Exhibit _____ (JLT-T5)

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Exhibit _____ (JLT-T5)

BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION

IN THE MATTER OF THE CONTINUED	)	
COSTING AND PRICING OF UNBUNDLED	)	
ELEMENTS, TRANSPORT	)	
AND TERMINATION, AND RESALE	)	**Docket No. UT-003013**
[FOR U S WEST COMMUNICATIONS, INC.]	)	
[FOR GTE NORTHWEST INCORPORATED]	)	

EXHIBIT No. _____

SUPPLEMENTAL DIRECT TESTIMONY OF

JERROLD L. THOMPSON

ON BEHALF OF

U S WEST COMMUNICATIONS

May 19, 2000

TESTIMONY OF JERROLD L. THOMPSON
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EXHIBITS

I.WITNESS IDENTIFICATION

Q. PLEASE STATE YOUR NAME, POSITION, EMPLOYER, AND BUSINESS ADDRESS.

A. My name is Jerrold L. Thompson. I am employed by U S WEST as Executive Director – Service Cost Information. My business address is Room 4400, 1801 California St., Denver, CO 80202.

Q. HAVE YOU PROVIDED OTHER TESTIMONY IN THIS PROCEEDING?

A. Yes. I filed testimony on the topic of collocation on February 15, 2000.

PURPOSE OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is first, to identify the rates U S WEST proposes for line sharing and demonstrate how those rates are consistent with the FCC's Order on Line Sharing, and second, to respond to the Administrative Law Judge's determination that "parties appear to be ready to proceed" with an inquiry into revision of non-recurring charges based on cost savings due to implementation of new Operating Support Systems[1].

FCC LINE SHARING ORDER

Q. HAS THE FCC RELEASED AN ORDER THAT ADDRESSES COST ISSUES RELATED TO LINE SHARING?

A. Yes. In its Third Report and Order in CC Docket No. 98-147, and Fourth Report and Order in CC Docket No. 96-98, (the "FCC Line Sharing Order"), the FCC identified "5 types of direct costs that an incumbent LEC potentially could incur to provide access to line sharing: (1) loops; (2) OSS; (3) cross connects; (4) splitters; and (5) line conditioning."[1]

IV. LOOP COST

Q. WHAT DID THE FCC CONCLUDE ABOUT THE COST OF THE LOOP IN A LINE SHARING SITUATION?

A. The primary cost methodology for unbundled network elements (UNEs), is Total Element Long Run Incremental Cost (TELRIC). The FCC's original definition of TELRIC did not contemplate the idea that two separate unbundled network elements would share a single physical item of the telephone network. In its Line Sharing Order, the FCC concluded that it "must extend the TELRIC methodology to this situation and adopt a reasonable method for dividing the shared loop costs."[2]

[1] FCC Line Sharing Order at 136.

Q. DID THE FCC ADOPT A METHOD OF DIVIDING THE SHARED LOOP COSTS?

A. No. The FCC discussed a rate when it concluded that state commissions may "require that incumbent LECs charge no more to competitive LECs for access to shared local loops than the amount of loop costs the incumbent LEC allocated to ADSL services when it established its interstate retail rates for those services." The FCC also found it "reasonable to presume that the costs attributed by LECs in the interstate tariff filings to the high-frequency portion of the loop cover the incremental costs of providing xDSL on a loop already in use for voice services." And finally, the FCC argued that "[s]ince the incremental loop cost of the high-frequency portion of the loop should be similar to the incremental loop cost of the incumbent LECs xDSL special access service, this approach should result in the recovery of the incremental loop cost of the high-frequency portion of the loop."[2]

The FCC did not, however, define a "method for dividing the shared loop costs". Rather, the FCC provided "guidance to assist in pricing". The FCC's guidance suggests that the proper price could be an amount no more than the loop cost that was "*allocated*", "*attributed*" or perhaps "*imputed*"[3] by the incumbent local exchange carrier (LEC) in its interstate xDSL service cost filing.

[2] FCC Line Sharing Order at 139-140
[3] FCC Line Sharing Order, footnote 326 quotes the Minnesota Commission: "Specifically, the Minnesota PUC held that it was 'not presently concerned with how [U S WEST] resolves the pricing issue, so long as the Company charges data CLECs the same loop rate that the Company presently *imputes* to its own DSL services'."

HAS THE FCC EVER ORDERED A METHOD OF DIVIDING A SHARED COST AMONG PROVIDERS?

Yes. In the Matter of Deployment of Wireline Services Offering Advanced Telecommunications Capability, CC Docket No. 98-147, Released March 31, 1999, the FCC faced a similar situation where multiple providers caused a shared cost for site preparation for collocation[4]. In that Order the FCC required the incumbent LEC to "prorate" or divide the single cost of site preparation in proportion to the space utilized by the provider. In other words, if two providers use the space, then the cost is divided by two, and each pays one-half.

This division of cost among providers is analogous to the situation of a single line shared by two providers.

Q. HAS U S WEST USED A METHOD TO DIVIDE THE COST OF THE LOOP AND ATTRIBUTE OR IMPUTE THAT COST TO ITS INTERSTATE MEGABIT SERVICE?

A. Yes. As the FCC states in its Line Sharing Order, "Under the price cap rules for new access services, the recurring charges for such services may not be set below the

[4] at 41.

direct costs of providing the service, which are comparable to incremental costs." U S WEST complied with the FCC rules in this regard and filed only the direct costs of its MegaBit service. The direct costs of the MegaBit service do not include costs for the loop because the loop is not a direct cost of the service.

However, this does not mean that U S WEST's $29.95 price for MegaBit service does not include an amount *attributable* to the cost of the loop. Attributions or imputations are normally accomplished in a secondary computation that is independent from the direct cost price floor demonstration. For example, in some state jurisdictions U S WEST has occasionally been required to impute access charges to its toll service to avoid what has been termed a "price squeeze". The imputation is a separate calculation with a separate purpose from a demonstration that the proposed toll price exceeds its direct cost. The imputation is done to demonstrate that the proposed toll price exceeds a combination of access charge rates that U S WEST's toll competitors could be required to purchase from U S WEST. Unlike these state requirements, the FCC has never required imputations to be filed under its Price Cap rules for new service offerings, so U S WEST did not file an imputation with its MegaBit filing.[5]

[5] Evidence of the secondary "price squeeze" calculation is found in the FCC's Order in CC Docket No. 98-79, Released Oct. 30, 1998, at 30-32, (ordering that GTE's DSL service was an interstate service).

IF U S WEST WERE TO MAKE AN IMPUTATION CALCULATION RELATED TO ITS MEGABIT SERVICE, WOULD IT PASS THE IMPUTATION TEST WITH AN IMPLIED CHARGE FOR THE USE OF SHARED LINE LOOP?

A. Yes. For example, the $29.95 recurring rate for U S WEST's interstate MegaBit subscriber service is sufficiently high to allow recovery of U S WEST's direct costs and up to an additional $10 imputation.

Q. DID THE FCC DISCUSS THE ISSUE OF A "PRICE SQUEEZE" IN THE CONTEXT OF LINE SHARING?

A. Yes. The FCC stated a belief that its guideline for a charge for use of the loop in line sharing, (at an amount no more than that amount attributed to the xDSL service), would help alleviate any potential price squeeze. The FCC discussed the potential where an incumbent LEC's price of its xDSL service was less than the amount a competitor would pay the incumbent LEC for the data spectrum of the loop plus the costs the competitor incurs to provide the service. By restricting the UNE amount charged for the higher spectrum of the loop to the level of loop cost implicit in the ILEC's retail DSL rate, the FCC concluded that any potential price squeeze is avoided. With the FCC's reference of both the direct cost rule and the issue of price squeeze, it is clear that an approach of using two independent calculations is

consistent with standard regulatory practice and the Line Sharing Order.

The $29.95 retail price for MegaBit service is at a level that exceeds the service's direct costs plus an imputation using $10 of the estimated unbundled loop rate[6]. This demonstrates that an amount up to $10 of the UNE loop could be charged by U S WEST for the use of the high-frequency portion of the loop under the FCC guideline.

WHAT IS THE RATE U S WEST PROPOSES TO CHARGE FOR THE LINE SHARING UNE?

U S WEST proposes to charge 50% of the unbundled loop rate ordered by the Commission. The UNE rate ordered by the Commission is $18.16 and therefore 50% would be $9.08[7].

[6] While the $29.95 service is used in the example, the $19.95 rate would also pass the same imputation test.
[7] To the extent permanent rates are established on a deaveraged basis, the rate would be 50% of the deaveraged unbundled loop rate, up to a maximum of $10.

V. OPERATING SUPPORT SYSTEMS

Q. WHAT WERE THE FCC'S COMMENTS REGARDING OPERATING SUPPORT SYSTEMS?

A. The FCC acknowledged that incumbent LECs have operating support systems (OSS), that are required to pre-order, order, provision service, bill, and repair and maintain the network. The FCC also stated:

> There is no dispute either that incumbent LECs will need to modify their OSS systems somewhat in order to implement line sharing, or that they will incur costs in doing so. The question here is what the incumbent LECs should be permitted to charge competitive LECs for those required modifications.[3]

Q. DID THE FCC ALSO ACKNOWLEDGE THAT THE LIKELY COSTS OF THE OSS MODIFICATIONS WOULD BE LARGE?

A. Yes. The FCC sited estimates that ranged from three million to hundreds of millions of dollars.

Q. WHAT GUIDELINE DID THE FCC DETERMINE FOR COST RECOVERY OF OSS MODIFICATIONS?

A. In paragraph 144 of the Line Sharing Order the FCC stated:

> We find that incumbent LECs should recover in their line sharing charges those reasonable incremental costs of OSS modification that are caused by the obligation to provide line sharing as an unbundled

> network element. We believe that this guideline is consistent with the principle set forth in the *Local Competition First Report and Order* and incumbent LECs cannot recover nonrecurring costs twice. We also reaffirm the conclusions in the *Local Competition First Report and Order*, that the states may require incumbent LECs in an arbitrated agreement to recover such nonrecurring costs such as these incremental OSS modification costs through recurring charges over a reasonable period of time, and that nonrecurring charges must be imposed in an equitable manner among entrants. [Footnotes omitted].

WHAT WAS THE REASON THAT THE FCC'S GUIDELINE ALLOWS RECURRING RATES TO RECOVER UP-FRONT COSTS?

A. It is likely that the FCC recognized that because of the large amount of cost required to modify OSS systems, up-front recovery of these costs could discourage line sharing. To remedy this problem, the FCC's guideline allows recurring rates to distribute the cost over "a reasonable period of time".

Q. DOES THE USE OF RECURRING RATES FOR RECOVERY OF AN UP-FRONT COST CAUSE CERTAIN INFORMATION TO BE REQUIRED?

A. Yes. First, the "reasonable period of time" has to be determined. Basic financial prudence would allow a recovery period that corresponds to the estimated life of line sharing. This would mean that a reasonable period would be the life of line sharing--U S WEST providing the voice service and the competitive LEC providing the DSL service. U S WEST has made data requests for information from the competitive

LECs as to their estimates of the life of line sharing in other jurisdictions, but has not received sufficient information[8]. Without these estimates, U S WEST is left to estimate the economic life of the service by itself.

IS THERE OTHER INFORMATION THAT IS REQUIRED TO CALCULATE AN UP-FRONT COST FOR RECURRING COST RECOVERY?

A. Yes. The second set of information is the demand over which the rate will be applied, per line per month, for example. In order to properly develop a recurring rate that will come reasonably close to recovering the cost, a reasonable estimate of the number of line sharing lines is required. This information was also requested from the DSL providers in other jurisdictions and U S WEST has not received this information[9].

Q. HOW HAS U S WEST ESTIMATED THE COST AND RECURRING RATES FOR OSS MODIFICATIONS?

A. The testimony of Ms. Barbara Brohl discusses the reasons for the OSS modifications and the estimates of the cost of modifications of U S WEST's OSS. Using cost

[8] U S WEST plans to ask for this information in Washington, and if information is provided that warrants a change in assumptions, U S WEST would submit revisions to its cost estimates.

[9] As with the previous information, U S WEST plans to seek this information from CLECs participating in this proceeding. If information is provided that warrants revisions to cost estimatates, U S WEST will submit revisions to its cost estimates.

estimates supplied by Ms. Brohl, a recovery period of 5 years was assumed and estimates of the number of shared lines were also assumed. The five-year estimate of useful life appeared to be a reasonable estimate given the lack of information provided by the DSL providers. As indicated by the requests for information from the competitive LECs, U S WEST would prefer to have input from the competitive LECs to estimate the rate for recovery of the OSS costs. However, since this information has not been provided, U S WEST used the best information available. Should the competitive LECs have alternative information that they believe should be considered, U S WEST is open for that input. The proposed rate for this recovery element is found on Exhibit- Line Sharing JLT-6.

Q. HOW DID U S WEST FORECAST THE DEMAND USED IN THE OSS RECOVERY RATE?

A. Based on some limited data provided by one of the competitive LECs, projections were made of the lines used in Line Sharing for the first two years. Trends for five years were developed from this information which included an amount for potential churn.

VI. CROSS CONNECTS

WHAT WERE THE FCC'S GUIDELINES FOR CROSS CONNECTS?

The FCC discusses the architecture for connections to and from the splitters. The FCC described two approaches:

> The first approach is to cable the high frequency band directly to the DSLAM, and the second is to cable it to another MDF location (or to an intermediate distribution frame (IDF) location), and then on to the DSLAM. The second approach facilitates easy customer moves and changes as well as changes in the customer's service providers and services. In this situation, the splitter has three connections to the MDF – one to terminate the loop, a second to terminate the voiceband signal and a third to terminate the high frequency loop spectrum....[4]

ARE THE DESIGNS PROPOSED BY U S WEST CONSISTENT WITH THE FCC'S DESCRIPTION?

Yes. Specifics of the proposed designs of the architecture for line sharing are described in the testimony of Mr. Robert J. Hubbard.

WHAT ARE U S WEST'S COSTS FOR CONNECTIONS TO THE SPLITTER BAY?

A. I have provided a listing of the costs for terminations and placed cable from the Intermediate Distribution Frame to the Splitter Bay in - Line sharing JLT-6. The connections to the splitters assume increments of 100 DS0 equivalents. The costs are

based upon cable lengths for actual construction of Splitter Bays for Line Sharing use.

VII. SPLITTERS

PLEASE DESCRIBE THE FCC'S GUIDELINES FOR COSTS RELATED TO THE VOICE/DSL SPLITTERS.

The FCC determined that LECs must either provide splitters or allow competitive LECs to purchase comparable splitters. Where the splitter is in the competitive LEC's collocation space, the competitive LEC would probably purchase the splitter itself.

With the original design where U S WEST constructs the splitter bay for the competitive LEC, the FCC allows U S WEST to charge the competitive LEC an amount equal to the cost of the splitter, the cost to construct the bay and supporting structure. In this situation the competitive LEC can choose to purchase the splitter, and transfer it to U S WEST to install. U S WEST would also charge to install the splitter, plan and engineer the job, and rent for land and buildings. Rates as filed in the earlier phase of this proceeding for planning and engineering, rent, and the bay are found in Exhibit- Line

Sharing JLT-6.

VIII. LINE CONDITIONING

WOULD YOU PLEASE DESCRIBE THE FCC'S GUIDELINE FOR RECOVERY OF COSTS RELATED TO THE REMOVAL OF LOAD COILS AND BRIDGED TAPS, ALSO KNOWN AS LINE CONDITIONING?

The FCC stated that U S WEST could charge for this service, but no more than "the charges the incumbent LECs are permitted to recover for similar conditioning of stand alone loops for xDSL services."

IN WASHINGTON IS THERE A RATE WHICH U S WEST CAN CHARGE FOR SIMILAR CONDITIONING OF STAND ALONE LOOPS FOR XDSL SERVICE?

Yes. In its 17th Supplemental Order, the Commission approved rates for Cable Unloading and Bridged Tap Removal. Those rates are listed in Exhibit- Line Sharing JLT-6 for reference purposes.

IX. NON-RECURRING COSTS

Q. HAS NON-RECURRING COSTS BEEN SELECTED AS A TOPIC OF

THIS PART OF THE DOCKET?

A. Yes. Judge Wallis has clarified that Paragraph 482 of the Eighth Supplemental Order in Dockets Nos. UT-960369, *et al.*, says, "The cost findings in this Order do not reflect the transactional efficiencies that may be achieved through computer links between the ILECs' and CLECs; operational support systems. When these systems are in operation, we expect the ILECs to fulfill their commitment to revise their studies to reflect the associated cost savings. U S WEST Brief at 91." Because of concerns raised in other proceedings, and that the "OSS issue appears ready to proceed relatively soon", Judge Wallis indicated that in his opinion, the parties were ready to propose revisions to cost studies.

Q. ARE YOU PROPOSING COST STUDY REVISIONS FOR NON-RECURRING COSTS IN THIS PROCEEDING?

A. No. The Eighth Supplemental Order clearly states: "**When the systems are in operation**…". These words reflect the Commission expectation that the ILECs would revise their non-recurring cost studies, after the new systems are in operation. This is a logical expectation because non-recurring cost studies model the process associated with processing orders and establishing service. The best way to model costs for this process is after the process has been established and is operational.

As discussed by Ms. Brohl, U S WEST is in the process of developing capabilities that could potentially improve times for processing orders and therefore lower U S WEST's non-recurring costs. However, those processes are in the development and testing phase, and are not capable of being used to model future process flows at this time.

DO U S WEST'S CURRENT WASHINGTON APPROVED NON-RECURRING COSTS REFLECT A HIGH LEVEL OF EFFICIENCY?

A. Yes. Although the Eighth Supplemental Order stated that the findings did not reflect transactional efficiencies that may be achieved through computer to computer connections, the fact remains that the level of work times ordered by the Commission are a fraction of the times actually being experienced by U S WEST in the order process that currently exists. This ordered reduction reflects some future level of efficiency that will take U S WEST time to achieve. For the time being, U S WEST's approved non-recurring rates reflect a majority of the savings that could be attributed to any near term efficiencies and need not be reviewed

further in this proceeding.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

PROPOSED RATES FOR LINE SHARING

		Non-recurring	Recurring
Shared Loop UNE per month			$ 9.08
Installation of a Shared Loop UNE	$37.53		
Disconnection of a Shared Loop UNE	$14.41		
Total per line per order		$ 51.94	
OSS Cost Recovery per line per month for 60 months			$ 3.55
Cross-Connects per 100 Voice Grade circuits		$ 1,266.11	$ 2.38
Quote Preparation Fee		$ 4,195.90	
Bay- per shelf		$ 2,721.40	$ 3.82
Splitter		$ (Cost)	
Cable Unloading		$ 304.12	
Bridged Tap Removal		$ 147.37	

Labor Rates	Regular Bus. Hours	Outside Regular Bus. Hours
Trouble Isolation per half hour	$ 28.07	$ 37.55
Installation of equipment per half hour	$ 32.00	$ 41.20
Repair of equipment per half hour	$ 32.00	$ 41.20

[1] See letter from C. Robert Wallis, dated March 20, 2000, addressing clarification of issues to be considered in this part of Docket No. UT-003013.
[2] FCC Line Sharing Order at 138.
[3] Line Sharing Order at 142.
[4] Line Sharing Order at 104 and 105.