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**I. WITNESS IDENTIFICATION AND BACKGROUND**

PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

My name is Robert Tanimura. My business address is One GTE Place, Thousand Oaks, California, 91362.

**HAVE YOU FILED PHASE A DIRECT TESTIMONY IN THIS CASE?**

Yes, I filed direct testimony on May 19, 2000 and revised direct testimony on June 21, 2000.  
In addition, an errata to my revised direct testimony was filed on July 10, 2000.

**II. PURPOSE OF PHASE A RESPONSIVE DIRECT TESTIMONY**

ON WHOSE BEHALF ARE YOU PRESENTING TESTIMONY IN THIS PROCEEDING?

I am presenting testimony on behalf of Verizon Northwest Inc., which was formerly known as GTE Northwest Incorporated. The company recently changed its name after the closure of the merger between its parent company, GTE Corporation, and Bell Atlantic Corporation. The merged company name is Verizon Communications.

1 **IN YOUR TESTIMONY HOW DO YOU USE THE TERMS "VERIZON NW" AND**  
2 **"GTE"?**

3 My fellow witnesses and I use "Verizon NW" to refer to Verizon Northwest Inc., the  
4 company that is a party to this proceeding and on whose behalf we are  
5 testifying. I use "GTE" to refer to the former GTE companies, which are now  
6 part of the Verizon Communications companies along with the former Bell  
7 Atlantic companies. This will make clear that we are talking about cost studies  
8 and inputs that have been developed by and for the GTE telephone operating  
9 companies and about those companies' operations, practices and procedures.

10

11 **WHAT IS THE PURPOSE OF YOUR PHASE A RESPONSIVE DIRECT TESTIMONY?**

12 In my phase A responsive direct testimony, I will discuss several pricing-related issues. The first  
13 issue that I will address is the status of local competition in Washington from a  
14 perspective that considers facilities-based competition. Second, I will respond to several  
15 comments relating to Operations Support Systems ("OSS") cost recovery that  
16 mischaracterize the nature of these costs and are inconsistent with the Commission's  
17 17th Supplemental Order in UT-960369 et al. Third, I will describe Verizon NW's OSS  
18 tracking mechanism for its interim OSS rates, in order to give other parties an  
19 opportunity to comment on them, as required by the Commission's 25th Supplemental  
20 Order in UT-960369 et al. Finally, I will discuss Verizon NW's line sharing pricing

1 proposal for the network configuration involving a CLEC-owned splitter in a virtual  
2 collocation arrangement, as well as the issue of OSS cost recovery in conjunction with  
3 line sharing.

4

5 **LOCAL COMPETITION IN THE STATE OF WASHINGTON**

6

7 **PLEASE SUMMARIZE THE ISSUES RELATING TO LOCAL COMPETITION THAT**  
8 **YOU WILL BE ADDRESSING.**

9 Mr. Joseph Gillan on behalf AT&T Communications of the Pacific Northwest, Inc. (AT&T)  
10 commented on local competition in Washington and on the conditions for more rapid  
11 local and advanced service competition. Mr. Gillan’s testimony may be summarized as  
12 follows:

13

14 ● Competitive local markets are growing slowly in the state of Washington as  
15 indicated by low CLEC market shares and UNE loop purchases (pp. 4-7).

16

17 ● UNE-platform (“UNE-P”) rather than Phase A issues are critical to mass-market  
18 competition since UNE-P can be expected to dramatically reduce CLEC costs  
19 (pp. 7-14).

20

- 1           ●       Line sharing with UNE-P must be implemented because, otherwise, the ILECs'  
2                   “voice monopoly” will provide them with an effective “line sharing monopoly”  
3                   (pp.14-17).

4   **WHAT IS YOUR RESPONSE TO MR. GILLAN’S ANALYSIS OF THE COMPETITIVE**  
5           **LOCAL MARKET IN THE STATE OF WASHINGTON?**

6 Mr. Gillan’s statistics do not present a complete picture of the competitive local market in  
7       Washington because they only include resale and UNE loops. Resale and UNEs are just  
8       two of several ways by which CLECs may compete in the local marketplace. ILECs are  
9       today also facing facilities-based competition in the form of competitive fiber rings,  
10       wireless services, and cable modems. The extent to which these forms of competition  
11       are occurring is difficult to quantify since Verizon NW does not have the information  
12       available to it. In addition, it is inherently difficult to assess the extent to which fiber  
13       rings, wireless options and cable modems have been supplanting ILEC access lines.  
14       However, according to the Cellular Telecommunications Industry Association, there are  
15       currently nearly 94 million wireless subscribers in the United States, and Yankee Group  
16       estimated that by mid-1999 wireless service had already displaced over twelve percent  
17       of landline calls (June 8, 1999 Wireless/Mobile Communications Audioconference).  
18       Additionally, as of June 1, 2000, there were 3.1 million cable modem subscribers in the  
19       United States and Canada – an increase of 66% from the end of the previous year. There  
20       has also been extensive fiber buildout in Washington by multiple providers such as

1 AT&T, Avista, ELI, Frontier, Global Crossing, GST, Metromedia Fiber Networks,  
2 Winstar, and MCI/WorldCom, to provide service to lucrative business customers.

3

4 Moreover, other indicators show that competition has developed greatly since the  
5 Telecom Act and is poised to rapidly expand. For instance, in Washington there are now  
6 over 90 collocation arrangements in Verizon NW’s central offices (installed and  
7 pending), 109 approved CLECs, and 70 Verizon NW interconnection agreements  
8 (pending and complete). AT&T now has access to tens of millions of subscribers  
9 nationwide through its cable operations, as well as through its contractual arrangements  
10 with Insight Communications, Cablevision, Time Warner, and Comcast. In fact, AT&T  
11 has recently begun providing local telephone service in Washington through its cable  
12 facilities. In addition to its cable facilities, AT&T can also rely on its numerous TCG  
13 switches and is experimenting with fixed wireless technology to provide local telephone  
14 service.

15

16 In sum, ILEC resale and UNEs must be viewed as supplemental to facilities-based  
17 competition rather than the entirety of local competition as depicted by Mr. Gillan. This  
18 more balanced view of local competition is important because, as pointed out by Justice  
19 Breyer in *AT&T v Iowa Utilities Board*, “It is in the *un* shared, not in the shared, portions  
20 of the enterprise that meaningful competition would likely emerge.” (119 S.Ct. 754

1 (1999)).

2

3 **WHAT IS YOUR RESPONSE TO MR. GILLAN’S TESTIMONY REGARDING UNE-P**  
4 **AND ITS IMPORTANCE TO COMPETITION IN THE MARKETS FOR LOCAL**  
5 **VOICE AND DATA COMMUNICATIONS?**

6 Mr. Gillan’s testimony regarding UNE-P appears to be premature and not relevant to the issues  
7 in Phase A of this proceeding, which deal with OSS, collocation, and line sharing. As  
8 discussed in the phase A responsive direct testimony of Mr. Boshier, line sharing does  
9 not cover the situation where the CLEC is the voice provider on the shared line.  
10 Furthermore, the FCC has yet to address the desirability of line sharing with UNE-P, let  
11 alone the operational and technical issues that would arise from such an offering. Thus,  
12 all of the UNE-P issues brought up by Mr. Gillan are premature and irrelevant to Phase  
13 A.

14

15 **OSS COST RECOVERY**

16

17 **PLEASE SUMMARIZE THE ISSUES RELATING TO OSS COST RECOVERY THAT**  
18 **YOU WILL BE ADDRESSING.**

19 Mr. Rex Knowles on behalf of NEXTLINK Washington, Inc. addresses several issues relating  
20 to OSS cost recovery. These issues may be summarized as follows:

1

2

- As an unbundled network element, OSS rates must be based on TELRIC and ILECs cannot claim that the cost of modifications to the existing OSS is forward-looking in nature (pp. 3-4).

3

4

5

- The costs incurred by ILECs to make OSS available should be included in their retail ratebase and recovered from their retail prices (pp. 4-6).

6

7

8

- CLECs should be entitled to recover their OSS costs from ILECs to the same extent that ILECs are authorized to recover those costs from CLECs (pp. 7-8).

9

10

11

- CLECs should pay only for the modifications they require. So if, for instance, a CLEC does not resell services, it should not have to pay for modifications that were necessary to allow resale (pp. 8-10).

12

13

14

15 **REGARDING THE FIRST ISSUE, DO YOU AGREE THAT ILECS' COST OF**

16 **MODIFYING OSS CANNOT BE CONSIDERED FORWARD-LOOKING AND,**

17 **THEREFORE, SHOULD NOT BE INCLUDED IN THE PRICES CHARGED TO**

18 **CLECS?**

19 No, I do not. OSS enhancement costs are not embedded costs but transition costs

20 necessary to modify Verizon NW's OSS to be accessible by CLECs. As I

1 discussed in my phase A revised direct testimony, this view has already been  
2 endorsed by this Commission in its 17th Supplemental Order in Phase II of  
3 Docket No. UT-960369 et al., where it ruled that OSS transition costs should be  
4 recovered from CLECs (paragraphs 100, 102).

5  
6 The Commission's ruling on this point is correct, because OSS enhancement  
7 costs are not embedded costs in the sense used by the FCC in its Local  
8 Competition Order -- they have nothing to do with the embedded cost of the  
9 existing network. Instead, OSS modification costs are forward-looking since the  
10 modifications were required to change the ILECs' systems for the future  
11 competitive environment. In this sense, they are no different from the research  
12 and development costs that underlie the forward-looking, least cost technology  
13 switch used to develop the UNE-port rates. Firms in competitive markets, such  
14 as switch manufacturing, do not assume away these transition costs but recover  
15 them in the prices of their products. The same concept applies to OSS  
16 modifications -- the only differences are that we are not dealing with a switch  
17 and its manufacturer, but with an operations system and an ILEC. In both  
18 cases, the development costs necessary to upgrade the technology should be  
19 recovered from the cost-causer. NEXTLINK wants to have the benefit of the  
20 lower ordering charges allowed by the OSS modifications without recognizing



1 that the enhancements were made at a substantial cost. This would be  
2 analogous to arguing that switch manufacturers' research and development cost  
3 recovery should be removed from UNE-port rates.

4

5 **Q. SECOND, MR. KNOWLES ARGUES THAT OSS MODIFICATION COSTS**  
6 **SHOULD BE RECOVERED FROM ILEC RETAIL CUSTOMERS RATHER**  
7 **THAN CLECS ALONE. DO YOU AGREE WITH HIS ASSESSMENT?**

8 A. No, I do not. As discussed above, this issue has already been determined in a clear and  
9 unambiguous manner by the Commission in its 17th Supplemental Order. Thus, Mr.  
10 Knowles' argument that the public interest "caused" these costs to be incurred so that all  
11 ratepayers should pay is contrary to the Commission's unambiguous conclusion in its  
12 17th Supplemental Order. Interestingly, under NEXTLINK's proposal, only the ILECs'  
13 retail customers would pay for these OSS costs – the CLECs would get away without  
14 paying anything. This result is diametrically opposed to the Commission's conclusion  
15 that the CLECs should pay for the modifications.

16

17 **Q. MR. KNOWLES ALSO ARGUES THAT OSS IS ANALOGOUS TO FEDERAL**  
18 **AND STATE REQUIREMENTS THAT BUILDING OWNERS MAKE THEIR**  
19 **BUILDINGS ACCESSIBLE TO PHYSICALLY DISABLED PERSONS. IS THIS**  
20 **A VALID COMPARISON?**

1 No, it is not. This is a misleading comparison because we are not dealing with access to a public  
2 building; rather we are dealing with a marketplace with various entities competing with  
3 each other in order to make a profit. While Congress required ILECs, such as Verizon  
4 NW, to open their networks to competition, it also sought to ensure that ILECs would be  
5 compensated for the reasonable costs incurred in the process of complying with this  
6 mandate. Section 251(d)(1) of the Act states that interconnection and UNE rates should  
7 be “just and reasonable” and “based on the cost (determined without reference to a rate-  
8 of-return or other rate-based proceeding) of providing the interconnection or network  
9 element (whichever is applicable).” Accordingly, Verizon NW should not be expected  
10 to subsidize competitive entry by CLECs -- whenever Verizon NW provides a UNE to  
11 a CLEC, it should be compensated for its just and reasonable cost. This has been  
12 affirmed by the Eighth Circuit Court, which stated in *Iowa Utilities Bd. v. FCC* that  
13 “Under the Act, an incumbent LEC will recoup the costs involved in providing  
14 interconnection and unbundled access from the competing carrier making requests (*Iowa*  
15 *Utilities Bd. v. FCC*, 120 F.3d 753, 810 (8th Cir. 1997) (emphasis added)). Indeed, a  
16 federal district court upheld findings that ILECs are entitled to recover their OSS cost  
17 from CLECs, stating that “Because the electronic interfaces will only benefit the CLECs,  
18 the ILECs, like BellSouth, should not have to subsidize them. . . . AT&T is the cost  
19 causer, and it should be the one bearing all the costs; there is absolutely nothing

20 <sup>1</sup>Memorandum Opinion and Order in *AT&T Communications of the South Central States, Inc.*,  
~~discriminatory about this concept.~~

1

2 **Q. MR. KNOWLES' THIRD POINT IS THAT CLECS SHOULD BE ENTITLED TO**  
3 **RECOVER THEIR OSS COSTS FROM ILECS TO THE SAME EXTENT THAT**  
4 **THE ILECS ARE AUTHORIZED TO RECOVER THOSE COSTS FROM THE**  
5 **CLECS. DO YOU AGREE?**

6 A. No, I do not. OSS enhancements undertaken by both ILECs and CLECs were  
7 undertaken solely for the benefit of CLECs. ILECs do not benefit in anyway  
8 from these enhancements and, consistent with the discussion above, should not  
9 be required to pay for them.

10

11 **MR. KNOWLES' FOURTH ARGUMENT IS THAT A CLEC SHOULD ONLY PAY**  
12 **FOR THE MODIFICATIONS IT REQUIRES. PLEASE COMMENT ON THIS.**

13 Mr. Knowles argues that a CLEC that does not resell ILEC retail services should not be  
14 responsible for any costs associated with OSS used to order or provision resold services,  
15 and a CLEC that only resells should not pay for OSS costs associated with  
16 interconnection and local traffic exchange. This is incorrect for two reasons. First, OSS  
17 transition and transaction costs were incurred to give CLECs general access to Verizon

---

*v. BellSouth Telecommunications Inc., et al.*, Civil Action 97-79, September 9, 1998 slip op. at 15-16, Federal District Court of Kentucky, 1998 U.S. Dist. LEXIS 14558.

1 NW's operations support systems and are not specific to entry platforms such as resale  
2 versus UNE. Second, even if separate costs could be identified for different types of  
3 orders, it would be more administratively complex to price OSS in this manner and may  
4 not be worth the trouble unless the cost differences were substantial. Thus, while  
5 Verizon NW agrees with the principle that significant cost differences should generally  
6 be reflected in prices, this is not the case for OSS transition and transaction costs  
7 presented in Verizon NW's pricing proposal.

8 **V.OSS TRACKING MECHANISM**

9  
10 **PLEASE DESCRIBE THE REQUIREMENTS FOR DOCKET UT-003013 PERTAINING**  
11 **TO VERIZON NW'S OSS TRACKING MECHANISM.**

12 In its 25th Supplemental Order in UT-960369 et al., the Commission required Verizon NW to  
13 file a description of its OSS tracking mechanism in Docket UT-003013 to allow  
14 interested parties to comment and the Commission to review the mechanisms and  
15 establish a true-up period for its interim OSS rates.

16

1 **PLEASE DESCRIBE VERIZON NW’S INTERIM OSS RATES.**

2 Verizon NW’s interim OSS rates are one component of Verizon NW’s proposed NRCs in Phase  
3 II of UT-960369 et al. As a result, the interim OSS rates will not be charged to CLECs  
4 until such time as the Commission approves the proposed NRCs. Once the NRCs are  
5 approved, Verizon NW will begin tracking their associated interim OSS rate  
6 components.

7  
8 The interim OSS rate components included in Verizon NW’s proposed NRCs are  
9 comprised of: 1) fixed costs, 2) IT/DP shared costs, and 3) provisioning shared  
10 costs.<sup>2</sup> These interim OSS rate components will be charged to the CLEC for each

---

1 <sup>2</sup>The OSS transition costs included in Verizon NW’s November 1999 NRC/OSS filing is  
2 comprised of the “fixed” and “provisioning shared” OSS costs while the OSS transaction costs  
3 equate to the “IT/DP Shared” OSS costs.

1 initial and subsequent service order processed, where applicable, for electronic or manual  
2 ordering. The table below summarizes the OSS interim rate components that will be  
3 applicable to the various initial and subsequent ordering NRCs:

4 Table 1

5 APPLICABLE OSS INTERIM RATE COMPONENTS

6 Service Order Type	7 Fixed Cost	IT/DP Shared Cost	Provisioning Shared Cost
8 Electronic or Manual Ordering Charges:			
9 Resale			
10 Engineered Initial Service Order	X	X	X
11 Engineered Subsequent Service Order	X	X	X
12 Non-engineered Initial Service Order	X	X	
13 Non-engineered Subsequent Service Order	X	X	
14 Resale Changeover			
15 Non-engineered Initial Service Order	X	X	
16 Resale As Specified			
17 Engineered Initial Service Order	X	X	X
18 Non-engineered Initial Service Order	X	X	
19 UNE Loops			
20 Engineered Initial Service Order	X	X	X
21 Non-engineered Initial Service Order	X	X	
22 <del>UNE Ports</del>			
23 Non-engineered Initial Service Order	X	X	
24 Non-engineered Subsequent Service Order	X	X	
25 UNE NIDs			
26 Engineered Initial Service Order	X	X	X
27 Non-engineered Initial Service Order	X	X	

1 **Q. PLEASE DESCRIBE VERIZON NW’S TRACKING MECHANISM FOR**  
2 **INTERIM OSS REVENUES.**

3 A. Since Verizon NW’s interim OSS rates are part of a combined NRC/OSS rate structure,  
4 tracking the revenues collected from the NRC/OSS rates would not appropriately identify  
5 the amount of revenues collected from CLECs for OSS. Instead, Verizon NW will track  
6 the initial and subsequent orders submitted by CLECs in Washington by Item of Service  
7 Code (“IOSC”). The IOSC will be tracked on a going-forward basis through GTE’s  
8 Customer Billing Services System (“CBSS”), which is used to bill retail, resale and UNE  
9 services. The end user billing data files in CBSS are cyclic (10 files per month) that will  
10 include the necessary fields of information, including the Operating Company Number  
11 (“OCN”) (which identifies the CLEC) and the service order type processed.

12

13 **Q. HOW WILL THE TRUE UP BE CALCULATED?**

14 A. Once permanent OSS rates are established in Docket No. UT-003013, Verizon NW will  
15 calculate the appropriate true-up for OSS based on the following procedure:

16

17 Compute the difference between the permanent OSS rate components and the interim  
18 OSS rate components.

19

20 Apply the difference in these rates to the appropriate initial and subsequent order charges

1 processed in Washington for each CLEC.  
2 Credit the CLEC’s bill for the true-up amount, so long as the credit does not exceed the  
3 total amount being billed to the CLEC in the current bill. If the credit exceeds  
4 the total CLEC bill, Verizon NW will spread the credit over multiple bills.

5  
6 If a CLEC has questions regarding the OSS rate true-up calculation, the CLEC will be  
7 able to contact their Verizon NW Account Manager.

8

9

#### **VI.LINE SHARING ISSUES**

10

11 **PLEASE DESCRIBE THE FIRST LINE SHARING ISSUE THAT YOU WILL BE**  
12 **ADDRESSING.**

13 I indicated in my phase A revised direct testimony that the rates for Verizon NW’s first network  
14 configuration involving a CLEC-owned splitter in a virtual collocation arrangement were  
15 under development. As described in the phase A responsive direct testimonies of Mr.  
16 Behrle and Ms. Casey, Verizon NW has completed its cost analysis of the first network  
17 configuration for line sharing. Verizon NW proposes monthly recurring and non-  
18 recurring rates based on these costs.

19



1 **Q. WHAT PRICES DOES VERIZON NW PROPOSE FOR THE FIRST NETWORK**  
2 **CONFIGURATION.**

3 Based on the costs developed by Mr. Behrle and Ms. Casey and consistent with Verizon NW's  
4 general pricing principles, the monthly recurring and non-recurring rates for the first  
5 network configuration are shown in Exhibit RT-6. The monthly recurring rates include  
6 a 24.75% mark-up for common and shared costs, while the non-recurring rates are based  
7 directly on the incremental cost of the line sharing ordering and provisioning activities.  
8 As I discussed in my phase A revised direct testimony, Verizon NW's general pricing  
9 methodology is reasonable and consistent with the regulatory requirements of this  
10 Commission, as well as the FCC.

11

12 **PLEASE DESCRIBE THE SECOND LINE SHARING ISSUE THAT YOU WILL BE**  
13 **ADDRESSING.**

14 Dr. Richard Cabe on behalf of Rhythms Links Inc. and Covad Communications Company stated  
15 in his phase A direct testimony that no additional charge in conjunction with line sharing  
16 is needed to recover OSS costs since forward-looking OSS costs have been included in  
17 UNE prices generally, unless the ILECs contend that there are some OSS functionalities  
18 not previously contemplated in the development of existing UNE prices (p. 21). He also  
19 states that he expects any incremental cost of the additional functionalities necessary for  
20 line sharing would be very small because they would be incremental to the existing

1 functionalities and because these new functionalities would also benefit the ILEC's own  
2 operations (pp. 21-22).

3 **DO YOU AGREE WITH DR. CABE'S ASSESSMENT?**

4 No, I do not. First, OSS transition and transaction costs are NOT included in GTE's existing  
5 UNE non-recurring prices as assumed by Dr. Cabe, because the Company's non-recurring  
6 UNE rates established in Phase II of Docket No. UT-960369, et al are currently pending  
7 Commission approval. Furthermore, line sharing orders should be subject to the same  
8 OSS cost recovery as other UNE orders, with respect to OSS transition and transactions  
9 costs, since these costs were incurred to enhance the handling of all CLEC orders,  
10 including line sharing orders. Second, it is difficult for anyone to comment on the  
11 magnitude of the incremental costs associated with further modifications to Verizon  
12 NW's OSS resulting from the FCC's Line Sharing Order. Verizon NW has not yet  
13 completed its line sharing OSS enhancements. However, as mentioned in my phase A  
14 revised direct testimony, Verizon NW will seek recovery for these additional costs after  
15 they have been identified. The cost study that Verizon NW will submit at that time will  
16 be consistent with the FCC's and this Commission's cost study guidelines.

17

18 **Q. DOES THIS CONCLUDE YOUR PHASE A RESPONSIVE DIRECT**  
19 **TESTIMONY?**

20 A. Yes, it does.



**BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

<b>IN THE MATTER OF THE CONTINUED</b>	)	
<b>COSTING AND PRICING PROCEEDING</b>	)	
<b>FOR INTERCONNECTION, UNBUNDLED</b>	)	<b>DOCKET NO. UT- 003013</b>
<b>ELEMENTS, TRANSPORT AND</b>	)	<b>PHASE A</b>
<b>TERMINATION, AND RESALE</b>	)	

PHASE A RESPONSIVE DIRECT TESTIMONY OF

ROBERT TANIMURA

MANAGER – STATE ADVOCACY SUPPORT

ON BEHALF OF

VERIZON NORTHWEST INC.

Formerly Known as GTE Northwest Incorporated

SUBJECT: PRICING POLICY

JULY 21, 2000

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