

**BEFORE THE  
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

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

**PHASE A REBUTTAL TESTIMONY OF**

**BARBARA ELLIS**

**STAFF MANAGER – ECONOMIC ISSUES**

**ON BEHALF OF**

**VERIZON NORTHWEST INC.**

**Formerly Known as GTE Northwest Incorporated**

**SUBJECT: COLLOCATION COST STUDY METHODOLOGY**

**AUGUST 4, 2000**

**TABLE OF CONTENTS**

I. INTRODUCTION ..... 1

II. TELRIC AND FORWARD-LOOKING COSTS ..... 2

1 Verizon NW Phase A Rebuttal  
2 Ellis - 1

3

4

**I.INTRODUCTION**

5

6 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

7 A. My name is Barbara Ellis. My business address is 600 Hidden Ridge, Irving, Texas.

8

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

10 A. Yes, I adopted James J. Callanan's direct testimony submitted in Phase A of this proceeding.

11

12 **ON WHOSE BEHALF ARE YOU PRESENTING TESTIMONY IN THIS PROCEEDING?**

13 I am presenting testimony on behalf of Verizon Northwest Inc., which was formerly known as GTE

14 Northwest Incorporated. The company recently changed its name after the closure of the

15 merger between its parent company, GTE Corporation, and Bell Atlantic Corporation. The

16 merged company is named Verizon Communications.

17

18 **IN YOUR TESTIMONY HOW DO YOU USE THE TERMS "VERIZON NW" AND**

19 **"GTE"?**

20 My fellow witnesses and I use "Verizon NW" to refer to Verizon Northwest Inc., the company that

21 is a party to this proceeding and on whose behalf we are testifying. I use "GTE" to refer to

22 the former GTE companies, which are now part of the Verizon Communications companies

23 along with the former Bell Atlantic companies. This will make clear that we are talking

1 about cost studies and inputs that have been developed by and for the GTE telephone  
2 operating companies and about those companies' operations, practices and procedures.

3  
4 **Q. WHAT IS THE PURPOSE OF YOUR PHASE A REBUTTAL TESTIMONY?**

5 A. My phase A rebuttal testimony will be responding to statements made by witnesses John  
6 Klick (representing Rhythms/Covad) and Roy Lathrop (representing Worldcom) concerning  
7 Total Element Long Run Incremental Cost (“TELRIC”) principles and the use of a forward-  
8 looking hypothetical central office. Specifically, I will describe how Verizon’s cost model  
9 develops cost estimates based upon TELRIC principles and a more realistic forward-looking  
10 planning environment.

11  
12 **II. TELRIC AND FORWARD-LOOKING COSTS**

13  
14 **IS THE ASSUMPTION PUT FORTH BY WORLDCOM<sup>1</sup> AND COVAD/RHYTHMS<sup>2</sup> THAT**  
15 **FORWARD-LOOKING COSTS SHOULD BE BASED ON COLLOCATION IN AN**  
16 **IMAGINARY, HYPOTHETICAL CENTRAL OFFICE CONSISTENT WITH THE**  
17 **RECENT EIGHTH CIRCUIT OPINION?**

18 No. On July 18, 2000, the United States Court of Appeals for the Eighth Circuit issued its opinion  
19 and vacated many of the FCC UNE pricing rules. For example, the FCC requirement that  
20 “[t]he total element long-run incremental cost of an element should be measured based on

---

<sup>1</sup>Responsive Direct testimony of Roy Lathrop, page 4.

<sup>2</sup>Responsive Direct testimony of John Klick, page 6.

1 the use of the most efficient telecommunications technology currently available and the  
2 lowest cost network configuration, given the existing location of the incumbent LEC's wire  
3 centers"<sup>3</sup> was vacated by the Eighth Circuit.

4  
5 Verizon NW has steadfastly maintained that it is the ILEC's actual costs that are at issue, and  
6 not the cost of a hypothetical network based upon hypothetical costs. The Eighth Circuit  
7 Opinion clearly states that

8 it is the cost of providing the actual facilities and equipment that will  
9 be used by the competitor (and not some state of the art presently  
10 available technology ideally configured but neither deployed by the  
11 ILEC nor to be used by the competitor) which must be ascertained  
12 and determined.<sup>4</sup>

13  
14  
15 Therefore, the numerous criticisms made by Worldcom, Nextlink, and Covad/Rhythm,  
16 identified in Exhibit BE-4, with respect to Verizon NW's failure to model the hypothetical  
17 central office and least-cost, most efficient design are not valid.

18  
19 **HOW DOES THE EIGHTH CIRCUIT DECISION IMPACT VERIZON NW'S COST**  
20 **STUDIES AT ISSUE IN PHASE A?**

21 Verizon NW is in the process of assessing the effect of the Eighth Circuit's decision on the cost  
22 studies filed in Phase A. However, with respect to collocation and line-sharing, Verizon  
23 NW's cost studies are designed to estimate the forward-looking costs to provide collocation

---

<sup>3</sup> 47 C.F.R. § 51.505(b)(1).

<sup>4</sup> Eighth Circuit Opinion, page 8.

1 and line-sharing to CLEC's based upon the *actual* central office in which these services will  
2 be provided. The OSS study similarly is based upon the actual costs Verizon NW expects  
3 to incur to facilitate ordering and provisioning UNEs. All Phase A cost studies filed by  
4 Verizon NW retain their forward-looking attributes by employing the existing technology at  
5 current prices so that the cost study estimates the *actual* costs that Verizon NW expects to  
6 incur to provide collocation, line-sharing, and ordering to CLEC's. This is Verizon NW's  
7 preliminary view, and as I stated, an assessment is on-going.

8  
9 **Q. THEREFORE, SHOULD A FORWARD-LOOKING HYPOTHETICAL CENTRAL**  
10 **OFFICE DESIGN BE THE BASIS OF LINE SHARING COSTS AS ADVOCATED BY**  
11 **MR. KLICK (AT 19)?**

12 A. No. The cost to provide line sharing should be based upon the actual costs incurred by the  
13 ILEC, not based upon a hypothetical central office design. Verizon NW's costs are based  
14 on the forward-looking network that will be in place for completing CLEC requests for Line  
15 Sharing, but the cost estimates incorporate the actual costs Verizon NW would incur given  
16 existing central office designs, not some hypothetical central office configuration. The  
17 CLEC may be provisioned using various scenarios. Each of these scenarios has specific  
18 incremental costs caused as a direct result of providing the network element.

19  
20 **Q. DOES THE USE OF THE ILEC'S ACTUAL CENTRAL OFFICES AND CURRENT**  
21 **COSTS TO DEVELOP COLLOCATION AND LINE SHARING COSTS IMPEDE**  
22 **COMPETITION BY MAINTAINING BARRIERS TO ENTRY AS CLAIMED BY**

1           **COVAD WITNESS KLINK (AT PAGES 8-11)?**

2 A.       No. The actual costs incurred by the ILEC to provide access to new entrants in the ILEC's  
3           central office or to provide new entrants with line sharing cannot be construed as a barrier  
4           to entry. Some examples of barriers to entry would be if the ILEC required the new entrant  
5           to pay costs greater than those incurred by ILEC to provide access, or if a new entrant was  
6           denied access even if space was available. Requiring the new entrant to be responsible for  
7           the costs it causes an ILEC to incur for access to a central office is nothing but good business  
8           practice. Requiring the ILEC to provide access based upon a hypothetical office that will  
9           understate the costs the ILEC actually would incur to provide collocation does nothing but  
10          subsidize CLEC entry into the market.

11

1 **Q. DOES MR. KLICK PRESENT A REALISTIC DISCUSSION OF BARRIERS TO**  
2 **ENTRY?**

3 A. No. Mr. Klick discusses barriers to market entry that are linked to “the strong customer  
4 focus on convenience, reliability and cost,” and claims that “these barriers can delay and  
5 ultimately prevent the development of competition in Washington”.<sup>5</sup> Mr. Klick goes on to  
6 state that “widespread meaningful competition for xDSL and other elements” will be  
7 possible only if

8 access is easy and reliable,  
9 UNEs are based on efficient forward-looking costs, and  
10 NRCs for provisioning shared lines are based on a “forward-looking environment in  
11 which full electronic, flow-through operations support systems (“OSS”) are  
12 assumed to be available and operating effectively with minimal “fall out” rates.<sup>6</sup>

13  
14 Mr. Klick’s evaluation of barriers to entry completely ignores the reality faced by the ILEC.  
15 The ILEC, whose existing charter is to provide local service to its franchised area, is  
16 providing new entrants access to the local service market through its existing facilities.  
17 Therefore, the cost of access is rightfully based upon the ILECs existing central offices in the  
18 most efficient and effective manner possible – given the ILECs current cost of providing  
19 such access. To argue that the cost of access to collocation and line sharing should be based  
20 upon a network configuration that is purely hypothetical and least cost goes beyond removing

---

1 <sup>5</sup>Klick, phase A responsive direct at page 9.

1 <sup>6</sup> Ibid, pages 9-10.

1 barriers to entry, and instead subsidizes the new entrant at the expense of the ILEC and its  
2 customers.

3

4 **Q. DOES THIS CONCLUDE YOUR PHASE A REBUTTAL TESTIMONY?**

5 A. Yes.