
 AMVLORXX
 CQLLORXX
 ENTRORXX
 DYTNRORXA
 SCHLORXX
 AMTYORXX
 BNDNORXX
 HDLDORXA
 LKSDORXX
 VRNNORXX
 BNKSORXX
 CLTSORXA
 GSTNORJUC
 GDISORXX
 MRPHORXX
 PTORORXX
 GLBHORXX
 MYPNORXX
 MLCYORXA

YMHORXA
 COVEORXX
 UNINORXA
 ELGNORXX
 PRVTORXX
 WLLWORXX
 JSPHORXX
 IMBLORXX
 LNGLORXX
 PWRSORXX
 LOSTORXX
 DTRTORXA
 IMNHORXX

Deaveraged Loop Zones Appendix C
QWEST - Oregon

Deaveraged Loop UNE Rates

Zone 1		Zone 2		Zone 3	
2-wire and ISDN Rate	13.95	2-wire and ISDN Rate	25.20	2-wire and ISDN Rate	56.21
4-wire Rate	27.90	4-wire Rate	50.40	4-wire Rate	112.42

Deaveraged Loop Zones Appendix D

Verizon Northwest

Deaveraged Loop UNE Rates

Zone 1		Zone 2		Zone 3	
2-wire and ISDN Rate	14.36	2-wire and ISDN Rate	25.83	2-wire and ISDN Rate	50.16
4-wire Rate	28.72	4-wire Rate	51.66	4-wire Rate	100.32