

**BEFORE THE WASHINGTON STATE  
UTILITIES AND TRANSPORTATION COMMISSION**

**In the Matter of the Petition of** )  
 ) **DOCKET NO. UT-033044**  
**QWEST CORPORATION** )  
 )  
**To Initiate a Mass-Market Switching** )  
**And Dedicated Transport Case** )  
**Pursuant to the Triennial Review** )  
**Order** )

**REBUTTAL TESTIMONY**

**OF**

**ARLEEN M. STARR**

**ON BEHALF OF**

**AT&T COMMUNICATIONS OF THE PACIFIC NORTHWEST, INC.,  
AT&T LOCAL SERVICES ON BEHALF OF TCG SEATTLE, AND TCG  
OREGON  
(COLLECTIVELY "AT&T")**

**HOT CUT AND BATCH MIGRATION PROCESSES**

**February 17, 2004**

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1                   **I.        INTRODUCTION AND PURPOSE OF TESTIMONY**

2   **Q.        PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3   A.        My name is Arleen M. Starr. My business address is 1875 Lawrence Street,  
4            Denver, Colorado 80202.

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

6   A.        I am employed by AT&T as a manager in the Local Services and Access  
7            Management organization. My responsibilities include analyzing local exchange  
8            carriers' intrastate costing and pricing methodologies and studies. As an expert  
9            witness, I have submitted testimony on local and access cost and price issues  
10           within AT&T's Western Region. I have previously submitted testimony in  
11           Arizona, Colorado, Idaho, Iowa, Minnesota, Montana, Nebraska, New Mexico,  
12           North Dakota, Oregon, South Dakota, Utah, Washington and Wyoming.

13   **Q.        PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND.**

14   A.        I graduated from DePaul University in 1983 with a Bachelor of Science degree in  
15            Commerce, with an emphasis in Accounting. I received a Masters of Business  
16            Administration from DePaul University in 1990, with an emphasis in Finance. I  
17            have also completed various training seminars offered by AT&T and other  
18            educational organizations in marketing, economics, accounting, and costing  
19            methods in the telecommunications field.

1 **Q. PLEASE DESCRIBE YOUR WORK EXPERIENCE.**

2 A. I began my career with AT&T in 1984 in the Consumer Marketing Department. I  
3 had various responsibilities in this organization, including managing the expense  
4 and capital budgets. From 1986 to 1990, I held various positions in the Financial  
5 Regulatory Department in Chicago. My responsibilities included intrastate  
6 financial analysis and providing reports and data to the regulatory commissions in  
7 the Central Region. From 1992 to 1996, I worked in the product equipment  
8 business, with financial responsibilities in the product management, sales, and  
9 service areas. I assumed my current responsibilities in May of 1996.

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

11 A. The purpose of my testimony is to comment on the Qwest proposed batch hot cut  
12 nonrecurring charges (“NRCs”), provide the Commission with an analysis of the  
13 Qwest cost studies filed in support of the proposed NRCs and provide AT&T’s  
14 recommendation on the appropriate rates for the Qwest proposed batch hot cut  
15 process. Generally, Qwest’s cost study includes unnecessary steps, redundant  
16 activities, excessive time estimates which should be reduced, an inappropriate  
17 level of flow through and overstated annual cost factors. The result of the  
18 problems identified in Qwest’s batch hot cut cost study is that the proposed rate  
19 for each state is significantly overstated.

1                                   **II.     COST ANALYSIS OF THE QWEST PROPOSED BATCH**  
2                                   **HOT CUT PROCESS**

3           **A.     Qwest Proposed Rates**

4   **Q.     WHAT INFORMATION HAS QWEST FILED IN SUPPORT OF ITS**  
5   **PROPOSED BATCH HOT CUT RATE?**

6   **A.**     Qwest has filed a cost study in each of the 10 states where it is petitioning for  
7           relief from its obligations to provide unbundled local switching and has proposed  
8           the following rates:

	<u>State</u>	<u>Installation</u>	<u>Disconnect</u>	<u>Combined Rate</u>
9	AZ			\$45.96
10	CO			\$45.96
11	IA			\$45.96
12	MN	\$31.39	\$19.69	
13	NE			\$45.96
14	NM			\$45.96
15	ND			\$45.96
16	OR			\$45.97
17	UT	\$31.39	\$18.56	
18	WA	\$31.39	\$19.69	
19				

20           For all states except Minnesota, Utah and Washington, Qwest is proposing to  
21           charge a combined installation and disconnect rate. In the states of Minnesota,  
22           Utah and Washington, the state commissions have required Qwest to charge  
23           separately for installation and disconnection. Therefore, for those three states,  
24           Qwest is proposing the same installation rate as in the other nine states, but is  
25           proposing a separate disconnect rate. In Utah the Qwest proposed disconnect rate  
26           is the current disconnect rate for a basic loop. In Minnesota the current

1 commission-approved disconnect rate is \$1.95 and in Washington it is \$14.41, yet  
2 Qwest is proposing a disconnect rate of \$19.69 for each of these states. Not only  
3 is this rate considerably higher than the commission-approved disconnect rate, it  
4 is higher than the disconnect rate submitted by Qwest for all the other states.<sup>1</sup>

5 **Q. HOW DO THESE RATES COMPARE TO THE CURRENT BASIC**  
6 **INSTALLATION RATES FOR EACH STATE?**

7 A. In six states Qwest's proposed batch hot cut rate is only slightly less, from 2% to  
8 17%, than the current basic installation rate for the first loop. In three states the  
9 batch hot cut rate is higher than the current commission-approved rate for basic  
10 installation for the first loop, and in one state it remains essentially the same. In  
11 Minnesota and Oregon the batch hot cut NRC is significantly above the  
12 commission-approved rate for a basic installation. In many cases, Qwest has  
13 completely ignored the commissions' previous decisions on appropriate inputs to  
14 be used in establishing NRCs.

15 The more appropriate comparison to determine if Qwest's proposed batch hot cut  
16 rate results in a saving for Competitive Local Exchange Carriers ("CLECs"), as  
17 directed by the Federal Communications Commission ("FCC"), is to compare it to  
18 the rate for a basic installation for each additional loop. Batch hot cuts are  
19 performed in groups of 25 to 100 loops; therefore, a comparison to each

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<sup>1</sup> In Utah, Minnesota and Washington since the commissions have ordered Qwest to charge the disconnect charge separately, Qwest has not discounted the disconnect rate to the present value as it has done in the remaining states. This is discussed further in section C.1 of my testimony.

1 additional rate is the more relevant comparison. In cost proceedings Qwest has  
 2 generally proposed one rate for the first loop installation and a reduced rate based  
 3 on cost savings for each **additional** loop. Most states in the Qwest region have  
 4 adopted this rate structure. When making a comparison to the rate established for  
 5 the basic NRC for each additional loop, in four states the proposed batch hot cut  
 6 rate is an increase, in one state it remains the same and the decrease in the five  
 7 remaining states is very minimal – 1% to 6%.

	<u>State</u>	<u>Basic 1st</u>	<u>Difference</u>	<u>Basic add</u>	<u>Difference</u>
8	AZ	\$53.86	-15%	\$46.40	-1%
9	CO	\$55.27	-17%	\$48.77	-6%
10	IA	\$46.01	<b>0%</b>	\$46.01	<b>0%</b>
11	MN	\$4.33	<b>1,080%</b>	\$4.33	<b>1,080%</b>
12	NE	\$55.27	-17%	\$48.77	-6%
13	NM	\$51.94	-12%	\$48.77	-6%
14	ND	\$55.27	-17%	\$48.77	-6%
15	OR	\$10.75	<b>328%</b>	\$10.13	<b>354%</b>
16	UT	\$47.66	<b>5%</b>	\$41.38	<b>21%</b>
17	WA	\$51.94	-2%	\$48.77	<b>5%</b>

19 The basic NRC rate is a combined installation and disconnect rate for a DS0 loop.

20 **Q. WHAT RATE DOES QWEST USE IN COMPARING ITS PROPOSED**  
 21 **BATCH HOT CUT RATE?**

22 A. Qwest compares its proposed batch hot cut rate to its most current cost study for  
 23 the basic installation rate, which ranges from approximately \$75 to \$100 for the

1 first loop and is based on an applied work time of approximately 82 minutes to  
2 123 minutes.

3 **Q. IS QWEST'S CURRENT COST STUDY NRC FOR A BASIC LOOP**  
4 **INSTALLATION RELEVANT AS A COMPARISON TO THE BATCH**  
5 **HOT CUT NRC?**

6 A. No. The NRC for a basic loop installation that Qwest is currently proposing is  
7 irrelevant to the process of establishing a TELRIC-based NRC for a batch hot cut.  
8 The FCC directive is to reduce per-line rates or provide volume discounts in order  
9 to allow competitive entry via Unbundled Network Element ("UNE") loops in the  
10 mass market. An efficient process with appropriately set TELRIC-based rates is  
11 necessary in order to make that a reality. CLECs are currently paying the  
12 commission-approved NRCs associated with loop installations, which are less  
13 than Qwest's proposed rate for a basic installation of \$75.00 to \$100.00.<sup>2</sup>  
14 Comparing the newly established batch hot cut NRC to an inflated cost estimate  
15 based on exaggerated time estimates is a meaningless exercise. The comparison  
16 that is relevant to determine compliance with the FCC's directive is between the  
17 rate that will be established by the commission for a batch hot cut and the rates  
18 CLECs are currently paying.

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<sup>2</sup> In reality the majority of competitive entry has been through UNE-P; and, therefore, the NRC actually paid by CLECs to serve mass market customers is significantly less than any loop NRC. The UNE-P NRC in all of Qwest states is less than \$1.00.



1 Furthermore, the cost-study rate for basic installation was not adopted by any  
2 commission. What Qwest is attempting to do, and which should not be allowed,  
3 is to ignore commission-ordered inputs used in establishing the current, approved  
4 NRCs. For the most part, Qwest ignores commission ordered inputs including  
5 time estimates, elimination of certain activities, flow through percentages, annual  
6 cost factors, cost of capital and other inputs incorporated into Qwest's proposed  
7 batch hot cut rates. The commissions established the current NRCs and  
8 associated inputs. These should not be ignored in establishing the rate for the  
9 batch hot cut process.

10 **B. FCC Guidance on Costs Associated With the Batch Hot Cut Process**

11 **Q. WHAT FINDINGS ARE INCLUDED IN THE TRIENNIAL REVIEW**  
12 **ORDER (“TRO”) RELATED TO THE COST OF A BATCH HOT CUT?**

13 A. The FCC in the *TRO* states, “hot cuts....are often priced at rates that prohibit  
14 facilities-based competition for the mass market.”<sup>3</sup> Additionally, the *TRO* found  
15 “that the non recurring costs associated with hot cuts are prohibitively  
16 expensive.”<sup>4</sup>

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<sup>3</sup> *In the Matter of Review of the Section 251 Unbundling Obligations of Incumbent Local Exchange Carriers, Implementation of the Local Competition Provisions of the Telecommunications Act of 1996, and Deployment of Wireline Services Offering Advanced Telecommunications Capability*, CC Docket Nos. 01-338, 96-98 & 98-147, Report and Order and Order on Remand and Further Notice of Proposed Rulemaking, FCC 03-36 (rel. Aug. 21, 2003) (“*Triennial Review Order*” or “*TRO*”) at ¶ 465.

<sup>4</sup> *TRO* at ¶ 468.

1 **Q. WHAT DIRECTIVE DID THE FCC PROVIDE FOR STATES IN**  
2 **ESTABLISHING A BATCH HOT CUT PROCESS?**

3 A. The FCC directed state commissions to approve “a batch cut migration process to  
4 be implemented by incumbent LECs that will address the costs and timeliness of  
5 the hot cut process.”<sup>5</sup> In addition, the FCC expected “these processes to result in  
6 efficiencies associated with performing tasks once for multiple lines that would  
7 otherwise have been performed on a line-by-line basis.”<sup>6</sup> More specifically, the  
8 FCC that stated that “state commissions should adopt TELRIC rates for the batch  
9 cut activities they approve. These rates should reflect the efficiencies associated  
10 with batched migration of loops to a competitive LEC’s switch, either through a  
11 reduced per-line rate or through volume discounts.”<sup>7</sup>

12 **Q. DO THE RATES AND CORRESPONDING COST STUDIES FILED BY**  
13 **QWEST IN THIS PROCEEDING ACCOMPLISH THE GOALS**  
14 **ESTABLISHED BY THE FCC IN THE TRIENNIAL REVIEW ORDER?**

15 A. No. As explained further in the following section of my testimony, Qwest’s  
16 proposed NRCs do not meet the clear objective set out by the FCC -- to establish  
17 a batch hot cut process that allows facilities based competition for the mass  
18 market.<sup>8</sup> Qwest’s proposed NRCs in most cases do not provide a reduced per-line  
19 rate or a volume discount. In the few instances where Qwest’s proposed batch hot

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<sup>5</sup> *TRO* at ¶ 488.

<sup>6</sup> *TRO* at ¶ 489.

<sup>7</sup> *Id.*

<sup>8</sup> Testimony on the operational impairment issues associated with the Qwest proposed batch hot cut process is provided in the Testimony of Robert V. Falcone.

1 cut rate is a reduction from the current, approved basic installation NRC, it is very  
2 minimal and not sufficient to allow mass market entry.

3 **C. Issues With Qwest Batch Hot Cut Cost Study**

4 **1. Disconnect Rates**

5 **Q. HAS QWEST INCLUDED THE COST TO DISCONNECT A LOOP IN ITS**  
6 **PROPOSED BATCH HOT CUT NRC?**

7 A. Yes. As previously discussed, for all states except Minnesota, Utah and  
8 Washington, Qwest has proposed a combined installation and disconnect NRC.  
9 Qwest states that since the disconnect costs will occur in the future, the estimated  
10 disconnect cost is discounted using a 13.07% cost of capital and assuming a 2.5  
11 year life. This results in the amount being discounted at the rate of 74%. In  
12 Minnesota, Utah and Washington, the commissions have required Qwest to  
13 charge a separate rate at the time of the disconnection.

14 **Q. IS IT APPROPRIATE FOR QWEST TO CHARGE CLECS FOR THE**  
15 **COST OF A DISCONNECT IN THE BATCH HOT CUT PROCESS?**

16 A. No. The batch hot cut process is only used for installations where a CLEC is able  
17 to reuse loop facilities. It is not used for new loop installations where service has  
18 never been established or where no facilities are available for reuse. Qwest  
19 explains this is one of the main differences between the basic installation option  
20 and the batch hot cut. Qwest states that the vast majority of hot cuts that CLECs

1 request today and would require going forward entail the simple reuse of facilities  
2 already being used. Only loops that can be reused, thus not disconnected, are  
3 eligible for the batch hot cut process. In the batch hot cut process a loop is merely  
4 moved either from an ILEC to a CLEC or from one CLEC to another. The lift  
5 and lay activity, along with removing the jumper of the previous service, are  
6 included in the installation portion of the Qwest proposed batch hot cut.  
7 Therefore, Qwest is recovering the disconnection cost twice – once in the  
8 installation cost from the new CLEC acquiring the UNE-L and in the  
9 disconnection cost of the CLEC losing the UNE-L. If it is a Qwest winback,  
10 Qwest should absorb the installation cost, not the disconnecting CLEC. Qwest  
11 should not be allowed to charge CLECs for activities that are not performed on  
12 the CLECs' behalf. The disconnect charge should be removed entirely.

13 **Q. HOW MUCH OF THE BATCH HOT CUT NRC IS FOR**  
14 **DISCONNECTING A LOOP?**

15 A. As provided in the chart earlier in my testimony, the amount of the disconnect  
16 charge either included in the NRC to be charged upfront or separately is  
17 significant, ranging from \$15.44 to \$19.69, approximately 1/3 of the total NRC.

1                                   2.     OSS Costs

2     **Q.     HAS QWEST INCLUDED OSS COSTS AS PART OF THE BATCH HOT**  
3     **CUT NRC?**

4     A.     Yes. Qwest states that it has included OSS costs to establish and enhance the  
5     batch hot cut process. These include the appointment scheduler tool and the  
6     development of the spreadsheet function. Qwest's estimated cost to develop the  
7     web-based appointment scheduler is \$900,000, and the estimated cost to develop  
8     the spreadsheet is \$41,500. The majority of the estimated expense is labor, based  
9     on Qwest's estimate of the number of hours it believes it will take to develop the  
10    OSS tools.

11    **Q.     HOW DOES QWEST INTEND TO RECOVER ITS ESTIMATE OF THE**  
12    **OSS-RELATED COSTS?**

13    A.     Qwest has estimated the anticipated order volumes over a 27 month period and  
14    then determined a per-order amount that is included in the batch hot cut NRC.<sup>9</sup>  
15    This results in a charge of \$.63 per order.

16    **Q.     HAS QWEST PROVIDED SUPPORTING DOCUMENTATION FOR ITS**  
17    **ESTIMATE OF THE OSS RELATED COSTS?**

18    A.     No. The only information provided in support of the \$900,000 estimate to  
19    develop the appointment scheduler is simply a statement of "System

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<sup>9</sup> Qwest volume estimates and implementation schedule is discussed in the testimony of Robert V. Falcone.

1 Enhancements Expense.” The support for the \$41,500 expense for the  
2 development of the spreadsheet includes the two work groups involved, CORAC  
3 and QCCC, along with the title of the representative performing the development,  
4 the associated hours and labor rate.

5 **Q. IS THE SUPPORT PROVIDED BY QWEST SUFFICIENT?**

6 A. No. This is especially true for the \$900,000 related to the system enhancement  
7 amount. Detailed information needs to be provided by Qwest for commissions to  
8 analyze and determine if these are legitimate OSS-related costs that Qwest should  
9 be allowed to recover. CLECs should not be assessed any OSS charges for the  
10 batch hot cut until this can be accomplished. Additionally, once the commission  
11 has reviewed and verified all supporting documentation for Qwest’s estimated  
12 OSS costs and has set a rate, Qwest should not be allowed to attempt any  
13 additional recovery of OSS costs for the batch hot cut process.<sup>10</sup>

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<sup>10</sup> Qwest states that it is difficult to estimate the costs associated with the systems changes and estimates the amount to range from \$900,000 to \$2,800,000. It is not appropriate to address the recovery of these OSS costs until Qwest can accurately determine the amount and provide the commission an opportunity to review and approve such costs.

1                   3.     **Qwest's Proposed Activities and Time Estimates Used in the**  
2                                   **Batch Hot Cut Cost Study**

3     **Q.     HOW WERE QWEST'S PROPOSED ACTIVITIES AND TIME**  
4           **ESTIMATES DEVELOPED?**

5     A.     Qwest's testimony states that a cost analyst working with a team of experts  
6           identified the one-time activities necessary to perform a batch hot cut. The time  
7           estimates were based on input from subject matter experts ("SMEs") and the cost  
8           analyst.

9     **Q.     WHAT ADDITIONAL INFORMATION DID QWEST RELY ON IN**  
10           **DEVELOPING ITS TIME ESTIMATES?**

11    A.     In addition, Qwest reviewed and considered the observations from the Hitachi  
12           study in developing its work times for the batch hot cut activities. The Hitachi  
13           information provides work time observations for some functions performed in  
14           three central offices. The study includes a total of four batches with  
15           approximately twenty-five lines each, or a total of 100 lines.<sup>11</sup>

16    **Q.     HAS QWEST PROVIDED SUFFICIENT SUPPORT FOR ITS PROPOSED**  
17           **ACTIVITIES AND TIME ESTIMATES USED TO DEVELOP THE BATCH**  
18           **HOT CUT COST?**

19    A.     No. Qwest relies almost exclusively on its SMEs and cost analyst, but has not  
20           provided any supporting documentation to validate that they have incorporated

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<sup>11</sup> The Hitachi study is discussed further in the testimony of Robert V. Falcone.

1 the correct activities and time estimates in developing a TELRIC-based cost  
2 estimate. Moreover, the SMEs and cost analyst are not participating in the  
3 proceeding and therefore are not available for questioning and to support their  
4 conclusions. Additionally, Qwest admits the Hitachi study represents only a  
5 limited set of observations and the results do not represent a full time and motion  
6 study, but yet the information was used by the SMEs in the development of work  
7 times.

8 **Q. HAS ANY COMMISSION EXPRESSED CONCERN IN THE PAST OVER**  
9 **QWEST'S USE OF SMES IN DETERMINING TIME ESTIMATES USED**  
10 **IN NONRECURRING COST STUDIES?**

11 A. Yes. The Washington Commission in its last cost proceeding found Qwest's time  
12 estimates that were developed by SMEs to be unreliable and concluded they could  
13 not be relied upon to establish nonrecurring costs. The Commission ordered  
14 further validation of time estimates, including time and motion studies. The  
15 commission found, "Since it is fair to assume that further improvements have  
16 been made at the ISC since 1999, these productivity improvements need to be  
17 reflected in Qwest's rates. Furthermore, work time estimates produced by subject  
18 matter experts that are unsupported by traditional time and motion studies raise



1 serious concerns regarding the validity of nonrecurring cost studies, especially –  
2 as in Qwest’s case – where the experts are not made available for questioning.”<sup>12</sup>

3 **4. Annual Cost Factors**

4 **Q. WHAT COST FACTORS HAS QWEST INCLUDED IN ITS PROPOSED**  
5 **BATCH HOT CUT RATES?**

6 A. Qwest has utilized the annual cost factors developed for Washington to be used in  
7 calculating the batch hot cut cost. Qwest states it has recently updated its factors  
8 methodology, but has not completed the process for all states and is therefore  
9 using the Washington factors in developing the batch hot cut NRC.<sup>13</sup> The indirect  
10 cost factors include: product management 1.6%, sales 1.4%, support assets 17.3%,  
11 and uncollectible 2.3%. This results in an additional \$8.00 in cost which is  
12 included in the batch hot cut NRC. In addition to the indirect cost factors, a  
13 common overhead factor of 11.3% is added, resulting in another \$4.55 being  
14 added to the rate. The net result is that \$12.55 of the \$45.96 hot cut rate is due to  
15 indirect and common costs.

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<sup>12</sup> *In the Matter of the Continued Costing and Pricing of Unbundled Network Elements, Transport and Termination, Docket UT-0003013, Thirty-second Supplemental Order, Part B Order; Line Splitting; Line Sharing Over Fiber Loops, OSS, Loop Conditioning; Reciprocal Compensation and Nonrecurring and Recurring Rates for UNEs*, June 21, 2002, at ¶124.

<sup>13</sup> Qwest states it has recently updated its cost factors for Washington, yet the cost factors are based on 2001 expenses.

1 **Q. ARE THE LEVEL OF QWEST'S ANNUAL COST FACTORS**  
2 **REASONABLE?**

3 A. No. Commissions have previously established what is considered to be a  
4 reasonable level of indirect and common cost that Qwest should be allowed to  
5 recover in UNE rates. Qwest has ignored previous commission decisions  
6 establishing cost factors and instead has used what it is currently proposing in a  
7 cost proceeding in Washington. For example, in Washington the Commission has  
8 established a common overhead factor of 4.05% to be used in setting TELRIC  
9 rates, yet Qwest has chosen to ignore the Commission's order and has used a  
10 common overhead factor of 11.3%. Qwest should be required to use commission-  
11 approved annual cost factors in establishing TELRIC-based batch hot cut rates.

12 **5. Flow Through**

13 **Q. WHAT LEVEL OF FLOW THROUGH HAS QWEST USED IN**  
14 **CALCULATING ITS BATCH HOT CUT NRCS?**

15 A. Qwest has assumed very limited mechanization in its batch hot cut process and  
16 generally relies upon manual processes in determining its batch hot cut costs. The  
17 probability of manual processing for each of the Qwest work centers is as follows:  
18 Interconnection Service Center ("ISC") - 15% probability orders will fallout for  
19 manual handling, if a supplement is required this amount increases to 50%  
20 probability for manual handling; Loop Provisioning Center - 5% probability of  
21 manual handling; Design - 1% to 5% probability of manual handling, if a

1 supplement is required there is no mechanization, 100% probability of manual  
2 processing; Central Office Resource Administration Center - there is no  
3 mechanization, 100% probability of manual processing; Central Office  
4 Technician - there is no mechanization, 100% probability of manual processing;  
5 and Project Coordinator - 10% to 100% probability of manual handling, if an  
6 order is thrown back to Qwest this increases from 10% to 90% probability of  
7 manual processing. The majority of the activities in Qwest's batch hot cut  
8 process are performed on a 100% manual basis, having a significant impact on the  
9 cost estimate.

10 **Q. IS THE LEVEL OF MANUAL PROCESSING INCLUDED IN QWEST'S**  
11 **BATCH HOT CUT COST STUDY REASONABLE?**

12 A. No. There may be some activities which require manual work, but the level of  
13 flow through included by Qwest is insufficient.

14 One area that should be completely mechanized is the ISC, which processes  
15 service orders. The manual processing of orders in this center adds over \$4.00 of  
16 costs to the batch hot cut NRC. Qwest states that it consistently achieves a 96%  
17 or higher flow through in the ISC, yet it only utilizes an 85% flow through in the  
18 cost study. Qwest makes a distinction between "flow through eligible" and "non-  
19 flow through eligible loops." The 96% flow through cited by Qwest is for loop  
20 orders it has determined to be flow through eligible. Qwest lists Centrex orders

1 and CLEC-to-CLEC migrations as orders which are not flow through eligible.<sup>14</sup>  
2 Reducing the flow through level from the achievable level of 96% or higher to  
3 85% for all loops based on a very specific subset of loop types is inappropriate.  
4 Revising the flow through to 96% for all activities in the ISC would reduce the  
5 costs associated with the ISC from over \$4.00 to under \$1.00.

6 **Q. HAVE STATES PREVIOUSLY REVIEWED QWEST'S NRC STUDIES**  
7 **AND FOUND QWEST'S LEVEL OF FLOW THROUGH TO BE**  
8 **INSUFFICIENT?**

9 A. Yes. Most states have conducted cost proceedings to review Qwest's cost studies  
10 and have made adjustments in establishing NRCs, including adjustments to the  
11 level of flow through used in calculating the NRCs. In Minnesota, the  
12 commission established a 2% fallout rate for POTS services and a 4.6% fallout  
13 rate for complex services.<sup>15</sup> The Oregon commission also rejected Qwest's level  
14 of flow through and ordered adjustments. The commission found, "In our  
15 estimation, it is reasonable to assume that a well-managed and maintained OSS  
16 will allow unbundled elements orders to flow through at the 98% rate  
17 recommended by Ms. Petti. Accordingly, we find that the revised nonrecurring

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<sup>14</sup> AT&T does not necessarily agree with Qwest's position that certain types of orders are not capable of being processed on a mechanized basis. If the commission determines there are certain types of orders which cannot be processed electronically, a separate rate can be developed for those orders.

<sup>15</sup> *In the Matter of a Generic Investigation of U S West Communications, Inc.'s Cost of Providing Interconnection and Unbundled Network Elements, et. al.*, Docket No. P-442,5321,3167,466,421/CI-96-1540, et. al., Order Resolving Cost Methodology, requiring Compliance Filing and Initiating Deaveraging Proceeding, May 3, 1999 ("*Generic Cost Docket*"), at Findings and Conclusions I.A.19.

1 cost studies developed in accordance with this order should incorporate this level  
2 of flow through for all electronically submitted orders.”<sup>16</sup> Additionally, this was  
3 affirmed in Order 00-316. The Order stated, “The Commission remains  
4 persuaded that the 98% flow through rate for electronically submitted orders  
5 adopted in Order No. 98-444 is reasonable.”<sup>17</sup> Qwest should not be allowed to  
6 deviate from the commission’s previous findings.

7 **6. Supplemental Orders and Throw Back**

8 **Q. HAS QWEST INCLUDED ANY NEW CATEGORIES NOT PREVIOUSLY**  
9 **INCLUDED IN THE BASIC LOOP COST STUDY IN THE BATCH HOT**  
10 **CUT COST STUDY?**

11 A. Yes. These include additional steps for a supplemental order due to a Connecting  
12 Facility Arrangement (“CFA”) change and additional steps if throw back is  
13 required. These are costs that had not previously been included in the basic loop  
14 installation NRC, and thus are additional costs a CLEC is now required to pay as  
15 part of the batch hot cut process.

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<sup>16</sup> In the Matter of the Investigation into the Compliance Tariffs filed by U S WEST Communications, Inc., Advice No. 1661, In the Matter of the Investigation into the Compliance Tariffs filed by GTE Northwest Incorporated, Advice No. 589, (“*OR NRC Docket*”), Order 98-444 at 71.

<sup>17</sup> *OR NRC Docket*, Order 00-316 at 16.

1 **Q. HOW MUCH IN ADDITIONAL COST IS ADDED TO THE BATCH HOT**  
2 **CUT NRC FOR EACH OF THE NEW CATEGORIES?**

3 A. The supplemental order adds \$1.59 to the cost of the batch hot cut and the throw  
4 back adds \$.46, increasing the cost by over \$2.00.

5 **Q. WHAT ACTIVITIES ARE INCLUDED FOR A SUPPLEMENTAL ORDER**  
6 **AND THROW BACK?**

7 A. The activities that are included in a supplemental order and for throw back are  
8 activities that have already been performed once and are being repeated due to a  
9 change in the CFA. Additionally, the flow through that is applied to the activities  
10 for a supplemental order and throw back is reduced, increasing the amount of  
11 manual activity and thus increasing the cost.

12 **Q. WHAT PERCENTAGE OF PROBABILITY HAS QWEST USED FOR**  
13 **SUPPLEMENTAL AND THROW BACK ORDERS?**

14 A. For supplemental orders, Qwest assumes a 20% probability of occurrence and for  
15 throw back orders Qwest assumes a 5% probability of occurrence.

16 **Q. ARE THESE ASSUMPTIONS REASONABLE FOR THE BATCH HOT**  
17 **CUT PROCESS?**

18 A. No. The batch hot cut process is very limited to the type of loops which can be  
19 included in the process. Qwest will not allow a loop to be included in the batch  
20 hot cut process that requires a field dispatch. This eliminates IDLC and EX

1 Cables.<sup>18</sup> Additionally, anytime a loop installation requires coordination or  
2 additional testing it is excluded from the batch hot cut process. Therefore, the  
3 probability of occurrence for a supplemental order or a throw back should be  
4 greatly reduced. Additionally, if the number of loops included in a batch hot cut  
5 falls below the minimum of 25 lines to 20 lines,<sup>19</sup> Qwest will still process the  
6 batch, thus reducing the likelihood of a supplemental order. Qwest's probabilities  
7 that a supplemental order or a throw back will be required appear to be overstated,  
8 adding unnecessary costs to the batch hot cut NRC. Qwest simply has not  
9 provided a sufficient basis for the probabilities.

### 10 **III. SUMMARY AND CONCLUSION**

11 **Q. PLEASE SUMMARIZE YOUR CONCLUSIONS.**

12 A. Qwest's proposed batch hot cut rates as filed should not be approved; this  
13 includes Qwest's attempt to recover its unsubstantiated OSS costs for the batch  
14 hot cut process. The commission should require Qwest to provide adequate  
15 supporting documentation and make appropriate adjustments to the batch hot cut  
16 costs as outlined in my testimony to establish a TELRIC-based rate. This is  
17 necessary in order to comply with the FCC directive of reducing per-line costs or  
18 providing volume discounts in order to allow competitive entry via facilities  
19 based competition for the mass market. Without such adjustments any attempt at  
20 competition via UNE loops to serve the mass market will fail, or worse yet,

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<sup>18</sup> See Direct Testimony of Dennis Pappas and Lynn Notarianni at 46.

<sup>19</sup> *Id.*, at 46-47.

1 competitors will not even attempt to serve the mass market, leaving customers  
2 with no competitive alternative. If the Commission believes it must adopt some  
3 rate as part of this proceeding, any rate it adopts should be interim subject to true  
4 up until the Commission can spend sufficient time to review Qwest's cost studies  
5 and adopt a permanent rate.

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

7 A. Yes.