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

A. My name is Jing Y. Roth. I am employed by the Washington Utilities and Transportation Commission. My business address is P.O. Box 47250, Olympia, Washington, 98504.

Q. IN WHAT CAPACITY ARE YOU EMPLOYED?

A. I am employed as a Regulatory Consultant in the Telecommunications section.

Q. HAVE YOU PREPARED A STATEMENT FOR YOUR QUALIFICATIONS?

A. Yes. A summary of my education and experience is provided as Exhibit ___ (JYR-2).

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to review and analyze cost studies and pricing proposals filed by Verizon Northwest, Inc. (Verizon) f/k/a GTE Northwest, Incorporated, and Qwest Corporation (Qwest) f/k/a U S WEST Communications, Inc., in Part B of this docket. Based on my review, Staff recommends certain adjustments and modifications to the cost studies and pricing proposal submitted by Verizon and Qwest.

Q. HAVE OTHER STAFF FILED RESPONSIVE TESTIMONY REGARDING OTHER ISSUES?

A. Yes. B. Glenn Blackmon has presented testimony on the issue of reciprocal compensation in resonse to the Qwest and Verizon witnesses (Exhibit T-___ (BGB-T1)). Thomas L. Spinks has submitted testimony to address the cost model and study issues. Mr. Spinks also has responsed to the estimates for sub-loop rate elements by Qwest and Verizon (Exhibit T-___ (TLS-T1)).

COST STUDIES AND PRICING PROPOSAL SUBMITTED BY VERIZON

Q. WHAT COST STUDIES DID VERIZON FILE ON AUGUST 4, 2000?

A. Verizon filed recurring and non-recurring cost studies in support of its proposed recurring rates and non-recurring charges for the unbundled network elements (UNEs) that result from the Federal Communication Commission's (FCC) UNE Remand Order[1]. Specifically, Verizon sponsors the GTE Integrated Cost Model Version 4.1b (ICM) to estimate costs in support of Verizon's proposed recurring rates.

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[1] In the Matter of the Implementation of the Local Competition Provisions of the Telecommunications Act of 1996, Third Report and Order, 15 FCC Rcd 3696 (Nov. 5, 1999).

Q. HAVE YOU REVIEWED AND ANALYZED GTE'S NON-RECURRING COST STUDIES?

A. Yes. I have analyzed all of the non-recurring cost studies filed by GTE. Based on Staff's review, Verizon's non-recurring cost studies do not fully meet economic standards.

Q. WHAT ARE THE ECONOMIC STANDARDS STAFF ADVOCATES IN EVALUATING COST STUDIES?

A. Staff believes that cost studies should be forward-looking analyses of efficient technology and processes, and must adhere to cost causation principles.

Q. PLEASE SUMMARIZE STAFF'S RECOMMENDATIONS FOR VERIZON'S NON-RECURRING COST STUDIES AND PRICING PROPOSAL.

A. Staff recommends that the Commission modify Verizon's non-recurring cost studies and pricing proposal as follows:

1. Reduce processing times for "Production Order Entry" (Connection and Disconnection).
2. Decrease time estimates for "Error Correction" and "Jeopardies" to zero.
3. Modify the time estimate for "Meet Point."

4. Disallow the time for Loop Conditioning relating to Engineering activities and Field work. Instead, require Verizon to implement the Commission-approved time estimates for Qwest.

5. Require the company to use ******** percent for markup.

6. Eliminate the amount of $4.92 for National Open Market Center (NOMC) fixed cost recovery.

Q. WHAT SPECIFIC CHANGES DOES STAFF RECOMMEND REGARDING THE TIME ESTIMATES FOR ORDERING AND PROCESSING ACTIVITIES?

A. Staff recommends downward adjustments to the time estimates for processing orders. Verizon's formula to determine the non-recurring costs is as follows:

Activity Time ***x*** *Probability* ***x*** *Labor Rate = Cost*

Staff concentrates its analysis on the "activity time" proposed by Verizon. The specific adjustments are listed in Staff's Exhibit C-___ (JYR-C3).

Q. PLEASE EXPLAIN AND PROVIDE REASONS FOR THE ADJUSTMENTS SHOWN IN STAFF'S EXHIBIT C-___ (JYR-C3).

A. After reviewing Verizon's voluminous cost studies, Staff determined that the proposed non-recurring costs are unreasonably high. For instance, a CLEC would need to pay a non-recurring charge of $328.66 for ordering a new basic Enhanced

Extended Loop (EELs). An EEL is a combination of an unbundled loop, interoffice dedicated transport, and multiplexing if required. Under Verizon's proposal, a CLEC would pay a non-recurring charge of $50.75 for ordering an initial basic UNE-Platform (UNE-P), and $49.18 for each additional unit. A Basic UNE-P would be comprised of a two mile UNE-Loop and a basic analog line side port. In addition, a CLEC would also pay monthly recurring charges. A simple comparison of Verizon's non-recurring charges for UNE-P with the current Verizon tariffed rate for residential and business customers to order basic exchange phone lines is illuminating. The tariff shows $48.50 for ordering an initial business line and $26.25 for a residential line. It is important to note that this type of UNE orders are highly mechanized while retail service orders require interface with untrained customers.

Staff bases its adjustments contained in Exhibit C-___ (JYR-C3) on Verizon's own time estimates. I provide one illustration to explain how Staff's adjustments are developed. For "Production Order Entry," Verizon estimates the ordering time for a new basic EEL to be ******** minutes per order. After multiplying the minutes with the labor rate, Verizon reaches a ******** cost for this one activity. After evaluating Verizon's multiple layers of mathematical equations and formulas, I traced the origin of the ******** minutes. Verizon has inflated the time per order entry from ******** minutes to ******** minutes. It is important to note that the ******** minutes per order entry is based on Verizon's own time estimate. Staff recommends that the ******** minutes per order be multiplied by the labor rate, which results in a ******** cost for the "Order Entry" activity.

At the minimum, as an alternative, Staff recommends that six minutes for order entry be incorporated in the cost studies. This time estimate of six minutes for processing an LSR has been adopted by the Commission for GTE in the 17th Supplemental Order in Docket Nos. UT-960369, et al.

Furthermore, Staff recommends other adjustments to time estimates proposed by Verizon for various activities such as "Error Correction," "Jeopardies," and "Meetpoint" (Exhibit LC-2C). To summarize, the total non-recurring cost of processing a basic EEL order is ******** as adjusted by Staff, and ******** as proposed by Verizon. The adjustments illustrated above should be made throughout Verizon's non-recurring cost studies whenever applicable. The overall effect of these adjustments would be a reduction to Verizon's non-recurring costs for various activities, which will in turn reduce non-recurring charges.

Q. HAS STAFF REVIEWED VERIZON'S LOOP CONDITIONING PROPOSAL?

A. Yes. Staff finds that the proposed charges are unreasonable. In comparison with Qwest's rates, Verizon's proposed charges are extremely high. For instance, Qwest's non-recurring charges for bridge-tap removal for a single location is $147.37, and Verizon proposes $926.49 for initial pair at one location. For load coil removal (cable unloading), Verizon's proposed rate for the initial unit is $1203.95, while Qwest's rate is $304.12 for a 25-pair binder group. In addition, Qwest states in its tariff that when cable unloading and bridge-tap removal are ordered at the same time, only the cable unloading charge will apply. Verizon proposes a minimum charge of $1480.13 for a single unit for a similar situation.

Q. WHY ARE VERIZON'S PROPOSED RATES FOR LOOP CONDITIONING SO HIGH?

A. Verizon's mathematical equation for calculating the underlying costs for loop conditioning is as follows:

Time for Construction and Engineering **x** *Probability of Occurrence* **x** *Loaded Labor Rates*

Staff believes that Verizon has inflated the time estimates for Construction and Engineering. For example, Verizon estimates ******** minutes for engineering time, field work time ranges from ******** minutes to ******** minutes for bridge-tap removal, and the field work time ranges from ******** minutes to ******** minutes for load coil removal (Exhibit LC-2C).

Q. WHAT ARE THE COMPARABLE MINUTES ORDERED BY THE COMMISSION FOR QWEST?

A. In its 8th Supplemental Order, the Commission required Qwest to reduce its field work time from 160 minutes to 120 minutes, and for its engineering activities from 180 minutes to 60 minutes. The Commission found that 160 minutes of work time and three hours of engineering was unreasonable.

Q. WHAT IS STAFF'S RECOMMENDATION REGARDING VERIZON'S PROPOSED CHARGES FOR LOOP CONDITIONING?

A. Verizon's time estimates are unreasonable. Staff does not believe that Verizon's estimates can be reduced in a way that will produce a reasonable result. Through multiple layers of generating the time estimates, Verizon concludes that these time estimates **** **** **** **** **** **** **** **** **** **** **** **** **** (Exhibit LC-2C, page A4-WA 24.) Because of the difficulties in reducing the multi-layered time estimates, Staff recommends that the Commission require Verizon to recalculate its costs based on the minutes ordered by the Commission for Qwest. There is no reason to believe that a Verizon engineer or technician is less productive and less efficient than a Qwest engineer or technician. Even if there is a reason, the most efficient and productive time estimate should be used.

Q. DOES STAFF HAVE RECOMMENDATIONS REGARDING VERIZON'S PRICING PROPOSAL?

A. Yes. In this proceeding, Verizon bases its monthly recurring charges for UNEs on the recurring costs produced by Verizon's Integrated Cost Model plus a 24.75 percent fixed allocator, which is generally referred to as common cost mark-up. For non-recurring charges, Verizon uses the non-recurring costs developed in its non-recurring cost studies with no additional mark-up for recovery of common cost. However, Verizon does mark-up its non-recurring costs with additional cost elements. These cost elements are pre-ordering, record order, shared and fixed recovery, and OSS Recovery. Staff proposes to make downward adjustments to the fixed allocator. Staff also recommends that the shared and fixed recovery amount of $4.92 be eliminated.

Q. WHY DOES STAFF RECOMMEND THAT THE COMMISSION REDUCE THE 24.75 PERCENT MARKUP?

A. It is clear from the evidence presented in this proceeding that Verizon has developed a company-specific price allocator of ******** percent. However, Verizon chooses not to use this company-specific price allocator. Instead, it uses the mark-up percentage of 24.75 percent for recovery of the Company's common costs. Although the higher mark-up was ordered by the Commission in its 17th Supplemental Order in Phase II of Docket Nos. UT-960369, et al., the

Commission clearly stated why it had to use U S West's common cost allocator as a proxy for GTE.

The Commission, in paragraph 202 of its 17th Supplemental Order, found that, "Accordingly, the Commission finds that GTE's common cost study is flawed, contrary to federal law, and should be rejected because GTE's analysis relies on historical, embedded numbers, and not on forward-looking costs and because GTE seeks to use its common cost methodology as a means to recover its actual costs."

In paragraph 203 of the same order, the Commission further stated that "[T]he Commission denies GTE proposed common cost markup factor of 55 percent. While GTE has the burden of proving the magnitude of its common costs, it would not be appropriate to simply state that GTE failed to meet its burden and prohibit recovery of any common costs. For the appropriate common cost markup, the data provided by U S WEST are reasonable proxies. Since this is the best data available, the Commission will apply U S WEST's 19.62 percent attributed cost factor and its 4.05 percent common cost factor to GTE." However, Staff believes that the ******** percent allocator be used for pricing because it is based on Verizon's own data and reflects the actual expense incurred by the Company.

Q. DOES STAFF HAVE ADDITIONAL CONCERNS IF THE COMMISSION DECIDES TO USE THE 24.75 PERCENT INSTEAD OF THE 13.29 PERCENT AS RECOMMENDED BY STAFF?

A. Yes. Some minor adjustments would need to be made. In paragraph 204 its 17th Supplemental Order, the Commission further adjusted the 24.47 percent to 24.75 percent to account for some of the accounts that Qwest treated as direct or administrative expenses, but Verizon included in its common cost factor. The Commission took certain costs into consideration by increasing the mark-up from 24.47 percent to 24.75 percent. These cost accounts are specifically listed in the Order. Based on Verizon's ICM Model, specifically in the Expense Module, these specific accounts are taken into consideration as inputs to the ICM to produce the unit cost. Therefore, at a minimum, mark-up for recovery of common cost should be 24.47 percent, given that Verizon applies the mark-up to its recurring costs produced by the ICM.

Q. WHY DOES STAFF FIND THE $4.92 FOR NOMC SHARED/FIXED RECOVERY INAPPROPRIATE TO BE INCLUDED IN VERIZON'S NON-RECURRING CHARGES?

A. Verizon applies the $4.92 charge to each order as part of its proposed non-recurring charges. The $4.92 charge is derived by dividing the total NOMC shared/fixed costs by the forecasted annual average wholesale orders. Based on a close examination of the costs as characterized by Verizon as fixed costs, Staff finds that:

1. There is no valid basis for the total amount of the costs.
2. The costs are not Washington specific.
3. The total annual charge factor utilized in the analysis is a composite of capital factor, income tax factor, and property tax factor. Verizon provides no documentation to support the validity of these factors.
4. The so-called “shared/fixed expenses” have been recovered through the shared cost allocation or the common cost allocator established by Verizon in its ICM.

Q. ON WHAT BASIS DOES STAFF BELIEVE THAT THE SHARED COST LIKE THE NOMC HAVE BEEN INCLUDED IN VERIZON’S SHARED AND COMMON COST ALLOCATION?

A. No matter how Verizon characterizes these NOMC costs, these cost categories reflect support and administrative costs such as rent expense, furniture, human resources, and PC expenses. Because these costs are not product specific, the Company normally proposes to recover these general costs through its calculation of shared and common costs generated on total Company basis, then allocates these costs through a factor to different products and services. Verizon has done so in its ICM. Verizon has centralized the total shared and common costs incurred on total Company basis. The summary of common costs, as presented in Verizon's ICM documentation, includes land and building, human resources, and other administrative expenses. Verizon has not made a convincing argument that the NOMC "Share/Fixed" costs are separate expenses from those general expenses incurred and incorporated in its ICM, which are recovered through cost allocation on total Company basis.

COST STUDIES AND PRICING PROPOSAL SUBMITTED BY QWEST

Q. WHAT COST STUDIES HAS QWEST FILED IN SUPPORT OF ITS PRICING PROPOSAL FOR UNEs AND RELATED PRODUCTS AND SERVICES?

A. On August 4, 2000, Qwest submitted its recurring and non-recurring cost results in support of its proposed UNE rates. On September 11 and 13, 2000, Qwest filed the cost models it used to establish its costs for UNEs recurring rates.

Q. HAVE YOU REVIEWED THE DEVELOPMENT OF THE COSTS AND THE COST MODELS?

A. No. As provided for in the Commission's 7th Supplemental Order, Staff testimony on the specific cost models and cost results will be included in supplemental response testimony.

Q. HAVE YOU IDENTIFIED GENERAL CONCERNS STAFF HAS REGARDING QWEST'S NON-RECURRING COST STUDIES?

A. Yes. Qwest's proposed non-recurring costs are expense-based. The direct costs are a function of the time required to perform tasks multiplied by appropriate labor rates. Qwest also applies the Commission-approved percentages for attributed and common costs to arrive at the non-recurring charges. Staff has concerns about the estimated time for order entry and "probability of occurrence" proposed by Qwest to complete each task necessary for processing an order.

Q. WHAT MODIFICATIONS DOES STAFF RECOMMEND FOR THE NON-RECURRING COST STUDIES?

A. Staff recommendations fall into three general categories:

1. Qwest must use the Commission-approved customer transfer charge (CTC) costs in place of the costs proposed by Qwest for UNE-C for existing plain old telephone service (POTS). Exhibit C-___ (JYR-C5).
2. To make specific changes to time estimates and probability. These changes are listed in Exhibit C-___ (JYR-C4).
3. Because the non-recurring cost studies presented by Qwest have incorporated various unbundled network elements, specific time estimates and probability adjustments should be implemented throughout the studies wherever applicable.

Q. WHY DOES STAFF BELIEVE THE COMMISSION'S PROPOSED CUSTOMER TRANSFER COSTS (CTC) ARE APPROPRIATE FOR THE PROPOSED UNE-COMBINATION (UNE-C) COSTS?

A. Qwest uses the term UNE-C instead of UNE-P in its cost studies. There should be minimal difference in processing an order for UNE-P (existing POTS) and for a customer transferring from one carrier to another. The Commission adopted Staff's recommended changes regarding the costs for customer transfer in Phase II of Docket Nos. UT-960369, et al. Through some of its time estimates and probability analysis, Qwest inflated the underlying costs for processing these types of orders. Staff recommends that the Commission adopt the costs for CTC for processing UNE-C orders. A comparison of the proposed costs by Qwest with Staff's recommended costs for UNE-C is shown in Exhibit C-___ (JYR-C4).

Q. WHAT SPECIFIC ADJUSTMENTS DOES STAFF PROPOSE TO MAKE FOR THE TIME ESTIMATES AND PROBABILITY FOR OTHER ACTIVITIES?

A. Staff recommends that the Commission modify the non-recurring cost studies. Based on my analysis and review, Staff made the following modifications to the studies:

1. Reduced the order processing time at the interconnection center to total ******** minutes for connect and ******** minutes for disconnect.

2. Changed the probability for mechanized orders to ******** percent flow-through rate and ******** percent manual handling.

These modifications apply to the following ordering activities:

1. UNEC new POTS first line (mechanized) for connect and disconnection.
2. UNEC new POTS EA additional line - mechanized (probability change only).
3. UNEC new POTS First line and manual (time estimate adjustment only)

Staff also made the following other minor adjustments to the time estimates and probabilities for various ordering and processing activities:

1. Reduced time for typing and screening an order at the interconnection service center.
2. Modified the percentage of flow through at the interconnection service center for mechanized orders.
3. Decreased the time to process a disconnect order.
4. Reduced the time for “input order processor.”
5. Modified the time for internal phone calls.
6. Changed the probability for “non-electronic interface.”

The specific adjustments and numbers are listed in Exhibit C-___ (JYR-C4).

Q. DOES STAFF HAVE ADDITIONAL COMMENTS ON THE PRICING PROPOSAL OF QWEST?

A. At this time, Staff does not have any additional recommendations as to how Qwest derives its prices by applying the attributed and common cost factors. However, in the event Staff finds, after reviewing the cost models Qwest has committed to file at a later date, that the newly developed cost models incorporate some of the expenses already recovered through the attributed and common cost factors, Staff will make further recommendations in our supplemental testimony.

CONCLUSION

Q. DID STAFF CALCULATE THE TOTAL EFFECT OF ITS PROPOSED MODIFICATIONS TO VERIZON'S AND QWEST'S COSTS AND PRICES?

A. Staff has not calculated the total effect of our recommended modifications specifically for each category of UNE as they are proposed by Verizon and Qwest. However, Staff has provided in its testimony and exhibits the detailed adjustments that need to be made throughout the entire cost studies and pricing proposals wherever applicable. It is important to note that all of the modifications proposed by Staff, if adopted, will reduce the proposed non-recurring and recurring rates.

Q. WHY ARE PROPERLY CONDUCTED NON-RECURRING COST STUDIES IMPORTANT IN THE DEVELOPMENT OF COMPETITION?

A. The cost studies filed by Qwest and Verizon in this proceeding are of fundamental and profound importance to facilitate and promote local competition in Washington. The Commission's determinations on the appropriate cost levels will play an important role in determining the prices a new entrant will have to pay up front to enter the local market in direct competition with an incumbent local exchange carrier. Therefore, the Commission must balance the interests of all the parties in this proceeding to insure that the appropriate expenses incurred by ILECs are recovered through reasonable, cost-based rates and that new entrants will pay their fair share to enter the market. The Commission-established prices for various UNEs should not be barriers to entry. Therefore, Staff recommends that Qwest's and Verizon's cost studies and prices be modified as set forth in this testimony.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.