EXHIBIT ___ (TKM-T60)

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of the Continued Costing and Pricing of Unbundled Network Elements, Transport, Termination, and Resale	**Docket No. UT – 003013** ***Part E***

DIRECT TESTIMONY OF

TERESA K. MILLION

ON BEHALF OF

QWEST CORPORATION

SEPTEMBER 5, 2002

EXECUTIVE SUMMARY

The direct testimony of Teresa K. (Terri) Million presents the Qwest Operational Support Systems Cost Studies for transition or start-up costs incurred by Qwest during years 2000 and 2001. Her testimony provides support for the validity of Qwest's nonrecurring rates for Operations Support Systems, and addresses specific issues related to time and motion studies raised by the Washington Utilities and Transportation Commission in its 32nd Supplemental Order in Part B of this docket.

Ms. Million discusses the Operations Support Systems Cost Studies and explains:

- what Operations Support Systems costs Qwest seeks to recover;
- why Qwest is entitled to recover such costs;
- why such costs are not recovered through expense factors;
- how Qwest developed the demand used in the calculation of the rates; and
- why it is inappropriate to require Qwest to file time and motion studies.

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IDENTIFICATION OF WITNESS

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Teresa K. (Terri) Million. My business address is 1801 California Street, Room 2050, Denver, Colorado 80202.

Q. PLEASE IDENTIFY YOUR EMPLOYER AND EXPLAIN YOUR POSITION AND RESPONSIBILITIES.

A. I am employed by Qwest Services Corporation as a Director, Service Costs/Cost Witness in the Policy and Law department. In this position, I am responsible for preparing testimony and presenting Qwest Corporation's cost studies in a variety of regulatory proceedings.

Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY BEFORE THE WASHINTON UTILITIES AND TRANSPORTATION COMMISSION?

A. Yes. I submitted direct testimony regarding the recovery of OSS (Operations Support Systems) costs in Part A of this docket, as well as direct and rebuttal testimony in Parts B and D. In addition, I have testified before this Commission in Parts A, B and D.

PURPOSE OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. The purpose of my testimony is to present the results of the cost study and corresponding recovery mechanism of the unbundled network element (UNE) represented by Qwest's Operations Support Systems (OSS). I will also address the specific issue raised by the Washington Utilities and Transportation Commission (Commission) in its 32nd Supplemental Order[1] regarding its preference

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[1] 32nd Supplemental Order; Part B Order; Line Splitting, Line Sharing Over Fiber Loops; OSS; Loop Conditioning; Reciprocal Compensation; and Nonrecurring and Recurring Rates for UNEs, Docket No. UT-003013, Part B, rel. June 2002.

for Qwest to utilize time and motion studies to validate the estimates used to produce its nonrecurring costs.

<u>OSS COST RECOVERY</u>

Q. IS QWEST ENTITLED TO RECOVER START-UP OSS COSTS?

A. Yes, Qwest is entitled to recover its start-up OSS costs. The Commission has previously discussed several reasons, including those listed below that support the Commission's determination that Qwest is entitled to recover OSS start-up costs.

<u>OSS is a UNE</u>.

This Commission stated in its 17th Supplemental Order[2] that "[t]he Act does not state that an ILEC or its retail customers should subsidize the price of UNEs. Rather, the Act provides that when a CLEC orders a UNE, it shall pay a fair and just price, which will compensate the ILECs for its reasonable costs." The FCC confirmed in its Third Report and Order[3] that OSS is considered a UNE under Section 251 of the 1996 Act. In their comments, parties "argue[d] that OSS qualifies as an independent unbundled network element…"[4] Therefore, Qwest is entitled to seek recovery for its OSS UNE costs as permitted under the Act.

<u>System Modifications are Required</u>.

This Commission has stated that "[w]hile Congress required the ILECs, such as Qwest, to open up their networks to competition, it also sought to ensure that they would be compensated for

[2] 17th Supplemental Order; Interim Order Determining Prices; Notice of Prehearing Conference, Docket Nos. UT-096369; -370; -371, rel. Aug. 30, 1999, ¶ 100.

[3] Third Report and Order and Fourth Further Notice of Proposed Rulemaking, CC Docket No. 96-98 (rel. November 5, 1999), confirming ¶ 516 of the First Report and Order, *Implementation of the Local Competition Provisions of the Telecommunications Act of 1996*, CC Docket No. 96-98 (rel. August 8, 1996).

[4] *Id*. at ¶ 423.

reasonable costs incurred as a result of their efforts to comply with this mandate."[5] In discussing OSS as a UNE, the FCC confirmed that it "also required incumbent LECs to make modifications to their OSS as necessary in order to offer nondiscriminatory access to these functions, including access to interface design systems."[6] The FCC described interface design systems as "an electronic gateway used to electronically access OSS information such as telephone number, address validation, order receipt notice, etc."[7] By identifying OSS as a UNE, then obligating ILECs to provide electronic interfaces and modify their OSS to accommodate the CLECs, the FCC placed start-up costs for OSS development and enhancement into the category of an ILEC's recoverable UNE costs. The FCC, in its Line Sharing Order supports this position.[8] Qwest is not seeking to recover the costs incurred to modify its OSS in support of line sharing in this proceeding as those costs were addressed in Part A of this docket. However, Qwest does seek recovery for the additional costs it has incurred to modify its OSS in support of other UNEs.

OSS Start-up Costs Relate Solely to Qwest's Obligation to Provide UNEs.

In addition to modifying and enhancing its existing OSS, Qwest has provided electronic interfaces for pre-ordering, ordering, provisioning, maintenance and repair, and billing for the sole purpose of enabling CLECs to enter the local market. As explained in detail in the testimony of Ms. Albersheim, but for the provisioning of the OSS UNE, the start-up costs that Qwest seeks to recover would not have been incurred. Therefore, Qwest is entitled to seek recovery of the start-up costs related to the OSS UNE.

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[5] See 17th Supplemental Order at ¶ 98 (Emphasis added).
[6] See Third Report and Order at ¶ 421 (Emphasis added).
[7] *Id*. at ¶ 421, see footnote 823.
[8] Fourth Report and Order, CC Docket No. 96-98 (rel. December 9, 1999), at ¶ 144, states "We find that incumbent LECs should recover in their line sharing charges those reasonable incremental costs of OSS modification that are caused by the obligation to provide line sharing as an unbundled network element." (Emphasis added).

Q. ARE OSS TRANSITION OR START-UP COSTS RECOVERED THROUGH EXPENSE FACTORS?

A. No. The recovery rate for start-up costs submitted in this proceeding is based on information technology expenses incurred in 2000 and 2001. Costs approved by the Commission have cost factors based on pre-2000 data. The amount of information technology expense that is supported by the approved factors was based on levels of expense incurred prior to the start of the development and enhancement activities related to OSS. In addition, since 1999 annual charge factors have been adjusted to explicitly remove OSS expenditures from the factors calculation. This specific exclusion ensures that no OSS costs are recovered through the current factors used to calculate the rates proposed in this proceeding. Therefore, OSS start-up costs cannot be included in the level of cost recovery supplied by the annual charge factors.

Q. CAN QWEST DEMONSTRATE THAT IT HAS "BACKED-OUT" OSS DEVELOPMENT EXPENSES PRIOR TO CALCULATING ITS ANNUAL CHARGE FACTORS?

A. Yes. Since 1999, Qwest has made an adjustment to back-out the OSS development expenses prior to calculating its annual charge factors. The details of this adjustment, along with numerous others, can be found on a worksheet within the model that calculates Qwest's factors.

Q. IS IT QWEST'S POSITION THAT ITS ANNUAL CHARGE FACTORS DO NOT ALLOW RECOVERY OF ANY OF THE OSS DEVELOPMENT COST?

A. Yes. Because of the adjustments in the calculation of the annual charge factors described above, the factors used to calculate the currently proposed UNE rates do no allow recovery of any of the OSS development costs presented in this proceeding.

Q. HAVE THE OSS DEVELOPMENT COSTS BEEN RECOVERED THROUGH QWEST'S RETAIL RATES?

A. No. This is because the retail rates in Washington are based on a 1997 rate case that included costs incurred before the period (i.e., 2000 and 2001) for which Qwest seeks recovery of its OSS development and enhancement costs. In its 17th Supplemental Order[9] directing Qwest to make its filing in Part A of this docket, the Commission ordered: "Both ILECs also must address and be able to defend their determination of the degree to which these costs have already been recovered through their retail rates."

As discussed previously, this Commission has accepted that OSS is a UNE. The Telecom Act and the FCC have directed the states to determine reasonable compensation for the provision of all UNEs. This compensation is independent from the determination of recovery of costs for retail services, especially when the form of regulation is rate-of-return for retail services, as is currently the case in Washington. In fact, the Act and the FCC have been quite specific in stating that UNE rates are not to be determined in rate-of-return proceedings.[10]

Recovery through retail rates should not be an issue in this type of proceeding. This is because the question of whether Qwest has recovered this OSS UNE cost, or any other UNE cost, in its retail rates is essentially one of whether Qwest earned less, or more than, its revenue requirement. It also raises additional questions regarding how much of what costs were recovered from which customers (i.e., retail or wholesale). Since UNE revenues are recorded on the books as intrastate revenue, revenues generated from wholesale customers for UNEs would function to offset revenues required from retail customers to earn the authorized rate-of-return.

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[9] See 17th Supplemental Order at ¶ 110.
[10] First Report and Order at ¶ 704.

While these issues may reasonably be examined in an investigation of Qwest's rate-of-return, the Commission agreed in Part A[11] that they are not appropriate for an interconnection and UNE cost proceeding such as this. Nevertheless, rates paid by retail customers in the state of Washington would not have included recovery for Qwest's 2000 and 2001 OSS costs.

Q. CAN QWEST ILLUSTRATE HOW OSS COSTS ARE ATTRIBUTABLE TO PROVIDING CAPACITY AND CAPABILITIES ONLY TO THE CLECS, AND HOW THESE CAPABILITIES ARE REQUIRED BY THE TELECOM ACT OR BY FCC DECISIONS?

A. Yes. Ms. Albersheim's testimony provides information about each project undertaken by Qwest for 2000 and 2001 to meet the requirements for the OSS UNE. The information includes a description of the capability developed for the CLECs by each project. These descriptions demonstrate that in each case there is a direct connection between the projects and the requirements of the Act or FCC rules with which Qwest must comply. In addition, Ms. Albersheim explains why each project does not provide benefit to Qwest, thereby evidencing that it would not have been undertaken but for the provisioning of the OSS UNE.

Ms. Albersheim's testimony provides a detailed description of each OSS start-up project for which Qwest seeks recovery, including the method for tracking expenses and the dollar amount related to each project. The project descriptions also show how each project relates to the five functions of OSS enumerated by the FCC:[12] pre-ordering, ordering, provisioning, repair and maintenance, and billing. Finally, Ms. Albersheim describes how these projects are caused only by the needs of the CLECs and to provide systems that are for use by the CLECs, and not Qwest.

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[11] 13th Supplemental Order; Part A Order Determining Prices for Line Sharing, Operations Support Systems, and Collocation, Docket No. UT-003013, rel. January, 2001, at ¶162.

[12] *Id*. at ¶ 425.

Qwest's OSS costs can be related directly to the development and enhancement of its OSS, and include training and testing associated with those activities. In addition, Qwest provides the assumptions upon which it bases its development of the forecasted number of Local Service Requests (LSRs) and Access Service Requests (ASRs) used to determine its rate. Qwest believes that this submission, similar to its submission in Part A of this docket, will provide the Commission with the information it needs to determine the appropriateness of the OSS start-up rate.

ANALYSIS OF OSS COSTS

Q. WHAT OSS COSTS DOES QWEST SEEK TO RECOVER IN THIS PROCEEDING?

A. Qwest is filing for recovery of OSS costs incurred for years 2000 and 2001 as provided for in the Commission's 35th Supplemental Order.[13] These costs are associated with the start-up or development and enhancement of Qwest's OSS to accommodate CLEC access and processing through OSS and are referred to in the order as transition costs. The rates proposed for recovery of its start-up costs are derived from the costs captured by Qwest's Information Technologies organization by project for 2000 and 2001, as reflected in the testimony of Ms. Renee Albersheim.[14] Total region-wide start-up costs captured by Information Technologies include $158,134,430 of expenses, and $9,511,370 of capital expenditures. The $158 million of expenses has been input into the OSS cost study on the basis of today's dollars resulting in $173,362,776 million of start-up expenses that Qwest seeks to recover. The capital expenditures have been calculated on a present value basis (using 9.63% as cost of money and a six year life), resulting in $10,427,315 million of start-up capital that Qwest seeks to recover.

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[13] 35th Supplemental Order; Prehearing Conference Order; Granting Intervention of Pac-West Telecomm, Inc.; Narrowing of Issues; Notice of Part E Prehearing Conference, Docket No. UT-003013, Part E, rel. July 2002.

[14] The expenses related to OSS enhancement and development are primarily accounted for in account 6724, Information Management.

Please refer to Exhibit TKM-61 for the cost study (Study ID # 6850) used to develop the costs Qwest seeks to recover for OSS and the underlying detail used to determine the proposed rates.

Q. DOES QWEST SEEK TO RECOVER COMMON OR SHARED COSTS?

A. Qwest does not seek to recover common cost for these specific expenditures. OSS is a UNE. The FCC permits inclusion of common costs in determining the appropriate recovery rates for UNEs. Nevertheless, Qwest does not seek to recover common or shared costs associated with its OSS start-up costs. In distinguishing these costs from the costs developed for other UNEs, Qwest recognizes that the OSS start-up costs it seeks to recover are costs incurred since the passage of the Act and are unique. Therefore, consistent with its calculation of OSS cost in Part A of this docket, Qwest will not seek recovery for start-up costs beyond its direct and attributable costs for development and enhancement activities.

Q. WHAT RATES DOES QWEST PROPOSE TO USE FOR RECOVERY OF ITS OSS COSTS?

A. Qwest believes that it is appropriate to recover its OSS costs with two rates, one for start-up costs and one for ongoing maintenance costs. Permanent rates for ongoing maintenance costs were established in Part A of this docket. Therefore, Qwest does not address those costs further in this proceeding. However, this Commission directed Qwest in its 17th Supplemental Order[15] to make a compliance filing that identified separate rates for "… IMA, or manual ordering, and EDI, or electronic ordering." The Commission went on to say that establishing separate rates for manual and electronic access reflects the cost of service. Although, Qwest took steps to identify separate rates for IMA (including manual orders) and EDI in Part A, the Commission determined a single, combined rate per LSR for recovery of Qwest's 1997 to 1999 OSS costs. Therefore, consistent

[15] See 17th Supplemental Order at ¶ 112.

with the Commission's determination in Part A of this docket, Qwest has developed a single, combined rate per LSR or ASR for recovery of its 2000 and 2001 OSS costs.

It is important for the Commission to recognize that in this proceeding, as before, Qwest seeks to recover only the systems-related costs for OSS, which includes the systems modification costs and interfaces associated with the various methods of ordering. These costs are not driven by transactions such as the placing of orders, rather the orders serve as a mechanism for recovering OSS costs. There are no processing costs, manual or otherwise, included in Qwest's rates for start-up. Qwest submits $30.16 as the rate for its 2000 and 2001 OSS start-up costs.

Q. WHY IS QWEST USING LSRS AND ASRS TO DETERMINE ITS OSS START-UP RATE?

A. In its 13th Supplemental Order[16] the Commission rejected Qwest's proposed service order cost recovery mechanism and instead determined that Qwest should use LSRs as its mechanism to recover costs, consistent with Verizon's cost recovery mechanism. In this proceeding, Qwest recommends that its OSS charges be extended to ASRs, as well. To do otherwise would create or sustain a discriminatory situation such that CLECs who process orders for products requiring the submission of LSRs are charged for the costs of OSS, whereas CLECs who process orders for products requiring the submission of ASRs are not. Yet, as detailed in the testimony of Ms. Albersheim, some of the projects that have been undertaken to establish OSS for use by the CLECs are specifically related to orders submitted via ASRs. The fact is that all CLECs make use of the OSS that Qwest has developed at some point in the provisioning process. Even the orders still submitted to Qwest via facsimile are processed through the electronic systems once they have been input by a Qwest employee into the appropriate application. Thus, it would be inappropriate

[16] 13th Supplemental Order at ¶158.

for the Commission's ordered rate for OSS to apply to some but not all of the CLECs that access Qwest's OSS.

Q. PLEASE DESCRIBE THE ASSUMPTIONS USED TO DEVELOP QWEST'S FORECASTED NUMBER OF LSRS AND ASR USED TO DETERMINE ITS RATES.

A. Qwest's forecasted number of LSRs and ASRs from the CLECs were determined, first, by tracking the actual number of LSRs/ASRs placed by the CLECs during the recent twelve-month period ended July 2002. The number of LSRs/ASRs were then forecasted for the succeeding 5 years using forecasted growth rates developed by product management for specific products or product lines for years 2003 through 2007. For example, after determining the actual number of ASRs submitted for DS0 UNEs, the annual growth rates developed by product management for DS0 were applied to calculate the forecasted number of ASRs expected for DS0 UNEs through 2007. The product-specific growth rates are used by Qwest for a variety of purposes including as a basis for revenue projections, and network planning for capital budgets. Thus, the LSR/ASR forecasts used to calculate the per-unit cost of OSS represent Qwest's best estimate of the volume of demand for UNEs going forward.

Q. PLEASE EXPLAIN WHY THE COST-OF-SERVICE FOR OSS START-UP COSTS WOULD NOT CHANGE IF QWEST'S BILLING SYSTEM COULD HANDLE MULTIPLE UNES ON A SINGLE ORDER.

A. As I have discussed above, the costs that Qwest seeks to recover for it OSS UNE are related to the systems modifications and interfaces that Qwest has developed and implemented to satisfy FCC requirements for OSS. These costs are not driven by, nor are they related to, the processing of particular transactions. In other words, there are no processing or transactions costs included in the OSS UNE. Rather the OSS UNE costs are the result of Qwest's efforts to modify, enhance and develop its OSS since the passage of the Act, in particular those costs incurred during 2000 and 2001, for the benefit of the CLECs. LSRs and ARSs are merely a mechanism chosen for recovering the OSS costs.

The processing of one UNE or multiple UNEs on a single order will not change the cost-of-service. The reason for this is that the OSS costs are not transaction related. Therefore, the demand (i.e., number of orders) used to calculate the per unit rate impacts the rate but not the total amount that Qwest seeks to recover. For example, assume Qwest recovers $100 of its OSS costs over a demand of 100 LSRs/ASRs (i.e., 1 UNE per order), the rate per order will be $1. If that same $100 is recovered over a demand of 20 LSRs/ASRs (i.e., 5 UNEs per order), the rate per order will be $5. In the end, Qwest will still collect $100 of its OSS costs, the rate simply determines how quickly Qwest recovers its $100.

Q. DURING PART A OF THIS DOCKET QWEST RECOMMENDED USING SERVICE ORDERS AS THE MECHANISM FOR RECOVERING OSS COSTS. HAS QWEST DETERMINED WHAT THE OSS CHARGE WOULD BE PER SERVICE ORDER?

A. Yes. During Part A of this docket, Qwest advocated that service orders be used as the cost recovery mechanism for OSS charges. This advocacy was based on a belief that Qwest continues to hold that service orders provide the best method for spreading the cost of OSS to the CLECs that are using the OSS. This is because service orders represent the "lowest common denominator" for determining the access CLECs are being provided to the various OSS. Thus, Qwest continues to estimate a charge for OSS on the basis of service order demand, in addition to the charge discussed above that is based on demand for LSRs/ASRs. However, unlike the service order demand that resulted from Qwest's estimates during Part A, the service order demand determined in this part of the proceeding is based on Qwest's experience with the relationship of actual service orders to actual LSRs and ASRs. This relationship provides an estimate of approximately 1.5 service orders for every LSR or ASR, on average. The increase in demand that results from reflecting the forecast of LSRs/ASRs at a per-service-order level produces an OSS charge of $20.30.

Q. IS QWEST ASKING THE COMMISSION TO SET ITS CHARGE FOR OSS COST RECOVERY AT EITHER $30.16 PER LSR/ASR OR $20.30 PER SERVICE ORDER?

A. No. While it is Qwest's position that these rates produce an accurate reflection of the costs Qwest has actually incurred during the past two years to complete the development of its OSS for the CLECs, Qwest does not seek to recover those costs at these rates. Qwest recognizes that the CLECs are likely to regard nonrecurring rates such as these as barriers to their entry into the telecommunications marketplace. Qwest believes that such a position fails to recognize that by providing access to its existing OSS, Qwest has already significantly reduced the barriers to entry that the CLECs would have encountered if they had had to pay to recreate the entire suite of provisioning and inventory systems represented by Qwest's legacy systems. The only OSS costs that Qwest seeks to recover are those related to giving the CLECs the ability to access and utilize Qwest's OSS; *not* the costs related to developing, improving or maintaining its underlying OSS. In addition, the CLEC position fails to acknowledge that neither the Act nor the FCC requires that ILECs bear the risk of the CLECs' entry into the market. In discussing Collocation in the Second Report and Order the FCC disagreed with the position that nonrecurring charges necessarily constitute a barrier to entry, stating:

> To the extent that the equipment needed for expanded interconnection service is dedicated to a particular interconnector, we believe that requiring the interconnector to pay the full cost of the equipment up front is reasonable because LECs should not be forced to underwrite the risk of investing in equipment dedicated to the interconnector's use, regardless of whether the equipment is reusable.[17]

[17] CC Docket 93-162, Second Report and Order, Released June 13, 1997, at ¶ 33.

These types of charges do not necessarily constitute a barrier to entry in instances where the ILEC must expend money and resources up front to accommodate CLEC access to a UNE or interconnection service. The CLEC will amortize this cost over the expected customer life and, thus, reduce its impact on the marketing decision.

The expenditure that Qwest has made to provide access to its OSS is such an instance where nonrecurring charges are appropriate. The charges that Qwest has calculated for Washington assume demand over a six year cost recovery period for expenditures already made on behalf of the CLECs. This means that Qwest already bears some of the risk for providing CLEC-access to its OSS by allowing the CLECs to "finance" costs Qwest has already incurred.[18] Requiring these costs to be spread at a lower rate over a longer period of time inappropriately shifts the risk almost entirely to Qwest, forcing it to effectively underwrite a portion of CLECs' costs for providing service to their customers. Nevertheless, Qwest recognizes that in Part A of this docket this Commission determined that Verizon's proposed rate of $3.27 per LSR for OSS cost recovery was just and reasonable, and ordered Qwest to use Verizon's approved rates.[19] Consequently, Qwest is not asking the Commission to set its rate for OSS cost recovery at either $30.16 per LSR/ASR or $20.30 per service order.

Q. WHAT RATE IS QWEST PROPOSING IN THIS PROCEEDING FOR RECOVERY OF ITS OSS COSTS?

A. In light of Qwest's significant additional expenditures during 2000 and 2001 for development of its OSS to meet CLEC needs, and the Commission's prior rejection of Qwest's proposal to use service orders as the recovery mechanism, Qwest proposes to increase the charge for OSS transition costs from $3.27 per LSR to $6.50 per LSR/ASR. This proposal is based on the fact that the rate resulting from Qwest's increased expenditures (i.e., $20.30 per service order) is

[18] Given the recent failures of CLECs, this risk element appears to be quite real.
[19] 13th Supplemental Order at ¶ 157.

roughly double the amount of an average of the separate rates proposed by Qwest in Part A of this docket.[20] Therefore, Qwest believes that the evidence in the current record will support a rate for OSS transition costs that is nearly twice the rate the Commission ordered in Part A.

The Commission rejected Qwest's Part A submission, not on the basis that Qwest had not actually incurred the costs it claimed, but instead on the basis that those costs were not just and reasonable. As a result, the Commission ordered Qwest to use a rate based not on Qwest's costs for development and enhancement of its OSS, but based on Verizon's costs. The Commission went on to cap Qwest's OSS recovery at $8.6 million despite evidence that Qwest's expenditures in Washington were approximately $21.2 million.[21] As Qwest explained to the Commission in Part A, at a rate of $3.27 per LSR it will take many, many years for Qwest to recover even the $8.6 million in Washington that the Commission has allowed. Now Qwest has expended millions of additional dollars, and without a corresponding increase in both the cap and the amount to be recovered, Qwest would be forced to "finance" the CLECs entry into the marketplace for many more years, at a time when Qwest's own ability to sustain its business is questioned almost daily in the news media. Thus, Qwest proposes to increase the charge for OSS transition costs from $3.27 per LSR to $6.50 per LSR/ASR. Under the circumstances of the demonstrated additional expenditures and the Commission's prior finding in Part A, Qwest believes a rate of $6.50 per LSR/ASR to be a just and reasonable rate for recovery of its OSS transition costs.

Q. DOES QWEST HAVE AN ALTERNATIVE PROPOSAL IF THE COMMISSION WERE TO DECIDE TO MAINTAIN QWEST'S OSS CHARGE AT $3.27?

A. Yes. As discussed above, Qwest believes that it is inappropriate and discriminatory for the Commission to continue to allow the OSS charge to be levied only on a per LSR basis. Therefore,

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[20] *Id.* at ¶ 145.
[21] *Ibid.*

Qwest proposes to expand the OSS charge to include both LSRs and ASRs. In addition, based on the significant additional expenditures incurred during 2000 and 2001, Qwest believes that in the alternative the Commission should increase the cap on OSS cost recovery to include Washington's share of the $183.8 million.

Washington's allocated share of corporate expenses and capital expenditures for the most recent three-year period is 14.3% and 14.7%, respectively. When these percentages are weighted together on the basis of the relationship of expenses and capital expenditures to the total $183.8 million of OSS costs, the resulting allocation for Washington is 14.32%. This results in Washington's share of the total OSS expenditures being $26,318,741 ($183,790,091 x 14.32%). Thus, Qwest proposes that in addition to extending the OSS charge to both LSRs and ASRs, the Commission should increase the cap on OSS cost recovery from $8.6 million to $34.9 million.

TIME AND MOTION STUDIES

Q. WHAT DID THE COMMISSION SAY ABOUT TIME AND MOTION STUDIES IN ITS 32ND SUPPLEMENTALORDER IN PART B?

A. At paragraph 51 of the 32nd Supplemental Order in Part B the Commission directed Qwest and Verizon to "file updated nonrecurring cost studies supported by time and motion studies that reflect decreased work times that have been achieved through their increasingly mechanized processes." However, as discussed in both my Part D direct and rebuttal testimony, Qwest's nonrecurring cost studies already reflect time estimates based on increasingly mechanized processes. In fact, Qwest's subject matter experts (SMEs) are instructed to prepare time estimates based on mechanization that Qwest anticipates achieving in the next 12 to 18 months. In addition, Qwest notes that the Commission's order was released in June 2002, and Qwest was directed to file its Part E testimony less than two and a half months later on September 5, 2002. Qwest has cost studies for hundreds of nonrecurring rate elements. Thus, even if Qwest believed that time and motion studies were appropriate to provide support for its cost studies, it would have been impossible to conduct them in the time allotted. Finally, Qwest notes that this issue remains under reconsideration by the Commission. Therefore, Qwest has not provided either updated nonrecurring cost studies, or supporting time and motion studies as part of its filing for Part E of this docket.

Q. WHY DOES QWEST BELIEVE THAT IT IS INAPPROPRIATE FOR THE COMMISSION TO REQUIRE IT TO PERFORM TIME AND MOTION STUDIES?

A. As discussed in my supplemental rebuttal testimony filed in Part D, Qwest discontinued its practice of conducting time and motion studies, years before the passage of the Telecommunications Act of 1996, in the face of pressures to reduce costs and eliminate activities that were viewed as not adding sufficient value. Properly conducted time and motion studies required several experienced people to observe several other people performing their work for as much as 40 hours in each of several work centers where work was performed. This resulted in significant cost to the corporation to conduct such studies, caused disruption and anxiety for the employees being observed, and did little more than confirm SME time estimates for work activities. Therefore, Qwest has only performed limited studies for specific projects since it discontinued the practice of conducting time and motion studies, generally.

This is, in part, because time and motion studies are most effective in measuring repetitive, assembly-line type functions. However, Qwest's work activities are often complex and variable; thus, difficult or impossible to measure through direct observation. Performance of time and motion studies for the activities included in Qwest's nonrecurring studies require a great deal of time to capture the variety of scenarios that arise during a typical workday. Even then, observations recorded during a snapshot in time might not provide an accurate reflection of the activities actually taking place in the real world over a period of time. Thus, Qwest believes that it is more reliable and cost-effective to use the forward-looking estimates provided by its experienced SMEs. Based on their experience, the SMEs are able to develop average times that more accurately reflect the overall result of a variety of tasks included in Qwest's nonrecurring cost studies than would be produced through time and motion studies. In the current economic environment, Qwest simply cannot justify the high cost of reinstating such studies with no assurance that Commissions will find the results to be more accurate or statistically valid than the estimates provided by SMEs who have responsibility for the processes.

Q. DO TIME AND MOTION STUDIES PRODUCE FORWARD-LOOKING TIME ESTIMATES?

A. No. Time and motion studies are by definition backward looking and based only on practices and processes that have existed historically. Time and motion studies do not meet the FCC's requirement that TELRIC studies be forward-looking. In contrast, Qwest's methods develop nonrecurring costs based on forward-looking probabilities and time estimates. Qwest's SMEs base their estimates both on their considerable experience and their day-to-day work in the centers where the work steps are performed, as well as their involvement in evaluating and implementing future process and system improvements in their groups. The times estimated include anticipated process efficiencies and mechanization for a 12 to 18 month horizon, and are based on averages for particular functions. Qwest's SME estimates are specifically intended to produce forward-looking time estimates in compliance with the FCC's TELRIC costing principles. Thus, it is difficult to understand any basis upon which time and motions studies would be required, when they are demonstrably in violation of TELRIC principles, and otherwise of limited value. Therefore, Qwest continues to believe that it is inappropriate and unnecessary for the Commission to require time and motion studies to be conducted as support for Qwest's nonrecurring costs.

Q. DO TIME AND MOTION STUDIES ELIMINATE SME OPINION FROM THE TIME ESTIMATES THAT UNDERLIE THE NONRECURRING COSTS?

A. No. Indeed, the only way to cure the "backward looking" nature of a time and motion study would be to engage one or more SMEs to adjust the results of the study to incorporate forward looking assumptions. Furthermore, the only way to conduct a time and motion study of complex and variable activities would be to engage one or more SMEs to adjust the results of the study to incorporate simplifying assumptions and/or probabilities of occurrence for the variables. This would result in a reliance on the opinions of subject matter experts that is as great as it is today.

As explained above, Qwest's SMEs are already instructed to incorporate forward-looking assumptions when they provide their estimates. Additionally, they exclude problems encountered during the processing of the service order, supplements to the initial order, and maintenance and repair times. Time and motion studies would capture all of these additional work times, which would then have to be removed or otherwise adjusted out. Thus, time and motion studies would only serve to increase Qwest's administrative costs at a time when Qwest can ill-afford such increases, yet provide no material benefit to the Commission or the CLECs. Qwest again asks the Commission to reject the various parties' requests that Qwest be ordered to conduct such studies.

CONCLUSION

Q. PLEASE SUMMARIZE YOUR TESTIMONY.

A. Qwest has a right under the Telecom Act to seek recovery for OSS costs like any other UNE. The FCC has clearly identified OSS as a UNE and has confirmed that ILECs are entitled to recover their costs to modify their OSS. My testimony and cost studies, along with the testimony of Ms. Albersheim, have identified, quantified, and described the additional start-up costs that Qwest has incurred for 2000 and 2001 for the development and enhancement of its OSS for use by the CLECs. In addition, I have demonstrated that the costs Qwest seeks to recover are incremental to information technologies costs that it has recovered elsewhere in its UNE rates. In proposing rates for OSS start-up costs Qwest seeks only to recover costs it would not have incurred but for the provisioning of the OSS UNE. Qwest is entitled to recover these OSS UNE costs. Finally, I have explained why Qwest believes that it is unjustified and too costly for it to conduct time and motion studies or submit updated nonrecurring cost studies in this part of the docket.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does.

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of the Continued Costing and Pricing of Unbundled Network Elements, Transport, Termination, and Resale	**Docket No. UT – 003013** ***Part E***

EXHIBITS OF

TERESA K. MILLION

ON BEHALF OF

QWEST CORPORATION

SEPTEMBER 5, 2002

INDEX OF EXHIBITS