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**BEFORE THE WASHINGTON TRANSPORTATION AND UTILITIES
COMMISSION**

In the Matter of the Petition for Arbitration
of an Interconnection Agreement Between
**AMERICAN TELEPHONE TECHNOLOGY,
INC. and GTE NORTHWEST**
INCORPORATED Pursuant to 47 U.S.C.
Section 252

DOCKET NO. UT-990390

TESTIMONY OF

R. KIRK LEE

ON BEHALF OF

GTE NORTHWEST INCORPORATED

October 15, 1999

1
2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 My name is R. Kirk Lee. My business address is 600 Hidden Ridge, Irving, Texas
4 75038.

5 **BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

6 I am employed as Sr. Marketing Manager for GTE, appearing on behalf of GTE
7 Northwest Incorporated – Washington operations (“GTE” or “the Company”) in
8 this proceeding. Functionally, I am the Product Manager for unbundled network
9 elements (UNEs), responsible for product roll-out and life cycle management to
10 ensure that UNEs, and related services such as collocation, are provided in
11 accordance with the requirements of the Telecommunications Act of 1996 (the
12 “Act”). My responsibilities also include testifying on related policy issues before
13 regulatory bodies.

14 **PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND WORK**
15 **EXPERIENCE.**

16 In 1978, I graduated with a Bachelor of Arts degree in Business Administration
17 (Accounting concentration) from the University of Washington. In 1988, I
18 received a Master of Business Administration degree from Seattle University.
19 My work experience began with GTE Northwest Incorporated in Everett,
20 Washington, in December 1978 as a Staff Accountant. At GTE Northwest, I
21 held various positions of increasing responsibility in payroll, cost accounting,
22 general accounting, internal auditing, and budgeting. In June of 1989, I was

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2 named to the position of Staff Manager-Regulated Earnings Analysis in the
3 Regulatory and Governmental Affairs department at GTE Telephone Operations
4 Headquarters in Texas, responsible for analyzing and reporting interstate and
5 intrastate rates of return, and supporting GTE Telops' annual Interstate Access
6 Tariff filing. From June 1992 through January 1995, I was the Section Manager-
7 Intrastate Access Pricing, in the Pricing and Tariffs Department, responsible for
8 planning and rate design for access and ancillary service, and tariff
9 implementation of these services. Following assignments in Strategic Planning
10 and Finance, I returned to Pricing as Manager-Pricing in November 1996, and
11 was responsible for managing the integration and implementation of GTE's rates
12 for UNEs, interconnection, collocation, and resale required by the Act. I
13 assumed my current responsibilities in May 1999.

14 **Q. HAVE YOU TESTIFIED PREVIOUSLY IN WASHINGTON?**

15 A. Yes. I have previously testified before the WUTC in Phase II of the Generic
16 Cost Docket (Nos. UT-960369, UT-960370, and UT960371) on UNE and
17 Collocation pricing and policy matters; and in the GTE-NW arbitration with ELI
18 (Docket No. UT-980370). I have also sponsored testimony in various rate and
19 arbitration proceedings before state regulatory commissions in California, Florida,
20 Hawaii, Illinois, Indiana, Michigan, New Mexico, Oklahoma, Oregon, Texas and
21 Wisconsin.

22 **WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

1 I will explain GTE's position on the unresolved issues associated with collocation
2 which have been identified for arbitration by GTE and American Telephone
3 Technology, Inc. ("ATTI"). I will not discuss GTE's position with respect to the
4 issue of combined UNEs, as this issue will be addressed in legal argument.
5

6 **CAN YOU DESCRIBE GTE'S POSITION ON THE FIRST ISSUE, WHICH IS**
7 **GTE'S METHOD FOR ALLOCATING THE COSTS ASSOCIATED WITH**
8 **CONDITIONING CENTRAL OFFICE SPACE TO ACCOMMODATE**
9 **COLLOCATION?**

10 Yes. GTE will determine the total extraordinary costs associated with conditioning
11 central office space on an Individual Case Basis (ICB). These costs will then be
12 pro-rated and shared by GTE and other collocators by dividing them pursuant
13 to a state-specific ICB Fill Factor.

14 **WHAT IS THE FILL FACTOR?**

15 The state-specific ICB Fill Factor is determined by calculating the average number
16 of collocators expected per central office based on GTE's actual experience with
17 collocation from completed, pending, and forecasted applications. The factor
18 includes GTE as one of the potential collocators for cost allocation purposes.
19 The same Fill Factor will be assigned to all wire centers or access tandems in
20 a state. The total cost of an environmental conditioning project for a given
21 central office will be divided by the fill factor. The resulting charge will then be
22 billed on a nondiscriminatory basis to each carrier seeking collocation in the

1 subject central office or tandem office.

2 **WHY DOES GTE USE A FILL FACTOR TO PRO-RATE CONDITIONING COSTS?**

3 The use of a fill factor or equivalent concept is an accepted regulatory tool to assign
4 costs used to develop rates or charges. For a given investment, a “fill factor” or
5 average usage level over the life of the investment is developed. That usage
6 factor is then employed to calculate a price that will recover the total costs
7 incurred over the useful life of the investment. State regulators have relied upon
8 this method for many years in situations where it is not possible to accurately
9 predict the usage level of a discrete asset or the number of customers that will
10 take service in a small geographic area. This method benefits customers by
11 allowing lower prices in the early years of a product’s life cycle because the cost
12 recovery is spread over a greater base of customers in a larger geographic area.
13 This method benefits carriers by reducing the overall margin of error, and by
14 providing a stable revenue stream that theoretically, on average, over time,
15 recovers the cost. In the case of the costs GTE incurs in facilitating collocation,
16 it is not practical to accurately predict the number of collocators that will occupy
17 a particular central office. Thus, GTE has employed a state-wide average
18 number of collocators (fill factor) in developing the price each collocator will pay
19 in a given central office. Only perfect hindsight will tell if GTE’s costs are
20 recovered in a given central office, but GTE expects that on average, its costs
21 will be recovered in that state. The method that will be precise – charging the
22

1 first collocator the total actual cost, then rebating when a second collocator
2 appears and so forth—has been rejected. Thus, an average approach over a
3 reasonable geographic area such as a total state is the next best method.
4

5 **WHAT IS REQUIRED BY THE FCC WITH REGARD TO SHARING OF**
6 **EXTRAORDINARY COSTS?**

7 A. In its Order No. 99-48 effective May 30, 1999 in Docket No. 98-147, (paragraph
8 51)¹ the FCC stated:

9 “[I]ncumbent LECs must allocate space preparation, security measures, and other
10 collocation charges on a pro-rated basis so the first collocator in a particular
11 incumbent premise will not be responsible for the entire cost of site preparation.
12 For example, if an incumbent LEC implements cageless collocation arrangements
13 in a particular central office that requires air conditioning and power upgrades,
14 the incumbent may not require the first collocating party to pay the entire cost of
15 site preparation. In order to ensure that the first entrant into an incumbents
16 premises does not bear the entire cost of site preparation, the incumbent must
17 develop a system of partitioning cost by comparing, for example, the amount of
18 conditioned space actually occupied by the entrant with the overall space
19 conditioning expenses.”

20 **DOES GTE AGREE WITH THE FCC’S COLLOCATION COST ALLOCATION**

21 _____
22 ¹ In the Matters of Deployment of Wireline Services Offering Advanced Telecommunications
Capability; First Report and Order and Further Notice of Proposed Rulemaking, No. 99-48,
cc Docket No. 98-147 (hereinafter “Order”)

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2 **REQUIREMENTS FROM THE ORDER?**

3 A. No. GTE has appealed the matter to the United States Court of Appeals for the District
4 of Columbia. GTE believes that the FCC has misconstrued the requirements of
5 section 251(c)(6) of the Telecommunications Act of 1996 (the "Act"), that the cost
6 allocation requirements are improper and prevent GTE from recovering its actual costs
7 as mandated by the Act and other applicable law. The positions GTE take herein do not
8 waive any arguments that GTE is pursuing in that appeal. Rather, they are a good faith
9 attempt to address the requirements of the Order until reversed by the Court.

10 **WHAT IS GTE'S OBJECTION TO THE COST ALLOCATION**
11 **REQUIREMENT?**

12 A. Many of the fixed costs associated with preparing the space for collocation do not depend
13 on the number of competitors that ultimately occupy the space, or the amount of space
14 that any one collocator uses. The FCC's approach would prevent GTE from
15 appropriately recouping all of these fixed costs unless there is immediate, permanent full
16 occupancy by collocators. GTE and its ratepayers should not be forced to absorb any
17 portion of costs that are incurred solely to benefit collocators. If this is the case, GTE
18 and its ratepayers will effectively be wrongfully required to underwrite the start-up costs
19 associated with the competitive entry of these parties.

20 **IS GTE'S METHOD FOR COST ALLOCATION CONSISTENT WITH THE**
21 **FCC'S DIRECTIVE?**

22 Yes. The FCC requires that space preparation costs be charged on a pro-rated basis.

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2 GTE's approach is consistent with this requirement. The FCC suggested, only as an
3 example, partitioning of costs by comparing the amount of conditioned space
4 occupied by the collocator with the overall space conditioning expense. This is what
5 ATTI wants. The FCC did not mandate this approach, which in GTE's view, would
6 be unfair to GTE and allow the new entrant to avoid its true cost responsibility. The
7 key to the Order is that the total cost cannot be placed on the first collocator and there
8 has to be a reasonable allocation of costs. GTE's approach accomplishes this goal for
9 the reasons previously stated. Naturally, this is a compliance position with the Order
10 until it is reversed by the Court.

11 **Q. WHY DOES GTE CONTEND THAT WHAT ATTI WANTS IS UNFAIR AND**
12 **WOULD ALLOW ATTI TO AVOID TRUE COST RESPONSIBILITY?**

13 When GTE incurs extraordinary costs to condition space for collocators, these costs will
14 generally be the same, whether one or numerous collocators occupy the space. The FCC
15 said it would be unfair to require the first collocator to bear the full expense. In GTE's
16 view, it would be just as unfair to allow a collocator to pay only a share of these costs
17 based upon an arbitrary ratio determined by the space occupied. This approach will
18 never allow GTE to fully recover the extraordinary costs, leaving GTE and its ratepayers
19 to bear the lion's share of the expenditure while giving the collocator a disproportionate
20 benefit.

21 **WHEN IS IT NECESSARY TO SHARE COSTS ASSOCIATED WITH SPACE**
22 **CONDITIONING FOR COLLOCATION?**

1 Collocation projects generally require construction work to prepare an area within a GTE
2 central office for use. Most of the preparation costs are recovered through predetermined
3 monthly recurring and non-recurring charges. In some cases, extraordinary costs will be
4 incurred when preparing a facility for collocation. Although these costs are commonly
5 referred to as “environmental conditioning” costs, environmental conditioning represents
6 only one situation requiring GTE to incur extraordinary costs.
7

8 **WHAT OTHER TYPES OF COSTS ARE CONSIDERED EXTRAORDINARY?**

9 In addition to major environmental conditioning, other types of extraordinary costs might
10 include major power plant upgrades, equipment rearrangements, major conduit and cable
11 vault additions and asbestos removal.

12 **Q. HOW SIGNIFICANT ARE THESE CHARGES?**

13 A. Extraordinary costs for collocations are usually substantial, sometimes in the millions
14 of dollars.

15 **Q. WHY WOULD THESE CHARGES BE SO SIGNIFICANT?**

16 A. GTE cannot determine whether extraordinary costs will need to be incurred until the
17 request for collocation is received. At that time GTE’s engineers can measure the
18 impact on GTE’s mechanical systems based upon the additional equipment that will
19 be placed by the collocator. In some cases, entire heating, ventilation and air
20 conditioning (“HVAC”) systems must be replaced, or the existing power plant must
21 be expanded. These types of changes to commercial systems can cost millions of
22 dollars. While a collocator may not occupy much physical space, the incremental

1 demands its equipment would place on GTE's existing systems can be the catalyst for
2 significant and expensive expansion.
3

4 **HOW DOES GTE CHARGE FOR THESE EXTRAORDINARY COSTS?**

5 Extraordinary costs are not included in any of the standard rate elements for collocation and
6 therefore must be charged as an ICB. The central office specific costs are computed and
7 then billed to collocators as a nonrecurring charge on a pro rata basis as I have previously
8 described. These costs are approved by the collocator before construction begins.

9 **Q. WHY WOULD GTE'S METHOD FOR CHARGING FOR EXTRAORDINARY**
10 **COSTS BE MORE APPROPRIATE THAN ATTI'S APPROACH?**

11 GTE's approach is more appropriate, and more consistent with the concept of equity
12 called for by the FCC's Order for several reasons: First, it divides costs based upon
13 an average number of beneficiaries of the improvements, including GTE, which does
14 not exempt itself from a share of the costs. Second, it prevents GTE from having to
15 bear the majority of fixed costs which it would not have incurred at that time but for
16 the request of collocators.

17 **Q. PLEASE EXPLAIN WHY GTE MIGHT NOT HAVE HAD TO INCUR**
18 **EXTRAORDINARY EXPENSES BUT FOR THE REQUEST OF**
19 **COLLOCATORS.**

20 A. GTE must make judicious use of its limited capital resources. Were collocation not
21 an issue GTE would not proceed with the upgrade at that time and would use its
22 capital resources for other projects, where such an upgrade is not necessary for

1 continuing operations. However, a collocation request may trigger the need to incur
2 the extraordinary costs associated with a plant upgrade, such as HVAC or power plant
3 expansion. Such upgrades would indirectly benefit the entire facility, which is why
4 GTE includes itself in the fill factor used to apportion the extraordinary costs. While
5 it is appropriate for GTE to share in the costs, it is not appropriate for GTE to bear the
6 bulk of the costs incurred for upgrades which GTE would not have made at that time
7 because the enhancements were unnecessary to GTE's ability to continue to provide
8 its services.
9

10 **Q. IN SUM, WHY IS GTE'S APPROACH TO COST SHARING APPROPRIATE?**

11 A. This method is appropriate because:

12 It complies with the FCC mandate that prohibits recovery of 100% of the cost of a
13 project from the collocator initiating the work.

14 It fairly assigns a portion of the extraordinary cost due to environmental conditioning
15 to each collocator benefiting from the project.

16 It does not unfairly assign costs to any established collocator or to GTE, which do not
17 require the conditioning work to be performed.

18 It fairly recognizes potential future benefits to GTE, as owner of the central office, by
19 assigning a portion of the cost to GTE.

20 It provides the possibility of eventual cost recovery through the averaging of units
21 billed (state specific fill factor).

22 It is based upon long-standing accepted principles and practices used in setting rates

1
2 and charges for regulated utilities.

3 **Q. IS IT APPROPRIATE FOR GTE TO APPLY THE SAME SECURITY**
4 **REQUIREMENTS TO ATTI'S EMPLOYEES THAT GTE APPLIED TO ITS**
5 **OWN EMPLOYEES BEFORE ADMITTING THEM TO SECURE CENTRAL**
6 **OFFICE FACILITIES?**

7 A. Yes, paragraph 47 of the FCC Order states that the incumbent LEC may impose
8 security arrangements that are as stringent as the security arrangements it applies to its
9 own employees.

10 **Q. PLEASE DESCRIBE WHAT THESE SECURITY REQUIREMENTS ARE.**

11 A. The collocator must have a GTE Certification of Background Investigation ("BI")
12 Form completed for each employee, agent or contractor requesting access to a GTE
13 central office. The BI form certifies that a background investigation was conducted at
14 the time each of the collocator's listed employees, agents or contractors was hired and
15 that these employees have:

- 16 1. No felony convictions for the seven years prior to the date of the background
17 investigation.
- 18 2. Had a drug screening performed as part of a background investigation, unless
19 hired before March 1990. This is consistent with GTE's requirements for GTE
20 employees.
- 21 3. Not been discharged for cause from GTE, if a prior GTE employee.
- 22 4. Not been removed from GTE property for cause, if a prior GTE contractor.

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2 **WHY IS IT IMPORTANT TO IMPOSE THESE SECURITY REQUIREMENTS**
3 **ON ATTI EMPLOYEES?**

4 GTE strives to provide a safe and drug-free workplace for its employees and other
5 collocators. The background investigation form reflects GTE's employment practices
6 and is reasonable to protect the safety of its employees and the security of its
7 premises. Because GTE has performed, and wishes to be considered for, federal
8 contract work, GTE has established the type of drug-free workplace required by
9 47 U.S.C. Sec. 701.

10 **Q. WHAT INTERVAL HAS GTE ESTABLISHED FOR SPACE AVAILABILITY**
11 **AND COLLOCATION FEASIBILITY RESPONSES?**

12 A. GTE will respond to requests for collocation with space availability and feasibility in
13 15 calendar days.

14 **IS THIS CONSISTENT WITH THE FCC'S ORDER?**

15 Yes, paragraph 55 of the Order states that "GTE and Ameritech state that they respond to
16 physical collocation requests within ten days by advising the carrier whether space is
17 available or not. We view ten days as a reasonable period." The "ten days" the FCC
18 attributes to GTE and Ameritech refer to "business days". ATTI has incorrectly
19 interpreted the FCC's language to mean "calendar days", or about a week and a half.
20 Recently, the California Public Utilities Commission cleared up the confusion
21 between "business days" and "calendar days" as the interval for responding to a
22 collocation request with space availability by setting 15 "calendar days" as the

1
2 appropriate interval.

3 **WHY IS IT IMPORTANT TO HAVE 15 CALENDAR DAYS?**

4 A. Ten “calendar days” is difficult from an operations standpoint. If an application from a
5 collocator is received on a Friday, under a 10 “calendar day” standard, GTE’s Regional
6 Implementation Team responsible for the collocation has only 6 working days to
7 schedule, visit the central office and respond to the requesting party, in addition to
8 performing necessary, normal duties. This time period is particularly difficult during
9 holiday times.

10 **Q. WHAT IS GTE’S POSITION ON CHARGING FOR MINOR ALTERATIONS TO**
11 **A COLLOCATION CAGE?**

12 A. Minor alterations to an existing collocation cage requires engineering review at the
13 collocation site and additional work order processing. GTE will charge a nominal fee
14 to cover these costs as they are legitimately incurred. If a request for a minor change
15 is received while the original collocation request is still pending completion and work
16 orders are still open, and the change does not require any alteration to the original
17 plans, the request will be incorporated without charge.

18 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

19 A. Yes.
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