Exhibit _____ - JLT-RT7

BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION

IN THE MATTER OF THE CONTINUED	**)**	
COSTING AND PRICING OF UNBUNDLED	**)**	**Docket No. UT-003013**
NETWORK ELEMENTS, TRANSPORT,	**)**	
TERMINATION, AND RESALE	**)**	**Part A**

RESPONSE TESTIMONY

OF

JERROLD L. THOMPSON

ON BEHALF OF

QWEST CORPORATION

July 21, 2000

DOCKET NO. UT-003013
RESPONSE TESTIMONY OF JERROLD L. THOMPSON
JULY 21, 2000
JLT-RT7

Q. PLEASE STATE YOUR NAME, POSITION, EMPLOYER, AND BUSINESS ADDRESS.

A. My name is Jerrold L. Thompson. I am employed by Qwest Corporation ("Qwest") (formerly known as U S WEST) as Executive Director – Service Cost Information. My business address is 1801 California St., Denver, CO.

Q. HAVE YOU PREVIOUSLY FILED TESTIMONY IN THIS PROCEEDING?

A. Yes.

Q. WHAT IS THE PURPOSE OF THIS TESTIMONY?

A. The purpose of this responsive testimony is to reply to the testimonies of Dr. Richard Cabe and Mr. Michael Zulevic representing Rhythms Links, Inc. and Covad Communications Company.

TESTIMONIES OF DR. CABE AND MR. ZULEVIC

Q. DR. CABE STATES THAT ABSENT A DECREASE IN THE MONTHLY RECURRING CHARGES FOR VOICE-GRADE SERVICES, ANY CHARGE FOR LINE SHARING THAT EXCEEDS INCREMENTAL LOOP COSTS WILL RESULT IN WINDFALL PROFITS FOR THE ILEC. DO YOU AGREE?

A. No. Qwest's retail rates have been established over many years of regulatory oversight. The majority of this regulatory oversight was based on the concept of rate of return revenue requirements. In turn, these revenue requirements were based on historical or embedded costs. Dr. Cabe's statement[1] assumes that the relationship of Qwest's revenues to its embedded costs remains unchanged with the addition of Line Sharing.

[1] Dr. Cabe Direct Testimony, page 15.

Only if an ILEC's other revenues remained constant in relation to its embedded costs could Qwest receive "windfall profits", otherwise the Qwest may not have enough revenue to cover its embedded costs, let alone receive a windfall.[2] However, the relationship of Qwest's revenue to its embedded costs should not be presumed to be constant, and is likely to change as a result of Line Sharing. This probable change is because its revenues are quite likely to *decline* with Line Sharing.

The first reason that there is likely to be a decline is that future demand for Qwest's second (or multiple) lines will decrease with line sharing, and existing second (or multiple) line service for many customers may be discontinued. This is because DSL service allows simultaneous use of voice and data on the same line. This results in reduced economic incentives for customers to continue existing second (or multiple) line service from Qwest.

In addition, other revenues are at risk as well. For example, a recent article in Telephony states:

> "Local dial tone and long-distance calling, corporate branch-to-branch connectivity – voice virtual private networks (VPN's) – data VPN's, the ubiquitous Internet connectivity and even frame relay can be delivered over DSL. The revenues associated with the delivery of these services are an attractive business proposition."[3]

The article also discusses a "second generation voice over DSL" that:

> "…enables the benefits of first generation voice over DSL and the ability to circumvent the local Class 5 switch when subscribers make on-net voice-over-DSL-to-voice-over-DSL calls or off-net long-distance calls. Circumventing the Class 5 switch lets IXCs avoid access charges and allows CLECs and ILECs to extend the usage of their Class 5 ports."

Along with this potential revenue loss is the loss of large contributions toward the cost recovery of the loop. Because of this potential significant loss of contribution that comes from Qwest's retail rates toward the cost of the loop, it simply does not follow that the current relationship of revenue to embedded cost will remain constant with Line Sharing. It is therefore incorrect to assume that a contribution from the price of a shared line UNE would result in double recovery of the cost of the loop, or "windfall profits". The extent to which a credit should be given to a local retail customer, and even whether there should be a credit at all, is very unclear, and certainly should not be assumed *a priori*.

Q. HAVE THE BENEFITS OF ESTABLISHING A POSITIVE PRICE FOR LINE SHARING UNE BEEN DESCRIBED IN THIS PROCEEDING?

A. Yes. Dr. Fitzsimmons' Direct Testimony states: "If the Commission does not set a reasonable, cost-based price for the high-frequency spectrum UNE, harm to

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[2] In this discussion, I am not advocating that UNE rates be set to recover embedded costs, but, rather, I am commenting on the rationale provided by Dr. Cabe.

[3] Telephony, "Switched Voice over DSL," June 12, 2000.

competition, efficiency, and investment in the telecommunications infrastructure will result."[4] Absence of this potential harm is certainly a benefit. In addition, from the perspective of common sense and fairness, a competitive business would—and should be able to—charge *something* for the use of its property. As discussed in the direct testimony of Dr. Fitzsimmons, in a competitive environment *cost* is not the only determinant of a price.

Q. IS DR. CABE CORRECT WHEN HE SAYS THAT ANY LOOP PRICE GREATER THAN ZERO WOULD BE DISCRIMINATORY TO COMPETITORS?

A. No. Dr. Cabe's characterization of discrimination must assume that Qwest gains an unfair advantage over the CLEC because there is no incremental cost of the loop attributed to its DSL services. The only way that is true is if Qwest were to engage in a price squeeze and undercut the retail prices that the CLEC could charge for its DSL services. Otherwise, the fact that Qwest has multiple retail services, including DSL services, which contribute to the *entire* cost of the loop is irrelevant. Nevertheless, as I stated in my Direct Testimony, prices for DSL services would satisfy an imputation of 50% of the UNE loop rate.[5] In addition, Qwest has committed to continuing a price floor for its MegaBit Services such that a price squeeze would not be created for its competitors. It has made that commitment through my sworn testimony. Therefore, any concern Dr. Cabe has about discrimination toward competitors is ill founded.

Q. WHAT HAVE DR. CABE AND MR. ZULEVIC PROPOSED WITH REGARD TO PRICING THE COLLOCATION OF SPLITTERS IN THE CENTRAL OFFICE?

A. Dr. Cabe and Mr. Zulevic have suggested that pricing of splitter collocation be based on a single splitter configuration (i.e., a MDF (main distribution frame) mounted splitter) regardless of the actual splitter placement in the office. The Commission should reject this notion as it flatly ignores the reality of splitter collocation. For example, space limitations may preclude mounting splitters on the MDF. Also, CLECs may request that splitters be placed in other locations, including the common area or in their own collocation areas. Yet Dr. Cabe and Mr. Zulevic appear to believe that the recovery of collocation costs be limited to one configuration regardless of the true nature of the collocation.

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[4] Dr. Fitzsimmons' Direct Testimony at page 14.

[5] Thompson Direct, page 7.

Q. DR. CABE BELIEVES THAT THE FCC SUPPORTS THIS VIEW OF COLLOCATION. DO YOU AGREE?

A. No, the FCC's discussion of collocation clearly supports a realistic view of collocation. The FCC does not take Dr. Cabe's unreasonable position that regardless of how collocation is accommodated, Qwest should only receive compensation based on some imaginary view of the most efficient cost. There are several examples of the FCC's more realistic view of collocation. First, the FCC's guidelines clearly assume an existing central office that must be modified to accommodate collocation. Not only do the FCC's Orders on collocation expressly address real (non-hypothetical) physical accommodations such as space exhaustion,[6] and site preparation, but the FCC explicitly addressed cost recovery for central office modifications such as upgrades to air conditioning and power.[7] Modifications are not necessary in hypothetical central offices where the placement of splitters can be conveniently and unrealistically assumed to be mounted on the MDF in every central office, because it is purported to be more efficient. Since the FCC clearly views collocation and collocation cost recovery from a real world perspective, I would urge the Commission not to take the imaginary view proposed by Dr. Cabe and Mr. Zulevic.

Second, if the view of an imaginary central office where only the most efficient configurations of all equipment were accepted, the overall construct of the imaginary office would need to be consistent across all forms of collocation and use of the office by Qwest. Given Mr. Zulevic's wish that splitters always be mounted on the MDF, what other equipment was previously imagined to be located in the same proximity? Certainly not all equipment collocated or used by Qwest could be assumed to be located within the MDF. Neither Mr. Zulevic or Dr. Cabe has provided any evidence that there is available space on the MDF in this hypothetical central office. If there is not sufficient space, should we assume a cost for hypothetically moving equipment to accommodate the splitters? The prospect of one imaginary assumption driving more imaginary assumptions is not productive. It only illustrates the inconsistency and unworkability of Dr. Cabe's proposal. The Commission should look for a balance of the real world and the cost modeling process that is necessitated by the FCC's pricing decision. For this reason, and the prior reasons, I urge the Commission to take a reasonable approach and base its decision on real world inputs.

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[6] FCC, First Report and Order and Further Notice of Proposed Rulemaking, *In the Matters of Deployment of Wireline Services Offering Advanced Telecommunications Capability*, CC Docket No. 98-147, Released March 31, 1999, at ¶ 43.

[7] *Id*. at ¶ 51.

Q. DO YOU AGREE WITH DR. CABE'S ASSERTION THAT OSS COSTS HAVE BEEN INCLUDED IN UNE PRICES GENERALLY, AND THEREFORE NO ADDITIONAL CHARGE IS NEEDED TO RECOVER SUCH COSTS?

A. No, Dr. Cabe's assertion is incorrect in several respects. First, as explained in the OSS testimony filed by Ms. Teresa Million on January 31, 2000 in this docket, OSS costs are not included in the level of cost recovery supplied by the expense factors used to develop UNE prices generally.[8] This is because costs approved by the Commission have cost factors based on pre-1996 data, and Qwest did not begin to incur OSS costs until after that time. 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 OSS activities required by the Telecom Act.

Second, to the extent that Qwest has sought specific recovery for OSS expenditures beginning in 1997, those costs have been removed from the calculation of expense factors since that time. Therefore, any currently proposed UNE prices have had OSS costs removed.

Third, the OSS costs associated with Line Sharing that Qwest seeks to recover have not even been included in the other OSS costs that it is seeking to recover. The OSS costs previously identified in Ms. Million's testimony relate to specific expenditures made for the years 1997, 1998 and 1999. The OSS costs associated with Line Sharing were not contemplated in those years, and thus are costs Qwest will incur in 2000 and beyond to accommodate CLEC access to the high-frequency portion of the loop.

Finally, the FCC specifically provided in its Line Sharing Order[9] that ILECs should recover the cost of OSS modification caused by the obligation to provide the line sharing UNE. Therefore, Dr. Cabe is incorrect in asserting that no additional charge for OSS is necessary.

HAVE YOU REVIEWED YOUR PROPOSAL FOR LINE SHARING RATES RELATED TO PLANNING AND ENGINEERING?

Yes. Mr. Hubbard's testimony provides information regarding the functions and time required for line sharing planning and engineering. He recommends a total of 20 hours

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[8] Ms. Million Direct Testimony, page 8.

[9] FCC, Third Report and Order in CC Docket No. 98-147, and Fourth Report and Order in CC Docket No. 96-98, *In the Matters of Deployment of Wireline Services Offering Advanced Telecommunications Capability and Implementation of the Local Competition Provisions of the Telecommunications Act of 1996*, Released December 9, 1999, at ¶ 144.

of planning and engineering time. In my Direct Testimony I proposed a Quote Preparation Fee of $ 4195.90 that was intended to provide recovery for this type of costs. I no longer propose a Quote Preparation Fee for line sharing. Instead, based upon Mr. Hubbard's information, there should be charges for Planning and Engineering. This rate has not been finalized by Qwest, but would approximate 20 hours of engineering labor, loaded with the Commission authorized factors. Qwest will review this proposal and all other proposed rates and revise its proposal as is warranted based on information derived from experience with splitter placement and comments from parties in this proceeding.

DID YOU NOTICE ANYTHING ELSE DURING YOUR REVIEW OF THE PROPOSED LINE SHARING RATES?

Yes. While I was reviewing the OSS Cost Recovery Study, I noticed a spreadsheet error. A cell reference in the final cost formula was reading from the wrong cell. I have corrected that error and reflected the appropriate amount on JLT-8.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

PROPOSED RATES FOR LINE SHARING

	Non-recurring	Recurring
Shared Loop UNE per month		$ 9.08 *
Installation of a Shared Loop UNE	$ 37.53	
Disconnection of a Shared Loop UNE	$ 14.41	
Total per line per order	$ 51.94	
OSS Cost Recovery per line per month		
For 60 months		$ 3.75
Cross-Connects per 100 Voice Grade circuits	$ 1,266.11	$ 2.38
Bay- per shelf	$ 2,721.40	$ 3.82
Splitter	$ (Cost)	
Cable Unloading	$ 304.12	
Bridged Tap Removal	$ 147.37	

Labor Rates	Regular Bus. Hours	Outside Bus. Hours
Trouble Isolation per half hour	$ 28.07	$ 37.55
Installation of equipment per half hour	$ 32.00	$ 41.20
Repair of equipment per half hour	$ 32.00	$ 41.20

*Statewide average rate shown for illustration, actual rate would be 50% of deaveraged loop rate, up to a maximum of $10.00.