

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

A. My name is Thomas L. Spinks. I am employed by the Washington Utilities and Transportation Commission. My business address is 1300 South Evergreen Park Dr SW, P.O. Box 47250, Olympia, Washington, 98504.

Q. IN WHAT CAPACITY ARE YOU EMPLOYED?

A. I am employed as a Regulatory Consultant.

Q. HAVE YOU PREPARED A STATEMENT OF YOUR QUALIFICATIONS?

A. Yes. A summary of my education and experience was provided as Exhibit ____ (TLS-2) in my earlier filed testimony.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to supplement my prior testimony regarding the cost model and cost study issues presented in the filings of Qwest and Verizon relating to their proposals for monthly recurring charges (MRCs) for various unbundled network elements (UNEs).

Q. HAS STAFF CONDUCTED FURTHER REVIEW OF THE VERIZON INTEGRATED COST MODEL (ICM)?

A. Yes, additional review of the model has allowed Staff to identify additional concerns with the model including problems with loop length estimates and certain inputs used in the model.

Q. WHAT IS THE CONCERN WITH THE ICM LOOP LENGTH ESTIMATES?

A. One of the reports that the model produces is the average loop length estimate for each wire center. Staff reviewed a sample of nine wire centers from the report and compared the estimated loop length with the actual loop length. The comparison is shown in Exhibit C-__(TLS-C4). The comparison shows that of the nine sampled wire centers, only two wire centers had estimated loop lengths within 25 percent of the actual loop length. In one case the model estimated only one-twelfth of the loop plant as actually exists in the wire center and in another case estimated loop lengths were almost three times greater than the actual loop length. In past proceedings, the Commission reconciled the difference between loop lengths estimated by a cost model with actual loop lengths in developing UNE-loop cost estimates using the HM3.1 model. In the Ninth Supplemental Order in Docket UT-960369 et al., the Commission stated that “where the difference in lengths is substantial, the sponsor of the cost study should identify the magnitude of the difference, indicate how it affects cost, and explain the basis for the difference.” (Para 49) Verizon did not provide or undertake any comparison of loop lengths, provide any explanation for the difference in magnitude or indicate how the differences affect cost. Further, the ICM does not have a mechanism to reconcile wire center distance sensitive investments. The ICM does not accurately replicate Verizon’s Washington network resulting in estimates of feeder and distribution investment in Verizon’s five deaveraged zones that are incorrect.

Q. WHAT ADDITIONAL INPUT ISSUES HAVE BEEN IDENTIFIED BY STAFF?

A. In addition to the input issues identified in earlier testimony, Staff has identified concerns with drop lengths, pole and Network interface Device (NID) costs used in the model.

Q. WHAT IS THE CONCERN WITH THE DROP LENGTHS USED IN THE MODEL?

A. In response to Staff Data Request No. 3, Verizon admits that it has not conducted a study of drop lengths for Washington. In the Eighth Supplemental Order in Docket UT-960369 the Commission stated, “Unfortunately, no party has provided the results from a study in which they have identified actual drop lengths. Rather, each party has relied upon a different set of assumptions. In future proceedings, we strongly encourage the parties to substitute the results from a study for their value judgements.” (Para.133)

Q. WHAT IS THE STAFF CONCERN WITH POLE COSTS?

A. In the Eighth Supplemental Order referenced above, the Commission discussed pole costs and stated “GTE suggests, without providing any citation in support of the value, that the appropriate input value is \$737. We are equally reluctant to use this undocumented value, insofar as it appears inconsistent with some of the evidence contained in the record.” (Para.104) The Verizon ICM menu, under Material Costs, shows a cost for poles that exceeds the \$737 and no documentation was provided to support the cost.

Q. WHAT IS THE STAFF CONCERN WITH THE NID COSTS?

A. The ICM Material Cost file shows the cost for a 12-pair NID to be ninety times larger than the cost for a 6-pair NID and about twice the cost of a 25-pair NID. Even if documentation could be provided to support the value, Staff believes that using a 12-pair NID in the cost study is inconsistent with using cost efficient methods and work practices in long run incremental cost models because either two 6-pair NIDs or a 25-pair NID would work equally well and would have a much lower cost. In addition, it is not clear whether the cost of the 12-pair NID used in the study is a reasonable forward looking cost or whether the cost is so high due to factors that could be expected to change in the future.

Q. PLEASE SUMMARIZE STAFF'S CONCERNS AND RECOMMENDATION REGARDING THE VERIZON ICM MODEL.

A. Staff reviewed the ICM model and discovered that the model programming is not open to inspection. Therefore, Staff cannot provide any information to the Commission as to whether the model engineers plant and determines cost in an acceptable manner. The model builds plant in a manner that results in wire center loop lengths that unreasonably vary from the existing amount of plant used to serve customers today. While the model appropriately uses customer location data to determine where plant is built, no effort has been made to validate the accuracy of the customer location data used in the model.¹ The model also fails to incorporate prior Commission discussions and decisions regarding

¹ Verizon admitted such in response to Staff Data Request No. 8.

depreciation rates, structure sharing, drop plant, loop length adjustments and no supporting documentation was provided for input costs. As a result of these deficiencies, Staff recommends that the Commission not accept cost estimates for Part B UNEs that were developed using the Verizon ICM.

Q.. HAS STAFF EXAMINED THE QWEST TELEPHONE INVESTMENT FACTOR (TIF) CALCULATION?

A. Yes. In earlier testimony, Staff indicated it was awaiting response to a data request asking for supporting documentation used in developing the TIF. Staff has since received and reviewed the requested information and has identified one concern with the development of the TIF.

Q. WHAT IS THE STAFF CONCERN WITH THE TIF FACTOR DEVELOPMENT?

A. The formula for calculating the TIF uses transportation and warehouse loading factors that are developed on a cost-per-hour basis but are applied in the TIF formula to total material investment dollars. Since Staff has just recently received this data, we have not had an opportunity to further inquire as to what the hours used in the calculation represent. We assume the hours represent labor hours for provisioning investment. In any event, the application of a cost per hour measure to investment does not appear to be a correct method. If a cost per hour measure is used in calculating the TIF, then the hours required to provision the investment need to be included in the calculation, not the amount of investment.

Q. HOW SHOULD THE TRANSPORT AND WAREHOUSE FACTORS BE CALCULATED THAT APPLY TO INVESTMENT AMOUNTS?

A. In order to develop transport and warehouse factors to apply to investment, the factors should measure the warehouse and transport cost per dollar of investment. For example, if in a given year the cost of the transport function is \$1 million, and \$10 million of related investment occurs during the year, then the transport factor would be 1/10 or .10. This factor would then be applied to each dollar of investment that required transport, resulting in recognition of the \$1 million of transport cost on its books.

Q. WHAT DOES STAFF RECOMMEND REGARDING THE TIF?

A. The Commission should reject the cost studies which utilized the TIF and direct Qwest to either modify the TIF formula such that cost per hour measures are applied to work times or develop investment-based transport and warehouse factors to use in the existing formula.

Q. DOES THIS COMPLETE YOUR TESTIMONY?

A. Yes.