BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of the Pricing Proceeding for Interconnection, Unbundled Elements, Transport and Termination, and Resale) ....) In the Matter of the Pricing Proceeding for Interconnection, Unbundled Elements, Transport and Termination, and Resale for U S WEST COMMUNICATIONS, INC.) …………………………………………………..) In the Matter of the Pricing Proceeding for Interconnection, Unbundled Elements, Transport and Termination, and Resale for GTE NORTHWEST INCORPORATED)	**PHASE II** DOCKET NOS. UT-960369, UT-960370, UT-960371 U S WEST'S JUNE 9, 2000 FILING IN RESPONSE TO THE 25TH SUPPLEMENTAL ORDER

The Twenty-Fifth Supplemental Order (25th Order) requires U S WEST to respond to questions on a number of issues which the Commission believes require further explanation. U S WEST Communications, Inc., (U S WEST) hereby submits this response to these issues. Specifically, U S WEST provides responses and supporting documentation to issues raised in Sections F., K., L., and O of the 25th Order. For ease of reference, U S WEST will address issues raised in these sections under the original section names from the 25th Order.

Before proceeding with the responses to the 25th Order, U S WEST would first like to

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call the Commission's attention to two corrections that U S WEST is making to its November 15, 1999 Compliance filing. The first change is to correct a transcription error in its Phase II, Compliance Rate Table, filed as Attachment A to its November 11, 1999 Compliance filing. On page 3 of the Rate Table, under the heading DS1 Entrance Facility and Muxing, U S WEST inadvertently inserted the nonrecurring charges for a DS3 Entrance Facility ($556.56 connection; $97.19 disconnection) for the nonrecurring charges for Muxing DS1 to DS0. The correct nonrecurring rates for Muxing DS1 to DS0 are $212.11 connection and $79.02 disconnection. The second change is to correct an omission from one of the CTC elements in the nonrecurring cost study filed as Attachment C to its November 11, 1999 Compliance Filing. U S WEST inadvertently omitted the resale OSS systems cost component of $3.76 from the CTC for Frame Relay, ATM Cell Relay or Transparent LAN Service. After inserting the component in the cost study, the rate for the component found on page 6 of the Compliance Rate Table will change from $31.68 to $37.17.

U S WEST has attached a new version of its Phase II Compliance Rate Table, revised June 9th, 2000, as Attachment A to this pleading, which reflects these corrections. Additionally, under separate cover, U S WEST has submitted revised pages to its nonrecurring cost analysis. Those pages are included in Confidential Attachment B and reflect the insertion of the resale OSS systems costs component and accompanying calculations for the CTC element.

RESPONSES TO THE 25TH ORDER

F. U S WEST's Connection and Disconnection Cost Estimates

In ¶ 38 and 39 of the 25th Order, the Commission takes issue with U S WEST's assertion that it has little, or no, detailed data on the demand characteristics for interconnection and UNE service orders, upon which it bases its OSS recovery rate calculations. U S WEST takes exception to suggestion that it has not been forthcoming with data in this proceeding, or that it has intentionally withheld data from the Commission. The Commission states that it is "hard to believe that no useful data were available" (¶38) yet does not state the basis for that disbelief. U S WEST respectfully submits, as it has previously stated, that it has accumulated only limited trend data based on actual CLEC orders. It has received virtually no forecasted data from its CLEC customers upon which to base order demand estimates which would specify the number of orders which are new connect, change, or disconnect.

At ¶ 43, the Commission chose not to approve U S WEST's OSS compliance filing. Further, the Commission ordered U S WEST to provide an explanation of why the sum of the rates for a connection and disconnection "greatly exceed" U S WEST's initial prices. The Commission also stated that it understood that U S WEST's charges would only apply when service was requested, footnoting U S WEST's advocacy regarding the bundling of connection and disconnection charges for its nonrecurring charges.

First, U S WEST would like to clarify and distinguish for the Commission the differences between the charges proposed for OSS and nonrecurring charges. U S WEST will then explain the cost recovery mechanism for OSS. In addition, U S WEST will explain why the concept of connection and disconnection charges does not apply to the recovery of OSS costs the way that it does for NRCs. Finally, U S WEST will explain why having the same rate for connection and disconnection, in fact for all service order types, does not result in double recovery of its OSS costs.

U S WEST proposes recovery for two types of OSS costs, 1) development and enhancement or start-up costs, and 2) ongoing maintenance costs. The OSS start-up costs consist of expenditures that were made by U S WEST during 1997, 1998 and 1999 to develop, enhance

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and modify U S WEST systems in order to accommodate CLEC access and processing through U S WEST's OSS. The ongoing maintenance costs consist of a forward-looking projection of costs for operations activities that U S WEST will perform in order to maintain electronic interfaces for the benefit of CLEC access to OSS. Neither of these types of costs are driven by, nor are they related to, the processing of particular transactions. They are not associated with any of the activities that go into the processing of an order, rather, the OSS costs that U S WEST seeks to recover are the result of its efforts to make OSS available for the benefit of the CLECs.

NRC costs, on the other hand, are developed on the basis of the underlying activities that are associated with specific transactions. Traditionally, U S WEST has bundled its connection and disconnection charges for retail services into a single up-front non-recurring charge. In the case of nonrecurring charges, the separate activities of connecting or disconnecting a customer's service can be identified and the costs to perform those activities can be quantified. The resulting separate charges reflect the underlying costs of activities for two specific transactions.

In contrast, the service order is merely the mechanism chosen for recovering unrelated costs in the case of OSS. U S WEST believes that using service orders as the method for recovery is a fair and equitable way to spread its OSS costs among CLECs. However, there is no relationship between the costs being recovered and the underlying activities performed as a result of the service orders. The reason for choosing service orders as the recovery mechanism is as a way of determining which CLECs are using the systems modified, developed, enhanced and maintained by U S WEST. The CLECs' service orders, related to their own customer service activities, drive their use of U S WEST's OSS. U S WEST's systems are being modified so that CLECs can access them to perform pre-ordering, ordering, provisioning, repair and maintenance, and billing functions for their retail customers. Service orders placed by the CLECs through OSS

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include connections (both as is and new install), disconnections, change orders, transfers to and transfers from, pending and record orders.

Consequently, U S WEST believes it is inappropriate for the Commission to add the connection and disconnection rates together for comparison to U S WEST's initial prices. As explained above, the nonrecurring rates for OSS are very different from nonrecurring charges for unbundled network elements and interconnection services. Unlike the nonrecurring charges, the initial OSS prices did not contain a cost associated with connection transactions and a cost for disconnections. Therefore, adding the connection and disconnection rates together for comparison to the initial price is meaningless. This is because the OSS rate was developed by dividing total OSS costs by all service order types to establish a rate per service order. As a result, the OSS rate on a "per service order" basis already calculates the rate separately for connections and disconnections, as well as change orders, transfers to and from, etc.

U S WEST believes that it is appropriate to recover OSS costs over <u>all</u> service order types because each of these activities represents the CLECs' use of OSS. U S WEST's projected demand for CLEC service orders was primarily based on trending of actual service order volumes, however, this information was tracked by service type (e.g., resale, unbundled, bypass), not by order type (e.g., connect, disconnect, change). In addition, the estimate was developed by predicting CLEC penetration into U S WEST's retail markets and would have included projections from the CLECs to the extent information was available. Needless to say, CLEC forecasts for the near future tend to focus on how many customers they expect to acquire, <u>not</u> on the number of customers they expect to lose (i.e., disconnect).

Therefore, U S WEST believes it is inappropriate to bifurcate the OSS charge between connection and disconnection for two reasons. First, there is no relationship between the OSS

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costs and any specific transaction. Nor is there a reasonable means to separate the system modification and maintenance costs between the activities of connecting and disconnecting a customer's service. The OSS costs were identified and tracked by the services supported by the systems, and not by connection or disconnection transactions. Second, there is no useful data currently available to project how much of the service order demand is related to connection versus disconnection. The demand for service orders that U S WEST developed to calculate its OSS rates encompasses all service order types but does not presume to differentiate demand by order type. The service order is merely intended to represent an equitable means of recovering OSS costs from CLECs based on their use of those systems.

By spreading the costs over the entire universe of service orders, rather than just connection and disconnection, U S WEST is able to keep the "per order" rate at a reasonable level. For example, assume U S WEST recovers $100 of its OSS costs over a demand of 100 service orders, the rate per service order will be $1. If that same $100 is recovered over a demand of only 20 service orders, the rate per service order will be $5. In addition, this method precludes U S WEST from "double recovering" its OSS costs. If it recovers 75 connections at a rate of $1 and 25 disconnections at $1, or 7 connections, 10 change orders and 3 disconnections at $5, in the end, U S WEST will still recover $100 of OSS costs. Therefore, U S WEST believes that OSS costs should be recovered at a constant rate over <u>all</u> service orders in order to recover the costs fairly among the users of the underlying systems.

Also at ¶43 of the 25th Order, the Commission directs U S WEST to demonstrate that its bifurcated nonrecurring charges in its compliance filing are no greater than the nonrecurring charges that U S WEST previously filed and that the Commission adopted at ¶435 of its Seventeenth Supplemental Order (17th Order). ¶435 of the 17th Order also includes the

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Commission's acceptance of U S WEST's proposal to increase its nonrecurring charges for attributed (19.62%) and common (4.05%) costs. U S WEST's nonrecurring costs, filed May 11, 1998, included neither attributed nor common costs.

In response to the Commission's directive, U S WEST has attached a rate comparison sheet (Attachment C) that compares the connection and disconnection nonrecurring charges in U S WEST's November 15, 1999 compliance filing with its May 11, 1998 cost filing. To ensure a meaningful comparison, the nonrecurring costs from the May 1998 filing are factored up to include the allowed attributed and common costs and the disconnection and connection rates from the November 15, 1999 filing are added together. Once these adjustments are made, Attachment C indicates that the rates for the two filings are roughly equal, with the derived rates from the May 1998 filing being slightly greater than the November 1999 compliance rates. The only reason the rates from the two filings are different at all is because the attributed factor in the November 1999 compliance filing is applied at an earlier stage in the cost calculation than the application of the factor to May 1998 costs on the Attachment C worksheet. In fact, the only changes that U S WEST made to its May 1998 costs in developing its November 1999 compliance filing are the splitting of the costs into connection and disconnection rate elements and the addition of attributed and common costs, consistent with the Commission's directives in the 17th Order.[1] U S WEST did not add any additional costs for billing the bifurcated elements as was allowed by the Commission.

K. U S WEST's Recovery of OSS Costs

¶ 87 of the 25th Order requires U S WEST to file tariffs which state that a 'true-up' of interim to permanent OSS rates will occur once U S WEST's permanent OSS rates have been

[1] U S WEST did <u>reduce</u> one of the INP nonrecurring cost elements based on a corrected order processing time.

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approved by the Commission. The Commission also orders U S WEST to file a description of its tracking mechanism both in its tariff filing and in Docket UT-003013 to allow interested parties to comment and the Commission to review the mechanism and establish a true-up period. In accordance with the Commission directive, U S WEST will comply with these requirements when it files its interim OSS rates, after resolution of the issues addressed in Section F of the 25th Order.

L. U S WEST's Customer Transfer Charge (CTC)

¶ 93 and 94 of the 25th Order require that U S WEST provide documentation that demonstrates that U S WEST's CTC compliance cost study complies with 17th Order and with Staff Exhibit C-664. The Commission acknowledges that is appropriate to recover resale OSS systems costs through the customer transfer charge, but requests clearer documentation on how the transfer from the OSS rate elements to the CTC was accomplished.

First, to establish a point of reference, U S WEST has attached its initial 'new format' CTC cost study (Confidential Attachment D) that it shared with Commission Staff prior to the filing of Staff testimony by Ms. Jing Roth on August 20, 1998. Staff's August testimony recommended adoption of the 'new format' rate design, but made certain modifications to the cost study that U S WEST had provided to Staff. On page 3 of her August testimony, Ms. Roth explains those modifications as:

Reduce the order processing time to six minutes;

Change the cost of money to 9.63%

Exclude the [resale OSS] system cost

In her testimony, Ms. Roth references page one of Exhibit C-664 as containing the summary

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results of Staff's modifications to U S WEST's cost analysis (Confidential Attachment D). The modified "new format" cost study that Staff used as the basis for the recommended rates summarized on page one of Exhibit C-664 is attached hereto as Confidential Attachment E. The differences between the initial U S WEST costs analysis (Confidential Attachment D) and Staff's analysis (Confidential Attachment E), as detailed by Ms. Roth, are the reduction of order processing times to 6 minutes, the use of a 9.63% cost of money, and exclusion of OSS resale systems costs. Staff excluded resale OSS system costs because, at that time, it was believed that these costs would be recovered from the OSS cost recovery rate elements.

U S WEST explained the difference between the Staff cost analysis, which supports Staff Exhibit C-664 (Confidential Attachment E), and U S WEST's November 15, 1999 CTC cost study in its response to Commission Question 29, filed on March 24, 2000. In that response U S WEST explains that its November 1999 CTC study uses the same times used by Staff, but re-inserts the resale OSS systems cost component that Staff had excluded. The only other differences between the two studies are that U S WEST used 1996 labor rates in its compliance cost study rather than the 1998 labor rates that were used in previous analyses[2], and U S WEST's attributed factor was applied in its compliance filing, but not in the previous analyses.
U S WEST used the 1996 labor rates in its compliance filing because they are consistent with the labor rates, factors, and other assumptions that have been applied to the cost studies U S WEST has filed in this proceeding.

Regarding the 'transfer' of the resale OSS systems component from the OSS recovery

[2] The "previous analyses" referred to here are those included in Attachments D and E. As explained above U S WEST had initially shared the concept of the "new format" CTC rate structure using the cost analysis contained in Attachment D. Staff subsequently modified the Attachment D analysis to that contained in Attachment E. Both of these analyses used 1998 labor rates.

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rate to the CTC, U S WEST addressed this issue in some detail in its response to Commission Question 24 that it filed on March 24, 2000. That answer explains the derivation of the cost component that is included in the November 1999 CTC analyses. The resale OSS system costs are $3.76 for each CTC element and are shown on the following worksheet pages in the November 1999 compliance CTC cost study; 115, 117, 120, 122, 125, 129, and revised 132). That answer also explains where the resale OSS systems cost was removed from the OSS Studies. U S WEST also included the derivation of the OSS systems cost component in its initial cost analysis (Confidential Attachment D).

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O. U S WEST's Per-Port Common Channel Signaling

At ¶ 115 of the 25th Supplemental Order, the Commission asks U S WEST to "explain in greater detail exactly why it believes that para. 58 of the Fourteenth Supplemental Order authorizes the filing of a per-port common channel signaling rate. The filing should include an attachment that shows in detail and explains in narrative form, step by step, in detail, exactly how the per-port cost of $148.80 was developed."

U S WEST does not believe, nor does it claim, that ¶ 58 of the Fourteenth Supplemental Order authorizes the filing of a per-port common channel signaling rate. U S WEST explained very clearly in its compliance rate table that the Commission had not approved a cost for that rate element. U S WEST filed a compliance rate because U S WEST believed it needed to submit a compliance rate table addressing all the rate elements that had been at issue in Phases 1 and 2 of this docket. However, inclusion of that rate in the compliance rate table was not meant to be a representation that the rate was authorized by the Commission – a fact made clear by U S WEST's footnote on the table which stated "[t]o U S WEST's knowledge the Commission has not yet ruled on an STP Port cost and so the displayed amount is based on U S WEST's costs."

U S WEST believed that it was possible that the failure to call out a cost for this element was merely an oversight, and wished to provide the figure in its rate table should the

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Commission decide to adopt the U S WEST proposed cost and price.

U S WEST believes that it is important that a cost and price for this element be established. The Commission received cost information from the parties during Phases 1 and 2 of this docket. The parties provided additional information in response to the request in ¶ 58 of the Fourteenth Supplemental Order. U S WEST is not aware from any provisions in any Commission Order that the Commission lacks information sufficient to make a decision on this element. Indeed, the Commission adopted U S WEST's link costs for common channel signaling at ¶ 60 of the Fourteenth Supplemental Order, and because the port and the link are part of the same signaling system, it only makes sense to adopt costs consistently in a way that reflects the cost of a single system.

In response to the second portion of the Commission's request regarding how the per port cost of $148.80 was developed, U S WEST provides a step by step narrative in Attachment F.

Respectfully submitted this 9th day of June, 2000.

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