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BEFORE THE WASHINGTON

UTILITIES AND TRANSPORTATION COMMISSION

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In The Matter of the Review of )  
Unbundled Loop and Switching Rates ) UT-023003  
And Review of the Deaveraged Zone ) Volume XIII  
Rate Structure. ) Pages 801-992

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A hearing in the above-entitled matter was held at 9:35 a.m. on Friday, May 28, 2004, at 1300 South Evergreen Park Drive, Southwest, Olympia, Washington, before Administrative Law Judge THEODORA MACE, CHAIRWOMAN MARILYN SHOWALTER, COMMISSIONER RICHARD HEMSTAD, and COMMISSIONER PATRICK OSHIE.

The parties present were as follows:

COMMISSION STAFF, by Shannon E. Smith, Assistant Attorney General, 1400 S. Evergreen Park Drive, S.W., P.O. Box 40128, Olympia, Washington, 98504-1028.

COVAD COMMUNICATIONS COMPANY, by Karen Frame, Senior Counsel, 7901 Lowry Boulevard, Denver, Colorado 80230.

VERIZON NORTHWEST, by Catherine Kane Ronis, Brad Berry, Polly Smothergill, Attorneys at Law, Wilmer, Cutler & Pickering, 2445 M Street N.W., Washington, D.C. 20037-1420.

Barbara L. Nelson, CCR

Court Reporter

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1                   AT&T COMMUNICATIONS OF THE PACIFIC  
2           NORTHWEST, INC., by Gregory J. Kopta, Attorney at  
3           Law, Davis, Wright, Tremaine, 2600 Century Square,  
4           1501 Fourth Avenue, Seattle, Washington, 98101.  
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23

WILLETT G. RICHTER, THOMAS MAZZIOTTI.)

24

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1                   JUDGE MACE:  Let's be back on the record  
2  in Docket Number UT-023003.  We're scheduled to begin  
3  with Mr. Lundquist this morning, but I understand  
4  that Verizon and perhaps the other parties, but  
5  certainly Verizon wanted to raise some issues about  
6  the scheduling.

7                   MS. RONIS:  Yes, I'm getting concerned  
8  whether we're going to be able to finish all the  
9  witnesses next week, given that we lost a day for the  
10  tutorial, and I wondered what options were available  
11  so we could kind of just start planning a little bit.  
12  And one, of course, would be starting earlier and  
13  ending later.  Another would be just to possibly  
14  reserve Saturday and just see how it goes, but at  
15  least think about it and make plans if we need it.  
16  And I wondered what the Commission's thoughts were on  
17  that.

18                   CHAIRWOMAN SHOWALTER:  You mean this  
19  Saturday or the next Saturday?

20                   MS. RONIS:  Next Saturday.

21                   CHAIRWOMAN SHOWALTER:  It's out of the  
22  question for me, because I'll be out of -- I think  
23  all of us are going to -- anyway, we have a  
24  conference.  But usually -- I mean, I think -- well,  
25  we'll think about it.  My guess is we should probably

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1 stay late on certain days if it's looking bad.

2 MS. RONIS: Yeah, I mean, my concern is  
3 we're doing all of the critique of the Hatfield model  
4 that AT&T filed all at once in one panel. We've  
5 reserved five hours for that. Because of the way the  
6 witnesses lined up, that will be very last, so that's  
7 going to be Friday. And my colleague who will be  
8 doing the cross is concerned that he's not going to  
9 have sufficient time to do that. Unlike Verizon's,  
10 we split it up by subject area, we will be doing all  
11 of the Hatfield model cross at one time. And it's at  
12 the end of the day on Friday. And he just wanted me  
13 to raise -- you know, we could come back. Of course  
14 we could come back.

15 And I think I have my answer, which is next  
16 Saturday won't be an option, so people shouldn't plan  
17 on that. We'll do what we can to shorten all of the  
18 other crosses we have.

19 CHAIRWOMAN SHOWALTER: Normally what we do  
20 here, the reason we do this is we schedule other  
21 things, the rest of our work --

22 MS. RONIS: Sure, absolutely.

23 CHAIRWOMAN SHOWALTER: -- before 9:30 and at  
24 the lunch hour. So we'll take a look at it, but --

25 MS. RONIS: Okay. Just -- I mean, losing

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1 Tuesday didn't help, and that wasn't an issue of  
2 Verizon's doing. And I just want to state, you know,  
3 we do think we're going to need -- I'm sure we can  
4 cut an hour off of our estimate and we will, but we  
5 do need more than an hour or two to cross Hatfield.

6 CHAIRWOMAN SHOWALTER: Sounds as if one of  
7 our goals should be to think of Thursday as the end  
8 of everything else and work hard to get that done so  
9 that we, in fact, have all of Friday for the model  
10 discussion.

11 MS. RONIS: That would be great.

12 CHAIRWOMAN SHOWALTER: Okay.

13 MS. RONIS: I'm doing my part. I'm not  
14 going to be crossing Mr. Lundquist. I know that  
15 doesn't help, since that's this week.

16 JUDGE MACE: I want to make sure your mike's  
17 on, too, if you'd double check.

18 MS. RONIS: Yeah, it is. We had problems  
19 yesterday, too.

20 CHAIRWOMAN SHOWALTER: One thing is if  
21 you're not speaking, turn your mike off. The mike  
22 system is related to itself, and so I believe if all  
23 the mikes are on, each mike is not as powerful.

24 JUDGE MACE: Are you ready with Mr.  
25 Lundquist? I'm sorry, are you ready with Mr.

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1 Lundquist?

2 MR. KOPTA: Mr. Jones, I believe.

3 JUDGE MACE: Mr. Jones, yes, thank you.

4 MS. RONIS: Yes, Verizon calls Mr. Bill  
5 Jones to testify.

6 Whereupon,

7 BILL JONES,

8 having been first duly sworn by Judge Mace, was  
9 called as a witness herein and was examined and  
10 testified as follows:

11 JUDGE MACE: Please be seated.

12 THE WITNESS: Thank you.

13 MS. RONIS: As everyone's probably aware,  
14 Mr. Jones actually filed testimony as part of a panel  
15 with other Verizon witnesses on other subjects, so  
16 I'm going to go ahead and mark that panel testimony,  
17 but Mr. Jones is only responsible for the factor and  
18 expense loading portion. So I'll start with Exhibit  
19 201-TC.

20

21 DIRECT EXAMINATION

22 BY MS. RONIS:

23 Q. Mr. Jones, did you file testimony on factor  
24 and loading issues on June 26th in this proceeding?

25 A. Yes, I did.



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1 Q. June 26th, 2003. And as to the factor and  
2 loading portion of that testimony, was it prepared by  
3 you or under your direct supervision?

4 A. Yes, it was.

5 Q. If I asked you the same questions today --  
6 strike that. You have made -- have you made any  
7 changes to the June 26th testimony, as it was  
8 originally filed?

9 A. Yes, we have filed some errata to that.

10 Q. And I believe the Bench and the parties  
11 already have copies of that errata. There was a set  
12 of errata filed this Tuesday with the Commission and  
13 then a set that was passed out today, although  
14 today's was -- the errata that was filed today or  
15 submitted today was actually on his May 12th  
16 testimony.

17 JUDGE MACE: I'm --

18 MS. RONIS: So why don't we -- the errata  
19 that was filed on Tuesday with the Commission --

20 JUDGE MACE: Let's be off the record for a  
21 moment.

22 (Discussion off the record.)

23 JUDGE MACE: Let's be back on the record.

24 Q. So Mr. Jones, with those changes you made to  
25 your direct testimony, if I asked you the same

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1 questions today, would your answers be the same?

2 A. Yes, they would.

3 MS. RONIS: And I will hold off moving this  
4 panel testimony into evidence until all the witnesses  
5 have adopted their portion, so I won't do that today  
6 unless AT&T and the other parties wouldn't object,  
7 just to get it out of the way.

8 JUDGE MACE: Mr. Kopta.

9 MR. KOPTA: We have no objection to entering  
10 the testimony into the record at this point. It  
11 might be easier to do it that way.

12 JUDGE MACE: Did you want to -- are you  
13 suggesting we do all of the exhibits, as well, and --

14 MS. RONIS: Yes.

15 JUDGE MACE: Is that acceptable?

16 MR. KOPTA: That's acceptable.

17 JUDGE MACE: All right. Go ahead.

18 MS. RONIS: So Verizon moves into evidence  
19 at this time Exhibits 201-TC, and then Exhibit 202,  
20 203, 204, can I just -- would it just -- can I say  
21 just 202 through 225?

22 JUDGE MACE: Yes, through 225. Go ahead.

23 MS. RONIS: Verizon moves into evidence  
24 Exhibits 201 through 225 at this time.

25 JUDGE MACE: Is there any objection to the

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1 admission of those proposed exhibits?

2 MR. KOPTA: No objection.

3 JUDGE MACE: I'll admit them.

4 Q. Mr. Jones, did the panel file testimony on  
5 January 26th, 2004?

6 A. Yes, they did.

7 Q. There was no factor or leading portion of  
8 that testimony; correct?

9 A. No, there wasn't.

10 Q. And for the record, that's Exhibit 226 and  
11 227, but since there's no factor portion, I won't  
12 move that into evidence unless, to lessen the  
13 confusion, I should just go ahead and do that. How  
14 about that?

15 JUDGE MACE: Is there any objection if Ms.  
16 Ronis goes ahead and simply offers the rest of the  
17 panel testimony and exhibits?

18 MR. KOPTA: No.

19 JUDGE MACE: Ms. Smith has no objection,  
20 either. Why don't you go ahead, then.

21 MS. RONIS: So Verizon moves into evidence  
22 at this time Exhibits 226 and 227.

23 JUDGE MACE: Any objection? Hearing none,  
24 I'll admit those exhibits.

25 MS. RONIS: And finally, Mr. Jones, did the

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1 panel file testimony on May 12th, 2004, with Exhibits  
2 1 through 5?

3 A. Yes, they did.

4 Q. And as to the factor and loading portion of  
5 that testimony, was that prepared by you or under  
6 your direct supervision?

7 A. Yes, it was.

8 Q. If I asked you the same questions today,  
9 would your answers be the same?

10 A. Yes, they would.

11 MS. RONIS: So Verizon moves into evidence  
12 at this time Exhibits 228 through 232.

13 JUDGE MACE: Is there any objection to the  
14 admission of those proposed exhibits? Hearing none,  
15 I'll admit them.

16 MS. RONIS: Thank you. Mr. Jones, you may  
17 present your three-minute summary at this time.

18 THE WITNESS: Thank you.

19 JUDGE MACE: I'll give you a 30-second  
20 warning.

21 THE WITNESS: Okay. Thank you. Good  
22 morning. My name's Bill Jones. I'm the Verizon  
23 loadings and factors witness. Verizon develops  
24 annual cost factors, known as ACFs, which are  
25 designed to cover --

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1           CHAIRWOMAN SHOWALTER:  You're going to have  
2 to slow down.

3           THE WITNESS:  Okay.  I'm sorry.  Which are  
4 designed to recover network --

5           CHAIRWOMAN SHOWALTER:  I'm sorry.  Can you  
6 start over?  I really didn't hear the first part of  
7 your sentence.  And speak slowly and project.

8           THE WITNESS:  Thank you.

9           CHAIRWOMAN SHOWALTER:  And try not to -- if  
10 you're reading, read slowly.

11           THE WITNESS:  Thank you.  Verizon develops  
12 annual cost factors, called ACFs, which are designed  
13 to recover network expenses such as maintenance and  
14 repair costs.  The expenses in those factors reflect  
15 all the efficiencies that Verizon can be expected to  
16 achieve over a three-year planning period.

17           First, Verizon already operates efficiently  
18 with competition from CLECs, cable and wireless  
19 carriers and, therefore, our current expenses are a  
20 good predictor of forward-looking expenses.  
21 Nonetheless, Verizon's expenses are further reduced  
22 in the following ways: five percent copper  
23 adjustment, a productivity adjustment, a merger  
24 savings adjustment and the elimination of merger  
25 costs.  Verizon's cost studies also reflect lower

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1 expenses because of forward-looking assumptions about  
2 plant mix.

3 I want to first address the graph of  
4 Verizon's productivity adjustment. AT&T proposes  
5 that the productivity adjustment be based on the  
6 average for the Bureau of Labor Statistics Wire  
7 Telecom Index for five years, for the period 1996  
8 through 2001. For these years, this index showed a  
9 spike in productivity, which Verizon has determined  
10 is not sustainable going forward, and thus not  
11 appropriate in a forward-looking study. We explain  
12 why in our testimony.

13 In fact, the wire telecom index itself shows  
14 that this spike has ended and that there was a  
15 downturn in the productivity and last reported year  
16 of this index in 2001.

17 Next I wanted to address the  
18 misrepresentation made by AT&T about Verizon's EF&I  
19 factor. The EF&I represents the cost to engineer,  
20 furnish and install equipment in Verizon's network.  
21 AT&T's witness Mr. Turner proposes reducing Verizon's  
22 EF&I factor by 80 percent because of issues raised  
23 about SBC's property records database. Verizon does  
24 not have the same problems, and thus Mr. Turner's  
25 adjustment is unfounded.

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1           Finally, I want to make two important points  
2 regarding the FLC factor, or the forward-looking  
3 calibration factor. This factor is designed solely  
4 to correct a mathematical anomaly created because of  
5 the way you apply the ACFs to the forward-looking  
6 investment.

7           Second, AT&T ignores that Verizon, before it  
8 applies the forward-looking calibration, has already  
9 calculated the forward-looking expenses. So while  
10 AT&T may disagree that we don't reduce our expenses  
11 enough, that has nothing to do with whether the  
12 forward-looking calibration factor is appropriate.  
13 The FLC factor ensures that Verizon recovers the  
14 forward-looking expenses and investments ordered by  
15 this Commission. Thank you.

16           MS. RONIS: The witness is available for  
17 cross-examination.

18           JUDGE MACE: Mr. Kopta.

19           MR. KOPTA: Thank you, Your Honor.

20

21           C R O S S - E X A M I N A T I O N

22 BY MR. KOPTA:

23           Q. Good morning, Mr. Jones.

24           A. Good morning, Mr. Kopta.

25           Q. My name's Greg Kopta. I'm representing

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1 AT&T. Would you turn, please, to your -- the panel  
2 direct testimony, which is Exhibit 201-TC, at page  
3 156?

4 A. I have it.

5 Q. And specifically, I want you to look at  
6 Chart A, which I believe is a flow chart of how  
7 Verizon applies all of its various factors. Is that  
8 correct?

9 A. That's correct.

10 Q. I didn't notice anywhere in the testimony  
11 where there was any quantification of the ultimate  
12 impact of factors, and by that I mean, after applying  
13 this flow chart, is there a percentage that's added  
14 on to the investment that results from the  
15 application of these factors?

16 A. Well, if you look at that table, the first  
17 two points is the development of the actual  
18 investment that's performed in the study. The  
19 following points, I guess two through six or  
20 thereabouts, or seven, is the how -- in the sequence  
21 in which the factors are applied to those investments  
22 to develop total cost for that particular product or  
23 unbundled network element.

24 Q. Well, I guess what I'm getting at is what is  
25 the total amount, whether expressed as a percentage



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1 or as a raw number, that is added to the investment  
2 as a result of the application of these factors and  
3 loadings?

4 MS. RONIS: Just one clarification. Do you  
5 mean for each component or each investment or one  
6 overall for everything? That may be the confusion.

7 Q. If they are different for each one, then you  
8 can explain that. My understanding was that it would  
9 be the same for all of the investments, regardless of  
10 the UNEs, but perhaps you can clarify that.

11 A. Well, this is a basic methodology and the  
12 sequence in which the various factors are applied.  
13 In the case of, say, cable, they would not do an EF&I  
14 factor to estimate the installation costs. That's  
15 done on a per-project basis, but for other -- and it  
16 would depend on the type of study whether they would  
17 use it or not, and that's to, basically, the  
18 discretion of the cost analyst and engineers who are  
19 developing the various cost studies.

20 Q. Okay. Well, then, maybe I should use a  
21 specific example. Do you know, in the case of a  
22 two-wire analog loop, how much the investment amount  
23 is increased as a result of the application of these  
24 factors and loadings?

25 A. I'm not sure I understand your question. By

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1 increase, they -- the cost studies are developed by  
2 identifying the investment necessary to supply that  
3 particular product, and then the cost factors are  
4 applied -- the network cost factors, the marketing  
5 cost factors, the common overhead factors, the gross  
6 revenue loading factors are then applied in sequence  
7 to develop a full cost for that particular product.

8 Q. Correct. And so let me ask it maybe a  
9 little bit differently. We start in this chart in  
10 the upper left-hand corner with unit material  
11 investment.

12 A. Correct.

13 Q. So let's assume, for purposes of clarifying  
14 my question, that that's \$20. At the end of that  
15 process, what's the amount? That's what I'm trying  
16 to ascertain.

17 A. Okay. And that would depend on the type of  
18 investment that is used within the study. It may use  
19 different components that carry from one account or  
20 investment account to another. Each investment  
21 account would have a different network investment  
22 factor, okay. That would be applied to that  
23 particular component of the piece of investments, and  
24 also the marketing, loading, and the common overhead,  
25 the gross revenue loading, for each piece of

0819

1 equipment necessary to provide that service. The  
2 cost study will then accumulate all the pieces and  
3 aggregate it to one cost overall.

4 Q. So are you saying that there are various  
5 accounts that are looked at separately when  
6 estimating the cost of an unbundled two-wire analog  
7 loop?

8 A. If there are pieces of investment that are  
9 in the same account that would be booked to the same  
10 account, they would only have one of these processes  
11 going. If there are two or more, then this process  
12 would take over and be applied to each one of those  
13 individual pieces of identified investment because of  
14 the different nature and the different factors  
15 involved, and then accumulated in total.

16 Q. And do you know, well, in the case of a  
17 two-wire analog loop, whether that involves multiple  
18 accounts or a single account?

19 A. Well, that's done in the cost studies, and  
20 the loop cost witness would probably be better to  
21 answer that question. They do have multiple types of  
22 pieces of investment.

23 Q. If you would, please, turn to the panel  
24 rebuttal testimony, which is Exhibit 228-TC, and  
25 specifically, I draw your attention to --

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1 MS. RONIS: Could you hold on one sec?

2 MR. KOPTA: Yes.

3 MS. RONIS: Excuse me. You're on page 28?

4 MR. KOPTA: No, I'm on page 106, which is  
5 what I was about to say.

6 THE WITNESS: I'm sorry?

7 Q. Page 106, and specifically line 10. And at  
8 the end of line 10, after the semicolon, you state,  
9 If Verizon NW became a wholesale only company, and  
10 continue on with the sentence. And my question is  
11 about that phrase, which is do Verizon's cost studies  
12 assume that Verizon has become a wholesale only  
13 company?

14 A. Yes, it does.

15 Q. Is that just for factors or is that for all  
16 models or do you know?

17 A. It's for the development of the estimation  
18 of retail avoided studies in our market -- marketing  
19 cost area.

20 Q. Only in the marketing cost area, or is it in  
21 other areas, as well?

22 A. I believe it's overall.

23 Q. Do you know whether Verizon has any plans to  
24 engage in structural separation so it would be a  
25 wholesale only company and have a separate company

0821

1 for providing retail service?

2 A. That's beyond the scope of my testimony.

3 Q. I'd like to explore that a little bit. If  
4 Verizon is a wholesale only company, is there also an  
5 assumption that there would be a Verizon retail --  
6 separate Verizon retail company?

7 A. I think, for the purposes of this  
8 proceeding, we have to assume that the cost would be  
9 associated with providing wholesale UNEs. I think to  
10 separate it between wholesale and retail in the real  
11 world, that -- I really don't know.

12 Q. If Verizon were purely a wholesale company,  
13 would you agree that it would have far fewer  
14 customers than it has today as a retail company?

15 A. As far as number of customers?

16 Q. Number of customers, yes.

17 A. Considering a CLEC as being one customer?

18 Q. Yes.

19 A. Yeah, I'll --

20 JUDGE MACE: CLEC is CLEC?

21 THE WITNESS: CLEC, I'm sorry.

22 CHAIRWOMAN SHOWALTER: That's okay. That's  
23 another alternative pronunciation.

24 THE WITNESS: I just -- sorry about that.

25 Q. Okay. Have you undertaken any analysis of

0822

1 what the costs -- what Verizon's costs would be if  
2 wholesale and retail operations remained integrated,  
3 as opposed to assuming that Verizon is a wholesale  
4 only company?

5 A. For the purposes of this proceeding, we've  
6 assumed that we would identify those costs that would  
7 be -- the retail costs would be avoided and what  
8 would be left over would be wholesale costs that we  
9 would include in our study.

10 Q. So you have not done any analysis of how the  
11 company would operate as an integrated wholesaling  
12 retail company?

13 A. I have not done one.

14 Q. I want to look at your assumptions -- let me  
15 see if I can draw you to a specific example. If you  
16 would look at page 110 of Exhibit 228-TC,  
17 specifically beginning on line eight. And at that  
18 point, you testify that if the company were entirely  
19 dependent on wholesale revenues, it would rationally  
20 focus its advertising dollars on attracting wholesale  
21 customers. Have I read that correctly?

22 A. That's correct.

23 Q. Are you also assuming that Verizon would  
24 want to sell wholesale services?

25 A. If we were a wholesale only company, that

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1 would be our only business, and we would try to  
2 increase and maintain our sales as best we could,  
3 advertising being one of those avenues to maintain  
4 that.

5 Q. But that's not the case today, is it?  
6 Verizon is not a willing seller of UNEs to CLECs?

7 A. We do have UNEs that are being purchased.  
8 Whether they're willing or not, it's beyond my  
9 testimony here.

10 Q. So you don't know the activities that  
11 Verizon is taking in various forums to reduce its  
12 obligation to provide UNEs?

13 A. Again, I think that is not -- will affect  
14 our development of factors in this case.

15 Q. So is the answer yes or no?

16 A. Would you repeat the question?

17 Q. Are you aware of Verizon's efforts in  
18 various forums to reduce its obligation to provide  
19 UNEs?

20 A. Only as anyone who reads the newspaper would  
21 be.

22 Q. So in your view, the fact that Verizon today  
23 is an unwilling provider, assuming that it is, of  
24 UNEs, has no impact on your assumptions with respect  
25 to the need for advertising as a wholesale only

0824

1 company?

2 A. That's correct.

3 Q. On that same page, if you would look at line  
4 17, and there you state, Verizon is actively  
5 promoting a rational wholesale offering to CLECs. Is  
6 that part of the commercial negotiations that Verizon  
7 is undertaking in the wake of the goings on at the  
8 D.C. Circuit?

9 A. I'm not aware of that. I just -- as it's  
10 stated in that footnote at the bottom of that page,  
11 it's a offering that we are making to the CLECs  
12 called Wholesale Advantage, that we are advertising  
13 to CLECs, and that's the context in which that  
14 sentence was put in the testimony.

15 Q. So you have no familiarity with the  
16 circumstances surrounding that offering?

17 A. No, I don't.

18 Q. Do you know whether any CLECs have taken  
19 Verizon up on that offer?

20 A. Could you identify the offer again? I'm  
21 sorry.

22 Q. It's the offer in your testimony, in  
23 Footnote --

24 A. Oh, I'm sorry, okay. No, I don't. I know  
25 that we're advertising it. I don't know if they have



0825

1 sold any yet.

2 Q. Do you know whether there's a similar offer  
3 for transport or high capacity loops or dark fiber?

4 A. No, I don't. But there, again, in our  
5 assumption as a wholesale only company, we would be  
6 making many, many more advertising areas available  
7 throughout our entire network.

8 Q. On line 19, and again, on this same page  
9 110, the sentence that begins on that line starts,  
10 Wholesalers commonly engage in, quote, product  
11 advertising, close quote, that is designed to  
12 stimulate more consumer use of a product and thus  
13 more demand. It carries over to the next page.

14 A. Mm-hmm.

15 Q. Is it your understanding that that type of  
16 advertising is generally done by industry groups?

17 A. It's done by wholesalers as far as I -- in  
18 the context that it is here, it's a wholesaler, or a  
19 wholesale business would advertise basic products to  
20 end users, even though they don't sell directly to  
21 those end users, but sell through retailers.

22 Q. Well, the question I have is the type of  
23 advertising. You use the example of the dairy  
24 industry's Got Milk campaign, but that's conducted by  
25 the dairy industry, not individual dairies; correct?

0826

1           A.    That is true, but the dairies are part of  
2 that industry group.

3           Q.    So --

4           A.    They may not be -- you know, a dairy farmer  
5 may not be doing the advertising, but as a group,  
6 they develop an industry group, and as an industry  
7 group, they would put this type of advertising  
8 forward, like the Got Milk campaign.

9           Q.    So when you're referring to product  
10 advertising, then, is that the same sort of thing  
11 that you're referring to with respect to Verizon,  
12 that they wouldn't necessarily be doing advertising  
13 themselves, but instead would be part of an industry  
14 group?

15          A.    I don't know exactly.  However, if you're  
16 doing advertising to stimulate generic products that  
17 you provide to a retailer, those are the types of  
18 advertising in this context.

19          Q.    Does Verizon undertake any of that type of  
20 advertising today individually, just marketing a  
21 product without marketing its own products?

22          A.    I don't know of any particular example.

23          Q.    If you would turn to page 112.  And I'm  
24 really focusing on the entire question and answer  
25 here.  You're addressing the -- or responding to Mr.

0827

1 Lundquist and talking about certain functionalities  
2 of voice mail, caller ID, call waiting, three-way  
3 calling, and call waiting ID in terms of product  
4 management obligations; is that correct?

5 A. Yes.

6 Q. And again, are we operating under the  
7 assumption that Verizon is only offering these  
8 services as a wholesale company?

9 A. Yes.

10 Q. Then I would like to focus on one aspect of  
11 this testimony, and if you would look at -- it's the  
12 sentence that actually begins on line six, which  
13 talks about the functionalities that I just listed.  
14 And on line seven, it continues that these particular  
15 functionalities, quote, require program development  
16 pricing and provisioning, close quote. And let's  
17 focus on pricing. That's what we're doing here  
18 today, isn't it?

19 A. No, we're doing costing. Costing is  
20 different than pricing, and pricing is what you can  
21 sell a product on the -- on a competitive market.  
22 Costing is actually what it costs you to produce that  
23 product.

24 Q. But is it your understanding that the  
25 Commission will establish a price in this proceeding

0828

1 for those functionalities?

2 A. It's my understanding that they will  
3 identify the costs for the particular UNEs. If they  
4 are made available to UNEs at that particular cost,  
5 then I guess cost will equal price, but this is a  
6 costing exercise, if you will, rather than a pricing  
7 exercise.

8 Q. Well, I'd like you to accept that the  
9 Commission will establish what the price is for the  
10 UNEs in this particular proceeding. Would those  
11 costs be -- are those costs of Verizon's  
12 participation in this proceeding included in the  
13 price -- the costs that you developed for this  
14 particular factor?

15 A. And which factor is that?

16 Q. Whichever one is used to develop these --

17 A. This is in the context of the developing an  
18 avoided retail expense, okay. You will need product  
19 managers to do these types of things in a wholesale  
20 only environment. To the degree that they need to be  
21 done in a wholesale only environment versus what they  
22 are done today is what we're trying to establish. So  
23 if they're doing retail today in a wholesale only  
24 environment, they would be shifted to servicing  
25 wholesale customers, and any remaining is what we

0829

1 would identify as retail avoided we no longer would  
2 incur.

3 Q. Well, let me ask the question a little bit  
4 differently, which is, the product management costs  
5 that you were just referring to, do they include  
6 Verizon's costs of participating in this particular  
7 proceeding?

8 A. I don't understand the question.

9 Q. Well, there are product management costs, so  
10 let me ask you, what are product management costs?

11 A. Well, they would be the costs of the  
12 managers and their staff to manage all the  
13 development, rollout, advertising, et cetera, for any  
14 particular product.

15 Q. Well --

16 A. These -- you mean the cost of these  
17 proceedings?

18 Q. Yes.

19 A. I don't think so.

20 Q. You don't think so or no?

21 A. Well, it's very unlikely, because the  
22 product -- the accounting system is set up to track  
23 products or to track the wages, et cetera, for those  
24 product managers, staff, buildings, et cetera. So  
25 the cost of these proceedings is not a channel where

0830

1 they would be provided or be included in those  
2 numbers.

3 Q. But if any of those people participated in  
4 one way or another in either developing the factors  
5 or assisting in this particular case --

6 A. They were not.

7 Q. Oh, okay.

8 JUDGE MACE: I need to caution both the  
9 witness and counsel, when you're answering questions  
10 or when he's asking questions, try not to jump --

11 THE WITNESS: Okay.

12 JUDGE MACE: -- on his questions, so that we  
13 have a clear thread of conversation that the reporter  
14 can record.

15 THE WITNESS: Sure.

16 Q. And the functions that you were describing  
17 are being conducted today by personnel that are  
18 conducting wholesale operations; correct?

19 A. Today they would be conducting wholesale,  
20 and there's a retail operations at the same time.

21 Q. So you have personnel that would be  
22 conducting product management activities for  
23 wholesale customers today?

24 A. Absolutely.

25 Q. I'd like you, if you would, to turn back to

0831

1 your -- the panel direct testimony, which is Exhibit  
2 201-TC. And specifically, I'd like you to look at  
3 page 144, and I'd like you to look at line 11, the  
4 sentence that begins there. It states, As noted  
5 above, the expense related factors were created using  
6 annual expenses and revenue data for the most recent  
7 years available.

8           And my question is, is my understanding  
9 correct that the most recent years available were  
10 2001?

11           A. For this proceedings, yes.

12           Q. Now, if you would, please, look at what's  
13 been marked for identification as Exhibit 284, which  
14 is the Wall Street Journal article that I just passed  
15 out this morning. Have you read this article?

16           A. I just saw this only about 40 minutes ago,  
17 and I have scanned it.

18           Q. Well, since it's from today's paper, I'm  
19 not surprised that you haven't had a chance to read  
20 it. I'd like you to look at page two, the second  
21 page of the exhibit. Specifically, the first  
22 sentence in that paragraph. Verizon has cut more  
23 than 21,000 thousand jobs through buyouts since  
24 December, and is racing to automate processes that  
25 used to require fax machines and thick binders of

0832

1 documents. Is that an accurate statement?

2 A. Since this was -- when I saw this was from  
3 the Wall Street Journal, it was not anything that was  
4 produced by Verizon, I don't know exactly what was in  
5 the mind of the journalist that wrote this, so I  
6 cannot say for sure -- I don't know what they're  
7 really, in particular, talking about.

8 Q. So you don't know whether Verizon has cut  
9 more than 21,000 jobs since December?

10 A. Well, that's a known. I'm sorry, I thought  
11 you meant about the automated processes and fax  
12 machines and all those other things. It is true that  
13 we did have an offering in the fall of last year  
14 where approximately 21,000 employees left the  
15 payroll. It was a voluntary type of offering, and  
16 the -- it required -- the offer was at a considerable  
17 cost. And there will also be backfill that are  
18 required of these types of jobs.

19 Our thinking was that we will now be able to  
20 go to the, you know, the colleges and such and get  
21 the bright, young minds with skill sets that are  
22 going to be needed for a competitive company far into  
23 the future. So that balancing of those employees  
24 that left the company and those that are coming on is  
25 yet to be determined.



0833

1 Q. But those coming on would likely have  
2 salaries that are lower than those leaving, would it  
3 not?

4 A. In all probability, yes.

5 Q. And in the last sentence of that first  
6 paragraph, it also states that Verizon is selling  
7 real estate vacated by laid off employees. Do you  
8 know whether that's accurate?

9 A. I don't know if that's accurate or not. I'm  
10 not familiar with that.

11 Q. Are real estate costs included in the  
12 factors that you developed?

13 A. We do have land and building costs, but they  
14 are for Washington State only.

15 Q. So you're not aware of whether, since 2001,  
16 Verizon has sold any real estate in the state of  
17 Washington?

18 A. No, I'm not.

19 Q. And in the second paragraph on that page, it  
20 states, quote, What's happening right now at Verizon  
21 is a total change that is bigger than all prior  
22 changes of the Bells past combined, close quote.

23 Paul Lacouture -- am I pronouncing that correctly?

24 A. It's good enough.

25 Q. -- the company's president of network

0834

1 services told workers at a recent early meeting in  
2 Tampa, Florida. Were you present at that meeting?

3 A. No, I wasn't.

4 Q. Are you -- would you agree with the  
5 company's president of network services comments?

6 MS. RONIS: I object to the question. I  
7 mean, this is a pretty general statement, and I'm not  
8 quite sure whether he -- he certainly can't be in the  
9 mind of Mr. Lacouture. So maybe you need to rephrase  
10 your question, or maybe I misheard it. Exactly what  
11 are you asking the witness to agree with?

12 MR. KOPTA: I'm asking him to agree with the  
13 statement that Mr. Lacouture made, whether he agrees  
14 with it or doesn't agree with it or has no opinion.

15 JUDGE MACE: On that basis, I'll allow the  
16 answer.

17 THE WITNESS: It's not that I would agree  
18 with it or disagree with it. I don't see how it  
19 affects our factor development in this case. If it  
20 goes to him trying to motivate employees so that they  
21 would be productive employees, we do have  
22 productivity factors built into this case and trended  
23 over the planning period through 2006, which would  
24 capture those types of productivities of employees.

25 Q. If -- and I'm not attributing this comment

0835

1 at all to Mr. Lacouture, but if the comment were  
2 specifically to operations of the company in terms of  
3 greater efficiency, in terms of a total change, would  
4 you agree with that statement, that what's going on  
5 right now at Verizon is a total change in ensuring  
6 that the company is more efficient?

7 A. No, that's the goal of any business at any  
8 time, is to operate as efficiently as possible in a  
9 competitive environment. So what Mr. Lacouture's  
10 saying here is probably no different than what any  
11 other senior executive would say to their employees  
12 in a company that's operating in a competitive  
13 market.

14 Q. If you would, please, turn to page five, the  
15 last page of this exhibit. And again, the first  
16 paragraph, the first sentence reads, Verizon has put  
17 300 miles of fiber in the ground in Los Angeles,  
18 Seattle, and Dallas, reaching into the territories of  
19 SBC and Qwest. Do you know whether that statement is  
20 accurate with respect to Seattle?

21 A. No, that would go to the build of our  
22 network or our projected forward-looking network, and  
23 that is done in our cost studies by the engineers, so  
24 it's not -- it would have nothing to do with factor  
25 development.

0836

1 Q. Now, as I understand your testimony, both as  
2 filed and as you stated in your summary this morning,  
3 Verizon does apply a productivity savings adjustment  
4 to its factors; is that correct?

5 A. That's correct.

6 Q. So although you agree with -- or disagree  
7 with Mr. Lundquist with respect to how big that is,  
8 how big an adjustment to make, you agree with him  
9 that there should be an adjustment for productivity?

10 A. Oh, of course. We do put one in our study.  
11 Actually, we put several years' worth of productivity  
12 into our study.

13 Q. And the index that you've applied to do that  
14 is a Labor Productivity Series published by the  
15 Bureau of Labor Statistics, or BLS, called a non-farm  
16 business index?

17 A. That's correct.

18 Q. And the BLS non-farm business series  
19 measures changes in labor productivity for the entire  
20 U.S. national economy as a whole; is that correct?

21 A. For the non-labor business sector, yes.

22 Q. But it's not specific to telecommunications?

23 A. No, it's not.

24 Q. If you would turn to page -- I mean, not to  
25 page, but Exhibit 282, which is a news release from

0837

1 the BLS, one of AT&T's cross exhibits.

2 A. If you could point me to it, I don't have it  
3 marked as a specific exhibit.

4 JUDGE MACE: The title of it, or the top  
5 page reads News, United States Department of Labor,  
6 and then Bureau of Labor Statistics, Washington, D.C.

7 THE WITNESS: Okay, thank you. I have it.

8 JUDGE MACE: Okay.

9 THE WITNESS: Yes, I have it.

10 Q. Okay. And are you familiar with these types  
11 of news releases from the BLS?

12 A. Yes.

13 Q. If you would, please, turn to page 11 of  
14 this exhibit, on that page will be a Table Two. And  
15 specifically, I'd like you to look at the last box, I  
16 guess you would call it, and what would be the first  
17 column that has numeric numbers in it. And this box  
18 is entitled Percent Change from Corresponding Quarter  
19 of Previous Year. And maybe I ought to back up and  
20 say that this is a table that -- or they've  
21 identified the table here as Table Two, Non-farm  
22 Business Sector, Productivity, Hour Compensation,  
23 Unit Labor Costs, and Prices Seasonally Adjusted. So  
24 what we're dealing with on this table are those types  
25 of changes in cost; correct?

0838

1 A. Yes.

2 Q. Okay. Now, the annual percent change for  
3 2002, if you're looking at that column, is 5.0;  
4 correct?

5 A. For 2002?

6 Q. Yes.

7 A. I'm sorry, which column was that?

8 Q. It's the first numeric column. If you go  
9 over from the left-hand side, where you've got years  
10 and quarters, then you've got a column?

11 A. 2002, in that column, or that row with I to  
12 the left?

13 Q. Yes.

14 A. 5.3?

15 Q. Yeah, that would be the first quarter, would  
16 it not?

17 A. Yes.

18 Q. And then, down later there's an annual  
19 amount?

20 A. Correct.

21 Q. Which is 5.0; correct?

22 A. Yes.

23 Q. Okay. And then for 2003, again, the annual  
24 amount would be 4.4?

25 A. Correct.

0839

1 Q. And for 2004, since we are still in the  
2 middle of it, the first quarter is 5.4; correct?

3 A. Yes, for this document.

4 Q. Okay. Now, if you would, please, turn to  
5 Exhibit 283, which are responses of Verizon to AT&T  
6 data requests in the fourth series. And I'm  
7 specifically asking about page eight on that exhibit.  
8 Do you recognize this as one of your work papers?

9 A. Yes.

10 Q. And if we look in the upper left quarter of  
11 the page -- or let's start out by the title. Would  
12 you agree that this is the inflation productivity to  
13 current year, 2001 to 2003?

14 JUDGE MACE: Sorry, Counsel, where are you?

15 MS. RONIS: Looks like your pages may be  
16 different than --

17 MR. KOPTA: Oh, are they?

18 CHAIRWOMAN SHOWALTER: What's the title of  
19 your page?

20 MR. KOPTA: Work paper 1-WA 2001 UNE, I  
21 believe.

22 JUDGE MACE: I have that as numbered page  
23 seven.

24 CHAIRWOMAN SHOWALTER: It's also page six,  
25 same title.

0840

1 JUDGE MACE: I see.

2 MR. KOPTA: Well, let's see. It's a little  
3 confusing, because the pages are very similar.

4 CHAIRWOMAN SHOWALTER: Yeah.

5 MR. KOPTA: But it should have --

6 THE WITNESS: Actually, my page eight is a  
7 table full of numbers.

8 MS. RONIS: It's the page before, but which  
9 one?

10 MR. KOPTA: I may have it misnumbered. I  
11 apologize.

12 CHAIRWOMAN SHOWALTER: Well, of the -- there  
13 are two sheets that are titled Work Paper 1-WA 2001  
14 UNE, but if you look at --

15 MR. KOPTA: Right, the column --

16 CHAIRWOMAN SHOWALTER: The column under  
17 productivity -- whoops, no, the column under CPI  
18 inflation, they have different numbers.

19 MR. KOPTA: Right. And if you look actually  
20 at the -- basically the title of that table, it says  
21 on the page that I'm looking at, it says Column (K)  
22 Inflation/Productivity to Current Year 2001-2003 CPI.

23 THE WITNESS: Okay.

24 CHAIRWOMAN SHOWALTER: Whereas the previous  
25 one has the -Labor Compensation?



0841

1 MR. KOPTA: Correct.

2 CHAIRWOMAN SHOWALTER: So you want the one  
3 that has the word CPI in the title?

4 MR. KOPTA: That is correct.

5 CHAIRWOMAN SHOWALTER: That's our page  
6 seven, by the way.

7 MR. KOPTA: All right. Then I can't count  
8 or I had an extra page in there.

9 Q. So on page seven on Exhibit 283, under  
10 productivity for year 2002, am I correct that that  
11 would be 4.3 percent?

12 A. Yes, all the numbers in that column under  
13 productivity would not be actual at the time that  
14 this particular study was done. They would have been  
15 projected numbers at the time. So right now, 2002,  
16 2003 would be known. It would be 2004 through 2006  
17 that would require projections.

18 Q. So you would agree with me that the numbers  
19 that you used are substantially lower than the  
20 numbers that are actually in the BLS report?

21 A. Let me check. Actually, those numbers -- we  
22 have 4.3 for 2002, and the fourth quarter of 2002 was  
23 4.3. And again, that was a projection at the time.

24 Q. But the annual rate is 5.0; correct?

25 A. Yeah, I don't know if you would -- what

0842

1 determines substantial? I don't know.

2 Q. Well, let's --

3 A. Again, these are the projections. When  
4 actuals are known, we would have used actuals.

5 Q. Well, then, let's look at 2003. Again, on  
6 page 11 of Exhibit 282, the annual number that the  
7 BLS has is 4.4, whereas on page seven of Exhibit 283,  
8 you have 2.0?

9 A. Right. And at the time, that was a  
10 projection, so now that they are known, we would  
11 include the known numbers.

12 CHAIRWOMAN SHOWALTER: Can you just clarify  
13 what you mean, now that they are known, we would  
14 include the known numbers? Does that mean you would  
15 actually update your numbers in this proceeding or  
16 the next time round?

17 THE WITNESS: Well, we would be willing to  
18 update those numbers in a compliance filing.

19 CHAIRWOMAN SHOWALTER: I see.

20 THE WITNESS: But it's the five-year trend  
21 that's also important. The five years is included in  
22 our adjustments, so it's not only what is actual, but  
23 what would be projected through the years 2004  
24 through 2006. It would also be relevant, and it's --  
25 to the degree that our projections have been updated,

0843

1 we would also be willing to include those revised  
2 projections. They are not projections that Verizon  
3 does in-house. It's done by an independent  
4 consulting firm.

5 MR. KOPTA: Thank you, Mr. Jones. Those are  
6 all of my questions. And I want to move for  
7 admission of Exhibits 270-C through 284.

8 JUDGE MACE: Is there any objection to the  
9 admission of those exhibits? Hearing no objection,  
10 I'll admit them.

11 MS. RONIS: One thing. Hold one moment.  
12 Could I ask Mr. Kopta a question off the record?

13 JUDGE MACE: Let's be off the record.

14 (Discussion off the record.)

15 JUDGE MACE: No objection?

16 MS. RONIS: No objection.

17 JUDGE MACE: I'll admit those exhibits. Dr.  
18 Gabel.

19 CHAIRWOMAN SHOWALTER: Before Dr. Gabel  
20 begins, I just want to ask a follow-up question on  
21 your past answer.

22

23 E X A M I N A T I O N

24 BY CHAIRWOMAN SHOWALTER:

25 Q. I believe, when we were talking about

0844

1 Exhibit 283, you said you would be willing to update  
2 years 2002 and 2003 from the prior estimates to the  
3 now actuals; is that right?

4 A. That's correct.

5 Q. And then, but then also that page has  
6 continued estimates of 2004, 2005, 2006.

7 A. Correct.

8 Q. And I may have been distracted, but are  
9 there new estimates of those years now?

10 A. There would be, yes.

11 Q. And is it appropriate, also, to update and  
12 is it -- are you willing to update with those new  
13 estimates?

14 A. Well, I don't want to update the whole  
15 case, but if, in the event that, on a compliance, you  
16 would want an update with those new figures for this  
17 particular area, that could be provided.

18 Q. I see.

19 A. But rather -- you know, to update the whole  
20 case would be a little burdensome.

21 Q. I see, but if we find this general approach  
22 to be appropriate, then you'd --

23 A. Yes.

24 Q. -- update them? Thank you.

25 JUDGE MACE: Dr. Gabel.

0845

1

2

E X A M I N A T I O N

3

BY DR. GABEL:

4

5

6

Q. Good morning, Mr. Jones. I'd like to ask you to turn to Exhibit 228, which is the rebuttal panel testimony filed on May 12th.

7

A. Okay.

8

9

10

11

12

Q. Okay. My first question -- I'm not sure you're the right witness, but I better ask the question now while you are here. At page 54, lines 14 to 15, there's a reference to the steady increase in copper cable prices. Are you there?

13

14

15

16

A. That's not the portion of the testimony I'm sponsoring. That would be the -- in the cost studies, and the cost study witness and engineers, et cetera, would be able to answer that question.

17

18

Q. So you did not work with telephone plant indexes?

19

A. Not in this factor development portion.

20

Q. Okay.

21

22

MS. RONIS: That would be Mr. Tucek, who will be here next week.

23

24

25

Q. All right. Now I'd like you to turn to page 100 of the same exhibit. I'm sorry, page 101. This is a table that illustrates your calculation of the

0846

1 forward-looking calibration factor?

2 A. This is an example --

3 Q. Yes.

4 A. -- of why it's necessary and an example of  
5 -- a calculation of it; not the present calculation  
6 that we use in this analysis.

7 Q. On the first line, you identify the  
8 forward-looking expense for switch maintenance.  
9 Would you just describe how that number is  
10 calculated?

11 A. Well, there, again, this is an example.

12 Q. Right.

13 A. Okay.

14 Q. I would like you to explain how you would  
15 have calculated such a number for switch maintenance.

16 A. Well, we do have a switch expense account,  
17 which accumulates maintenance expenses and other  
18 switch-related expenses. So when -- we will start  
19 with the books of account as of our starting point  
20 and we will make appropriate forward-looking  
21 adjustments, normalization adjustments, and other  
22 adjustments that we deem appropriate, again, the  
23 productivity adjustments, inflation, if applicable,  
24 to derive our forward-looking level of switch  
25 expense, and that's --

0847

1           Q.    Let me ask the same question for circuit  
2 switch -- circuit equipment, not circuit switching.  
3 Circuit equipment.  If your response could be a  
4 little more specific.  For example, in your response  
5 to my prior question, you said there's some  
6 normalization.  What precisely would that mean in the  
7 context of identifying the forward-looking expenses  
8 for circuit equipment?

9           A.    Well, it goes back to our overall  
10 methodology of how we develop the factors.  We start  
11 with the books of account as of 2001, and we will  
12 make -- they're reflected in the work papers of  
13 various normalizations and other adjustments to bring  
14 our book numbers to a forward-looking level of  
15 expense.  We'll do this for each account or each  
16 network account to develop our forward-looking  
17 expenses that way.  If you want to go into a -- you  
18 know, another detailed level --

19          Q.    Well, I would like to have a -- you're  
20 describing to me -- you say you apply some  
21 adjustments that start with the book numbers and,  
22 through the adjustments, the book numbers become  
23 forward-looking numbers.  I want to have a sense of  
24 what's being done in order to make a book number a  
25 forward-looking number.

0848

1 A. Okay.

2 Q. I understand the productivity adjustment,  
3 but I'd like to have a sense of what else is done.

4 A. I don't know if what I'm referring to is an  
5 exhibit or has been, you know, filed, but I could go  
6 through, you know, our work papers and give you an  
7 idea.

8 MS. RONIS: Is it --

9 JUDGE MACE: Off the record.

10 (Discussion off the record.)

11 JUDGE MACE: Let's be back on the record.

12 MS. RONIS: What he's referring to was  
13 provided on a CD with the direct, and we've marked  
14 that as Exhibit 25, so it's in the record, it's just  
15 not a paper copy. So you don't have a copy unless  
16 you printed out the CDs, which I doubt.

17 Q. Well, please proceed.

18 A. Okay.

19 Q. And just, if you could use as your example  
20 circuit equipment, I would appreciate that.

21 JUDGE MACE: Dr. Gabel appears to have CDs  
22 before him.

23 DR. GABEL: But I think I can listen without  
24 needing to look at these.

25 JUDGE MACE: Go ahead.



0849

1           THE WITNESS: Okay. So I believe Circuit is  
2 Account 6232, those types of expenses. We would  
3 start with the books of account, and then we would  
4 back out any related revenues that are associated  
5 with nonrecurring costs as a surrogate for --

6           Q. Any costs?

7           A. Pardon me, revenues as a surrogate for the  
8 cost.

9           Q. Okay. You use revenues as surrogate?

10          A. We back those out, because we're not doing  
11 recurring cost -- nonrecurring costs here, excuse me.  
12 We also have a normalization that I'll go through.  
13 There's a small product specific adjustment, where  
14 we'll -- those products that are specific to a  
15 certain area that we get revenue through someplace  
16 else that are not involved in UNEs. Then we will,  
17 you know, productivity inflation over the period to  
18 develop a forward-looking level, okay.

19          Q. Before you turn to the next page, you said  
20 you have an adjustment for products that are not  
21 subject to UNEs. That's the part that I think I'm  
22 particularly interested in. So you have parts of  
23 your product -- your family of products which you  
24 haven't conducted cost studies. Is that to make an  
25 adjustment for areas where you have not undertaken

0850

1 cost studies?

2 A. Well, we've done cost studies, but they are  
3 not relevant to the development of factors for UNEs.  
4 They may develop a study or costs based on expenses  
5 that are not going to be expenses that would be  
6 applied to investments themselves. An example of  
7 that would be collocation adjustments, any kind  
8 there, any software development made for E911,  
9 development --

10 JUDGE MACE: Mr. Jones, I'm having trouble  
11 understanding what you're saying --

12 THE WITNESS: Oh, I'm sorry.

13 JUDGE MACE: -- and I bet the reporter is,  
14 too. Could you just try to make sure that you speak  
15 slowly and clearly?

16 THE WITNESS: Okay. Thank you. There are  
17 other -- and I'm trying to look for ones that are  
18 specific to the account that you had asked me, and I  
19 don't -- I don't see any that are for that particular  
20 account. Let me just check a little more. Okay. We  
21 do have a very, very minor adjustment for third party  
22 billing and collection adjustment. Very, very, very  
23 small.

24 Q. Let me ask for a specific product. Are you  
25 familiar with a private line alarm system that would

0851

1 be offered to retail customers?

2 A. Personally, no, I'm not, but --

3 Q. Is it likely one product that would be  
4 offered by Verizon, a private line alarm system, or  
5 say a private line data system?

6 A. It could be a product that we offer. I'm  
7 not familiar with all the product lines.

8 Q. Well --

9 A. What we're trying to do is make a  
10 relationship between our network expenses and our  
11 network investments that could be used to cost any  
12 product that we would service or that we would  
13 provide, so if we can identify the investments, then  
14 -- and these are done in a UNE context, so they're  
15 applicable to UNEs. So these factors are available  
16 to be used in cost studies to determine the cost of  
17 providing a particular service.

18 Q. Let's assume that you offer private line  
19 data services or private line alarm systems, and as  
20 part of providing those products you made investments  
21 in circuit equipment that is placed both in the  
22 central office and at the customer's location. Are  
23 you aware of any UNE products -- well, let me just --  
24 if you have such a retail product, would you have  
25 identified investment of that private line alarm

0852

1 service when you undertook your estimate of the  
2 investments that are referred to in your hypothetical  
3 example at line four, your forecast of your TELRIC  
4 investment?

5           So let me -- what I'm interested in  
6 exploring with you, Mr. Jones, is your forecast of  
7 your TELRIC investment, this is investment associated  
8 with network activities that are modeled in the cost  
9 model that Verizon has submitted in this proceeding;  
10 is that correct?

11         A. In the cost studies, that's correct.

12         Q. What if you had a product where you didn't  
13 undertake a cost study for this proceeding? Would  
14 its investment be reported at line four?

15         A. Line four?

16         Q. Line four, page 101, your hypothetical  
17 forecast of TELRIC investment?

18         A. Oh, okay. That switch investment would be  
19 what is determined by the analysts that do the switch  
20 cost studies, and they develop a forward-looking  
21 level of investment. So that -- on line four, that's  
22 what that would determine.

23         Q. Okay. And what I'm asking, what if there  
24 was a product which used circuit equipment, and in  
25 this proceeding you did not develop a cost study for

0853

1 that product? Wouldn't the investment for that  
2 product be admitted from line four?

3 A. I think you have to -- the basic idea is to  
4 -- the products versus the investment. The  
5 investment is what we're actually determining. Now,  
6 the investment can -- all the products and services  
7 ride the network, the investment, so this is for the  
8 -- to develop the investment necessary in a  
9 forward-looking network environment as according to  
10 TELRIC, those projections into that efficient  
11 environment, forward-looking.

12 Q. You mentioned riding the network, but I used  
13 as my example circuit equipment, where the circuit  
14 equipment is at one end of the network or the other.  
15 It is either in the central office or it is in the  
16 end user's location.

17 A. Again --

18 Q. If there was some circuit investment that  
19 was located at the customer's location and you did  
20 not offer that kind of functionality as a UNE, would  
21 that investment be excluded from line four?

22 A. There again, I think you need to address  
23 those questions to the cost development people,  
24 because you're talking about specific services.

25 MS. RONIS: The switching person who

0854

1 developed the investments will be on right after  
2 this. He could address that. I do understand what  
3 you're asking.

4 DR. GABEL: Well, let me ask, because -- let  
5 me just ask. Your example of switching, and Counsel,  
6 you could correct me if I'm wrong here, but am I  
7 correct that you do not need to provide voice mail as  
8 an unbundled network element?

9 MS. RONIS: Correct.

10 DR. GABEL: All right. And am I correct  
11 that the investment that you make in voice mail is a  
12 regulated activity or is that a non-regulated  
13 activity?

14 MS. RONIS: I don't know the answer to that,  
15 but I think the switching witness that developed the  
16 investments will say there isn't a cost for that in  
17 the switching investment that he then hands over to  
18 Mr. Jones. We could confirm with him.

19 Q. Okay. Mr. Jones, let me just, then, ask you  
20 this. Let's -- I'll ask you to assume that there may  
21 be a product that generates some network investment  
22 that's admitted from the forecast of the TELRIC  
23 investment, because that's not a UNE-related product.  
24 What adjustment would have been made up at line one  
25 to reflect that what's at line four excludes some of

0855

1 the products that generate the book expenses that you  
2 start with at line one?

3 A. There, again, line one is done on a -- we  
4 create our factors on a total company basis, not only  
5 product specific. So on a total basis, that would  
6 not be a thousand dollars, but it would be a much  
7 larger number, of course. And the real purpose of  
8 this table is to demonstrate that the investment that  
9 these expenses are supporting in the forward-looking  
10 network could be much lower, and that -- so that's  
11 the basic reason for this table.

12 Q. I understand that, but in the example that  
13 you have -- we're using here, where we started with  
14 circuit expenses -- I think you said that was Account  
15 6626. Is that correct?

16 A. I can't remember the account number.

17 Q. Okay. Well, regardless, whatever is the  
18 uniform system of account for circuit expenses, if  
19 there is a retail product that generates expenses,  
20 such as my hypothetical example with an alarm  
21 service, and that investment isn't included in line  
22 four, where you have the forecast of the TELRIC  
23 investment, is there a mismatch between what you're  
24 doing in line one and line four, or is it the case  
25 that at line one you've pulled out the expenses

0856

1 associated with services that are not included in the  
2 forward-looking TELRIC investment at line four?

3 A. To answer your question, we have not taken  
4 anything out of those expenses to reflect any type of  
5 -- other than if they are not going to be used in the  
6 future. If they're a technology that's not to be  
7 used in a forward-looking network, we will take those  
8 out. But there's no other adjustment necessary,  
9 because when we develop our factors, the factors are  
10 then applied to investment to wherever it is. If  
11 it's a circuit account, any product development that  
12 uses circuit investment would apply that factor to it  
13 to reflect those expenses. So it's on a product by  
14 product basis that those would be applied.

15 So that's why I say you have to look at the  
16 investment and a product a little separately. A  
17 product could cross over and use multiple types of  
18 investment. So they would go to the studies and pull  
19 that particular type -- or particular factor for that  
20 particular type of investment and incorporate it into  
21 their study.

22 Q. Let me just try to put it in very general  
23 terms, and this is the last question in this area,  
24 then I'll move on to something else. Mr. Kopta's  
25 article from the Wall Street Journal referred to



0857

1 reams and reams of paper. Well, if I pile up  
2 tariffs, the tariffs are a very, very big pile, and  
3 so is your cost study a big pile, but I think your  
4 tariff's even higher in pages than the cost study.  
5 And my concern is if the cost study doesn't include  
6 all of the services, then is there a mismatch in your  
7 study methodology?

8 A. Not from a factor perspective. The cost  
9 studies is where you need to go, because they're  
10 trying to produce a particular cost study. If you  
11 did a study for every service that the company  
12 provides and there's a corresponding study to it, I  
13 don't know where that paper match would be, but --

14 JUDGE MACE: Are you -- I'm sorry, I didn't  
15 mean to --

16 THE WITNESS: No, go ahead. I'm sorry.

17 JUDGE MACE: Are you done with your answer?  
18 Go ahead.

19 THE WITNESS: Pretty much.

20 JUDGE MACE: Okay. We'll take a 15-minute  
21 recess at this point.

22 THE WITNESS: Okay.

23 (Recess taken.)

24 JUDGE MACE: Let's be back on the record.

25 Q. Mr. Jones, could you now turn to the

0858

1 succeeding page, 102. At line one, you use the term  
2 both current and forward-looking investment. That's  
3 page 102, line one.

4 A. Yes, I have it.

5 Q. Okay. Would you explain the difference --

6 A. Sure.

7 Q. -- please?

8 A. Putting it into context, it has to do with  
9 what's called a CC to BC ratio that AT&T proposes.  
10 That stands for current cost and book cost. And what  
11 that particular ratio does for each individual  
12 account is to look at the investments that are  
13 currently on the books at a particular time, in this  
14 case 2001, and all of its vintages. In current  
15 technology, you know, it is included in there, as  
16 well as older technology. So they apply a -- what is  
17 called a Turner Index going back those years for the  
18 oldest piece of plant in your network, and redisplay  
19 that at today's prices, okay.

20 Q. Mm-hmm.

21 A. So it's designed to put your book investment  
22 on a current level, but it's not a forward-looking  
23 level. It has not reflected the forward-looking  
24 changes of the forward-looking network.

25 Q. Okay. Now, since you've used the term

0859

1 Turner Price Index, now I'll make my bench request,  
2 which I was going to save for Mr. Tucek. As a bench  
3 request, would you please provide the Turner Price  
4 Indexes?

5 A. I believe that is included in our work  
6 papers.

7 Q. If you could just identify later, you don't  
8 need to identify now --

9 A. Sure, sure.

10 Q. -- where I would find those. Now, if you  
11 could turn to page 117 of this same exhibit. This is  
12 Exhibit 228. Am I correct that you're advocating  
13 that the Commission rely on the CPI, rather than the  
14 GDP Price Index?

15 A. That's correct. And I'll explain why.

16 Q. Are you familiar with Verizon's advocacy in  
17 price cap filings regarding what kind of price index  
18 should be used to adjust rates?

19 A. I understand that the price cap -- the FCC  
20 did use the GNP PI back in 1990. However, the GDP  
21 PI, what they currently use, that is a broad index of  
22 all products and services that are produced within  
23 the United States, whether they be capital, whether  
24 they be for export, okay. What we're trying to do is  
25 to apply an inflation factor to our expenses. Now,

0860

1 again, the GDP PI includes, to put it in a very  
2 simple term, planes, trains and automobiles, okay.  
3 They're big capital items. What the CPI is is the --  
4 like the gasoline or the fuel that is used to operate  
5 those, and that's what's reflected in our expenses.  
6 By its nature, expenses are things that are consumed  
7 within one year.

8           So going back to the fuel example, I think  
9 everyone is aware the price of fuel has gone through  
10 the roof recently. So those are the types of  
11 expenses we're trying to capture. Another example  
12 would be the GDP PI includes office buildings,  
13 residential structures, refrigerators, washing  
14 machines. Again, durable capital items. We're  
15 trying to focus on the electricity that is needed to  
16 run those. So we feel that the CPI is a better  
17 indicator of those types of products that are  
18 reflected in our expenses and a better indicator of  
19 the inflation than the GDP PI.

20           Q. You mentioned that the FCC, in the early  
21 1990s, determined that the GNP price index should be  
22 used for price cap filings. What is the difference  
23 between the GNP price index and the GD --

24           A. I don't know, to answer your question. I  
25 don't know exactly.

0861

1 Q. Am I correct that your -- Verizon's filing  
2 contains a proposed rate for the daily usage factor  
3 fee, the DUF fee?

4 A. Yes.

5 Q. And would you be the expert to ask questions  
6 about how the computer investment was determined for  
7 the DUF study?

8 A. Yes. See if I have it with me.

9 Q. For that study, is your starting point the  
10 embedded book investment in the computer account? Or  
11 what -- let me restate the question. Could you  
12 explain in general your methodology for identifying  
13 the investment associated with the DUF UNE rate  
14 element?

15 A. The DUF element is primarily labor, labor  
16 driven.

17 JUDGE MACE: I'm sorry, it is --

18 THE WITNESS: It's primarily labor driven.  
19 And it would be included in one of those types of  
20 products that we would back out of our factors.  
21 However, the study was not done -- performed in time,  
22 so we would have backed this out of our  
23 forward-looking factors as a product specific study.

24 Q. I didn't understand, then, your comment, the  
25 study wasn't done in time?

0862

1           A.    It was not completed in time for us to  
2   incorporate it into our analysis of factors, but it  
3   would have been a study that those results would have  
4   been removed.

5           Q.    Okay.  So the annual charge factor includes  
6   the cost of the DUF?

7           A.    Yeah, it's very small to begin with, and  
8   again, we would have included that in our  
9   product-specific adjustment had it been completed in  
10  time.

11          Q.    And you're also proposing a separate rate  
12  element for the DUF?

13          A.    Yeah, on its own.

14          Q.    And does that lead to any potential double  
15  recovery that the costs of the DUF is included in the  
16  development of the expense factor, and then you also  
17  have those same expenses potentially recovered  
18  through a DUF charge?

19          A.    That is true, to the point that we were  
20  unable to remove those from the factors at the time.

21          Q.    And do you have any recommendations on how  
22  this potential double recovery could be rectified?

23          A.    Well, in a compliance, we would include that  
24  as a product specific type of adjustment, to take it  
25  out of the factors.

0863

1 Q. So in a compliance filing, does that mean  
2 that you await an order from the Commission to do  
3 that or is this just something you would initiate on  
4 your own?

5 A. I don't know how that would work, but if  
6 you're correct in your observation that this would be  
7 a potential double count and if we were to do this  
8 over again, we would include this in those product  
9 adjustments that we would take out of the factors.

10 Q. Well, let me just ask, if the study had been  
11 done on time, how would you estimate the  
12 computer-related investment associated with the DUF  
13 product line?

14 A. We would try to determine those computer  
15 costs or systems maintenance and other types of costs  
16 developed in that study and, on a per account basis,  
17 to the degree we can identify them, adjust the --  
18 each individual account within the investment if it's  
19 known and also the expense portion. So it would be  
20 an account by account adjustment.

21 Q. When you estimate the computer-related  
22 investment, your computer investment, do you start  
23 with the book investment in computer equipment?

24 A. For the --

25 Q. For the DUF. The DUF -- am I correct the

0864

1 DUF stands for daily usage factor?

2 A. Right.

3 Q. And it involves a billing charge to the  
4 CLECs for processing?

5 A. Daily.

6 Q. Daily usage information that's used by the  
7 CLECs for billing their end users; is that correct?

8 A. Correct.

9 Q. And so you have to use your own computers to  
10 process that billing information?

11 A. That's correct. In looking at the study,  
12 like I said, it's basically labor driven. There's  
13 not a great deal of computer time that's involved in  
14 this. Basically --

15 Q. Would that --

16 A. -- you know, the labor involved in  
17 processing these things.

18 Q. Okay. Within the past year -- I'm a little  
19 surprised to hear that response, Mr. Jones, because  
20 within the past year I was sitting as an adviser to  
21 the Maine Commission in a proceeding where they were  
22 dealing with a DUF, and the largest part of the rate  
23 was generated by the investment in the computers.

24 So am I -- would it be correct to infer from  
25 your response that the computer equipment that is



0865

1 used for the DUF is also just in your general loading  
2 factors, or do you know -- well, I guess I should  
3 have started out, do you know the degree to which the  
4 processing of the tapes requires Verizon to incur  
5 computer time? Do you know how much time is  
6 involved?

7 A. No, I don't know exactly. Like I said --

8 Q. All right. So --

9 JUDGE MACE: You can't both talk at the same  
10 time. That's not going to work. I know you're in a  
11 conversation, but please try to avoid that.

12 DR. GABEL: All right. I have no further  
13 questions. Thank you.

14 CHAIRWOMAN SHOWALTER: I have no questions;  
15 I just have a request. Oh, sorry. I'd like to make  
16 a bench request. And it's regarding Exhibit 283,  
17 page seven. Can you please provide an update of that  
18 page, which I think would mean there would be actuals  
19 for the first two years --

20 THE WITNESS: Yes.

21 CHAIRWOMAN SHOWALTER: -- and updated  
22 estimates for the last three years?

23 THE WITNESS: Yes, that would be no problem.

24 JUDGE MACE: That will be Bench Request  
25 Number 4.

0866

1           THE WITNESS:  Is there any particular -- we  
2  were talking about the productivity.  Do you wish to  
3  have the productivity for those two years updated, as  
4  well as the projections?

5           CHAIRWOMAN SHOWALTER:  That's correct.

6           THE WITNESS:  Okay.

7           CHAIRWOMAN SHOWALTER:  In other words, but  
8  just -- I don't need anything more than that one  
9  piece of paper updated.

10          THE WITNESS:  Okay.

11          CHAIRWOMAN SHOWALTER:  Thanks.

12          JUDGE MACE:  Commissioner Hemstad.

13

14                           E X A M I N A T I O N

15  BY COMMISSIONER HEMSTAD:

16          Q.  I have just one question, and it's pursuing  
17  that same exhibit and page.  This is perhaps in your  
18  testimony, but I'm trying to understand the basis for  
19  the conclusion that there will be a rapid decline in  
20  the rate of productivity.

21          A.  I'm sorry, could you point me to --

22          Q.  Well --

23          A.  -- so I can comment?

24          Q.  I think it was somewhere in your testimony,  
25  but also here.  The productivity levels, for example,

0867

1 in 2002, your assumptions were 4.3 and turned out to  
2 be 5.0, and then, for '03, fall into 2.0 when they  
3 were 4.4. And then, for '04, '05 and '06,  
4 productivity levels that are quite low over what they  
5 have been now in the last two or three years or the  
6 last several years.

7 A. Again, that would be included in our update,  
8 in that bench request.

9 Q. But my question is, what was the premise  
10 behind the assumption that there would be a rapid or  
11 significant decline in your rate of productivity  
12 increase?

13 A. In the rate of productivity increase?

14 Q. In the rate of productivity?

15 A. You mean from the 2003 level that was  
16 projected versus what came in in actual?

17 Q. What I'm trying to get at, the last several  
18 years we've had productivity increases of four to  
19 five percent a year. The company projections are  
20 they will fall to say one and a half percent. And  
21 what was going on?

22 A. Your Honor, I would like to answer your  
23 question as best I can. However, I don't actually do  
24 the projections. We do have these -- a consultant --  
25 an independent consulting firm that prepares these

0868

1 for the industry. It's not a -- it's not internally  
2 at Verizon; it's done by a consulting firm that we  
3 subscribe to.

4 Q. And you just put the number in?

5 A. There is some -- I get the number from our  
6 internal sources, who use these indexes to create  
7 these -- the productivity factors, give us a year  
8 over year. I don't do it myself. I don't pull the  
9 data myself, is what I'm trying to say.

10 Q. Does the company do any studies about actual  
11 or projected productivity increase limited to the  
12 company itself?

13 A. No, it doesn't. There's no index that we  
14 can access that would do that, and we do not do that  
15 internally.

16 COMMISSIONER HEMSTAD: That's all I have.  
17 Thank you.

18 COMMISSIONER OSHIE: I don't have any  
19 questions. Thank you.

20 JUDGE MACE: Okay. Thank you. Mr. Kopta,  
21 nothing.

22 MS. RONIS: May I take just a two-minute  
23 break? We may have redirect and possibly a  
24 correction to something Mr. Jones said, based on some  
25 research his assistant did in the back of the room.

0869

1 I really just need a minute or two.

2 JUDGE MACE: Sure.

3 (Recess taken.)

4 JUDGE MACE: Back on the record.

5 MS. RONIS: Yes, I just have one question on  
6 redirect.

7

8 R E D I R E C T E X A M I N A T I O N

9 BY MS. RONIS:

10 Q. Mr. Jones, would you like to correct your  
11 statement on removing DUF charges?

12 A. Yes, I was getting this case confused with  
13 the California case that I was working on, and we --  
14 a checking of the work papers, we did make an  
15 adjustment for that specific product in our  
16 product-specific adjustments.

17 Q. And that's in the work papers?

18 A. It's in the work papers. I don't know the  
19 exhibit number, but it's work paper 1.2.2.

20 MS. RONIS: And that's Exhibit 15. Hold one  
21 minute. 214-C, Exhibit 214-C.

22

23 E X A M I N A T I O N

24 BY DR. GABEL:

25 Q. Mr. Jones, let me return to my question

0870

1 about the DUF study. In the DUF study, do you  
2 include any computer investment?

3 A. Looking at the work papers, I can't  
4 determine that, because we get a -- just the number  
5 from those people that do that study, so I would have  
6 to research that in order to properly answer your  
7 question.

8 Q. And would you know, in terms of the  
9 methodology for the study, if the study relies on  
10 embedded investment?

11 A. It would rely on, you know, the investment  
12 that we need to use to provide that service. I would  
13 assume it's in place, but, again, I would need to  
14 consult those who do the study to find out more  
15 exactly to answer your question.

16 Q. Is that something where you could give a  
17 person a call and testify on that while you're here?  
18 All right. Well, then, okay. We'll just handle it  
19 as a bench request.

20 A. Okay.

21 Q. Please provide the DUF study, and in the  
22 response describe how the computer-related investment  
23 was estimated. Did you work with embedded investment  
24 or did you convert it to a forward-looking  
25 investment?

0871

1           A.    Well, it wouldn't be converted to a  
2 forward-looking level of investment since it's not  
3 going to be included in our forward-looking network.

4           Q.    Pardon me?

5           A.    Since we're backing it out, it wouldn't be  
6 included in our forward-looking investment or levels  
7 of investment.

8           Q.    I'm --

9           A.    Actually, to answer your question, I may be  
10 able to answer it right now just looking at it. I  
11 don't reflect any investment being used to provide  
12 the adjustment that we were given.

13          Q.    Okay.

14          A.    It's only expense.

15          Q.    It's only expense?

16          A.    Yes.

17          Q.    And so then how is the cost of the computers  
18 that are used to process the DUF tapes recovered?

19          A.    Again, I'll have to discuss that with --

20          Q.    Then I guess my request is to provide the  
21 study.

22          A.    Okay.

23          Q.    And then also provide an explanation of how  
24 the investment expenses associated with the computers  
25 process the DUF tapes, how do you recover that cost?

0872

1 A. Okay.

2 DR. GABEL: Thank you.

3

4 E X A M I N A T I O N

5 BY CHAIRWOMAN SHOWALTER:

6 Q. I have just a question. Are you ready?

7 A. Yes, ma'am. I'm sorry.

8 Q. I wanted to let you finish writing.

9 A. Okay.

10 Q. There's been discussion, I believe, of both  
11 retail advertising costs and wholesale advertising  
12 and marketing costs, and can you point me to your  
13 rebuttal of Mr. Lundquist's points about wholesale  
14 advertising and marketing costs?

15 A. Well, our --

16 Q. I actually mean in your testimony, if it's  
17 here.

18 A. Okay. It's on page 110 of Exhibit 228-TC, I  
19 think it is. The rebuttal testimony.

20 Q. Okay. All right. And there was questioning  
21 on this earlier. Now, where is the rebuttal of the  
22 retail advertising cost issue, if there is?

23 A. There is no -- it's a -- our rebuttal is  
24 that, in a wholesale-only environment, the current  
25 level of advertising would be a good proxy as our



0873

1 forward-looking level of advertising if we would be a  
2 wholesale-only company.

3 Q. Okay. I think that -- I think that I had a  
4 confusion in my own mind, and you've clarified it.  
5 Thank you.

6 A. You're welcome.

7 JUDGE MACE: Mr. Kopta, did you have  
8 anything? Anything else? Let me make sure that I  
9 have all the exhibits taken care of. Thank you.  
10 You're excused, Mr. Jones.

11 THE WITNESS: Thank you.

12 JUDGE MACE: Mr. Lundquist.

13 Whereupon,

14 SCOTT C. LUNDQUIST,  
15 having been first duly sworn by Judge Mace, was  
16 called as a witness herein and was examined and  
17 testified as follows:

18 JUDGE MACE: Please be seated.

19

20 D I R E C T E X A M I N A T I O N

21 BY MR. KOPTA:

22 Q. Would you state your name and business  
23 address for the record, please?

24 A. Yes, good morning. My name is Scott C.  
25 Lundquist. I am a vice president of Economics and

0874

1 Technology, Incorporated, Two Center Plaza, Boston,  
2 Massachusetts, 02108.

3 Q. And do you have before you documents that  
4 have been identified as Exhibits 1001-TC, which is  
5 the confidential direct testimony of Scott C.  
6 Lundquist, Exhibits 102 -- I mean, 1002 and 1003,  
7 which are attachments to that testimony, and Exhibit  
8 1004-TC, which is the confidential May 12th, 2004  
9 testimony of Scott C. Lundquist?

10 A. Actually, I don't have the 1004-TC, my  
11 rebuttal testimony. Excuse me, Counsel, just to  
12 check, too. If 1003-TC -- I might not have that.  
13 Let me just check what that was identified as.

14 Q. Exhibit 1003 is SCL-2, which is a comparison  
15 of WUTC Prescribed, Verizon Proposed and FCC Safe  
16 Harbor Depreciation Rates.

17 A. Okay. My copy has the cover page to that,  
18 but not the actual table. Okay. Thank you.

19 Q. Were these exhibits prepared by you or under  
20 your direction and control?

21 A. Yes, I have all those exhibits, and yes.

22 Q. And do you have any corrections to make to  
23 any of those exhibits?

24 A. I have three corrections to make to Exhibit  
25 1001-TC, in the nature of errata. On page 15, lines

0875

1 20 and 21, there is a number that appears on both of  
2 those lines. Verizon counsel advises me those are  
3 now public information. And I had a typographical  
4 error here, and the number should be 33.9 percent on  
5 both lines 20 and 21, as was pointed out in Mr.  
6 Jones' rebuttal testimony.

7 On page 23 -- sorry, at line one, it should  
8 read, "Verizon has provided" instead of "Verizon has  
9 providing."

10 And also, on page 34, line 11, it should  
11 read "were applied" rather than "were applies." And  
12 those are all of my corrections to my pre-filed  
13 testimony.

14 Q. And as corrected, are these exhibits true  
15 and accurate, to the best of your knowledge?

16 A. Yes, they are.

17 Q. If I asked you the questions contained in  
18 these exhibits, would your answers contained in the  
19 exhibits be the same?

20 A. Yes, they would.

21 Q. Have you prepared a three-minute summary of  
22 your testimony?

23 A. Yes.

24 Q. Would you give that now, please?

25 A. Good morning. My testimony that I'll

0876

1 summarize today focuses on Verizon's expense factor  
2 development. I reviewed Verizon's expense factors,  
3 identified certain flaws in them, and made  
4 adjustments that were included in the revised  
5 revisions to the Verizon cost model that were filed  
6 with AT&T's testimony of Steven Turner. I found  
7 errors that need to be corrected in four different  
8 areas. They are the forward-looking calibration  
9 factor, the marketing expense factor, the inflation  
10 and productivity adjustments, and the uncollectibles  
11 factor.

12 Taking the first, the forward-looking  
13 calibration factor does not do what Verizon intends  
14 it to do. What it actually does is divorce the  
15 calculation of its expenses from the network redesign  
16 that goes on within the investment side of the model.  
17 And Verizon essentially has admitted as much by  
18 saying that its network expense level is what it  
19 started with prior to the development of the factor,  
20 that that's what the forward-looking conversion does  
21 is get it back to that level.

22 That, as I explained in my pre-filed  
23 testimony, that leads to an overstatement of expenses  
24 and does not account for things such as if less  
25 copper is used under the redesigned network in the

0877

1 TELRIC model, that its network expense level for  
2 copper would be decreased. What's needed is just to  
3 recognize changes in unit prices, and to do that I've  
4 used the industry standard, C.A. Turner current Cost  
5 of Book Cost Ratios, which has the right effect and  
6 makes the appropriate adjustment.

7           Relative to expense factors, several  
8 different areas in there, but briefly, advertising,  
9 Verizon kept 100 percent of its current advertising  
10 expense in its model. I found no reason to include  
11 that in a wholesale-only scenario. And Verizon did  
12 not identify in particular a level of advertising  
13 needed to stimulate purchase of UNEs in a wholesale  
14 environment, so, as in the Virginia Arbitration  
15 Order, I made the advertising expense zero, as I see  
16 little need for a -- for Verizon to advertise for  
17 something that would be provided on a mandatory basis  
18 to a very specialized subset of customers with which  
19 it already has business relationships.

20           And then, for inflation productivity, I made  
21 corrections by replacing its consumer price index  
22 with the gross domestic product price index that the  
23 FCC has used and used a productivity index that is  
24 specific to wireless telecommunications carriers,  
25 rather than the national-based non-farm business

0878

1 labor output index. Thank you.

2 MR. KOPTA: I'd move admission of Exhibits  
3 1001-TC through 1004-TC.

4 JUDGE MACE: Is there any objection to the  
5 admission of these exhibits?

6 MS. RONIS: No objection.

7 JUDGE MACE: I'll admit them.

8 MR. KOPTA: The witness is available for  
9 cross-examination.

10 JUDGE MACE: Thank you.

11 MS. RONIS: I have no cross for this  
12 witness.

13 JUDGE MACE: Thank you. Dr. Gabel.

14

15 E X A M I N A T I O N

16 BY DR. GABEL:

17 Q. Yes, I have one question. On your May 12th  
18 testimony, at page 12 --

19 CHAIRWOMAN SHOWALTER: What exhibit?

20 JUDGE MACE: It should be 1004-TC.

21 Q. Page 12, line 13.

22 A. Yes, I have it.

23 Q. Well, actually, this version has different  
24 page numbers. It's actually line three, but this  
25 refers -- you've characterized this table as an

0879

1 illustration. I'm just curious why you said it's an  
2 illustration. I'm just wondering what you're  
3 suggesting would be the weight that is given to this  
4 table when you use that term?

5 A. Well, it illustrates that there's a  
6 significant problem with Verizon's analysis here, but  
7 what I've done is only disaggregate between two  
8 different types of loops, the digital DS1 loop and  
9 the, you know, DSO loop, which to me illustrates the  
10 problem that its aggregated loop cost is inflated, as  
11 I show. It's 116 percent higher than the applied  
12 voice grade loop cost.

13 But if you did a full disaggregation into --  
14 that recognized the other types of loops that have  
15 different costs, including ISDN, BRI and PRI loops  
16 and other types of loops, perhaps including the alarm  
17 service private line loops, that you would have even  
18 -- you know, it would change the results and probably  
19 show that there's more of a disparity between the  
20 aggregate result and the actual voice grade loop  
21 cost, because you've rolled together with the loop --  
22 DSO loop cost the voice grade loop cost, these costs  
23 of other more expensive types of loops.

24 Q. And in this table, the value of \$23.66, this  
25 is a cost estimate that reflects 11 and a quarter

0880

1 rate of return; is that correct?

2 A. Let me just check. I believe so. I have  
3 other adjustments that I've made in my testimony. I  
4 think this one is separate, but I could confirm that  
5 by looking at my work paper.

6 Q. All right. Then, as a bench request, would  
7 you please provide the rate of return that's  
8 associated with the cost estimate of \$23.66 that  
9 appears on table two at page 13?

10 A. Yes, certainly.

11 DR. GABEL: Thank you. I have no further  
12 questions.

13

14 E X A M I N A T I O N

15 BY CHAIRWOMAN SHOWALTER:

16 Q. My question relates to wholesale marketing  
17 and advertising expenses. First, is there a  
18 distinction between marketing and advertising? In my  
19 lay sense, I think of advertising as broadcast type  
20 ads, wide distribution. I think of marketing as  
21 including sales reps and people that might visit a  
22 CLEC to show what a UNE can do. Do you see that  
23 distinction?

24 A. Yes, there is that distinction. In the  
25 Uniform System of Accounts, those are actually



0881

1 accounted for in separate accounts. There's a  
2 advertising account, which would include things such  
3 as the mass market advertising you're referring to,  
4 then there's a separate sales account, number 6612,  
5 and then also other marketing functions, which are  
6 included in another account called product  
7 management.

8 Verizon generically refers to all those, in  
9 some context, as marketing, and I would also do that  
10 in some contexts. It's -- whereas advertising is --  
11 can be considered as a subset of the marketing  
12 function of attempting to, you know, convey your  
13 product to the marketplace.

14 Q. Are you recommending that all three  
15 categories be removed as an expense for Verizon?

16 A. No, no, I'm not.

17 Q. Okay.

18 A. I have included what I consider appropriate  
19 levels of expenses for the product management and  
20 sales. I've just zeroed out the advertising portion  
21 of expenses, because I -- in particular, you know, a  
22 great deal of Verizon's current advertising is, you  
23 know, oriented towards mass market advertising, the  
24 ones you see on television and radio and things like  
25 that, and those are emphasizing Verizon's brand.

0882

1 They are surely attempting to promote its own  
2 services. The one I recall we see back in the East  
3 are ones where it specifically shows Verizon's DSL  
4 service in comparison to Comcast cable service, and  
5 tries to show that its services is much easier to  
6 use.

7           And I don't believe that sort of advertising  
8 would be necessary at all, and it is not necessary  
9 for the provision of wholesale UNEs. The customers  
10 for UNEs are a very small, specialized marketplace,  
11 its CLECs. They already have business relationships  
12 with Verizon. If they need UNEs, they have -- you  
13 know, in the real world, you know, under the TRO,  
14 they would need to have those UNEs -- need to obtain  
15 them from Verizon, because there would be no other  
16 alternative.

17           But even in a wholesale -- in the scenario  
18 that's being contemplated for TELRIC purposes or full  
19 facilities-based competition, there would be little  
20 need for advertising of its wholesale UNEs, because  
21 CLECs know very well, they have -- you know, what  
22 those services are and how they are -- you know, what  
23 their differences are between those services and, you  
24 know, other alternatives they might have for  
25 providing their service.

0883

1 Q. How do you explain advertisements for Intel,  
2 Intel chips? They're ubiquitous -- not ubiquitous,  
3 but many, many advertisements that basically let the  
4 end use consumer know you want to look for the little  
5 -- the record can't convey a ding-ding-ding-ding, but  
6 that is a brand identification trying to convey to  
7 the end use consumer you want to make sure your  
8 product has this wholesale product in it.

9 A. That's right, and what they're -- the key  
10 difference there is that Intel is working with its  
11 distribution channels, you know, in the sense of, you  
12 know, the things that use its products, those  
13 computer manufacturers, to do this advertising in the  
14 sense that it wants to have its brand included as  
15 part of the values perceived by retail customers of  
16 that computer.

17 That's in contrast to what's been going on  
18 with UNEs, which is UNEs are not Verizon-branded.  
19 And my understanding is that, you know, if you  
20 provide, for instance, operator services that Verizon  
21 provides on a wholesale basis, they will not be  
22 branded as Verizon operator services, but must be  
23 rebranded as the brand of the CLEC providing the  
24 service.

25 Q. But that kind of brings us to the Got Milk

0884

1 analogy. It does seem plausible that there would be  
2 advertising battles over cable versus DSL versus  
3 wireless, and the land line group, which could be  
4 ILECs and CLECs, might want to convince the retail  
5 public that that's the way they want to go.

6           Would that -- is that effort, should it  
7 exist, does that relate to UNE costs or would it be  
8 through some other mechanisms?

9           A. No, I would think that relates to the retail  
10 side. It's trying to generate and promote its --  
11 Verizon's retail services or the retail services of  
12 that, you know, group of wireline carriers that were  
13 trying to promote their service.

14          Q. Well, for example, the cable industry has --  
15 there's an industry association, and so each of the  
16 cable companies are trying to promote their product  
17 at a retail level, but there's also a fair amount of  
18 activity, I'm not sure advertising, but there's money  
19 put into the common cause of promoting cable. Is it  
20 plausible to think that, in a forward-looking  
21 competitive world, that sort of land line association  
22 activity, including potentially advertising, would  
23 occur?

24          A. Yes, let me clarify what we're doing here.  
25 We're trying to identify the costs that should be

0885

1 attributed to UNEs --

2 Q. Right.

3 A. -- to the wholesale side of Verizon  
4 operation. But in any scenario for doing this,  
5 there's no need to assume that Verizon is only  
6 providing wholesale services. It can well be  
7 providing its own retail services. So -- and we  
8 expect that, in the real world, Verizon will continue  
9 to provide retail services. So if it wanted to join  
10 with other wireline providers -- let's assume there  
11 was facilities-based competition and it was intense  
12 enough to stimulate advertising of wireline service  
13 as, you know, against cable and against wireless  
14 service. If Verizon joined in efforts to do that,  
15 that would be perfectly fine. It might incur  
16 millions of dollars of cost for that, but that would  
17 be attributable to its retail operations and should  
18 not be attributed to its wholesale and provision of  
19 UNEs.

20 Q. Well, I mean, that brings me back to the  
21 Intel example. Supposing they were not exactly a  
22 UNE-only company, but a wholesale company. There  
23 are, in the telecommunications industries, providers,  
24 providers, that kind of thing, and you're bringing me  
25 back to Verizon as Verizon. I'm trying to think

0886

1 about wholesaling activity that might have an  
2 interest in advertising.

3 Now, I believe it would be advertising to  
4 the general public, not advertising to its wholesale  
5 customers. So I think the question I'm trying to ask  
6 is if it's legitimate for a wholesaler to participate  
7 in retail types of advertising, is that an expense  
8 that would go into the wholesale business, including,  
9 in this case, UNE provision?

10 A. Under certain limited circumstances, and the  
11 distinction I was pointing out was that when Intel  
12 does that, it is trying to promote its brand, and  
13 that brand would, if you will, carry through the  
14 distribution channel. The computer that the retail  
15 end user gets would have a little logo on it that  
16 says Intel Inside, and thereby Intel is trying to  
17 stimulate use of its wholesale service.

18 Verizon has not been even allowing branding,  
19 as I mentioned with the operator services example, of  
20 its Verizon-supplied wholesale services through to  
21 retail customers in the same way, and I don't see any  
22 reason to believe that that would change in a  
23 facilities-based competitive environment, so --

24 Q. Is branding necessary to advertise your  
25 product? Got Milk doesn't brand.

0887

1           A.    But Got Milk is -- again, that's an industry  
2 collection just trying to stimulate overall interest  
3 in consumption of milk.

4           Q.    I mean, the farmers who own the cows might  
5 not be the retailers of the milk, but I don't know if  
6 they contribute to the advertising or not.

7           A.    Right.

8           Q.    But if they do, wouldn't that be an example?

9           A.    It is an example of, you know, advertisers  
10 in industry sector to stimulate overall consumption  
11 of those services. I don't see that as what's going  
12 on here. We're talking about Verizon incurring  
13 expenses to stimulate its, you know, consumption, if  
14 you will, of its UNE services.

15                    Part of the difference here is, you know,  
16 milk is, you know, it's -- the difference is that,  
17 you know, milk is something that is consumed on a  
18 retail basis, whereas UNEs are, you know, demanded by  
19 CLECs, but only to the extent that they have retail  
20 customers of their own that they need to, you know,  
21 provide those wholesale facilities for.

22           Q.    But using land line --

23           A.    Sort of derived demand.

24           Q.    Wouldn't you agree that consumers are pretty  
25 aware that there is an option of land line versus

0888

1 wireless versus cable? They may or may not be  
2 completely comparable, but these are not things the  
3 average consumer is unfamiliar with. I'm sure they  
4 don't know what a UNE is.

5 A. Right. Oh, they certainly understand  
6 there's different, you know, choices in  
7 telecommunications services, and some of them are  
8 based on land line, some are not. Certainly I'm  
9 agreeing with you there.

10 Q. All right. Thank you.

11 A. Thank you.

12 JUDGE MACE: Commissioner Oshie.

13 COMMISSIONER OSHIE: No questions.

14 JUDGE MACE: All right: Anything further?

15 MS. RONIS: No questions.

16 MR. KOPTA: No redirect.

17 JUDGE MACE: With regard to Verizon cross  
18 exhibits for this witness, you have requested to have  
19 marked 1005 through 1008. Do you offer those?

20 MS. RONIS: No, we don't.

21 JUDGE MACE: All right. Thank you. You're  
22 excused.

23 THE WITNESS: Thank you.

24 JUDGE MACE: We will take our lunch recess  
25 now, resume at 1:30 with Dr. Blackmon. Is that



0889

1 correct?

2 MS. SMITH: Yes, Your Honor.

3 JUDGE MACE: Thank you.

4 (Lunch recess taken.)

5 JUDGE MACE: Let's be back on the record.

6 We're scheduled to begin this afternoon with the  
7 testimony of Dr. Blackmon. Would you stand and raise  
8 your right hand, please?

9 Whereupon,

10 DR. GLENN BLACKMON,  
11 having been first duly sworn by Judge Mace, was  
12 called as a witness herein and was examined and  
13 testified as follows:

14 JUDGE MACE: Please be seated.

15

16 D I R E C T E X A M I N A T I O N

17 BY MS. SMITH:

18 Q. Good afternoon, Dr. Blackmon.

19 A. Good afternoon.

20 Q. For the record, will you please state your  
21 name, your employer and your position?

22 A. My name is Glenn Blackmon, and my employer  
23 is the Washington Utilities and Transportation  
24 Commission. I'm the acting director of regulatory  
25 services.

0890

1 Q. Do you have before you what's been marked in  
2 this proceeding as Exhibit 1101-T, revised April 20,  
3 2004; Exhibit 1103; Exhibit 1104, corrected and  
4 revised May 27th, 2004, and Exhibit 1105-T, filed May  
5 12th, 2004?

6 A. Yes, and I would just note that 1103 was  
7 revised on April 20th.

8 Q. Okay. Thank you, Dr. Blackmon. Were these  
9 testimonies and exhibits prepared by you or under  
10 your direction?

11 A. Yes.

12 Q. If I were to ask you the same questions  
13 today as contained in these pre-filed testimonies,  
14 would your answers be the same as those that have  
15 been revised?

16 A. Yes, except there are a couple of typos that  
17 I noted.

18 Q. Would you state those for the record,  
19 please?

20 A. In Exhibit 1101, at page five, line 13, the  
21 answer should be, "No, I am not." And in Exhibit  
22 1105, page two, line eight, the word "approach"  
23 should follow the word "eyeball."

24 Q. And with those two corrections, if I were to  
25 ask you the questions today, would your answers be

0891

1 the same?

2 A. Yes.

3 MS. SMITH: The witness is available for  
4 cross-examination, and I'd move the admission of  
5 Exhibits 1101-T, 1103, 1104 and 1105-T.

6 JUDGE MACE: Is there any objection to the  
7 admission of the proposed exhibits? Hearing no  
8 objection, I'll admit them. And I understand that  
9 Verizon has cross for Dr. Blackmon? I'm sorry.

10 MS. RONIS: No cross.

11 JUDGE MACE: No cross. Did the Commission?  
12 Dr. Gabel.

13

14 E X A M I N A T I O N

15 BY DR. GABEL:

16 Q. Good afternoon, Dr. Blackmon.

17 A. Good afternoon.

18 Q. I'd like to ask you an open-ended question,  
19 which has also been presented to AT&T and to Verizon,  
20 and this is the open-ended question. There's  
21 testimony in this proceeding about why certain rates  
22 should be adopted because they promote competition,  
23 and that testimony seems to suggest lower UNE prices  
24 in testimony which says higher prices would promote  
25 facility-based investment.

0892

1           And as just a general question, do you have  
2 an interest in conveying some advice to the  
3 Commission on how to consider the balance between  
4 price competition and facility-based investment and  
5 do you actually see there being a trade-off between  
6 price competition and facility-based investment?

7           A.    The -- I definitely see some trade-offs  
8 between those two, and it's a trade-off that the  
9 Staff has attempted to balance since before the  
10 Telecom Act of '96 was passed, and we have, however,  
11 I would say generally not really been able to make a  
12 clean call on that, you know. We haven't really been  
13 able to balance those interests and come out with  
14 what we thought was the right outcome, because we  
15 have been constrained to follow essentially pricing  
16 rules that the FCC established and that the United  
17 States Supreme Court ultimately upheld.

18           So I would say generally that what we've  
19 been doing and what I understand to be the job of the  
20 Commission in this case is not to make those sort of  
21 policy-type decisions, but instead just set  
22 forward-looking rates, rates that are based on  
23 forward-looking economic cost, and to do that without  
24 really trying to skew the result one way or the  
25 other.

0893

1           I mean, I have a pretty good sense about how  
2 I would think the prices ought to be set, and it's  
3 not particularly well achieved through the use of the  
4 pricing mechanisms that we're required to follow.  
5 But I think, at every step along the way, we have put  
6 that policy thinking aside and said, yes, but what  
7 are the costs, what is the appropriate rate of  
8 depreciation or the sharing of infrastructure and  
9 things like that that should be used in order to  
10 measure forward-looking economic cost.

11           And I think that this Commission should  
12 follow that same approach and determine prices that  
13 aren't biased by either a desire to make it easier  
14 for CLECs to get into the market or to make it more  
15 attractive for incumbents to invest in their own  
16 networks. That's certainly how Staff has presented  
17 its case, both this time around and every other  
18 previous iteration of the generic cost case.

19           DR. GABEL: Thank you.

20

21                           E X A M I N A T I O N

22 BY CHAIRWOMAN SHOWALTER:

23           Q. Did you hear Dr. Selwyn's answer to the  
24 similar question posed to him?

25           A. I did not. I'm sorry.

0894

1 CHAIRWOMAN SHOWALTER: Okay. Thanks.

2 JUDGE MACE: Commissioner Hemstad.

3 COMMISSIONER HEMSTAD: No.

4 JUDGE MACE: Commissioner Oshie.

5 COMMISSIONER OSHIE: No questions.

6 JUDGE MACE: Anything from Verizon or AT&T?

7 All right, then. Anything else, Ms. Smith?

8 MS. SMITH: No. Thank you, Your Honor.

9 JUDGE MACE: Thank you. You're excused,  
10 Dr. Blackmon.

11 THE WITNESS: Thank you.

12 JUDGE MACE: All right. The next witness or  
13 set of witnesses is the Verizon -- what's called the  
14 switching panel, and while the witnesses are taking  
15 their places, I understand that there's going to be  
16 different counsel cross-examining or presenting these  
17 witnesses?

18 MS. RONIS: Yes.

19 MS. SMOTHERGILL: That's right. Let me  
20 introduce myself. My name's Polly Smothergill. I'm  
21 at Wilmer Cutler Pickering, LLP, on behalf of  
22 Verizon.

23 JUDGE MACE: Usually we require counsel who  
24 are entering their appearances for the first time to  
25 give a long form, which includes all of your contact

0895

1 information, your e-mail, your phone number, your  
2 fax. If you would provide that for us.

3 MS. SMOTHERGILL: Certainly. Oh, okay.

4 JUDGE MACE: On the record right now.

5 MS. SMOTHERGILL: Sorry. My e-mail address  
6 is polly.smothergill@wilmer.com. My phone number is  
7 202-663-6706, and my fax number is 202-772-6076.

8 JUDGE MACE: Thank you.

9 MS. SMOTHERGILL: You're welcome.

10 JUDGE MACE: If everybody's ready, first I  
11 need to have the panel members please stand and raise  
12 your right hands.

13 Whereupon,

14 WILLETT G. RICHTER, HAROLD E. WEST, III, and

15 THOMAS MAZZIOTTI,

16 having been first duly sworn by Judge Mace, were  
17 called as witnesses herein and were examined and  
18 testified as follows:

19 JUDGE MACE: Thank you. Go ahead, Ms.

20 Smothergill.

21 MS. SMOTHERGILL: Thank you.

22

23

24 D I R E C T E X A M I N A T I O N

25 BY MS. SMOTHERGILL:

0896

1 MS. SMOTHERGILL: Good afternoon. I'll  
2 introduce each witness in turn. Mr. Richter, please  
3 state your name, occupation, employer and business  
4 address for the record.

5 MR. RICHTER: My name is Willett Richter,  
6 W-i-l-l-e-t-t.

7 JUDGE MACE: Mr. Richter, let's start off  
8 right away. You need to speak directly into your  
9 microphone, have it right facing to you and speak  
10 directly into it. Make sure that it's on. Thank  
11 you. And for all the panelists, I see that they've  
12 done that.

13 MS. SMOTHERGILL: Okay. Mr. Richter,  
14 proceed.

15 MR. RICHTER: My name is Willett Richter,  
16 W-i-l-l-e-t-t. I am employed by Verizon. I am a  
17 senior specialist, engineering regulatory support.  
18 My business address is 85 High Street, Pawtucket,  
19 Rhode Island, P-a-w-t-u-c-k-e-t.

20 MS. SMOTHERGILL: Thank you. Mr. Mazziotti,  
21 please state your name, occupation, employer and  
22 business address for the record.

23 MR. MAZZIOTTI: My name is Thomas Mazziotti.  
24 I'm also employed by Verizon as senior staff  
25 specialist, financial planning and analysis. And my



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1 address is 1095 Avenue of the Americas in New York,  
2 New York.

3 MS. SMOTHERGILL: Thank you. And Mr. West,  
4 please state your name, occupation, employer and  
5 business address.

6 MR. WEST: My name is Harold West. I'm  
7 director of regulatory support for Verizon, and I  
8 work at 540 Broad Street, Newark, New Jersey.

9 MS. SMOTHERGILL: Thank you. Because the  
10 witnesses have filed testimony together and  
11 separately, I'm going to proceed with each piece of  
12 testimony in turn. First, Mr. Mazziotti and Mr.  
13 Richter, do you have in front of you the direct  
14 testimony of the Verizon Northwest recurring cost  
15 panel submitted June 26th, 2003, and entered into the  
16 record as Exhibit 201-TC?

17 MR. MAZZIOTTI: Yes.

18 MR. RICHTER: Yes.

19 MS. SMOTHERGILL: Is it correct that you're  
20 responsible for the portion of this testimony  
21 regarding switching costs and call-related database,  
22 specifically pages 66 through 104 of Exhibit 201-TC?

23 MR. MAZZIOTTI: Yes.

24 MR. RICHTER: Yes.

25 MS. SMOTHERGILL: Was this prepared by you

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1 or under your direct supervision?

2 MR. MAZZIOTTI: Yes, it was.

3 MR. RICHTER: Yes.

4 MS. SMOTHERGILL: And if I asked you those  
5 same questions today, would your answers be the same?

6 MR. MAZZIOTTI: Yes.

7 MR. RICHTER: Yes.

8 MS. SMOTHERGILL: Thank you. Second, Mr.  
9 West, do you have in front of you your direct  
10 testimony regarding competition submitted June 26th,  
11 2003?

12 MR. WEST: I do.

13 MS. SMOTHERGILL: And this is pre-marked as  
14 Exhibit HEW-1 and designated as Exhibit 351-TC?

15 MR. WEST: Yes.

16 MS. SMOTHERGILL: Was this prepared by you  
17 or under your direct supervision?

18 MR. WEST: Yes.

19 MS. SMOTHERGILL: And if I asked you those  
20 same questions today, would your answers be the same?

21 MR. WEST: They would.

22 MS. SMOTHERGILL: Thank you. Third, Mr.  
23 Mazziotti, Mr. Richter and Mr. West, do you have in  
24 front of you your testimony on switching rate  
25 structure, filed April 20th, 2004, pre-marked as

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1 Exhibit RMW-1 and designated as Exhibit 301-TC?

2 MR. WEST: Yes.

3 MR. RICHTER: Yes.

4 MR. MAZZIOTTI: Yes.

5 MS. SMOTHERGILL: Was this prepared by you  
6 or under your direct supervision?

7 MR. WEST: Yes.

8 MR. MAZZIOTTI: Yes, it was.

9 MR. RICHTER: Yes.

10 MS. SMOTHERGILL: And if I asked you those  
11 same questions today, would your answers be the same?

12 MR. MAZZIOTTI: Yes.

13 MR. RICHTER: Yes.

14 MR. WEST: Yes.

15 MS. SMOTHERGILL: Finally, Mr. Mazziotti and  
16 Mr. Richter, do you have in front of you the rebuttal  
17 testimony of the Verizon Northwest recurring cost  
18 panel, submitted on May 12th, 2004, entered into the  
19 record as Exhibit 228-TC?

20 MR. MAZZIOTTI: Yes.

21 MR. RICHTER: Yes.

22 MS. SMOTHERGILL: Thank you. Is it correct  
23 you are responsible for the portion of the testimony  
24 regarding switching cost, specifically pages 77 to 91  
25 of Exhibit 228-TC?

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1 MR. MAZZIOTTI: Yes, it is.

2 MR. RICHTER: Yes.

3 MS. SMOTHERGILL: Thank you. Do you have  
4 any corrections to your testimony, Mr. Richter?

5 MR. RICHTER: Yes, I do. Exhibit 301-TC,  
6 the switching rate structure filed on April 20th, on  
7 page 12, line 14, the word "replaced" should be  
8 replaced with the word "relieved."

9 JUDGE MACE: I'm sorry. Relieved?

10 MR. RICHTER: Yes.

11 MS. SMOTHERGILL: Thank you. Do you have  
12 any other corrections, Mr. Richter?

13 MR. RICHTER: No.

14 MS. SMOTHERGILL: Mr. Mazziotti, do you have  
15 any corrections to your testimony

16 MR. MAZZIOTTI: No, I do not.

17 MS. SMOTHERGILL: And Mr. West, do you have  
18 any corrections?

19 MR. WEST: No, I do not.

20 MS. SMOTHERGILL: Thank you. At this point,  
21 I'd like to move into evidence Exhibits 351-TC and  
22 301-TC.

23 JUDGE MACE: Is there any objection to the  
24 admission of those proposed exhibits?

25 MR. KOPTA: No objection.

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1 JUDGE MACE: I'll admit them.

2 MS. SMOTHERGILL: Thank you. I believe each  
3 of the witnesses has prepared an opening statement.  
4 Mr. Richter, would you please make yours? Oh, excuse  
5 me. Mr. Mazziotti is going to go first. Would you  
6 please proceed?

7 MR. MAZZIOTTI: The switching cost studies  
8 submitted by Verizon in this proceeding are fully  
9 compliant with the economic cost principles for  
10 unbundled network elements as laid out by both the  
11 FCC --

12 JUDGE MACE: Mr. Mazziotti, I need to have  
13 you slow down just a little bit.

14 MR. MAZZIOTTI: I'm sorry, I'm from New  
15 York. Okay. You want me to start over again?

16 JUDGE MACE: Yes, please.

17 MR. MAZZIOTTI: Okay. The switching cost  
18 studies submitted by Verizon in this proceeding are  
19 fully compliant with the economic cost principles for  
20 unbundled network elements as laid out by both the  
21 FCC and this Commission.

22 The studies represent the real world costs  
23 that a new entrant with the scale, scope and buying  
24 power of Verizon would face in providing  
25 telecommunications service in the Verizon territory,

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1 and as such, provide the economically correct signals  
2 for CLECs making build versus lease decisions.

3           The studies model demand volumes that  
4 Verizon expects to see in the future and assume a  
5 forward-looking mix of switching technologies to meet  
6 those needs, as well as switch discounts and prices  
7 that represent what Verizon or any other carrier  
8 could expect to receive from switch vendors in the  
9 real world.

10           Using these switch prices, along with  
11 Verizon's forward-looking traffic engineering data,  
12 switch investments are developed using the Telcordia  
13 Switching and Cost Information System. Telcordia's  
14 models have been endorsed and adopted by --

15           THE REPORTER: Sorry. Could you slow down,  
16 please?

17           MR. MAZZIOTTI: Been adopted -- sorry. I  
18 lost my place. Have been adopted and -- endorsed and  
19 adopted by regulators throughout the United States  
20 and used for decades to determine rates for services  
21 offered by local exchange carriers on both a  
22 wholesale and a retail basis.

23           After rigorous examination, the FCC found  
24 the SCIS model to be fundamentally sound and  
25 internally valid. In addition, the SCIS model is

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1 thoroughly documented and parties in this case have  
2 been given access to copies of the model itself,  
3 copies of the user documentation, and even copies of  
4 the source code to be used in their evaluation of the  
5 program.

6           However, the proper level of cost alone is  
7 not enough to insure that correct economic signals  
8 are sent to the marketplace. In addition to the  
9 proper rate level, UNE tariffs must also employ a  
10 proper rate structure. Rate elements must be set up  
11 and cost studies performed in such a way that the  
12 rates offered to the CLECs reflect the reasons these  
13 costs are incurred.

14           The Verizon cost studies accomplish this by  
15 properly identifying those costs that are caused  
16 because a customer has a line, as opposed to the  
17 costs that are incurred when customers make calls  
18 using those lines.

19           While other parties have postulated that the  
20 cost of a modern digital switch is solely a function  
21 of the number of customers connected to it, nothing  
22 could be further from the truth.

23           Not only do the components of a switch need  
24 to be engineered and sized when the switch is  
25 originally designed, but these components also need

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1 to be constantly monitored and augmented whenever  
2 their performance starts to degrade.

3 Verizon's proposed rates and rate structures  
4 recognize this fact and assign the costs associated  
5 with the purchase and augmentation of  
6 traffic-sensitive components to usage rate elements,  
7 thereby insuring that customers making the most calls  
8 will fairly carry their share of the cost.

9 JUDGE MACE: Thank you.

10 MS. SMOTHERGILL: Mr. Richter, please make  
11 your statement.

12 MR. RICHTER: A significant issue in this  
13 case is the proper rate structure for switching  
14 costs. Verizon's switching cost studies model the  
15 most forward-looking efficient switching network that  
16 can operate in the real world.

17 With respect to each critical engineering  
18 aspect of the switching network Verizon has modeled,  
19 Verizon determined what technology and design it is  
20 likely to use as it evolves its network over the  
21 future years.

22 In addition, Verizon's switching studies  
23 accurately identify, from an engineering perspective,  
24 which switching resources incur costs that vary based  
25 on usage. This is of fundamental importance in



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1 accurately setting unbundled switching rates. It is  
2 important for the Commission to understand network  
3 engineers and switch vendors devote an extraordinary  
4 amount of time planning switch design and monitoring  
5 switch performance. In addition, engineers and  
6 switch vendors benefit from decades of experience  
7 running these switches and monitoring customer  
8 behavior.

9           Switch design is a complex process.  
10 Switches are complex machines that have many  
11 interdependent components. The switch system  
12 components differ by manufacturer, as well as by  
13 function. Traditionally, the planning and design of  
14 a switch is an iterative one. Switch suppliers  
15 design switching systems that will meet or exceed  
16 customer service standards common in the industry.  
17 The design will consider things like number and types  
18 of customers, types of services and features and  
19 expect --

20           JUDGE MACE: Thirty seconds.

21           MR. RICHTER: I'm sorry?

22           JUDGE MACE: Thirty seconds.

23           MR. RICHTER: -- and expected usage. It is  
24 the responsibility of Verizon's switch planners and  
25 engineers to analyze our customer base and their

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1 associated usage patterns, and then design and  
2 maintain the switch systems to meet the needs of that  
3 customer base.

4 Furthermore, it is incumbent upon our  
5 planners and engineers to develop processes that  
6 monitor switch system performance once the switch is  
7 put in service. Changes in usage patterns, features  
8 and services, number of lines of connection influence  
9 the way switch --

10 JUDGE MACE: Mr. Richter, sorry, your three  
11 minutes are up.

12 THE WITNESS: Okay.

13 MS. SMOTHERGILL: Thank you. Mr. West,  
14 please make your statement.

15 MR. WEST: As Mr. Mazziotti said, Verizon's  
16 switching cost studies demonstrate that a significant  
17 portion of the switching resources in Verizon's  
18 network are traffic-sensitive. Consistent with the  
19 principle of cost causation, traffic-sensitive costs  
20 should be recovered using usage-sensitive rate  
21 elements. That is, traffic-sensitive costs should be  
22 recovered on a per minute of use basis. Similarly,  
23 non-traffic-sensitive costs should be recovered with  
24 a flat rate.

25 This is consistent with the local



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1 BY MR. KOPTA:

2 MR. KOPTA: Good afternoon, gentlemen.

3 MR. MAZZIOTTI: Good afternoon.

4 MR. WEST: Good afternoon.

5 MR. RICHTER: Good afternoon.

6 MR. KOPTA: My name is Greg Kopta, and I'm  
7 representing AT&T. Let's start with Mr. West and  
8 deal with his individual testimony first, if we  
9 could.

10 MR. WEST: Sure.

11 MR. KOPTA: And that, as you have indicated,  
12 is marked as Exhibit 351-TC. And if you would, look  
13 on page two of that document.

14 MR. WEST: Okay.

15 MR. KOPTA: Specifically the testimony that  
16 begins on line 13. And at that point in your  
17 testimony, I believe you are discussing the FCC's  
18 June 2003 Local Competition Status Report; is that  
19 correct?

20 MR. WEST: Yes.

21 MR. KOPTA: And you give some figures for  
22 the state of Washington; correct?

23 MR. WEST: Yes.

24 MR. KOPTA: Do you have any comparable  
25 figures for Verizon's service territory in the state

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1 of Washington?

2 MR. WEST: No, I do not. I mean, we -- in  
3 this testimony, we do provide some data on the  
4 Washington-specific -- or the Verizon  
5 Washington-specific competition situation. We  
6 provide collocation data. We give some indication as  
7 how fast UNE-P and UNE-L lines have been growing, but  
8 we do not have the data disaggregated for Verizon  
9 Northwest's territory that would allow us to do a  
10 parallel analysis the way the FCC does for the whole  
11 state of Washington.

12 MR. KOPTA: Are you aware that Verizon can  
13 obtain competitive classification of some of its  
14 services if it can demonstrate that those services  
15 are subject to effective competition?

16 MR. WEST: I'm not familiar with that  
17 specific facet of the way Verizon is regulated in  
18 Washington, but that's fairly common to Verizon  
19 jurisdictions that I've worked in.

20 MR. KOPTA: And do you know whether Verizon  
21 has ever sought competitive classification for any of  
22 its local exchange services in Washington?

23 MR. WEST: I do not.

24 MR. KOPTA: All right. Now I would like to  
25 turn to the switching issues, and begin with the

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1 panel direct testimony, which is marked as Exhibit  
2 201-TC, and would like to begin on page 73 of that  
3 testimony.

4 JUDGE MACE: Sorry, Counsel. What page was  
5 that?

6 MR. KOPTA: Seventy-three.

7 JUDGE MACE: Thank you. 201 is the model  
8 panel.

9 MR. KOPTA: And specifically, I'd like you  
10 to look at line 19. And although anyone on the panel  
11 could answer, I suspect that Mr. Richter may be the  
12 appropriate witness here.

13 The full sentence on line 19 reads, Verizon  
14 assumes a four-to-one line concentration ratio for  
15 GR303 loops. First, I want to clarify that by GR303  
16 loops you do mean digital loop carrier; correct?

17 MR. RICHTER: Correct.

18 MR. KOPTA: And a four-to-one line  
19 concentration means that there are four lines coming  
20 in for every one line going to the central office  
21 from the remote terminal; is that correct?

22 MR. RICHTER: That is correct. There can be  
23 four lines -- they balance the system with four  
24 consecutive lines at once.

25 MR. KOPTA: Okay. Just -- and obviously I

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1 want to make it clear. You do have some diagrams in  
2 your testimony, but I don't believe you have a  
3 diagram of DLC structure, do you?

4 MR. RICHTER: We may not have specific  
5 GR303-type DLC diagram. I believe we have -- I do  
6 believe at one point we did show the basic construct  
7 of the -- of a digital loop carrier system.

8 MR. KOPTA: I just thought it might be  
9 easier to follow my questions, although I really  
10 don't have that many. But let me sort of describe, I  
11 guess, what I understand, and you can correct me if  
12 I'm mistaken.

13 MS. RONIS: Want him to draw it? We have  
14 paper.

15 JUDGE MACE: Let's be off the record.

16 (Discussion off the record.)

17 JUDGE MACE: Let's be back on the record.

18 MR. KOPTA: Let me try and describe just  
19 what I understand to be the basic structure of  
20 digital loop carrier, and that would be that, from a  
21 customer premise, there's -- there are -- actually,  
22 multiple customer premises, there are lines that  
23 would go to a remote terminal; is that correct?

24 MR. RICHTER: Correct.

25 MR. KOPTA: And in that remote terminal,

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1 there is DS1 equipment that would aggregate those  
2 lines and send the signals over fiber to the central  
3 office; is that correct?

4 MR. RICHTER: That's correct.

5 MR. MAZZIOTTI: DS1.

6 MR. KOPTA: And the fiber is then integrated  
7 into the switch?

8 MR. RICHTER: Correct.

9 MR. MAZZIOTTI: Well, that's a little  
10 simplistic, but it's -- there's other pieces of  
11 equipment in between, but those type of questions,  
12 the loop panel would be much more equipped to handle,  
13 you know, next week.

14 MR. KOPTA: That's why I wanted to leave it  
15 at the 30,000-foot level.

16 MR. MAZZIOTTI: But the fiber -- there's  
17 other pieces in the middle, but that's general.

18 MR. KOPTA: And am I correct that in  
19 determining what concentration level, which is the  
20 four-to-one, how many lines coming in to how many  
21 lines going out, is determined by the amount of usage  
22 that customers have on the lines going in?

23 MR. RICHTER: Yes, that's correct. There  
24 are design tools that the engineer will use to  
25 determine what that ratio should be, but typically



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1 it's four-to-one.

2 MR. KOPTA: And am I also correct that, even  
3 though you discuss DLC technology in the context of  
4 switching, that the costs of the DS1 facility that  
5 goes from the remote terminal to the central office  
6 is part of the loop cost; is that correct?

7 MR. RICHTER: Yes.

8 MR. MAZZIOTTI: Yes.

9 MR. KOPTA: Would you turn, please, to page  
10 92 of Exhibit 201-TC, specifically the testimony that  
11 begins on line 20. And at this point, you state, The  
12 entire capacity of MOU, which I understand to mean  
13 minutes of use, (originating minutes plus terminating  
14 minutes), was used to develop the per-MOU costs of  
15 local switch usage.

16 And first I want to understand what minutes  
17 of use are included in that calculation. That  
18 includes all local traffic; is that correct?

19 MR. MAZZIOTTI: That includes all traffic  
20 going across the switch. When our switch engineers  
21 design a switch, they have to design it based -- to  
22 meet all demands. I mean, the switch doesn't care,  
23 when you go off hook, the switch doesn't care where  
24 you're going to call. You're still seizing equipment  
25 and utilizing resources in that switch. So the costs

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1 of the switch are divided by the total of all  
2 minutes. It's the standard that the switch is  
3 designed by.

4 MR. KOPTA: So this would be local, toll,  
5 reciprocal compensation, everything?

6 MR. MAZZIOTTI: If the phone's off the hook,  
7 it's being counted.

8 MR. KOPTA: Okay. And in making your per  
9 minute of use cost, in developing your per minute of  
10 use cost, do I understand correctly that you divide  
11 the total investment by those number of minutes to  
12 get a per minute of use cost?

13 MR. MAZZIOTTI: Correct. And that that  
14 gives you the cost for a customer using a phone. So  
15 -- in one line, so that the cost of a total call, of  
16 course, you have to have two customers, so there  
17 would be originating and a terminating end to each  
18 call.

19 MR. KOPTA: Now, if you would, please, turn  
20 to page 95 of Exhibit 201-TC, specifically the  
21 testimony beginning on line 11, where you are  
22 discussing reciprocal compensation usage costs. And  
23 as I understand it from your testimony, you have  
24 calculated those costs using the local switching  
25 usage cost, but subtracting what you call a getting

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1 started cost; is that correct?

2 MR. MAZZIOTTI: Correct.

3 MR. KOPTA: Do you know the amount of  
4 reciprocal compensation minutes of use that -- or  
5 what percentage of the total minutes of use was  
6 represented by reciprocal compensation minutes in  
7 Washington?

8 MR. MAZZIOTTI: No, I don't.

9 MR. KOPTA: Do you know whether it is a  
10 significant amount of the total traffic on the  
11 switch?

12 MR. MAZZIOTTI: No, the data that we have is  
13 for all traffic, and it was not needed to break it  
14 out in that fashion.

15 MR. KOPTA: Okay. So you don't know  
16 whether, if one removed reciprocal compensation  
17 traffic, whether that would have any impact on the  
18 size of the switches that you have in the state of  
19 Washington?

20 MR. MAZZIOTTI: Well, it kind of depends on  
21 how you're defining size. Certainly, if you're  
22 defining size as is traditionally, you know, we look  
23 at switches in terms of how many lines, the number of  
24 lines aren't going to change depending on where the  
25 people call.

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1           If you were to remove reciprocal  
2 compensation traffic from the traffic mix, certainly  
3 the demand on the switch would go down and this may  
4 require less resources, because you're building a  
5 smaller switch.

6           MR. KOPTA: Now, as I understand it, you are  
7 proposing to charge less for reciprocal compensation  
8 minutes of use than local usage minutes of use when  
9 provided as an unbundled network element; correct?

10          MR. MAZZIOTTI: Well, that's correct. It's  
11 also a different product.

12          MR. KOPTA: Okay. But if you took the total  
13 minutes of use over the switch, including reciprocal  
14 compensation minutes, and divided the investment by  
15 that number, then you come up with a per minute of  
16 use cost for all minutes that travel across the  
17 switch; correct?

18          MR. MAZZIOTTI: Correct.

19          MR. KOPTA: So if you charge less for  
20 reciprocal compensation minutes, aren't you  
21 underrecovering your switching investment?

22          MR. MAZZIOTTI: I guess one thing we have to  
23 back off from here is we've got to remember that  
24 TELRIC or unbundled -- the cost standards, as laid  
25 out for reciprocal compensation and unbundled network

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1 elements, are two different cost standards, as  
2 defined in the act.

3 TELRIC requires that we have the cost of all  
4 services and everything built in, and that's what we  
5 have. When you look at the act and the rules for  
6 reciprocal compensation, the act specifically lays  
7 out a different cost standard. It says that the cost  
8 for reciprocal compensation shall be equal to the  
9 additional cost incurred by the carrier for carrying  
10 the additional traffic.

11 Now, the difference is when you have TELRIC,  
12 you're taking the sum total of all traffic, dividing  
13 by the sum total of all minutes, and coming up with a  
14 cost per minute. When you're dealing with an  
15 additional cost standard, what you have to do is look  
16 at what are your costs to carry the traffic with or  
17 without that reciprocal compensation traffic.

18 So basically, what you have to do is say  
19 what costs do I have for carrying my traffic, and  
20 then, if I were to add reciprocal traffic on top of  
21 it, what additional costs would I carry? Now, if we  
22 have a switch processor, if we have things of that  
23 nature, you need that to carry your local and toll  
24 traffic. So therefore, that's not an additional cost  
25 to reciprocal compensation.

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1           And that's basically just -- it's an anomaly  
2 of the act, the way it's laid out, and it's the  
3 standards that we've been given to play the game by.

4           MR. KOPTA: I appreciate your response,  
5 although I don't think you answered my question,  
6 which was if you calculated switch costs as you say  
7 that you have, by charging less for the reciprocal  
8 compensation minutes, aren't you underrecovering your  
9 total switching investments?

10          MR. MAZZIOTTI: If you're looking at  
11 something on a TELRIC basis. What I'm saying is it's  
12 got to be looked at as two separate things in two  
13 separate studies. And if I'm going to -- yes, it --  
14 but that's the way the game is played.

15          MR. KOPTA: Do you know whether Verizon, in  
16 the state of Washington, terminates more reciprocal  
17 compensation traffic than it originates or originates  
18 more than it terminates?

19          MR. MAZZIOTTI: I honestly don't know, but  
20 it wouldn't surprise me if you were to say it  
21 terminated -- terminated more than it originated, but  
22 I have no data to back that up.

23          MR. KOPTA: Okay. Let's turn to the  
24 response, panel response testimony, which is Exhibit  
25 228-TC, and --

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1                   MR. MAZZIOTTI: Excuse me. Is that the  
2 April 20th?

3                   MR. KOPTA: It's the May 12th testimony.

4                   MR. MAZZIOTTI: Thank you. Okay. I'm  
5 there.

6                   MR. KOPTA: And specifically, I would like  
7 you to look at page 79. And at this point in your  
8 testimony, you are addressing some of the testimony  
9 of AT&T and MCI witnesses Gillan and Chandler, and I  
10 wanted to ask you a few questions about this  
11 particular aspect of your testimony, but first I want  
12 to make sure we're talking about the same thing.

13                   Is it your understanding that the local  
14 switching UNE is only used in conjunction with UNE-P?

15                   MR. MAZZIOTTI: Theoretically, no. I don't  
16 know of anyone who's buying unbundled switching on  
17 its own, but theoretically it could be purchased.

18                   MR. KOPTA: Okay. Well, I will amend my  
19 question to say, as a practical matter, Verizon would  
20 only be providing unbundled local switching as part  
21 of a UNE-P product?

22                   MR. MAZZIOTTI: Never say never. I mean, I  
23 don't have any data in front of me, but that's not a  
24 bad assumption. Subject to check, I guess I would  
25 say.

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1           MR. KOPTA: All right. Sure. Maybe we'll  
2 just say generally, that will be the case, and leave  
3 it at that. And is it also your understanding that  
4 Verizon is no longer required to offer enterprise  
5 switching as part of a UNE-P product?

6           MR. WEST: I mean, that came out of the TRO.

7           MR. KOPTA: Correct.

8           MR. WEST: Yes.

9           MS. RONIS: You're not asking him for a  
10 legal opinion, are you? Why don't you assume that --

11          MR. KOPTA: Yes, I mean --

12          JUDGE MACE: Well, there's a lot of people  
13 talking at once, and it's very hard for the reporter  
14 to take that down, so if you could please speak one  
15 at a time, that would be better.

16          MR. KOPTA: Let me put it this way. Are any  
17 of you aware that Verizon has recently announced that  
18 it plans to discontinue offering enterprise switching  
19 as part of a UNE product?

20          MR. WEST: I don't specifically know that,  
21 but it doesn't surprise me, given what was written in  
22 the TRO.

23          MR. KOPTA: And an enterprise UNE-P product  
24 would be used to serve customers over a DS1-sized  
25 circuit, wouldn't it?



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1 MR. MAZZIOTTI: Okay. Yes.

2 MR. KOPTA: And therefore, an enterprise  
3 UNE-P product would be used to serve high-volume  
4 customers predominantly, if not exclusively business  
5 customers; correct?

6 MR. MAZZIOTTI: Right.

7 MR. KOPTA: If you would look at the  
8 sentence in your testimony on page 79 of Exhibit  
9 228-TC, on line eight, you state there that, because  
10 CLECs, particularly AT&T and MCI, typically target  
11 high-usage business customers, and I wanted to focus  
12 --

13 MR. MAZZIOTTI: Excuse me. You said on line  
14 eight?

15 MR. KOPTA: Yes, the sentence.

16 MR. MAZZIOTTI: I have a pagination  
17 difference. If you could read it, because my line  
18 eight is the middle of a question.

19 MR. KOPTA: Ah, well, then, we are --

20 JUDGE MACE: Let's be off the record.

21 (Discussion off the record.)

22 JUDGE MACE: Let's be back on the record.

23 MR. MAZZIOTTI: The dangers of different  
24 printers. Okay. I'm with you.

25 MR. KOPTA: Okay. I'm focusing on the term

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1 high-usage business customers, and do I understand  
2 correctly that you are not using that term in the  
3 context of high-volume business customers that would  
4 be served over an enterprise UNE-P product; is that  
5 correct?

6 MR. MAZZIOTTI: No, I mean, generally, it's  
7 just referring to customers that have a higher than  
8 average calling volume, whereas, when you're talking  
9 enterprise, you're really talking about a customer  
10 that has a aggregation of lines in a single place  
11 that it is going to be served over DS1 or higher  
12 loops for loop efficiency. So that's -- you're  
13 talking more an enterprise volume of lines, where  
14 we're talking calling volumes here. So it could be  
15 calling volume, somebody who makes a lot of calls on  
16 a single 1MB line.

17 MR. KOPTA: Okay. And it's your  
18 understanding that a non-enterprise UNE product would  
19 generally be up to four lines, generally; correct?

20 MR. WEST: That's kind of an open issue --

21 MR. MAZZIOTTI: Yeah.

22 MR. WEST: -- with respect to the TRO. I  
23 mean, they kind of split that universe up as DS1 and  
24 the rest. And then they asked different states to  
25 look at where that break point might be and different

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1 states have come out differently on that. I know  
2 I've worked in states where we've said there is no  
3 break point. It's simply if you use DSOs, then  
4 that's mass market; if you use DS1, that's  
5 enterprise, and there is no cutoff.

6 MR. KOPTA: And I appreciate that  
7 clarification. That is my understanding, as well. I  
8 was simply referring to the FCC default, trying to  
9 stay away from the TRO, given that it is somewhat  
10 controversial. But in any event, with that  
11 clarification, we're talking about mass market UNE-P?

12 MR. MAZZIOTTI: Right.

13 JUDGE MACE: And the answer was? You're  
14 talking about mass market UNE-P?

15 MS. RONIS: You have to answer.

16 JUDGE MACE: You have to say --

17 MR. MAZZIOTTI: Yes.

18 MR. KOPTA: Thank you. Well, I'd like to  
19 know what evidence you rely on to support your  
20 statement that AT&T and MCI, in particular, typically  
21 target high-usage business customers with UNE-P?

22 MR. MAZZIOTTI: I don't know if I have any  
23 general or specific --

24 MR. WEST: I mean, it's a crossover into a  
25 piece of testimony that I have. I would say a couple

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1 things. First of all, why wouldn't they target  
2 high-usage business customers? Those are likely to  
3 be the most profitable customers to capture. We  
4 certainly have looked at data within this state for  
5 UNE-Ps, and 90 percent of those UNE-Ps are business  
6 UNE-Ps, not residence UNE-Ps. So that would indicate  
7 that CLECs like AT&T and MCI would probably first go  
8 after the business customers, establish a good  
9 cluster, a -- you know, a good critical mass, and  
10 then branch into residence, serving residence  
11 customers. So I mean, I think there's just a fair  
12 amount of common sense in that statement.

13           And then the last thing I would say is AT&T  
14 and MCI, of course, are very large interexchange  
15 carriers who, for years, have been these customers'  
16 interstate toll providers, so they have some sense as  
17 to who is a large business customer in that respect,  
18 and it just, again, it's just sort of common sense  
19 that if you're using a lot of toll, you're probably  
20 using a lot of telecommunications services in  
21 general. So it's that sort of argument.

22           MR. KOPTA: Okay. Well, I guess I wanted to  
23 explore with you, perhaps, if you're the correct  
24 witness, what incentives AT&T would have to serve a  
25 high-usage business customer using UNE-P with

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1 flat-rated switching, as opposed to some other type  
2 of customer. And so, in pursuing that, let me ask  
3 you, do you know what Verizon's basic business  
4 exchange rate is in Washington?

5 MR. WEST: No, I don't.

6 MR. KOPTA: Would you accept, subject to  
7 check, that it is approximately \$30 a month?

8 MR. WEST: Sure.

9 MR. KOPTA: And a customer pays that rate  
10 whether it has high usage or low usage; correct?

11 MR. WEST: If it's a flat rate service, yes,  
12 yes.

13 MR. KOPTA: Now, if AT&T were going to serve  
14 that particular customer, I believe you testified  
15 earlier that it's your experience that today carriers  
16 using UNE-P will serve high-usage business customers  
17 before other types of customers; is that correct?

18 MR. WEST: Sure, if they can, and the data  
19 that I've seen would indicate they've been successful  
20 in making that differentiation.

21 MR. KOPTA: And currently, Verizon offers  
22 local switching on a per minute of use basis as a  
23 UNE; correct?

24 MR. WEST: Yes.

25 MR. KOPTA: So if it were flat rated, I

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1 guess I'm trying to understand why AT&T would have  
2 any more or less incentive to serve business  
3 customers simply because the service is flat rated,  
4 as opposed to minute of use?

5 MR. WEST: Well, if the business customers  
6 that AT&T cover -- captures are large users of  
7 switching resources, then, under a mixed flat rate  
8 traffic sensitive rate structure, they would pay more  
9 for the underlying wholesale service. So given that  
10 they are -- let's accept for the moment the premise  
11 that they are successful at capturing high-usage  
12 customers. AT&T is going to be better off if they  
13 can have the rate structure changed to a flat rate,  
14 where an average amount of usage is incorporated in  
15 each port. And therefore, the big percentage of  
16 local switching resources that they're paying for is  
17 probably less than they would be paying for under the  
18 mixed structure that exists today with the flat rate  
19 and the minute of use charge.

20 MR. KOPTA: So do I hear you correctly that  
21 because these companies are going to target  
22 high-usage customers anyway, that, by having a flat  
23 rate for local switching, that would save them money;  
24 is that correct?

25 MR. WEST: It could save them money,

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1 depending on how successful they are in capturing  
2 these high-usage customers. And the point is --  
3 well, there's two points. I mean, there's probably  
4 other CLECs out there who might have an interest in  
5 serving the residential market. Well, that's not  
6 going to have the same usage profile as the business  
7 market, but if we use this rolled up flat rate port,  
8 every CLEC is going to pay the same for local  
9 switching regardless of how many switching resources  
10 their end user customers are using.

11           So it just -- it's a -- from our  
12 perspective, a more fair way to allocate the  
13 switching resources, is to have a flat rate port for  
14 the costs that are truly non-traffic sensitive, have  
15 a minute of use rate for the resources that are truly  
16 traffic sensitive, and then have everybody pay for  
17 what they use.

18           So you know, forget the labels AT&T and MCI.  
19 Let's just say high-usage -- carriers who are able to  
20 attract high-usage customers versus carriers who  
21 attract or are left with low-usage customers. It  
22 seems to us the more fair way to ultimately allocate  
23 who pays for all these switching resources is to have  
24 that traffic-sensitive element in there so that if  
25 you are a carrier who has predominantly high-usage

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1 customers, you pay more for switching because you are  
2 using more switching.

3 If you have a carrier whose customers are  
4 low-usage customers on average, you would pay less  
5 for switching because that's what your -- you, as a  
6 carrier, are using less of the wholesale service to  
7 provide that service to your customers.

8 MR. KOPTA: Well, it's interesting that you  
9 would characterize it as a fairness issue, because  
10 Verizon, given that it charges the same rates to  
11 customers regardless of their usage, would you then  
12 characterize their treatment of their retail  
13 customers as unfair?

14 MR. WEST: See, to me, this whole discussion  
15 of what the proper rate structure is for switching in  
16 the UNE world needs be -- it needs to be decoupled from  
17 retail rates, because how carriers opt to recover  
18 their costs in retail land may or may not have a lot  
19 to do with the underlying cost structure. There's a  
20 lot more that goes into how I decide to structure my  
21 service. I need to appeal. That might be what the  
22 flat rate -- a flat rate service. It might not be.

23 For instance, I know in the East, AT&T often  
24 offers business customers six-second measured  
25 service. That's because the access charges that



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1 they're paying underneath that retail rate are  
2 measured in six-second intervals. So they pass along  
3 that sort of rate structure to their business  
4 customers because they think that will appeal to  
5 them.

6 So the point is that what works or what  
7 doesn't work for retail is primarily a marketing  
8 exercise. It's how successful you are in packaging,  
9 how successful you are in attracting, how successful  
10 you are in matching price points with levels of rate  
11 that customers are willing to pay.

12 In our view, this Commission should not try  
13 to handicap or try to influence what goes on in  
14 retail land by making decisions on rate structures in  
15 the wholesale universe. Instead, what they should  
16 try to do in the wholesale universe is have the costs  
17 that the CLECs confront when they have to do business  
18 have the same structure as the cost that Verizon  
19 confronts when it tries to do business. And if you  
20 match those structures, and in this case, we believe  
21 that the correct way to do that is to have a combined  
22 flat rate and minute of use pricing scheme, if you  
23 match those structures, you're going a long way to  
24 making the competition as level as you can.

25 Now, how it ultimately works out in retail

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1 land is, again, it's -- you know, it's -- that is the  
2 result of many factors, rate structure being perhaps  
3 one, but certainly not the overriding one.

4 MR. MAZZIOTTI: I'd like to just add one  
5 more thing to that. When Verizon puts a flat rate  
6 service out to their retail customers, we go through  
7 a pricing procedure where our marketing people sit  
8 down and say what is this service going to cost us.  
9 We have so much flat rate for the port, we incur so  
10 much cost for minute of use. Our market people then  
11 put together some kind of intelligence and make some  
12 assumptions as to how much of this service are these  
13 people going to consume. So we'll assume that  
14 they're going to have, I mean, just to pick a number,  
15 1,500, 1,800 minutes a month. Whatever it is, we now  
16 come up with a price that's based on underlying cost  
17 for the monthly port, plus that many minutes of use.

18 In doing so, we put our intelligence into  
19 this decision and we take a risk. We're making an  
20 assumption that they're not going to oversubscribe to  
21 that, in which case, if they do, we can end up losing  
22 money. The CLECs, given a per minute of use and a  
23 monthly port structure, have that same opportunity,  
24 and they can go out to their customers and come up  
25 with the intelligence, decide what they need to offer

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1 and what they're going to consume and give them a  
2 price. And if the price is -- covers that cost, you  
3 go to market with it; if it doesn't you raise it and  
4 decide can I go to market and make it or do I not  
5 offer the service, but you know, then the company  
6 that's going to bear the benefits of selling this  
7 service is also taking the risk based on their  
8 inputs. It's no different than anything we do as the  
9 incumbent carrier.

10 So I don't see them disadvantaged at all by  
11 not having a flat rate just because we have retail  
12 flat rate.

13 MR. KOPTA: Well, there are a couple things  
14 I wanted to follow up on. First, Mr. Mazziotti,  
15 you're aware that this Commission regulates the rates  
16 that Verizon charges for its residential and business  
17 customers that are basic residential and business  
18 customers; correct?

19 MR. MAZZIOTTI: That's correct.

20 MR. KOPTA: So the process you're talking  
21 about is only one aspect of what the final price ends  
22 up being. Would you also agree with that?

23 MR. MAZZIOTTI: Yeah, there are other steps  
24 in it, but we do still put the packages together and  
25 come up with the underlying cost.

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1           MR. KOPTA: But this Commission ultimately  
2 determines what price you are authorized to charge,  
3 and it may or may not be based on what you believe,  
4 in your marketing, to be an appropriate price;  
5 correct?

6           MR. MAZZIOTTI: Yes, and it's not uncommon  
7 for basic residential rates to be below cost.

8           MR. KOPTA: Well, that wasn't what I was  
9 referring to, but if that moves us ahead, then that's  
10 fine.

11           MR. MAZZIOTTI: But I'd like to add to that,  
12 too, that, you know, the cash flow that any  
13 telecommunications company has is not sole function  
14 of that, you know, flat rate residence line.  
15 Certainly, I think if the entire telecommunications  
16 industry had nothing but residential flat rate, you  
17 know, service to sell, we'd all be out of business  
18 with the regulation we have.

19           The fact is, when you have the customer,  
20 there's a whole, you know, basket of services they  
21 also buy, and this industry has traditionally been  
22 built around keeping local exchange rates as low as  
23 possible and making up the margins on selling toll  
24 service, vertical features and other things, and  
25 those options are still available to the CLECs.

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1           I mean, certainly the vertical services are  
2 basically all included for free in the UNE world, so  
3 sell away, you know.

4           MR. KOPTA: And then, to follow up on an  
5 earlier comment that Mr. West made, and I recognize  
6 this, it comes as heresy to you, but if you were to  
7 assume that Verizon did incur switching costs on a  
8 flat-rate basis, based on that assumption, would you  
9 agree that, in light of your comments, that CLECs  
10 should be charged for UNE local switching on a  
11 flat-rated basis?

12           MR. WEST: I'm sorry, could you run that by  
13 me one more time?

14           MR. KOPTA: Sure. If Verizon incurs  
15 switching costs on a flat-rated basis, would it be  
16 appropriate for CLECs to be charged for local  
17 switching on a flat-rated basis?

18           MR. WEST: Yes. I mean, we're a strong  
19 advocate of matching the cost to the structure. If  
20 the structure is ultimately proven to be NTS, then  
21 the rates should be NTS, yes.

22           MR. KOPTA: Now, changing subjects, if you  
23 would, please, turn to page 82 of Exhibit 228-TC. Am  
24 I correct that part of the switching investment that  
25 Verizon has estimated includes switch growth

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1 additions or switch -- well, maybe I ought to ask  
2 you. Are growth and switch additions two different  
3 things or is it the same thing? Switch growth lines.  
4 I mean --

5 MR. MAZZIOTTI: Could be, but not  
6 exclusively. I mean, you can have switch additions  
7 that are done for reasons other than growth, for  
8 technological network change-outs, things of that --  
9 regulated, mandated things, so growth is a subset of  
10 switch additions.

11 MR. KOPTA: Okay. Well, I want to focus on  
12 that subset. And in this portion of your testimony,  
13 specifically page 82, line -- basically, 14 through  
14 15.

15 MR. MAZZIOTTI: Could you just read the line  
16 for me, so --

17 MR. KOPTA: Sure. Actually, I will read the  
18 whole sentence for you so that you might be able to  
19 find it more easily. Begins on line 12. Therefore,  
20 Mr. Gillan and Mr. Chandler's calculation of 2,900  
21 annual minutes per line overstates demand, because it  
22 is based on a division of year 2000 DEMS by year 2003  
23 switched access lines, which have been steadily  
24 declining.

25 And the question that I have is if switched

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1 access lines have been steadily declining, there  
2 would -- would you -- or you wouldn't anticipate that  
3 there would be any need to add growth additions to  
4 the switch, would you?

5 MR. MAZZIOTTI: It sounds counterintuitive,  
6 but that's not a correct statement. Because when --  
7 what you're looking at with that is the lines that  
8 are reported in the ARMIS report to the FCC are total  
9 aggregate lines across the Verizon territory, and  
10 just because lines in aggregate may be dropping,  
11 there's no way to indicate that we don't have to be  
12 adding switch capacity in certain areas. I mean,  
13 certainly if we have a business district in downtown  
14 Seattle that the CLECs are successful and  
15 facilities-based CLECs come in and they take lines  
16 from us, those districts are going to be declining.

17 At the same time, you could have suburban  
18 areas that they're building all kinds of housing in  
19 response to the new jobs that are coming from all  
20 these things being built in Seattle and we'll be  
21 adding over there.

22 So the fact that lines in total are going  
23 down certainly doesn't indicate we won't be doing any  
24 growth additions to the switches.

25 MR. KOPTA: If you would look on page 88.

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1 No, no, it's actually page 88 of your direct, which  
2 is Exhibit 201-TC and --

3 MR. MAZZIOTTI: I'm there.

4 MR. KOPTA: -- specifically lines 13 through  
5 14.

6 MR. MAZZIOTTI: Okay.

7 MR. KOPTA: And although I won't say it, of  
8 course, there is a proprietary number of Verizon's  
9 current utilization rates, and based on that  
10 utilization rate, again, it would seem as though  
11 growth lines would not be necessary, but I assume  
12 that you perhaps would have the same caveat there  
13 that you just gave me with respect to the --

14 MR. MAZZIOTTI: Yeah, because you're looking  
15 at the aggregate across the state, and certainly we  
16 have pockets of growth and pockets of declining. I  
17 mean, it's just the way the business runs.

18 MR. KOPTA: Well, let's go back to your  
19 rebuttal testimony, Exhibit 228-TC, and specifically  
20 page 83. And again, at this point, you are  
21 addressing some arguments that Mr. Gillan and Mr.  
22 Chandler raise in their testimony. And beginning on  
23 line 12, you're discussing interconnection trunks,  
24 the trunks that other carriers use to exchange  
25 traffic with Verizon. Do you see where I'm pointing?



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1 MR. MAZZIOTTI: Okay. I'm in the section.

2 MR. KOPTA: Okay. Don't the other carriers  
3 pay for these trunks?

4 MR. MAZZIOTTI: Yes, they do.

5 MR. KOPTA: So the costs of these trunks  
6 would not be included in the rates for local  
7 switching, would they?

8 MR. MAZZIOTTI: Well, if you're talking  
9 interconnection -- what kind of carriers are you  
10 talking about, I guess?

11 MR. KOPTA: The same carriers you're talking  
12 about in this portion of your testimony.

13 MR. MAZZIOTTI: Well, they would be -- if  
14 they're local trunks, those carriers would be paying  
15 the rates we're talking about here. I mean, that's  
16 what we're here to determine.

17 MR. KOPTA: No, I'm talking about, in this  
18 case, if interconnection trunks -- if the cost of the  
19 interconnection trunks are paid for by the carrier  
20 that is obtaining the trunk, has ordered the trunk  
21 from Verizon, then those costs of those trunks  
22 shouldn't be in the cost that we're talking about  
23 here when determining local switching as a UNE.

24 MR. MAZZIOTTI: Well, what I'm saying is  
25 they're the same trunks. I mean, if you're talking

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1 -- if they're local interconnection trunks, they're  
2 going to be paying out of the UNE tariff. And if  
3 they are -- if they are interexchange carriers' long  
4 distance trunks, those minutes would never get  
5 applied. I mean, what we're doing is we're, in this  
6 study, coming up with an average cost per minute.  
7 Certainly we're not going to recover every one of  
8 those minutes through the UNE tariff. I mean, it's  
9 only -- proportionately they wouldn't be paying,  
10 because only the proportion of local minutes are  
11 going to get charged these rates.

12 Q. Well, let me -- perhaps we're talking past  
13 each other, and let me try and back up and see if I  
14 can't clarify things. Interswitched trunks are  
15 included as part of the switching investment that you  
16 used to develop the UNE local switching rate;  
17 correct?

18 MR. MAZZIOTTI: Correct.

19 MR. KOPTA: Interconnection trunks are paid  
20 for by the carriers that order them; correct?

21 MR. MAZZIOTTI: Correct.

22 MR. KOPTA: So when you are determining  
23 which trunks, the cost of which you include for  
24 determining the rates for local switching, you would  
25 not include the costs of interconnection trunks?

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1           MR. MAZZIOTTI: No, actually we're bound to  
2 include the local interconnection trunks by the  
3 TELRIC rules that say we are to aggregate the  
4 equipment and the demands for all services so that we  
5 have scale and scope efficiencies. We will divide  
6 those trunks, we divide the cost of all trunks by the  
7 demand for all trunks, and so that only the  
8 percentage of the demand that goes to UNEs is going  
9 to be charged that and the other, you know, they pay  
10 for on their own, but, you know, you're only --  
11 you're coming up with a per -- in this case, per  
12 minute charge.

13           MR. KOPTA: That includes interconnection  
14 trunks; is that what you're saying?

15           MR. MAZZIOTTI: No, it's the average of all  
16 trunks.

17           MR. KOPTA: Including interconnection  
18 trunks?

19           MR. MAZZIOTTI: Yes, but it's not like we're  
20 double recovering or anything. You're getting scale  
21 and scope.

22           JUDGE MACE: Just -- Mr. Mazziotti, it may  
23 not have happened precisely in this instance, but I  
24 want to be careful that you don't talk over each  
25 other.

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1 MR. MAZZIOTTI: I'm sorry.

2 JUDGE MACE: And I need to have you slow  
3 down a little bit.

4 CHAIRWOMAN SHOWALTER: Just wait until  
5 you're sure that he has finished speaking and have  
6 there be a pause. It helps listeners, anyway, to  
7 have a little pause.

8 MR. KOPTA: Well, perhaps we just disagree  
9 over whether there's double-recovery, because it  
10 seems to me that if you include the costs of  
11 interconnection trunks among all of the costs that  
12 are split among the minutes of use and the carrier  
13 pays for interconnection trunks, then you are  
14 double-recovering the costs of interconnection  
15 trunks; isn't that correct?

16 MR. MAZZIOTTI: No, not at all.

17 MR. KOPTA: How is it not correct if, as  
18 part of my minute of use as a UNE-P provider, I'm  
19 paying a small, tiny portion of the interconnection  
20 trunk, but --

21 MR. MAZZIOTTI: Well, but you're not.

22 JUDGE MACE: Now, this is exactly what I  
23 mean. You have to wait till Mr. Kopta finishes his  
24 question, and then answer.

25 MR. MAZZIOTTI: I'm sorry.

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1 JUDGE MACE: Thanks.

2 MR. KOPTA: And yet the facilities-based  
3 carrier that has ordered the interconnection trunk  
4 from Verizon is already paying for the full cost of  
5 that trunk.

6 MR. MAZZIOTTI: You're done? They're  
7 different trunks, I guess is my point. Let's put up  
8 some hypothetical numbers. Say I have 1,000 trunks  
9 and they cost a dollar apiece. I have \$1,000 worth  
10 of trunk investment, and I have aggregated the 1,000  
11 trunks together to get the scale and scope  
12 efficiencies of trunks and the act and the Local  
13 Competition Order tells us to do for TELRIC, the sum  
14 of all services. So I now have this thousand dollars  
15 in trunk investment I'm trying to recover at a dollar  
16 a trunk, but I have 500 trunks of long distance,  
17 maybe 100 trunks go to wireless carriers and 400  
18 trunks are local trunks that are recovered through  
19 UNE-P.

20 So we're only recovering the dollar a trunk  
21 and you're only going to be charged as local carriers  
22 for the local trunks that your calls are, in fact,  
23 using, because the dollar a trunk for the 500  
24 interconnection or interexchange trunks, they're  
25 paying for already. It's not like we're taking

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1 taking the 1,000 trunks and dividing them by your  
2 demand. Your piece of the demand, dividing into the  
3 total, it comes out to the same thing.

4 MR. KOPTA: Well, let's use your  
5 hypothetical, then. Are you taking the costs of all  
6 the 1,000 trunks, dividing them by the total number  
7 of minutes, and using that figure as the switching  
8 cost in this case?

9 MR. MAZZIOTTI: We're taking the sum of all  
10 the trunks and dividing them by all the minutes, yes.

11 MR. KOPTA: Okay.

12 MR. MAZZIOTTI: But those minutes are not  
13 all UNE-P minutes, that's my point. There are  
14 demands on the network, within that total of all  
15 minutes, are minutes that go to other carriers.

16 MR. KOPTA: Okay. But let's expand your  
17 hypothetical a bit and say that you've got -- oh,  
18 lawyers doing math is always a bad thing -- 10,000  
19 minutes of use. So that would mean -- and you divide  
20 your \$1,000 in trunking by the 10,000 minutes. Maybe  
21 I ought to ask you what the per minute of use rate  
22 is. Would you accept ten cents a minute?

23 MR. MAZZIOTTI: (Nodding.)

24 MR. KOPTA: Okay. So you're now recovering  
25 all the costs of all those 1,000 trunks.

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1 MR. MAZZIOTTI: Right.

2 MR. KOPTA: A CLEC comes along and wants to  
3 order 1,000 trunks to dedicate to sending traffic to  
4 Verizon, and he pays a dollar a trunk.

5 MR. MAZZIOTTI: Okay.

6 MR. KOPTA: All right. So you're getting --

7 MR. MAZZIOTTI: But wait a minute.

8 MR. KOPTA: You're getting \$100 from the  
9 CLEC, but then you're already recovering the cost of  
10 all 1,000 trunks through the 10,000 minutes; isn't  
11 that correct?

12 MR. MAZZIOTTI: Well, first of all, let's  
13 back up a second, because, with the rate structures  
14 in place, we don't -- there is no way for a CLEC to  
15 order trunks at a dollar a trunk. They'd be paying  
16 for the minutes that they use. So whatever calls  
17 they make, they'd be paying for the trunks.

18 But what your hypothetical -- what you just  
19 said is a CLEC -- I have 1,000 trunks, a CLEC comes,  
20 and orders 1,000 trunks, well, now I have 2,000  
21 trunks. You've just doubled my amount of trunks.

22 MR. KOPTA: No, I think we're still talking  
23 past each other. When a CLEC orders trunks for  
24 interconnection with Verizon, the trunk goes from the  
25 CLEC's switch to the point of interconnection, often

0944

1 a Verizon tandem; correct?

2 MR. MAZZIOTTI: Right.

3 MR. KOPTA: Are those trunks included in the  
4 trunks that you're talking about when you're  
5 including costs for trunks in the local switching  
6 minutes?

7 MR. MAZZIOTTI: The trunk ports on the  
8 tandem, yes, but you just -- the hypothetical you  
9 just postulated was I have 1,000 trunks. I do a cost  
10 study on the 1,000 trunks and you come and order  
11 another 1,000.

12 MR. KOPTA: No, that wasn't my hypothetical.  
13 Let's put the hypothetical aside for the moment.  
14 What I'm trying to get at is you, in this part of  
15 your testimony, are saying utilization is different  
16 because you have to consider interconnection trunks.  
17 What I'm trying to get at is if a CLEC is already  
18 paying for the interconnection trunk, it shouldn't be  
19 included among the costs or the utilization that  
20 you're looking at when determining switching costs in  
21 this case.

22 MR. MAZZIOTTI: No, I think you've got to  
23 back up. And what we're talking about in this  
24 section of the testimony is simply that, in the AT&T  
25 testimony, they were saying that trunks should be



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1 running at a much higher CCS -- properly designed  
2 trunks would run at a much higher CCS per trunk, and  
3 therefore, by us running at a lower CCS, we must have  
4 too many trunks.

5           The point of this is that I fully agree with  
6 their statement that in a situation where the local  
7 exchange carrier has control and designs those  
8 trunks, trunks will run at a much higher CCS, but  
9 when other carriers come in and order trunks based on  
10 -- not on number of minutes, but just say I need 25  
11 trunks, I'm coming into this area, I'm going to have  
12 a big sellout and I need 25 trunks, and then they put  
13 five trunks' worth of traffic on it because they  
14 didn't sell as well as they thought they would or  
15 they think they're going to grow into it or for  
16 whatever reason, that is why the CCS per trunk is  
17 down lower, is because we don't have the control. I  
18 mean, back in the days of the old Bell system where  
19 we controlled the whole thing and you could design  
20 trunks to a much more efficient amount of traffic  
21 handling and use fewer, on top of that simple  
22 probability, which is math, I don't want to hurt you.

23           MR. KOPTA: Oh, please don't.

24           MR. MAZZIOTTI: But the simple probability  
25 that goes behind trunk design is that smaller trunk

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1 groups are less efficient than larger trunk groups.  
2 So when you take an amount of traffic and split it  
3 among carriers, if you have 100 trunks and now you  
4 have 10 carriers and you split those 100 trunks and  
5 if you split them ten apiece, the point is you can't  
6 split them 10 apiece. They're going to have -- the  
7 10 carriers would need to have 12 or 14 apiece, which  
8 means they'd have less traffic on each trunk. And  
9 that's just the mathematics and the probability  
10 analysis that goes behind designing trunks.

11 And the point is that, given those  
12 situations and that we don't have control over how we  
13 design these trunks, that that lower CCS than one  
14 we'd be used to seeing in the days of the old Bell  
15 system is not an unreasonable number, given the  
16 competitive market that we are now forced to operate  
17 in.

18 MR. KOPTA: And I suppose my point is that,  
19 in making those calculations, you shouldn't even look  
20 at interconnection trunks, because it's a wholly  
21 separate thing, and I'm assuming you disagree with  
22 me?

23 MR. MAZZIOTTI: And like I said, I -- if you  
24 look at the rules of the act, they say you must take  
25 all demand for all services and come up with a unit

0947

1 cost. By then only selling the units associated with  
2 -- I mean, you know, when we sell those 1,000 trunks,  
3 we're going to sell some to the local people, use  
4 some ourselves, sell some to wireless, sell some to  
5 long distance, and everybody gets a piece of it all  
6 at the same per minute or per trunk rate. There's no  
7 overrecovery, because everybody's only paying for  
8 what they consume at that per unit basis, whatever  
9 that unit is in the particular --

10 JUDGE MACE: It sounds like there continues  
11 to be a disagreement about this, and I'm wondering if  
12 it would be beneficial for us right now to take a  
13 break. I don't know if it would be beneficial for  
14 you to talk off the record or not, but to continue  
15 back and forth, I'm not sure how productive that is.

16 MR. KOPTA: I wasn't going to. I was going  
17 to ask one sort of follow-up question and then was  
18 going to suggest that we take a break, because I'm  
19 going to go on to a different subject, if I might.

20 JUDGE MACE: All right. Go ahead with your  
21 follow-up question, then.

22 MR. KOPTA: Okay. And this really goes more  
23 to how a CLEC that obtains a trunk pays for it. Is  
24 it your understanding that a CLEC that seeks to get  
25 an interconnection trunk from Verizon pays a per

0948

1 minute of use basis or is it a flat basis?

2 MS. SMOTHERGILL: Your Honor, I think this  
3 is the exact question that they've been going back  
4 and forth over the last 15 minutes. I don't know if  
5 the answer's going to be anything different.

6 MR. MAZZIOTTI: No, I don't -- didn't see  
7 anything in our proposals where we propose a flat  
8 trunk element.

9 MR. KOPTA: Well, no, and I'm not saying  
10 that. I'm just saying, in your discussion, are you  
11 assuming or do you know that when Verizon sells an  
12 interconnection trunk to a CLEC, that it's on a  
13 measured or flat basis. It's a dedicated trunk,  
14 isn't it?

15 MR. MAZZIOTTI: To be honest with you, I  
16 don't know, because my involvement has been in this  
17 case. And for the elements that are in this case, we  
18 have not proposed a flat monthly trunk rate, but  
19 there was a caveat somewhere in the front that said  
20 things that weren't discussed in this case would  
21 continue with the tariff, and I'm just not that  
22 familiar with the Washington-specific tariffs.

23 MR. KOPTA: That's fine. That's all I  
24 wanted to know.

25 JUDGE MACE: All right. Let's take a

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1 15-minute recess.

2 (Recess taken.)

3 JUDGE MACE: Let's be back on the record.

4 The Chairwoman just went to -- she'll be back very  
5 shortly, and she said that we should go ahead.

6 MR. KOPTA: Thank you, Your Honor. Now,  
7 gentleman, if you would, please, turn to page 85 of  
8 Exhibit 228-TC. And in that section of your  
9 testimony, you're discussing host remote umbilical  
10 costs. And I wanted to ask you a few questions about  
11 the remote in that circumstance.

12 Am I correct that each remote has its own  
13 entry in the Local Exchange Routing Guide, or LERG,  
14 as a switching entity?

15 MR. MAZZIOTTI: I don't know.

16 MR. WEST: They do.

17 MR. KOPTA: And there are numbers that are  
18 assigned -- NPA NXXs that are assigned to remote  
19 switches?

20 MR. WEST: Yes.

21 MR. MAZZIOTTI: Yes.

22 MR. KOPTA: And are the trunk facilities  
23 between the remote and the host engineered the same  
24 as the trunks between the host and other switches?

25 MR. MAZZIOTTI: Well, there are no trunks

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1 per se between a host and a remote; there are  
2 connections that are referred to as umbilical links,  
3 but they are not trunks per se. Within a digital  
4 switch, there are -- and they go by various terms for  
5 the various vendors, but for want of a general term,  
6 I'll call them network paths that connect switch  
7 peripherals, lines to trunks, trunks to lines, and  
8 things to the control -- central control units, and  
9 those paths are, you know, internal to the switch.

10           When a remote unit is added to a switch, the  
11 umbilicals are simply -- call it like a range  
12 extender of those network paths. So it's really  
13 nothing different than the links that would connect  
14 two line units if they were in the same building. A  
15 remote has no central processor, it has, you know, no  
16 thought processes, and all the trunks that connect it  
17 to other offices are connected to the host, such  
18 that, for example, if there was a remote here in  
19 Olympia and it connected to a host in whatever the  
20 next town over is, forgive my geographic ignorance,  
21 and I wanted to go from Olympia to Seattle, the call  
22 wouldn't go from Olympia to Seattle; it would go from  
23 Olympia to the host switch and then there would be  
24 trunks at the host switch that connected it. And  
25 those links, umbilical links between the host and

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1 remote functionally serve the same purpose as the  
2 links within two switch modules in that same host.  
3 There's no difference to them functionally, so  
4 they're not trunks per se.

5 MR. KOPTA: Well, is there a functional  
6 difference between those links and the trunks that  
7 connect the switch from, let's say, Lacey to Seattle?

8 MR. MAZZIOTTI: Well, yeah, yes, absolutely,  
9 because the purpose of those -- the purpose of a  
10 trunk is to connect two offices, two central offices,  
11 whereas the purpose of an umbilical link is to tie  
12 together parts of the same switch.

13 MR. KOPTA: But the facilities are the same,  
14 are they not?

15 MR. MAZZIOTTI: The outside plant facilities  
16 -- I mean, yeah, they both go over the same type of  
17 fiber and they -- some of the physical hardware is  
18 the same, yes, I mean, if that's the question.

19 MR. KOPTA: Yes. And does a remote use a  
20 local processor?

21 MR. MAZZIOTTI: Again, it varies a little  
22 bit by technology, but it doesn't use a local  
23 processor to any greater or lesser extent than the  
24 module would use if it was located in the same  
25 physical building as the host switch. I mean, it's

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1 really not a remote switch. It's a remote switch  
2 module. It's basically, with a couple little extra  
3 pieces of hardware to make that range extension, it's  
4 the same hardware as one that was located in the same  
5 building as the host, with the exception of they have  
6 a little bit of intelligence and will have a small  
7 number of trunks for survivability purposes, such  
8 that if the umbilicals get cut from a natural  
9 disaster or somebody dropping a backhoe or a pile  
10 driver, the customers in that remote still have  
11 access to 911 emergency services.

12 MR. KOPTA: And the remotes can be located  
13 even hundreds of miles apart from the host, can't it?

14 MR. MAZZIOTTI: I would take that subject to  
15 check. There are mileage limitations and they do  
16 vary by technology and -- but some distances. I  
17 don't know if hundreds is realistic. It may or may  
18 not be by what vendor it is.

19 MR. KOPTA: Okay. Now, if you would,  
20 please, turn to page 87, again, in Exhibit 228-TC.  
21 And at this page, you're discussing SS7 signaling  
22 costs. And I want to differentiate the two types of  
23 costs associated with SS7. There is an unbundled  
24 network element for SS7 signaling; correct?

25 MR. MAZZIOTTI: Correct. Although not in



0953

1 the -- it wasn't proposed in this case. It's one of  
2 the ones that's --

3 MR. KOPTA: Right. But there are certain  
4 SS7 costs, let's say SS7 network costs that are  
5 assigned to the SS7 signaling UNE; correct?

6 MR. MAZZIOTTI: Correct.

7 MR. KOPTA: And then there are switch  
8 investment costs associated with providing SS7 that  
9 are included in the switching costs; correct?

10 MR. MAZZIOTTI: Well, yes, and let me  
11 explain. There's two differences here. The  
12 stand-alone SS7 network costs, if you were to buy  
13 like an SS7 port, are to be sold to another carrier  
14 who wishes to use the Verizon SS7 network. Say you  
15 were a facilities-based carrier and you only have one  
16 switch, and you're not going to go out and buy a  
17 whole SS7 network for it and you want to connect to  
18 the Verizon SS7 network and use the network, you  
19 would buy a port into our network and use it for your  
20 facilities-based switch.

21 The other SS7 costs that you're talking  
22 about that go in with the usage are the costs of a  
23 call setup using that network to set up a call on our  
24 network. So one is when you're buying in and one is  
25 for when you're using a piece of it.

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1           MR. KOPTA: That's what I was trying to get  
2 at, is that they were talking about separate costs.

3           MR. MAZZIOTTI: Yes.

4           MR. KOPTA: And on page 88, the sentence  
5 that begins on line one, you testify that the amount  
6 of investment, again, that we're talking about for  
7 SS7 that is attributable to the switch is driven by  
8 the number of call attempts; is that correct?

9           MR. MAZZIOTTI: It's not on my line one, so  
10 I'm looking for it.

11           MR. KOPTA: Okay. I will read the sentence.  
12 In addition, the amount of Verizon's investment in  
13 SS7 equipment --

14           MR. MAZZIOTTI: Got it. I'm there.

15           MR. KOPTA: -- is not a function.

16           MR. MAZZIOTTI: Mm-hmm, correct.

17           MR. KOPTA: And aren't call attempts  
18 generally estimated per line?

19           MR. MAZZIOTTI: Well, certainly you can come  
20 up with an estimate of call attempts per line. The  
21 purpose of this paragraph is saying that the fact  
22 that a person -- as I said in my opening statement, I  
23 said we try and differentiate between the costs that  
24 are caused by a person having a line versus a person  
25 using a line. So that if you were to have a line and

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1 not make a call once all month because you're on  
2 vacation or didn't make any calls, you wouldn't be  
3 driving -- you wouldn't be using the SS7 network at  
4 all. There would be no SS7 investment required.  
5 Certainly, you could make -- you know, measure it and  
6 come up with an average attempts per line, but that  
7 doesn't mean that the fact of having the line drove  
8 any of the SS7 costs; it is the number of calls that  
9 drove -- that was the driver, not -- just because  
10 they make 1,000 calls a month doesn't mean that the  
11 line caused the cost. It was 1,000 calls.

12 MR. KOPTA: If you would please turn to page  
13 91. And I'm referring in this case to the sentence  
14 that begins on line six, and perhaps I should read it  
15 just in the interest of making sure we're on the  
16 right place.

17 MR. MAZZIOTTI: Thank you. I would  
18 appreciate that.

19 MR. KOPTA: At this point, Telcordia has  
20 agreed to give the source code to AT&T/MCI upon their  
21 execution of a required nondisclosure agreement, and  
22 Verizon NW has offered this agreement to AT&T and  
23 MCI. Do you see where I am?

24 MR. MAZZIOTTI: Yes, I have it.

25 MR. KOPTA: Do you know when Verizon

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1 provided AT&T with the source code to SCIS?

2 MR. MAZZIOTTI: I would have to defer to my  
3 legal team who handled all that. I do not know.

4 MR. KOPTA: Would you accept, subject to  
5 check, that counsel for Verizon overnighted it to me  
6 on May 21st, 2004?

7 MR. MAZZIOTTI: Subject to check. I have no  
8 reason to doubt your integrity.

9 MS. RONIS: It's checked.

10 MR. KOPTA: I have a copy of the cover  
11 letter from Ms. Smothergill, so --

12 MR. MAZZIOTTI: Consider it checked.  
13 Getting that done was a monumental task. It is a  
14 very closely-guarded secret that they were not too  
15 willing to part with, and it took a lot of  
16 negotiating.

17 MR. KOPTA: Funny things about secrets, huh?  
18 I would like now to ask a couple of questions about  
19 your reply testimony, which is your April 20th  
20 testimony, Exhibit 301-T.

21 JUDGE MACE: Just a moment, Counsel, while  
22 we find that exhibit. Page --

23 MR. KOPTA: Page 12. And this is beginning  
24 on line nine with the question, Has Verizon ever  
25 experienced switch exhaust due to increased usage.

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1 MR. MAZZIOTTI: We're good on this one.

2 MR. KOPTA: All right. And you discuss  
3 three switches in this part of your testimony, and I  
4 was wanting to ask if any of those switches were  
5 switches that have been manufactured within the last  
6 three years.

7 MR. RICHTER: The answer is I don't know.

8 MR. KOPTA: And you have no comparable  
9 experience with switch exhaust in Washington; is that  
10 correct?

11 MR. RICHTER: That's correct.

12 MR. KOPTA: Now, if we could go back to your  
13 direct testimony, which is Exhibit 201-TC, and in  
14 this case I would like you to look at page 70. And  
15 at this point in your testimony, you are discussing  
16 switch features. And as I understand it, there are  
17 some features that are included within the local  
18 switching cost that you developed and others that you  
19 have costed out separately because you testified that  
20 they require specific unique hardware; is that  
21 correct?

22 MR. MAZZIOTTI: That's correct.

23 MR. KOPTA: Can you tell me where in your  
24 testimony or exhibits you have identified the  
25 hardware that is used to provide those features that

0958

1 need the specific hardware?

2 MR. MAZZIOTTI: Can you -- could you clarify  
3 the question? Are you asking which features or what?

4 MR. KOPTA: What the hardware is.

5 MR. MAZZIOTTI: Oh, what the hardware is?

6 MR. KOPTA: Yes.

7 MR. MAZZIOTTI: Well, if you're looking for  
8 the specific list of what the piece parts are, no,  
9 that's not in there. There was a file on the CDs  
10 that accompanied the direct testimony, there's  
11 outputs of the SCIS IN module that gives you the  
12 price for hardware when the SCIS program -- SCIS IN,  
13 which is, by the way, the module of the SCIS program  
14 that is used to determine the cost of features. It  
15 gives you the outputs in various categories, most of  
16 which are included in the switching already, the way  
17 we did it, and the only one that isn't is a category  
18 called hardware, and it has the specific cost of the  
19 hardware, but doesn't identify the piece parts  
20 themselves.

21 MR. KOPTA: Okay.

22 MR. MAZZIOTTI: But it does, by the way,  
23 give you the feature number and certainly you have  
24 the program and you can run it and look it up. I  
25 mean, you have the ability to find it. It's all in

0959

1 the documentation; it's just not in the printout that  
2 was provided.

3 MR. KOPTA: So it's in the model run that  
4 you provided with your testimony?

5 MR. MAZZIOTTI: No, it would be within the  
6 documentation of the model if you would go into each  
7 -- the documentation for each feature number gives  
8 you formulas and tells you, you know, what's  
9 included.

10 MR. KOPTA: And it specifically identifies  
11 the hardware for each feature?

12 MR. MAZZIOTTI: Yeah, I believe so.

13 MR. KOPTA: If you would, please, turn to  
14 page 85 of Exhibit 201-TC, specifically your response  
15 beginning on line 24.

16 CHAIRWOMAN SHOWALTER: Can you read the  
17 sentence for him?

18 MR. KOPTA: And the sentence reads, Verizon  
19 asked each of its switching vendors to provide a  
20 detailed list of all switching equipment (hardware)  
21 purchases Verizon made during past years (either 2000  
22 or 2001, depending on which was the latest available  
23 information), and to include actual quantities, list  
24 prices and prices Verizon paid for the equipment. Do  
25 you see where I am in that testimony?

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1 MR. MAZZIOTTI: Yes.

2 MR. KOPTA: And is that -- did I read that  
3 correctly?

4 MR. MAZZIOTTI: Yes, you did.

5 MR. KOPTA: Now I would ask you to turn to  
6 Exhibit 304, which is a cross exhibit. Actually,  
7 Verizon's response to AT&T Data Request 6-144.

8 MR. MAZZIOTTI: Okay. I'm here.

9 MR. KOPTA: Are these the lists from the  
10 vendors that are referenced in the testimony that I  
11 just read?

12 MR. MAZZIOTTI: Yes, they are.

13 MR. KOPTA: And if you would, please, turn  
14 to page 49 of this exhibit.

15 JUDGE MACE: Forty-nine of Exhibit 304?

16 MR. KOPTA: Forty-nine of Exhibit 304.  
17 That's correct.

18 MR. MAZZIOTTI: Okay.

19 MR. KOPTA: And the discounts that are  
20 listed in bold -- or the discount names are in bold,  
21 the actual amounts are not. Do you see where I'm  
22 referring?

23 MR. MAZZIOTTI: Yes, about in the middle of  
24 the page, right under where it says total material?

25 MR. KOPTA: Correct.



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1 MR. MAZZIOTTI: Yeah.

2 MR. KOPTA: Are those the discounts that  
3 you've included in your model?

4 MR. MAZZIOTTI: No, actually, if you go a  
5 little further in, I believe on page 95, what they  
6 did here is they broke up the discounts into two  
7 categories, and if you see right over where it says  
8 total material, when it says material, that is for,  
9 in this case, Northern Telecom -- Nortel provided  
10 material of their manufacture. In addition to that  
11 material, they were also vendor materials and -- hold  
12 on. I might have misled you. There were vendor  
13 materials, as well. Things that they don't  
14 manufacture, but go into the switch that they  
15 purchase from the outside. And as you see, it  
16 continued right after, there's a bunch of things  
17 designated V-e-n-d, for vendor. If you follow that  
18 all the way through, it also calculates the discount  
19 on the vendor and then comes up with an aggregate of  
20 the two of them, which is really the whole switch.

21 MR. KOPTA: So then, that would be on page  
22 96?

23 MR. MAZZIOTTI: Yes, I'm sorry, you're  
24 right. The total is on -- total cost is on 95, and  
25 the discount number is on 96.

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1                   MR. KOPTA:  And those are the discounts that  
2  you've used in --

3                   MR. MAZZIOTTI:  Yes.

4                   MR. KOPTA:  -- in the model?

5                   MR. MAZZIOTTI:  Mm-hmm.

6                   MR. KOPTA:  Now, I want to make sense of  
7  these, so if you would, please, turn to page 10 of  
8  this Exhibit 204.

9                   CHAIRWOMAN SHOWALTER:  Did you say 204?

10                  MR. KOPTA:  Of Exhibit 304.  I'm sorry.  The  
11  one we were just looking at.

12                  MR. MAZZIOTTI:  Yes.

13                  MR. KOPTA:  Let's look at the top line.  By  
14  looking at this, can you tell me what this is that's  
15  being priced?

16                  MR. MAZZIOTTI:  Not in the least, I'm sorry  
17  to say.  You know, I mean, there's a lot of vendor  
18  part numbers in here that, you know -- I mean, there  
19  are thousands and thousands of piece parts that go  
20  into these things and circuit packs and different  
21  things.  I mean, what we did is we asked them to go  
22  out and they went into their ordering systems and  
23  gave us a list of every piece part and what it cost  
24  to list and what it cost and we just added them up  
25  and came up with an average.  But I would have to be

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1 a walking computer to know every one of the thousand  
2 parts. Maybe 10 years ago, when I was in  
3 engineering, I might have known a few of them, but --

4 MR. KOPTA: I won't test your knowledge that  
5 far, but in the last column, and unfortunately the  
6 headings don't follow with the columns, am I correct  
7 that that is the list price?

8 MR. MAZZIOTTI: If we go back to -- I just  
9 want to check the first page of the list that has the  
10 column headings. Yes, the very -- the right-most  
11 column is the list price.

12 MR. KOPTA: And the third column to the --  
13 third column, two columns over, is the price that  
14 Verizon paid?

15 MR. MAZZIOTTI: Yes, it is.

16 JUDGE MACE: Is that the net price column?

17 MR. MAZZIOTTI: Yes, correct.

18 MR. KOPTA: And do you have any idea, a  
19 number of this size and the list price, what that  
20 might likely be? That wouldn't be a switch, would  
21 it?

22 MR. MAZZIOTTI: No, these would all be  
23 either circuit packs or frames. These are all nuts  
24 and bolts, piece parts.

25 MR. KOPTA: Pretty big piece part, though;

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1 right?

2 MR. MAZZIOTTI: Could be -- well, again,  
3 piece parts, it could be a -- the serial number could  
4 be a switch module, an entire unit, it could be a  
5 single circuit pack. I have no way of knowing from  
6 -- you know, without a cheat sheet or a vendor, you  
7 know, parts list. I mean, that could be, you know, a  
8 whole -- I don't know what. You know, that could be  
9 a unit that has 150 circuit packs and fuses and power  
10 packs and -- you know.

11 MR. KOPTA: Right. And I believe in your  
12 testimony you say that this exhibit includes the  
13 prices for growth additions or any other kinds of  
14 additions; is that correct?

15 MR. MAZZIOTTI: It includes the prices for  
16 whatever we bought. That's our total purchasing. We  
17 bought it, it's in there. It's kind of like Prego  
18 spaghetti sauce. It's in there.

19 MR. KOPTA: But I just can't tell which one  
20 is which at this point, based on this document?

21 MR. MAZZIOTTI: Right.

22 MR. KOPTA: And would the same be true of  
23 the hardware needed for the individual features that  
24 you have proposed?

25 MR. MAZZIOTTI: Yeah, I would -- yeah, I

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1 mean, it all follows the same thing. I mean, if  
2 you're looking for the list price of a particular  
3 piece of hardware and you had the right  
4 cross-reference sheet, you might be able to find it,  
5 but, you know, there's nothing on this page  
6 specifically that would tell you, you know, what type  
7 of job it was bought under.

8 I might add, though, that this being a  
9 Northern Telecom page, Northern Telecom does not have  
10 a segregated discount per se anymore.

11 MR. KOPTA: What do you mean, a segregated  
12 discount?

13 MR. MAZZIOTTI: When years ago we had, you  
14 know, so much for a -- if you bought it new and so  
15 much if it's growth. They just have prices per type  
16 of equipment now.

17 MR. KOPTA: So it's the same discount?

18 MR. MAZZIOTTI: Yeah.

19 MR. KOPTA: Regardless of whether it's a new  
20 switch or a growth?

21 MR. MAZZIOTTI: Correct.

22 MR. KOPTA: Thank you.

23 MR. MAZZIOTTI: There'd certainly be a  
24 different mix of what you buy in a new or growth  
25 switch, but, you know, the same piece part would be

0966

1 the same discount in all of them under the terms of  
2 the contract.

3 MR. KOPTA: Thank you for that  
4 clarification. With that, those are my questions. I  
5 would move admission of Exhibits 302 through 307.

6 JUDGE MACE: Is there any objection to the  
7 admission of those exhibits?

8 MS. SMOTHERGILL: No objection.

9 JUDGE MACE: I'll admit them. Ms. Smith.

10 MS. SMITH: Thank you, Your Honor.

11

12 E X A M I N A T I O N

13 BY MS. SMITH:

14 MS. SMITH: Good afternoon, I'm Shannon  
15 Smith. I'm representing Commission Staff. My first  
16 question is directed to Mr. West and his testimony.  
17 The remainder of my questions all address to the  
18 panel and, whichever witness is the proper witness,  
19 please answer.

20 Mr. West, in your testimony, Exhibit 351, I  
21 don't think you're going to need to refer to it, but  
22 you discuss on page five competition that Verizon is  
23 facing in the state of Washington from government  
24 networks. Do you recall that testimony?

25 MR. WEST: I do.

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1 MS. SMITH: Are you aware that there are  
2 state statutes here in Washington that would prohibit  
3 PUDs from competing with telephone companies for end  
4 use customers?

5 MR. WEST: There may be such statutes, but  
6 certainly the documents that I reviewed in preparing  
7 for this case would indicate that they do compete  
8 with Verizon for services.

9 MS. SMITH: Do you know whether those are  
10 wholesale or retail services?

11 MR. WEST: They looked an awful lot like  
12 retail services to me, mostly broadband, but there's  
13 something floating around called a zip network,  
14 which, you know, promises all kinds of fancy advanced  
15 telecommunications services, and they sure looked  
16 like end user services to me.

17 MS. SMITH: Thank you. In your April 20th  
18 reply testimony, which has been marked as Exhibit  
19 301, on page 17, and at lines one through two, the  
20 testimony says that there is no significant  
21 geographic difference in the cost of switching. Do  
22 you see that testimony?

23 MR. WEST: Yes.

24 MS. SMITH: What is the basis for that  
25 statement?

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1           MR. WEST: We've done a number, obviously,  
2 of these switching studies in a lot of different  
3 states, and our experience is the port does not vary  
4 much, if at all, with geography, and the way we  
5 calculate the local usage, the local usage minute  
6 costs what it costs. It doesn't change with respect  
7 to which density zone it's generated in, either.

8           MR. MAZZIOTTI: I think one of the points of  
9 that is also that it doesn't vary -- certainly  
10 geography isn't the driver. If I buy a switch and I  
11 put it in a building, it costs me a certain amount.  
12 If I were to pick up that switch and move it to  
13 another building or build the same switch in another  
14 geography, the cost of the switch is the same, so any  
15 differences in cost may be -- can be driven certainly  
16 by the traffic patterns generated in a different  
17 area, but it's not like a loop where a loop will vary  
18 by geography, specifically certainly mountainous  
19 conditions, hard rocks, things of that nature will  
20 cause direct variations in the cost of the loop.

21           There's nothing in geography itself that's  
22 going to affect the cost of the switch per se, as a  
23 direct function of geography.

24           MS. SMITH: Do switches have a fixed cost  
25 component?



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1           MR. MAZZIOTTI: I guess that depends how  
2 you're looking at them and what you define as a fixed  
3 component. Certainly there are volume-sensitive and  
4 non-volume sensitive components in the switch, and  
5 just classically what we have in our cost studies. I  
6 mean, we have a cost of a port, plus the cost of  
7 minutes. I mean, you know, it's an A plus BX type  
8 thing. Certainly -- I mean, when the FCC did their  
9 switch curves in their universal service model, they  
10 came up with a fixed and a variable component based  
11 on lines. I certainly wouldn't agree that it was  
12 cost causative. They did a regression on a bunch of  
13 switches and came up with an A plus BX function that  
14 would represent the cost of the switches.

15           I certainly wouldn't agree that, from an  
16 engineering or economic point of view, that was a  
17 fixed and variable cost. It was simply a convenient  
18 way to come up with a quick and dirty cost for a  
19 switch. You know, to that extent, you do need a  
20 processor and there's a base minimum, depending on  
21 your traffic characteristics and what's going into  
22 the switch, the size of the processor can also vary,  
23 but there's certainly a base minimum. I mean, I  
24 guess at the very least, there's a base RTU that you  
25 need to run a switch. I mean, you can't get around

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1 that. Without the software, it's a piece of dumb  
2 iron. So there's certainly some fixed components.

3 MS. SMITH: Do you know -- or strike that.

4 Have the total minutes of use on the Verizon  
5 Northwest Washington switched network been increasing  
6 or decreasing over the last couple of years?

7 MR. MAZZIOTTI: As it trends, no, I don't.

8 Do you have anything?

9 MR. RICHTER: No.

10 MS. SMITH: You had a discussion with Mr.  
11 Kopta on cross-examination during his questioning on  
12 the term high usage, and are you referring to the  
13 toll usage or the local usage or both when you refer  
14 to high usage?

15 MR. MAZZIOTTI: I was referring -- yeah,  
16 everything we do in this UNE model is based on total,  
17 total minutes, and, you know, the discussions simply,  
18 I think, boil down to is if you have an average, you  
19 have a rate that assumes a port plus an average  
20 amount of minutes. If a carrier has a customer that  
21 uses more than the average amount of minutes, they're  
22 going to pay less than they would if they were paying  
23 per minute, and if they have less, then, you know, I  
24 mean -- it's going to be above or below the average.  
25 I mean, somebody who's above the average is a higher

0971

1 than average user and would incur more costs. So  
2 you'd be ahead of the game if you paid the average  
3 and had higher than average users.

4 MS. SMITH: But just to clarify, then, when  
5 you say total, you're including within that total  
6 local, toll, long distance, all minutes of use; is  
7 that correct?

8 MR. MAZZIOTTI: Well, yes, because from the  
9 point of view of the switch, I mean, the switch is --  
10 you know, it doesn't care where the minute goes. You  
11 know, you dial, it sends a minute somewhere and it  
12 sends it to a trunk. Where that trunk ends up is  
13 irrelevant to the switch and to the engineering. The  
14 fact is the trunk and the switch components are being  
15 used.

16 MS. SMITH: If a CLEC were to offer service  
17 to a group of customers and, within that group of  
18 customers some of them were high usage customers and  
19 some of them were low usage customers, wouldn't a  
20 flat rate be fair under those circumstances?

21 MR. WEST: I mean, it might work out as  
22 being perfect recovery, but it would also work out  
23 perfect recovery if you had the minute of use rate,  
24 so why not insure something closer to perfect  
25 recovery by imposing the minutes of use rates.

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1           If you didn't have the small customer  
2 balancing out the large customers, you would get the  
3 sort of cross-subsidization we're talking about. So  
4 rather than run that risk, it seems like the prudent  
5 thing to do is match the rates to the cost structure  
6 and have the minute of use charge.

7           MR. MAZZIOTTI: I mean, certainly, if it  
8 worked out exactly, it would be pure happenstance.  
9 You wouldn't be driving it there correctly by the  
10 structure in what you're doing.

11           MS. SMITH: That's all. Thank you.

12           JUDGE MACE: Thank you. Dr. Gabel.

13

14                           E X A M I N A T I O N

15 BY DR. GABEL:

16           DR. GABEL: I think -- good afternoon,  
17 panel.

18           MR. WEST: Good afternoon.

19           MR. MAZZIOTTI: Good afternoon.

20           DR. GABEL: Good afternoon. I believe most  
21 of my questions are going to be directed to Mr.  
22 Mazziotti. Let me begin by just following up on a  
23 question from Staff regarding fixed costs on a  
24 switching machine.

25           Did I understand your response, Mr.

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1   Mazziotti, to be that there is not a fixed cost  
2   associated with a switching machine?  You gave an  
3   answer, but I wasn't certain.  Do you believe there  
4   is or is not a fixed cost with the switching machine?

5           MR. MAZZIOTTI:  Well, I think there is at  
6   some level a base amount that you have to have.  Now,  
7   what that is and what the fixed cost is, I mean,  
8   there's got to be the smallest amount of something  
9   you have to have, you know, but certainly, I mean, if  
10  things drive -- are driven to ports and to, you know,  
11  to minutes and things, it's got to be a minimum size  
12  of something.  Yes, there has to be, on a theoretical  
13  basis, a fixed cost.  And certainly if nothing else,  
14  if you could fit the entire switch in one piece of  
15  iron work, that piece of iron work would be a fixed  
16  cost.  How that relates to the rest of the switch, I  
17  --

18           DR. GABEL:  Now, you've used SCIS to  
19  estimate switching investment levels?

20           MR. MAZZIOTTI:  Yes.

21           DR. GABEL:  And are you familiar with the  
22  term getting started investments within SCIS?

23           MR. MAZZIOTTI:  Yes, I am.

24           DR. GABEL:  And are getting started costs  
25  synonymous with fixed costs?  And if not, how are

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1 they different?

2 MR. MAZZIOTTI: I'm certainly glad you asked  
3 that question, because it will give me a chance to  
4 clear up something. Getting started is a very  
5 unfortunate choice of words on their part. You know,  
6 when you think of it from an engineering point of  
7 view or something, of getting started, you need to  
8 have a building, you need to have things. The  
9 getting started category in SCIS is really where they  
10 put all of the common control type equipment, the  
11 processor and other common equipment that are not  
12 related to lines and trunks.

13 DR. GABEL: And those are pieces of  
14 equipment that must be acquired in order for the  
15 switching machine to function?

16 MR. MAZZIOTTI: They're pieces of equipment  
17 that must be acquired, but they're certainly not  
18 fixed in nature. I mean, it's fixed in that you must  
19 have them, but they are engineered and sized based on  
20 the traffic patterns and, you know, the load that's  
21 going to put on the switch, so it's not like, you  
22 know, one would think it's getting started and, like,  
23 you buy a processor and you drop it in the office  
24 and, 20 years later you, pull the plug and you throw  
25 the processor out and you never touch it.

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1           Even the term processor is kind of a  
2   misnomer, because the processor is really a processor  
3   complex of quite a number of different types of  
4   equipment, memory equipment, the central processor  
5   equivalent to like the Intel CPU in a computer that  
6   does the thinking.

7           The machines that do the billing and  
8   recording are in there, announcement circuits that  
9   are used for whenever you go to a vacant code,  
10  somebody's disconnected, that are all common and not  
11  related to any one particular line or trunk, but  
12  certainly necessary to operate the machine and  
13  operate it in a fashion that will live up to the  
14  service standards our customers and our regulators  
15  are going to expect from us.

16          And these things do need to be not only  
17  engineered when you buy it, but as I said in my  
18  opening statement, monitored, watched. If something  
19  gets in trouble, you need to augment it, and we do  
20  that on numerous occasions. They need to be upgraded  
21  due to regulatory mandates. You know, we had, over  
22  the past decade, when we had local number  
23  pre-subscription for toll carriers, as well as long  
24  distance, that required equipment.

25          We came up with 800 database dips, so you

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1 could have local number portability for 800 and now  
2 local number portability for wireless to wireline and  
3 all kinds of other things.

4 Another thing that was in there was CALEA,  
5 which, forgive me, I don't remember the exact  
6 acronym, but for those that aren't familiar with it,  
7 it's the ability for law enforcement to do wire taps  
8 on digital switches. You can't just go and clip on  
9 them. You know, there's not too many policemen that  
10 speak digital, you know, so there has to be a way for  
11 us to tap in. Those kinds of things.

12 And we do add to them on a regular basis to  
13 keep the switch operating correctly, given its  
14 traffic load, and up to date with the network  
15 standards that we have to have.

16 And I might add, this is -- you know, I gave  
17 examples over the past 10 years or so. We certainly  
18 -- it's going to continue. I mean, we all know that  
19 the days of the 10-digit telephone number are  
20 limited. I mean, we're running out of numbers. That  
21 is going to be a major upheaval in the routing and  
22 how switches operate. And who knows what's going to  
23 happen as we move more into, you know, newer  
24 technologies and do IP addresses replace phone  
25 numbers or, you know, what do we do when you have



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1 local number presubscription all over the place, and  
2 you can go from your computer to your wireless. You  
3 know, it's not going to stop. Technology doesn't  
4 stand still.

5 CHAIRWOMAN SHOWALTER: Mr. Mazziotti, can  
6 you keep your answers just a little bit more to the  
7 point? I think you have gone on fairly long beyond  
8 the answer to the question.

9 MR. MAZZIOTTI: My apologies.

10 DR. GABEL: Mr. Mazziotti, you just  
11 explained about how there's add-ons to the central  
12 processor on a periodic basis, but within SCIS, when  
13 you run it in year 2003 for this proceeding, are you  
14 including in your estimate the cost of a central  
15 processor that's purchased in 2003, or are you  
16 forecasting what's the cost of the central processor  
17 that's going to be needed to handle more than  
18 10-digit dialing in five years?

19 MR. MAZZIOTTI: No, well, certainly, it's  
20 the 2003, because we don't know what's coming in the  
21 future and, quite frankly, it's probably not designed  
22 yet and wouldn't be in there. It's the figment of  
23 some engineer's imagination right now.

24 DR. GABEL: Now, following up on a question  
25 from Mr. Kopta, Mr. Kopta asked you about the

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1 umbilical link between the host office and the remote  
2 office, and he asked you was the equipment identical  
3 to the equipment that appears on the host switching  
4 machine, and I believe your response was they're  
5 similar, but not identical; is that correct?

6 MR. MAZZIOTTI: There are --

7 DR. GABEL: Well, could you just --

8 MR. MAZZIOTTI: Depending on the technology  
9 and the vendor, some of the vendors use some of the  
10 same peripherals that they would put -- use for  
11 outward facing trunks, they use to interface these  
12 umbilicals.

13 DR. GABEL: So --

14 MR. MAZZIOTTI: It's, you know, the same  
15 part number, name.

16 DR. GABEL: So for example, for Nortel, it  
17 would be a digital trunk controller, which would be  
18 identical in the host and remote switching machine?

19 MR. MAZZIOTTI: Do you know that? I was  
20 thinking more of the five years. It's a DLTU, which  
21 is a digital line trunk unit.

22 MR. RICHTER: Yeah, it's --

23 JUDGE MACE: Gentlemen, please. I  
24 appreciate that you have the answers, but, please, we  
25 have -- it's really important for the reporter to

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1 record what you're saying, and she can't do that when  
2 everybody speaks at once.

3 MR. MAZZIOTTI: In the five years, and I'm  
4 looking at my little cheat sheet here, they use a  
5 unit called DLTU, which is a digital line trunk unit.  
6 Now, that same unit can be used for T-1 based trunks.  
7 In our model, we assume not only that, but a DNU,  
8 which is for sonic-based trunks. So there is some  
9 hardware that has a dual purpose, but certainly, on a  
10 functional basis, it's not the same thing within the  
11 switch.

12 DR. GABEL: Mr. Mazziotti, in your opening  
13 statement, and I didn't get all the words down, but  
14 you made reference to how the FCC had looked  
15 favorably on the Switching Cost Information System.  
16 Do you recall that?

17 MR. MAZZIOTTI: Yes, I do.

18 DR. GABEL: All right. Were you referring  
19 to a recent pronouncement of the FCC or the FCC's  
20 finding in a proceeding in the early 1990s?

21 MR. MAZZIOTTI: Yeah, it was.

22 DR. GABEL: The early 1990s?

23 MR. MAZZIOTTI: Yeah, that's the general  
24 time frame, yeah.

25 DR. GABEL: Mr. Kopta asked you about TR-303

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1 and the four-to-one concentration ratio associated  
2 with digital line carrier systems that terminate on a  
3 switching machine.

4 My question is if the concentration ratio  
5 was different, if it was six-to-one instead of  
6 four-to-one, how would that affect your payments to  
7 the vendor? So state -- let me restate the question.  
8 You have lines coming in from the field that  
9 terminate on the digital switching machine. Is the  
10 payment that Verizon makes to the vendor based upon  
11 the number of DSO links and thereby ignore the  
12 four-to-one or six-to-one concentration ratio, or is  
13 your payment based upon the number of DS1  
14 terminations, which would be the four-to-one or the  
15 six-to-one concentration ratio?

16 MR. MAZZIOTTI: It would be the DS1. I  
17 mean, you buy DS1 ports in the switch. But I might  
18 add, I think, and Mr. Richter would agree, that if we  
19 go to a six-to-one, we would probably incur serious  
20 service problems.

21 DR. GABEL: That wasn't -- I was just  
22 interested to understand the nature of your contract.  
23 So overall, the nature of your contract is to pay for  
24 a piece of equipment, and it's not to pay a flat rate  
25 per DSO termination?

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1           MR. MAZZIOTTI: Correct. It's not a  
2 per-line contract, it's a piece part contract, as I  
3 had that big thing of what piece parts we purchased.  
4 Whatever you receive, you pay for.

5           DR. GABEL: I believe, and I could be wrong  
6 about this, but I believe in your testimony you state  
7 that, Well, if the Commission were to agree with AT&T  
8 that the rate structure should be a per port rate,  
9 SCIS could still produce an investment per ported.  
10 Is that correct? Do I remember that?

11           MR. MAZZIOTTI: Certainly. I mean, it's not  
12 a matter of we would really have to change anything  
13 in SCIS itself. You would certainly -- it would be  
14 easy enough to just take the total. I mean, SCIS  
15 gives you a bottom line total, and if you divide the  
16 bottom line total by the number of ports, you have  
17 cost per port. It's really not a SCIS function; it  
18 would just be easy to calculate using the outputs we  
19 have in the SCIS already.

20           DR. GABEL: Just so that I make sure I  
21 correctly understand the SCIS output, can you point  
22 to me in your work papers where I could get the  
23 investment per line? And we can just take that as a  
24 bench request, because I don't need to see it right  
25 --

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1           MR. MAZZIOTTI: Well, no. It wouldn't be an  
2 investment -- I wouldn't be able to find in my work  
3 papers where you would have an investment per line.  
4 I could point you to the total investment, which you  
5 would have to manually then divide by the total  
6 number.

7           DR. GABEL: If you could point to me where  
8 the total investment and the total number of lines  
9 appears.

10          MR. MAZZIOTTI: Certainly.

11          DR. GABEL: And would those lines be working  
12 lines, revenue producing lines? The reason I ask  
13 this is because, as you know, included in the model  
14 is a utilization factor.

15          MR. MAZZIOTTI: Right, yeah. What that  
16 would represent would be installed lines, and then  
17 the conversion of that installed lines to be  
18 recovered over the working lines is accomplished by  
19 the application of the utilization factor, which is  
20 no different than how we do the ports.

21          DR. GABEL: Okay. Then could you also point  
22 to me where the appropriate utilization --

23          MR. MAZZIOTTI: It's the same one that's in  
24 the study.

25          JUDGE MACE: I want to make sure I

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1 understand what this bench request is. You're  
2 requesting the total investment, total number of  
3 installed lines?

4 DR. GABEL: Yes, and utilization.

5 JUDGE MACE: And utilization.

6 DR. GABEL: On the lines.

7 JUDGE MACE: And that's Bench Request Number  
8 Seven.

9 MR. MAZZIOTTI: Now, would you like that per  
10 -- separate per technology or just rolled up?

11 DR. GABEL: Just rolled up.

12 MR. MAZZIOTTI: You got it.

13 DR. GABEL: Mr. Mazziotti, in response to  
14 another question from Mr. Kopta, I understood you to  
15 state that you could have a decline in business from  
16 -- in a business district and an increase in access  
17 lines in a suburban area, and because of that  
18 increase in the suburban area, you'd still need to go  
19 out and acquire facilities. Why couldn't you  
20 transport the equipment from the business district  
21 over to the suburban area?

22 MR. MAZZIOTTI: I would say that's just a  
23 cost thing, because it would be -- it would shock me  
24 if you had a decline in an area and you exactly  
25 cleared out entire frames to manually re-home people

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1 and, you know, groom the switch, so to speak. To  
2 say, you know, I have 10 free over here and 10 free  
3 over there and 20 free over there and just move them  
4 all into one place and free up a unit is very labor  
5 intensive. And it's probably just easier, cheaper  
6 and cheaper to just start with a brand new unit.

7 DR. GABEL: And in this exchange with Mr.  
8 Kopta, I understood you were referring to ARMIS line  
9 counts. Am I correct about that, when you were  
10 looking at --

11 MR. MAZZIOTTI: Well, he was referring to  
12 the ARMIS line counts in the part of the testimony.

13 DR. GABEL: And do you know, does the ARMIS  
14 line count includes UNE loops, UNE or UNE-P  
15 customers, or is it just your retail customers?

16 MR. MAZZIOTTI: Oh, no, it's all switch --  
17 first of all, I wouldn't include UNE loops, because I  
18 believe the number he was referring to was switched  
19 lines, but it would -- I believe, and I guess I can  
20 take this subject to check, that, you know, the ARMIS  
21 counts are total demands on the switch and they're --

22 DR. GABEL: Yes, if you would check that to  
23 ensure that the switch line includes UNE-P customers?

24 MR. MAZZIOTTI: Sure.

25 DR. GABEL: And if it excludes UNE-P



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1 customers, to provide the same data, but after adding  
2 in the UNE-P lines.

3 MR. MAZZIOTTI: Okay.

4 JUDGE MACE: We'll make that part of Bench  
5 Request Number Seven.

6 DR. GABEL: My last area of questioning, and  
7 I'm not sure that you're the right panel. I asked  
8 Mr. Jones about this. And that is with the  
9 adjustment to the annual charge factor, are all  
10 services modeled. And I'd asked him, for example,  
11 does the Verizon cost model estimate the cost of  
12 certain private line services, such as an alarm  
13 service? Are you familiar enough with --

14 MR. MAZZIOTTI: Certainly not with private  
15 line. I am the switching witness. I --

16 DR. GABEL: Okay. All right. So that's all  
17 the questions that I have.

18 JUDGE MACE: Thank you.

19

20 E X A M I N A T I O N

21 BY CHAIRWOMAN SHOWALTER:

22 CHAIRWOMAN SHOWALTER: I just have a  
23 conceptual question, and I'm not sure which, if any  
24 of you, is the appropriate to ask, but I'm thinking  
25 of what happens to a per unit cost, whether that's

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1 per line or minute of use cost if VoIP develops and  
2 bypasses the switch. First of all, am I correct that  
3 VoIP does bypass the switch?

4 MR. WEST: Yes, I mean, VoIP, or Voice over  
5 Internet Protocol, as that service becomes more  
6 prevalent, there will be less demand on the local  
7 switch network.

8 Now, how that impacts the rates that are at  
9 issue today is a cost question that I believe Mr.  
10 Mazziotti may or may not be able to answer, but it's  
11 certainly in his sandbox.

12 CHAIRWOMAN SHOWALTER: And before you answer  
13 that, that is where I was going. What account is  
14 being taken of that phenomenon today, but what does  
15 it mean for the future if VoIP, for example,  
16 accelerates more quickly than one is thinking? Does  
17 it mean the depreciation lives should be revised or  
18 the company should come back in here with another  
19 cost docket sooner or is it somehow anticipated  
20 today?

21 MR. MAZZIOTTI: Well, let me, just as a  
22 general costing matter, certainly a cost study is  
23 done at a point in time using the best intelligence  
24 in forecasting that we have going forward. Should  
25 something enter the market and cause a paradigm

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1 shift, I mean, it's kind of like all bets are off.  
2 It would be like saying what if the mill closes in  
3 town and everybody moves out and, you know, we didn't  
4 anticipate that. So to make it a VoIP thing is not  
5 -- there's nothing, I guess, exclusive about VoIP.  
6 It's simply looking at what happens if the demand we  
7 forecasted doesn't materialize. And I guess the  
8 short answer is we lose money.

9           You know, we have taken these costs, we will  
10 incur these costs and build a network. That network  
11 has a -- we divide by a demand and, I mean, say we  
12 divide it by 100 units, and if we only sell 80 units  
13 because we misforecasted or something happened, we  
14 only get 80 percent of the money. So I mean, to that  
15 extent -- now if you get into the VoIP, again, I  
16 guess it gets down to when you say it takes off, how  
17 does it take off, what does it impact?

18           I mean, it's really -- certainly, if it  
19 becomes a replacement for circuit switching and such  
20 that companies start abandoning circuit switching and  
21 going to circuit switching, yes, absolutely, we'd be  
22 looking at shorter depreciation lives because we'd be  
23 retiring these switches and they'd be going out the  
24 door.

25           That, I guess, is different from what

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1 happens if someone else comes in with voice over IP,  
2 sets up competitive voice over IP and steals traffic  
3 off of our network. You know, I don't -- you lose  
4 money. And yeah, we should probably come in and --  
5 if things changed that drastically, it's time to  
6 re-look at things. I mean, that's --

7 MR. WEST: I mean, I agree with everything  
8 he said. And I would add, though, there will be  
9 competitors who come in with VoIP. I mean, AT&T has  
10 already announced, MCI has announced, there's a whole  
11 litany of companies that are rolling out nationwide  
12 VoIP.

13 And it does weigh on depreciation lives,  
14 along with all the other intermodal challenges  
15 Verizon faces. I mean, we lose customers to  
16 wireless, we lose customers to other Internet  
17 services, like e-mail, and it just -- it's just  
18 common sense that, as the entire marketplace becomes  
19 more and more competitive, that the luxury of the  
20 very long depreciation lives in the past have got to  
21 fall by the wayside. The technology is just going to  
22 keep evolving at a faster clip.

23 CHAIRWOMAN SHOWALTER: All right. But in  
24 any event, though, in this proceeding, certain  
25 forecasts and assumptions have been made about the

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1 use of the system in terms of number of switches and  
2 lines and minutes, and to the extent that they are  
3 not accurate, you could over-recover or  
4 under-recover, but to the extent something like VoIP  
5 accelerates in a way that you did not anticipate, all  
6 other things being equal, your numbers are basically  
7 conservative. That is, that, to the extent that  
8 technology provides alternatives to the system that  
9 you're costing right now, it would drive the unit  
10 costs up over time. Is that correct?

11 MR. WEST: I think that's true. If you have  
12 the same system and, obviously, you know, fewer  
13 minutes of use being used and you still need to pay  
14 for the same system, that seems to make sense.

15 CHAIRWOMAN SHOWALTER: Now, Verizon, as you  
16 point out, may be its own beneficiary of that, but if  
17 you were looking at simply either switching costs,  
18 which I think your point is the switching cost  
19 doesn't change, but the minutes of use or lines that  
20 support the switch could change?

21 MR. MAZZIOTTI: Yeah, I mean, if we were to  
22 go in and redo a new study with lower -- lower  
23 demand, things might change, but, you know, once its  
24 out there, once it's in the ground, you know, I mean,  
25 we've done this study and we don't change it, we'll

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1 end up losing revenue. I think one of the things we  
2 have to keep in mind, though, is while you -- it  
3 won't be a perfect contraction as demand goes away,  
4 because we still have the wireline network as the  
5 carrier of last resort, universal service, you know.  
6 We will tend to see a loss in minutes a lot more than  
7 we see a loss in -- accelerating more than a loss in  
8 lines, even people with VoIP and other things.

9           As much as people are using their cell  
10 phones more and more, there's not -- there's some,  
11 but it hasn't been a mass exodus of people ripping  
12 the phone off their wall and using their cell phone a  
13 hundred percent, because while it can provide a more  
14 economic long distance and, you know, various things,  
15 people still like to have that phone there and, you  
16 know, when the tornado hit yesterday and hope the  
17 phone still works and, you know, it's, you know,  
18 steady Freddy there. It's always there and people  
19 have that, you know, opinion of it.

20           So you know, I don't know how quickly you're  
21 going to see the circuit switch network disassembled  
22 in the face of some of these newer technologies, and  
23 lower usage on it is going to drive up -- you know,  
24 it's going to cause a loss of scale and scope  
25 efficiencies and drive up costs, too.

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1 CHAIRWOMAN SHOWALTER: Thank you.

2 JUDGE MACE: Commissioner Hemstad.

3 COMMISSIONER HEMSTAD: I have no questions.

4 COMMISSIONER OSHIE: I have no questions.

5 JUDGE MACE: Mr. Kopta.

6 MR. KOPTA: Nothing.

7 JUDGE MACE: Ms. Smith.

8 MS. SMITH: No.

9 MS. SMOTHERGILL: No redirect.

10 JUDGE MACE: Great. Thank you. You're  
11 excused.

12 MR. WEST: Thank you, Your Honor.

13 MR. MAZZIOTTI: Thank you.

14 JUDGE MACE: Let's be off the record.

15 (Discussion off the record.)

16 JUDGE MACE: One more thing on the record,  
17 and that had to do with this bench request of -- Dr.  
18 Gabel talked with you about the ISDN issue and the  
19 retail rate for ISDN.

20 (Discussion off the record.)

21 JUDGE MACE: There's one additional item,  
22 and that has to do with cross exhibits for Mr.  
23 Flesch. AT&T had presented exhibits marked 156  
24 through 159 for cross exhibits for that witness. Is  
25 there any objection to the admission of those --

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1 well, you offer those exhibits; is that correct?

2 MR. KOPTA: We do, Your Honor.

3 JUDGE MACE: Is there any objection to the  
4 admission of those exhibits?

5 MR. RONIS: There is not.

6 JUDGE MACE: All right. Thank you.

7 (Proceedings adjourned at 4:26 p.m.)

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