

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of the)	DOCKET NO. UT-003013
)	
)	
)	FORTY-THIRD SUPPLEMENTAL
Continued Costing and Pricing of)	ORDER; PREHEARING CONFERENCE
Unbundled Network Elements,)	ORDER; CLOSING PART E
Transport, and Termination)	PROCEEDING TO MOVE OSS
)	TRANSITION COST ISSUES TO THE
)	NEW GENERIC CASE
)	
.....)	

1 **Prehearing Conference.** The Commission convened a Prehearing Conference in Part E of this docket concurrently with a prehearing conference in Docket No. UT-023003 on October 16, 2002, at Olympia, Washington before Administrative Law Judges Theo Mace and Lawrence J. Berg pursuant to due and proper notice to all interested persons.¹ The primary purpose of the conference was to address procedural scheduling issues.

2 **Appearances.** The following Part E parties appeared at the prehearing conference: Qwest Corporation (“Qwest”), by Lisa Anderl and Adam Sherr, attorneys, Seattle; Verizon Northwest Inc. (“Verizon”), by W. Jeffrey Edwards, attorney, Richmond, Virginia; Covad Communications Company (“Covad”), by Megan Doberneck, attorney, Denver, CO; AT&T of the Pacific Northwest, Inc. (“AT&T”), XO Washington, Inc. (“XO”), and Pac-West Telecomm, Inc. (“Pac-West”) by Gregory Kopta, attorney, Seattle; MCI/WorldCom (“WorldCom”) by Michel Singer Nelson, attorney, Denver, Colorado; TRACER, by Lisa Rackner, attorney, Portland, Oregon; and Commission Staff (“Staff”), by Shannon Smith, Assistant Attorney General, Olympia.

3 **Background.** On June 21, 2002, the Commission entered the Thirty-Second Supplemental Order in this proceeding (“Part B Order”). The Part B Order required Qwest and Verizon to file updated nonrecurring costs studies supported by time and motion studies as the companies updated their operations support systems (“OSS”) transition costs in Part E. On July 29, 2002, the Commission entered its Thirty-Fifth

¹ This proceeding is referred to as “Part E.” Docket No. UT-023003 is referred to as the “new generic case.”

Supplemental Order narrowing the issues in Part E. All issues other than OSS transition costs were moved to the new generic proceeding.

4 On September 5, 2002, Qwest and Verizon filed direct evidence regarding OSS transition costs, but neither company filed nonrecurring cost (“NRC”) studies as discussed in the Part B Order. Both Qwest and Verizon represent that they understood Commission orders to require that NRC issues be addressed in the new generic proceeding. On September 26, 2002, the Commission entered the Thirty-Eighth Supplemental Order (“Part B Reconsideration Order”) upholding the requirement that Qwest and Verizon file OSS-related NRCs supported by time and motion studies, but the Part B Reconsideration Order did not make clear whether those filings should be made in Part E or the new generic case.

5 On September 27, 2002, WorldCom requested that the Commission clarify the scope of the Part E proceeding. The Commission suspended the Part E procedural schedule in order to consider parties’ proposals to coordinate and efficiently address issues in both Part E and new generic case.

Should NRCs be reviewed at the same time as OSS transition costs?

6 **Discussion.** Qwest maintains that the Commission should proceed to address OSS transition costs in Part E and address all NRCs in the new generic case. OSS transition costs consist of up-front costs that are incurred in order for competing local exchange carriers to access the incumbent local exchange carriers’ operations support systems. Thereafter, OSS *transaction* costs recover costs incurred on an order-by-order basis. Qwest contends that the record will bear out that OSS transition cost expenditures do not necessarily result in reduced NRCs because many of the expenditures are incurred to enable CLEC access, and they do not increase efficiency.

7 To the extent that increased OSS mechanization leads to more efficient NRCs, Qwest argues that the Commission has already implemented a major rate adjustment by requiring Qwest to file separate nonrecurring charges for mechanized and manual ordering in the Part B proceeding. Qwest points out that it has filed direct testimony regarding OSS transition costs in Part E and that discovery is underway. Qwest argues that the Commission should update the company’s total OSS transition cost recovery in Part E, and address other parties’ concerns through some sort of implementation clause in the order that conditions recovery or postpones implementation of those charges to a later date. Qwest also raises concerns that there are too many issues under consideration in the new generic case.

8 Verizon states that, based on its understanding of the Part B orders, it presented evidence of its updated OSS transition costs in Part E and was prepared to present its nonrecurring costs in the new generic case.

- 9 AT&T, XO, and Pac-West (“AT&T”) state that a fundamental issue in any cost case is whether costs were reasonably incurred. AT&T argues that issues regarding OSS transition costs and the impact of that investment on nonrecurring costs are inextricably intertwined and should be considered together.
- 10 WorldCom agrees with AT&T and adds that if any OSS costs were incurred to increase flow through, then the reasonableness of those expenditures should be reflected in decreased NRCs. WorldCom argues that if OSS costs and NRCs are to be separately considered, then NRCs should precede OSS costs.
- 11 Commission Staff agrees that there is a link between OSS transition costs and NRCs. Staff contends that there are efficiencies to be gained by considering those costs together.
- 12 **Decision.** AT&T and Commission Staff persuasively argue that OSS transition costs and NRCs should be considered together. Qwest’s proposal that the Commission first determine OSS costs in one proceeding and then determine whether those costs were reasonably incurred in another is rejected because those issues are significantly related to each other.

What NRCs should be reviewed along with OSS transition costs?

- 13 **Discussion.** Qwest states that the company has approximately 200 nonrecurring rates, but that only part of its NRCs would be at issue when reviewing OSS transition costs. Qwest argues that impacted costs occur at the beginning of the service order process for each and every single one of its nonrecurring rates, and that the relevant time component can be measured at the interconnect service center or at one of the other service centers that accept orders.
- 14 Qwest contends that this issue also involves the six-minute order processing time that the Commission reaffirmed in the Part B Order. The Part B Order provides for the possible modification of the six-minute interval in the new generic case, contingent on Qwest showing that the time used in its NRC studies are consistent with current and near-future efficient operations, based on time and motion studies. Qwest states that the company is discussing the parameters of a statistically valid time and motion study with other parties. The parties agree that a stipulation regarding time and motion study methodology will expedite proceedings. From Qwest’s perspective, there is an amount of time necessary at the outset to develop the time and motion study, a reasonable amount of observation time, and then input from subject matter experts to ascertain the probability that certain tasks will be performed. Qwest contends that it will minimally require four to five months to prepare time and motion studies.

- 15 Verizon contends that its NRCs cannot be defined as either OSS or non-OSS. According to Verizon, certain activity-related costs ripple through and affect the total universe of NRCs. Verizon contends that it is not efficient in this context to consider one subset of NRCs from all others. Verizon estimates that it could file a complete NRC study by mid-summer 2003.
- 16 AT&T notes that there are numerous NRCs at issue in the new generic case, particularly NRCs for loops and switching. AT&T argues that it does not make sense to review OSS-related NRCs in one proceeding and other provisioning-related NRCs in another. AT&T recommends that all NRCs be considered at the same time.
- 17 **Decision.** Verizon and AT&T's contention that all NRCs should be considered at the same time is persuasive. Qwest and Verizon agree that OSS-related NRCs are components in all other NRCs. Thus, Qwest and Verizon must file comprehensive NRC studies supported by time and motion studies at the same time that updated OSS transition costs are submitted.

Does delaying consideration of OSS transition costs prejudice any party?

- 18 **Discussion.** Qwest states that the company has already incurred the OSS transition costs that it seeks to recover. However, Qwest does not refute the contention that under the current \$3.27 per-local service request ("LSR") recovery mechanism, the company would not recover its total investment any quicker; rather, the recovery period would be extended. Qwest could not state what percentage of its approved OSS costs have been recovered to date, but the company previously argued that it would take 20 years to recover its OSS transition costs under that mechanism. Qwest candidly states that this is not a "pound-the-table issue" for the company, and that the company is more concerned about the number of issues that are being contemplated in the new generic case.
- 19 Verizon states that it would not be prejudiced by a delay of OSS transition cost recovery issues until NRC issues are addressed in the new generic case.
- 20 **Decision.** Neither Qwest nor Verizon is prejudiced by delaying OSS transition cost recovery issues until NRC issues are addressed in the new generic case. Accordingly, the Part E proceeding is closed, and an order will enter in the new generic case moving all OSS transition cost issues to the new generic case. Qwest's concerns about the number of issues that are being contemplated in the new generic case will also be addressed in that proceeding.

Direct Evidence Regarding OSS Transition Costs in Part E

- 21 Qwest and Verizon filed direct evidence regarding OSS transition costs in Part E. Because there are different parties of record in the new generic case, Qwest and

Verizon must refile direct evidence regarding OSS transition costs at the same time as they file other direct evidence in Docket No. UT-023003. Qwest and Verizon are not required to further respond to any outstanding Part E discovery requests. Qwest and Verizon may also choose to further update their respective OSS transition cost data in light of the procedural schedule to be established in the new generic case.

Dated at Olympia, Washington and effective this 1st day of November, 2002.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

LAWRENCE J. BERG
Administrative Law Judge

NOTICE TO PARTIES: Any objection to the provisions of this Order must be filed within ten (10) days after the date of mailing of this statement, pursuant to WAC 480-09-460(2). Absent such objections, this prehearing conference order will control further proceedings in this matter, subject to Commission review.