I. INTRODUCTION

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND TITLE.

A. My name is Terry R. Dye. My business address is 600 Hidden Ridge Drive, Irving, Texas 75038. I am employed by Verizon Services Group as Senior Staff Consultant-Financial Planning and Analysis.

Q. ON WHOSE BEHALF ARE YOU PRESENTING TESTIMONY IN THIS PROCEEDING?

A. I am presenting testimony on behalf of Verizon Northwest Inc.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND WORK EXPERIENCE.

A. I received a Bachelor of Science in Economics in 1977 and a Master of Arts in Economics in 1979, both from the University of Missouri. Upon graduation, I accepted a full time position with the Missouri Department of Natural Resources as a Planner. In 1981 I accepted employment as an Economist with the Missouri Public Service Commission, where I was assigned to the Rates and Tariffs Section of the Communications Department. I was responsible for the review and preparation of testimony, exhibits and cost support data submitted in support of tariff filings, and for making recommendations based upon that review.

In January 1984, I accepted a position as a Rate Manager in the Economics and Rates Department of the Illinois Commerce Commission. In that capacity I had general rate design responsibility over telephone utility matters in the Rate Design Section.

I joined Contel Telephone Operations in January 1985 as a Senior Financial Analyst in the Pricing Group of the Revenue Department. I was promoted to Pricing Manager in December 1987.

With the merger of Contel and GTE in 1991, I accepted the position of Rate Design Manager with GTE Telephone Operations. From January 1993 to January 1994, I held the position of New Services Manager in the Pricing Department. In 1996, shortly after passage of the Telecommunications Act of 1996 ("the Act"), I was assigned the position of Manager – Pricing Integration, dealing with issues related to the Act. I held this position until the merger of GTE and Bell Atlantic, when I was assigned my current position.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION?

A. Yes. I testified in Phase III of Docket Nos. UT-960369 et. al., the Matter of the Pricing Proceeding for Interconnection, Unbundled Elements, Transport and Termination, Resale, and in Part D of this proceeding.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE ANY OTHER STATE COMMISSIONS?

A. Yes. I have testified on numerous occasions in the area of telecommunications ratemaking and cost methodologies in Missouri, Illinois, South Carolina, West Virginia, New York, Hawaii, Michigan and Oregon. In addition, I have presented testimony in public utility commission proceedings dealing with issues related to the Act in the States of Pennsylvania, Ohio, Illinois, Indiana, South Carolina, Wisconsin, Kentucky, Arkansas, New Mexico, Alabama, Texas, Florida, and New York.

Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?

A. I set forth the Company's proposed rates for the 2000-2001 Operational Support Systems ("OSS") enhancements, based on the costs and demand provided by the other Verizon witnesses, and I explain the pricing methodology used to develop these rates. I demonstrate that Verizon's pricing methodology is reasonable and consistent with the regulatory requirements mandated by this Commission as well as the FCC.

The OSS and National Open Market Center ("NOMC") rates adopted in the Thirteenth Supplemental Order in UT-003013 for the recovery of costs incurred from 1996-1999 and the OSS rates proposed in this Phase of the proceeding are set forth in Exhibit TRD-5. These proposed rates are in the form of non-recurring charges, or "NRCs".

II. OSS PRICING

Q. PLEASE DESCRIBE THE ISSUES ASSOCIATED WITH OSS PRICING.

A. Part E of this proceeding principally addresses issues regarding cost recovery for Verizon's OSS transition costs incurred during 2000-2001. As discussed in the direct testimony of Verizon witness Tom Rodgers, there have been numerous system enhancements that Verizon West[1] has had to undertake during 2000 and 2001 to give CLECs access to the same information that Verizon has in providing service to its end user customers.

The pricing issues relevant to the recovery of these OSS costs include 1) determining the type of rate element that should be applied, 2) the appropriate costs and forecasted units to be used in rate development, and 3) what to do if the actual number of units differs from the forecasted units used to set the prices. These pricing issues are discussed below.

Q. HAS THE COMMISSION ESTABLISHED ANY GUIDELINES FOR THE RECOVERY OF OSS COSTS IN ITS PREVIOUS ORDERS?

A. Yes, it has. In its Seventeenth Supplemental Order, the Commission ruled that an Incumbent Local Exchange Carrier ("ILEC") should be compensated for reasonable

[1] See the description of "Verizon West" at the beginning of Mr. Rodger's testimony.

costs incurred in order to comply with the requirements of the Act to open its network. In particular, the Commission recognized that "[t]he Act provides that when a CLEC orders a UNE, it must pay a fair and just price, which will compensate the ILEC for its reasonable costs." (17th Supplemental Order, ¶ 100). The Commission further concluded that this "cost-causer" principle applies equally to transitional costs and transaction-specific costs, and that the pricing issue was the appropriate quantification of the costs to be recovered. The Commission summarized its position on this issue with the following statement:

> Having found that ILECs are entitled to recover the cost of OSS from CLECs, it remains for the Commission to determine what those costs may reasonably be assumed to be and what the ILECs may reasonably expect to recover.

17th Supplemental Order, ¶ 102.

Based on this guidance, I will discuss below the appropriate OSS costs to be used and the pricing to achieve recovery of these costs from the CLEC.

Q. GIVEN THE BASIC PRINCIPLE DISCUSSED ABOVE, WHAT PRICE STRUCTURE SHOULD BE USED TO RECOVER OSS COSTS?

A. Given that OSS costs should be recovered from CLECs (who are the parties with the demand for services being offered by the newly enhanced OSS), the most efficient pricing structure is one based on access to and use of those systems. Thus, it would be appropriate to establish an OSS charge based on the forecasted number of local service requests ("LSRs") and access service requests ("ASRs") (i.e. requests or orders) accepted by the ILEC to provision services to CLECs. These requests include both UNE and resale orders. It is a relatively straightforward and simple matter to take the total OSS costs and divide them by the total forecasted orders to be generated by CLECs to arrive at the appropriate per order charge. While other measures of demand are possible, this simple calculation provides a reasonable estimate of the rate that would have to be charged in order to recover the total OSS costs.

Q. DID THE COMMISSION ADOPT SUCH A PRICE STRUCTURE FOR VERIZON TO RECOVER ITS 1996-1999 OSS TRANSITION COSTS?

A. Yes. In Part A of this proceeding, Verizon proposed a pricing structure based on Verizon West's total OSS costs divided by the total forecasted CLEC orders for Verizon West. In its Thirteenth Supplemental Order, the Commission adopted Verizon's pricing structure.[2]

Q. WHAT ARE THE APPROPRIATE COSTS TO BE USED IN THE DEVELOPMENT OF THIS NEW PER ORDER RATE?

A. The OSS transition costs have been summarized in Exhibit LR-6C by five service cost categories: 1) Local Wholesale, 2) Network Wholesale, 3) Mechanized Loop Pre-Qualification ("MLPQ"), 4) Line Sharing and 4) Line Shared Unbundled Sub-

[2] Thirteenth Supplemental Order at ¶156.

Loop Arrangement ("LSUSLA"). The amount Verizon is seeking to recover per service category is noted in Table 1.

Mr. Richter demonstrates in his direct testimony that these costs are not recovered in Verizon's other wholesale recurring or non-recurring charges. With respect to recurring charges, the OSS costs are identified, as in this study, and removed from the costs used in calculations for Verizon's recurring costs. As Mr. Richter states, Verizon's recurring cost study, produced by the Integrated Cost Model ("ICM"), used the 1998 expenses as its base year. The 1998 OSS costs were removed from these 1998 expenses. Also the OSS cost study is a separate module in the family of non-recurring cost studies. Therefore, OSS costs are calculated separately from the costs developed in the other modules of the non-recurring cost studies.

It should be noted that OSS enhancement costs are not a function of any specific CLEC activity in Washington, or any other state in which Verizon operates. Rather, these costs are a function of the overall system requirements and level of demand faced by Verizon West. These costs do not reflect the additional costs that will be incurred from 2002 and beyond as Verizon further modifies its systems to comply with regulatory mandates.

Q. ARE THE OSS COSTS VERIZON SEEKS TO RECOVER IN THIS PROCEEDING BEING RECOVERED IN VERIZON'S RETAIL RATES?

A. No, they are not. During 2000 and 2001, some of Verizon's retail rates were adjusted as a result of the settlement of three separate dockets – GTE/Bell Atlantic's merger application (UT-981367), intrastate access reform (UT-990672), and an earnings review (UT-991164). Verizon's 2000 and 2001 OSS transition costs were not included in the Company's retail rates since the test year for the settlement was 1998.

Q. PLEASE DISCUSS VERIZON'S FORECAST OF CLEC DEMAND USED TO DEVELOP THE OSS CHARGES.

A. Verizon's forecast of CLEC LSRs and ASRs across Verizon West during the 2002-2006 period is detailed by rate element in Table 1 below. The unit demand for the Line Sharing, MLPQ and LSUSLA are based on a three-year forecast and the Local Wholesale and Network Wholesale Forecast are based on a five-year forecast. Verizon has proposed to use a recovery period of three years for Line Sharing, MLPQ and LSUSLA service categories of LSRs to better match the life of the products and costs incurred. Verizon continued to use a five-year forecast for the Local Wholesale and Network Wholesale service categories in order to maintain consistency with its cost recovery proposal for the 1996-1999 OSS transition costs that the Commission adopted in its Thirteenth Supplemental Order.

Q. IS THERE ANY UNCERTAINTY ASSOCIATED WITH THE FORECAST OF CLEC DEMAND USED TO DEVELOP THE OSS CHARGES?

A. Yes. The demand estimates detailed in Table 1 are subject to a fair amount of uncertainty. Both in Washington and across Verizon West, Verizon operates in a variety of geographic areas ranging from relatively densely populated urban areas to very rural market areas. For the most part, Verizon West's telephone operations -- as compared to a typical Bell Operating Company -- are more oriented toward serving single line residential and single line business customers in the less urban areas of the United States. However, most CLECs have targeted the larger volume business customers in more urban areas (where the costs of service are lower and the expected contribution levels are higher) rather than the less urban areas served by Verizon West. This gives rise to a substantial degree of uncertainty as to how great the realized demand for UNEs and resale services will be in the areas served by Verizon West.

Q. GIVEN THE COSTS AND DEMAND UNITS DISCUSSED ABOVE, WHAT CHARGES IS VERIZON PROPOSING FOR THE RECOVERY OF OSS TRANSITION COSTS INCURRED FOR THE YEARS 2000 AND 2001?

A. Verizon proposes to charge additional NRCs for the recovery of the identified costs, as outlined in Table 1:

Table 1

2000- 2001 OSS Transition Cost Recovery Charge

Description of Elements	Total Cost 2000 - 2001	Order Volume	Additional Charge Per Order
OSS Line Sharing	**(Confidential)**	**(Confidential)**	$0.61
OSS MLPQ	**(Confidential)**	**(Confidential)**	$2.51
OSS LSUSLA	**(Confidential)**	**(Confidential)**	$0.54
OSS Local Wholesale	**(Confidential)**	**(Confidential)**	$2.29
OSS Network Wholesale	**(Confidential)**	**(Confidential)**	$0.02

As shown above, the proposed rates are designed to recover the OSS transition costs incurred in 2000-2001 from the orders expected over the time period. The OSS line splitting costs have yet to be determined and are not included in the current study.

Q. WHAT IF THE TOTAL ACTUAL NUMBER OF ORDERS OVER THE RECOVERY PERIOD DIFFERS FROM THE FORECASTED DEMAND?

A. Given the inherent uncertainty in demand forecasts, and to ensure that Verizon recovers the costs determined appropriate by this Commission, Verizon proposes that the per-order charge remain in place until the specified number of orders for each category have been processed. Thus, the per-Order charge could be applied beyond the estimated recovery period if demand forecasts are overstated.

Q. HOW DOES THE PROPOSAL FOR OSS COST RECOVERY IN THIS PHASE OF THE DOCKET AFFECT WHAT THE COMMISSION HAS PREVIOUSLY ADOPTED IN PART A OF THIS PROCEEDING?

A. As shown in Exhibit TRD-5, the adopted OSS and NOMC rates for the recovery of costs incurred from 1996-1999 would apply in addition to the 2000-2001 OSS transition rates proposed in this phase of the proceeding.

Q. DOES VERIZON PROPOSE TO RECOVER FUTURE OSS TRANSITION COSTS IN THIS PROCEEDING?

A. No. Verizon expects to incur additional enhancement costs in the coming years as Verizon further modifies its systems to comply with regulatory mandates. These costs are not within the scope of this proceeding, but will need to be collected in the future.

III. SUMMARY

Q. PLEASE SUMMARIZE YOUR DIRECT TESTIMONY.

A. My direct testimony addresses the pricing policy underlying the development of Verizon's proposed rates for OSS enhancements. Verizon's pricing methodology is reasonable and consistent with the regulatory requirements of this Commission, as well as the FCC. Verizon's overall pricing policy is to align rates with their underlying costs and to assess the rates to the "cost causer."

OSS transition costs should be recovered from CLECs in the form of NRCs per Order. Since the forecasted number of orders is fairly uncertain, Verizon proposes that the charge be applied until the costs that Verizon has incurred are recovered. Verizon also proposes to update the OSS cost recovery charge as future OSS enhancement costs are identified

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes, it does.

Exhibit No. ________(TD-4T)
Docket No. UT-003013 - Part E

BEFORE THE

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

IN THE MATTER OF THE CONTINUED COSTING AND PRICING PROCEEDING FOR INTERCONNECTION, UNBUNDLED ELEMENTS, TRANSPORT AND TERMINATION, AND RESALE	**)))))**	**DOCKET NO. UT- 003013 PART E**

PART E DIRECT TESTIMONY OF

TERRY R. DYE

ON BEHALF OF

VERIZON NORTHWEST INC.

SUBJECT: OSS PRICING POLICY

SEPTEMBER 5, 2002

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