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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 AND RESPONSIVE DIRECT TESTIMONIES IN THIS CASE?

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

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

10

11 **II. PURPOSE OF PHASE A REBUTTAL TESTIMONY**

12

13 **WHAT IS THE PURPOSE OF YOUR PHASE A REBUTTAL TESTIMONY?**

14 In my phase A rebuttal testimony, I will discuss several pricing-related issues. First, I will
15 respond to several comments relating to Operations Support Systems ("OSS") cost
16 recovery that confuse the nature of these costs and that offer up inappropriate recovery
17 mechanisms. Second, I will discuss comments relating to Verizon NW's proposed
18 collocation rates, including its security cost recovery, the structure of its proposed
19 building modifications and environmental conditioning rates, and the use of individual
20 case basis ("ICB") rates. Finally, I will discuss line sharing issues including the

1 appropriate cost recovery mechanism for line sharing OSS enhancements.

2 **III.OSS COST RECOVERY**

3

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

6 I will address several comments made by parties in their phase A responsive direct testimonies
7 regarding the OSS cost recovery issue. These comments and issues may be summarized
8 by the following:

9

10 • Mr. Rex Knowles, on behalf of NEXTLINK Washington, Inc. (“NEXTLINK”)
11 and Mr. Roy Lathrop, on behalf of WorldCom, Inc. (“Worldcom”) both argue
12 that Verizon NW’s OSS enhancement costs are not forward-looking in nature.
13 (Knowles, p. 3 and Lathrop, pp. 20-24)

14

15 • Mr. Thomas L. Spinks, on behalf of the Washington Utilities and Transportation
16 Commission (“WUTC”), argues that OSS startup cost recovery should be based
17 on Washington specific costs to avoid other states’ startup costs from being
18 recovered from CLECs in Washington and because it will be easier to track and
19 audit the recovery of OSS startup costs. (pp. 5-7)

20

- 1 • Mr. Spinks also argues that Verizon NW’s OSS startup costs have already been
2 recovered through its retail rates and that Verizon NW must make off-setting rate
3 reductions to avoid a double recovery of costs (pp. 7-11).
- 4 • Mr. Spinks expresses concern over Qwest’s proposal for an OSS ongoing
5 maintenance charge that applies on a per order basis. This concern is due to his
6 belief that the order projections are understated and that expenses do not depend
7 on the level of order activity. (pp. 15-16)
- 8
- 9 • Finally, Messrs. Knowles and Lathrop both argue that CLECs should not be
10 responsible for the recovery of ILEC OSS transition and transaction costs. They
11 propose various alternative payment arrangements including end-user surcharges
12 and off-setting LSR charges by both ILECs and CLECs. (Knowles, pp. 2-8 and
13 Lathrop, pp. 20-24)

14

15 **Q. PARTIES MAKE REFERENCE TO “OSS TRANSITIONAL COST”, “OSS**
16 **ENHANCEMENT COST”, “OSS STARTUP COST”, AND “OSS**
17 **DEVELOPMENT COST”. DO YOU USE THESE TERMS**
18 **INTERCHANGEABLY?**

19 A. Yes. I believe that all of these terms refer to the costs that were incurred to modify the
20 ILECs’ OSS to make them accessible by CLECs.

1

2 **Q. PLEASE SUMMARIZE NEXTLINK AND WORLDCOM’S ARGUMENT THAT**
3 **VERIZON NW’S OSS DEVELOPMENT COSTS ARE NOT FORWARD-**
4 **LOOKING IN NATURE.**

5 A. Mr. Knowles and Mr. Lathrop both argue that Verizon NW’s OSS development costs are
6 not forward-looking in nature and are, therefore, an improper basis for prices. (Knowles,
7 p. 3; Lathrop p. 20). Their criticism is that Verizon NW’s OSS enhancement costs are
8 based on its actual expenditures to modify its OSS to give CLECs access, rather than on
9 forward-looking costs. Mr. Knowles characterizes Verizon NW’s costs as “embedded.”
10 Mr. Lathrop further argues that the proper costs would be the difference between the cost
11 of developing a brand new “efficient” OSS, excluding the new features, and the cost
12 including the new features.

13

14 **Q. DO YOU AGREE THAT VERIZON NW’S OSS DEVELOPMENT COSTS ARE**
15 **NOT FORWARD-LOOKING IN NATURE?**

16 A. No, I do not. As I mentioned in my phase A responsive direct testimony, Verizon NW’s
17 OSS development (or transitional) costs, while based on its actual expenditures, are
18 indeed forward-looking in nature. The characterization of these costs as “embedded” is
19 based on a fundamental misunderstanding of the nature of these costs. It is important to
20 note that the costs of modifying Verizon NW’s OSS are *developmental* in nature.

1 Developmental costs, by definition, will precede the deployment of the technology that
2 it seeks to develop and are recovered in the prices of the new technology that it brings
3 into existence. For instance, the cost of a state-of-the art optical switch that will become
4 available five years from now is being incurred today. Assuming that the switch
5 manufacturer has a viable product, the developmental costs will be recovered in the price
6 of the switch when it goes to market in five years. This is the nature of developmental
7 costs – they are incurred prior to the rollout of the technology that is being developed and
8 the prices of the technology are designed to recover these developmental costs on an *ex-*
9 *post* basis. There is no other legitimate way to incur and to recover developmental costs.

10

11 Messrs. Knowles and Lathrop are arguing that we should ignore these developmental
12 costs in the pricing of OSS because they have been incurred. This is equivalent to
13 arguing that the price of a state-of-the-art optical switch should not include the millions
14 of dollars that went into developing the technology in the first place because it was
15 incurred in the past. Clearly, this is unreasonable and the competitive marketplace
16 certainly does not work in this manner. Switch manufacturers *must* recoup their cost of
17 research and development in the prices of new technology or they will cease being
18 financially viable entities. Thus, even though developmental costs are made in prior
19 years, they are still a legitimate component of forward-looking cost. In the case of the
20 optical switch, research and development costs are built into the price of the switch and

1 in the case of OSS, it should be built into the price of OSS. To fail to do so would be to
2 ignore the workings of competitive markets.

3

4 **Q. WHAT IS YOUR OPINION ON THE ARGUMENT THAT THE PROPER OSS**
5 **COST SHOULD BE THE DIFFERENCE BETWEEN THE COST OF**
6 **DEVELOPING A BRAND NEW “EFFICIENT” OSS, EXCLUDING THE NEW**
7 **FEATURES, AND THE COST INCLUDING THE NEW FEATURES?**

8 A. This proposed definition is misguided because it is predicated on an “imaginary” cost –
9 Verizon NW is not going to develop a brand new OSS excluding the new features – to
10 do so would be cost prohibitive. This is the reason why Verizon NW chose to modify
11 its legacy systems in the first place. This is the fundamental flaw in the CLECs
12 alternative cost proposals. According to the July 18, 2000 opinion of the Eighth Circuit
13 Court in *Iowa Utilities Bd. v. FCC* and as discussed by Ms. Barbara Ellis in her phase
14 A rebuttal testimony, it is unlawful to base UNE prices on these “imaginary” costs. As
15 stated in the Court’s opinion, “Congress was dealing with reality, not fantasizing about
16 what it might be.” (Eighth Circuit Court, July 18, 2000 opinion in *Iowa Utilities Bd. v.*
17 *FCC*, (mimeo), p. 8) The CLECs’ approach which conveniently assumes away Verizon
18 NW’s real developmental costs is clearly inconsistent with the plain language of Section
19 251(d)(1) of the Telecommunications Act of 1996 (the Act), which states that
20 interconnection and UNE rates should be “just and reasonable” and “based on the cost

1 (determined without reference to a rate-of-return or other rate-based proceeding) of
2 providing the interconnection or network element (whichever is applicable).”

3

4 **Q. STAFF ARGUES THAT OSS TRANSITIONAL COST RECOVERY SHOULD BE**
5 **BASED ON WASHINGTON SPECIFIC COSTS. DO YOU AGREE?**

6 A. No, I do not. Mr. Spinks, on behalf of the WUTC, argues that OSS transitional rates
7 should be based on Washington specific costs to avoid other states’ startup costs from
8 being recovered from CLECs in Washington and because it will be easier to track and
9 audit the recovery of OSS startup costs (pp. 5-7). However, as I explained in my revised
10 phase A direct testimony (p. 8), OSS costs are incurred on a nationwide basis and are not
11 attributable to any particular state. The state specific costs that Staff indicates it wants
12 to base its cost recovery rates on are based on cost allocations performed for accounting
13 purposes and are not linked to the CLEC activity in Washington. Cost allocations are not
14 a reasonable basis for developing OSS rates. By contrast, Verizon NW’s proposal to
15 base the OSS recovery on nationwide costs is linked to the actual way in which the costs
16 were incurred, as well as the activity in each particular state. For instance, Washington
17 CLECs will pay for the cost recovery in direct proportion to the amount of activity they
18 generate in Washington. This pricing methodology avoids cost allocations and is fair and
19 reasonable because it is closely linked to actual costs and state specific activity.

20

1 **Q. WOULD VERIZON NW'S PRICING METHODOLOGY RESULT IN OTHER**
2 **STATE'S COSTS BEING RECOVERED FROM CLECS IN WASHINGTON?**

3 A. No. As I stated above, OSS enhancement costs are incurred at the nationwide level, as
4 a result, there are no "other state's costs" other than through cost allocations performed
5 for accounting purposes. The amount of cost recovery in Washington will be in direct
6 proportion to the amount of activity in Washington. This is a fair and reasonable amount
7 of cost recovery because it is directly linked to the CLECs' activity in Washington,
8 instead of cost allocations as proposed by the Staff.

9

10 **Q. WHAT ABOUT STAFF'S CONTENTION THAT BASING OSS STARTUP**
11 **COSTS ON WASHINGTON SPECIFIC COSTS WILL MAKE IT EASIER TO**
12 **TRACK AND AUDIT THE RECOVERY OF THESE COSTS?**

13 A. In my view, even if this contention were true, it would not offset the shortcomings of
14 using Washington specific costs discussed above. This is because tracking and auditing
15 of cost allocations, instead of the CLECs' actual activity in Washington, is not an
16 advantage.

17

18 **Q. STAFF ALSO ARGUES THAT VERIZON NW'S OSS STARTUP COSTS HAVE**
19 **ALREADY BEEN RECOVERED THROUGH ITS RETAIL RATES. DO YOU**
20 **AGREE WITH THIS ASSESSMENT?**

1 A. No, I do not. Staff’s view is that because Verizon NW’s rate levels were reviewed and
2 “reset” in the merger settlement, Docket No. UT-98-981367, using a 1998 test year and
3 because Verizon NW’s OSS startup expenses were incurred through 1998, that these
4 costs including subsequent 1999 expenses have already been recovered in current retail
5 rates. (Spinks, p. 8). I disagree with this argument for several reasons.
6 First, the settlement referred to by Staff involved the disposition of three separate dockets
7 – GTE/Bell Atlantic’s merger application, intrastate access reform, and an earning
8 review. Current retail levels, therefore, were not considered in isolation from other
9 issues such as potential merger savings and intrastate access rate levels and it is
10 impossible to separate the effects of these interrelated issues. That is, the settlement was
11 an overall look at the Company based on several factors and, as a result, individual retail
12 rates cannot be reasonably said to have been scrutinized, adjusted, or reset. As part of
13 that settlement, Verizon NW agreed to a revenue decrease of \$30 million and there was
14 agreement to close the three dockets. There was no agreement to a prohibition on the
15 recovery of legitimate costs incurred. Indeed, there is specific language in the
16 Commission Order and adopted settlement agreement that unfunded mandates (such as
17 OSS enhancements) could be recovered in the future. (Fourth Supplemental Order issued
18 on December 16, 1999, in Docket Nos. UT-981367, UT-990672, and UT-991164; pg
19 23.)
20

1 Second, as I have discussed above, OSS enhancements are developmental costs, and as
2 such, are incurred before the technology is implemented and the costs are recovered. As
3 with all developmental costs there is normally a time lag between the cost generation and
4 the cost recovery. Looking again at a switch manufacturer, although its outlays in
5 research and development for a new switch must in some way be financed, either
6 internally or externally, it does not follow that these costs have been “recovered” just
7 because the firm’s current total revenue covers its total costs. For example, Nortel
8 making a profit in 1999, does not imply that all of its research and development costs for
9 that year have been “recovered.” In the same way, although some of Verizon NW’s OSS
10 enhancement expenditures were expensed by the company, it does not imply that the
11 costs have been recovered simply because total company revenues might have covered
12 total company costs.

13

14 An analogous situation occurs for Verizon NW’s new service deployment. Suppose that
15 in 1998, there were cash expenditures for the establishment of a new service that would
16 go into service in 1999. Although the costs were incurred and booked in 1998, this does
17 not imply that the new service would not have to recover these costs when it goes into
18 service in 1999. There is often a timing difference between the development of a new
19 service and the recovery of the costs of the service. The fact that no one has ever argued
20 that the cost of a new service that was incurred previous to the actual service rollout has

1 already been recovered supports Verizon NW’s position that this is a timing issue, not
2 double recovery.

3

4 Finally, no retail rate was ever established that explicitly took into account OSS
5 enhancements. As I explained in my revised phase A direct testimony, these OSS costs
6 did not exist until after the Act (1996), while Verizon NW's last rate case was in 1985.

7 Moreover, each new retail service rate that was established since 1985 would not have

8 included OSS cost recovery because these were costs excluded from the factors used for

9 pricing development. As I mentioned above, the high level, negotiated settlement for

10 GTE/Bell Atlantic’s merger application, intrastate access reform, and earnings review did

11 not involve a review of these individual retail rates.

12

1 **Q. PLEASE SUMMARIZE YOUR POSITION ON THE RECOVERY OF OSS**
2 **TRANSITIONAL COSTS.**

3 A. The discussion above shows that there is a great deal of confusion over the nature of OSS
4 transitional costs. The key to understanding this issue is to recognize that OSS
5 transitional costs are developmental in nature and, thus, will necessarily precede the
6 technology they create. To stand here today and argue that these costs are “embedded”
7 or already recovered puts Verizon NW in a “Catch 22” situation. This is because the
8 expenditures to develop the technology that it will be using on a going-forward basis will
9 always occur in the recent past. Just as Nortel is recovering its developmental cost
10 incurred in the past in its current switch prices, so should Verizon NW be allowed to
11 recover its cost to develop the OSS technology that it will be using on a going-forward
12 basis. This is consistent with both the plain language of Section 251(d)(1) of the Act and
13 the July 18, 2000 opinion by the Eighth Circuit Court in *Iowa Utilities Bd. v. FCC*.

14
15 **Q. DOES ANY PARTY EXPRESS SIMILAR CONCERN OVER THE NATURE OF**
16 **VERIZON NW’S OSS TRANSACTIONS COSTS?**

17 A. From my reading of the parties’ phase A responsive direct testimony, there does not
18 appear to be concern over the quantification of Verizon NW’s OSS transactions costs.
19 While no party appears to have challenged Verizon NW’s quantification of its OSS
20 transactions costs, there was concern expressed over the recovery of these costs.

1

2 **Q. PLEASE DISCUSS THE CONCERN OVER THE RECOVERY OF VERIZON**
3 **NW'S OSS TRANSACTION COSTS THAT YOU WILL BE RESPONDING TO.**

4 A. First, Staff's concern over Qwest's proposal for an OSS ongoing maintenance charge
5 (Spinks, pp. 15-16), while not addressed to Verizon NW, would appear to also apply to
6 Verizon NW's proposal for an ongoing rate for the recovery of OSS transaction costs on
7 a per LSR basis. Staff's concern is based on a belief that the order projections are
8 understated and that expenses do not depend on the level of order activity. Staff
9 proposes that OSS maintenance costs be recovered through a monthly recurring charge.

10

11 Second, NEXTLINK and Worldcom both argue that CLECs should not be responsible
12 for the recovery of either ILEC OSS transitional or transaction costs. They propose
13 alternative payment arrangements including end-user surcharges and off-setting LSR
14 charges by both ILECs and CLECs. (Knowles, pp. 2-8 and Lathrop, pp. 20-24)

15

16 **Q. DO YOU AGREE WITH STAFF'S RECOMMENDATION FOR A MONTHLY**
17 **RECURRING CHARGE TO RECOVER ONGOING OSS TRANSACTION**
18 **COSTS?**

19 A. No, I do not. Staff's recommendation is predicated on two beliefs. The first is that the
20 order projections are understated and the second is that OSS transaction expenses do not

1 depend on the level of order activity. I disagree with both of these statements.
2 Regarding the first statement, Verizon NW bases its OSS transaction cost recovery rate
3 of \$3.76 per LSR on the assumption that there will be 3.5 million LSRs processed
4 annually. This is several orders of magnitude greater than what is being processed today.
5 While there is much uncertainty over the forecasts and the Eighth Circuit Court’s ruling
6 probably increases the uncertainty, it is difficult to conclude that they are understated.
7 Indeed, until 3.5 million LSRs are processed annually (which will probably not be for
8 several years), the OSS transaction rate will be severely under recovering costs. For
9 instance, based on today’s LSR volume, the OSS transaction rate would be over \$20 per
10 LSR (versus the proposed \$3.76 rate). Verizon NW’s proposed OSS transaction rate is,
11 therefore, conservative and is expected to be for some time to come.

12

13 Second, I do not agree that OSS transaction costs would not depend on the level of order
14 activity. While I agree that there is probably a cost component that is volume insensitive,
15 there is probably a volume sensitive component as well. Moreover, it is unclear to me
16 how a monthly recurring rate for OSS transaction costs would be administered. I also
17 believe that a per LSR rate is fairer because it will place the cost recovery burden on
18 CLECs in proportion to the benefits they derive from the OSS (i.e., by the number of
19 LSRs). For example, a small CLEC that only places a few orders per month would only
20 incur a small OSS charge under Verizon NW’s rate proposal, while a monthly recurring

1 charge may be cost prohibitive.

2

3 **Q. WHAT IS YOUR POSITION ON NEXTLINK AND WORLDCOM'S**
4 **ARGUMENTS THAT CLECS SHOULD NOT BE RESPONSIBLE FOR OSS**
5 **TRANSITION AND TRANSACTIONS COST RECOVERY?**

6 A. NEXTLINK has made a similar argument in Mr. Knowles' phase A direct testimony,
7 which I have already thoroughly addressed in my phase A responsive direct testimony.
8 My position is that the Commission has already concluded that the CLECs should pay
9 for the OSS costs in its 17th Supplemental Order. As stated in paragraph 102 of that
10 order, "[h]aving found that ILECs are entitled to recover the cost of OSS from CLECs,
11 it remains for the Commission to determine what those costs may reasonably be assumed
12 to be and what the ILECs may reasonably expect to recover." The Commission's
13 conclusion is also consistent with Section 251(d)(1) of the Act and the Eighth Circuit
14 Court in *Iowa Utilities Bd. v. FCC* (120 F.3d 753, 810 (8th Cir. 1997). Revisiting this
15 issue here goes beyond the scope of this proceeding, which should be confined to
16 quantification of the costs and ratemaking.

17

18 **Q. WHAT IS YOUR POSITION ON NEXTLINK AND WORLDCOM'S**
19 **SUGGESTION THAT OSS COSTS BE RECOVERED VIA AN END-USER**
20 **SURCHARGE?**

1 A. Recovering OSS costs from an end-user surcharge would appear to be contrary to the
2 Commission’s directive in its 17th Supplemental Order in which it determined that
3 CLECs should be responsible for the recovery of both OSS transitional and transaction
4 costs. Moreover, the development of an end-user surcharge would depend on cost
5 allocations to each state, which, as I discussed above, are not necessarily related to the
6 CLEC activity in the state. However, if the Commission decided to allow an end-user
7 surcharge, it must include CLEC end-users, as well as ILEC end-users.

8

9 **Q. WHAT IS YOUR RESPONSE TO NEXTLINK’S ALTERNATIVE PROPOSAL**
10 **TO ALLOW CLECS TO RECOVER ITS OSS COSTS FROM ILECS AND THAT**
11 **THE COMMISSION SHOULD PRESUME THAT EACH CLEC’S COSTS ARE**
12 **EQUAL TO THE COSTS INCURRED BY EACH OF THE ILECS?**

13 A. As I discussed in my phase A responsive direct testimony, CLECs should not be allowed
14 to recover its OSS costs from ILECs because the OSS modifications were made solely
15 for the CLECs’ benefit. Moreover, the suggestion that we should presume that each
16 CLEC’s costs are equal to the ILECs’ costs has absolutely no empirical basis and is not
17 reasonable. This appears just to be a creative way of conjuring up an LSR charge that
18 exactly offsets the ILEC charge. This proposal should be rejected for the reasons I cite
19 above.

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IV. COLLOCATION ISSUES

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Q. PLEASE SUMMARIZE THE COLLOCATION ISSUES THAT YOU WILL BE ADDRESSING.

A. There were several comments made by parties in their phase A responsive direct testimony relating to Verizon NW’s proposed collocation pricing that I will be addressing. These may be summarized as follows:

- NEXTLINK expresses concern with respect to Verizon NW’s proposed Building Modification charge and makes separate comments for the charges for: 1) site modification, lighting, and electrical outlets, 2) security, and grounding. (Knowles, pp. 11-13)
- Mr. David E. Griffith, on behalf of the Washington Utilities and Transportation Commission, expresses concern with Verizon NW’s proposal to recover building modifications and environmental conditioning charges in a monthly recurring charge. He recommends that CLECs be offered the option of paying the cost up front or choosing between several payment options that would recover the nonrecurring cost during a one to five year time period. He also criticizes Verizon's assumption of 246 feet for the power cable pull length. (pp. 10-12)

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- Mr. John C. Klick, on behalf of Covad Communications Company and Rhythms Links Inc. (Covad/Rhythms), asserts that ILECs rely heavily on embedded costs and ICB to calculate the cost of collocation and line sharing. He then argues that ICB-based costs are inconsistent with a forward-looking costing methodology and are not appropriate. (pp. 12-13)

Q. PLEASE SUMMARIZE NEXTLINK’S CONCERNS WITH VERIZON NW’S PROPOSED BUILDING MODIFICATION CHARGE?

A. NEXTLINK expresses concern with several aspects of Verizon NW’s proposed building modification charges including the following:

Site Modification, Lighting, and Electrical Outlets. NEXTLINK argues that these costs should be included with the cage enclosure or corresponding element for cageless space construction and that by costing them on a stand-alone basis, Verizon NW is eliminating the economies of performing these functions as a single construction project. NEXTLINK recommends that these be included in the Cage Enclosure element at the rates proposed for fencing alone. (Knowles, pp. 11-12)

1 electrical outlet at the rates that it proposes for fencing alone. As discussed by Mr.
2 Richter in his phase A rebuttal testimony, Verizon NW’s costs for Building
3 Modifications and Cage Enclosure are reasonable and well documented and do not
4 support NEXTLINK’s assertion.

5

6 **Q. HOW DOES VERIZON NW PROPOSE TO SPREAD THE COST OF STORAGE**
7 **SECURITY AND SECURITY ACCESS FOR THE DEVELOPMENT OF THE**
8 **BUILDING MODIFICATION RATE?**

9 A. As explained on pages 15-16 of my revised phase A direct testimony and as shown on
10 page 38 of Exhibit RT-3C (line 2), Verizon NW proposes to spread the cost of Security
11 Access - Card Reader & Controller among five users, including four collocators and
12 Verizon NW itself. In addition, as shown on page 38 of Exhibit RT-3C (line 3), Verizon
13 NW proposes to spread the cost of Security Access – Storage Security among all four
14 collocators assumed for each central office. Thus, Verizon NW does not allocate the
15 entire cost of these modifications to each CLEC.

16

17 **Q. HOW DOES VERIZON NW PROPOSE TO SPREAD THE COST OF THE**
18 **FLOOR GROUNDING BAR FOR THE DEVELOPMENT OF THE BUILDING**
19 **MODIFICATION RATE?**

20 A. As shown on page 38 of Exhibit RT-3C (line 22), Verizon NW proposes to spread the

1 cost of the floor grounding bar among all four collocators assumed for each central
2 office. These costs are not imposed in its entirety on each collocating CLEC.

3

4 **Q. PLEASE REVIEW STAFF’S CONCERN WITH VERIZON NW’S PROPOSED**
5 **BUILDING MODIFICATION AND ENVIRONMENTAL CONDITIONING**
6 **MONTHLY RECURRING CHARGES.**

7 A. Staff expresses concern over Verizon NW’s proposal for two reasons. First, the monthly
8 charges are open-ended, and second, they are based on company-wide costs and not
9 Washington-specific. Staff recommends that rates be based on Washington-specific
10 factors and that CLECs be offered the option of either paying the cost up front or
11 choosing between several payment options based on a one to five year pay back period.
12 (Griffith, pp. 11-12).

13

14 **Q. DO YOU BELIEVE THAT MORE PAYMENT OPTIONS ARE REQUIRED?**

15 A. No, I do not. Verizon NW’s monthly recurring rate is already extremely favorable to
16 collocators for several reasons and there is no reason to complicate the collocation tariff
17 with multiple options. Verizon NW’s cost recovery of its investments for the Building
18 Modifications and Environmental Conditioning rate elements are based on useful lives
19 of 20 years. During this entire 20-year period, CLECs will have the option of stopping
20 payment at any time should their circumstances change. With this advantage, it is

1 unlikely that many CLECs would prefer to pay for the entire amount up front. CLECs
2 also have the advantage under Verizon NW’s pricing proposal of sharing many of the
3 collocation costs with an average of four collocators (five in the case of Security Access
4 – Card Reader & Controller). Thus, Verizon NW’s monthly recurring rate proposal is
5 already sufficiently favorable to the CLECs and additional payment options are not
6 warranted.

7
8 **Q. WHAT IS VERIZON NW’S POSITION WITH RESPECT TO STAFF’S**
9 **COMMENT THAT THESE RATES SHOULD BE BASED ON WASHINGTON-**
10 **SPECIFIC FACTORS?**

11 A. As discussed by Mr. Richter, Verizon NW’s collocation costs are reasonable and
12 representative of the costs that will be incurred for the provision of collocation in
13 Washington. The proposed rates are also based on an average number of collocators in
14 each central office of four. Given that today the average number of collocators is only
15 three, Verizon NW’s assumption is reasonable. Thus, Verizon NW’s proposed rates are
16 already reflective of Washington-specific factors.

17
18 **Q. STAFF ALSO CRITICIZES VERIZON'S ASSUMPTION OF A POWER CABLE**
19 **PULL OF 246 FEET. (GRIFFITH, P. 10) HOW WAS THE 246 FEET FIGURE**
20 **DERIVED?**

1 A. The power cable referred to by Staff is the power cable from the Battery Distribution
2 Fuse Bay (BDFB) to the collocators' equipment. Verizon studied the distance from the
3 BDFB to the collocators' equipment and determined that this distance is 123 feet, on
4 average. Because power requires two cables, a positive and a negative cable, 246 feet
5 of cable is required to run between the BDFB and the collocators' equipment. Thus, the
6 use of the 246 feet assumption for pricing is appropriate.

7 **Q. COVAD/RHYTHMS ASSERTS THAT ILECS RELY HEAVILY ON**
8 **EMBEDDED COSTS AND ICB TO CALCULATE THE COST OF**
9 **COLLOCATION AND LINE SHARING. DO YOU AGREE?**

10 A. No, I do not. Mr. Klick makes these general statements in his phase A responsive
11 testimony (pp. 12-13), but the specifics as they relate to Verizon NW does not support
12 his contentions. First, as discussed by Ms. Ellis in her phase A rebuttal testimony,
13 Verizon NW's cost studies are properly forward-looking in nature and are not embedded.
14 Second, Verizon NW's collocation and line sharing proposals contain only one instance
15 of ICB and this is due to a special circumstance.

16

17 **Q. PLEASE EXPLAIN VERIZON NW'S ONE INSTANCE OF ICB.**

18 A. On page 11 of my revised phase A direct testimony, I state that virtual collocation will
19 be provided by Verizon NW on an individual case basis. The reason for this was that
20 GTE's interstate virtual collocation tariff does not contain the appropriate rate elements

1 to support arrangements such as line sharing . Thus, during the interim period until an
2 updated virtual collocation tariff becomes effective, it will be necessary to provide virtual
3 collocation as an ICB through an interconnection contract.

4

5

V. LINE SHARING ISSUES

6

7 **PLEASE SUMMARIZE THE LINE SHARING ISSUES THAT YOU WILL BE**
8 **ADDRESSING.**

9 I will address several line sharing issues raised by various parties in their responsive direct
10 testimonies including the following:

11

12 • Dr. Richard Cabe, on behalf of Covad/Rhythms, argues that the recovery of OSS
13 costs in connection with line sharing was not covered by the Commission’s 17th
14 Supplemental Order and that for line sharing, OSS development costs should be
15 recovered from both ILEC and CLEC xDSL customers. He goes on to explain
16 why recovery of these costs from CLECs only would be discriminatory and an
17 impediment to the development of competition. (pp. 20-24)

18

19 • Mr. John Klick, on behalf of Covad/Rhythms, argues that line sharing
20 disconnection charges should only be assessed when the CLEC customer actually

1 cancels its DSL service. He also asserts that Verizon NW’s installation and
2 disconnection charges are bundled within the overall proposal for collocation
3 elements (pp. 29-30)

4

5 • Mr. Spinks states that Staff recommends that the line sharing charge be set to
6 zero and he also expresses concern about separate line sharing OSS cost recovery
7 charges. (pp. 12-15)

8

9 **Q. WILL COVAD/RHYTHMS RECOMMENDATION THAT LINE SHARING OSS**
10 **COST BE RECOVERED FROM BOTH ILEC AND CLEC XDSL CUSTOMERS**
11 **HAVE AN IMPACT ON VERIZON NW? (CABE, PP. 20-24)**

12 A. No, it will not. As discussed by Mr. Jerome Holland in his phase A rebuttal testimony,
13 Verizon NW is in the process of establishing a separate data affiliate that will handle all
14 retail xDSL sales. When this separate affiliate is established, Verizon NW’s ILEC
15 operations will treat this separate data CLEC like any other CLEC. Thus, Verizon NW’s
16 ILEC will not have any xDSL customers and Covad/Rhythms recommendation would
17 have no impact on it.

18

19 **Q. COVAD/RHYTHMS ARGUES THAT LINE SHARING DISCONNECTION**
20 **CHARGES SHOULD ONLY BE ASSESSED WHEN THE CLEC CUSTOMER**

1 **ACTUALLY CANCELS ITS DSL SERVICE AND THAT VERIZON NW’S**
2 **INSTALLATION AND DISCONNECTION CHARGES ARE BUNDLED WITHIN**
3 **THE OVERALL PROPOSAL FOR COLLOCATION ELEMENTS (KLINK, PP.**
4 **29-30). WHAT IS YOUR RESPONSE TO THIS?**

5 A. As mentioned in my revised phase A direct testimony, Verizon NW proposed a separate
6 rate for disconnection activities to be in conformance with the Commission’s 17th
7 Supplemental Order (paragraphs 453 and 471). Moreover, Verizon NW’s line sharing
8 rates do contain separate line sharing installation and disconnection rates, as shown in
9 RT-6 (p. 1) and RT-2, (p. 6).

10

11 **Q. STAFF PROPOSES THAT THE LINE SHARING CHARGE BE SET AT ZERO**
12 **AND ALSO EXPRESSES CONCERN ABOUT SEPARATE LINE SHARING OSS**
13 **COST RECOVERY CHARGES (SPINKS, P. 12-15). WHAT IS YOUR**
14 **REACTION TO THIS.**

15 A. Regarding the first issue, I am assuming that the term “line sharing charge” refers to the
16 charge for the sharing of the loop itself. Under this assumption, I agree with Staff that
17 the charge should be set at zero, as I have stated in my revised phase A direct testimony.

18

19 Regarding the second issue, Verizon NW has not proposed a separate line sharing OSS
20 charge. To the extent that the OSS modifications made for line sharing can also be used

1 for other UNEs and are not made exclusively for line sharing, Verizon NW would agree
2 with Staff’s recommendation that the costs incurred be added to the pool of OSS costs
3 to be recovered on a per LSR basis. However, Verizon NW reserves the right to revisit
4 this issue when these costs are quantified and recovery is sought.

5

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

7 A. Yes, it does.

8

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

ROBERT TANIMURA

MANAGER – STATE ADVOCACY SUPPORT

ON BEHALF OF

VERIZON NORTHWEST INC.

Formerly Known as GTE Northwest Incorporated

SUBJECT: PRICING POLICY

AUGUST 4, 2000

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