Exhibit No._____ (TM-1T)
Docket No. UT-003013

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

IN THE MATTER OF THE CONTINUED COSTING AND PRICING PROCEEDING FOR INTERCONNECTION, UNBUNDLED ELEMENTS, TRANSPORT AND TERMINATION, AND RESALE	)))))	**DOCKET NO. UT- 003013**

DIRECT TESTIMONY OF

TERRI MARIA

DIRECTOR– WHOLESALE MARKETS BUSINESS ANALYSIS

ON BEHALF OF

GTE NORTHWEST, INC.

SUBJECT: TRACKING OF OSS COSTS

MAY 19, 2000

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I. WITNESS IDENTIFICATION AND BACKGROUND

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS.

A. My name is Terri Maria. My business address is 600 Hidden Ridge, Irving, Texas 75038.

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

A. I am employed by GTE Service Corporation as Director – Wholesale Markets Business Analysis and am representing GTE Northwest Incorporated ("GTE") in this proceeding.

Q. WHAT ARE THE RESPONSIBILITIES OF YOUR CURRENT POSITION?

A. I am currently responsible for the budgeting, tracking, and validation of financial data used for managerial purposes within the Wholesale Markets organization. As a part of that responsibility, I directed the determination and development of GTE's OSS transition costs.

Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND WORK EXPERIENCE.

A. I obtained a Bachelor of Arts in Ecosystem Conservation from the University of California at Los Angeles in 1982. In 1989, I completed my Masters of Business Administration from California Lutheran University. I have been employed with

GTE since 1984. I held several accounting positions with increasing levels of responsibility before assuming a leadership role in Business Analysis in 1994 supporting Retail and then Long Distance operations. I assumed my current position supporting the Wholesale Markets organization in September 1997.

Q. HAVE YOU TESTIFIED PREVIOUSLY BEFORE ANY OTHER REGULATORY COMMISSIONS?

A. Yes, I have participated in the California depositions associated with OSS cost recovery.

II. PURPOSE OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is twofold:

(1) I will describe GTE's financial systems that were used to identify and track the OSS transition costs; and

(2) I will explain GTE's method of identifying annual total costs for GTE operations nationwide, including labor benefit calculations, for the OSS transition costs.

Q. HOW IS YOUR TESTIMONY ORGANIZED?

A. First, I will discuss the systems used to extract the costs. Second, I will describe how costs were extracted at a total company level. Third, I will describe the labor benefits calculations. Finally, I will explain how costs are being identified for 1999 and beyond.

Q. HOW DID GTE TRACK OSS TRANSITION COSTS?

A. As my testimony will show, GTE determined that the existing financial systems contained sufficiently detailed data elements that allowed us to capture and track all related OSS transition costs for inclusion in the filing.

III. GTE'S FINANCIAL SYSTEMS

Q. PLEASE DESCRIBE THE GTE FINANCIAL SYSTEMS USED FOR DETERMINING GTE'S TRANSITION COSTS.

A. From 1996 through March 1998, GTE used the general ledger system called Operating Planning and Reporting System (OPARS) to track all company-wide costs, including OSS transition costs. In April 1998, OPARS was replaced with Systems, Applications and Products in Data Processing (SAP). GTE elected not to convert any OPARS transactional data to SAP for historical access. Instead, OPARS data was kept intact and was available for accessing historical data reflecting results through

March 1998. In addition to OPARS and SAP, GTE's payroll system, Reporting Distribution Module (RDM), was accessed as needed to extract individual labor costs.

Q. PLEASE DESCRIBE THE OPARS SYSTEM.

A. OPARS is the integrated accounting system in which GTE's account balances reside and in which journal entries affecting the accounts may be processed. Information is provided for budgeting, internal reporting and external reporting purposes. The data is carried at sub levels of detail for easy cost identification.

Q. PLEASE DESCRIBE THE DETAILED DATA ELEMENTS USED FOR COST EXTRACTION FROM THE OPARS SYSTEM.

A. The data elements (sub levels) GTE used to retrieve data for 1996, 1997 and for January through March of 1998 to report in its cost study submission were:

- Book date. The date expenses are recorded on the books of the company;
- Work order. A six to seven digit alphanumeric code that is used to capture expenditures that are project related;
- Legal entity. A separate registered entity for which GTE's accounting and tax records are kept and maintained;
- Company code. An alphanumeric identification number assigned to each legal entity that facilitates the processing of input documents and reports, and which allows segregation of costs by legal entity;

- Plant code/location code. A four-digit alphanumeric code identifying the placement of company property;
- Budget center. A four digit alphanumeric code that identifies the organizational entity responsible for authorizing and/or incurring the expenditure;
- Account code. A four to seven digit alphanumeric code that is designed to segregate financial activity or results into categories necessary for financial reporting purposes; and
- Cost element code. A three-digit alphanumeric code used to identify and segregate various types of charges to accounts. It is used to facilitate financial analysis of accounts for review, comparison, audit, administrative control, and measurement purposes.

These data elements are not necessarily related in a hierarchical manner. Costs can be extracted by any single element above or in multiple combinations depending on the requirement.

Q. PLEASE DESCRIBE THE SAP SYSTEM.

A. In 1997, GTE purchased SAP to replace OPARS and other GTE legacy systems. This decision was made based on the age/functionality of the various legacy systems and a desire to streamline and reduce data processing costs. SAP is an integrated business software package that provides application functionality not only for

Finance, but also for Human Resources, Payroll, Material Management, and Project Control. SAP, like OPARS, provides financial information for budgeting, internal reporting and external reporting.

Q. PLEASE DESCRIBE THE DETAILED DATA ELEMENTS USED FOR COST EXTRACTION IN THE SAP SYSTEM.

A. The data elements (cost objects) GTE used to retrieve data beginning in April 1998 were:

- Work Center – a collection of activities that share a common function, measure of demand, measure of consumption, geographic uniqueness, and management or organizational structure;
- Jurisdiction - represents a geographic area;
- Cost Center – the SAP organizational unit within a company representing responsibility, location or specific accounting information. The GTE cost center is a ten-digit number. The first six digits represent the work center. The seventh and eighth digits are unassigned, while the last two digits are reserved for jurisdiction. If the associated transaction is allocable, the last two digits contain zeroes instead of jurisdiction; and
- Cost Component Code – a four-digit alphanumeric code used to disaggregate costs by type to allow summarization for managerial/fiduciary consolidations.

The SAP cost component code (CCC) is comparable to the OPARS' cost element code.

IV. IDENTIFICATION OF OSS COSTS

Q. PLEASE EXPLAIN HOW YOU IDENTIFIED THE OSS TRANSITION COSTS THAT GTE INCLUDED IN ITS COST STUDY SUBMISSION.

A. The OSS transition costs were identified separately from monthly recurring OSS costs by using work order numbers and budget centers (OPARS) or workcenters (SAP). The costs were then aggregated for presentation in the cost filing.

Q. PLEASE EXPLAIN HOW GTE IDENTIFIED ANNUAL TOTAL COSTS FOR ITS OSS PROJECTS.

A. Total OSS incurred costs were extracted from GTE's OPARS. The primary retrieval element was the work order number 9G632GP which was the work order established in March 1996 to capture all systems development and enhancement (D&E) expenses exclusively related to Open Market Transition (OMT)[1] start up and implementation. Additional retrieval elements were used to refine the cost extraction. These additional elements were book date, work order, budget center, account code and cost element code.

[1] OMT is the term used in GTE for all efforts relating to activities involved in implementing local competition and the requirements of the Telecommunications Act of 1996 (Act).

In order to ensure there were no invalid charges such as unauthorized use of budget centers, charges against work order 9G632GP were scrutinized on a monthly basis to ensure accuracy by the following departments:

- OMT Wholesale Markets' Business Analysis (BA) – responsible for the tracking and financial integrity of the costs;
- OMT Program Management Office (PMO) – responsible for providing an interface between GTE Network Services[2] and GTE Data Services (GTEDS), including the overall management of systems D&E activities; and
- Information Technology (IT)-Project Teams – GTEDS employees who code, test and oversee day-to-day system D&E activities.

The total OSS expenses were separated, using cost element code and budget center code or cost component code and work center code, and assigned to one of the following categories.

[2]GTE Network Services refers to GTE's local exchange companies.

TOTAL GTE OSS COSTS

	1996 ($)	1997 ($)	1998 ($)
GTE Data Services (GTEDS)	$2,223,239	$6,844,443	$25,539,233
External Vendor	951,677	2,233,619	0
Contractor	73,152	803,838	101,489
Infrastructure	93,403	742,285	271,301
Employee Expenses	23,734	267,465	330,118
Labor –OSS	18,071	1,724,269	942,278
Benefits – OSS	5,033	457,715	186,489

Each of the categories in this chart is described below.

Q. PLEASE DESCRIBE HOW GTE IDENTIFIED THE FIRST CATEGORY OF TOTAL GTEDS COSTS.

A. As explained in GTE witness Jerome Holland's testimony, GTEDS is the GTE affiliate that coordinated all the OSS systems D&E work for GTE. GTEDS' billing to GTE Network Services included systems D&E costs incurred as a result of requirements specified by the Federal Communications Commission (FCC). Modifications to certain ordering and billing systems were required to provide competitive local exchange carriers ("CLECs") electronic access to data and processing functions including ordering, provisioning, repair, billing and subscription services. All systems D&E work performed by GTEDS was booked to work order number 9G632GP. Using this work order, total costs were extracted from OPARS by account code and cost element code.

Q. HOW WERE THE GTEDS COSTS ASSOCIATED WITH WORK ORDER 9G632GP FURTHER DEFINED?

A. In order to assign these costs to each OSS Project category, further detail was required. The OMT Program Management Office identified Data Processing Service Requests (DPSRs) that were associated with each OSS Project category. A DPSR contains billing information such as system ID, budget center, work order number, and customer bill to number (used to identify any direct assigned DPSRs). GTEDS' incurred systems D&E costs were coded to a DPSR, billed to GTE Network Services and recorded in OPARS by the work order, account code, cost element code as well as budget center/work center codes.

Q. HOW DID YOU ENSURE THAT ONLY TRANSITION COSTS ASSOCIATED WITH OSS PROJECTS WERE INCLUDED IN THE COST STUDY SUBMISSION?

A. Detailed DPSR incurred expenses were retrieved from the GTEDS DPSR Control System (DCS). This system provides mechanized, online DPSR processing that allows the issuance and tracking of DPSRs from the point of origination through completion. The OPARS and SAP databases do not contain detailed GTEDS DPSR information. It was necessary to link GTEDS Labor Billing tables together in DCS in order to extract all OMT billing to GTE Network Services. This information was compiled, downloaded and formatted into a report for analysis by members of the OMT Program Management Office who then evaluated whether each DPSR met the

cost criteria GTE utilized to determine OSS cost recovery eligibility and should be included in the cost study submission.

Q. PLEASE DESCRIBE HOW GTE IDENTIFIED THE SECOND CATEGORY OF TOTAL SYSTEMS D&E EXTERNAL VENDOR COSTS.

A. This category, total Systems D&E External Vendor costs, represents costs charged to GTE by vendors on a lump sum basis, in other words, vendors who respond to a bid to perform a specific task at an agreed-to price. External Vendor costs are classified as non-labor costs, although the total cost includes vendor labor in the lump sum. However, for financial reporting purposes, GTE only classifies GTE employee labor as "labor", whereas all charges from vendors or contractors are considered non-labor expenses. The System D&E External Vendor costs were extracted based on work order, account codes, and cost element codes.

Q. PLEASE DESCRIBE HOW GTE IDENTIFIED THE THIRD CATEGORY OF TOTAL CONTRACTOR COSTS.

A. In contrast to the previous category of "lump sum" contracts, the total Contractor costs represent charges from contractors that bill GTE based on a "time and material" basis, *i.e.*, the time and material actually spent on a project. As described above, all of these costs are classified as "non-labor" costs in GTE's financial systems. The contractor costs were extracted based on work order, accounts and cost element codes.

Q. PLEASE DESCRIBE HOW GTE IDENTIFIED THE FOURTH CATEGORY OF TOTAL INFRASTRUCTURE COSTS.

A. The total Infrastructure costs were non-labor incurred costs such as material or supplies that GTE Network Services employees needed for project completion. The Infrastructure costs were extracted based on work order, account code and cost element codes.

Q. PLEASE DESCRIBE HOW GTE IDENTIFIED THE FIFTH CATEGORY OF TOTAL EMPLOYEE RELATED EXPENSES.

A. The total Employee Related Expenses were non-labor incurred costs, such as travel and meals, associated with GTE Network Services employees. These costs were extracted based on work order, account codes and cost element code.

Q. PLEASE DESCRIBE HOW GTE IDENTIFIED THE SIXTH CATEGORY OF TOTAL OSS LABOR COSTS.

A. The total OSS Labor costs were labor costs associated with GTE Network Services employees involved with systems start up and implementation. Up to this point, all categories of costs which I have described were billed to GTE Network Services and were "tagged" with a work order number (9G632GP). However, labor within GTE Network Services is recorded in the payroll system and cannot be appended with a work order number, so other data elements were used to extract the costs from the payroll system.

Q. WHAT EMPLOYEES WERE INCLUDED IN TOTAL OSS LABOR COSTS?

A. There were three categories of employees. The first category of employees was the OMT PMO which provided the interface between GTE Network Services and GTEDS. The OMT PMO's total labor costs were extracted by work center in 1998.

The second category of employees was the finance employees who tracked OMT related expenditures. In this case, total labor costs were extracted monthly from GTE's payroll system, RDM, using social security numbers.

The third category of employees included those employees responsible for OMT System Architecture and Planning, Design, Migration/Integration, Program Management, and Requirements & Implementation. Prior to 1998, these GTE employees' labor and expenses resided in budget centers MXXX. All costs for these groups were extracted from OPARS based on these budget centers. In 1998, these groups in the third category became part of GTEDS and began reporting their time directly to DPSRs. The costs were no longer defined as "labor." The costs became "non-labor" and are reflected in the 1998 GTEDS costs mentioned above.

V. ALLOCATION OF OSS COSTS TO PROJECTS

Q. PLEASE EXPLAIN WHY GTE ALLOCATED CERTAIN OSS TRANSITION COSTS TO THE PROJECTS.

A. With the exception of specific DPSRs, GTEDS costs were direct assigned to specific OSS projects as described in Mr. Holland's testimony. However, the costs of total work groups or employees that worked on multiple OSS projects could not be direct assigned to one particular project. These costs included External Vendor costs, Contractor costs, Infrastructure costs, Employee Expenses and Labor/benefits and were allocated to the projects. We developed an allocation process to distribute these types of costs and the DPSR costs that were not direct assigned (e.g., integrated testing, Change Control Board issues, and documentation costs) across projects.

Q. PLEASE DESCRIBE THE OSS COST ALLOCATION PROCESS GTE EMPLOYED TO DETERMINE OSS TRANSITION COSTS BY PROJECT INCLUDED IN THE COST STUDY SUBMISSION.

A. The allocation was accomplished in the following manner. Total OMT related Systems Development & Enhancement costs by DPSR were mapped to OSS projects based on input from the OMT PMO. The DPSR costs were then summed by project to create total systems costs for all projects. The OSS individual project costs were listed, totaled and converted to percentages of the total OSS project costs. These costs included projects that were cancelled.

The calculated project percentages were used as the basis to distribute the costs of total work groups or employees that worked on multiple OSS projects that could not be direct assigned to one particular project. This allocation process was also used to distribute DPSR costs for integrated testing, Change Control Board issues, and documentation costs.

These costs were allocated by percentage to the OSS projects and were included in the labor or non-labor category. The costs associated with cancelled projects were excluded from the OSS transition costs all together (Exhibit TM-2C).

VI. LABOR BENEFIT LOADING

Q. PLEASE EXPLAIN THE LABOR BENEFIT LOADING CALCULATION.

A. Up to this point, standard Uniform System of Accounts (USOA) clearings (such as employee benefits) have not been included with any of the GTE labor costs that were extracted. Since GTE OMT costs were identified and tagged at the "front end" of the accounting process, it was deemed proper to compute and add employee benefit costs for the employee labor that was identified with OMT activities. These employee benefits include the costs of company-paid expenses such as insurance, pensions, and payroll taxes (which are often referred to as Insurance, Pension, and Taxes (IPT) expenses). IPT distribution rates are computed periodically by the Company Managerial Distributions group of the Finance Department. Actual GTE 1996

through 1998 IPT distribution rates (per labor dollar) were applied to labor expense to compute these OMT-related employee benefit expenses.

VII. 1999 AND BEYOND OSS TRANSITION COSTS

Q. YOU HAVE DISCUSSED COSTS FOR 1996 THROUGH 1998. WHAT ABOUT 1999 AND BEYOND?

A. In 1999, GTE implemented the GTE Integrated Systems Plan (GISP). That plan called for the standardization of all D&E (D&E) activity across all GTE Business Units. The goal of this plan is to maximize cost efficiencies by reducing internal billing and overhead processes. Included in the plan is the capitalization of D&E costs on the books of GTEDS.

Q. WHY WERE THESE COSTS CAPITALIZED?

A. In its Statement of Position (SOP 98-1) entitled *Accounting For the Costs of Software Developed or Obtained for Internal Use*, the American Institute of Certified Public Accountants (AICPA) stated that software developed for internal use was to be capitalized. The FCC consequently issued FCC 99-106 stating that the costs of all computer software should be recorded in conformance with generally accepted accounting principles (GAAP). GTEDS costs have been identified as internal use software costs.

Q. HOW WILL THESE COSTS BE BILLED TO GTE NETWORK SERVICES?

A. GTEDS will bill GTE Network Services the amortized cost of the software over a five-year period beginning at the time the software is placed in service. OSS related DPSRs are being tracked and the amortization associated with OSS implementation will be identifiable. All applicable OSS related DPSRs for 1999 have been identified and will be billed to GTE Network Services over a five-year period beginning in 2000 through 2004.

VIII. SUMMARY

Q. PLEASE SUMMARIZE YOUR TESTIMONY.

A. I have described in detail the financial systems that GTE used to identify and track the OSS transition costs that are associated with OSS implementation incurred during 1996 through 1998. In addition, I have explained the methodology that GTE used to identify costs, including labor benefits by year for the OSS Projects. Finally, I have also explained how GTE identifies the costs for 1999 and beyond. In conclusion, this testimony demonstrates that all recorded costs have been verified and recorded in sufficient detail to allow us to capture and track all related OSS transition costs necessary to support the recovery of costs that were included in GTE's cost study submission.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does.