

**BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION
COMMISSION**

**In the Matter of the Review of:)
Unbundled Loop and Switching)
Rates; the Deaveraged Zone)
Rate Structure; and Unbundled)
Network Elements, Transport,)
And Termination)**

DOCKET NO. UT-023003

DIRECT TESTIMONY OF DOUGLAS DENNEY

ON BEHALF OF

AT&T COMMUNICATIONS OF THE PACIFIC NORTHWEST, INC.

April 9, 2004

I. IDENTIFICATION OF WITNESS

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Douglas Denney. I work at 1875 Lawrence Street in Denver, Colorado.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed by AT&T as a Manager with Network Services, in the Local Services and Access Management group. My responsibilities include tracking, reviewing and analyzing local wholesale prices in Qwest's region; reviewing cost studies; and representing AT&T as a witness in state regulatory proceedings in the Qwest region relating to local wholesale price/cost issues.

Q. PLEASE DESCRIBE YOUR EDUCATION AND PROFESSIONAL BACKGROUND.

A. I received a B.S. degree in Business Management in 1988. I spent three years doing graduate work at the University of Arizona in Economics, and then I transferred to Oregon State University where I have completed all the requirements for a Ph.D. except my dissertation. My field of study was Industrial Organization, and I focused on cost models and the measurement of market power. I taught a variety of economics courses at the University of Arizona and Oregon State University. I was hired by AT&T in December of 1996 and have spent most of my time with the Company analyzing cost models.

I have testified before most commissions in Qwest's 14-state territory on cost models -- including the HAI Model, BCPM, GTE's ICM, U S WEST's UNE cost models, and the

1 FCC's Synthesis Model. I have also filed testimony about issues relating to the
2 wholesale cost of local service -- including universal service funding, unbundled network
3 element pricing, geographic deaveraging, competitive local exchange carrier access rates
4 and costs related to CLEC impairment in the recent triennial review order proceedings.

5 **Q. HAVE YOU PREVIOUSLY TESTIFIED IN WASHINGTON?**

6 A. Yes. In 1998 I filed testimony in UT-960369 (Phase 2) on shared transport. At the end
7 of 1999 and the beginning of 2000 I filed testimony in the same docket on geographic
8 deaveraging. Most recently I filed testimony in docket UT-033044 regarding impairment
9 costs related to the Triennial Review proceedings.

10 **Q. WHAT IS THE PURPOSE OF THIS TESTIMONY?**

11 A. The purpose of my testimony is to adopt the portions of Dr. Mercer's testimony regarding
12 geographic deaveraging. This includes the Q and A starting on page 37, line 5 along with
13 the referenced attachment RAM-7, which should be redesignated as Exhibit DD-1. In
14 addition I have attached the AT&T Deaveraging Optimizer populated with the most
15 recent results of the HAI Model detailed in the Supplemental Direct Testimony of Dr.
16 Mercer (DD-2).

17 **Q. HOW HAVE THE WIRE CENTERS BEEN GROUPED INTO "ZONES" FOR**
18 **THE PURPOSE OF DISAGGREGATING LOOP COSTS AS REQUIRED BY THE**
19 **FCC AND THIS COMMISSION?**

20 A. AT&T has proposed a set of three wire center zones to which the individual wire centers
21 are assigned in order to group wire centers with similar costs. AT&T believes that with

1 these assignments, the deaveraged rates reasonably represent the underlying wire center
2 costs.

3 To facilitate this process, AT&T has developed a deaveraging program that searches for
4 the set of wire center zone assignments that minimizes the total deviation of costs within
5 zones. Attachment DD-1 (previously RAM-7) describes how the deaveraging program
6 operates. The zone assignments output by the optimizer are entered into the “Manual
7 Zone Code” column of the WC Weights worksheet in the wire center expense module
8 output workbook. If the user then follows the instructions appearing in the Zone
9 Summary worksheet, Excel recalculates the deaveraged zone rates. This is done after the
10 Model runs, and does not require the Model itself to be rerun. I have also used the five-
11 zone deaveraging zones previously adopted by this Commission, and present those results
12 as well.

13 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

14 A. Yes, it does.