BEFORE THE WASHINGTON UTILITIES AND

TRANSPORTATION COMMISSION

In the Matter of the Continued	)	
Costing and Pricing of	)	Docket No. UT-003013
Unbundled Network Elements and	)	Volume XXIV
Transport and Termination.	)	Pages 2861 to 3023
_________________________________	)	

A hearing in the above matter was held on April 4, 2001, at 9:30 a.m., at 1300 South Evergreen Park Drive Southwest, Room 206, Olympia, Washington, before Administrative Law Judge LAWRENCE BERG and Chairwoman MARILYN SHOWALTER and Commissioner RICHARD HEMSTAD and DR. DAVID GABEL.

The parties were present as follows:

COVAD COMMUNICATIONS COMPANY, by MEGAN DOBERNECK, Attorney at Law, 7901 Lowry Boulevard, Denver, Colorado 80230.

THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, by GREGORY J. TRAUTMAN and MARY TENNYSON, Assistant Attorneys General, 1400 South Evergreen Park Drive Southwest, Post Office Box 40128, Olympia, Washington, 98504-0128.

QWEST CORPORATION, by LISA ANDERL, Attorney at Law, 1600 Seventh Avenue, Suite 3206, Seattle, Washington 98191, and by JOHN M. DEVANEY, Attorney at Law, Perkins Coie, LLP, 607 Fourteenth Street Northwest, Washington, D.C. 20005-2011.

VERIZON NORTHWEST, INC., by JENNIFER L. MCCLELLAN and MEREDITH B. MILES and JEFF EDWARDS, Attorneys at Law, Hunton and Williams, 951 East Byrd Street, Richmond, Virginia 23219.

Joan E. Kinn, CCR, RPR
Court Reporter

ELECTRIC LIGHTWAVE INC.; ADVANCED TELECOM GROUP, INC.; AT&T COMMUNICATIONS OF THE PACIFIC NORTHWEST, INC.; MCLEOD USA TELECOMMUNICATIONS SERVICES INC.; FOCAL COMMUNICATIONS CORPORATION OF WASHINGTON; AND XO WASHINGTON, INC.; by GREGORY J. KOPTA, Attorney at Law, Davis, Wright, Tremaine, LLP, 1501 Fourth Avenue, Suite 2600, Seattle, Washington 98101.

WORLDCOM, INC., by ANN HOPFENBECK, Attorney at Law, 707 - 17th Street, Suite 3600, Denver, Colorado 80202.

INDEX OF EXAMINATION

02864

INDEX OF EXHIBITS

P R O C E E D I N G S

JUDGE BERG: This is a continued hearing in Docket Number UT-003013. Today's date is April 4, 2001.

At this point, I would ask the reporter to enter the exhibit number and exhibit description for Exhibits T-1190 through 1197 as set forth in the exhibit list dated 4-2-01 as if read into the record at this time.

(The following exhibits were identified in conjunction with the testimony of DENNIS TRIMBLE.)

Exhibit T-1190 is Direct Testimony dated 8/4/00 (DBT-1T). Exhibit E-1190 is Errata to Direct Testimony (DBT-1T) dated 11/13/00. Exhibit EE-1190 is Errata to Direct Testimony (DBT-1T) dated 3/30/01. Exhibit 1191 is Verizon-Washington Wholesale UNE Rates (DBT-2). Exhibit 1192 is Verizon-Washington Wholesale NRC Rate Summary (DBT-3). Exhibit 1193 is Revised Direct Exhibit DBT-3 dated 11/13/00. Exhibit 1194 is Revised Direct Exhibit DBT-3 dated 12/22/00. Exhibit T-1195 is Rebuttal Testimony dated 2/7/01 (DBT-4T). Exhibit E-1195 is Errata to Rebuttal Testimony (DBT-4T) dated 3/30/01. Exhibit 1196 is Rebuttal Exhibit-Washington CyberPOP Traffic Study (DBT-5). Exhibit 1197 is Revised Direct Exhibit DBT-3 dated

3/30/01.

JUDGE BERG: Mr. Trimble, if you would stand and raise your right hand.

Whereupon,

DENNIS TRIMBLE,

having been first duly sworn, was called as a witness herein and was examined and testified as follows:

JUDGE BERG: Thank you, sir.
Ms. McClellan, will you be handling the qualification of this witness?
MS. MCCLELLAN: No, sir, Mr. Edwards will.
JUDGE BERG: All right, Mr. Edwards, why don't we go ahead and qualify this witness. And then if the Chairwoman is not with us, we will just hold off on cross-examination until she arrives.
MR. EDWARDS: Thank you, sir.

D I R E C T   E X A M I N A T I O N

BY MR. EDWARDS:
Q. Good morning, Mr. Trimble. Would you please state your name and business address for the record.
A. My name is Dennis Trimble, and my business

address is 600 Hidden Ridge, Irving, Texas.
Q. By whom are you employed?
A. I'm employed by Verizon Services.
Q. What's your position, sir?
A. I'm Executive Director Regulatory.
Q. Did you prepare or cause to be prepared the exhibits that have been designated T-1190 through 1197?
A. Yes, I did, although I would like to have some clarification on exactly what 1197 is.
Q. 1197 is the Revised Direct Exhibit DBT-3, and that's the one that we filed on March 30.
A. Yes.
Q. Are you with me?
A. Yes.
MR. EDWARDS: And, Judge Berg, the Exhibit 1197 replaces 1194 which had replaced 1193 which replaced 1192, so we will be withdrawing 1192, 1193, and 1194.
JUDGE BERG: All right.
BY MR. EDWARDS:
Q. With respect to those exhibits, Mr. Trimble, do you have any corrections?
A. No, I do not.
Q. And as you sit here today, to the best of your knowledge, is the information contained in those

exhibits true and correct?

A. Yes.

MR. EDWARDS: Your Honor, sir, I move for the admission of T-1197 through 1197 with the exception of 1192, 1193, and 1194.

JUDGE BERG: Hearing no objections, Exhibits T-1190 through 1191 and Exhibit T-1195 through 1197 are admitted.

MR. EDWARDS: Thank you, sir.

Mr. Trimble is available for cross.

JUDGE BERG: Mr. Kopta.

MR. KOPTA: Thank you, Your Honor.

C R O S S - E X A M I N A T I O N

BY MR. KOPTA:

Q. Good morning, Mr. Trimble.

A. Good morning.

Q. My name is Greg Kopta. I'm representing several CLECs in this proceeding, and the first thing that I wanted to ask you about was to confirm that the nonrecurring charges that Verizon has proposed and that the Commission has adopted in the earlier cost docket for analog loops, 2 wire and 4 wire loops, are the same nonrecurring charges that Verizon would apply to orders for DS1 loops or DS3 loops?

A. That is correct. At this time, we did not file additional NRCs for DS1 and DS3 orders.
Q. Would you turn in your direct testimony, Exhibit T-1190, to page 22.
A. Yes.
Q. On that page, the first question and answer deals with the issue of why Verizon does not propose to de-average the price for dark fiber loops. Do you see where I'm referring?
A. Yes, I do.
Q. And as I understand Verizon's position, because DS3 loops don't demonstrate a sufficient level of cost variation between geographic zones, then Verizon used that to determine that fiber loops would also not exhibit a relative level of cost variation between geographic zones; is that correct?
A. That is correct.
Q. The primary cost component of a DS3 loop, however, is the electronics, is it not?
A. Yes, it is.
Q. And --
A. I should say I believe it is.
Q. And the fiber that's being used to provision a DS3 loop could also be used to provision a DS1 loop or even a DS0 loop in certain circumstances, wouldn't it?

A. That is correct, depending on the electronics and the MUXing that is employed.
Q. So the costs that Verizon incurs to install the fiber for whatever service would be reflected not just in the DS3 loop price but also in the prices for other loops?
A. That could be the case, and what we should really concentrate on here is we're talking about loops that go to end users when you talk about the loop. This is not discussing any interoffice transport. And when we look at fiber loops that go to end users, the number of those we have are probably quite -- very, very limited and also very, very localized into urban areas.
Q. Have you done a study of the extent to which fiber is deployed to customer locations in Washington?
A. I have not done a study. I believe that in the cost study, they look at the existing characteristics.
Q. And I am assuming also that as part of the cost study, and let me know if this is beyond your knowledge, that fiber is a component of the construction of loops in the state of Washington for Verizon; is it not?
A. To select customers I think would be the reasonable statement. If you want to -- if you're

talking about a total dark fiber all the way to an end user, not something that makes up a 2 wire loop or a 4 wire loop going through digital loop carriers or whatever, those are relatively limited is my understanding.

Q. So you didn't look at the potential cost variation for, for example, the feeder portion of the loop that might be provisioned over fiber while the distribution might be over copper?

A. That would not fall into the definition of a dark fiber loop. Dark fiber loop goes from the customer's premise all the way to the CO.

Q. Mr. Richter and I discussed a comparison between the nonrecurring charges for retail services and the nonrecurring charges that Verizon proposes for EELs. I changed the subject on you without letting you know first. And we do have a record requisition pending, but I wanted to ask you if we should discuss that or whether we should simply rely on the record requisition at this point?

A. The record requisition would probably be the best information. I can provide some information in terms of my underlying knowledge of how retail prices have been set historically, especially for NRCs or for MRCs.

Q. Okay.

JUDGE BERG: Mr. Trimble, would you just pull that microphone just a little closer to you.

THE WITNESS: (Complies.)

JUDGE BERG: Thank you, sir.

THE WITNESS: Sure.

BY MR. KOPTA:

Q. Well, I think if we're going to be getting the information through the record request, then I don't know that there's anything that you and I need to discuss at this point. Let me though ask you about the nonrecurring charge that Verizon proposes to convert a special access circuit over to an EEL, and I wanted to know whether that charge would apply per circuit, or would it apply per ASR or group of circuits? I mean how is it proposed to apply?

A. In terms of the migration charges for EELs, Mr. Richter basically handled all those. I have NRCs established for -- the NRCs that I have proposed in my testimony are for new EELs.

Q. So --

A. And as I understand it, new EELs and existing EELs, they are done on an ASR basis, and the provisioning charges that are charged there are per order.

Q. So it's per ASR or per circuit?
A. Per ASR.
Q. And can you have multiple circuits on an ASR?
A. You can have, in terms of EELs, you could have multiple circuits, and then the EELs -- the EELs NRCs that I have are specifically for the loop piece. So you could have, as long as it was between the same customer on the same order, then you could have multiple orders. When you get into the interoffice transport piece for EELs, that would be another set of NRCs, and you could have multiple orders on that as long as they're between the same central offices.
Q. So if a CLEC wants to order more than one EEL from point A to point B, do I understand correctly that there would need to be multiple ASRs submitted for one, at least one for loops, the loops, and one for the transport piece?
A. Yes, and let me somewhat explain that. I would expect that when a CLEC desires to establish EELs that a CLEC would look at the number of loops in a given -- out of a given central office and then make a determination the type of transport they ultimately would like to have between central offices.
For example, if there is only one 2 wire loop being ordered and they wanted to get to their central

office, it would be likely that they would order a 2 wire EEL, a basic EEL, and just the 2 wire transport. If you expect to have many, many, many orders going to your end office, then it would be likely that you would want to have a DS1 or DS3 transport between that serving central office and your end office, and you would only order that once.
Q. I understand your reasoning. I guess the question that I have though is an EEL is a combination of loop and transport, and is there some indication on one ASR or the other that you want to order loops in conjunction with transport as an EEL as opposed to I just want a bunch of loops and I want some transport without some indication that you want them combined?
A. Right. I'm not an ASR expert, but my understanding is once you establish the transport you need, then when you order the loop, you will designate on the ASR that that loop needs to go with an existing set of transport that you have already established because you have capacity on that transport. You would not order transport again once it's been established.
Q. So there isn't an ASR or a category on the ASR for an EEL per se, but rather for the constituent elements, then there's an indication that you can make on the loop order that these are to be combined with

transport that Verizon either has previously provided or is going to be providing in conjunction with another ASR; is that correct?
A. That is my understanding, yes.
Q. You do deal with UNE-P, however, do you not, in terms of the nonrecurring charges?
A. Yes, and I should also say I do deal with EELs also in terms of new EELs in the given MSA that has, you know, I forget what you call it, density group one or whatever for the new EELs for the exemption on switching.
Q. I asked Mr. Richter whether or not private line was included among the services that Verizon would propose to provide on a UNE-P basis, and he indicated that he didn't think that it was. And so I wanted, since you were the person that deals with that subject, I wanted to confirm with you that private line is not among the services that CLECs can obtain on a UNE-P basis from Verizon?
A. That is correct, UNE-Ps have to do with the combination of loop and switching. Private lines incorporate no switching. Private lines and special access would come under the EEL category.
Q. What about if a CLEC has ordered a high capacity loop out of the special access tariff and wants

to convert that to a UNE, would that -- well, first of all, let me ask you, is there any particular charge that Verizon has proposed here that would cover that situation?
A. Yes, I believe Mr. Richter covered those in terms of EEL migrations, which would cover private lines.
Q. Well, in this case, I'm just talking about the loop without the transport. Is it your understanding that a CLEC could order or an IXC could order out of the special access tariff what would just be the loop without the transport, a DS1 loop? Well, it wouldn't be a loop obviously, it would be a DS1 circuit.
A. That is correct, that is special access.
Q. And if the CLEC decides that rather than having it as a special access circuit, they want to convert that to a DS1 loop, is there a charge associated with that?
A. If you're -- if you're talking about using that loop as specifically as an unbundled network element.
Q. Yes.
A. Then I would have to refer you back to the DS1 or DS3 UNEs. Those are what should be ordered. I know of no case where, other than in terms of the EEL

type activities, where existing loops should have been ordered out of the special access for local service.
Q. So you're not aware of any case in the state of Washington where a company has ordered a circuit out of the special access tariff that would be the same essentially as a DS1 or a DS3 loop?
A. I'm not specifically certain in the state of Washington. I do understand in Oregon that some CLECs have gone to the special access tariffs and ordered DS1s or DS3s under contractual arrangements on interstate circuits and employed those for local service. That is something that is against basically our understanding of how this is supposed to work, but it has happened.
Q. Well, and let's take that situation and say that the CLEC decides, okay, rather than taking it out of the special access tariff, we want to use it as a UNE since we're using it for local service. Do you have a charge that you have proposed in this proceeding that would cover --
A. No, I --
Q. -- the order to convert that from a special access service to an unbundled DS1 or DS3 loop?
A. The only thing I could say is I would expect that the special access would have to be converted on an out order, and then the CLEC would have to pay the NRC

and MRCs for basically an unbundled network element. The only conversions that I know of we have in place have to do with EELs.

Q. So if a CLEC wants to convert an EEL which is the loop and transport, that would be the charge that Mr. Richter and I talked about earlier this week. But if the CLEC just wants to convert the loop, then essentially they need to disconnect it and then reorder it and pay the full nonrecurring charge as if it were ordering the loop for the first time. Is that what you're saying?

A. If you give me a second, I may need to check on something. That circumstance, as I understand it, should not be one that should have ever occurred to begin with. And if they were using an unbundled loop, a DS1 as an unbundled loop, they should have been purchasing out of the UNE tariffs, or not the UNE tariffs, but the UNE services and not special access.

Q. And so from your perspective, if a CLEC for whatever reason, well, let's assume, to take it out of the contention about whether it was appropriate or not at the time it was ordered, let's assume that when it was initially ordered, it was to be used to provide interstate traffic, and over time, the customer needs have changed, and so they want to use the same facilities for local traffic. So the original point was to order it out of the special access tariff, because it was going to be used for special access services.

Now the customer decides that they want to use it for a different purpose but want to maintain the same facility. So the CLEC comes to Verizon and says, gee, while it was used for interstate before, it's now used for local, so we want to convert it over to UNE pricing and take it out of the tariff. Do you have that as a hypothetical?

A. I do have that as a hypothetical.

Q. In those circumstances then, would the CLEC essentially need to do, as you I believe testified earlier, they would essentially need to put in an order that would disconnect that circuit and then reconnect it using the full nonrecurring charges for a DS1 or DS3 loop?

A. That would be my understanding at this point in time. What I do not understand is if -- if the company currently has a special access circuit for interstate use, then there is also transport involved to get to -- to whatever, IXCs, POP, and so on and so forth. So we're actually talking about different items here.

Q. Well, the CLEC or the IXC can provide their

own transport, can't they?
A. Yes, they could.
Q. So it may be that the CLEC provided its own transport and just needed a connection from the customer premises to the central office?
A. That is correct.
Q. I wanted to also talk with you about line conditioning. As I understand it, you have the responsibility for the prices for the nonrecurring portion of line conditioning, which I think there is only the nonrecurring portion; is that correct?
A. That is correct.
Q. Now the prices or the nonrecurring charges that Verizon has proposed for each aspect of line conditioning, is that on a per loop basis or on a per location basis, specifically for load coil removal?
A. That is on a per loop basis.
Q. Per loop, okay. And as I understand it, the proposed charge for Verizon for load coil removal is approximately $1,200; is that correct?
A. Load coil removal only?
Q. Yes.
A. I believe it's approximately $1,400.
Q. I stand corrected. Do you know what the retail rate is for DSL service?

A. No, I do not.
Q. I believe in the earlier phase of this docket, there was some discussion about that, and it was in the $30 range. Does that ring any bells?
A. $30 to $50 would be what I would imagine.
Q. Am I correct that Verizon or actually no ILEC allows line sharing over loaded loops?
A. This may be a technical question that I probably can't answer.
Q. Okay.
A. My understanding is that given the equipment you want to use for ADSL services, you can not -- that can not be facilitated when there are loads on the loop, and that is today's parameters.
Q. And that's really what I was getting at. I didn't really mean to ask an engineering question, but the bottom line is that a DSL provider that wants to serve a particular customer that is currently being served voice service over a loaded loop would need to buy a loop as opposed to engage in line sharing; is that your understanding?
A. If you're talking about if a customer desires to have ADSL service and that the loop that currently serves them has load coils on it, those load coils would have to be removed.

Q. Right. And I guess the question that I have then is, and you may not know since we're getting into another area that was discussed in the earlier part of this docket, but under those circumstances, Verizon would not allow line sharing if you have a loaded loop?
A. I don't think you could say Verizon would not allow it. I would rather say that the CLEC would not want it.
Q. Well, I mean an alternate would be to deload the loop and allow line sharing over that particular loop, recognizing that there may be circumstances in which because of the length of the loop the voice service would be degraded, and so you effectively probably couldn't do it?
A. That is correct.
Q. Do you know whether in circumstances in which the voice service would not be affected if the loop is deloaded that Verizon would allow line sharing over that loop if it were -- if the load coil were removed?
A. Maybe I'm getting somewhat confused in terms of the engineering aspects. Verizon will allow and will perform removal of load coils in those instances where it does not affect the voice grade services that bought services. That is what these charges are for.
Q. I understand that, and obviously if a CLEC is

going to be obtaining the whole loop, then the burden is on the CLEC to use that loop for whatever it can be used for, whether it's going to be for voice or some other purpose, and so therefore may want to have it deloaded to facilitate whatever service the CLEC wants to provide over that loop?

A. Correct.

Q. What I'm asking is, if a DSL provider comes to Verizon and says, gee, we would like to provide DSL service to your customer who has voice, this is a Verizon customer that currently has voice service, and a DSL provider says, we would like to provide DSL service to this customer, and Verizon checks, and whoops, there's a load coil on that loop, would Verizon remove that load coil at the charges that you have proposed for the DSL provider and allow line sharing over that loop?

A. Oh, I see what the question is you're asking now. Actually, those questions should have been referred to Mr. Lee who discussed about the line sharing aspects. I'm just presenting basically the NRCs to perform these activities if they're appropriate.

Q. Let me get to the heart of my question, which is whether Verizon has done any analysis on the ability of a DSL provider to recover the charges that are proposed for loop conditioning in the retail rates that it charges or is able to charge in the market for its service?

A. We have -- I have done no analysis of that. I truly believe that's an issue for the DSL provider to ascertain in their business plan. We all do understand that these charges would not occur in every case. It's only in those cases where they are required. These charges in essence reflect a recovery of the expenses Verizon will incur, and Verizon is due payment.

Q. And as I understand it, even today Verizon is deploying load coils on loops that are over a certain length?

A. You're now again into an engineering area where I would have no idea, but I would assume that if the load coils are necessary to assure satisfactory transmission of the voice traffic, they are being deployed.

Q. Well, I had a discussion with Mr. Richter about that, we will just let that stand the way that it was.

Moving subjects once more, this time on interconnection facilities. I recognize that this wasn't a part of your pre-filed testimony, but Mr. Jones yesterday was getting uncomfortable with some of the questions that I was asking him and so punted to you.

And so I thought I would see if you have a higher comfort level with some of these questions. Were you in the room when I was having my conversation with Mr. Jones yesterday?
A. Yes, I was.
Q. Okay. And specifically I was discussing interconnection facilities and Verizon's willingness to pay its proportionate share of those facilities. And by proportionate share, my reference was to the percentage of the facility used by Verizon to deliver traffic to the CLEC for termination to its customers. Do you recall that?
A. Yes, I do.
Q. Is Verizon willing to pay for its proportionate share of facilities used for interconnection, including facilities used to deliver ISP traffic?
A. Actually, I believe Mr. Jones did answer that question. I think he stated GTE's policy, or excuse me, Verizon's policy was to base the interconnection activity on percentages. I think that's what he said, and I could add nothing more to that.
Q. Okay. Are you familiar with the specific products, services, and facilities that Verizon provides to CLECs for interconnection purposes?

A. I am only familiar with the fact that there are negotiated activities that go on to buy bandwidth type facilities for those interconnections.
Q. So you aren't familiar with a product or service called entrance facilities that Verizon would provide to CLECs for use as interconnection facilities?
A. Those are the facilities I'm talking about, which come in basic bandwidth flavors.
Q. And entrance facilities are essentially a connection between a point outside the CLEC's switching center and the Verizon switch; is that correct?
A. That is my understanding, yes.
Q. And those facilities would be subject to the sharing that Verizon would be willing to undertake with the CLEC?
A. If that is what Mr. Jones stated.
Q. I'm getting the sense that you're cross referencing each other, and neither one of you feels really comfortable talking about this; am I right?
MR. EDWARDS: Your Honor, let me just pose an objection on that. My understanding from what Mr. Jones referred to Mr. Trimble today is different than the questions that Mr. Kopta has been asking, and I think Mr. Trimble had the same recollection in his response. And so editorial comments about who may be comfortable

or uncomfortable I think are inappropriate with respect to those questions that I think were answered yesterday by Mr. Jones.
JUDGE BERG: I think the objection is well taken, sustained.
Mr. Kopta, I'm also concerned that by linking what this witness is or isn't comfortable with with what his perception of some other witnesses's comfort level may be will produce some unreliable information in the record or misleading information in the record, so I would just stick to this particular witness.
MR. KOPTA: And I appreciate that, Your Honor. I apologize, it certainly wasn't my intention to pit one witness against another. I'm just a little uncertain about which witness it is that can answer some of these questions, and Mr. Jones did refer to Mr. Trimble, and I just -- rather than -- I can ask the questions and have him say he doesn't know, which may be the proper way to proceed.
JUDGE BERG: And I understand your objective, and I think that's certainly within the scope.
BY MR. KOPTA:
Q. Mr. Trimble, in addition to entrance facilities, facilities that are used for interconnection could also include facilities that the CLEC has

collocated in the Verizon central office, couldn't it?
A. Are we making a distinction between interconnection for basically termination of local traffic and collocation for access to unbundled elements?
Q. No, I'm not making that distinction. I'm saying that rather than obtaining entrance facilities from Verizon, a CLEC that has collocated in a Verizon central office could use some equipment that is collocated in that office to connect with Verizon's switch at the central office itself, so the CLEC would be providing most of the facilities used for interconnection up to the collocation cage rather than having Verizon provide the facilities from its switch all the way to the point outside the CLEC's central office. Is that your understanding?
A. I would assume -- and it truly is I am relatively uncomfortable with the interconnection aspect, but I would assume that is technically possible.
Q. And would Verizon be willing to pay its proportionate share of those facilities that the CLEC provides through collocation as well as the transport getting back to the CLEC switching center if it's used for interconnection?
A. I'm quite positive that the answer would be

no, but we are truly in an area that I haven't thought enough about, and I do feel quite uncomfortable with it.
Q. And would your answer be the same with respect to the facilities used to get from the point outside the CLEC's switching center to the switch itself?
A. In terms of the attributes of interconnection pricing, yes.
Q. Well, we will leave that topic then.
And the only other thing that I wanted to ask you about was in your rebuttal testimony, Exhibit T-1195, specifically page 15, the sentence that begins on line 20.
A. Yes.
Q. And at that point, you state, I have been informed that Verizon may not be capable at this time of building such a structure, and such a structure is the call setup and then per minute of use structure that Dr. Blackman discusses in his testimony; is that right?
A. That is correct.
Q. Would you explain to me why Verizon would not be capable of billing that type of structure?
A. My understanding, also not being a billing person, is that the structures that we are capable of currently billing must mirror in essence our special or

switched access type structures, which is a pure per minute of use basis. To go beyond that and break the structures out into a setup and duration would require that Verizon expend significant dollars in terms of system changes to facilitate that.

Q. So is this a measuring issue or purely a billing issue?

A. I really don't know. It could be both, but I definitely do know it is a billing issue.

MR. KOPTA: Thank you, those are all my questions.

JUDGE BERG: Ms. Hopfenbeck.

C R O S S - E X A M I N A T I O N

BY MS. HOPFENBECK:

Q. Mr. Trimble, first of all, I wanted to ask you a little bit about Verizon's decision to apply the 24.75% common cost markup in this proceeding. As I understand, a number of the pricing proposals in this proceeding are based on Verizon's revised ICM cost model; is that right?

A. The direct costs are, yes, that is correct.

Q. And that model, my question to you about the common cost factor is, did Verizon do any kind of an analysis to determine whether the costs that were

considered directly attributable costs in its previous model that was used in setting prices in 960369 were the same categories of costs as Verizon is currently considering to be directly attributable?
A. I did not do that analysis. I did different types of analysis to look at the appropriateness of the 24.75, and I do understand that, from Bench Request 14, that it is apparent that there are different classifications.
Q. And when you say from Bench Request 14 that it's apparent, can you elaborate on that; what are the differences in classifications?
A. I can not elaborate. I just think that it does show a difference in terms of percent of each account that was assigned to common or would be assigned to common.
Q. Now I would like to ask you a few questions about your testimony regarding reciprocal compensation. In Exhibit T-1190, at page 36 and 37, at least two places you reference or you use the term gaming by CLECs in referring to the CLECs' provision of service to ISPs; do you see that?
A. Yes.
Q. First of all, Verizon is also free to target customers such as Internet service providers; isn't that

true?
A. Yes, it is.
Q. I mean the problem that I understand that you have identified here is a problem that relates to a mismatch between the price per minute and what Verizon views as the cost of serving Internet service providers due to the characteristics of calls that are made to Internet service providers; is that true?
A. That is correct, those differences do definitely incent people or incent companies if they're rational and profit oriented to target given customer sets.
Q. So you would agree that one way of characterizing this problem would be as a pricing problem; is that right?
A. That is correct.
Q. Now Verizon has made a recommendation to this Commission that the way it should handle this problem is to move to a bill and keep mechanism for purposes of Internet service provider traffic; is that right?
A. That is correct.
Q. It's also true, however, that to the extent that one carrier is carrying more -- to the extent there is an imbalance in the amount of traffic that's going to one carrier as opposed to another, that differential

will go uncompensated under a bill and keep arrangement; is that right?
A. Depending on -- depending on the overall structure of revenues to recover the costs incurred by the company, that could be the case. It could also be the case that the revenues are recovered somewhere else.
Q. I believe that Verizon does agree with the general principle that carriers should be compensated for the cost of termination and transport of traffic that they receive from another carrier; is that true?
A. Yes, I believe that is directly stated in my direct testimony.
MS. HOPFENBECK: I have nothing further, thanks.
JUDGE BERG: Ms. Doberneck.

C R O S S - E X A M I N A T I O N
BY MS. DOBERNECK:
Q. Good morning, Mr. Trimble, I'm Megan Doberneck with Covad communications.
A. Good morning.
Q. I would like to go back to loop conditioning that you started with Mr. Kopta and ask you a couple of questions about that. Do you know what percentage of Verizon's lines in Washington contain load coils?

A. I will have to check my notes.
Q. Sure. I might as well tell you now, I'm also interested in bridged taps, so if they could be checked at the same time, that would be great.
A. I was given a number as an estimate.
Q. Mm-hm.
A. I have no source for this number, but my understanding is that less than 12% of the loops have load coils.
Q. Were you given any information regarding bridged taps?
A. No.
Q. Okay. In the information provided to you, is there any indication of whether those load coils are placed on loops of less than 18 kilofeet?
A. I was also given another piece of information, again the source would have to be verified, that in excess of 90% of the loops that are less than 18 kilofoot would not have load coils.
Q. So would another way to say that is approximately 10% of loops less than 18 kilofeet do have load coils?
A. That would be another way to say it, yes, and the number could be smaller.
Q. Okay. Were you provided any information or

do you know the time, and we're talking the year or span of years, in which those load coils were placed on the loops that were less than 18 kilofeet?
A. No, I do not.
Q. Okay. You also raised in your rebuttal testimony, which is T-1195, or I should say you addressed Mr. Klick's point that Verizon should be able to recover conditioning costs for load coils or bridged taps removed from loops that are less than 18 kilofeet; is that correct?
A. That is correct.
Q. And let's see here, looking at page 22 of your rebuttal testimony, is it fair to say that you rely for your or for Verizon's position that it can charge for conditioning of loops less than 18 kilofeet that it relies on the First Report and Order and Paragraph 155 of the 8th Supplemental Order?
A. Those are the cites that I gave, yes.
Q. Are there any other bases upon which Verizon relies in support of its position that it is entitled to recover conditioning charges for loops less than 18 kilofeet?
A. I think the overall right to recover that comes down to that is an expense it has incurred to facilitate something, and I believe throughout the FCC

verbiage and also I believe some of the Eighth Circuit verbiage, that is an absolute right we have.
Q. Well, let me ask you this. Are you familiar with the fact that in other jurisdictions, Verizon has not claimed a right to recover conditioning charges for loops less than 18 kilofeet?
A. Yes, I --
MR. EDWARDS: Your Honor, if I could object and have a specific reference?
MS. DOBERNECK: I can tell you it was in Pennsylvania, and it was in testimony provided by Verizon in August of 2000. I can on a break try and get more details on that specific reference if that would assist you.
MR. EDWARDS: I'm okay with that reference except to the extent whether it is a Verizon former Bell Atlantic testimony or a Verizon GTE testimony. Pennsylvania is one of the two states where the companies overlap.
MS. DOBERNECK: I suppose -- could I ask on what basis you are differentiating or what's the reason --
MR. EDWARDS: The positions of the companies were different in that regard prior to the merger on the issue that you're asking about, and it can be confusing

02898

to just use Verizon generically on that issue.

MS. DOBERNECK: And I can try to track that down. I don't know specifically if I can do that, and if that's the case, then --

JUDGE BERG: Let's let it go forward, and after obtaining a response, Mr. Edwards, if you feel some other objection is appropriate, we will entertain it at that time.

MR. EDWARDS: Thank you, Your Honor.

BY MS. DOBERNECK:

Q. Mr. Trimble, let me ask you this, do you know whether the position Verizon took in Pennsylvania was Verizon Bell Atlantic or Verizon GTE?

A. I'm not certain in Pennsylvania if there was a distinction.

Q. Meaning that Verizon GTE in Pennsylvania adopted the same position?

A. No, Verizon GTE, if it still existed, would have never adopted that position. But I believe some of the Pennsylvania activities were basically based on merger conditions and merger agreements and other activities where there was a give and take in terms of the requirements of what the company was willing to do to facilitate the approval of a merger. That is my understanding.

Q. So --
A. There were negotiated give and take activities that were performed in that state.
Q. But Verizon would not be willing to take that same position for the approximately less than 10% of the loops in which load coils might exist for loops less than 18 kilofeet?
A. That is correct.
Q. Well, let me ask you if you can point me to anything more -- well, strike that.
In the authority that you refer to in your rebuttal testimony, is there anything in there specifically that addresses recovery of conditioning charges on loops less than 18 kilofeet?
A. I would have to go back and look at the entire set of -- in these statements, no.
Q. Would it be your assumption if there was anything more specific to 18 kilofeet or less that you would have included it in your rebuttal testimony?
A. I don't think there is anything specific.
Q. I apologize, I may have already asked you this question, if so, we can disregard it. But do you know for those loops less than 18 kilofeet approximately when the load coils were placed on that loop, on those loops?

A. No, actually you did ask the question.
Q. Okay.
A. And I do not know.
Q. Let me, it's related but slightly different, do you know if those load coils would have been placed on the loops after 1982?
A. I have no idea.
Q. Looking specifically at the loop conditioning process, can you describe the steps Verizon undertakes when it is requested to remove a load coil from the loop?
A. No, that should be a question that was referred to Mr. Richter.
Q. Mr. Richter, okay. Well, let me ask you this. Do you know how long it takes Verizon to condition a loop from start to finish without breaking it down to any type of component parts?
A. No, I did not look at the underlying cost study.
Q. Do you know if Verizon records the amount of time it takes to condition a loop from start to finish, without breaking it down into its component parts?
A. I do not know. Again, that would have been an appropriate question for Mr. Richter.
Q. To the best of your knowledge, has Verizon

ever conducted any studies to determine how many loops it conditions at one specific time within the regular course of its business?
A. I would have no idea.
Q. Would Mr. Richter know that?
A. If anybody did, he might know that. When it comes to the aspects of the cost study and the time estimates and so on, those are all in Mr. Richter's area, not mine.
Q. Okay. I'm just trying to ascertain whether you know of the existence of any evaluation or study. In the loop conditioning rates, Verizon charges one rate for the initial deloading of the loop and then an additional rate for each subsequent loop deloaded; is that correct?
A. That is correct.
Q. And when Verizon is talking about these, I'm sorry, additional units, I guess that's the way it's phrased, are you talking about requests for deloading of loops on one order? For example, if Covad submitted an order and said we want five loops deloaded, would that be where the additional unit charge would factor in, or is it loops in the same binder group?
A. These are specifically loops specific to one customer?

Q. Yes, absolutely.
A. That is correct.
Q. Okay. I think actually I improperly combined two different questions into one. So my question is, would it be per order that the additional unit is charged?
A. Yes.
Q. So if those loops were in different binder groups, the same pricing policy would still apply; is that correct?
A. As long as they were submitted for a specific customer.
Q. Specific customer being either an ISP or an end user; is that what you're talking about?
A. That is correct.
Q. Okay. Can you explain to -- well, strike that.
Is it only for multiple loops ordered for a single customer, or are there other situations under which this additional unit charge would be applied?
A. No, these orders come through, I think maybe Mr. Richter described, an LSR process which is specific to a given customer.
Q. So even if, for example, Covad submitted an order for ten loops for a specific ISP, and those loops

were throughout Washington state, there would be the initial unit charge, and then each additional loop deloaded would be charged at the additional unit charge?

A. The way I understand your question, I would understand it as ten separate orders, to which end user customer who is -- which end user's customer's loops are deemed required to be deloaded, that's what the order would defer to. If there are ten different end users in ten different locations, that would require ten different orders.

Q. And for each different order, the initial unit charge would apply then; is that correct?

A. For each different order, the first unit, the first line to that customer would take the initial unit rate. Any additional lines to that customer would be the additional unit rate.

Q. Let me pose a different hypothetical for you. Assume that Covad submitted two separate orders, two different customers but the loops that were ordered were in the same binder group. Would Covad be required to pay that initial unit charge for both those orders?

A. Yes, in the very, very random circumstance that that may occur, that would be the case.

Q. Do you know whether Verizon has conducted a study to determine how many load coils and bridged taps

it could most efficiently remove at one time?
A. I have no idea. I would not even know what your definition of most efficiently would be.
Q. How about has Verizon conducted a study to determine how many load coils and bridged taps it's capable of removing at one time; do you know if such a study exists?
A. I do not know.
Q. Following up on or asking some questions related to questions Mr. Kopta asked you about dark fiber. Actually, what I would like to start with is the nonrecurring charges associated with the pre-ordering process for dark fiber. And the breaks themselves I believe are Exhibit DBT-3, and this may not be your specific area of knowledge, but I would like to ask you if you know, if you can tell me when this initial -- when an initial order comes in for dark fiber, which I believe is the advanced service inquiry charge, can you tell me exactly what it is that Verizon does for that inquiry?
A. I believe this -- I believe the activities were described in Mr. Richter's exhibits and in the cost studies filed. I can not tell you exactly what specific activities go on. In fact, I also believe that perhaps Mr. Lee discussed the requirements or what occurs under

this situation also.
Q. What about the situation that Mr. Kopta is alluding to, is this pre-ordering charge per order, or is it per strand of dark fiber?
A. The service inquiry charge?
Q. Mm-hm.
A. The service inquiry charge, I mean as it states here, this is an ASR, and it's just an up front charge to do all the determination of does the fiber exist, is there fiber, and so on, so it would be on a per order basis.
Q. And is it your understanding that a CLEC or a DLEC can order multiple strands per ASR?
A. Yes.
Q. I would like to turn to another area of your --
A. I should -- maybe I should preface.
Q. Sure.
A. The previous statement. When you say multiple strands per order, are you saying multiple strands through every location in the Verizon territory?
Q. No, I would be saying multiple strands per specific cable, or I'm not talking about geographically dispersed strands.
A. Then I will continue to say yes.

Q. Okay. Thank you.
JUDGE BERG: Ms. Doberneck, can I have an estimate of additional cross?
MS. DOBERNECK: Probably 10 to 15 minutes tops.
JUDGE BERG: All right, we will take a break now, and we will be back at 11:05.
(Recess taken.)
JUDGE BERG: Before we resume questioning by Ms. Doberneck, Mr. Edwards, I believe there was a matter you wanted to bring to the Bench's attention.
MR. EDWARDS: Yes, Your Honor, thank you.

R E D I R E C T E X A M I N A T I O N

BY MR. EDWARDS:
Q. Mr. Trimble, I think the first question from Mr. Kopta was whether the NRCs for a two wire loop were the same as for DS1 or DS3. I believe you answered yes. Do you need to correct that answer?
A. Yes, I do. I believe my answer stated that I did not provide any new NRCs for DS1s in this phase. The NRCs for those services were already approved in the previous phase. Where I made my mistake was that the NRCs are not the same as for a standard two wire loop. The current tariff sheets or the current sheets read

engineered initial service versus non-engineered. A two wire loop, basic two wire loop is a non-engineered service. It has a given NRC charge. Engineered services, which are DS1s, DS3s, and ISDN PRIs have a separate identified charge which is different.

R E C R O S S - E X A M I N A T I O N

BY MR. KOPTA:

Q. And the object of my question was just to make sure that there wasn't anything different than what was previously established by the Commission with respect to the applicability of nonrecurring charges to the high capacity loops which are being discussed from a recurring charge basis in this proceeding. So it sounds like your answer is consistent with my understanding, which is that the previously approved charges are those that would apply to not just two wire loops, but also DS1 and DS3 loops.

A. That is correct.

MR. KOPTA: Thank you.

JUDGE BERG: All right, thank you, Mr. Trimble.

C R O S S - E X A M I N A T I O N

BY MS. DOBERNECK:

Q. Mr. Trimble, I would like to ask you a couple of questions about packet switching. In your direct testimony, you stated that Verizon currently was not proposing any rates for packet switching, correct?

A. That is correct.

Q. And the basis was, well, there are a couple of reasons why, one of them was that packet switching only has to be offered if four specific conditions specified by the FCC were met; is that correct?

A. That is correct.

Q. And if it will help you, it starts on page 29 of your direct testimony.

A. Yes.

Q. Okay. Did you, in your reference to the FCC's Remand Order, did you track exactly in your testimony the language of the FCC on those four conditions?

A. I don't -- I would have to look at it. It may be paraphrased.

Q. Okay. Let me ask you, there's something else you included in your direct testimony was a statement that Verizon has not deployed any DSLAMs or remote terminals. This testimony was given in August of 2000.

Since that time, since August of 2000, has Verizon remotely deployed any DSLAMs in the state of Washington?
A. That is a very good question, and I do not know the answer.
Q. Do you know if Verizon plans on deploying DSLAMs at remote terminals in the state of Washington?
A. No, I do not.
Q. Well --
A. I mean there are, as I understand, there are also issues of the Verizon the ILEC versus Verizon advanced data subsidiary in terms of how this will occur over time. I do not know --
Q. Well, let me --
A. -- the intricacies of Verizon's ILEC's plans. I do not think there are any though, but I do not know.
Q. Well, let me ask you a few questions about the remote DSLAM issue, since it's something out on the horizon, and you have provided a position on the part of Verizon in this regard. Would you agree with the statement that collocating a line card would save Verizon the time and expense of building remote terminals to house DSLAMs?
A. Again, I would have to say that from the engineering aspects of what you're talking about, I may not be familiar.

Q. Okay. So you don't know from just a basic, your experience in the industry from a cost perspective, just basic cost perspective, which would be the cheaper option?
A. The only analogy I could give you would be something like ISDN loop extensions, which we technically do, and they fit well, and it's possible. We do provide those to extend loops for ISDN type services. When you get into the requirements for ADSL and DSLAMs, I'm not technically proficient on all the requirements.
Q. Well, I'm not per se asking you from an engineering perspective, but just from your personal knowledge as you sit here today, and if you can't answer, that's certainly a sufficient answer. Would you agree with the statement that it wouldn't be necessary to build additional remote terminals -- well, strike that.
Would you agree that as compared to CLECs, in the event that Verizon did remotely deploy DSLAMs, it would have the advantage of an economy of scale?
MR. EDWARDS: Your Honor, let me state an objection. This is outside the scope of Mr. Trimble's testimony. He does in his direct testimony at page 31 talk about fiberfed DLCs, which would involve DSLAMs

located at the remote terminal and says that we're not proposing a price at this time, and there were other witnesses that would address why. And Mr. Bykerk addressed that in his direct testimony. There was no cross for Mr. Schroeder who was adopting that testimony. And then Mr. Lee was available last week, who had -- who filed testimony directly related to this subject, and he was available for cross then. And so to the extent it's just not related at all to Mr. Trimble's testimony, I pose the objection.

MS. DOBERNECK: Well, I guess I would disagree. Mr. Trimble does state in his testimony as a fact that, you know, that because these four conditions are likely to be unmet, that the packet switching issue is essentially moot. I believe he has given testimony on this issue. I simply want to flesh it out. I don't think it's any surprise to anyone in this room that Covad believes that Verizon and any other ILEC is obligated to propose rates for packet switching, because we believe that those conditions, the four conditions the FCC identified, will be met on a regular basis. And if we don't get rates now, we're behind the curve, we're at a competitive disadvantage. And I want to try and flesh out with this particular witness that it's not a moot issue, that those four conditions are likely to be met, and to try and flesh out why it is that we believe the four conditions are likely to be met.

JUDGE BERG: Well, let me just see if I'm properly understanding your characterization of this witness's testimony. What I see here is that these requests for unbundled packet switching will be handled via BFR or on a case-by-case basis. And with regards to mootness, it's just moot to the extent that it has not deployed any DSLAMs in remote terminals pursuant to the BFR process to date.

MS. DOBERNECK: I suppose it addresses both, one which would be we believe it should be a standardized product offering, so the BFR process wouldn't be appropriate, because we believe that those four conditions will be met, as well as the fact that it's moot because I think from an industry perspective, remote deployment of DSLAMs, it's here in other regions, and it's something that's going to be happening and happening in the very near future.

I think Verizon itself has acknowledged that the remote deployment of DSLAMs is out there. Whether it's happened just yet is a separate issue, but it's on the horizon, and because it dramatically affects a DLEC's ability to compete for customers served off of remote terminals, it's something that should be addressed here now rather than pushed off to the detriment of DLECs.

MR. EDWARDS: If I might respond just briefly.

JUDGE BERG: Yes, sir.

MR. EDWARDS: Just briefly, it is surprising to me to hear that it's such a major issue given the fact that Covad filed absolutely no testimony on the subject, and I think that issue has already been raised with respect to Qwest.

But the second point is that even if it is an issue that Covad wanted to discuss, they should have discussed it with the appropriate witnesses who have been on the stand. The questions are being asked of both engineering and cost witnesses, product questions and cost questions. They're not pricing questions.

JUDGE BERG: I want to make it clear that the Commission is not going to read anything into the significance of whether or not parties did or didn't file testimony in this case, but I understand the second part of the objection as stated.

MR. EDWARDS: Thank you.

(Discussion on the Bench.)

JUDGE BERG: All right, thank you, parties. First of all, let me make some additional reference to the Commission's prior orders in this case where the Commission did identify issues to be addressed in this proceeding, which would encompass the question or issues relating to packet switching. However, the Commission, in fact, did not order parties to file cost studies for packet switching, yet that does remain an option to the Commission as we continue in this proceeding.

With regards to the specific question pending, without ruling on the objection, the Commission would at least sustain it just in terms of foundation and would want to have counsel, if you wish to go down this line of questioning, to develop or ascertain this particular witness's qualifications to answer questions that might be based on a more abstract discussion of a common use of scale or hypotheticals that might be thereafter developed.

BY MS. DOBERNECK:

Q.   Mr. Trimble, would you agree with the statement that it's less expensive to provide service to multiple customers over a particular architecture than it would be to serve a single customer?

A.   In a very abstract sense, networks are deployed to take advantage of technical considerations that allow for minimizing costs per customer or cost per line, yes.

Q. Does Verizon employ that particular principle in deploying its network in the state of Washington?
A. I would hope so. I think that's where you get to digital loop carriers and so on and so forth, yes.
Q. So would the purpose, for example, of deploying a digital loop carrier be to permit Verizon to achieve cost savings because it could serve multiple customers rather than a single customer?
A. Verizon would not need digital loop carrier to serve multiple customers. They can serve multiple customers with individual lines if it so desired. The economics of doing so would not make sense though.
Q. Would it be more economically prudent for Verizon to serve multiple customers off of a digital loop carrier rather than multiple lines?
A. That is why they deploy those, yes.
Q. Okay. And is it your understanding that, for example, the remote deployment of a DSLAM allows Verizon to serve multiple customers that are further out in the network?
A. No, deployment of a DSLAM does not allow Verizon to do anything. Deployment of a DLC does.
Q. I'm sorry, I misspoke, I apologize.
Is it your understanding that currently if

Verizon were to deploy a DLC, it would be able to serve more customers than a CLEC who were to use -- strike that.

MS. DOBERNECK: You know, I will move on. I think I'm going to be stuck hopelessly in theoretical discussion with this particular witness, and I think I'm probably going to not be able to lay a foundation here for this particular witness. I think I will be stuck in abstract.

JUDGE BERG: I appreciate you not taking it any further than you deem appropriate.

MS. DOBERNECK: Sure. I do have some more questions though.

JUDGE BERG: You still have the floor.

BY MS. DOBERNECK:

Q. Let me ask you this. From a cost perspective, would you agree with the statement that if CLECs were allowed to collocate line cards rather than entire DSLAMs, they could adjust their capital expenditures to how many customers they had out of a particular remote terminal?

A. On the surface, that sounds totally correct. But again, I'm not a costing person.

Q. I --

A. I would have no idea in terms of the

economies of break points between putting in your own piece of equipment versus putting in cards. I'm sure there is some economies there also.

Q. But the certainty that goes with being able to calculate your capital expenditures would permit a CLEC to determine whether it could actually enter a particular market, wouldn't it?

A. I think when -- let me put it this way. When businesses enter markets, they have many, many forecasts of what they think to achieve and how many customers they expect to get. There is no certainty in any amount of investment requirements in hope of recovery. The market allows -- tells you what happens there. If you're saying I believe I will have 47 customers in this area, there is probably more certainty in terms of forecasting expected capital, that may truly be the case. But it is still -- it is still an estimate of an unknown activity.

Q. Let me rephrase that then, because I think maybe we're talking a little bit across each other. It would be easier for a CLEC, wouldn't it, to determine whether to enter a particular market if it knew the cost of entering into that market; is that correct?

A. That would be one of the factors. The better you can estimate your costs, the better you can understand your business plan.

Q. And so in the absence, for example, of any rates for packet switching, it's more difficult for a CLEC to determine whether it could enter a particular area; would that be correct?

A. If packet switching were one of the items a CLEC truly needed, then there would be some level of uncertainty in terms of the total cost. I don't know if that would be a major factor in the determination to enter or not to enter.

Q. But it would certainly factor in, correct?

A. Just as in any business plan it should factor in.

Q. Can you tell me whether Verizon is deploying DLCs in remote terminals currently?

A. I actually have no idea. I do not believe the ILEC is, and I do not have an understanding of Verizon's advanced data services group.

Q. Well, talking about your direct testimony regarding fiberfed DLC, you reference that:

> Verizon Northwest plans to deploy this new technology once it has completed and evaluated all necessary tests.

CHAIRWOMAN SHOWALTER: What page are you on?

MS. DOBERNECK: I'm sorry, I apologize, page

31 of the direct testimony.
BY MS. DOBERNECK:
Q. Do you know what tests that you're referring to in your direct testimony?
A. No, actually, I left this to Mr. Bykerk in terms of being the correct witness for that.
Q. Do you have any understanding of what the necessity is for these particular tests?
A. I'm sure there's a lot of tests in terms of the technical capability of a service in terms of can you deploy it, does it integrate into the network, and so on and so forth. My understanding of this topic is that we really don't have technical standards nor a product to deploy at this time.
Q. I'm sorry, what was the last part of your sentence?
A. Or a product to deploy.
Q. Do you know if Verizon has any specific time frame in mind for deploying this particular product?
A. I have no idea.
MS. DOBERNECK: I have no further questions for this witness.
JUDGE BERG: Ms. Tennyson.
MS. TENNYSON: Thank you.

C R O S S - E X A M I N A T I O N

BY MS. TENNYSON:

Q. Good morning, Mr. Trimble, my name is Mary Tennyson, and I'm representing Commission Staff in this proceeding.

A. Good morning.

Q. For my first questions, I would like you to refer to the Commission's 17th Supplemental Order in UT-960369. You may or may not need to refer to it, but I will let you know that's what I'm looking for. I do have extra copies available for other counsel if you would like them.

A. I have a copy.

Q. Thank you. Now we have heard at least one Verizon witness, in particular Mr. Richter, express some objections to the Commission requiring Verizon to use Qwest numbers or figures in setting rates or prices for Verizon. Do you share that view?

A. Yes.

Q. Now in the Commission's 17th Supplemental Order in UT-960369 and in particular referring to Paragraphs 202 and 203, isn't it true that the Commission used U S West information and figures to develop the common cost factor that it set for Verizon in that case?

A. Yes, it did.
Q. And the Commission did that because it found that GTE at that time, the common cost study was flawed and didn't meet the standards of the federal law, correct?
A. That is my understanding of what the order said, yes.
Q. And if I'm understanding your testimony in this proceeding, what you have done though is taken and applied that common cost factor in setting the prices that Verizon proposes in this proceeding; is that correct?
A. That is correct.
Q. Okay. Could you -- how do you define common cost?
A. I define common costs as those costs that are basically common to the overall operations of the firm. They are not direct costs.
Q. Okay. And a common cost factor, what is a common cost factor?
A. The common cost factor is the factor if you multiplied all direct costs by that factor or one plus that factor, you would result in a number that would equal to the company's total costs. So you have direct costs plus common costs equal total costs.

Q. Has Verizon developed or presented in any other state a company specific common cost allocation factor?
A. Yes, it has, in many, many states during arbitration times for UNEs.
Q. Okay. Can you provide me with, let's start with just one example of how that common cost allocation factor was developed, and give me a state and how you developed that factor.
A. Right. The standard procedure we use to develop a common cost factor is to take the view that your entire network would be sold at wholesale rates in essence. Instead of looking at some retail, some wholesale, that your entire network will be sold as UNE rates, because then we developed a what are the total direct costs of the network based on UNE type structures.

The cost group develops a total forward looking common cost based on a wholesale environment, and then we compute the factor based on computing total forward looking direct cost as a numerator or denominator and total forward looking common costs as the numerator and compute that factor. So that when we mark up all, assuming 100% network of UNEs or system of UNEs, when we mark up all UNEs, we have the opportunity

to recover the total forward looking common costs.
Q. Is this a consistent practice in all the states that you have presented this? Have you done it in different ways in different states?
A. It's been very, very consistent across the what we'll call old GTE territories. We performed this analysis in every state. I would also -- should probably also add that on the denominator for direct costs, we only include those items we intend to apply a markup to. For example, in this case, we did not mark up NRCs, therefore the costs of NRCs are not in the denominator.
Q. This methodology that you just described, have you filed that in Washington?
A. I believe the initial filing in the last proceeding filed the results of that methodology.
Q. So the 55% that the Commission rejected in that case?
A. Well, let me think about the timing of this. That specific methodology was probably not filed in that case, because back at that specific time, we also did an adjustment to come back to the company's total actual cost, which given the FCC's current rules, it was not allowed. The methodology is basically the same, but we don't constrain the total actual costs anymore. We

constrain to the sum of what's total forward looking costs as defined by the FCC's rules.
Q. So the methodology that you described was not used to set the factor that the Commission ordered in the 17th Supplemental Order and that you have applied in this case, correct?
A. The general methodology was probably was used. I'm just not certain in terms of the specifics of were we trying to constrain to total forward looking costs versus total actual costs. In many states, that constraining factor would range from 5% to 10%, would not make much of a difference in the overall number.
Q. I would like you to -- oh, do you have a copy of Verizon's response to Bench Request 14?
A. Yes, I do.
CHAIRWOMAN SHOWALTER: I'm sorry, what was that number?
MS. TENNYSON: 14, we just received it this week.
BY MS. TENNYSON:
Q. Are you familiar with this response that Verizon provided?
A. Yes, I am.
Q. I would like you to refer to first the narrative portion in the front, and I'm looking at what

is numbered page one of nine.
A. Yes.
Q. And in particular, the description of the attachment 14-B, the last couple of paragraphs at the bottom of the page.
A. Yes.
Q. Okay. You refer in the last paragraph or this response refers to the starting point for the common cost calculation is base year ARMIS data for 1998, so this was updated from the 1996 data used in the prior phases of this proceeding. But then you indicate that there were adjustments made to this ARMIS data. So I'm gathering then, one could not go directly to the company's ARMIS data and find the numbers that were used by Verizon to input into the ICM. Am I reading that correctly?
A. Now you're into a costing question that I believe would have been appropriate for Mr. Collins. If I were to look at these numbers, I would assume, and since he's not here, I would assume that some of these numbers by accounts you should be able to find in the ARMIS accounts, because it does give percentages.
Q. What my question relates to is you go on further in this paragraph, and it refers to certain accounting normalization adjustments are made to ARMIS

to create a baseline level of expense and investment data for input into the ICM. The data that was input into the ICM, are those inputs available in this proceeding in electronic form? Have they been filed; do you know that?

A. I'm sorry, that would once again be a Mr. Collins question. This is truly his area. In terms of the development of the overall size of the common costs, the costing group performs that. In terms of the development of the common cost factor itself, what would be appropriate, the pricing side performs that, and I would be responsible for that.

Q. Well, okay, maybe I'm just being a bit dense here, but this talks about the common cost calculation.

A. Right, it talks about --

Q. In this paragraph.

A. Right, it talks about the common cost calculation, and the common cost calculation is the total level of common cost, which is the responsibility of Mr. Collins. Taking that number and converting it into a common cost factor is something I would do.

Q. Okay. So if I'm understanding you correctly then, you're not familiar -- you're not able to answer the question of how the ARMIS data was normalized, what particular adjustments were made, where we would find

those?
A. That is correct.
Q. At this point, I would like you to refer to your testimony that's been admitted as T-1195, your rebuttal testimony.
A. Yes.
Q. And in particular, I would like you to -- I'm going to be talking about the testimony at pages 19 and 20. And in this testimony, you're discussing Ms. Roth's recommendation of a particular allocater, and you refer to Figure M.5 of the ICM expense module documentation. And I would like you also to have that available to look at if you aren't intimately familiar with it.
A. I do have that.
MS. TENNYSON: Now looking at the screen, the Figure M.5, I don't know whether the commissioners want to try to follow along. I can give a specific reference to where we find that.
JUDGE BERG: We don't have that document, thank you, Ms. Tennyson.
MS. TENNYSON: Okay.
BY MS. TENNYSON:
Q. Now could one using the ICM as has been presented here in this case, could you update the inputs into a screen like Figure M.5 to produce a Washington

specific allocater?

A. I believe I also stated in my rebuttal that the procedure used in table M.5 is meaningless, because it is truly premised on the idea that you will constrain back to your total regulated revenues. It is not consistent with the FCC's TELRIC methodology.

Q. Okay. So then going to the formula that is present in the -- below that table, I believe it's line H, your view is that that formula would be inappropriate to use to calculate a common cost allocater?

A. Yes, that formula only works, and I believe I also discussed this in my rebuttal testimony, in one very, very rare occasion, and that rare occasion is when your total forward looking direct costs plus your total forward looking common costs just happen to be equal to your total revenues. And given the FCC's TELRIC procedures, the likelihood of that ever happening is probably zero.

Q. I would like to move on at this point to another area of questioning.

MS. TENNYSON: Actually, before I move on, Your Honor, I would like to make a record request for the information, and maybe Verizon can just point us to where it may be in this record, or maybe it needs to be provided, but the information that I was asking about, the inputs for into the ICM, to have them available in electronic form. They may be in the proceeding, they may not be, I don't know. If they are not, we would like to have them provided. If you can just tell us where they are in the model or whatever, then that would be acceptable as well.

MR. EDWARDS: All right.

JUDGE BERG: And that would be Record Request 107.

MR. EDWARDS: Let me just clarify, I'm assuming that the request would also include if it's reflected in the model documentation, the adjustments that were made.

MS. TENNYSON: Absolutely, yes, thank you.

MR. EDWARDS: Okay.

BY MS. TENNYSON:

Q. Okay. At this point, we can get out of the model documentation and go back to your T-1195. And referring to page 5, at this point we're talking about the reciprocal compensation issue, so we will get out of the common cost factor issues for a while. At page 5, lines 9 through 11, you refer to a time period or you refer to prior to the development of ISP bound traffic; do you see that?

A. Yes.

Q. Do you have a particular time in mind when you use that term or that phrase?
A. No, I would prefer to look at it as an emerging market, that as ISP bound traffic grows and develops, you know, this just continues to get exacerbated.
Q. Well, in this sentence, you state that Verizon end user is paying the same local exchange rate as that customer did prior to development of ISP bound traffic. If you don't have a particular time frame in mind, how do you know for a fact that Verizon customers in Washington are paying the same rate now as they were at that time?
A. We have had very few, if any, rate changes for a while.
Q. Is it possible that Verizon business and residential customers are paying less now than they were in the past?
A. Less in terms of overall bill?
Q. Less for their whatever rate you're talking about here.
A. Less in terms of just the interstate or intrastate charges?
Q. Well, you say local exchange rate is the term you use in your testimony.

A. I do not believe the -- the local exchange rate has not changed that I am aware of for many, many years.

Q. Is it possible that Verizon has agreed recently to lower rates as part of the merger settlement?

A. That is correct.

Q. Okay. Let's go on to page six of your rebuttal testimony, we're still in T-1195. And I'm looking at lines, the sentence that begins in the middle of line three, goes on to line five. You indicate there that the prices for local service don't include the incremental usage that the Internet has spawned. I have left a few words out of the sentence, but that's the concept.

A. Correct.

Q. Is it your testimony that simply because rates may have been set before Internet use increase that those rates don't cover the cost of that Internet use?

A. For those specific customers that are high volume customers, it definitely does not cover the entire cost.

Q. Is it possible there have been other forces at work in the opposite direction to reduce the cost of

providing local service?
A. There may be other factors, but in many cases, and this is Verizon's continued position, that most of these rates for basic exchange rates are below cost to begin with.
Q. And going on to the next couple of sentences, you refer to Dr. Blackman's testimony. Are you saying that Verizon doesn't charge local rates if a customer is using his line for calls to the Internet? In other words, if -- let's use a specific example. If a customer subscribes to Verizon's basic measured service plan, is it your testimony Verizon doesn't assess the per minute charges on that plan when the customer calls an ISP?
A. No, if they're subscribed to a measured option, which is for local calling, then there would be charges per call.
Q. Okay.
A. Most customers subscribe to flat rate calling, flat rate options.
Q. And I think we could all agree that if they were using measured service for calls to an ISP, they probably weren't very smart?
A. They should convert very quickly.
Q. What about if the customer subscribes to a

flat rated second line and uses that solely to connect to the Internet, does Verizon apply the local rate for that line?
A. Yes.
Q. And then my final question in still on page 6, going down to the sentence lines 20 through 23. Now would you agree that even if CLECs and the Internet did not exist, an increase in the average number of minutes the customers use their phones could lead to pressure to increase the price of flat rated local service?
A. Yes.
JUDGE BERG: Ms. Tennyson, I think this might be a good place to break for our noon lunch recess.
MS. TENNYSON: I believe I'm finished.
JUDGE BERG: All right, we will give you a chance to consult with Staff, and when we come back on the record, if there are further questions, we will take those at that time.
MS. TENNYSON: Thank you.
JUDGE BERG: Thank you.
We will be back with the commissioners at 1:35.
(Luncheon recess taken at 12:05 p.m.)

A F T E R N O O N   S E S S I O N

(1:35 p.m.)

JUDGE BERG: First thing I would like to do though is with regard to an exhibit that has been distributed by Verizon. This is the data request and attached confidential study that Mr. Jones referred to on the Bench yesterday, and we will mark this as Exhibit 1183, C-1183.

And my understanding, Ms. McClellan, is that it was also Verizon's intent to offer this as an exhibit, and please confirm for me the fact this was a document referred to by Verizon witness Jones.

MS. MCCLELLAN: That is correct, Your Honor, and we would move that it be admitted.

MR. KOPTA: And we object to its admission. Although Mr. Jones did refer to one page of this particular document, it was not even directly responsive to the area of inquiry that I was exploring with him, and I don't think it's appropriate if the basis of this document is to be responsive to any of the questions that I was asking on cross-examination. I don't think that this document is at all responsive to the areas that I was questioning.

In addition, it contains a great deal more than what Mr. Jones was referring to on the stand. As I say, there is only one page out of this entire document that Mr. Jones was referring to. And as Your Honor indicated yesterday, that statement can stand on its own without the need of having this whole document in the record.

In addition, because this contains a great deal more information than just what Mr. Jones referred to on the stand, this is something that we would want to have the time to evaluate and perhaps ask additional questions on, additional examination on this document since it was never presented up to now as part of the evidence presented in this case. And so because this is a study, a traffic study essentially, then we would want the opportunity to address the other aspects of this particular study if it's going to be in the record. We don't think that that's the best use of our time in this docket, but if it is going to be part of the record, we should have the right to conduct whatever additional examination is appropriate. So the bottom line is our preference is that it not be included in the record at all.

JUDGE BERG: Before I apply for a response, let me see if there are any other parties that have objections to state at this time.

MS. HOPFENBECK: WorldCom would join in the objection and only add that we believe that this is the type of evidence that if Verizon believes that this kind of evidence should have been presented to support its direct case, it should have been presented in its direct testimony given the scheme of filing here. We would object on that basis.

MS. MCCLELLAN: If I may respond, first, it was our understanding and Mr. Jones' understanding that Mr. Kopta asked whether there was any study performed to support a particular point that had been made. Mr. Jones said, yes, as a matter of fact I have the study here, which is what has now been marked as Exhibit 1183, C-1183. If Mr. Kopta's concern is that there is more contained in the actual response to the data request that is now Exhibit 1183, we would be happy to limit this exhibit to just the study.

As far as his concern that he has not had time to evaluate this exhibit, I just would like to point out this is a response to a data request sent by the joint intervenors, sent by Mr. Kopta, that was served on Mr. Kopta, that he has had plenty of time to review. Verizon did not mark this as an exhibit, because we didn't think we needed to until Mr. Kopta asked about a study and Mr. Jones made reference to it.

And we felt that opens the door to bringing it in.

And I also find it interesting to hear the other side of the table now talking about how if something being appropriate to come through in the direct case when several times during this proceeding there has been evidence that has come in through cross of a witness that was never in direct evidence to begin with. So I think this is another example of that situation.

(Discussion on the Bench.)

JUDGE BERG: The Commission finds that the benefit of having this in the record outweighs any possible prejudice. We will note that this is a document that parties have -- has been previously distributed to parties as discovery and believe that the inquiry regarding a study of relative industries, while there may be more here it will relate to, we will accept it for and on the subject for which it was originally mentioned.

MR. KOPTA: Then I would request the opportunity to either recall Mr. Jones or have some other witness from Verizon available so that after I have had a chance to review this, which is different for hearing preparation than it is in reviewing discovery responses, that we would have an opportunity to ask additional cross-examination questions on this particular document.

MS. MCCLELLAN: We would not object to that provided that Mr. Jones is still here, which I believe he is.

JUDGE BERG: Mr. Jones, what's your schedule?

MR. JONES: I'm leaving tomorrow morning at 7:00.

MR. KOPTA: I can't be prepared before tomorrow. I'm in hearings today.

COMMISSIONER HEMSTAD: Well, it seems to me since Verizon is offering this, if Mr. Jones isn't available, they will have to tender a witness who can respond to it. If it's not going to be Mr. Jones, it's going to have to be someone you can provide.

MS. MCCLELLAN: We will try to work with Mr. Kopta during the break to determine how much time he would need to get ready to cross a witness and try to work out either Mr. Jones' schedule or make another witness available.

JUDGE BERG: All right.

MR. KOPTA: That would be fine.

JUDGE BERG: All right. At this time, C-1183 will be admitted subject to the possibility of further objections that may be made in the event that Verizon is

unable to make a witness available to respond to further questions. Thank you everybody.
Then at this point in time, let me check with Ms. Tennyson to see if she has further questions for this witness.
MS. TENNYSON: I do, and hopefully they will be very brief.
JUDGE BERG: All right.
And, Mr. Trimble, I will just remind you that you remain subject to the affirmation oath you took this morning.
THE WITNESS: Yes.
JUDGE BERG: Thank you, sir.
BY MS. TENNYSON:
Q. Good afternoon, Mr. Trimble. When we were discussing earlier the matter of the common cost factor, I believe you said that it would only be in rare instances that a company's total revenue equals its total direct cost plus total common cost; is that correct?
A. I said it would be a very rare instance if the TELRIC based direct cost plus forward looking common costs equaled the company's revenues.
Q. Would you agree that the total revenue a company obtains is through -- is by approved rates and

charges multiplied by quantity in most cases?
A. Yes, I would totally agree that the total revenues could be computed by taking the individual tariff items on the retail side and multiplying them out. That gives you the retail revenues plus whatever wholesale revenues do exist. If you look at the UNE environment and say here are the unbundled network elements that would comprise the same network and multiply them by the approved unbundled network element rates, you would likely never come close to that number. Most unbundled network element rates result in total revenue production potentially less than 50% of existing retail revenues. Part of that is due to the TELRIC basis.
Q. So is your distinction because of the TELRIC basis or the retail versus the UNE prices?
A. In essence, in the schedule that was quoted out of the ICM documentation, if you refer back to that, you will notice that it has total common costs, which at this point in time are defined as total forward looking common costs. And it creates a percentage of total revenues and says then one minus that percentage must obviously be the direct cost percentage of the total revenues.
And we know that is exactly not correct, that

one minus a percentage of common costs will not lead you to the direct costs that are driven by UNE cost studies. So the formula falls totally apart, and it only works in the one situation I called for.

Q. Go ahead, were you finished?

A. No, no, that's fine. If it's okay to add something to that, I would like to. To me, the correct way to compute the common cost factor is to look specifically at the total common costs that are allowed in the wholesale environment. I think in this proceeding, we did provide a schedule 14-B that shows $70 Million. You would put that on the top of the -- on the numerator for this equation and then put total direct costs on the bottom. But total direct costs would never come from ICM model.

What we have here is a case where there have already been total direct costs determined for the vast majority of Verizon's items, specifically the unbundled network element loop, which in most cases will account for about 80% of the total direct costs of the company. You already have found a determination for that number in the previous proceeding. That determination should be used in terms of defining what are the total direct costs.

The other interesting fact in this proceeding

is that we know how much common costs are being recovered by the loops. You can do an easy computation to say I ordered a rate of 23.94, and here's the direct cost I also ordered. That's about, the number is not confidential is it, it's about $3.50 per loop. If you multiply that out by all the loops we have in Verizon, you would come up with maybe $35 Million in common cost recovery, whereas the revised common costs submitted were about 70. And that only leaves a very minor amount of direct costs that have not been marked up, and they're in this proceeding. To actually have an opportunity to recover total common costs of the $70 Million, you would have to probably mark these items up in excess of 100%. That's one of the reasons why we opted for the previous 24%.
Q. So if we look at this schedule 14-B that you provided in response to the Bench request, am I understanding that the total common cost figures you have there are for the wholesale only?
A. That is correct.
Q. And you have mentioned several different numbers just now in your testimony. If you have all of these figures, why didn't Verizon propose a Washington specific common cost allocater?
A. Well, if we would have proposed one that gave

us an opportunity to recover the $70 Million that was in this, in 14-B for these remaining items, the number would have had to have been way in excess of 100%, because we're only talking about a small residual amount of direct costs that are left to be marked up. The per minute order on the loop, which accounts for most of everything you can mark up, is already established. So we're just looking at the remainer in terms of how you would recover the $70 Million.

Q. And that $70 Million figure you're talking about, that's not been validated or approved at this point?

A. That is correct. As far as I understand, the $70 Million was probably -- well, we know it's an attachment or schedule -- it's an Attachment 14-B of the 14th Bench Request.

MS. TENNYSON: And, Your Honor, in terms of the Bench request, we referred to this response several times, and I don't know whether we need to make it an exhibit or if it's automatically part of the record.

JUDGE BERG: The Commission will be assigning exhibit numbers to all Bench requests and admitting them into the record.

MS. TENNYSON: Okay, so I didn't know whether I needed to offer that at this point so that we can

refer to it on brief.
JUDGE BERG: Thank you for mentioning that, I hadn't discussed that with the parties, but that would be consistent with Part A of this proceeding.
MS. TENNYSON: I think that's all I have at this point, thank you.

E X A M I N A T I O N

BY DR. GABEL:
Q. Good afternoon, Mr. Trimble. I would like to just follow up on your discussion on common costs. First, looking at Verizon's response to Bench request 14-A and 14-B, do you concur that costs that were classified as common by Verizon in UT-960369, Verizon is now treating some of those previously classified common costs as direct costs?
A. That is what -- that is what appears in those exhibits. And one of the interesting facts to me on the common cost recovery again is not only how the common costs change, but what is the level of direct cost you have to spread those over, and both issues must be addressed.
Q. Okay. And so would you agree that conceptually that there's a problem with applying the common cost factor from the last docket because that

common cost factor assumed that certain costs were common and should be recovered through the common cost factor, but now they're directly identified in your ICM model?

A. That could be the case, but for the number one item that would have changed, rates were already ordered for in the previous docket. We can't go back and say, or you could say we must change the direct costs now for the unbundled loop, because whatever new common cost factor is potentially applied must balance out what are the direct costs and the opportunity of the company to recover its total forward looking costs. I think that is a very key item that even the FCC agrees upon.

Q. Now I understood you, Mr. Trimble, to state that in your view, the loop might constitute about 80% of the direct cost of Verizon. Did I correctly understand you to take that position?

A. From the numbers that I have reviewed in terms of the direct costs that either Verizon has ever developed or the direct costs that we see coming from other models, that approximately 80% of the total direct costs of the network are from the loop.

Q. Does Verizon classify its network capital expenditures where it identifies what portion of their

investment is in interoffice facilities versus outside plant versus switching?
A. I believe those are standard Form M type categories.
Q. And have you reviewed --
A. No, I have not reviewed the Form Ms that drove these cost results.
Q. Mr. Trimble, when you mentioned that 80% number, a light bulb went off in my head, which made me think of an exhibit in this proceeding, which I'm going to show you. This is Qwest's attachment to Mr. Brotherson's testimony. It was Confidential Exhibit 1111, and it shows what capital expenditures they have been making in the last three years for outside plant versus switching versus interoffice. Now looking at that kind of data, would it seem that on a forward looking basis that companies are spending proportionally -- would it indicate that on a forward looking basis that companies are investing more in switching and in interoffice facilities than would be suggested by your number that 80% of the investment is in the loop, or are you unable to make any --
A. No, I would be unable to make a determination for the Verizon side in terms of how their current capital expenditures are. But these are changes on the

margin, if I would be correct in saying. And if you look at the total investments that sit there, however they are converted, you know, into Form Ms, you will get a given view. Form M obviously is based on embedded type cost structures. When you look at these activities for defining UNE rates, we're looking at forward looking cost structures, and I think we all know in our heart that they can be significantly different. And what I'm looking at is when I total up all the unbundled network element costs and rates for services and weight them by the amount of activity or minutes or lines that we currently have at a given point in time, approximately 80% of the direct costs, if not more, are shouldered by the loop.

Q. Okay, thank you. Mr. Trimble, let me explore how you would go about identifying the total forward looking direct costs, and let me give you a couple of questions about the specifics of it. So in general, the process is to take the identified direct costs and multiplied it by the associated quantities with that cost element. So, for example, you have in your network maybe 800,000 loops, and you multiply 800,000 loops by the direct costs identified by the Commission?

A. That is correct.

Q. All right. Now in those 800,000 loops, would it be fair to say that about 15% or 20% or 10% are special access lines or private lines?

A. There may be potentially that amount.

Q. Okay.

A. And when we get into -- I think if you get into what is specifically in the cost study itself, it would be very appropriate if we could have Mr. Collins back. But my understanding is that the cost study does incorporate the two wire and four wire type private lines.

Q. Okay. The quantity -- but my question -- is your testimony that it includes the quantity, or is it also your testimony that it includes the special electronics that may be associated with those private lines?

A. In terms of the analysis that I perform, I have not specifically incorporated private lines into them. And I did that for a specific reason, and I think it was a relatively good assumption, that private lines, although in terms of their revenue generation are priced very, very close to being at cost in most cases, and what we're looking at is not specifically private lines in this case, but we're looking at the underlying facilities that somebody could also buy to serve a private line.

Q. Hopefully my memory is correct here, earlier today you referred to an ISDN extension facility?
A. Right.
Q. And with an ISDN extension facility, is there a network terminating equipment at the customer's location that aids in the process of extending the length of the ISDN connection?
A. That is a very good question that I do not know. I know the end user would have to have ISDN capable CPE equipment. I do not know if there's anything else in between that.
Q. Would you concur that in your uniform system of accounts that there's investment in network channel terminating equipment for loops?
A. I do not know. I would assume, but that's definitely not in my area.
Q. Okay. Assuming that there is such an account, when you measured the direct cost of total forward looking direct costs, would you have included in your measurement of the total direct costs the company's investment in network terminating equipment?
A. I would -- what would be included in this estimate of direct costs are all items that are covered by the TELRICs for the two wire loops and the four wire loops and so on. And I think, I can't say this

factually, that even if other assets were incorporated, that the loop piece is still going to be a vast majority of the direct cost, and it gives you very, very good indication of how close are you to your opportunities to recover common. I would be quite amazed if the current rates and the proposed rates say potentially recover, for 95% or 90% of the lines, recover $40 Million in common costs, that the other assets would be able to recover the other $30 Million.
Q. Let me just try this from a different approach. Let's consider public telephones, would you concur that public telephones are owned by Verizon?
A. Yes.
Q. And would you concur that public telephones are not provided as a UNE?
A. Yes.
Q. All right.
A. The lines could be provided as a UNE.
Q. The lines, but actually the station investment equipment is not something that's costed out on a TELRIC basis?
A. That is correct.
Q. All right. So would I be correct that when you made your calculation of total direct forward looking costs that it would not include any of the costs

associated with your investments in public telephones?
A. That is correct. We must also look at those things that we are able to sell in a wholesale environment. It is not likely that anybody will come and buy whatever assets we have. Public telephones in general generate quite some coin revenue and potentially some usage revenues. But still again, those revenues pale to what is generated from a loop.
Q. And in your numerator, in this calculation, to the extent to which those common costs have provided some benefit to public telephones, that would not be excluded from your numerator?
A. We must also make the distinction here that the common costs we're talking about are those common costs we would experience in a wholesale world. And we're attempting to recover those from the items that we would sell in a wholesale world. The retail side has a different set of common costs that they also compute.
Q. The executive expenses for the company, do you know which account that would be, is that 6712?
A. I know it's -- my recollection is that it's at least a 6700 account.
Q. Okay.
A. In there somewhere.
Q. All right. Do you have information with you

which would allow you to determine --
A. No, I do not. Mr. Collins would have had all of that.
Q. All right. First, I would like to ask you to confirm that in the 17th Supplemental Order of this Commission in Docket UT-960369 that account 6710 is executive and planning; is that your understanding?
JUDGE BERG: Could you provide a page reference, Dr. Gabel?
DR. GABEL: Yes, page 54.
A. Yes.
BY DR. GABEL:
Q. And in your attachment 14-B to the Bench request in this proceeding, approximately 99.355% of account 6711 is treated as common?
A. That is what it shows on 14-B, yes.
Q. And in your development of a common cost factor for UNEs, that means that 99.355% of the expenses would be included in the calculation of the common cost factor for unbundled network elements?
A. If we were in a brand, brand, brand new case and were filing for new UNE costs and a fixed allocater, that is totally the case. In this proceeding, much of the common cost allocation or much of the common cost recovery has already been determined. So how this

relates in 14-B to where we are today would be a little mystical at the moment.
Q. For let's take a rate element which is being considered for the first time in this proceeding where you have relied on ICM for the development of that rate element's direct cost, in that situation, would it be the case that in developing the common cost factor that over 99% of the account's expenses have been included in the development of the common cost factor?
A. That would be the case if we had developed a common cost factor specifically in this case. We did not. We looked at the relationship of the 24.75 to how it would result in our ability to recover total common costs, and it was minimally -- now it added some contribution. It does not change the total level of common costs by much that we actually will have the opportunity to recover, because most of that is determined on the loop side.
Q. All right. I'm going to turn to another topic now, Mr. Trimble. In this proceeding, you had proposed rate elements for vertical features on switching machines.
A. That is correct.
Q. Are you aware of the -- were you in the room when Mr. Lee was cross-examined on this topic on Friday?

A. I don't believe I was.
Q. Is it your understanding that the current rate for a port was set by the Commission in a way in which it included cost recovery for the vertical services?
A. I would actually need to see the specific verbiage in the order. In my searching, I could not find the specific ones.
Q. This was --
A. I do remember the order said it would be up to the companies to provide their support for why vertical services should have their own separate rates.
Q. Well, let me just rephrase the question then. Let's assume for the purposes of this question that when the Commission set the price of the port, that in doing so, the Commission believed that in setting the rate for the port, it included cost recovery for vertical services. Do you understand my assumption?
A. Yes.
Q. Okay. If the rate for the port was set to recover the cost of providing vertical services, is it in your opinion appropriate to then add onto that port rate individual charges for each of the vertical elements?
A. If the -- one of the big issues is did the

Commission believe or determine that the port rate included every potential feature that could be ordered, even those that have TELRICs -- of monthly TELRICs in the $10 to $15 range. I would find, not knowing and only the Commission can actually tell me, I would have a hard time believing that was the intent. But I think if the Commission thought in its mind that it was saying here are the most common features, the four or five features that are purchased, and most of those are very, very inexpensive, then that would be a different issue.

Q. Could you provide an example of a vertical feature where its monthly TELRIC is in the range of $10?

A. In my attachment DBT-2, which I believe is T-1191, there are a list of switch features on pages four through eight or four through six, and it shows the specific TELRIC that has been estimated by ICM and the common cost markup based on the 24.7. Some of these features, and many of them are probably business type features, are quite expensive. Some of them require additional equipment, as I understand it, to be installed. Some like call forwarding, various flavors of call forwarding, which requires potentially significant amounts of memory, also result in a relatively expensive view. They're not cheap. For example, we could just pick out remote call forwarding,

which is on line 158 there, and everybody can view the TELRIC for that item, it's in excess of $1.75.
Q. For that item that you have selected, Mr. Trimble, do you know if the expense is because of the expense on the switching machine or because of the cost of forwarding the call so it's picking up the what -- when you see this value here which is greater than $1.75, is that because of the cost of transporting the traffic and the hold time associated with that traffic?
A. That would be an issue that would have to go back to Mr. Collins in terms of the specifics of the underlying costs. But what we do know is I believe the CLECs would say all of these features are mine for zero incremental price in terms of what's in the port. And a lot of that would be also premised upon, you know, if you look at the current demand Verizon has for these features, and many of these features are priced quite high as to facilitate the ability to support lower priced services or below cost services, that once these services are priced at their underlying cost characteristics, you could expect significant increases in demand, which would require the company now to have to have significant increases in plant in many cases to provision these. It's a very, very tenuous environment.
Q. Well, Mr. Trimble, your example, the one that

you selected, brings up for me something that's interesting, and that is distinguishing between the costs on the switching machine as opposed to the transport costs associated with this vertical feature and --

A. Perhaps I should choose another one that doesn't have that potential.

DR. GABEL: So I would -- I would find it beneficial as a request from the Bench if it's possible for, I guess this is really Mr. Collins, to distinguish for these TELRIC cost estimates what's on the switching machine versus where there are costs off the switching machine like transport or System Signaling 7 expenses that are independent of the switching machine.

THE WITNESS: Okay.

JUDGE BERG: That would be Bench Request 40. And again, for reference, that's using Exhibit 1191, page four through six as a source document.

BY DR. GABEL:

Q. Mr. Trimble, I would like to ask you to turn to Exhibit 1195 page 4, around line 15, you mention ISDN PRI trunks. First, did I -- is it your understanding that when Verizon provides service to ISPs, those ISPs typically obtain a connection to the network using an ISDN PRI trunk?

A. That is my understanding basically through conversations with Mr. Jones, who I believe was the product manager at one point in time for our ISP operator.

Q. Now there has been a lot of testimony in this proceeding about the use of ISDN PRI trunks. Would Verizon's position on this issue be any different if the ISPs were just using ordinary say PBX trunks as opposed to an ISDN PRI trunk?

A. My answer would be no. One of the issues that -- the major issue is truly the true cost characteristics that you are either avoiding or incurring in this case. Even through a PBX type offering, there would be significant changes in holding times, and the average cost per minute that is computed heavily based on voice traffic would not apply.

Q. Also in that same exhibit, Mr. Trimble, may I ask you to turn to your table. If you can help me, what page is that?

A. I believe it's page 13.

Q. Thank you. At line two, you use a price that you state was established in an interconnection proceeding; is that correct?

A. That is correct.

Q. And you -- and I guess my question is, why

have you used the rate established in an interconnection proceeding as opposed to the rates established by this Commission in its generic UNE cost dockets?
A. This rate was specifically for reciprocal compensation. It is the specific rate that we are paying at this point in time.
Q. Does this rate, which you have identified here as .0068959, I would like you to, if you can, turn to the 8th Supplemental Order of this Commission at Paragraph 318. Do you have a copy of?
A. I believe --
Q. That's Paragraph 318.
A. Yes.
Q. Okay. How does the rate that was established by the Commission in Paragraph 318 of the 8th Supplemental Order, does that deal with the recovery of different costs than the rate which you identify at page 13, line 2, of your table of Exhibit 1195?
A. I may need just a little help here in terms of is it Paragraph 318?
MR. EDWARDS: I've got copies.
JUDGE BERG: Thank you.
Q. Yes, Paragraph 318.
A. And the question was again?
Q. These rates differ, and I just want to have

an understanding of this rate that you have obtained, the .0068959, which you have obtained from an arbitration proceeding; is that rate designed to just recover the traffic sensitive costs on a switch, or does it also recover other costs?
A. I'm sorry, I actually don't know. I would have to go back and get the contract out and look at it.
DR GABEL: Well, if you could do that, please, as a Bench request.
THE WITNESS: All right.
JUDGE BERG: That would be BR 41.
BY DR. GABEL:
Q. And then just last area, Mr. Trimble, Mr. Collins submitted testimony where he identified the setup and per minute cost on a switching machine; is that your understanding?
A. That is correct.
Q. And you're not proposing a setup and per minute rate as the rate structure in this proceeding?
A. That is correct.
Q. Rather you would want to use that information to establish a per minute rate?
A. Yes.
Q. And that's using a holding time of?
A. 30 minutes.

DR. GABEL: Okay, thank you very much.

JUDGE BERG: Questions from the commissioners?

CHAIRWOMAN SHOWALTER: No.

JUDGE BERG: All right, additional cross-examination?

Redirect, Mr. Edwards?

MR. EDWARDS: Thank you, Your Honor.

R E D I R E C T   E X A M I N A T I O N

BY MR. EDWARDS:

Q. In response, Mr. Trimble, to some questions from Dr. Gabel early on in his time with you, he asked you some questions about your statement that the loop represented approximately 80% of the company's direct cost. And in one of your answers, you were talking about, in distinguishing between investment or capital costs and forward looking costs, you were talking -- you used the term forward looking costs. My question goes toward your foundation, is whether when you were using forward looking costs, you were using that term synonymously with TELRIC?

A. Yes, I was, in terms of the forward looking costs, I was using it totally synonymous with the FCC's definition of TELRIC.

Q. In response to some questions from Covad Counsel Doberneck on the loop conditioning issue, I think she asked you about citations in addition to those in your testimony for the recovery of loop conditioning costs for loops less than 18 kilofeet. Do you remember those questions?

A. Yes.

MR. EDWARDS: If I may approach the witness, Your Honor, I'm going to give him a copy of the December 9, 1999, line sharing order.

BY MR. EDWARDS:

Q. If you look at Paragraph 82, Mr. Trimble.

A. Yes.

Q. Would you, after reviewing that paragraph, let us know whether that paragraph addresses the question of recovery of loop conditioning charges by an ILEC for loops less than 18 kilofeet?

A. Yes, the Paragraph 82 is very, very specific, and maybe it's appropriate to quote this. It says:

> Moreover, we conclude that although loops of 18,000, feet or shorter normally should not require voice transmission enhancing devices, these devices are sometimes present on such loops, and the incumbent LEC should be

able to charge for conditioning such loops.

Q. And then in response to a question from Mr. Kopta who began to question you about the NRCs for EELs as compared to the NRCs in the special access tariff, you offered to provide your underlying knowledge regarding how NRCs for retail services are historically set; would you go ahead and complete that answer?

A. Retail -- NRCs for retail services have a very interesting background in general. In many cases, the company would come in and attempt to file for a number that covered costs. But as with many, many services, there were a lot of issues in terms of what would be acceptable, are there universal service objectives that may not be appropriate, so it's hard to tell where these costs actually sit in terms of recovery of costs. Some NRCs may actually be subsidized or supported by other services.

In many cases in the interstate side, the product managers when they develop NRCs always weighed a little difference between up front recovery and recovery over time. In some cases and in many services, they may put what we would see as NRC related costs into the monthly recurring costs in order to make the NRC somewhat lower at that point in time. And a lot of that would occur in many cases also in contractual arrangements where you actually know that you have a life or a revenue generating life that you're relatively assured you can recover that over.

So the relationship between a pure cost based NRC with some recovery of common costs and a retail type structure may not be totally one that you can look at without delving into where were the true costs being recovered.

Q. To the best of your knowledge, does Verizon charge VADI the same loop conditioning charges that it would charge a CLEC or a DLEC?

A. From the ILEC standpoint, VADI the Verizon advanced data services company, is just another company that we deal with. We would charge them exactly the same as we would charge anybody else.

Q. And that would be the wholesale NRC rate?

A. That is correct.

MR. EDWARDS: That's all I have, Your Honor.

R E C R O S S - E X A M I N A T I O N

BY MR. KOPTA:

Q. Well, I was hoping we wouldn't have to get into this, but, you know, we will blame your counsel. On retail NRCs, was your general description applicable

to NRCs in Verizon's FCC special access tariff?
A. Yes, I will have to say yes.
Q. So the FCC is determining for Verizon the extent to which it can recover its costs through NRCs, the functions performed?
A. Well, many of the -- much of the FCC rates are set by price cap formulas, correct. A lot of the MRC rates and other rates basically fall out where they fall out.
Q. Well, I would expand the record requisition that I have then for, I think it's number 102, so that when Verizon provides its retail NRCs, if you would also include the extent to which those NRCs have been established, that's rates are at levels other than the cost of providing functionality that goes into the nonrecurring charge on the retail side.
A. Right, with the total understanding I guess in the background that the underlying cost may also have been earmarked and recovered through the MRCs of that given service.
Q. I understand, and if that is the case, then certainly I would hope that or would ask that Verizon include that as part of the response to the record requisition, if that is the way that some of the costs of the nonrecurring charges or the activities that are

associated with the nonrecurring charge are recovered.

A. I mean we may be -- to go back into the FCC type tariffs and dissect what has occurred in the price cap environment over various years and try and relate those back to TELRIC type cost estimates may be a herculean task.

MR. EDWARDS: My witness has stated my objection, and I was going to reserve the right so I could talk to him, but I think what Mr. Kopta is asking for is for Verizon to perform new cost studies relating to the retail NRCs and the FCC tariff, and I do object to that request.

MR. KOPTA: I am simply following up on the explanation that Mr. Trimble gave in terms of whether or not these charges are designed to recover their costs. My assumption going in is that nonrecurring charges recover the costs of activities associated with those charges. If Verizon wants to claim that somehow that's not the case, then I would like some substantiation in these specific nonrecurring charges of how they differ from the cost of providing the underlying facility or service or activity.

JUDGE BERG: So along with that, do you agree or disagree with Mr. Edwards that that would comprise a performance of a cost study, a new cost study?

MR. KOPTA: I wouldn't contemplate that it would. I mean I obviously don't have access to the information that Verizon does and if the response can be more general than that. I don't really know how to react because the explanation is rather general. All I have to go on is the testimony that these may not reflect the underlying costs. That doesn't give me much to go on, so I'm not sure how to phrase the request in a way that it doesn't require additional cost studies when Verizon is the party that's claiming that these rates for whatever reason may or may not recover the cost of the activity associated with them.

JUDGE BERG: Now are you talking about the wholesale rates?

MR. KOPTA: No, in this case I'm talking about the retail rates for the nonrecurring charges for providing the same facilities that Verizon is providing as a wholesale service.

JUDGE BERG: And are those -- well, here's where it may not be a big secret, but I certainly don't understand 100% of everything that's being presented at this time, so help me with this particular point. How does that position with whether or not retail NRCs are being -- the recovery of -- if retail NRCs fully recover the costs or not, how that's relevant to our determination of wholesale NRCs in this proceeding.

MR. KOPTA: Sure, I would be glad to try and give you my take on it. I'm sure Mr. Edwards will correct me if he believes I'm mistaken. The wholesale retail split in these circumstances is a little bit misleading, because generally the parties that are buying circuits out of special access tariffs are going to be interexchange carriers that are going to use these facilities to provide long distance services. So in that sense, they are also wholesale customers, and, in fact, CLECs as well as IXCs purchasing facilities from Verizon. And it may be that some large end users may order these services out of that particular tariff. I'm not sure, and certainly Mr. Trimble or someone else at Verizon can indicate whether that's the case. But my understanding is that this tariff is largely for other carriers.

The concern that we have is just to make sure that when the offering is provided as a UNE combination or a UNE that a comparable nonrecurring charge is imposed to the nonrecurring charge that is imposed when its ordered out of the tariff when it's exactly the same facilities.

MR. EDWARDS: Here's the issue. What's going to happen is that Mr. Kopta has asked Mr. Richter if he could tell him whether the NRCs on the retail side, what they are, and whether they're the same as they are on the MRC, on the wholesale side, whether the NRCs on the retail side are the same as on the wholesale side. Mr. Ricker couldn't answer the question, and neither could Mr. Trimble. What will happen is that when we see the brief, my guess is that the NRCs are very different on the retail side versus the wholesale side. We will see the brief and say that they ought to be the same as they are on the retail side.

And Mr. Trimble offered to explain why that wouldn't be so, and Mr. Kopta said, no, he didn't even want to hear that. And so on redirect, I go back and ask the question, and he explains why. On the retail side, the NRCs are not TELRIC based, plus on the retail side, they are sometimes set subject to negotiations between product managers from the different companies. And because of that, it would be inappropriate to make the comparison, and that's all we were trying to get at. And I don't think it's any secret among the people in this room that are more knowledgeable about this industry than I am that that's what happens.

But to then ask for justification on the retail side does require, I believe, an entirely new cost study on the retail rates and the retail NRCs to determine whether, in fact, they are TELRIC rates, which they won't be, and whether or not they're recovering the costs. On some services they may be, and on some services they may not. I don't think it's really a relevant inquiry.

JUDGE BERG: Is that what you're asking for, Mr. Kopta, is justification?

MR. KOPTA: No, I'm not asking for justification. What I'm asking for is if Verizon claims that the tariff NRCs, which I will use rather than retail, the tariff NRCs are not set at a level to recover costs at however Verizon defines cost, I'm not looking here for a TELRIC analysis of tariff services, but if that is Verizon's contention with respect to these specific nonrecurring charges, I would like an explanation of what it is that is not being recovered. And it may not even necessarily be a specific cost, but if, for example, Verizon states that this NRC is set as $100 because $40 of it is recovered through the monthly recurring charge based on a three year contract, that's the sort of explanation that I'm looking for so that I have some ability to quantify or to understand why there isn't a direct one to one comparison between the nonrecurring charge that is leveled on those that obtain these facilities under the tariff as opposed to those

that would obtain it as unbundled network elements.
MR. EDWARDS: It would just seem to me that what we're doing now is we're arguing what we will argue in the brief, and that's where it ought to be addressed and based on the information that's been put forth.
JUDGE BERG: All right, please bear with us while we huddle for a moment.
(Discussion on the Bench.)
JUDGE BERG: Good time to take a break, that way we can huddle. We'll be back on the record in 15 minutes.
(Recess taken.)
JUDGE BERG: Verizon's objection to the record request is sustained. The Commission affirms and possibly reaffirms that the wholesale cost in this proceeding will be determined according to TELRIC, and the methodology behind retail rates is not relevant.
MR. KOPTA: Okay.
BY MR. KOPTA:
Q. Mr. Trimble, you also referenced the fact that a nonrecurring charge may be different under a contract or some kind of a term agreement; is that correct?
A. Yeah, contracts -- contracts are very, very specific to the customer, and they have varying time

frames. And in most contracts, there's a total set of cost requirements to be recovered plus whatever the market would allow in terms of additional recovery, and they structure those many, many different ways.

Q. And are these contracts based on the tariffs that are on file in terms of the types of services that are available, the general retail or tariff price that's available, and then Verizon may negotiate with a particular customer to customize a package based on what's available in the tariff?

A. I will have to apologize in terms of my understanding of the Washington rules on that topic. Many, many states, and this is what I don't know specifically at this point in time, many, many states will not allow you to write contracts or develop contracts for basic service items or bundles that include them. I just don't know the specifics, I don't have the specific contractual rules for Washington.

Q. Well, let's talk specifically about the FCC's special access tariff and those types of services. I don't mean to be generic and say any kind of service, but since those are the nonrecurring charges that Verizon will be providing as a response to Record Requisition Number 102, I just wanted to clarify that the tariff that includes those services and nonrecurring charges would be the basis for contracts with individual customers that may vary from that tariff?

A. No, when -- in terms of the FCC type activities?

Q. Sure, yeah.

A. We're precluded from writing contractual contracts with various customers for tariffed items. We can file term payment plans and so on and so forth. The special contractual arrangements, if I remember, the rules are you can do three ICBs or something like that, after which point in time, you must file a tariff.

Q. And with respect to again these special access services, am I correct that you can waive or reduce the nonrecurring charge for a, for example, in exchange for a term commitment?

A. In terms of the FCC's tariffs?

Q. Yes.

A. You have to do exactly what they say. You have no authority to waive anything.

Q. So any ability to reduce the nonrecurring charge in the tariff would be contained in the tariff itself; is that what I'm hearing you say?

A. If there were that capability, it would be in a tariff. I just do not know of any of those capabilities at this point in time.

MR. KOPTA: Thank you, that's all I have.
JUDGE BERG: Any other redirect?
MR. EDWARDS: No, sir.
JUDGE BERG: All right.
Mr. Trimble, that concludes your testimony, thank you very much for being here and working with the Commission. At this time, you're excused from the hearing.
THE WITNESS: Thank you.
MS. DOBERNECK: Your Honor, as we move into other witnesses, I'm going to depart this hearing.
JUDGE BERG: All right.
MS. DOBERNECK: So thank you very much.
JUDGE BERG: Thank you, Ms. Doberneck.
At this time, Dr. Blackman, will you come forward.
MS. ANDERL: We're going to have a change of counsel.
JUDGE BERG: All right, at this time, Mr. Devaney, would you also come forward. Welcome back.
And, Mr. Trautman, welcome back to the front lines.
MR. TRAUTMAN: Thank you.
JUDGE BERG: At this time, I will identify the responsive testimony of Dr. Blackman dated 10-23-00

(BGB-T1) as Exhibit T-1230 in this proceeding.
Dr. Blackman, would you please stand and raise your right hand.

Whereupon,
GLENN BLACKMAN,
having been first duly sworn, was called as a witness herein and was examined and testified as follows:

JUDGE BERG: Thank you, sir.

D I R E C T   E X A M I N A T I O N
BY MR. TRAUTMAN:
Q. Good afternoon, Dr. Blackman.
A. Good afternoon.
Q. Could you please state your name and business address for the record.
A. My name is Glenn Blackman. My address is 1300 South Evergreen Park Drive Southwest, Olympia, Washington.
Q. What is your position with the Commission?
A. I'm Assistant Director for Telecommunications.
Q. Have you prepared what has been marked for identification as Exhibit T-1230, the responsive

testimony of B. Glenn Blackman?
A. Yes.
Q. If I were to ask you the questions contained in that testimony, would your answers be the same as set forth therein?
A. Yes.
MR. TRAUTMAN: I would move for the admission of Exhibit T-1230.
JUDGE BERG: Hearing no objection, T-1230 is admitted.
MR. TRAUTMAN: Dr. Blackman is available for cross-examination.
JUDGE BERG: All right, Mr. Devaney.
MR. DEVANEY: Thank you, Your Honor.

C R O S S - E X A M I N A T I O N
BY MR. DEVANEY:
Q. Good afternoon, Dr. Blackman.
A. Good afternoon.
Q. I'm John Devaney representing Qwest.
A. Hi.
Q. I have several areas of questioning for you that pretty much will track your testimony, so I will ask you to bear with me as we sort of page through your testimony. I would like to begin with your testimony

that's set forth at page nine beginning with the question at line eight, and you will see there the question is:

If the WUTC were to establish separate setup and per minute rate elements for call termination, would that adversely affect competing local exchange companies?

And you answer:

It would adversely though not unfairly affect local exchange companies who are terminating traffic characterized by long hold times. Those companies are in essence currently being compensated for setup costs that they are not incurring.

Do you see that?

A. Yes.

Q. What I would like to ask just to clarify that statement is, is it your testimony that here in Washington CLECs that are currently or local exchange companies that are currently terminating calls with long hold times are being overcompensated?

A. At least on that particular dimension, the answer would be yes.

Q. And could you --

A. I couldn't say that absolutely, because there could be other factors.
Q. Could you elaborate on why with respect to that particular factor there is in your view overcompensation?
A. The rate that's been set for compensation of local interconnection traffic was established by taking what are essentially a set of fixed costs and a certain assumed number of calls that are being terminated and a certain number of minutes on each of those calls, and it's plugged into a model of some sort, and the result of that is a per minute rate that has been established. But it is based on an assumed relationship between the number of calls and the number of minutes, i.e., the duration of the call, and as that relationship changes, the cost would change too.
Q. Now in your testimony that I just read into the record, you refer to this form of overcompensation, if you will, for traffic characterized by "long hold times". And are you able to tell us, as you use the words long hold times, how long a call has to be until this overcompensation kicks in?
A. No, no, it's not that you fall off a cliff after a certain point. I mean it's -- it would vary directly and linearly with the number of minutes.

Q. Okay. I have heard various estimates of the average hold time for an Internet call. Is there an average hold time that you believe is roughly accurate for Internet calls?
A. For Internet calls?
Q. Right.
A. You know, I have seen studies reported, I don't know that I have actually seen the studies themselves, that they tend to be in the 15 to 20 minute range, though I have -- it's the sort of thing that one can easily come up with different answers depending on what sample they use or the method that they have used to do it.
Q. They --
A. But I do -- I just -- it seemed like we kind of jumped there over to Internet calls, and I just want to make it clear that my testimony there wasn't about Internet calls. It was about calls with long hold times regardless of what the person might be doing while they're on that call.
Q. I understand that, your testimony is clear on that. But you will agree with me that Internet calls are certainly a type of call that has a characteristic of long hold times; is that correct?
A. Internet calls can be anywhere from a few

seconds to days.
Q. But on average, would you agree with me that Internet calls tend to have long hold times?
A. That's the results that I have seen in studies, yes.
Q. And would it flow from that that carriers that specialized in handling Internet traffic to the exclusion of other traffic will tend to be overcompensated for setup costs here in Washington?
A. Yes, that they will tend to be. It doesn't follow automatically, nor is it limited to Internet calls.
Q. I understand that, but with respect to my specific question, and that is carriers that specialize in handling Internet traffic, you do agree that given the current state of rates in Washington, there is overcompensation for those carriers with respect to setup costs?
A. I would agree that that tends to be the result, yes.
Q. Thanks. I would now like you to please take a look at page five of your testimony.
A. (Complies.)
Q. And in particular at line 14, you have the following statement, which again I will read into the

record:

The WUTC has consistently sought to establish cost based prices for reciprocal compensation, because it has recognized either excessive prices or the zero prices inherent in bill and keep would distort economic decisions and lead to opportunistic behavior.

Do you see that?

A. Yes.

Q. I would just like to ask you a question or two that flows from that statement. If you have a situation where local exchange carriers are being overcompensated for handling Internet traffic, what types of distorted incentives would that result in?

A. It could affect the business decisions about whether to enter a particular market, in other words, whether to attempt to serve customers in a particular -- who have a particular characteristic, that rates like that might lead them to try to discourage customers who have very short hold times because they wouldn't be compensated for the rate appropriately. In other words, if the rate is too high for that type of traffic, it could cause them to compete excessively to attract that type of business. It could also cause the investment

decisions to be incorrect in terms of building things that are unnecessary but could be used to capture some of that revenue that's sort of available.
Q. Would you agree, and I think this is implicit in your answer but I want to be express about it, would you agree that one of the consequences of overcompensation for handling Internet traffic is that it would create incentive for carriers to specialize in serving ISPs and disincentive to serve, for example, residential customers that tend to have calls with shorter hold times?
A. Well, it could, but there are a lot of assumptions there built into that question that would make me unable to agree to it just in general. For one thing, I don't know that there's really a disincentive on the residential side at all. I don't know that it would affect the -- that decision may be separable, and so even though it would encourage companies to go after the Internet service providers, that may not stop them at all from going after the residential customers.
Q. Have you analyzed at any point the extent to which reciprocal compensation payments for Internet traffic flow from residential customers versus business customers?
A. No, I have not.

Q. Would you agree with me that if the data were to show that the majority of recip comp revenues for Internet traffic flow from residential customers that that could create a disincentive for some carriers to serve residential customers?
MS. HOPFENBECK: I'm going to object to the question on the grounds that the hypothetical is irrelevant. There's no evidence of record to support the foundation of the hypothetical. Until there is a foundation, the hypothetical is misleading and irrelevant. There's no evidence in particular that residential customers generate the highest degree of Internet traffic.
MR. DEVANEY: I will certainly admit that, but I think I am posing a hypothetical to an expert witness, which I think is permissible.
MS. HOPFENBECK: My belief that a hypothetical still has to be based on facts of record in order to elicit an opinion about a hypothetical that's relevant to the proceedings.
MR. DEVANEY: Your Honor, if I may, a hypothetical that's based on the facts in the record isn't a hypothetical. To me, this is sort of a standard expert witness cross.
(Discussion on the Bench.)

JUDGE BERG: The objection is overruled to the extent that a hypothetical that has its premises clearly stated is permissible.

MR. DEVANEY: Thank you.

BY MR. DEVANEY:

Q. Dr. Blackman, do you understand and/or recall the question?

A. I think I do, and the question essentially was that if you have a group of customers, and I think the hypothetical had to do with whether they were -- whether the residential customers meet that definition or not, but if you had a group of customers who tended to make lots of long outgoing calls, would that affect the incentive of companies to serve that group of customers.

And I think it could affect it, and it could affect it negatively. Because in a situation like that, the would-be local phone company would have to factor in the likely payments that they would make for reciprocal compensation for the traffic that that customer was going to generate if they become my customer.

Q. Thank you. I would next ask you to turn to page 20 of your testimony, please.

A. (Complies.)

Q. And I would like you to focus on the sentence that begins on line two, and it reads:

I also will agree that the rate currently being paid for termination of Internet bound calls is greater than the additional cost that Qwest would have incurred had it terminated those calls.

Do you see that sentence?

A. Yes, I do.

Q. And I recognize that in the sentence before that you do have a qualifier, which out of fairness I will read into the record as well. It says:

It is far from clear that such additional cost is large relative to the overall cost of local exchange service and that has not been offset by other trends such as the increased sale of second lines for dial up Internet access.

With that context though, I would like to ask you to clarify the sentence that I first read, that you agree that the rate being paid for termination of Internet bound calls is greater than the additional costs Qwest would have incurred for those calls. Could you expand on that, please?

A. Certainly. At that point in my testimony, I am taking issue with a claim that the Qwest witness, at that time Mr. Brotherson, was making that reciprocal compensation payments to CLECs serving Internet service providers was creating an enormous burdon on Qwest customers. And I think it's important to pick that apart a bit and identify the different pieces of it.

And one of those pieces that I think is unfairly associated with reciprocal compensation is the tendency of customers today to use their telephones more hours of the day than they did say five years ago or ten years ago, that with the use of dial up Internet service, at least some customers are using their phones longer now than they did before. But that's -- so but that would be an additional cost, there's no question about that, to handle the switching that results from that. But that's an additional cost that Qwest would have incurred anyway even if CLECs never came along. It would be caused by their own customers making more calls.

The only part of it that is really fairly attributed to the question of reciprocal compensation is the part about the rate. To the extent the rate for those calls exceeds the cost that Qwest would have incurred had CLECs not existed, that part is fairly attributed to reciprocal compensation, though I don't

believe that that cost rises to the level of being enormous.
Q. But my specific question is, can you explain your testimony that the rate Qwest pays in reciprocal compensation exceeds the costs that it would have incurred; what is the basis for that statement?
A. Well, it's the previous 19 pages of the testimony where because of the difference in duration of the calls, the fact that the current rate reflects essentially more setup costs than is actually appropriate for long duration calls, and I believe also the fact that this traffic is being terminated using switching equipment that is more intensely used and has a higher load factor, also because of the fact that at least in some circumstances it can be terminated without having to go through the tandem. All of those factors tend to cause this type of traffic not to be at the average cost, but instead at something below the average cost.
Q. Have you -- strike that.
Do you have an opinion as to whether carriers that specialize in handling Internet traffic tend to have higher load ratios?
A. No, I really don't.
Q. Is that something you have ever analyzed?

A. No.

Q. Do you think it's likely that carriers who specialize in Internet traffic are going to have higher load ratios because of -- has a more even dispersement of traffic in calls throughout the day?

A. I think it would be very hard to conclude that without looking at the evidence. It's easy to tell the story either direction, that it could be that they are, you know, that as I understand it, that Internet calls tend to peak in the evening when families are at home accessing the Internet for E-mail and homework and things like that, and so it could be that they have a peak in the evening that could be quite high relative to their average use. It's just hard to say.

Q. Okay. Can I ask you to turn to page six, please.

A. (Complies.)

Q. I'm focusing on lines four through six, and you have a sentence there that reads:

> The originating carrier will pay the terminating carrier an amount just equal to the cost that the originating carrier would have incurred had the call stayed on its own network.

And in that context, I would like to ask you

first of all whether you're aware that about one third of Qwest's traffic is intraoffice traffic?
A. No, I'm not familiar with that statistic.
Q. Would you accept that as an approximation subject to check?
A. I don't know how to check it.
Q. Okay. Well, in the situation of intraoffice, of an intraoffice setup with an ISP, the ISP moves to a CLEC and Qwest had been serving it on an intraoffice basis, would you agree that when the ISP moves to the CLEC, Qwest has no cost avoidance?
A. No, I wouldn't agree with that. Whether the CLEC is -- whether the ISP is in that same switch or not, there would be costs incurred to terminate the traffic even within the switch.
Q. Okay. Now if the CLEC were to move to, and I'm sorry, if the ISP were to move to the CLEC in that situation, that is where Qwest had been serving the ISP out of intraoffice, in the new situation, would you agree that Qwest would have originating switch costs?
A. If it's a Qwest customer who is originating the call, yes.
Q. Okay. And it also under the theory of reciprocal compensation would pay an end office rate to the CLEC, correct?

A. It would pay some termination rate, whether it would be -- and I guess it would always pay the end office rate, right.

Q. And in some cases, if the CLEC's theory is accepted, also the tandem rate?

A. Yes.

Q. And if the CLEC happens to be a CLEC that exclusively serves ISPs, if the relative use doctorate is accepted by the Commission, then in that situation, Qwest would have to pay for all the CLEC's interconnection facilities, correct?

A. It would need to pay for all of the interconnection facilities that Qwest uses to deliver that traffic to the terminating switch, yes.

Q. Okay. So what we have just gone through summarizes the costs that Qwest would have if the CLEC were to take over the ISP that Qwest had been serving out of its end office, correct?

A. Yes.

Q. I am now turning to page 16, if you could join me, please.

A. (Complies.)

Q. Dr. Blackman, I'm focusing now on the sentence that begins on line four and continues to line six, and it reads:

I will grant that if the rates are set above cost, the result will be to shift money from the originating carrier to the terminating carrier.
Do you see that?
A. Yes.
Q. And when you speak of shifting money from one carrier to the other, would you characterize that as a subsidy?
A. No, I would not.
Q. Would you educate me, why isn't that a subsidy?
A. Well, a subsidy is when someone pays less than cost for something, but I don't know that we can say that simply because there is a -- that just because something is being priced above cost, it doesn't mean that there is a subsidy even though when something is priced below cost there is a subsidy.
Q. Okay. Changing the subject, Dr. Blackman, still focusing of course on reciprocal compensation, would you agree that Internet use has increased significantly over the last five years?
A. Yes.
Q. And would you agree that that increase has in turn caused an increase in the usage that Qwest

experiences on its network?
A. Yes, though I don't know that it has on a per line basis, but certainly the overall level of usage has increased.
Q. And would you also agree that that level of usage has caused Qwest to increase the amount of investment in its network infrastructure?
A. Yes.
Q. Both transport and switching facilities, for example?
A. I don't know about switching facilities being increased as a result of Internet traffic, but I feel quite confident that the transport has.
Q. Do you know when basic exchange retail rates were set here in Washington?
A. 1998.
Q. Do you know if those rates have factored in these increases in infrastructure costs that Qwest has incurred to handle Internet traffic?
A. No, I don't know that, and that goes back to the fact that I don't know whether on a per line basis there's really been any increase.
Q. Is that an analysis that you have performed?
A. At some level, yes, because what the Staff of the Commission does is monitor the overall level of

revenues and expenses of the company, and we have certainly seen no indication that the expenses are increasing more rapidly than the revenues.

Q. Dr. Blackman, at page ten of your testimony, the second half of that page, you refer in your answer to various technologies that you refer to as modem pooling, modem aggregation, and so forth. Do you see that?

A. Yes.

Q. Could you just explain for us what you mean by modem pooling, and while you explain that, could you explain how modem pooling affects the costs of handling Internet calls?

A. Sure. The modem pooling, which is probably the same thing as modem aggregation and CyberPOPs, I think different companies may be using the same -- different names for the same basic concept. But the concept is that at the originating switch, the call is identified based on the number being dialed, that's being identified as a call that will ultimately go over to a packet switch network.

And rather than route that call through the originating switch across the interoffice circuit switch network, perhaps through a tandem, circuit switched tandem, and then to a terminating switch at the end office, that that call is diverted from the circuit switch network at the originating office. And from there, it's put onto a packet switch network, thereby avoiding the expenses of circuit switch transport and switching.

And since for this type of call, for a data call in particular, the circuit switching arrangement is not very efficient. When you're sitting reading your E-mail, you're tying up a circuit even though you're not actually passing any data back and forth, so it would be much more efficient and therefore less expensive to use a packet switch network that's shared by many different users.

Q. So it's fair to say that the use of modem pooling or similar technology would result in a lower termination rate; is that correct?

A. That's the theory at least. You know, the -- I don't know how successful it has been at actually proving out to be a less expensive technique. If it turned out that not very many people used it, you could end up spending a lot of money to set it up, and then on a per call basis, it might not turn out to be cheaper. But at least in theory and with sufficient volumes, it should be a less expensive way to terminate a call to -- that's ultimately bound for the Internet.

Q. Do you have a view as to whether modem pooling or similar technology ought to be used in a forward looking cost study that's designed to estimate termination costs for Internet traffic?

A. I don't have a view about whether it definitely should be. I do have a view that it -- I would like to see the companies that are using techniques like that to put forward that sort of evidence to show whether or not it's the appropriate way to cost out the termination of a call like that.

Q. Okay. Dr. Blackman, just a couple more questions, then we will be done. My next question concerns your recommendation that the Commission essentially establish, as I understand it, two separate rates, one for cost setup and one for call duration. Am I fairly characterizing your ultimate recommendation?

A. Yes.

Q. And my question is procedural in nature. If the Commission were to decide to allow reciprocal compensation and decide to adopt your recommendation, procedurally, do you have a suggestion as to how the Commission ought to then proceed to ultimately establish rates as you have recommended?

A. I think it should make that sort of fundamental rate design decision. And then based on

that, I think it would be fairly simple for the parties involved to put forward evidence for what they think the appropriate rate should be. And based on that evidence, the Commission could then adopt specific rates.
Q. Dr. Blackman, when I was last here on Friday, Ms. Kathryn Malone testified for Qwest, and she provided some testimony that expressed concern about the billing and administrative cost that could be associated with the type of rate setup that you have recommended. And my question for you is whether you have considered those costs, the billing and administrative costs, in coming up with your recommendation?
A. I have certainly thought about it. When I read her testimony, I was in some sense surprised that it would be painted as such a difficult issue, though I have had lots of experience with companies identifying all the problems with a proposal that the other side doesn't, you know, is putting forward but they don't really want to do. So I -- they deserve the chance to bring forward their evidence about how difficult it would be to do, but then the Commission should look at that evidence and see if they're right.
Q. But you agree that it's fair to take a look at that issue if the Commission decides to adopt your recommendation?

A. Certainly it's fair to look at the cost of measuring and billing for that. The Commission has ever since we got into this issue of reciprocal compensation, we have been sensitive to the possibility that measurement and billing costs could swamp whatever efficiencies might be gained through more accurate prices. My sense is that over the last six years, we have probably seen that, in fact, it's even more important than we ever thought to get the prices right, and I suspect that the billing and measurement issues have, if anything, become less significant over that period.

Q. Dr. Blackman, my last question for you is you have made it clear in your testimony your position on reciprocal compensation for Internet traffic, and the Commission has expressed its view in prior decisions. Would you recommend to the Commission that ultimately it adopt whatever final pronouncement we ultimately receive from the FCC on this issue?

A. No.

Q. Why is that?

A. Because I don't know what that pronouncement is.

MR. DEVANEY: Okay, that's a fair response. May I confer, Your Honor?

JUDGE BERG: Yes, sir.

BY MR. DEVANEY:

Q. I do have just one additional area to ask you about to follow up on, Dr. Blackman, and it goes back to the question I asked you earlier about intraoffice traffic. Now I will admit I'm reading from notes here, so bear with me for a moment. The question essentially is as follows, where Qwest serves an ISP out of the same central office as an end user customer, when that customer makes a call to an ISP, would you agree that Qwest would switch the call once and route it to the ISP?

A. Yes.

Q. Okay. Now if the ISP moves to a CLEC and that same end user customer calls the ISP, who is now located behind the CLEC switch, Qwest would still have to switch the call at least once and transport the call to the serving wire center of the ISP; is that correct?

A. Yes, that's correct.

MR. DEVANEY: Thank you.

That's all I have, Your Honor, thank you.

JUDGE BERG: All right.

Ms. Miles.

C R O S S - E X A M I N A T I O N

BY MS. MILES:

Q. Hi, Dr. Blackman, I'm Meredith Miles for Verizon.

A. Hi.

Q. And I only have a couple of questions for you. And first, I would like to talk to you about something that Mr. Devaney brought up about equipment used to terminate ISP type calls or even large volume of long duration calls in general. It is ISP bound traffic or long duration traffic would primarily be delivered through high speed facilities; is that correct?

A. I don't know that the -- it would make any difference in terms of the speed of the facility.

Q. Or if the type of facility, for example, it wouldn't be common to serve an ISP with a POTS line, plain old telephone service, would it?

A. I think we would have to be specific about the --

Q. Okay.

A. -- which part of the Internet service provider's service we're talking about. They certainly receive dial up calls over a standard voice grade circuit. It may be part of an ISDN primary rate interface, which is 24 voice grade channels. On the

other hand, they may also be using very high capacity data circuits to go from there to wherever that traffic ultimately flows.
Q. Let's take, for example, the ISDN primary rate interface that you mentioned. That facility would be attached or exit the switch on a trunk port as opposed to a line side port; is that your understanding?
A. I really don't know, sorry.
Q. You don't, okay. Well, hypothetically, if, for example, an ISDN PRI facility was attached via a port that carried traffic at a higher volume than traffic that was terminating in a telephone end user residence -- well, I think I'm going to, since you don't understand that technology; is that the case?
A. Well, I certainly don't know whether it's a trunk side or a line side port, sorry.
MS. MILES: Thank you for apologizing, but with that, I don't think I have any more questions.

C R O S S - E X A M I N A T I O N

BY MS. HOPFENBECK:
Q. Dr. Blackman, I just have a few questions to follow up one line of questioning by Mr. Devaney. Mr. Devaney discussed with you the circumstance in which an ISP is served out of a Qwest end office and certain

calls to that ISP were intraoffice calls; do you recall that discussion?
A. Yes.
Q. First of all, can you just explain for which customers will the call to that ISP be intraoffice on the Qwest network?
A. The customers that are served in that same office.
Q. Okay.
A. So if you had an ISP who was taking service say in the Olympia Whitehouse switch, then since I am served from the Olympia Whitehouse switch, it would be an intraoffice call if I called that particular Internet service provider.
Q. And the customers that are served from the remaining end offices that Qwest has in the Washington -- in the state of Washington, those customers would all be making interoffice calls in order to reach that ISP; is that fair?
A. That's correct, yes.
Q. Okay. Do you know how many end offices Qwest has in the state of Washington by any chance?
A. Sorry.
MS. HOPFENBECK: Okay, that's all I have.
MR. KOPTA: I don't have any questions for

Dr. Blackman, thank you.
JUDGE BERG: All right.

E X A M I N A T I O N

BY DR. GABEL:
Q. Good afternoon, Dr. Blackman, I have a few questions for you. In your testimony, you talk about setup costs versus costs on the switch which are per minute related cost, and I was just wondering if you could describe, you know, what you consider setup related costs on the switching machine. And, you know, is it are you looking at, for example, the central processor, or what component of the switch is associated with setup costs?
A. I really don't know from an engineering perspective what are included in the setup costs. I just know that it's widely recognized that there are costs that are incurred once to set up a call, and they aren't incurred again no matter how long that call lasts.
Q. Dr. Blackman, have you had the opportunity to review the vendor contracts that have been submitted by Verizon in this proceeding or the vendor contracts that were submitted by GTE or U S West in the last proceeding?

A. Well --

Q. Vendor with the switching machines.

A. I probably had the opportunity, yes, but I have not taken advantage --

Q. Let's just assume that those contracts show that a company paid a fixed cost per line to buy a switching machine and that that rate was not a function of the number of calls that were set up. Would it make sense to you conceptually still to pursue a two part rate structure where there is a setup charge and a per minute charge?

A. By that, do you mean that the vendor -- then you're talking about the one time purchase price to accept delivery of the switch and have it installed, the up front investment?

Q. Yes, that it's X dollars per line.

A. I don't think that would affect it one way or the other, because the question would be, once you have incurred that investment cost, how do your expenses vary depending on how many calls do you get versus how long each of those calls are.

Q. And can you identify in these ongoing expenses what ongoing expenses may be a function of the number of calls that are set up?

A. No, I can't.

Q. Let me just try to explore this a little bit more with you. Just staying with this hypothetical that what an ILEC pays for a switching machine is a fixed amount per line, you would agree that right now that equally an argument -- that that would seem to indicate that what an ILEC pays is not a function of the minutes of use on the switching machine either?

A. Yes, it -- well, for instance, if the loop facilities are typically this way, that it doesn't really matter either how long the calls are or how many you make, it's going to cost you a certain amount to run a loop to that particular customer. And if switching were that way, and to the extent switching is simply an investment cost that is not sensitive to how it's used, that argues essentially in favor of a capacity based charge, something that we have recommended in the past be adopted as the standard method for reciprocal compensation.

Q. And that was a charge that was based on the cost of providing a capacity for an interoffice termination on a switching machine; was that the recommendation?

A. Yes, that the charge be established essentially based on the amount of capacity that the originating carrier is reserving on the terminating carrier's switch.

DR. GABEL: Thank you, Dr. Blackman.

THE WITNESS: You're welcome.

E X A M I N A T I O N

BY CHAIRWOMAN SHOWALTER:

Q. I have one follow up and maybe a couple more. You were asked about had you thought about the administrative expense difficulties of tracking compensation that was based on both a setup and a per minute charge. Conceptually, wouldn't this be very similar to the way long distance calls either used to or maybe sometimes still are? At least I get a bill, and they used to have a charge for a call and then on a per minute basis as well.

A. Yes, that's correct, it used to be quite common to have a rate for the first minute or the first three minutes, but essentially a fixed per call charge and then an additional charge for each minute that you use. And that still is the case for credit card or calling card type calls.

Q. Right.

A. It's more or less gone away in the regular one plus long distance, but not because of billing difficulties.

Q. And do you know whether for in-state long distance in-state toll U S West or Verizon either do or have recently practiced that kind of billing?

A. They certainly within the recent past have done it that way. I can't say for certain whether they still have any plans that have that rate structure.

Q. Okay. I think my other question might be a follow up to Dr. Gabel's, but in general, it is I understand the concept of setup plus per minute, and my question is, if we set some kind of price that has those two components, then what is the likely behavioral response of the originating carrier and the terminating carrier I guess in terms of the kinds of either equipment they put in or the kinds of business or products they offer? And if they do respond in some way, which I assume they would, then what do we do about that response? Is this an iterative process over the years?

A. Well, I think that we can take some comfort in the fact that every time we better align prices with costs that we will probably eliminate some bad incentives and we will move companies' decisions closer to being sort of economically correct decisions. So I guess I would see it more as not so much creating new incentives as eliminating some incentives that were not necessarily good incentives in the past, so that we would perhaps cut down on the amount of competition for Internet service providers as a line of business.

We might also cut down on -- there have been some cases, not in Washington that I know of, where companies attempted to spur additional traffic because the rate was good, and so we could hope to avoid something like that by having a cost based rate.

Q. Let's suppose we end up setting in motion this proposal, and in the end I will use absurd figures, but let's just say we set the charge at a penny per setup and a penny a minute, so that becomes the charge. Well, then that will then be an incentive, wouldn't it, for whoever is paying that charge to beat that price, I mean to come under -- well, which way would the incentive go? I think that's my question. If you had to pay -- if the originating carrier had to pay that to the terminating carrier, who has the incentive there to get their costs down?

A. And I think we start from the assumption that that rate structure reflects the actual costs?

Q. Yes.

A. Okay.

Q. Let's say it does at the moment that we set it.

A. Right. So then we have the incentives for the terminating carrier, in most of these examples that being the competitive local company, that they will then make business entry decisions based on whether or not they can be more efficient at providing that service than the incumbent who would otherwise be providing that. So if a penny a minute plus a penny up front is what it costs the incumbent to do it, the competitor will enter if they can do it at a lower cost, and they won't enter if they can't beat that incumbent's cost, so we will have efficient entry decisions.

Q. And likewise, would the incumbent who is subject to having to pay those costs, if the incumbent can figure out a better way, better switching equipment, in an effort to woo customers so that they don't have to pay those terminating charges, there would be an incentive there, wouldn't there?

A. The incentives on the incumbent are a little less straightforward, but ultimately I think you would get to that. Today I think that the incumbents have the incentive to move, we have been talking about Internet service providers, to move Internet service providers to a more efficient network configuration. They have that incentive today really whether it's a CLEC providing the terminating service or whether it's their own circuit switch that provides that terminating service. So they might be doing it to avoid the reciprocal compensation payments, or they might be doing it to avoid their own switching costs.

We have certainly seen that motivation in the incumbents' efforts over the last few years, by that I mean the motivation to avoid their own costs. A lot of times those costs will be very lumpy, and it's not a simple question of if I can -- if I don't move the ISPs onto packet switching, it will cost me a little extra. Sometimes it can be quite a lumpy investment that if they don't make can cause rather severe network congestion problems. So they have an incentive already today.

Now the incentives can be a little different depending on whether it's a rate that's above cost or a rate that's at cost. But either way, they should have a pretty good economic insensitive to move to a more efficient network architecture.

Q. Then I think Dr. Gabel might have been asking you questions that where the setup charge was or setup cost was actually zero, and maybe the per minute was zero too, which led you to talk about capacity. Do you have any knowledge right now that the setup charge in general on a forward looking basis I guess is more than zero and that the per minute charge is more than zero, or could we, if we order this, might we find out that for all practical purposes we're really at a capacity charge mode?

A. I can't point you to specific evidence, but I also don't know of anyone who has argued or presented evidence that there is no setup cost or that there is no, you know, per minute duration cost.

The costs of switching are difficult to characterize because of the large up front investment and trying to figure out how to attribute those to particular functions or activities that the switch may be used for, and they're difficult to characterize because switches can be used in many different ways and can be optimized for particular circumstances in different ways.

And so you could have two switches that look the same and cost the same to build and all of that. One might be configured to handle a suburban central office that has a lot of evening traffic and not much daytime traffic. That same switch might be configured in another office to handle a very even steady level of demand that comes from business and residential customers, and they could have as a result of that different costs either on a per minute, per call, or per

line basis.
Q. So if we order a mechanism like the one you suggest and determine ultimately what the per minute and setup charges should be, do you agree that then becomes the default charge but that companies might well contract with each other for different arrangements?
A. I would think so. Certainly I mean I have identified in my testimony that we should preserve the option for companies to enter into bill and keep arrangements.
Q. Or some other arrangement?
A. I would think so, particularly if it's based on what could be shown to be meaningfully different circumstances. But the per minute versus setup charge, really all we're recommending there is that we make an incremental, it's substantial but it is only incremental improvement in what we have now. I'm certainly not suggesting that it's going to be the perfect rate.
CHAIRWOMAN SHOWALTER: Thanks.

E X A M I N A T I O N

BY COMMISSIONER HEMSTAD:
Q. I wanted to pursue some of these behavioral questions that the Chair was just pursuing. The argument is made that the CLECs target the ISPs because,

well, as a customer class and where they can apparently make a lot of money. If that's true, is that because of the reciprocal compensation structure, in other words, the regulated environment that incents that?
A. I certainly don't think that that's the only reason why competitive local exchange companies seek out Internet service providers. I also don't think that there are very many CLECs that exclusively seek to serve that market segment. So the rate structure can certainly contribute to the decision of the CLECs to go after that market.
But you should understand that if the incumbents are behaving rationally, they would just as aggressively seek out those ISPs in order to avoid having to pay the reciprocal compensation. So the rate structure itself doesn't necessarily cause one type of company to go after one type of customer. It would probably cause -- if it's distorting something, it would be to cause every company to seek out a customer with that type of load characteristic.
Q. Well, that was really going to be my next question. Why don't the incumbent LECs seek out the ISPs as a targeted customer group?
A. And, you know, they do have business units within their companies that do seek to serve Internet

service providers, and it's certainly not the case that every ISP is served by a competitive company.

Q. Well, now if we would adopt your recommendation of the setup charge plus a per minute charge, I take it to the extent that there are distortions in the current regime, if we were to get these costs right, in your view, that those distortions would either go away or be minimized?

A. I think they would be reduced, yes. I wouldn't say that they will go away.

Q. How confident are you that we can get the costs or the pricing correctly established?

A. Well, I wouldn't have much confidence that we could exactly measure the costs in every particular circumstance. I think we will have to live with some imprecision in that. But I think that, well, compared to the alternative of saying that the price is going to be zero, we can do far better than that alternative. Even if we simply leave the prices where they are today, we would avoid a serious mistake. And I think that we can improve on the incentives and pricing structure that we have today by making the prices better fit the costs.

And I would include in that not just the per minute versus up front cost, but also trying to adjust the rate to fit the load factor of the terminating switch. And depending on whether anybody ever comes forward with evidence on alternative technologies, that based on that evidence, we might also be able to make further improvements by reflecting the actual technology that's used to transmit each type of call.

Q. Switching to a different subject, and Mr. Devaney asked at least one question on this, and that's the issue of the relationship between any decision we make here and what ultimately is pending before the FCC on this issue. Do you see that any decision we make is ultimately going to be preempted by any decisions anticipated to be made by the FCC?

A. That certainly is one possible outcome, and I wouldn't try to guess what the FCC might do. I know that so far, the FCC has encouraged states to go about the business that's set out in Section 252 of the Act and to come up with cost based prices for reciprocal compensation. So maybe they will end up imposing some structure on all the states, but they haven't so far. And even to the extent they have tried to set some guidelines, we have seen that the courts don't always agree that that's the right thing for the FCC to do.

Q. I take it you would not advise we wait to see what the FCC does?

A. No, I would almost never advise that. You know, in December it seemed like according to the trade press it was going to be probably any day that the reciprocal compensation decision was going to come out, and but we had to file our testimony, so we did. And now we're doing the hearing, and still is, you know, this eminent decision may still be a long ways away.

COMMISSIONER HEMSTAD: That's all I have, thank you.

JUDGE BERG: Mr. Devaney.

MR. DEVANEY: Thank you, I'm going to try to pursue just a couple of follow ups.

R E C R O S S - E X A M I N A T I O N

BY MR. DEVANEY:

Q. I specifically would like to follow up on the line of questioning that the Commissioner just asked you about, competition for ISPs between CLECs and ILECs; do you recall that line of questioning?

A. Yes.

Q. And let me just ask you this. If you, I guess I'm going to pose a hypothetical, if you accept the premise that you have an ILEC that serves 80% of the residential market, the CLEC is serving the other 20%, would it be a fact that in that circumstance, if the ISP were to sign up with the ILEC, that only 20% of its

calls would generate reciprocal compensation?
A. 20% of the calls to the ISP?
Q. Correct.
A. Yes, 20% would generate reciprocal compensation, and 80% would generate the need to have switching investment in place.
Q. Okay. And if you reverse that where the ISP signs up with the CLEC, in that situation, 80% of the calls to the ISP would generate reciprocal compensation, correct?
A. Yes, 80% reciprocal comp and 20% switching costs.
Q. And if you have a recip comp rate that's actually inflated, for example, because of failure to address the cost setup issue, isn't it a fact that an ISP would have some financial incentive to seek a carrier that would generate more recip comp?
A. Yes, that the -- well, they -- I don't know about the ISP. There would be a mutual incentive for the ISP and the company that would be receiving the reciprocal compensation to enter into a business, you know, so that they get that ISP customer. But the point I was making with Commissioner Hemstad is that if the other company that has 80% of the market, you know, if they think about it a little bit, they will see that

they too have an incentive to avoid having that ISP go over to the other company so that they can avoid having to make those payments.
Q. But because the ISPs have an incentive to sign up with the company that's going to generate the most recip comp, aren't the ILECs at somewhat of a disadvantage to competing with the ISPs?
A. No, not because of that. I think they probably are at a disadvantage for other reasons, but not because of that.
MR. DEVANEY: Thank you, that's all I have.

E X A M I N A T I O N

BY CHAIRWOMAN SHOWALTER:
Q. Can I ask a follow up to that question there, because this was the same dynamic that I was interested in, so. But your answer was the ILEC in that situation would have the incentive essentially to underbid the CLEC, right, underbid or -- that is, the ILEC would work into its own calculation, well, I want to avoid these expenses I would have to pay the CLEC, therefore I'm willing to incur some of those expenses or some of that amount in order to woo the ISP to me, the ILEC. Isn't that what would happen?
A. Yes, that's what I was suggesting.

Q. So there would be competition among the CLEC and ILEC. Now it might be based on inefficient underlying costs, and so that's not ultimately the best for the consumer. But that once those prices are set, both sides should be able to recognize what that price is and respond in a competitive way?
A. Yes, that's what I was saying.
CHAIRWOMAN SHOWALTER: Thanks.
JUDGE BERG: Anything else, Mr. Devaney?
MR. DEVANEY: No, thank you, Your Honor.
JUDGE BERG: Ms. Miles.

R E C R O S S - E X A M I N A T I O N

BY MS. MILES:
Q. Hopefully you can answer this one, we'll see. Are you aware of what any other state commissions have done on this issue in terms of accepting a proposal like yours or a bill and keep type proposal?
A. I'm generally aware. I couldn't, you know, recite what every state has done, but yes.
Q. Well, in general then, are you aware that some commission has accepted the type of proposal that you have submitted in this proceeding, the separate setup and duration charge?
A. I can't think of a state right off hand that

has, no.
Q. Without naming a state, do you know that it's been accepted somewhere?
A. No.
Q. And are you aware that, in general without having to name a state, that any other state has adopted a bill and keep type regime for ISP traffic?
A. Yes, I'm aware that some states have done that.
Q. Okay, thank you. And one further follow up just to something that Mr. Devaney asked you, if you could turn to page 20 of your testimony, which is Exhibit T-1230. You recall he was asking you about the statement that starts on line two where it says:

> I also will agree that the rate currently being paid for termination of Internet bounds calls is greater than the additional cost that Qwest would have incurred had it terminated those calls.

My question is, since that applies to Qwest and you listed a number of factors on which you base that conclusion, would those same factors apply to Verizon?
A. Yes, as far as I know.

MS. MILES: Okay, thanks, that's all I have.

MR. TRAUTMAN: I have no redirect.

MR. KOPTA: I just have one question as follow up to the Commissioner's questions on the blend or the rate structure.

C R O S S - E X A M I N A T I O N

BY MR. KOPTA:

Q. Is it part of Staff's proposal that a call setup and a call duration be mandatory so that it would preclude other forms of compensation between interconnecting carriers?

A. We're not proposing that that structure be mandatory. However, we would like for the Commission to establish that that is the default and that either party in an interconnection agreement can insist on it. Therefore, it takes mutual agreement for them to move off that. That's something that in the past where the Commission had generally adopted the idea of a capacity charge but it wouldn't make that be the default, we found that in fact we couldn't get companies to agree to it. And so this is, you know, a less extreme proposal here to have a rate structure of this type. We hope that the companies will, in fact, agree to it, but we also think that there are, in many circumstances, there

will be at least one of the two companies that will be better off to choose it, and they should be able to insist on it.
Q. But companies, for example, could decide that rather than having this bifurcated type of rate structure that, for example, they may have a blended rate that would assume a ten minute call duration instead of a five minute call duration, as perhaps is the way that it's set up today?
A. I would think that in general, once we have established a default based on the closest we can come to a cost based rate structure, we should then be in a pretty good position to let companies in individual circumstances negotiate away from that in the way that you have suggested.
MR. KOPTA: Thank you, that's all I have.
JUDGE BERG: Dr. Blackman, thank you for being flexible and appearing ahead of your scheduled time. And at this point, you are excused from the hearing.
THE WITNESS: Thank you.
JUDGE BERG: Let's be off the record.
(Discussion off the record.)
JUDGE BERG: Excuse me, counsel, but this is just for the benefit of amending a Bench request that

was previously made to Verizon.

DR. GABEL: In Bench Request 40, I asked Mr. Trimble to identify for the vertical features what portion of the TELRIC is associated with the switch as opposed to off the switch, and the example that Mr. Trimble used in his testimony today was remote call forwarding. And when Mr. Trimble responds to this Bench request for that particular rate element that we discussed, remote call forwarding, could he make a showing that the off switch costs, are they based upon ICM, or are they based upon the UNE determinations of the Commission. So, for example, let's just assume that remote call forwarding involves use of shared transport, did Mr. Trimble and Mr. Collins use a shared transport TELRIC that had been developed by the Commission, or did Mr. Collins and Mr. Trimble use a shared transport that was developed by ICM?

MR. EDWARDS: I understand the request, and with the underlying assumption is that those costs reflect something other than switching costs, and presumably if it's all switching costs, it makes that question moot.

DR. GABEL: Yes.

MR. EDWARDS: Okay.

JUDGE BERG: All right.

MR. EDWARDS: While we're on the record, one other.

JUDGE BERG: Yes, sir.

MR. EDWARDS: This morning, we had a Bench request yesterday, and I have neglected all day to at least raise it, from the Chairwoman with respect to the letter that was referenced yesterday that was sent to the FCC to Chairman Kennard and whether it was from the Commission or the Staff, and there was a request for us to provide the letter, and I would just like the record to reflect that we have done that.

JUDGE BERG: Yes, that has been received. The commissioners acknowledge that the letter was a letter from the Commission and not Commission Staff.

MR. EDWARDS: Thank you.

JUDGE BERG: Thank you, Mr. Edwards.

We will be adjourned.

(Hearing adjourned at 4:40 p.m.)