Exhibit No. _____ (DBT-1T)
Docket No. UT-003013 – Phase B

BEFORE THE

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

IN THE MATTER OF THE CONTINUED COSTING AND PRICING OF UNBUNDLED NETWORK ELEMENTS, TRANSPORT, TERMINATION, AND RESALE	**)** **)** **)** **)**	**DOCKET NO. UT-003013 PHASE B**

PHASE B DIRECT TESTIMONY OF

DENNIS B. TRIMBLE

AVP – PRICING STRATEGY

ON BEHALF OF

VERIZON NORTHWEST, INC.

Formerly Known as GTE Northwest Incorporated

SUBJECT: PRICING

Exhibit No. _____ (DBT-1T)
Docket No. UT-003013 – Phase B

AUGUST 4, 2000

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I. INTRODUCTION

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

A. My name is Dennis B. Trimble, and I am currently employed as Assistant Vice President – Pricing Strategy. My business address is 600 Hidden Ridge Drive, Irving, Texas.

Q. PLEASE SUMMARIZE YOUR EDUCATION AND WORK EXPERIENCE.

A. I received an undergraduate degree in business and an MBA from Washington State University in the early 1970s. I also served as an Assistant Professor at the University of Idaho, where I taught undergraduate courses in statistics, operations research, and decision theory. From 1973 to 1976, I completed course work towards a Ph.D. degree in business at the University of Washington.

I joined GTE in 1976 as an Administrator of Pricing Research for General Telephone Company of the Northwest. From 1976 until 1985, I held various positions within GTE Northwest and GTE Service Corporation in the areas of demand analysis, market research, and strategic planning. In 1985, I was named Director of Market Planning for GTE Florida Incorporated, and in 1987, I became GTE Florida's Director of Network Services Management. From 1989 to 1994, I was the Director of Demand Analysis and Forecasting

for GTE Telephone Operations. In October 1994, I became Director of Pricing and Tariffs for GTE Telephone Operations, and in 1996, I was named Assistant Vice President of Marketing Services. I assumed my current position – Assistant Vice President of Pricing Strategy – in February 1998.

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

A. 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 is named Verizon Communications.

A. IN YOUR TESTIMONY HOW DO YOU USE THE TERMS "VERIZON NW" AND "GTE"?

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

companies' networks, operations, practices and procedures.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE STATE REGULATORY COMMISSIONS?

A. Yes. I have presented testimony on behalf of GTE companies before various state commissions, including the commissions in Alabama, California, Florida, Hawaii, Indiana, Oregon, South Carolina, Texas, and Virginia.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. My testimony identifies and addresses the pricing policy issues inherent in this proceeding and sets forth Verizon NW's proposed monthly recurring charges ("MRCs") for the various unbundled network elements ("UNEs") that are the subject of this proceeding. In addition, I am proposing ordering and provisioning non-recurring charges ("NRCs") for activities that were not addressed in Verizon NW's NRC compliance filing made on June 9, 2000.[1]

My testimony includes two exhibits. Exhibit DBT-2 lists Verizon NW's proposed MRCs for the subject UNEs; Exhibit DBT-3 lists Verizon NW's proposed additional NRCs.

[1] GTE's compliance filing concerning NRCs was made in response to ordering paragraph 157 of the 25th Supplemental Order in Docket No, UT-960369, et al.

Q. FOR WHICH SPECIFIC UNES IS VERIZON NW PROPOSING RATES IN THIS PROCEEDING?

A. Since Verizon NW does not at this time wish to re-litigate the recurring or non-recurring rates previously ordered in UT-960369, *et al*., I will be addressing rate proposals for the new offerings that result from the Federal Communication Corporation's ("FCC") UNE Remand Order.[2] For Verizon NW, these new UNEs

[2] *Implementation of the Local Competition Provisions of the Telecommunications Act of 1996*, CC Docket No. 96-98, Third Report and Order and Fourth Further Notice of Proposed Rulemaking released November 5, 1999 (UNE Remand Order).

and/or combinations include:

(1) Dark Fiber,

(2) Subloop Elements,

(3) Inside Wiring ("Intra-building Riser Cable"),

(4) UNE-Platforms ("UNE-P"),

(5) EELs,

(6) Customized Routing and Operator Services / Directory Assistance ("OS/DA"),

(7) Packet Switching, and

(8) SS-7 Signaling Network Access and Call Related Databases.

In addition, Verizon NW proposes rates for the following offerings for which the Commission has not adopted rates:

(1) High-Capacity Loops (e.g., DS-1 and DS-3),

(2) Switch Ports: (a) ISDN basic rate interface ("BRI") port, (b) DS-1 trunk side port, and (c) ISDN primary rate interface ("PRI") port,

(3) Switch Features,

(4) ISDN Loop Extenders,

(5) Dedicated Transport,

(6) Tandem Switching, and

(1) Reciprocal Compensation.

Finally, I address the issue of fiber-fed digital loop carrier systems ("DLC") as directed by the Commission's Third Supplemental Order issued on July 17, 2000.

Q. WHAT ADDITIONAL ORDERING AND PROVISIONING NRCS IS VERIZON NW PROPOSING IN THIS PROCEEDING?

A. To augment Verizon NW's June 9, 2000 compliance filing, Verizon NW is proposing NRC's for ordering and provisioning activities associated with the following items:

(1) UNE-Ps,

(2) Subloops,

(3) Dark Fiber,

(4) SS-7 Signaling Network Access and Call Related Databases,

(5) EELs,

(1) Dedicated Transport,

(2) Loop Conditioning[3], and

(8) Space Availability Inquiries and Field Verifications for Poles, Ducts and Conduits.

[3] Verizon NW Witness Robert Tanimura presented the Company's proposed loop conditioning rates in his phase A direct testimony filed on May 19, 2000. As a result of the issuance of the Commission's Fourth Supplemental Order dated July 25, 2000 that moved the issue of loop conditioning to Phase B of this proceeding, I will assume responsibility for sponsoring loop conditioning pricing testimony.

Q. WHAT OTHER VERIZON NW WITNESSES ARE FILING DIRECT TESTIMONY IN PHASE B OF THIS DOCKET?

A. In addition to my testimony, Verizon NW is presenting the testimony of four witnesses that support the Company's costs and proposed rates for specific UNEs. These costs and rates fall into two categories: (1) the costs and prices of the UNEs themselves, which are reflected in Verizon NW's proposed MRCs; and (2) the costs and prices for ordering and provisioning UNEs, which are reflected in Verizon NW's proposed NRCs.

Verizon NW Witnesses Kevin Collins and Joseph Abs sponsor the Integrated Cost Model ("ICM"), which calculates the total element long run incremental cost ("TELRIC") of any new UNEs. Mr. Collins sponsors the ICM's investment calculations, and Mr. Abs sponsors the ICM's expense calculations. As discussed by Mr. Collins, the resulting TELRICs are fully consistent with the FCC's current cost rules.

Verizon NW Witness Linda Casey sponsors the cost study that supports Verizon NW's proposed NRCs, associated with ordering and provisioning UNEs.

Verizon NW Witness R. Kirk Lee presents Verizon NW's policy positions, terms and conditions associated with the ordering and provisioning of unbundled dark fiber

and combinations of UNEs, including UNE-Ps and Enhanced Extended Links ("EELs").

Verizon NW Witness Russell Bykerk presents the status of Verizon NW's deployment plans for fiber-fed digital loop carrier ("DLC") systems.

I use Mr. Collins' cost calculations to develop monthly recurring prices for UNEs, and I use Ms. Casey's cost calculations to develop a set of non-recurring ordering and provisioning charges for the subject UNEs.

Q. HOW IS YOUR REMAINING TESTIMONY ORGANIZED?

A. The remaining testimony is structured into four additional sections. Section II presents a brief discussion of the general pricing policies Verizon NW is following in this proceeding. Section III discusses the development of Verizon NW's proposed additional NRCs. Section IV presents Verizon NW's proposed MRCs for the various UNEs that are the subject of this testimony. The last section deals with Verizon NW's recommendations concerning reciprocal compensation.

(7)II. GENERAL PRICING POLICY

Q. SHOULD UNE PRICES BE BASED SOLELY ON TELRIC PLUS A SHARE OF "FORWARD-LOOKING" COMMON COSTS?

A. No. UNE prices must, in the aggregate, reflect an incumbent local exchange carrier's ("ILEC") actual cost. The FCC's current pricing rules, however, require UNE prices to be based solely on TELRICs plus a share of forward-looking common costs. Although Verizon NW does not agree with the FCC's pricing rules, Verizon NW is proposing rates in accordance with the Commission's First Supplemental Order (which was driven by the FCC's UNE pricing rules).

However, for the reasons outlined in its Motion to Stay Proceeding filed on July 28, 2000, Verizon NW strongly believes the Commission should delay any rulings on UNE prices and the cost model methodology for setting those prices. On July 18, 2000, the U.S. Court of Appeals for the Eighth Circuit determined that the FCC's interpretation of the total element long-run incremental cost (TELRIC) methodology was unlawful. *Iowa Utilities Bd., et al. v. FCC and United States of America, No. 96-3321* (and consolidated cases) (8th Cir.). This ruling is consistent with the position Verizon NW, as GTE NW, previously took before this Commission. Nevertheless, in accordance with this Commission's Seventeenth Supplemental Order in UT-960369, et al., Verizon's proposed prices in this proceeding are based on the FCC's TELRIC interpretation that the Eighth Circuit has now determined is unlawful.

Verizon NW understands that it is likely the Eighth Circuit's decision will be

appealed. Given the uncertainty surrounding the appropriate cost methodology for pricing UNEs, Verizon NW believes the most efficient course would be to stay the current proceeding until the issue of appropriate cost methodology is resolved at the federal level. This approach will allow the parties and the Commission to avoid wasting their limited resources in the absence of a lawful costing standard.

In the event that the Commission wishes to go forward, despite the uncertainty engendered by the Eighth Circuit's decision, Verizon NW proposes the rates set forth in my direct testimony based on the cost studies sponsored by Verizon NW Witnesses Kevin Collins, Joseph Abs and Linda Casey. Verizon NW reserves its right to propose new rates after the legal issue of the appropriate cost model methodology is resolved at the federal level.

(7) **Q. WHAT PROCEDURES HAS VERIZON NW USED TO DEVELOP ITS PROPOSED UNE RATES?**

A. Verizon NW's general pricing methodology for UNEs can briefly be summarized as follows:

1. MRCs for UNEs will include an equal percentage mark-up above their TELRIC for recovery of the Company's forward looking common costs (*e.g.*, a fixed-allocation pricing procedure). The TELRIC costs in support of each proposed MRC element are addressed in the Phase B

Direct Testimony of Verizon NW Witness Kevin Collins.

2. Ordering and provisioning NRCs will be priced at cost with no additional mark-up for recovery of common costs (common cost recovery will occur solely through monthly rates). The cost support for each proposed NRC element is addressed in the Phase B Direct Testimony of Verizon NW Witness Linda Casey.

In addition, so as not to re-litigate previous Commission orders, Verizon NW bases its proposed prices for 2-wire and 4-wire subloops on cost element factors. These factors, as developed by Verizon NW Witness Kevin Collins, provide the means for decomposing previously ordered 2-wire and 4-wire UNE loop rates into rates for subloop components that are consistent with the overall loop rate.

Q. WHAT COMMON COST RECOVERY FACTOR IS USED AS THE BASIS FOR THE FIXED ALLOCATOR FOR DETERMINING COST-BASED UNE MRCS?

A. Again, Verizon NW does not desire to re-litigate common cost issues at this time. Thus, the proposed monthly recurring charges include a mark-up of 24.75% for recovery of the Company's common costs. This mark-up is consistent with the Commission's 17th Supplemental Order in Phase III of Docket No. UT-960369 et al. ("17th Supplemental Order," paragraph 208). Thus, the proposed MRCs for each

UNE are computed as:

UNE's MRC = TELRIC * (1 + .2475)

GEOGRAPHIC DEAVERAGING

Q. IS VERIZON NW PROPOSING ANY ALTERNATIVE GEOGRAPHIC SCHEMES FOR THE DEAVERAGING OF UNE LOOPS?

A. No. Verizon NW is not proposing any new deaveraging schemes at this time. Therefore, in this proceeding the Company uses the Commission's five-zone structure as ordered by the Twenty-fourth Supplemental Order in Phase III of Docket No. UT-960369 et al. Verizon NW also continues to maintain that only UNE loops possess the requisite geographic cost variation to warrant geographic price deaveraging. Thus, within this proceeding, Verizon NW proposes geographic deaveraged rates only for new loop-related UNEs that exhibit significant levels of cost variation between the geographies that make up the Commission's five zones for Verizon NW.

1.III.DISCUSSION OF PROPOSED NRCS

Q. PLEASE DESCRIBE THE TYPES OF NRCS YOU ARE PROPOSING TO IMPLEMENT.

A. As shown in Exhibit DBT-3, Verizon NW is proposing two types of NRCs: an ordering charge and a provisioning charge. The ordering charge, as its name

suggests, reflects the costs Verizon NW incurs when a competitive local exchange carrier ("CLEC") "places an order" for a UNE (e.g., a two-wire loop) or an activity (e.g., removing bridged taps). The provisioning charge reflects the cost of "provisioning that order" or activity (e.g., the cost of sending a technician to the field to remove bridged taps).

Q. WHAT COSTS DO THESE NRCS RECOVER?

A. The NRCs capture the costs that are caused by the CLEC's request. The Company incurs two types of costs: the variable costs (principally, labor costs) that arise when workers review, process, and provision CLEC orders; and the shared/fixed costs for the computers, buildings, and similar facilities devoted to fulfilling CLEC requests at Verizon NW's National Open Market Center ("NOMC"). A third category of costs dealing with the development of Operational Support Systems ("OSS") is currently under review in Phase A of this docket.

The *provisioning* NRCs are designed to recover the variable costs incurred in fulfilling CLEC orders. The *ordering* NRCs include recovery of (a) variable ordering costs (b) fixed/shared ordering costs, and (c) an amount for recovery of Operation Support System ("OSS") development costs. The proposal for recovery of OSS costs covered in Verizon NW Witness Dr. Robert Tanimura's direct

testimony in Phase A of this docket.[4] If the Commission directs the Company to recover an amount for OSS that is different than Dr. Tanimura's total recommended amount of $7.03 per order (termed by Verizon NW as a local service request ["LSR"]), then the ordering NRCs proposed in this proceeding should be changed appropriately.

The proposed shared/fixed amount, which is added to each "ordering" NRC, acts to spread recovery of the "fixed / shared" costs of the NOMCs over time and thus allows CLECs to pay for these fixed / shared costs in installments. If the Commission disagrees with this rate structure, then the costs must be wholly recovered through some other mechanism (e.g., a non-bypassable surcharge on all CLEC bills or all end-user bills, or a one-time charge assessed to all CLECs).

Q. HOW WERE THE VARIABLE AND FIXED/SHARED COSTS DEVELOPED?

A. The variable costs were developed based on the time needed to process the different types of CLEC orders. Verizon NW Witness Linda Casey's testimony explains how these charges were developed by studying the different activities associated with

[4] Dr. Tanimura's recommendation was to charge an additional $7.03 per local service request. This amount is comprised of $3.27 which Dr. Tanimura portrayed as recovery of OSS transition costs (i.e., development costs) which would be assessed until such time as GTE's OSS transition costs are recovered. The remaining $3.76 was earmarked by Dr. Tanimura for recovery of ongoing OSS transaction costs.

different types of CLEC requests and by applying current labor rates. The Company has developed separate sets of NRCs that link the cost with the cost-causer; e.g., a CLEC that places an order for a simple two-wire loop will incur a lower NRC than a CLEC that places a more complicated order.

The shared/fixed costs were developed based on the costs actually incurred, as described in the Verizon NW NRC Study. Verizon NW proposes to recover these costs through an additional amount included in the NRC rate assessed on every CLEC LSR. Specifically, whenever a CLEC places an order or initiates an activity involving the GTE NOMCs, the CLEC's "ordering" NRC includes $4.92 for recovery of shared/fixed NOMC costs. This amount was developed by taking the annual NOMC shared/fixed costs of $17.1 million and dividing it by the 3.475 million average annual LSRs expected over the 2001-2005 period.

Again, these variable costs, shared/fixed costs, and OSS recovery costs are all reflected in the "ordering" and "provisioning" NRCs shown on Exhibit DBT-3, pages 1 - 6. As appropriate, I will further discuss in the next section some of the proposed NRCs for the specific UNEs for which I am proposing MRCs.

Q. PLEASE PROVIDE AN EXAMPLE OF THE NRCS LISTED ON EXHIBIT DBT-3.

A. Please refer to page 1 of Exhibit DBT-3, which shows the ordering and provisioning NRCs applicable to an initial order for one "Exchange-basic" UNE-P. The total cost of ordering this facility (using the manual method) is $30.66 and the proposed NRC equals this cost (as stated above, without a common cost mark-up). As shown on page 9 of Exhibit DBT-3, this cost includes the variable costs associated with this order plus a share of the NOMC fixed costs plus Dr. Tanimura's recommended amount for recovery of OSS development costs or:

1.	Variable Ordering Cost =	$ 18.71
1.	NOMC Shared/Fixed Recovery =	$ 4.92
OSS Recovery =		$ 7.03
	TOTAL NRC =	$ 30.66

The total cost (and NRC) of provisioning this facility is $28.33 which recovers the costs incurred in the provisioning of the loop. (See page 9 of Exhibit DBT-3). This provisioning NRC does not include a share of the NOMC fixed cost, since the NOMC cost is caused by the ordering, not the provisioning, and therefore it is recovered through the ordering NRC.

LOOP CONDITIONING

Q. WHAT PRICE DOES GTE PROPOSE FOR LOOP CONDITIONING?

A. Verizon NW will provide loop conditioning (i.e., removal of bridged taps and load

coils) when needed to allow CLECs to provide acceptable forms of xDSL-based services over the high frequency portion of the loop. The rates for loop conditioning are non-recurring charges based directly on the cost for these activities as developed by Verizon NW Witness Linda Casey in Exhibit LC-2C that was previously filed on May 19, 2000 in Phase A. Verizon NW's proposed loop conditioning rates are developed in Exhibit DBT-3.

Q. WILL LOOP CONDITIONING BE PROVIDED UNDER ALL CIRCUMSTANCES?

A. No. Loop conditioning will not be provided in cases where such conditioning significantly degrades other advanced services or traditional voice band services. This is in accordance with FCC Rules 51.230, 51.233, and paragraphs 85, 86, and 201-205 of the FCC's Line Sharing Order.

A. *INQUIRIES FOR POLES, DUCTS, AND CONDUITS*

Q. IS VERIZON NW PROPOSING SPECIFIC NRCS FOR SPACE AVAILABLILTY INQUIRIES AND FIELD VERIFICATIONS FOR POLES, DUCTS, AND CONDUITS.

A. No. Rates for space availability inquiries and field verifications for poles, ducts and conduits should be established on a case-by-case basis.

Verizon NW currently has separate pole, duct and conduit agreements with at least nine CLECs that address these rates. Therefore, Verizon NW proposes to continue using these agreements to establish rates for space availability inquiries and field verifications for poles, ducts and conduits.

A.**IV.MRC PRICING PROPOSALS**

A. *A. HIGH CAPACITY LOOPS*

Q. FOR WHAT HIGH CAPACITY LOOPS IS VERIZON NW PROPOSING RATES IN THIS PROCEEDING?

A. Verizon NW proposes rates for DS-1 and DS-3 UNE loops. A DS-1 loop is a loop that has been conditioned to support DS-1 transmission, including associated electronics. It can be used to provide full-period services (e.g., private line) and switched services (e.g., ISDN PRI) to end-users. In contrast DS-3 UNE loops are provisioned over fiber optic cable and include the electronics necessary to facilitate DS-3 transmission.

Q. ARE VERIZON NW'S RATE PROPOSALS FOR DS-1 AND DS-3 UNE LOOPS DEAVERAGED BY GEOGRAPHIC AREA?

A. Yes and no. The cost studies sponsored by Verizon NW Witness Kevin Collins indicate that only DS-1 UNE loops exhibit cost characteristics that support geographic deaveraging, while the various costs for DS-3 UNE loops exhibit minimal levels of geographic variation. Therefore, I am only proposing to geographically deaverage rates for DS-1 UNE loops.

Q. WHAT RATES ARE YOU PROPOSING FOR DS-1 AND DS-3 UNE LOOPS?

A. The proposed rates based on the fixed-allocation procedure can be found in Exhibit DBT-2.

A. *B. SWITCH PORTS*

Q. IS VERIZON NW PROPOSING ANY UNE RATES FOR SWITCH PORTS?

A. Yes. Currently the Commission is evaluating Verizon NW's June 9, 2000 compliance filing in Docket No. UT-960369 et al., which supports a UNE rate for a basic analog switch port. Within this proceeding, I am proposing UNE rates for three additional types of switch ports: (1) an ISDN BRI line side port, (2) a DS-1 trunk side port, and (3) an ISDN PRI trunk side port.

Q. WHAT RATES ARE YOU PROPOSING FOR EACH OF THESE VARIOUS

SWITCH PORTS?

A. Verizon NW's proposed MRCs can be found in Exhibit DBT-2.

A. *C. SWITCH FEATURES*

Q. HOW DOES VERIZON NW PROPOSE TO RECOVER THE COSTS OF PROVIDING UNBUNDLED ACCESS TO THE VARIOUS FEATURES OF A SWITCH?

A. I am proposing that feature-specific rates be adopted, where the rates are based on each feature's specific TELRIC plus a reasonable allocation of the Company's common costs (e.g., the fixed-allocator pricing process). Verizon NW has never included the cost of various switch features in the cost of its switch ports or end-office switching UNEs. The rational method for recovery of switch feature costs is to charge the CLECs only for what they use – i.e., on a per switch feature usage basis. Verizon NW's proposed MRCs for the most common switch features are depicted in Exhibit DBT-2.

Q. IF A CLEC DESIRES TO PURCHASE A GIVEN SWITCH FEATURE THAT IS NOT LISTED IN EXHIBIT DBT-2, HOW WOULD THAT CLEC GAIN ACCESS TO THAT FEATURE?

A. If such a feature exists on a given switch platform, Verizon NW proposes that the bona fide request ("BFR") process be employed by the CLEC. Upon

receipt of the request, Verizon NW will determine if the specific switch has the capability to deliver the requested feature. If the feature exists, Verizon NW will develop costs and prices based on the FCC's rules and negotiate the proposed offering with the requesting CLEC.

A. *D. ISDN LOOP EXTENDERS*

Q. WHAT ARE ISDN LOOP EXTENDERS?

A. In many cases, CLECs should be able to provision ISDN BRI services to their end-users through the use of a basic 2-wire UNE loop. However, when the loop length exceeds the technical serving capacity for provisioning ISDN BRI service, then the ISDN BRI loop extender UNE in conjunction with the basic 2-wire loop UNE allows the CLEC to provide ISDN BRI service to their end-users.

Q. WHAT PRICES IS VERIZON NW PROPOSING FOR AN ISDN LOOP EXTENDER AND WHEN WOULD THESE PRICES BE APPLICABLE?

A. Exhibit DBT-2 contains the proposed MRC for an ISDN loop extender. Loop extension rates apply only when required to facilitate the provision of ISDN BRI service.

E. DEDICATED TRANSPORT

Q. FOR WHAT DEDICATED TRANSPORT ELEMENTS IS VERIZON NW PROPOSING RATES?

A. Verizon NW is proposing rates for three capacity-based categories of direct trunked transport: (1) a voice grade facility (often called a DS-0 level facility), (2) a DS-1 level facility, and (3) a DS-3 level facility. In addition, rates are being proposed for any required multiplexing, based on the following two types of multiplexing: (1) DS-1 to voice grade, and (2) DS-3 to DS-1. The rate structure for the transport facilities is based on a per central office termination basis as well as a per airline mile basis. Verizon NW's proposed TELRIC-based MRC rates for each type of facility and each type of multiplexing can be found in Exhibit DBT-2. Proposed ordering and provisioning NRCs can be found in Exhibit DBT-3.

F. TANDEM SWITCHING

Q. WHAT RATE IS VERIZON NW PROPOSING FOR USAGE OF UNBUNDLED TANDEM SWITCHING?

A. The TELRIC-based rate for this service can be found in Exhibit DBT-2. The rate structure is on a per minute-of-use ("MOU") basis.

G. DARK FIBER

G. **Q. HOW DOES VERIZON NW DEFINE DARK FIBER?**

A. To summarize Verizon NW Witness R. Kirk Lee's description, dark fiber loops are defined as currently deployed, unused fiber strands through which no light is transmitted, or installed fiber optic cable that is not carrying a signal. The CLEC buying the dark fiber is expected to put its own electronics and signals on the fiber to make it "lit." Spare wavelengths on a fiber, which may result from the use of wave division multiplexing or dense wave division multiplexing equipment, are not considered spare dark fiber.

Q. WHAT IS VERIZON NW'S PROPOSED MRC FOR AN UNBUNDLED DARK FIBER LOOP?

A. Exhibit DBT-2 provides the "per strand" MRC for a dark fiber UNE loop, as well as associated distribution and feeder sub-loop elements. The fixed-allocation pricing computations that derive these rates are also depicted in Exhibit DBT-2.

Q. WHY DID YOU NOT PROPOSE TO DEAVERAGE THE PRICE FOR DARK FIBER LOOPS?

A. Dark fiber loops were assumed to exhibit the same relative level of cost variation between geographic zones as DS-3 loops exhibit, since a DS-3 loop

is a fiber-based loop. The geographic cost variation for DS-3 loops did not support the deaveraging of that offering, therefore I have no rationale to support the deaveraging of dark fiber loops.

G. **Q. WHAT NRCS ARE ASSOCIATED WITH DARK FIBER LOOPS?**

A. Verizon NW Witness R. Kirk Lee describes the pre-ordering process established to allow CLECs to determine if dark fiber is available on a specific route and, if so, the physical parameters of that dark fiber facility. The charge for this preordering activity is based solely on its cost and is listed on page 2 of Exhibit DBT-3 as “Advanced – Service Inquiry Charge” in the “Unbundled Dark Fiber” section of the exhibit.

Verizon NW's proposed non-recurring cost-derived charges for ordering and provisioning of dark fiber loops can be found in Exhibit DBT-3 in the “Unbundled Dark Fiber” section of the exhibit.

G. **Q. WHAT ARE DARK FIBER INTEROFFICE FACILITIES (“IOF”)?**

A. Dark fiber IOF is any unused fiber strands that exist between a fiber patch panel located within one Verizon NW central office and a fiber patch panel in the next Verizon NW central office through which the fiber is routed.

Q. WHAT TELRIC-BASED RATES DOES VERIZON NW PROPOSE FOR DARK IOF?

A. The proposed MRC rates are based on a "per termination" and "per airline mile" rate structure and are depicted in Exhibit DBT-2. Likewise, the associated NRCs for ordering and provisioning are depicted in Exhibit DBT-3 in the "Unbundled Dark Fiber" section of the exhibit. Since the composite rate paid for dark fiber IOF is mileage sensitive, Verizon NW considers dark fiber IOF to be sufficiently deaveraged to reflect geographic cost differences. Thus, deaveraged rates for this element are inappropriate; the IOF price structure inherently accounts for geographic cost differences.

H. SUBLOOP ELEMENTS

Q. FOR WHAT SUBLOOP ELEMENTS IS VERIZON NW PROPOSING PRICES?

A. Verizon NW is proposing rates for three separate subloop elements for both 2-wire and 4-wire UNE loops: (1) feeder, (2) distribution, and (3) drop. The feeder subloop is the loop facility that extends from Verizon NW's central office main distribution frame ("MDF") to a feeder distribution interface ("FDI"), which may be a cross-connect box or a digital loop carrier ("DLC"). The distribution facility extends from the FDI to, and including, the network interface device ("NID") at the customer's premises. Verizon NW is also proposing rates for the "drop," (which is defined for the provision of "one"

line) that extends from the pedestal or terminal serving the customer's premise to, and including, the NID at the customer's premises.

In addition, as discussed by Verizon NW Witness R. Kirk Lee, the Company proposes to decompose dark fiber loops into two subloop categories – feeder and distribution.

Q. HOW DO CLECs GAIN ACCESS TO SUBLOOP FACILITIES?

A. The existence of and ability to access subloop elements is very customer-specific and must be evaluated on a case-by-case basis. Access to subloop elements may occur at an MDF, a cross-connect box or DLC, or at the terminal serving the customer's premise. In all cases, the requesting CLEC must first collocate at the point (or points) where access to the subloop is requested or establish a point of connection ("POC") at those points. A POC is like a meet-point arrangement in that it is a physical interface that establishes the point at which the ILEC's facilities will be connected with the CLEC's facilities. In order to establish a POC at the requested interface location, the CLEC must first submit a Collocation Request to its Verizon NW account management team. The collocation request process will determine the technical feasibility of the CLEC's unbundled subloop request, any labor and/or capital costs for which the CLEC is responsible, and the proposed provisioning time frames to facilitate the creation of a POC with the CLEC.

Q. WHAT RATES IS VERIZON NW PROPOSING FOR UNE SUBLOOP ELEMENTS?

A. Verizon NW's proposed TELRIC-derived, deaveraged MRC rates are depicted in Exhibit DBT-2, while the appropriate ordering and provisioning NRCs are contained in Exhibit DBT-3.

Q. HOW WERE THE MRC RATES FOR SUBLOOPS DEVELOPED?

A. Verizon NW Witness Kevin Collins developed "cost allocation" factors that could be applied to the ordered 2-wire and 4-wire UNE loop rates. These factors allowed the decomposition of the "total" UNE loop rate into rates for the subloop elements. For example, the factors Mr. Collins developed for 2-wire loops were: Feeder = 30 percent; Distribution (which includes the drop) = 70%; and the drop alone = 13%. If we applied these percentage to the Commission's ordered statewide 2-wire rate of $23.94, the resulting prices for each subloop component would be:

2-wire Feeder = $ 7.18 or (.30 * 23.94)

2-wire Distribution = $16.76 or (.70 * 23.94)

2-wire Drop = $ 3.11 or (.13 * 23.94)

This methodology along with the percentages provided by Mr. Collins were used to develop the deaveraged 2-wire and 4-wire subloop rates.

H. *I. INTRA-BUILDING RISER CABLE*

Q. IS VERIZON NW PROPOSING RATES FOR ANY OTHER SUBLOOP-LIKE UNES?

A. Yes. Verizon NW is introducing another UNE: Intra-Building Riser Cable, which is a form of inside wire that is owned by the Company. Verizon NW proposes that inside wire costs (and prices) be established on a bona fide request basis. These facilities are inherently location or customer-specific, and therefore no cost model can be expected to calculate reasonable average costs for them. Indeed, Verizon NW may not own any inside wire connected to a specific customer or deployed in a specific area. For these reasons, the Company proposes that the price of inside wire be negotiated on a BFR basis. When a CLEC requests these facilities in a given area, the Company will first determine whether they exist. If they do, Verizon NW will develop costs and prices based on the FCC's rules.

J. UNE PLATFORMS

H. **Q. FOR WHAT UNE PLATFORMS IS VERIZON NW PROPOSING RATES?**

A. Based on Verizon NW's either approved or proposed UNE loop and port offerings, CLECs will technically have the capability to create four different platforms, which are integrated combinations of a UNE loop and a UNE port

as follows:

(1) Basic Analog Platform, which would be comprised of a 2-wire UNE loop and a basic analog line side port;

(2) ISDN BRI Platform, which would be comprised of a 2-wire UNE loop and an ISDN BRI digital line side port;

(3) ISDN PRI Platform, which would be comprised of a DS-1 UNE loop and an ISDN PRI digital port; and

(4) DS-1 Platform, which would be comprised of a DS-1 UNE loop and a DS-1 digital trunk side port.

Q. WHAT PRICE STRUCTURE AND PRICE LEVELS ARE VERIZON NW PROPOSING FOR EACH UNE PLATFORM?

A. Verizon NW is not proposing specific platform rates. The ultimate MRC for a platform will equal the sum of the MRCs for the individual UNEs that are required by the CLEC to create the platform that is currently serving the end-user customer. Thus, the total MRC paid by the CLEC will include a deaveraged UNE loop MRC and a UNE port MRC. The Company's switch usage rates (end-office and tandem) and common/shared transport rates will apply, as appropriate, for all minutes-of-use generated from the platform. Likewise, Verizon NW's proposed rates for switch features will also apply when specific switch features are ordered as well as Verizon NW's proposed rates for "non-call set-up" queries to the Company's databases. Exhibit DBT-

3 contains Verizon NW's proposed ordering and provisioning NRCs for UNE platforms.

K. *EELS*

Q. WHAT ARE EELS?

A. An EEL is a combination of UNEs (an unbundled loop, multiplexing as required, and interoffice dedicated transport) that facilitates the "extension" of an unbundled loop beyond the central office that serves an end-use customer. By using an EEL, the CLEC can avoid the need to collocate at every central office to gain access to the unbundled loops within each central office. The FCC's rule 51.319 allows ILECs that provide EELs in the top 50 metropolitan statistical areas ("MSAs") to exempt themselves from providing unbundled local switching to requesting CLECs when the CLEC intends to serve a customer with four or more voice grade (DS0) equivalents or lines. Since Verizon NW will be offering EELs in the "Seattle – Bellevue - Everett" MSA, this exemption will apply.

Q. WHAT PRICES IS VERIZON NW PROPOSING FOR THE EEL COMBINATIONS?

A. EEL-specific prices are not being proposed. The CLEC's will be charged for the individual UNEs (at the individual element MRC levels) that are required to facilitate the provision of the requested EEL. The specific ordering and provisioning NRCs for EELs are listed in Exhibit DBT-3.

H. L. CUSTOMIZED ROUTING AND OS/DA

Q. IS VERIZON NW PROPOSING SPECIFIC RATES FOR CUSTOMIZED ROUTING?

A. No. Rates for customized routing should be established on a case-by-case basis.

By way of background, ILECs are no longer required to provide OS/DA on an unbundled basis where they offer customized routing. Verizon NW offers customized routing in all areas subject only to site-specific technical limitations. Verizon NW also is willing to offer its OS/DA services to CLECs at market-based rates. Since 1996, however, the GTE companies have not received any requests for customized routing. Given this, Verizon NW does not believe the costs and prices for customized routing should be established in this proceeding.

M. PACKET SWITCHING

Q. IS VERIZON NW PROPOSING SPECIFIC RATES FOR PACKET SWITCHING?

A. No, Verizon NW is not proposing rates for packet switching. The FCC, in its Remand Order, held that ILECs need not unbundle packet switching. There is one exception to this rule: an ILEC must unbundle packet switching where (1) the ILEC has placed its own DSLAM in a remote terminal and is offering advanced services, (2) the ILEC does not permit the CLEC to collocate its DSLAM in that remote terminal, (3) DLC technology is deployed, and (4) no spare copper loops are available (FCC Remand Order, paragraph 313). Because all four of these conditions must be met, requests for unbundled packet switching by CLECs will be handled via BFR, on a case-by-case basis. As a note, my understanding is that Verizon NW has not, at this time, deployed any DSLAMs in remote terminals within the state of Washington, thus the required offering of packet switching is currently moot.

H. N. SS-7 SIGNALING NETWORK & CALL RELATED DATABASES

Q. FOR WHAT SIGNALING NETWORK RELATED ITEMS IS VERIZON NW PROPOSING RATES?

A. FCC Rule 319(e) requires ILECs to provide access to signaling networks, call-related databases, and service management systems on an unbundled basis. Rule 319 further defines these elements as follows:

> (a) Signaling networks include, but are not limited to, signaling links and signaling transfer points (Rule 319(e)(1)), and
>
> (b) For purposes of switch query and database response through a signaling network, an incumbent LEC shall provide access to its call-related databases, including but not limited to, the Calling Name Database, 911 Database, E911 Database, Line Information Database, Toll Free Calling Database, Advanced Intelligent Network Databases, and downstream number portability databases by means of physical access at the signaling transfer point linked to the unbundled databases (Rule 319(e)(2)(A)).

Verizon NW is proposing TELRIC-based prices for access to the GTE SS-7 signaling network and for most all the databases enumerated by the FCC (with two exceptions). The prices and price structure for both access to the GTE signaling network and associated database queries are set forth in Exhibit DBT-2. Verizon NW is not proposing prices for (1) access to 911 and E911 databases or (2) access to the GTE advanced intelligent network ("AIN") service creation environment and associated databases. Verizon NW proposes to establish these arrangements on a case-by-case basis.

H. O. FIBER-FED DLC

Q. IS VERIZON NW PROPOSING SPECIFIC MRCS FOR FIBER-FED DIGITAL LOOP CARRIER ("DLC") SYSTEMS?

A. No. As noted in Verizon NW Witness Russell Bykerk's Phase B Direct Testimony, Verizon NW plans to deploy this new technology once it has completed and evaluated all necessary tests. Also, there are several

ownership issues that have been presented to the FCC for resolution, but remain open at this time. Once the FCC resolves these issues, Verizon NW can move forward with developing its detailed specifications for UNEs related to fiber-fed DLCs.

V. RECIPROCAL COMPENSATION

Q. PLEASE SUMMARIZE THE KEY POLICY ISSUES REGARDING RECIPROCAL COMPENSATION.

A. An inter-company compensation policy should be sustainable over time, consistent with an open competitive marketplace, and relatively free of arbitrage and gaming incentives. These objectives can only be achieved through a broad reconsideration of the entire structure of retail and wholesale usage pricing. Central to Verizon NW's policy is the economic desirability, for both public policy and private financial purposes, of matching the rate structure and rate level between the end user and the intercarrier arrangement.

The fundamental challenge is to reconcile and rationalize the "market failure" created by the existence of usage insensitive pricing in the retail arena and usage sensitive compensation between carriers. In this situation, all stakeholders are ultimately

harmed by the misallocation of resources that results when retail customers are not confronted with a price system that properly reflects the production and compensation costs of the services they consume.

Q. PLEASE DISCUSS THE PRICING CHALLENGES THAT ACCOMPANY THE INTERCONNECTION OF RIVAL NETWORKS FOR THE PROVISION OF LOCAL EXCHANGE SERVICES.

A. The first challenge is the development of prices for the interconnection and interexchange of traffic among competing firms. Certainly new entrants believe they are entitled to payments from the incumbent LECs (and presumably other parties) for traffic that they terminate to their customers. I agree that it is indeed appropriate for rival firms to compensate each other for the costs incurred to use each of their respective networks. But the objective should be to design a compensation scheme that is part of a ***comprehensive originating responsibility plan*** for the charging of calls/minutes within the state. Verizon NW does not expect to have free access to rival carriers' networks. By similar reasoning, Verizon NW also expects to be compensated for use of its network by its competitors.

Q. WHAT OTHER CONDITIONS SHOULD BE APPLIED TO MUTUAL COMPENSATION PAYMENTS BETWEEN AND AMONG CARRIERS?

A. The first condition is that the payment of terminating access charges by an ILEC must be considered a legitimate component of the incremental costs of completing a call on an ongoing basis. Second, the ILEC must have a customer to bill for that cost, so that measured services must be available and in effect for end user customers in a particular area for mutual compensation issues to be addressed. This is particularly important where a CLEC has selectively recruited customers that terminate a disproportionate volume of traffic. In such a situation, the marginal price seen by the customer originating a call is zero in a flat rate structure, yet the cost of providing that call is composed of the production costs (both originating and terminating) plus the compensation costs. This situation illustrates the "market failure" I previously mentioned. The consequences of this failure are:

1. The establishment of prices below the incremental costs,
2. Efficiency losses to the economy as a whole,
3. Financial losses to the company providing the originating calls under a flat rate pricing structure, and
4. Substantial gaming opportunities for the company receiving the terminating compensation.

The use of a measured alternative for end users ameliorates these possibilities. However, the presence of local measured service is the exception not the rule in Washington today. I believe that current rate structures and levels may eventually

have to be changed to accommodate local exchange competition. At this time, however, Verizon NW is not requesting the adoption of measured local rates.

Q. GIVEN THE COMPLEXITY OF THE ISSUES SURROUNDING RECIPROCAL COMPENSATION, WHAT ACTIONS DO YOU THINK THE COMMISSION SHOULD TAKE?

A. As we have all observed, reciprocal compensation is a very contentious issue. The FCC is currently embroiled in this topic with help from Congress. From my viewpoint, a sufficient understanding of all the issues surrounding reciprocal compensation is not likely to be achievable within this proceeding. Thus, I would recommend that the Commission initiate a separate "generic" proceeding to develop a complete and comprehensive framework for establishing compensation rate structures and levels.

Q. WHAT SHOULD THE COMMISSION DO WITHIN THE CONTEXT OF THIS PROCEEDING?

A. In the short run, I recommend that the Commission adopt an approach to intercompany compensation that follows the price structure in place for end users for that type of call. In other words, so long as the end users are billed on a flat-rate basis, the compensation basis for exchanged local traffic should also be on a

non-traffic sensitive basis. Again, this is particularly important to avoid potentially serious economic efficiency distortions in the price of local service resulting from prices being set to the end users below levels of incremental cost, including compensation costs.

Q. WHAT RECIPROCAL COMPENSATION PLANS SATISFY YOUR OBJECTIVE OF BEING IN CONCERT WITH CURRENT FLAT-RATE RETAIL RATES?

A. The one I would recommend as an appropriate interim guideline is commonly termed “Bill and Keep”. In fact, this is the only plan that I know of that exactly matches a flat-rated, retail rate structure. But the Commission must also allow individual companies to negotiate whatever structures they agree satisfies their mutual objectives.

Q. ASSUMING RETAIL RATES WERE IN ALIGNMENT WITH WHOLESALE RATES AND INTERCOMPANY COMPENSATION STRUCTURES, WHAT WOULD YOU RECOMMEND AS THE STRUCTURE FOR INTERCOMPANY COMPENSATION?

A. In addition to the global objectives I previously described, the ultimate structure should satisfy the objective of providing reasonable compensation for the use of each company’s facilities --- it should neither under-compensate nor over-compensate. Thus, the structure

should be tied to what is used. For example, if a company interconnects at a tandem switch that has subtending end-offices, then they should pay the terminating company all the costs incurred to terminate a call. These costs would include: (a) tandem switching, (b) local transport (if required), and (c) end office switching (if required). Likewise, if a company interconnects at the office that serves the end-user, then only the cost of switching at that end office should apply.

The pricing structure, as previous alluded to, should also eliminate any gaming potentials – the terminating company should only be compensated for the costs that are incurred. In fact, the Telecommunications Act of 1996 specifically states that reciprocal compensations should be based "... on the basis of a reasonable approximation of the additional costs of terminating such calls." (Section 252(d)(2)(A)(ii)) To state another way, reciprocal compensation should not be allowed to become a "profit center." For example, it is a well understood fact that switching costs vary significantly between call set-up costs and call duration costs. Most all usage-based compensation plans employ an average per minute charge that is based on some assumption of average holding time.

As the holding time increases, the average cost per MOU decreases.[5]

If a category of calls exhibits an average holding time that is significantly larger than the average assumed in the development of the rate, then gaming becomes an issue in the development of a rational intercompany compensation plan. This gaming occurs due the ability of an industry participant to charge a rate, derived from an assumption of short holding times, for handling minutes that are associated with calls that have significantly longer holding times. Thus the rate charged to handle the MOU is significantly above the average underlying cost for handling that minute.

Q IS THE INDUSTRY CURRENTLY EXPERIENCING ANY GAMING OF RECIPROCAL COMPENSATION PLANS?

A. Yes. Significant gaming seems to be occurring concerning the termination of Internet Service Provider ("ISP") traffic. Most usage-based reciprocal compensation agreements assume a holding time for local minutes in the four to seven minute range whereas the average holding time for an ISP call seems to be at least 30 minutes. Thus the rate charged by CLECs for terminating

[5] This decrease in average cost per minute of use simply results because the "call set-up" costs are being spread over more minutes due to the longer average holding time for the call.

ISP-bound traffic are likely to be significantly higher that the level needed to recover their cost of terminating that traffic. Succinctly stated, the current methods for developing prices for terminating calls allow for significant gaming by CLECs serving ISP providers.

Q. ARE THERE ANY OTHER CONSIDERATIONS THAT WOULD FURTHER SUPPORT YOUR VIEW THAT THE AVERAGE COST PER MOU FOR TERMINATING ISP-BOUND TRAFFIC IS LESS THAN THE COST TO TERMINATE VOICE TRAFFIC.

A. Yes, the switches employed by CLECs to deliver primarily ISP bound traffic are more akin to "tandem switches" in that the termination of traffic to ISPs is facilitated through trunk-to-trunk switching configurations. Thus, it would be rational to expect that the underlying cost to terminate ISP traffic would be more reflective of "tandem switching" costs which are known to be lower than end office switching costs.

There are likely to be several other material differences in the true "additional cost" to terminate ISP-bound traffic versus terminating voice grade traffic. These cost-based issues, plus all the myriad of other contentious ISP-bound reciprocal compensation issues, would more appropriately be reviewed and analyzed in a generic reciprocal compensation proceeding.

Q. ARE CALLS BETWEEN AN END USER AND AN INTERNET PROVIDER LOCAL CALLS OR INTERSTATE?

A. The FCC's February 26, 1999 Internet Traffic Order[6] ("ITO") specifically concluded that ISP-bound traffic is jurisdictionally interstate (thus non-local) traffic. The real issue is that the FCC has left it to the states to decide how they want to treat ISP traffic for reciprocal compensation purposes. Verizon NW continues to maintain that in the current environment ISP calls are not local and should not be subject to local reciprocal compensation.

Q. IF THE COMMISSION DESIRES TO ESTABLISH USAGE-BASED RECIPROCAL COMPENSATION RATES FOR TERMINATING LOCAL TRAFFIC, INCLUDING ISP-BOUND TRAFFIC, HOW SHOULD IT ACCOUNT FOR THE DIFFERENCES IN COSTS BY CALL TYPES?

A. To account for differences in holding times, the Commission could either establish a reciprocal compensation structure based on rates for call set-up and call duration OR establish rates for a different category of calls (e.g., ISP

6 *Implementation of the Local Competition Provisions in the Telecommunications Act of 1996; Inter-Carrier Compensation for ISP-Bound Traffic*, Declaratory Ruling in CC Docket No. 96-98 and Notice of Proposed Rulemaking in CC Docket No. 99-68 (rel. February 26, 1999.

traffic) that reflect the significant differences in holding times. Administrative issues (e.g., billing and recording concerns) should guide which form of usage structure is best for each company.

To account for the differences in underlying cost characteristics the Commission should, until a full technical review of cost characteristics can be facilitated, opt to employ "tandem switching" costs as the appropriate surrogate costs a CLEC will incur while terminating ISP-bound traffic.

Q CAN STATE COMMISSIONS ESTABLISH, IF THEY SO DESIRE, SPECIFIC RULES FOR THE COMPENSATION OF TERMINATING ISP-BOUND TRAFFIC?

A. Yes. The 1999 ITO specifically authorizes state commissions to create their own rate structure for terminating ISP-bound traffic.

Q. ASSUMING THE COMMISSION REJECTS YOUR RECOMMENDATION OF BILL AND KEEP AS AN INTERIM PLAN UNTIL A COMPREHENSIVE GENERIC PROCEEDING CAN BE COMPLETED, WHAT WOULD VERIZON NW'S RECOMMENDED PLAN BE FOR RECIPROCAL COMPENSATION?

A. Verizon NW recommends that the rate structure account for differences in the

characteristic of ISP-bound traffic as well as reflect the costs that each terminating company will incur. The specific structure and rate levels are depicted in Exhibit DBT-2. For true local traffic (non-ISP traffic), Verizon NW will bill the following amounts (as appropriate) for terminating the traffic: (a) tandem switching, (b) common/shared transport, and (c) an average end office switching rate based on the average holding time for "local" calls. For ISP-bound traffic, the same structure will exist, except an ISP switching rate element based on the cost characteristics of ISP calls will be used instead of the average end office switching rate employed for "local" calls.

Q. HOW DID YOU DERIVE THE RATE LEVEL YOU WOULD ALTERNATIVELY PROPOSE (IN THE ABSENCE OF BILL AND KEEP) FOR TERMINATION OF ISP-BOUND TRAFFIC?

A. The rate was based on a 30 minute average holding time for ISP-bound traffic and assumes that the actual additional costs of terminating this traffic is best reflected by tandem switching costs versus end-office switching costs. Thus, the average per MOU rate was calculated as follows:

Rate = [(Tandem Setup Cost / 30) + Tandem Switching Cost per MOU]
* (1.2475)

Q. PLEASE SUMMARIZE YOUR POSITION ON RECIPROCAL COMPENSATION?

A. The proper public policy framework for intercompany compensation is to adopt plan which aligns the intercompany compensation between rival carriers to the rate structure faced by the end user customers that ultimately make calling decisions. The optimal long run solution would be an originating responsibility plan. A sound short-run plan would be to adopt a bill and keep plan and institute a "generic" proceeding into the complex issues of reciprocal compensation.

Q. DOES THIS CONCLUDE YOUR PHASE B DIRECT TESTIMONY?

A. Yes.