BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of the	)	
	)	Docket No. UT-003013
Continued Costing and Pricing of	)	
Unbundled Network Elements, Transport,	)	
Termination, and Resale	)	
______________________________________	)	

PART A REPLY TESTIMONY

OF

REX KNOWLES

On Behalf of

NEXTLINK Washington, Inc.

August 4, 2000

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

A. My name is Rex Knowles. I am a Vice President Regulatory for NEXTLINK, 111 East Broadway, Suite 1000, Salt Lake City, Utah 84111. I previously provided direct and response testimony in this proceeding on behalf of NEXTLINK Washington, Inc. ("NEXTLINK"), on whose behalf I am providing this reply testimony.

Q. WHAT IS THE PURPOSE OF YOUR REPLY TESTIMONY?

A. The purpose of my reply testimony is to respond to testimony about competing local exchange company ("CLEC") access to incumbent local exchange company ("ILEC") operations support systems ("OSS") filed by Barbara Brohl on behalf of Qwest Communications Corporation, f/k/a U S WEST Communications, Inc. ("Qwest") and by Robert Tanimura on behalf of Verizon Northwest Inc., f/k/a GTE Northwest Incorporated ("Verizon"). I also address a portion of the testimony on collocation pricing filed by David E. Griffith on behalf of Commission Staff.

I. OPERATIONS SUPPORT SYSTEMS

Q. HOW DO YOU RESPOND TO MR. TANIMURA'S CONTENTION THAT COSTS INCURRED TO TRANSITION THE ILECs' OSS FROM A MONOPOLY TO A COMPETITIVE ENVIRONMENT ARE "FORWARD-LOOKING," NOT "EMBEDDED"?

A. Mr. Tanimura refers on pages 7-8 of his Responsive Direct Testimony to the OSS costs that the ILECs seek to recover as "transition costs" that "have nothing to do with the embedded cost of the existing network" and are "forward-looking" because "the modifications were required to change the ILECs' systems for the future competitive environment." I agree that the ILECs seek to recover costs to modify their embedded legacy OSS to function in a multiple, rather than single, provider environment. Unlike the research and development costs in Mr. Tanimura's analogy, however, the ILEC "transition costs" are not incurred on an on-going basis to improve product or service quality in response to competitive pressures. Rather, the ILECs are changing their systems to comply with their legal obligations to make those systems accessible to competitors – a one-time, transformative occurrence undertaken in response to Congressional and FCC mandate. The ILECs incur the attendant costs to create a market that did not previously exist, not to provide OSS access on an on-going basis once the market is established.

The touchstone for all cost recovery and pricing determinations with respect to facilities and services provided by ILECs to CLECs is the Telecommunications Act of 1996 ("Act"). Section 252(d)(1) of the Act states that rates for interconnection and unbundled network elements "shall be based on the cost . . . of *providing* the interconnection or network element" (emphasis added), not the costs incurred *to be able to provide* the interconnection or the network element. The OSS modification costs the ILECs seek to recover from CLECs in this docket are the costs they incur to be able to provide interconnection or network elements, not the costs the ILECs incur in actually providing interconnection or network elements to CLECs.

Local number portability ("LNP") provides an illustration of the distinction between the costs incurred to be able to provide a service and the costs of actually providing that service. The ILECs (as well as CLECs) have incurred costs to modify their networks to enable end-user customers to retain their numbers when they elect to take local service from a different provider. The ILECs (as well as CLECs) recover their network modification costs not through charges to CLECs but through end-user customer surcharges designed to recover a sum certain over a specified period of time. Local carriers also incur costs on an on-going basis to provide LNP once the network modifications have been made, and these costs will be recovered separately from the network development costs.

With respect to OSS costs, the ILECs propose charges on CLECs that would recover the costs the ILECs allegedly have incurred to modify their networks to be able to provide interconnection and network elements. Regardless of whether those costs are characterized as "embedded" or "forward-looking," therefore, they are not the costs of actually providing access to their OSS as a network element that the Act authorizes the ILECs to recover.

Q. DOES THAT MEAN THAT THE ILECs ARE NOT ENTITLED TO RECOVER THEIR OSS MODIFICATION COSTS?

A. Certainly not. ILECs, like CLECs, are entitled to recover their costs of doing business from their customers, and those costs would include prudently incurred expenses to adapt legacy OSS to a multiple provider environment. Indeed, Mr. Montgomery testified in the prior cost case, and Mr. Spinks states in his Direct Testimony in this docket, that the ILECs are already recovering their OSS transition costs from their ratepayers. Mr. Tanimura disagrees with obtaining OSS modification cost recovery from end-user customers, but relies solely on the Commission's Seventeenth Supplemental Order in the prior cost proceeding without any further explanation. Unfortunately, the Commission also did not fully explain its decision. The purpose of my testimony on this issue is to provide a basis for the Commission to distinguish between the ILECs' costs of providing OSS access – which they may recover through UNE rates under the Act – and the costs incurred to modify existing OSS as part of opening the local markets to competition – which all telecommunications consumers should share.

Q. WOULD CLECs "GET AWAY WITHOUT PAYING ANYTHING," AS MR. TANIMURA STATES ON PAGE 9 OF HIS RESPONSIVE DIRECT TESTIMONY?

A. No. CLECs incur substantial costs to modify and maintain their own systems to interface with the ILECs' OSS, and CLECs have far fewer customers than the ILECs over which to spread those costs. CLECs and their customers, therefore, already shoulder at least their share of the total costs of the system modifications necessary to enable all companies to provide the service customers expect in a newly competitive market. If CLECs are required to pay both their own system modification costs and the ILECs' OSS modification costs, it would be the ILECs that would "get away without paying anything." The California Public Utilities Commission agreed and rejected the proposal of the ILECs in that state (including a Verizon affiliate) to charge CLECs for the entire costs the ILECs incur to implement the Act:

> We reject the proposal that the ILECs be permitted to charge each [CLEC] for the costs of implementation. Such an approach would place a disproportionate burden on the [CLECs] and their limited customer base while relieving the ILEC and its customers from any sharing of such costs. Similarly, a "Limited Exogenous" factor adjustment applicable exclusively to the ILECs' customers would place the burden disproportionately on those customers. We believe that a more equitable approach is for the cost to be recovered through a [*sic*] end user surcharge to be applied to all customers irrespective of which carrier provides them service. This approach equitably spreads the cost burden among all customers on a competitively neutral manner. We shall thus authorize a cost recovery allowance in the form of a uniform surcharge on uniform cents per line

basis to each carrier's end use customers.

Order Instituting Rulemaking/Investigation on the Commission's Own Motion into Competition for Local Exchange Service, Docket Nos. 95-04-043 & 044, Decision 98-11-066 at 21 (Cal. PUC Nov. 19, 1998) (a copy of the opinion is attached).

Q. DOES THE CLEC PROPOSAL THAT OSS MODIFICATION COSTS BE RECOVERD FROM END-USER CUSTOMERS REQUIRE THE ILECs TO SUBSIDIZE COMPETITIVE ENTRY AS MR. TANIMURA CLAIMS ON PAGE 10 OF HIS RESPONSIVE DIRECT TESTIMONY?

A. No. Washington telecommunications consumers, not the ILECs, would pay for the transition from a monopoly to a competitive market, which would enable, not subsidize, competitive entry. Prior to passage of the Act, many states had made the policy determination that telecommunications consumers were best served by a single provider. That single provider was virtually guaranteed the ability to recover from its customers the costs it reasonably and prudently incurred to construct a network, including OSS, to serve those customers in a monopoly environment. The Act changed the policy of monopoly provisioning by authorizing a multiple provider market for local service and requiring the ILECs to make their networks available for use by competing carriers.

Congress, however, did not make this policy shift to benefit CLECs, any more than states previously adopted monopoly provisioning as a means to benefit the ILECs. Both

Congress and the states have consistently sought to foster the type of market that would provide *consumers* with telecommunications services at fair, just, and reasonable rates, terms, and conditions. Consumers reimbursed the ILECs for developing systems to operate as a single provider, and consumers should reimburse the ILECs for modifying those systems to operate in the newly mandated multiple provider arena. In both cases, the ultimate beneficiaries – telecommunications consumers – should be responsible for systemic network costs.

The alternative of imposing all OSS modification costs on CLECs would undermine the very competitive marketplace that Congress, the FCC, the Washington legislature, and the Commission have attempted to foster. Providing local exchange services is a business, and CLECs must recover their costs from their customers, including whatever charges the CLECs pay to the ILECs. Levying an OSS modification recovery charge – particularly at the levels proposed by Qwest – increases CLECs' costs to provide service and correspondingly limits the customers CLECs can profitably serve. The Commission should minimize the number and level of the ILECs' charges to CLECs if it is truly interested in encouraging competitive alternatives for the greatest number of Washington consumers.

Q. HOW DO YOU RESPOND TO OBJECTIONS RAISED BY BOTH MR. TANIMURA AND MS. BROHL TO CLEC ENTITLEMENT TO RECOVER OSS COSTS?

A. Ms. Brohl apparently misunderstood my testimony. I do not recommend that the Commission authorize CLECs to impose a charge on the ILECs to recover any costs CLECs may incur to provide competitors with access to CLEC OSS. I agree with Ms. Brohl that Qwest has avoided any direct use of CLEC OSS, to the point of placing the entire burden of ordering interconnection facilities used by both parties on the CLEC. Rather, I recommend that, if the Commission authorizes ILECs to recover OSS modification costs from the CLECs, the Commission at the same time should permit CLECs to recover from the ILECs the costs the CLECs incur to modify their OSS when those modifications mirror the modifications the ILECs make. Both CLECs and ILECs, for example, are responsible for ensuring the ordering, provisioning, maintenance and repair, and billing of interconnection facilities, and thus both carriers should be mutually responsible for the requisite OSS modifications, just as they are jointly responsible for other costs associated with interconnection. Both CLECs and ILECs also must construct gateways to enable their OSS to interface, and a CLEC, therefore, should be entitled to recover the costs to construct its gateway at the same level the ILEC is entitled to recover its costs. Ms. Brohl's discussion about costs associated with CLECs' providing access to their OSS thus is simply inapplicable.

Mr. Tanimura, on the other hand, states on pages 10-11 of his Responsive Direct Testimony that "OSS enhancements undertaken by both ILECs and CLECs were undertaken solely for the benefit of CLECs. ILECs to not benefit in anyway [*sic*] from these enhancements and . . . should not be required to pay for them." As I have explained, telecommunications consumers, not CLECs, are the beneficiaries of the OSS enhancements undertaken by both ILECs and CLECs. Both ILEC and CLEC customers benefit from the ability to make calls to each other, which is only possible because of OSS modifications that enable ILECs and CLECs to order, provision, maintain and repair, and bill for interconnection facilities. Similarly, gateways to ILEC OSS, rather than direct access to the existing ILEC OSS, enable the ILECs to shield customer proprietary network information ("CPNI") and other competitively sensitive data from unauthorized access, which solely benefits the ILECs and their customers. The ILECs, therefore, cannot credibly claim that they and their customers do not benefit from CLEC OSS modifications, even if the ILECs continue to believe that telecommunications consumers are better served in a monopoly, rather than competitive, environment.

Q. DO YOU CLAIM THAT DIFFERENT RATES ESTABLISHED BY THE COMMISSION FOR "ELECTRONIC" VERSUS "MANUAL" ORDERS ARE

BASED ON THE PRODUCT THAT A CLEC IS PURCHASING FROM QWEST AS DISCUSSED ON PAGES 6-7 OF MS. BROHL'S RESPONSE TESTIMONY?

A. No. My reference to the Commission requirement for distinct rates for electronic and manual orders was simply to illustrate a recognition that each CLEC should be charged for the facilities and services it uses, not an average of the facilities and services all CLECs use. Qwest has proposed different rates for orders placed electronically and manually, but proposes to recover all OSS modification costs from all CLECs, regardless of whether an individual CLEC actually uses the modified systems. Qwest separately identifies OSS modification costs for Unbundling, Rebundling, Local Interconnection Services (LIS), Collocation, Systems Access, Cross Program Projects, and Resale. A CLEC ordering an unbundled loop, therefore, would pay an OSS modification charge to recover the costs not just for the modifications to the systems used for that order but for modifications to LIS, collocation, and all other OSS modifications. Such pricing is inconsistent with even the ILECs' definition of cost causation.

II. COLLOCATION

Q. WHAT ISSUES DO YOU HAVE WITH RESPECT TO THE TESTIMONY OF DAVID E. GRIFFITH ON BEHALF OF COMMISSION STAFF?

A. I generally agree with Mr. Griffith's proposals on behalf of Commission Staff, but two issues arise that require additional discussion: (1) the modifications necessary to

Verizon's DC power charges to make them just, reasonable, and nondiscriminatory; and (2) the structure of monthly recurring charges for nonrecurring collocation costs.

Q. WHAT CONCERNS DO YOU HAVE WITH RESPECT TO VERIZON'S PROPOSED DC POWER RATES?

A. Mr. Griffith observes that Verizon proposes a nonrecurring charge of $2,731, a charge for power cables, and a recurring charge of approximately $513 per month for 40 amps of DC power. The adjustments Mr. Griffith proposes to the nonrecurring charge appear to be appropriate, but both Mr. Griffith and I assumed that Verizon's proposed recurring charge applies to each 40 amps of power supplied. Verizon, however, actually proposes to charge double that amount, which is both unreasonable and discriminatory.

Q. PLEASE EXPLAIN.

A. Telecommunications transmission and other central office equipment operates on direct current ("DC") electricity. DC power is generated by a rectifier, which converts alternating current ("AC") power supplied by the power company, and is stored in banks of batteries. DC power generally is supplied to collocated equipment by installing cables to the collocation space from the main power distribution board ("PBD") connected to the batteries, either directly or through a battery distribution fuse board ("BDFB"). These cables are provided in two pairs, referred to as A and B feeds, one pair of which functions as a redundant connection to the PBD to ensure an uninterrupted power source.

Verizon's proposed recurring charge for DC power purports to recover the costs associated with the CLEC's share of the AC power obtained from the power company, the power plant (including rectifier, battery plant, and PBD), and BDFB. While Verizon's documentation is far from clear, Verizon appears to estimate the total costs associated with these facilities, divide those costs by the facilities' amperage capacity, and multiply the per amp price by 40 amps. Qwest also uses this basic methodology to calculate its DC power per amp monthly recurring charges of $9.34 for power plant and $1.57 (for less than 60 amps) or $3.13 (for more than 60 amps) for power usage. Verizon's 40 amp total of $513 is higher than the Qwest total for 40 amps of $436, but Verizon's rate includes the BDFB and thus the rates appeared to be roughly comparable.

When I reviewed Mr. Griffith's testimony with others who have more experience than I have had with collocation in Verizon central offices, however, I was informed that Verizon imposes its monthly recurring charge for DC power *per feed*. Thus, while Qwest includes both A and B feeds in its proposed per amp charges, Verizon charges twice its proposed rate to provide the same facilities.

Q. WHY IS THAT UNREASONABLE AND DISCRIMINATORY?

A. Not only is Verizon's proposed rate more than double the rate Qwest proposes, but the assumptions on which Verizon bases its charge are unrealistic. The A and B feeds are redundant paths to the power plant, but only the feeds are redundant. Verizon effectively assumes that the AC power and power plant are also duplicated, which obviously is not the case unless over half of Verizon's power plant lies idle at any given time. Verizon thus proposes to charge a CLEC for 80 amps of power when the CLEC requests only 40, which is unreasonable and discriminatory because Verizon does not incur costs for DC power for its own equipment on that basis. Accordingly, I recommend that the Commission require Verizon to include both A and B feeds in the monthly recurring charge for DC power of $513 that it has proposed.

Q. WHAT ABOUT STAFF'S RECOMMENDATION ON THE STRUCTURE OF MONTHLY RECURRING CHARGES FOR NONRECURRING COLLOCATION COSTS?

A. I fully agree with Staff's approach. Permitting CLECs to pay the substantial nonrecurring costs associated with collocation over time rather than up front would facilitate competitive entry, and the time limitation Staff proposes would prevent the ILECs from over-recovering those costs. Particularly with respect to the recurring charges that Verizon has proposed, the Commission should carefully scrutinze the ILECs' proposals and establish a rate structure and rate levels that will ensure that the ILECs recover no more than the reasonable costs incurred to provide collocation.

Q. DOES THAT CONCLUDE YOUR TESTIMONY?

A. Yes, it does.