

**Before the**  
**State of Washington**  
**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 (Recurring  
Costs)

**Docket No. UT-023003**

Rebuttal Testimony

of

**SCOTT C. LUNDQUIST**

on behalf of

AT&T COMMUNICATIONS OF THE PACIFIC NORTHWEST, INC.

May 12, 2004

**PUBLIC VERSION**

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1 INTRODUCTION

1

2

3 **Qualifications**

4

5 Q. Please state your name, position and business address.

6

7 A. My name is Scott C. Lundquist. I am a Vice President of Economics and Technology, Inc.  
8 (“ETI”), Two Center Plaza, Boston, Massachusetts 02108. Economics and Technology, Inc.  
9 is a research and consulting firm specializing in telecommunications economics, regulation,  
10 management and public policy.

11

12 Q. Are you the same Scott C. Lundquist who offered Responsive Testimony filed April 20,  
13 2004 in this proceeding?

14

15 A. Yes.

16

17 **Summary of Testimony**

18

19 Q. Please summarize the testimony that you are presenting at this time.

20

21 A. My testimony addresses Verizon’s analysis of the embedded costs of providing unbundled  
22 network elements (“UNEs”) as presented in the April 20, 2004 testimony of Mr. Terry R.

1 Dye.<sup>1</sup> My testimony explains why embedded cost analyses of this type offer no guidance to  
2 the Commission for setting TELRIC-compliant UNE rates. In addition, I identify and  
3 explain a series of flaws in Mr. Dye’s analysis that demonstrate that his embedded cost  
4 results are grossly overstated and unreliable. These flaws include:

- 5 • Use of an inappropriately high cost of capital factor, that does not reflect current  
6 economic conditions affecting cost of debt and cost of equity and thus produces  
7 overstated cost estimates;  
8
- 9 • Failure to disaggregate much more expensive non-basic loop types, such as ISDN,  
10 Signaling, DS1, and DS3 loops, from basic voice grade loops, so that its  
11 undifferentiated “loop” cost result is not a reliable or accurate indicator of the cost of  
12 a basic voice loop;  
13
- 14 • A flawed allocation of land and support costs to UNEs, which causes the cost result  
15 for unbundled loops to be greatly overstated.  
16  
17

18 In light of these findings, I recommend that the Commission give no weight to Mr. Dye’s  
19 embedded cost analysis as it determines TELRIC-compliant costs and rates for Verizon’s  
20 UNEs.  
21

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1. Reply Testimony of Terry R. Dye on Behalf of Verizon Northwest Inc., April 20, 2004 (“Dye (Verizon) Reply Testimony”).

## 1 VERIZON'S EMBEDDED COST ANALYSIS FOR UNES

2

3 **Verizon's analysis of the embedded costs of UNES provides no guidance to the Commission**  
4 **for setting TELRIC-compliant UNE rates.**

5

6 Q. Have you reviewed the April 20, 2004 Reply Testimony of Mr. Terry Dye and the cost  
7 analysis he presents?

8

9 A. Yes, I have.

10

11 Q. What does Mr. Dye's analysis purport to show?

12

13 A. Mr. Dye presents an analysis of Verizon's year 2003 ARMIS<sup>2</sup> data for Washington that  
14 purports to calculate the Company's monthly recurring costs to provide UNE-P and stand-  
15 alone UNE loops to CLECs. As stated by Mr. Dye, "the relevant question for our study is  
16 the *average* cost Verizon NW has already incurred to provide a UNE-P."<sup>3</sup> Mr. Dye then  
17 compares those costs to the TELRIC-based rates that AT&T/MCI have proposed for those  
18 elements, and claims that "adopting those rates would result in a shortfall of \$30.19 per

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2. "ARMIS" refers to the FCC's "Automated Reporting Management Information System" by which Verizon and other large ILECs report financial accounting and operating data to the FCC on a regular basis.

3. Dye (Verizon) Reply Testimony at 4, lines 15-16 (emphasis in original).

1 UNE-P per month and \$19.80 per loop per month.”<sup>4</sup> Mr. Dye concludes that those rates  
2 “would not permit Verizon NW to recover its historical investment in, and the associated  
3 operating expenses for, the facilities Verizon NW uses to provide UNEs to CLECs, and thus  
4 do not provide just compensation for those facilities.”<sup>5</sup>

5  
6 Q. Mr. Lundquist, what is your overall assessment of that testimony?

7  
8 A. In those statements, Mr. Dye candidly admits that he is presenting an analysis of Verizon’s  
9 *historical, embedded* costs to supply UNEs. Unfortunately, that admission confirms that  
10 Mr. Dye’s testimony and accompanying cost analysis are *fundamentally irrelevant* to the  
11 goal of this proceeding. That goal is (of course) to determine recurring rates for Verizon’s  
12 unbundled network elements (“UNEs”) based on the forward-looking economic costing  
13 principles defined by the FCC’s TELRIC rules. As the Commission is no doubt aware, the  
14 UNE pricing standard set forth in the *Telecommunications Act of 1996* expressly prohibits  
15 setting UNE rates with “reference to a rate-of return or other rate-based proceeding”<sup>6</sup> and  
16 the FCC has interpreted this to mean that embedded costs “shall not be considered in a  
17 calculation of the forward looking economic cost of an element.”<sup>7</sup> While Verizon and the  
18 other BOCs have strenuously resisted this dictum in state regulatory proceedings and

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4. *Id.* at 2, lines 8-9.

5. *Id.*, at page 1, lines 11-14.

6. 47 U.S.C. Section 252(d)(A)(1)(i).

7. 47 CFR Section 51.505(d)(1).

1 litigation, counsel advises me that no less an authority than the U.S. Supreme Court has  
2 rejected their arguments and upheld the Act's UNE pricing standard.<sup>8</sup>

3  
4 Q. Does that mean that an embedded cost analysis cannot be used as a benchmark to evaluate  
5 the reasonableness of the results from a TELRIC analysis?

6  
7 A. Whether or not the Commission can consider an embedded cost analysis in that manner  
8 raises a legal issue which I defer to the parties' briefs. As an economic matter, however, it  
9 is clear that an embedded cost analysis offers little or no meaningful guidance to the  
10 Commission for purposes of assessing the reasonableness of TELRIC cost results.

11  
12 Q. Why is an embedded cost study not helpful in this regard?

13  
14 A. The problem is that there is no straightforward relationship between the forward-looking  
15 costs calculated under the TELRIC methodology and an ILEC's embedded costs. Relative  
16 to an embedded cost analysis, a proper TELRIC analysis requires significantly different  
17 assumptions concerning such key variables as the local exchange network's technologies,  
18 configurations, and routing, the unit costs of equipment and materials, and economic inputs  
19 such as the cost of capital and applicable depreciation rates. Given these numerous  
20 differences, a cost analyst would not expect that the two types of cost studies would  
21 necessarily produce similar cost estimates. Furthermore, it should be remembered that a

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8. *Verizon Communications Inc. et al v. FCC et al*, 535 U.S. 467 (2002); 2002 U.S. LEXIS 3559.

1 primary rationale for developing forward-looking costs is to eliminate the influence of  
2 inefficiencies that are embedded in the ILECs' existing network and operations. This  
3 consideration alone implies that a TELRIC study is likely to produce lower cost results than  
4 an embedded cost study for the same network elements.

5  
6 Q. Are you aware of other state regulatory commissions that have concluded that embedded  
7 costs do not provide reliable guidance for establishing TELRIC-compliant UNE costs and  
8 rates?

9  
10 A. Yes. In response to the FCC's TELRIC NPRM,<sup>9</sup> the Illinois Commerce Commission  
11 ("ICC") submitted comments in which its position on this matter was made abundantly  
12 clear. In order to deter inefficient entry and encourage efficient facilities-based entry, the  
13 ICC submitted that "UNE prices should be set at levels that are consistent with forward-  
14 looking costs, since in competitive markets prices tend to reflect forward-looking costs."<sup>10</sup>  
15 The ICC specifically rejected the notion that UNE prices should be based upon historical  
16 costs, as this "may lead to inefficient facilities-based entry, or discourage efficient facilities-

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9. *Review of the Commission's Rules Regarding the Pricing of Unbundled Network Elements and the Resale of Service by Incumbent Local Exchange Carriers*, WC Docket No. 03-173, *Notice of Proposed Rulemaking*, Rel. September 15, 2003 ("TELRIC NPRM").

10. *Review of the Commission's Rules Regarding the Pricing of Unbundled Network Elements and the Resale of Service by Incumbent Local Exchange Carriers*, WC Docket No. 03-173, Initial Comments of the Illinois Commerce Commission, December 16, 2003 ("ICC TELRIC NPRM Comments"), at 12.



1 based entry.”<sup>11</sup> The ICC noted that it has “fundamental reservations” about using embedded  
2 costs not just in *setting* UNE rates, but also in “*judg[ing]* the reasonableness”<sup>12</sup> of forward-  
3 looking UNE rates, since “historical costs were incurred through the purchase of past tech-  
4 nologies and network designs rather than forward-looking technologies and designs.”<sup>13</sup> The  
5 ICC went on to note that, “historical costs may reflect past inefficiencies – the greater these  
6 past inefficiencies, the greater the likely difference between historical costs and forward-  
7 looking costs.”<sup>14</sup> Moreover, the ICC submitted that “if the incumbent’s historical network is  
8 not efficient on a forward-looking basis, the ILEC should not necessarily be allowed to  
9 recover its embedded costs from CLECs through its UNE rates.”<sup>15</sup> The ICC’s ultimate  
10 recommendation to the FCC was that it “should not use historical costs to judge the  
11 reasonableness of forward-looking costs, since historical costs were incurred through the  
12 purchase of past technologies and network designs rather than forward-looking technologies  
13 and designs.”<sup>16</sup>

14  
15 All of the ICC’s findings in this regard are equally applicable in the instant proceeding, and

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11. *Id.*, at 13.

12. *Id.*, at 14 (emphasis supplied).

13. *Id.*

14. *Id.*

15. *Id.*, at 15.

16. *Id.*, at 96, recommendation No. 3.

1           thus the Commission should come to the same conclusions and specifically reject any  
2           reliance upon the embedded cost study offered by Mr. Dye.

3

4           **Verizon's embedded cost study is flawed in execution and grossly overstates the costs**  
5           **Verizon incurs in order to supply UNEs.**

6

7           Q. Aside from the fundamental irrelevance of Mr. Dye's testimony to the purpose of this  
8           proceeding, does his analysis provide valid estimates of Verizon's embedded costs for  
9           unbundled loops and UNE-P?

10

11          A. No, it does not. The study Mr. Dye presents is far too simplistic and broad-gauge to be  
12          accurate, and a series of errors in its costing methodology ensure that the results are  
13          distorted and unreliable. I do not wish to consume the Commission's time and resources  
14          with a detailed, point-by-point rebuttal to that methodology, given that the study amounts to  
15          an unwarranted diversion from the parties' TELRIC analyses that the Commission must  
16          focus on. Therefore, I will limit my testimony herein to explaining a few of the major flaws  
17          in Verizon's cost study to demonstrate that it fails to provide valid estimates of the  
18          Company's embedded costs for unbundled loops and UNE-P.

19

20          Q. What is the first flaw that you have identified in Verizon's embedded cost study?

21

1 A. Verizon has assumed an excessively high cost of capital by applying the FCC's last cost of  
2 capital prescription, which yields an 11.25% weighted average cost of capital.<sup>17</sup> Indeed,  
3 while relying on the 11.25% prescription, Mr. Dye neglects to point out that the FCC made  
4 that determination in 1990, fourteen years ago, so that it is seriously outdated.<sup>18</sup> Updating  
5 those parameters would result in a substantially lower weighted average cost of capital, even  
6 on an embedded basis. For example, ETI's Dr. Lee Selwyn has shown in his April 20, 2004  
7 testimony that Verizon's current average weighted yield to maturity for its debt is only  
8 4.98%,<sup>19</sup> which is much lower than the 8.8% cost of debt assumed in the FCC's prescription.  
9 Making that change alone and leaving all other aspects of Verizon's assumed cost of capital  
10 the same would reduce its weighted average cost of capital ("WACC") by fifteen percent, to  
11 9.56%.<sup>20</sup>

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17. Dye (Verizon) Reply Testimony, at 8.

18. *Represcribing the Authorized Rate of Return for Interstate Services of Local Exchange Carriers*, CC Docket No. 89-624, Order, 5 FCC Rcd 7507 (1990). Indeed, when the FCC issued the so-called "MAG Plan Order" in 2001, it terminated a later rate of return prescription proceeding for ILECs (CC Docket No. 98-166) after concluding that "the record compiled in the CC Docket No. 98-166 proceeding is now more than two and one-half years old, and thus is no longer sufficient to permit a prescription of a new authorized rate of return." See, *Multi-Association Group (MAG) Plan for Regulation of Interstate Services of Non-Price Cap Incumbent Local Exchange Carriers and Interexchange Carriers*, CC Docket No. 00-256 et al, Second Report and Order and Further Notice of Proposed Rulemaking in CC Docket No. 00-256, Fifteenth Report and Order in CC Docket No. 96-45, and Report and Order in CC Docket Nos. 98-77 and 98-166, FCC No. 01-304, 16 FCC Rcd 19613 (2001) ("MAG Plan Order"), 19701, at para. 209.

19. See Selwyn (AT&T) Direct Testimony at 11-13.

20. The calculation of the revised WACC (prior to income tax effects), as adjusted only for the updated cost of debt, is as follows:  $WACC = (\text{Cost of Debt} \times \text{Debt Ratio}) + (\text{Cost of Equity})$   
(continued...)

1 Q. Does Verizon's embedded cost study disaggregate the investments attributable to basic  
2 voice grade loops from those required by more specialized and expensive loops, such as  
3 ISDN and digital DS1 loops?  
4

5 A. No, in fact Verizon's embedded cost study does not attempt to disaggregate and identify  
6 separate costs for *any* of the numerous distinct types of loops that Verizon supplies .  
7 Instead, the study simply lumps together all of the loop plant that Verizon reports in ARMIS  
8 Report 43-04 (i.e., its regulated costs prior to jurisdictional separations), and uses this data  
9 (plus similarly-aggregated expense data) to develop a recurring cost per undifferentiated  
10 "loop."<sup>21</sup> This approach contrasts greatly with the TELRIC studies filed by Verizon and  
11 AT&T in this proceeding, which disaggregate and determine separate recurring costs for  
12 basic voice grade loops and several other loop types. For example, Verizon's "TELRIC"  
13 study produces separate cost results for seven different loop types, as detailed in Table 1  
14 below. Likewise, the HAI model offered by AT&T calculates recurring monthly costs  
15 separately for 2-wire basic voice loops, DS1 loops, and DS3 loops.<sup>22</sup>  
16

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20. (...continued)

x Equity Ratio), thus  $(4.98\% \times 44.20\%) + (13.19\% \times 55.80\%) = 9.56\%$ .

21. Dye (Verizon) Reply Testimony, at 3, lines 13-17, and Dye (Verizon) Exhibit TRD-8 at tabs "Calculations" and "43-04."

22. Mercer (AT&T) Exhibit RAM-8A (revised 4-12-04). As shown therein, the HAI also calculates a feeder cost additive for ADSL loops.

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Table 1 Unbundled Loop Types Disaggregated in Verizon's "TELRIC" Study
2-Wire Basic Loop
2-Wire Signaling Loop
2-Wire Digital ISDN-BRI Loop
4-Wire Signaling Loop
4-Wire Digital (56-64-Kb) Loop
DS1 Loop
DS3 Loop
Source: Verizon Exhibit SRP-1T, Attachment A (Revised 1/8/04)

16 Q. Why is the lack of disaggregation in Verizon's embedded cost study a problem?

17

18 A. The lack of disaggregation in Verizon's embedded cost study means that the recurring  
19 monthly "loop" cost it calculates is not an accurate or reliable estimate of the costs of an  
20 unbundled 2-wire voice grade loop. Therefore, it is not appropriate to compare it directly to  
21 the 2-wire voice grade loop cost calculated by the HAI model, as Mr. Dye has done.<sup>23</sup> As  
22 illustrated by Verizon's claimed TELRIC cost results presented in Table 1 above (and  
23 generally corroborated by the costs produced by the HAI model), non-basic, digital loops  
24 can be considerably more expensive than basic voice grade loops.

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23. Dye (Verizon) ReplyTestimony at 2, lines 6-8. The "\$7.64 loop recurring rates proposed by AT&T/MCI in this proceeding" referenced therein is the HAI-generated TELRIC cost for a 2-wire basic voice grade loop, as shown at Mercer (AT&T) Exhibit RAM-8A (revised 4-12-04).

1 For example, Verizon's claimed recurring monthly TELRIC cost for a digital DS1 loop is  
2 \$189.23, which is 5.6 times higher than the \$33.66 monthly cost Verizon claims for a 2-wire  
3 basic loop. Verizon's claimed cost for a digital DS3 loop is \$1058.02 per month, fully  
4 *thirty-one times* the 2-wire basic loop cost! By including these much more expensive loops  
5 in its embedded cost study, Verizon is ensuring that its undifferentiated "loop" cost result  
6 will be significantly overstated relative to the embedded costs specific to a 2-wire basic loop  
7 considered separately. Because Verizon's UNE-P embedded cost result is simply the sum  
8 of that "loop" cost plus costs for common transport and switching,<sup>24</sup> its claimed UNE-P cost  
9 result is also overstated in the same way.

10  
11 Q. Can you illustrate the impact that this problem has on Verizon's claimed embedded costs?

12  
13 A. Yes. Table 2 below presents an illustrative disaggregation of Verizon's claimed embedded  
14 "loop" costs into separate costs for basic 2-wire voice loops and digital DS1 loops. As I  
15 shall explain, Table 2 demonstrates that Verizon's failure to disaggregate the more expen-  
16 sive DS1 loops from its embedded "loop" cost calculation means that its cost result over-  
17 states the embedded cost of a basic voice grade loop by some sixteen percent (16%). Of  
18 course, this cost overstatement is in addition to the other study errors and cost overstate-  
19 ments addressed in my testimony.

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24. Dye (Verizon) Reply Testimony at 3, lines 5-6, and Dye (Verizon) Exhibit TRD-8, at tab "Summary of Current Unit Cost" (UNE-P cost column equals sum of columns for Loop, Transport, and Switching).

Table 2			
Illustration of Verizon's Cost Overstatement from Inclusion of Digital DS1 Loops			
	Average 2003 Loop Count	Per-Line Cost Assuming 5.6 DS1/DS0 Ratio	Verizon's Aggregated "Loop" Cost
Voice grade loop count	1,072,047	\$ 23.66	
DS-1 facility count (on a DS1 basis)	38,367	\$ 133.01	
Total (Verizon's aggregated "loop" count)	1,110,414		\$ 27.44
Verizon's aggregated "loop" cost as a % of implied voice grade loop cost:			116%

Q. Please explain Table 2.

A. To perform the calculation presented in Table 2, I used counts for each facility type that are drawn from Verizon's embedded cost study workpapers.<sup>25</sup> Following Mr. Dye's method, the DS1 loop count used in my Table 2 equals Verizon's 2003 Average figure for Special Access lines, divided by 24 (the number of DS0 channels derivable from a DS1).<sup>26</sup> The voice grade loop count used in my Table 2 equals Verizon's total 2003 Average "Actual Loops" count, minus the DS1 loop count.<sup>27</sup> Next, I calculated the DS1-to-voice grade cost ratio implicit in Verizon's claimed "TELRIC" results, 5.6, and assume that the same cost

25. Dye (Verizon) Exhibit TRD-8, at tab "43-08" (Access Lines Calculations).

26. That is,  $920,799 \div 24 = 38,367$ . *Id.*, at column G (Avg. 2003 Amount).

27. That is,  $1,110,414 - 38,367 = 1,072,047$ . *Id.*, at column G (Avg. 2003 Amount).

1 relationship would apply to Verizon's embedded costs for DS1 and voice grade loops.<sup>28</sup> On  
2 that basis, I chose a voice grade loop cost that, in combination with the 5.6 cost ratio and  
3 loop count values, produced an aggregated "loop" cost of \$27.44, i.e. matching to Verizon's  
4 claimed embedded cost result. Compared to that voice grade loop cost, \$23.66, Verizon's  
5 \$27.44 cost result is 16.0% higher. This means that Verizon's aggregated "loop" cost is  
6 overstated relative to the embedded cost of voice grade loops by some sixteen percent  
7 because it failed to exclude the more expensive DS1 loops.

8  
9 Q. Does Verizon's inclusion of the additional types of non-basic loops in its "loop" result mean  
10 that the cost overstatement is even higher than this?

11  
12 A. Yes, it does. By failing to exclude the other types of more expensive non-basic loops  
13 (ISDN, Signaling, DS3, etc.) as well, Verizon's embedded "loop" result is necessarily over-  
14 stated even more relative to the embedded cost of basic voice grade loops. This circum-  
15 stance alone means that Verizon's "true" embedded cost (prior to any other necessary cost  
16 study corrections) for a basic voice grade loop must be substantially below the \$23.66 value  
17 set forth in my Table 2. However, Verizon's study would need a major overhaul in order to  
18 produce fully disaggregated loop cost results, so that I have not attempted to perform that

---

28. That is,  $\$189.23$  (DS1 Loop Statewide Average)  $\div$   $\$33.66$  (2-wire Basic Loop) = 5.62. Exhibit SRP-1T, Attachment A-1 (Verizon Recurring Cost Study Results, revised 1/08/04). The HAI model results (\$49.26 and \$7.64) have a higher DS1/voice grade ratio (6.45). Mercer Exhibit RAM-8A (revised 4-12-04). Applying that ratio in my Table 2 analysis raises the cost overstatement implicit in Verizon's embedded "loop" cost result to nineteen percent (19%). There is no reason to believe that the embedded cost ratio would not be in the same range as these values.



1 analysis.

2  
3 Q. Has Mr. Dye correctly allocated land and support investments to the loop, transmission, and  
4 switching UNEs in his cost study?

5  
6 A. No. Mr. Dye's treatment of land and support investments is overly simplistic and results in  
7 a greatly excessive allocation of these costs to the unbundled loop. Mr. Dye first assumes  
8 that *all* of the Company's land and support assets can be attributed to UNEs.<sup>29</sup> This is  
9 manifestly false, as those assets also support additional Company services. For example, the  
10 study attributes all of the Company's booked switching investments (USoA account 2210)  
11 to unbundled switching.<sup>30</sup> However, account 2210 also encompasses switching investments  
12 used to provide toll services and packet switching, which are not subject to unbundling  
13 requirements.<sup>31</sup>

14  
15 Furthermore, Mr. Dye determines the amount of land and support assets to allocate to each

---

29. See Dye (Verizon) Reply Testimony at 3, lines 19-20 ("...we calculated the amount of total support investment per line by dividing the sum of the amounts recorded in support asset accounts by the average number of lines in service."), and the corresponding calculation in the Dye (Verizon) Exhibit TRD-8, tab "Summary of Current Unit Cost", line 6, column "UNE-P."

30. Dye (Verizon) Reply Testimony at 7, lines 2-5, and Dye (Verizon) Exhibit TRD-8 at tab "Calculations," line 8 and tab "43-03," line 18.

31. Under USoA, packet switching investments are booked to the subaccount 2212.2 Packet. While toll services switching investments are not separately identified in USoA, they are clearly significant in Verizon's case, as it handled 453,824 interLATA toll calls in Washington in 2003 (ARMIS 43-08 Report, row 508, Verizon Northwest Inc. 2003 InterLATA Toll Calls Completed (Washington)).

1 of the three categories on the basis of their shares of total investment.<sup>32</sup> However, allocating  
2 land simply on the basis of relative investment will greatly distort the cost study's results,  
3 because whereas the loop category will account for a large share of total plant investment,  
4 switching facilities require much more land and building investment than do loops. This is  
5 illustrated in Table 3 below, which compares the investment-driven allocation percentage  
6 applied by Mr. Dye (first column) and the allocators developed in the Company's 2001  
7 Land and Building Cost Study (second column).<sup>33</sup> Verizon describes this study as being  
8 based on BEGIN PROPRIETARY << [REDACTED]  
9 [REDACTED]  
10 [REDACTED] >> END PROPRIETARY.<sup>34</sup> Indeed, it is striking that whereas  
11 Verizon relied upon this study to develop its purported "TELRIC" costs, Mr. Dye has  
12 ignored it in his embedded cost analysis.  
13

---

32. Dye (Verizon) Reply Testimony at 3, line 21 through 4, line 4.

33. See Verizon Land and Building Cost Study 2001, provided as part of the Verizon 2001 Washington Expense Factor Development – UNE Filing (June 2003). The allocators in the second column of Table 3 are taken from Schedule 1 of the Land and Building Cost Study (loop is from "Dist Services" and Switching is the sum of "Central Office" and "Common CO").

34. Verizon Land and Building Cost Study 2001, provided as part of the Verizon 2001 Washington Expense Factor Development – UNE Filing (June 2003), at page 2.

Table 3

**Comparison of Land & Building Allocators**

Unbundled Element	Allocator used in ARMIS study	Allocator used in 2001 L&B Study	Revised Allocators for Wholesale Use
Loop	61.8%	<< [redacted] >>	<< [redacted] >>
Transmission	1.0%	<< [redacted] >>	<< [redacted] >>
Switching	37.2%	<< [redacted] >>	<< [redacted] >>
Total	100.0%	<< [redacted] >>	<< [redacted] >>

As Table 3 shows, the latter allocator for switching is BEGIN PROPRIETARY << [redacted]

[redacted]

[redacted] >> END

PROPRIETARY The 2001 Land and Buildings Study allocators do need to be refined to reflect second-order allocations to Network Operations, Customer Operations, and Corporate Operations made in the that study, as well as to include an allocation to the transport element, and eliminate retail-related costs as described in my April 20, 2004 testimony.<sup>35</sup> However, when those adjustments are performed, the resulting wholesale allocators (shown in the third column of Table 3) still allocate much less land and building expense to the loop element than does Mr. Dye’s analysis.

Q. What is your overall recommendation to the Commission concerning Mr. Dye’s embedded cost analysis?

---

35. See Lundquist Responsive Testimony (AT&T), at 26.

1 A. For all of the reasons set forth earlier in my testimony, I conclude that Mr. Dye's testimony  
2 and the accompanying embedded cost study provide no useful guidance to the Commission  
3 for setting UNE rates. Therefore, I recommend that the Commission give them no weight as  
4 it proceeds to determine TELRIC-compliant recurring costs and rates for the Company's  
5 UNEs.

6

7 Q. Does this conclude your testimony at this time?

8

9 A. Yes.