BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of the Pricing Proceeding for Interconnection, Unbundled Elements, Transport and Termination, and Resale)	**PHASE II**
In the Matter of the Pricing Proceeding for Interconnection, Unbundled Elements, Transport and Termination, and Resale for U S WEST COMMUNICATIONS, INC.)	DOCKET NOS. UT-960369, UT-960370, UT-960371
In the Matter of the Pricing Proceeding for Interconnection, Unbundled Elements, Transport and Termination, and Resale for GTE NORTHWEST INCORPORATED)	U S WEST'S RESPONSE TO COMMISSION QUESTIONS REGARDING COMPLIANCE FILING **(March 24, 2000)**

On March 13, 2000, The Washington Utilities and Transportation Commission (Commission) issued a *Request for Clarification* concerning the compliance filings and parties' comments on those filings. U S WEST herein responds to questions directed to U S WEST.

Question 23.
AT&T objected to the inclusion of administrative, product management, and business fee expenses as part of the U S WEST's estimate of its TELRIC costs (OSS p. 4; UNE NRC, pg. 8; ILNP, p. 10: Customer Transfer Charge, p. 12). U S WEST responded that these items have been included as part of the Company's direct costs (p. 5). Please demonstrate how administrative, product management, and business fee expenses are direct costs and where

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they were included in cost studies that were filed earlier in this proceeding. This may be done by attaching relevant portions of exhibits which demonstrate that the OSS, UNE NRC, and ILNP studies previously considered in this docket included these cost loaders. In addition, please identify how administrative, product management, and business fee expenses are related to the cost accounts identified at Par. 203 of the 17th Supplemental Order and U S WEST's response to Bench Request No. 104.

Response**:**

In order to respond to the first part of the Commission's request, regarding U S WEST's inclusion of administrative, product management, and business fee expenses as direct costs in cost studies previously filed with the Commission in this docket, U S WEST has included as Confidential Attachment A to this filing, pages from ILNP and UNE NRC cost studies which were filed on 06/10/98 and from OSS cost studies which were filed on 10/27/98. These pages are identified as pages 1-4 of 103, Nonrecurring Cost Study for Unbundled Elements - Number Portability; pages 11-16 of 132, Nonrecurring Cost Study for Unbundled Elements – DS0 EICT; and cover page and page 12, Access to OSS for Interconnection – Development and Enhancements and cover page and page 5, Access to OSS for Interconnection – Ongoing Maintenance. For ease of reference, U S WEST has circled the relevant administrative, product management and business fee expenses that are included as direct costs in the studies. U S WEST submits that a review of its other costs studies will reveal similar inclusion of these expenses as direct costs.

Regarding how these costs are related to the cost accounts identified at paragraph 203 of the 17th Supplemental Order and U S WEST's response to Bench Request No.104, U S WEST submits the following. Portions of accounts 6722, 6724, 6124, 6122.1, 6123, 6112, 6115, and 6116 were considered as direct costs in U S WEST's cost studies and the BCPM and were not included in the amounts developed as attributable or common in the calculations shown in Bench

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Request No. 104. Consequently, the attributable and common factors adopted by the Commission in paragraph 203 of its 17th Supplemental Order are not based on the direct costs that were deducted from these accounts.

Question 24:
AT&T states that U S WEST provides inadequate documentation for the removal of certain customer transfer charge expenses and capital expenditures (p.4). U S WEST, responding to a similar concern of Staff, responds that documentation is available at page 115 of 132 of its November 15, 1999 filing (U S WEST response at page 9). Provide a narrative that clearly shows how the customer transfer charge expenses and capital expenditures were removed from the OSS system costs and then added to the customer transfer charge. Include in the response page references to where these changes were made in the study.

Response:

U S WEST's compliance cost study shows the 1997-1999 expenses and capital that go into the cost study input calculations (See attachment B, page 2 of the Access to Operational Support Systems for Interconnection – Development and Enhancements (Start Up) Cost Study). Categories of expenses and capital are shown for each year. The Resale category of expenses maps to the customer transfer charge OSS system expenses. Attachment B, page 2 shows blank values in the Resale category for each year of expenses and capital. This omission constitutes "removal" of these dollars from the calculation of cost study input values.

Start Up Cost Study		Customer Transfer Charge Portion of the NRC Study	
Removed Expenses		Added Expenses	
1997	$3,590,110*	1997	$3,671,700*
1998	$2,500,000	1998	$2,500,000
1999	$ 66,000	Subtotal (1997 + 1998)	$6,171,700
Total	$6,156,110	1999	$ 66,000
		Total (Subtotal + 1999)	$6,237,700

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NPV of Total	$6,231,902.50
NPV of Line Loss Demand	1,659,007
Cost/Line (NPV Total/NPV Demand) $	3.76**

*The estimated value of the Resale OSS system expenses for 1997 varied before the final calculation of 1997 expenses for this category was completed. The original cost studies on which these compliance cost studies are based were produced at different times and used different values for the 1997 expenses.

**The non-recurring OSS Resale system expense per line ($3.76) is an input to the customer transfer charge portion of the non-recurring cost (NRC) study. The calculations shown above are not included in the NRC study work papers. This input, $3.76, can be found on pages 115, 117, 120, 122, 125, and 129 of the NRC cost study. See Table Below

SYSTEM COSTS FOR RESALE

	1998	1999	2000	2001	2002
Expenses	$6,171,700	$66,000	$0	$0	$0
POTS Line Loss	$ 425,606	$358,692	$300,717	$324,177	$310,516
Private Line Loss	$ 1,750	$ 802	$ 724	$ 747	$ 726
13% Churn	$ 55,556	$ 46,734	$ 39,187	$ 42,240	$ 40,461
Total Line Loss + Churn	$ 482,912	$ 406,228	$ 340,628	$ 367,164	$ 351,703

Post Tax Cost of Money	9.63%
Total Expenses	$6,237,700

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Net Present Value Expenses	$6,231,902
Total Line Loss + Churn	1,948,636
Net Present Value Line Loss + Churn	1,659,007
Direct NRC Cost Per Line	$3.76

Start Up Cost Study

Removed Capital

1997 $144,890

1998 $0

$0

Total $144,890

Resale OSS system capital dollars removed from the Development and Enhancements cost study, Attachment B, page 2, have not been added to the Customer Transfer Charge cost study. Consequently, U S WEST is not attempting to recover the capital component at this time.

Question 25:
AT&T criticized U S WEST for the lack of sufficient documentation for the IMA/EDI cost allocation (page 4). How does U S WEST respond to this concern? Please provide a description of how the allocation was made and include appropriate citations to the work papers where the calculations are identified.

Response:

To determine the allocation of costs, U S WEST looked at each of the systems development projects which were established to provide systems access. Each project was assigned a category based on the work that was performed for the project. If the work was attributable solely to IMA GUI functionality, it was assigned to the IMA cost allocation. If the

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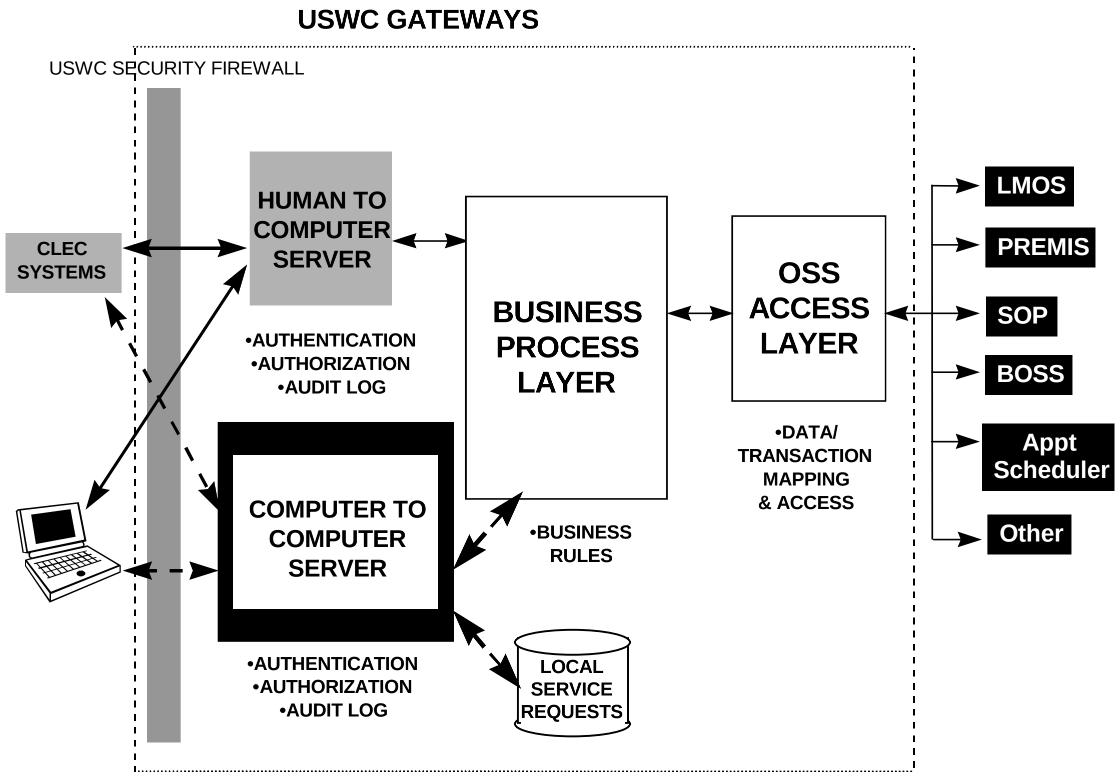
work was attributable solely to IMA EDI functionality, it was assigned to the EDI cost allocation. If the work impacted both the GUI and EDI interfaces, it was assigned to the shared cost allocation. These assignments apply to all costs for each project, including startup costs and ongoing maintenance costs.

The picture below illustrates how orders are processed. All orders, whether entered via the GUI or EDI interface converge at the Business Process Layer (BPL). The BPL contains the business rules regarding order processing. Orders then proceed to the OSS Access Layer (OAL). This process determines which downstream systems are required to process the order. All projects that were identified as shared were projects in which work was performed on the BPL, the OAL or on the downstream systems. This work was necessary for all orders.

USWC MEDIATED ACCESS ARCHITECTURE



U S WEST's compliance cost study shows the 1997-1999 expenses and capital expenditures that go into the cost study input calculations (See attachment B, page 2 of the Access to Operational Support Systems for Interconnection – Development and Enhancements compliance cost study). Expense and capital dollars allocated to IMA/EDI were calculated

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outside the cost study. These calculations are not included in the cost study work papers. The results of these calculations are shown on rows 11, 12, 25 and 26 on this same page.

U S WEST's compliance cost study shows the 1999-2004 expenses that go into the cost study input calculations (See attachment B, page 2 of the Access to Operational Support Systems for Interconnection – Ongoing Maintenance Compliance Cost Study). Expense dollars allocated to IMA/EDI were calculated outside the cost study. These calculations are not included in the cost study work papers. The results of these calculations are shown on rows 12 and 14 on this same page.

Question 26:
AT&T states at page 8 that the rate for all NRCs, with the exception of the first unbundled loop without testing, decreased by two percent when compared to the July 9th rates contained in Exhibit MSR-2. If AT&T is correct, why wasn't there a similar change for the first unbundled loop without testing?

Response:

The reason the NRC for the unbundled loop 'without testing – 1st' does not exhibit a similar decrease as other unbundled loop NRCs is that the cost basis for this specific element was ordered by the Commission paragraphs 469 and 473 of the 8th Supplemental Order in this docket. At those paragraphs the Commission found the installation cost for the element was $30.15 and that the disconnection cost for the element was $11.58. Consequently, U S WEST has not adjusted the underlying costs for this element in the same manner as the costs for other like elements.

Question 27:
Interim local number portability. Staff has expressed its concern that U S WEST has inflated its NRC for ILNP. Staff states that the Commission did not state that U S WEST's

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nonrecurring costs for ILNP were acceptable. Therefore Staff can only assume that the Commission's determination in Par. 533 of the 8th Supplemental Order applies requiring U S WEST to reduce its retail nonrecurring charges for ILNP by 50%. Staff at pp. 3-4. U S WEST responds that Par. 435 of the 17th Supplemental Order accepted U S WEST's nonrecurring cost compliance filing. Furthermore, U S WEST expressed its doubts about the applicability of Par. 533 since ILNP is not a retail service. U S WEST at page 8. If U S WEST's interpretation of Par. 533 of the 8th Supplemental Order is correct, to which NRCs would this paragraph apply? Doesn't the Order only address wholesale services?

Response:

Paragraph 533 of the 8th Supplemental Order clearly applies only to the nonrecurring charges for resold retail services and not the nonrecurring charges associated with interconnection and the provisioning of unbundled network elements. Interim local number portability (ILNP) is not a resold retail service and, thus, paragraph 533 of the 8th Supplemental Order does not apply.

Paragraph 533 of the 8th Supplemental Order states:

> U S WEST and GTE must file, and the Commission must approve, avoided cost studies for nonrecurring activities. Until such avoided cost studies are approved, the Commission orders that a 50% avoided cost discount applies to retail nonrecurring activities.

A practical application of this requirement would be that in the absence of avoided cost studies for retail nonrecurring activities, U S WEST would only be able to charge a reseller one half of the nonrecurring charge for the installation of a business exchange service. For example, if the NRC for a 1FB was $50, U S WEST would only be able to charge the reseller $25. U S WEST sees no linkage whatsoever between this requirement and the ILNP recurring and nonrecurring rate elements.

Question 28:
AT&T asks that the rate sheet make reference to certain conditions ordered by the Commission (ILNP, p. 10; cable unloading, p. 10: bridge tap removal, p. 10; shared

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transport, p.13). Does U S WEST object to including these conditions on the rate sheet? If so, why?

Response:

U S WEST does not object to including the conditions referenced by AT&T on its compliance rate sheet.

Question 29:
Both Commission Staff (p. 4) and AT&T (p. 11) state that the Company's customer transfer charge does not comply with the Commission's Order. U S WEST responds that the filing does meet the requirement of the Commission's 17th Supplemental Order. Please provide documentation showing how the filing complies with the requirements of the order. The documentation should demonstrate how the November 15 rates filed by U S WEST comport with the findings of the Commission.

Response:

The 'new format' CTC study was provided to the Commission Staff in the August 1998 time frame for review and acceptance. All process times used in that study were provided by subject matter experts. Commission Staff member, Jing Roth, reviewed the study and, while agreeing with the format, changed (lowered) several of the task times used in the study. Although U S WEST did not agree with the changes Ms. Roth made, U S WEST incorporated the Commission Staff recommended times into the new study. U S WEST believes that any times that were not modified by the Staff were acceptable to them. The November 1999 CTC study included new times suggested by Commission Staff member Roth and re-inserted the systems costs for resale. U S WEST believes the CTC study is in compliance with Commission finding in the 17th Supplemental Order, paragraph 465.

Also responsive to this data request is U S WEST's response to #24 of this Request for

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Clarification.

Question 30:
At Par. 372 of the 17th Supplemental Order the Commission adopted the New York Method for recovery of interim number portability costs. The CLECs argued that because the record in this proceeding does not contain the necessary data for apportioning the cost between carriers, the ILECs cannot make an appropriate compliance filing on this issue. Pp. 7-8. U S WEST's November 15, 1999 compliance filing includes an ILNP recurring price of $1.73, a value that does not reflect application of the New York Method. How does the Company propose that its charges be modified to be consistent with the use of the New York Method?

Response:

In order to be consistent with the use of the New York Method, U S WEST needs to apply a factor to its recurring ILNP charge which represents the percentage of competitive providers' working access lines to total working access lines in U S WEST's operating territory. The data required to develop such a factor includes an inventory of all competitive working access lines and all access lines. This data needs to be updated periodically to account for changing market conditions. Accordingly, U S WEST recommends that the Commission require competitive providers to provide the necessary working access line information at periodic intervals so that it may develop the requisite factor for the determination of its ILNP charge.

Respectfully submitted this 24th day of March, 2000.

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