

**BEFORE THE WASHINGTON  
UTILITIES AND TRANSPORTATION COMMISSION**

<b>In the Matter of the Pricing Proceeding for Interconnection, Unbundled Elements, Transport and Termination, and Resale</b>	) ) ) )	<b>Docket No. UT -960369</b>
<b>In the Matter of the Pricing Proceeding for Interconnection, Unbundled Elements, Transport and Termination, and Resale for U S WEST Communications, Inc. - Phase II</b>	) ) ) ) )	<b>Docket No. UT-960370</b>
<b>In the Matter of the Pricing Proceeding for Interconnection, Unbundled Elements, Transport and Termination, and Resale for GTE Northwest Incorporated</b>	) ) ) ) ) ) ) ) )	<b>Docket No. UT-960371</b>

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**TESTIMONY OF  
TERESA K. MILLION  
ON BEHALF OF  
U S WEST COMMUNICATIONS, INC.**

**JANUARY 31, 2000**

**EXECUTIVE SUMMARY**

The testimony of Teresa K. (Terri) Million presents the updated U S WEST Operational Support Systems Cost Studies for certain transition or start-up costs, and ongoing maintenance of Operational Support Systems electronic interfaces. Her testimony provides support for the validity of U S WEST's non-recurring rates for Operational Support Systems and addresses specific concerns raised by the Washington Utilities and Transportation Commission.

Ms. Million discusses the Operational Support Systems Cost Studies and explains:

what Operational Support Systems costs U S WEST seeks to recover;

why U S WEST is entitled to recover such costs;

why such costs are not recovered through expense factors;

how the trend in Operational Support Systems expenditures supports U S WEST's position;

how U S WEST proposes to adjust its Operational Support Systems costs to ensure that none of those costs have been recovered through its annual charge factors;

how U S WEST developed the demand used in the calculation of the per order rates; and

how to approach the relationship between U S WEST's retail rates and the Operational Support Systems cost it seeks to recover.

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1 **IDENTIFICATION OF WITNESS**

2 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

3 A. My name is Teresa K. (Terri) Million. My business address is 1801 California Street, Room  
4 4450, Denver, Colorado 80202.

5 Q. **PLEASE IDENTIFY YOUR EMPLOYER AND EXPLAIN YOUR POSITION AND**  
6 **RESPONSIBILITIES.**

7 A. I am employed by U S WEST Communications, Inc. (U S WEST) as a Director, Cost Advocacy  
8 in the Retail Markets Organization. In this position I am responsible for preparing testimony  
9 and testifying about U S WEST's cost studies in a variety of regulatory proceedings.

10 Q. **WHAT IS YOUR EDUCATIONAL BACKGROUND AND PROFESSIONAL**  
11 **EXPERIENCE?**

12 A. I received a Juris Doctor from the University of Denver, College of Law and am licensed to  
13 practice law in the state of Colorado. I also have a Master of Business Administration from  
14 Creighton University and a degree in Animal Science from the University of Arizona.

15 I have more than 16 years experience in the telecommunications industry with an emphasis in  
16 tax and regulatory compliance. I began my career with Northwestern Bell Telephone Company,  
17 now U S WEST Communications, in 1983, where I administered Shared Network Facilities

1 Agreements with AT&T that emanated from divestiture. I held a variety of positions within the  
2 U S WEST, Inc. Tax Department over a period of ten years, including tax accounting, audit, and  
3 state and federal tax research and planning responsibilities. In 1997, I assumed a position that  
4 had responsibility for affiliate transactions compliance, specifically compliance with Section  
5 272 of the Telecommunications Act of 1996 (the “Act”). In September 1999, I began my  
6 current assignment as a Cost Witness.

7 **PURPOSE OF TESTIMONY**

8 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?**

9 **A.** The purpose of my testimony is to present the results of the updated cost studies and  
10 corresponding recovery mechanisms of the unbundled network element (UNE) represented by  
11 U S WEST’s Operational Support Systems (OSS). I will address the specific concerns raised  
12 by the Washington Utilities and Transportation Commission (Commission) in its 17<sup>th</sup>  
13 Supplemental Order<sup>1</sup> regarding the appropriate recovery of certain transition or start-up costs,  
14 and provide support for the validity of U S WEST’s OSS rates.

15 **ANALYSIS OF OSS COSTS**

16 **Q. WHAT OSS COSTS DOES U S WEST SEEK TO RECOVER IN THIS PROCEEDING?**

17 **A.** U S WEST is seeking recovery of two types of OSS costs. First, U S WEST seeks recovery of

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<sup>1</sup> 17<sup>th</sup> Supplemental Order and Interim Order Determining Prices in the Matter of Pricing Proceeding for Interconnection, Unbundled Elements, Transport and Termination and Resale, Docket Nos. UT-960369, et al., rel. August 1999.

1 those costs associated with the start-up or development and enhancement of U S WEST's OSS  
2 to accommodate CLEC access and processing through OSS. The rates proposed for recovery  
3 of its start-up costs are derived from the costs captured by U S WEST's Information  
4 Technologies organization by project for 1997, 1998 and anticipated for 1999, as reflected in  
5 the testimony of Ms. Barbara Brohl.<sup>2</sup> Total region-wide start-up costs captured by Information  
6 Technologies include \$132,963,125 of expenses, and \$16,237,358 of capital expenditures. The  
7 \$132.9 million of expenses has been adjusted, as described in detail later in my testimony, and  
8 input into the OSS cost study resulting in \$121.8 million of start-up expenses that U S WEST  
9 seeks to recover. The capital expenditures have been calculated on a present value basis (using  
10 9.63% as cost of money and a six year life), resulting in \$23.5 million of start-up capital that  
11 U S WEST seeks to recover.

12 Second, U S WEST seeks recovery of the ongoing maintenance and operation activities  
13 associated with electronic interfaces. Ongoing maintenance costs captured by Information  
14 Technologies includes \$3.9 million of annual expenses. Those expenses have been calculated  
15 on a present value basis (using 9.63% as cost of money) and input into the OSS cost study  
16 resulting in \$25.9 million of ongoing maintenance expenses that U S WEST seeks to recover  
17 on a forward-looking basis. Please refer to Confidential Exhibits TKM-01 and TKM-02 for  
18 further information related to the costs U S WEST seeks to recover for each of these types of  
19 OSS costs and the underlying detail used to determine the proposed rates.

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<sup>1</sup> <sup>2</sup> The expenses related to OSS enhancement and development are primarily accounted for in account 6724, Information  
<sup>2</sup> Management.

**1 Q. DOES U S WEST SEEK TO RECOVER COMMON OR SHARED COSTS?**

**2 A.** OSS is a UNE. The Federal Communications Commission (FCC) permits inclusion of common  
**3** costs in determining the appropriate recovery rates for UNEs. Nevertheless, U S WEST does  
**4** not seek to recover common or shared costs associated with its OSS start-up costs. U S WEST  
**5** does seek recovery for common or shared costs associated with its ongoing maintenance costs.

**6** In distinguishing between these two, U S WEST recognizes that the OSS start-up costs it seeks  
**7** to recover are costs incurred since the passage of the Act and are unique. Therefore, U S WEST  
**8** will not seek recovery for start-up costs beyond its direct and attributable costs for development  
**9** and enhancement activities. On the other hand, costs for ongoing maintenance are forward-  
**10** looking and recurring in nature.

**11 WHAT RATES DOES U S WEST PROPOSE TO USE FOR RECOVERY OF ITS OSS COSTS?**

**12** U S WEST believes that it is appropriate to recover its OSS costs with two rates, one for start-up costs  
**13** and one for ongoing maintenance costs. However, this Commission directed U S WEST in its  
**14** 17<sup>th</sup> Supplemental Order<sup>3</sup> to make a compliance filing that identified separate rates for "... IMA,  
**15** or manual ordering, and EDI, or electronic ordering." The Commission went on to say that  
**16** establishing separate rates for manual and electronic access reflects the cost of service.  
**17** U S WEST has taken steps to identify separate rates for IMA (including manual orders) and

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<sup>1</sup> <sup>3</sup> See 17<sup>th</sup> Supplemental Order at ¶ 112.

1 EDI.

2 It is important for the Commission to recognize that U S WEST seeks to recover only the  
3 systems-related costs for OSS, which includes the systems modification costs and interfaces  
4 associated with the various methods of ordering. These costs are not driven by transactions such  
5 as the placing of orders, rather the orders serve as a mechanism for recovering OSS costs. There  
6 are no processing costs, manual or otherwise, included in U S WEST's rates for start-up and on-  
7 going maintenance. Therefore, U S WEST submits the following as its rates for start-up and  
8 ongoing maintenance costs:

9	IMA/MANUAL	EDI
10 <b>START-UP RATE</b>	<b>\$14.19</b>	<b>\$9.58</b>
11 <b>ONGOING RATE</b>	<b>\$1.76</b>	<b>\$2.02</b>
12		

13 **Q. IS U S WEST ENTITLED TO RECOVER START-UP OSS COSTS?**

14 **A.** Yes, for several reasons.

15 OSS is a UNE.

16 This Commission stated in its 17<sup>th</sup> Supplemental Order<sup>4</sup> that “[t]he Act does not state that an  
17 ILEC or its retail customers should subsidize the price of UNEs. Rather, the Act provides that  
18 when a CLEC orders a UNE, it shall pay a fair and just price, which will compensate the ILECs

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<sup>4</sup> *Id.* at ¶ 100.



1 for its reasonable costs.” The FCC confirmed in its Third Report and Order<sup>5</sup> that OSS is  
2 considered a UNE under Section 251 of the 1996 Act. In their comments, parties “argue[d] that  
3 OSS qualifies as an independent unbundled network element...”<sup>6</sup> Therefore, U S WEST is  
4 entitled to seek recovery for its OSS UNE costs as permitted under the Act.

5 System Modifications are Required.

6 This Commission has stated that “[w]hile Congress required the ILECs, such as U S WEST, to  
7 open up their networks to competition, it also sought to ensure that they would be compensated  
8 for reasonable costs incurred as a result of their efforts to comply with this mandate.”<sup>7</sup> In  
9 discussing OSS as a UNE, the FCC confirmed that it “also required incumbent LECs to make  
10 modifications to their OSS as necessary in order to offer nondiscriminatory access to these  
11 functions, including access to interface design systems.”<sup>8</sup> The FCC described interface design  
12 systems as “an electronic gateway used to electronically access OSS information such as  
13 telephone number, address validation, order receipt notice, etc.”<sup>9</sup> By identifying OSS as a UNE,  
14 then obligating ILECs to provide electronic interfaces and modify their OSS to accommodate  
15 the CLECs, the FCC placed start-up costs for OSS development and enhancement into the  
16 category of an ILEC’s recoverable UNE costs. The FCC, in its recently released Line Sharing

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1 <sup>5</sup> Third Report and Order and Fourth Further Notice of Proposed Rulemaking, CC Docket No. 96-98 (rel. November 5,  
2 1999), confirming ¶ 516 of the First Report and Order, *Implementation of the Local Competition Provisions of the*  
3 *Telecommunications Act of 1996*, CC Docket No. 96-98 (rel. August 8, 1996).

1 <sup>6</sup> *Id.* at ¶ 423.

1 <sup>7</sup> See 17<sup>th</sup> Supplemental Order at ¶ 98 (Emphasis added).

1 <sup>8</sup> See Third Report and Order at ¶ 421 (Emphasis added).

1 <sup>9</sup> *Id.* at ¶ 421, see footnote 823.

1 Order supports this position.<sup>10</sup> U S WEST is not seeking to recover the costs it will incur to  
2 modify its OSS in support of line sharing in this proceeding. However, U S WEST does seek  
3 recovery for the costs it has incurred to modify its OSS in support of other UNEs.

4 OSS Costs Relate Solely to UNEs.

5 In addition to modifying and enhancing its existing OSS, U S WEST has provided electronic  
6 interfaces for pre-ordering, ordering, provisioning, maintenance and repair, and billing for the  
7 sole purpose of enabling CLECs to enter the local market. As explained in detail in the  
8 testimony of Ms. Brohl, but for the provisioning of the OSS UNE, the start-up costs that  
9 U S WEST seeks to recover would not have been incurred. Therefore, U S WEST is entitled  
10 to seek recovery of the start-up costs related to the OSS UNE.

11 **IS U S WEST ENTITLED TO RECOVER ONGOING OSS COSTS?**

12 **A.** Yes. The ongoing costs U S WEST seeks to recover are another facet of the OSS UNE. As  
13 discussed above, the FCC and this Commission have confirmed that U S WEST is entitled to  
14 recover the cost of providing UNEs. These are the costs of running electronic interfaces,  
15 developed for the CLECs, on a daily basis and updating or making minor changes to those  
16 electronic interfaces' software programs. U S WEST is obligated to provide these electronic  
17 interfaces that are solely for the benefit of the CLECs, do not benefit U S WEST, and therefore,

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<sup>1</sup> <sup>10</sup> Fourth Report and Order, CC Docket No. 96-98 (rel. December 9, 1999), at ¶ 144, states “We find that incumbent LECs  
<sup>2</sup> should recover in their line sharing charges those reasonable incremental costs of OSS modification that are caused by the  
<sup>3</sup> obligation to provide line sharing as an unbundled network element.” (Emphasis added).

1 are properly recoverable from the CLECs.

2 Costs for maintaining and operating the electronic interfaces include the forward-looking costs  
3 of salaries and expenses for people involved in making table updates, resolving error conditions,  
4 initializing application software, and other related tasks. Ms. Brohl explains in detail in her  
5 testimony how these costs benefit the CLECs.

6 **ARE OSS TRANSITION OR START-UP COSTS RECOVERED THROUGH EXPENSE**  
7 **FACTORS?**

8 No. Recovery rates for start-up costs are based on information technology expenses incurred or  
9 expected to be incurred in 1997, 1998 and 1999. Costs approved by the Commission have cost  
10 factors based on pre-1996 data. The amount of information technology expense that is  
11 supported by the approved factors was based on levels of expense incurred prior to the start of  
12 the development and enhancement activities related to OSS. Therefore, OSS start-up costs  
13 cannot be included in the level of cost recovery supplied by the annual charge factors.

14 **ARE ONGOING OSS COSTS RECOVERED THROUGH EXPENSE FACTORS?**

15 No. Recovery rates for ongoing costs are forward looking costs based on 1999 estimates of expenses  
16 pertaining to operating and maintaining the electronic interfaces that have been developed for  
17 the benefit of the CLECs. These forward- looking costs would not be included in the approved  
18 expense factors because they are based on incremental activities U S WEST expects to perform

1 in the future. As explained above, the factors in the cost studies for other services are based on  
2 pre-1996 data, and the level of expense recovery generated from those factors did not  
3 contemplate this type of activity.

4 **Q. DOES THE TREND IN OSS EXPENDITURES PRE-ACT VERSUS POST-ACT**  
5 **SUPPORT U S WEST'S POSITION?**

6 **A.** Yes. I have provided an analysis of information technology expense for U S WEST<sup>11</sup> over the  
7 years 1990 through 1999 in Exhibit TKM-03. The trend shows that expenditures during the six  
8 years prior to passage of the Act in 1996 increased from \$275.8 million in 1990 to \$517.3  
9 million in 1996. In other words, expenses did not quite double during the six years prior to  
10 passage of the Act.

11 In contrast, for the years 1997, 1998 and 1999 (less than half the time of the original period)  
12 expenses increased from \$517.3 million to \$979.8 million, or approximately 89%. So, in the  
13 three years since the passage of the Act expenses have nearly doubled again. The trending data  
14 for the six years prior to passage of the Act could lead to a rough conclusion that about one-third  
15 of the increase may be attributed to changes in price, system size, and systems enhancements  
16 which are part of the normal course of business. That would leave two-thirds of the increase  
17 to be attributed to other causes. The amount of the increase that U S WEST assigned to

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<sup>1</sup> <sup>11</sup> The OSS costs are incurred for activities related to all 14 states in the U S WEST region. Consequently, the OSS rates  
<sup>2</sup> represent costs and demand for all 14 states.

1 activities related to OSS start-up expenses incurred to provision the OSS UNE is \$132.9  
2 million. This amount represents approximately 28% (less than one-third) of the total increase  
3 between 1996 and 1999, leaving nearly 40% of the increase to other causes (e.g., Year 2000).<sup>12</sup>

4 From this analysis, it is clear that the level of expense incurred prior to the passage of the Act  
5 is significantly less than the level of expense incurred in years after passage of the Act. It is also  
6 clear that U S WEST is not seeking to recover all of the increased level of expense, only the  
7 incremental costs related to the development of the OSS UNE. Therefore, levels of support that  
8 are recovered elsewhere through the approved annual charge factors cannot be adequate to  
9 recover the OSS start-up costs.

10 **Q. DID U S WEST PREPARE AN INFLATION ADJUSTED TREND ANALYSIS AS**  
11 **REQUESTED BY THE COMMISSION?**

12 **A.** Yes. Please refer to Exhibit TKM-04.

13 **Q. DOES THE INFLATION ADJUSTED TREND ANALYSIS CHANGE THE**  
14 **CONCLUSION U S WEST REACHED WITH REGARD TO THE TREND ANALYSIS?**

15 **A.** No. The results of the analysis are essentially the same regardless of which trend analysis is  
16 used. In either case, the trend shows that information technologies expenditures increased

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<sup>1</sup> <sup>12</sup> Since 1996, U S WEST estimates that it has spent approximately \$175 million on all Year 2000 activities. This amount  
<sup>2</sup> includes more than just expenditures in account 6724. Nevertheless, even if the entire \$175 million were used to calculate  
<sup>3</sup> Year 2000 as a portion of the total \$462.5 million increase between 1996 and 1999, it still only represents about 38% of the  
<sup>4</sup> increase.

1 dramatically in the three years since the passage of the Act when compared to the six years  
2 immediately prior to passage of the Act. If anything, the inflation adjusted analysis emphasizes  
3 these results.

4 **CAN U S WEST DEMONSTRATE THAT IT HAS “BACKED-OUT” OSS DEVELOPMENT**  
5 **EXPENSES PRIOR TO CALCULATING ITS ANNUAL CHARGE FACTORS?**

6 No. U S WEST did not back-out the OSS development expenses prior to calculating its annual charge  
7 factors because there were no OSS development expenses incurred in the period of time used  
8 for the annual charge factor development. As discussed above, the amount of information  
9 technology expense supported by the approved factors was based on pre-1996 data, for levels  
10 of expense incurred prior to the start of the development and enhancement activities related to  
11 OSS.

12 **Q. IS IT U S WEST’S POSITION THAT ITS ANNUAL CHARGE FACTORS DO NOT**  
13 **ALLOW RECOVERY OF ANY OF THE OSS DEVELOPMENT COST?**

14 No. U S WEST’s annual charge factors are developed on the assumption that indirect costs vary in  
15 proportion to direct costs and that dollars of expense incurred in a representative period are  
16 reflective of future periods based on this proportion. That is, if a direct cost is \$100 in the  
17 representative period, and the indirect costs are 10% of that amount, then the indirect costs are  
18 \$10. If in future periods, the direct cost increases to \$120, then the indirect cost is estimated to  
19 be \$12 (10% of \$120). This is because annual charge factors are designed to recover a level of

1 expense rather than specific expenses.

2 Since the OSS development expenses were incurred after the period used to determine  
3 U S WEST's annual charge factors, those costs are not included in the representative 10%  
4 factor. However, even though specific OSS start-up costs are not included in the factor, an  
5 argument could be made that because of the fungible nature of the expenses, some of these  
6 expenses may be recovered with the factor.

7 I acknowledge the argument that, although the cost factors do not specifically recover OSS costs  
8 (because they were incurred after the factors were determined), the level of recovery  
9 accomplished by the factors could include some of the OSS costs.

10 **Q. EVEN THOUGH YOU HAVE EXPLAINED THAT THERE ARE NO OSS COSTS**  
11 **CONTAINED IN ANY UNDERLYING FACTORS, HAVE YOU NONETHELESS**  
12 **MADE AN ADJUSTMENT TO REMOVE ALL DOUBT?**

13 **A.** Yes, in order to give consideration to this argument I have made an adjustment that provides a  
14 solution for this possibility. I have adjusted the OSS start-up costs by assuming that a portion  
15 of the OSS development costs could be recovered through the approved annual charge factors.  
16 The adjustment is based on the proportion of OSS start-up costs incurred in 1997 OSS  
17 development activity to the total amount in account 6724 for the period. This is a conservative  
18 estimate because, as discussed previously in my testimony, OSS expenses have increased over  
19 time and the 1997 expenses would have been much higher than any amount actually included

1 in calculating the pre-1996 annual charge factors. By reducing the level of costs that U S WEST  
2 seeks to recover for OSS start-up, the same result is achieved as would have been achieved had  
3 OSS expenses been backed-out of the original annual charge factors. This adjustment is shown  
4 in Attachment B to Confidential Exhibit TKM-01.

5 **Q. HAVE THE OSS DEVELOPMENT COSTS BEEN RECOVERED THROUGH**  
6 **U S WEST'S RETAIL RATES?**

7 **A.** No. This is because the retail rates in Washington are based on a 1997 rate case that included  
8 costs incurred before the period (i.e., 1997 – 1999) for which U S WEST seeks recovery of its  
9 OSS development and enhancement costs. In its 17<sup>th</sup> Supplemental Order<sup>13</sup> directing U S WEST  
10 to make this filing, the Commission ordered: “Both ILECs also must address and be able to  
11 defend their determination of the degree to which these costs have already been recovered  
12 through their retail rates. To the extent these costs have been recovered through retail rates, the  
13 parties should address whether the revenue should be rebated to retail customers.”

14 As I have already discussed, OSS is a UNE. The Telecom Act and the FCC have directed the  
15 states to determine reasonable compensation for the provision of all UNEs. This compensation  
16 is independent from the determination of recovery of costs for retail services, especially when  
17 the form of regulation is rate-of-return for retail services, as is currently the case in Washington.  
18 In fact, the Act and the FCC have been quite specific in stating that UNE rates are not to be

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<sup>13</sup> See 17<sup>th</sup> Supplemental Order at ¶ 110.



1 determined in rate-of-return proceedings.<sup>14</sup>

2 Recovery through retail rates, and the potential for rebates to U S WEST's retail customers,  
3 should not be an issue in this type of proceeding. This is because the question of whether  
4 U S WEST has recovered this OSS UNE cost, or any other UNE cost, in its retail rates is  
5 essentially one of whether U S WEST earned less, or more than, its revenue requirement. It also  
6 raises additional questions regarding how much of what costs were recovered from which  
7 customers (i.e., retail or wholesale). Since UNE revenues are recorded on the books as intrastate  
8 revenue, revenues generated from wholesale customers for UNEs would function to offset  
9 revenues required from retail customers to earn the authorized rate-of-return.

10 While these issues may reasonably be examined in an investigation of U S WEST's rate-of-  
11 return, they are not appropriate for an interconnection and UNE cost proceeding such as this.  
12 Nevertheless, it is unlikely that the rates paid by retail customers in the state of Washington  
13 would have included recovery for OSS costs.

14 **Q. CAN U S WEST ILLUSTRATE HOW OSS COSTS ARE ATTRIBUTABLE TO**  
15 **PROVIDING CAPACITY AND CAPABILITIES ONLY TO THE CLECS, AND HOW**  
16 **THESE CAPABILITIES ARE REQUIRED BY THE TELECOM ACT OR BY FCC**  
17 **DECISIONS?**

18 Yes. The testimony of Ms. Brohl provides information about each project undertaken by U S WEST

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<sup>14</sup> First Report and Order at ¶ 704.

1 to meet the requirements for the OSS UNE. The information includes a description of the  
2 capability developed for the CLECs by each project, and the specific connection between the  
3 projects and the requirements of the Act or FCC rules with which U S WEST must comply. In  
4 addition, Ms. Brohl explains why each project does not provide benefit to U S WEST, thereby  
5 evidencing that it would not have been undertaken but for the provisioning of the OSS UNE.

6 Ms. Brohl's testimony provides a detailed description of each OSS start-up project for which  
7 U S WEST seeks recovery, including the method for tracking expenses and the dollar amount  
8 related to each project. Ms. Brohl also describes how each project relates to the 5 functions of  
9 OSS enumerated by the FCC:<sup>15</sup> pre-ordering, ordering, provisioning, repair and maintenance,  
10 and billing. In addition, Ms. Brohl describes how these projects benefit only the CLECs, and  
11 not U S WEST.

12 U S WEST's OSS costs can be related directly to the development and enhancement of its OSS,  
13 and include training and testing associated with those activities. In addition, U S WEST  
14 provides the assumptions upon which it bases its development of the forecasted number of  
15 orders used to determine its per-order rate. U S WEST believes that this submission will  
16 provide the Commission with the information it needs to determine the appropriateness of the  
17 OSS start-up rate.

18 **Q. PLEASE DESCRIBE THE ASSUMPTIONS USED TO DEVELOP U S WEST'S**

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<sup>1</sup> <sup>15</sup> *Id.* at ¶ 425.

**1 FORECASTED NUMBER OF ORDERS USED TO DETERMINE ITS PER-ORDER**  
**2 RATES.**

**3 A.** I developed U S WEST's forecasted number of orders from the CLECs on the basis of three  
**4** separate components. The first component is a linear trend, over the six-year recovery period,  
**5** of actual service orders placed by the CLECs beginning in 1998. The second component of the  
**6** forecast is based on trending estimates of service orders generated as a result of Access Service  
**7** Requests. Finally, the forecast is based on CLEC demand considering the expected migration  
**8** of CLEC services to the UNE Combination, or UNE C, platform and line-sharing resulting from  
**9** the FCC's recent order requiring U S WEST to provide those UNEs. This migration was  
**10** determined using U S WEST's experience with CLEC penetration of the resale market and a  
**11** projection of continued penetration into U S WEST's retail market.

**12 Q. PLEASE EXPLAIN WHY THE COST-OF-SERVICE FOR OSS START-UP COSTS**  
**13 WOULD NOT CHANGE IF U S WEST'S BILLING SYSTEM COULD HANDLE**  
**14 MULTIPLE UNES ON A SINGLE SERVICE ORDER.**

**15 A.** As I have discussed above, the costs that U S WEST seeks to recover for its OSS UNE are  
**16** related to the systems modifications and interfaces that U S WEST has developed and  
**17** implemented to satisfy FCC requirements for OSS. These costs are not driven by, nor are they  
**18** related to, the processing of particular transactions. In other words, there are no processing or  
**19** transactions costs included in the OSS UNE. Rather the OSS UNE costs are the result of  
**20** U S WEST's efforts to modify, enhance and develop its OSS since the passage of the Act for

1 the benefit of the CLECs. The service order is merely the mechanism chosen for recovering the  
2 OSS costs.

3 The processing of one UNE or multiple UNEs on a single service order will not change the cost-  
4 of-service. The reason for this is that the OSS costs are not transaction related. Therefore, the  
5 demand (i.e., number of service orders) used to calculate the per unit rate impacts the rate but  
6 not the total amount that U S WEST seeks to recover. For example, assume U S WEST  
7 recovers \$100 of its OSS costs over a demand of 100 service orders (i.e., 1 UNE per service  
8 order), the rate per service order will be \$1. If that same \$100 is recovered over a demand of  
9 20 service orders (i.e., 5 UNEs per service order), the rate per service order will be \$5. In the  
10 end, U S WEST will still collect \$100 of its OSS costs, the rate simply determines how quickly  
11 U S WEST recovers its \$100.

12 **CONCLUSION**

13 **PLEASE SUMMARIZE YOUR TESTIMONY.**

14 **A.** U S WEST has a right under the Telecom Act to seek recovery for OSS costs like any other  
15 UNE. The FCC has clearly identified OSS as a UNE and has confirmed that ILECs are entitled  
16 to recover their costs to modify their OSS. My testimony and cost studies, along with the  
17 testimony of Ms. Brohl, have identified, quantified, and described the start-up costs related to  
18 the development and enhancement of its OSS for use by the CLECs. I have also identified and  
19 described the forward-looking costs associated with the ongoing maintenance of the OSS

1        electronic interfaces that have been developed for the benefit of the CLECs. In addition, I have  
2        demonstrated that the costs U S WEST seeks to recover are incremental to information  
3        technologies costs that it has recovered elsewhere in its UNE rates. In proposing rates for OSS  
4        start-up costs and ongoing maintenance costs U S WEST seeks only to recover costs it would  
5        not have incurred but for the provisioning of the OSS UNE. U S WEST is entitled to recover  
6        these OSS UNE costs.

7 **Q.        DOES THIS CONCLUDE YOUR TESTIMONY?**

8 **A.**        Yes, it does.

9





DESCRIPTION

EXHIBIT

Executive Summary and Results – Start-up Costs (Confidential)

TKM-01

Executive Summary and Results – Ongoing Maintenance (Confidential)

TKM-02

OSS Expenditure Trend Analysis

TKM-03

OSS Expenditure Trend Analysis – Inflation Adjusted

TKM-04