Exhibit No. _____ (DBT-4T)
Docket No. UT-003013 – Phase B

BEFORE THE

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In The Matter Of The Continued Costing And Pricing For Interconnection, Unbundled Elements, Transport And Termination And Resale	**)** **)** **)** **)**	**DOCKET NO. UT-003013 PHASE B**

PHASE B REBUTTAL TESTIMONY OF

DENNIS B. TRIMBLE

EXECUTIVE DIRECTOR - REGULATORY

ON BEHALF OF

VERIZON NORTHWEST INC.

SUBJECT: PRICING

FEBRUARY 7, 2001

TABLE OF CONTENTS

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Dennis B. Trimble. My business address is 600 Hidden Ridge Drive, Irving, Texas 75038.

Q. ARE YOU THE SAME DENNIS TRIMBLE WHO FILED PHASE B DIRECT TESTIMONY IN THIS PROCEEDING ON AUGUST 4, 2000?

A. Yes, I am.

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. The purpose of my rebuttal testimony is to respond to pricing issues addressed in other parties' Phase B Responsive Direct Testimony. Specifically, I will cover the following pricing issues: 1) reciprocal compensation, 2) OSS cost recovery, 3) common cost mark-up factor, 4) loop conditioning, and 5) inside wiring/riser cable.

II. RECIPROCAL COMPENSATION

Q. ON PAGE 4 OF HIS RESPONSIVE TESTIMONY, DR. BLACKMON STATES THAT "THERE IS NOTHING INHERENTLY UNSTABLE OR INEQUITABLE ABOUT A DIFFERENCE IN PRICING STRUCTURE

BETWEEN THE NETWORK LEVEL AND THE RETAIL LEVEL". DO YOU AGREE WITH HIS ASSESSMENT?

A. No. One of the additional costs brought about by the introduction of local exchange competition is that related to the issue of compensation payments between and among carriers. Clearly, "bill and keep" arrangements do not make any contribution to the common costs of the firm, since the implicit price is zero. This is one of the principal reasons I have supported a mutual compensation plan between and among carriers, provided that a usage sensitive pricing structure is also adopted for end user customers. Notice, however, that there is a critical caveat incorporated into that recommendation. *If a flat rated structure is to be the predominant standard for end users, then a usage-based system for compensation for traffic exchanges among rival local carriers is inefficient, since it automatically results in marginal prices for local usage set at a level below the incremental cost of providing the end-to-end call.* Accordingly, a usage-based compensation approach should not be continued or adopted in this docket, unless this Commission is willing to re-examine the intimately associated issues of end user pricing on a measured basis, or at the very least, to incorporate any increase in the costs of providing such intercompany compensation payments above the level of costs the originating company is likely to avoid into the price levels charged by those companies regulated by this Commission.

Contrary to Dr. Blackmon's assertion, there is an inherent conflict between the flat-rated end user charges most prevalent in local service today and intercompany

compensation on a measured basis, if ISP-bound traffic is considered local by the Commission. If a measured structure were in place, then a "bill and keep" proposal would provide no incentive for the encouragement of efficiency in the marketplace and its implicit zero marginal price would lead to overconsumption of access services. Rather than adopting a "bill and keep" approach to intercompany compensation, I would then recommend that a usage based system of switched usage charges be adopted, consisting of a rate structure that incorporates both call set-up and duration attributes. However, such a system of end user charges is not in place currently, and thus my recommendation that the appropriate system for intercompany compensation should be "bill and keep" in the short run. If some form of intercompany compensation payment must be made, then it should be on a basis consistent with the rate structure confronted by end users.

Q. IF THE COMMISSION DOES NOT ADOPT A "BILL AND KEEP" ARRANGEMENT AS AN INTERIM SOLUTION FOR ISP-BOUND TRAFFIC, HAVE YOU SPECIFIED THE RATE LEVEL WHICH YOU BELIEVE IS APPROPRIATE?

A. Yes and no. First, the exact rate levels should be determined in bi-lateral negotiations between the interconnecting carriers, as called for in the Telecommunications Act of 1996 ("Act"). What I have suggested is an approximation of what the appropriate rate level might be for ISP-bound traffic,

that is a rate level based on tandem switching costs with the incorporation of holding times reflective of ISP-bound traffic.

Q. ON LINES 4 – 12 OF PAGE 10, DR. BLACKMON STATES THAT THIS IS INAPPROPRIATE SINCE THE PRICE SHOULD BE BASED ON WHAT THE COSTS WOULD HAVE BEEN HAD THE TRAFFIC REMAINED ON THE VERIZON NETWORK. IS HIS UNDERSTANDING OF YOUR POSITION CORRECT?

A. No, it is not. I do not mean to suggest that the end office switching function being performed by a CLEC routing traffic onto an ISP from a Verizon switch is performing functionality akin to that performed by a tandem switch. What I was trying to suggest is that the switching function that is being performed by the CLEC is trunk-to-trunk switching, just as is done in a Verizon tandem office. That is, the ISP-bound traffic comes in to the CLEC on an interoffice trunk and is routed out of the CLEC switch in the majority of cases on an ISDN PRI trunk. If Verizon were to configure its switches to serve such customers receiving far more traffic than they were originating, then the costs that we would likely incur (or avoid) are those that we would currently approximate by the tandem switching costs. Thus, I do not think Dr. Blackmon understands the argument I have made in my Phase B Direct Testimony as to why I am proposing the tandem switching rate level. Of course, that rate level would be revised to reflect the call set-up and duration components, should the multipart rate structure be adopted by the Commission.

Q. ON LINES 15 AND 16 OF PAGE 15, DR. BLACKMON MAKES THE OBSERVATION THAT "IF INTERNET SERVICE PROVIDERS WERE TELECOMMUNICATIONS COMPANIES, THEY WOULD PAY THE ORIGINATING LOCAL EXCHANGE COMPANY FOR THE USE OF THE LOOP AND SWITCH, BUT THE CUSTOMER WOULD STOP PAYING THE LOCAL EXCHANGE COMPANY". DO YOU AGREE WITH DR. BLACKMON'S ASSESSMENT OF THIS SITUATION?

A. No. Dr. Blackmon would be correct if the local customer was already paying for the ISP-bound traffic, but I do not believe this is the case at all. The Verizon end user is paying the same local exchange rate as that customer did prior to the development of the ISP-bound traffic. Even if I were to use Mr. Argenbright's very low estimate of incremental minutes of use generated by ISP-connected customers of 581 minutes per month per such customer, that amount is approximately double what is typically generated by other residential and single-line business customers. Despite this conservative doubling of the minutes of use, the incremental revenue associated with those incremental minutes received by Verizon from such a customer is zero. Indeed this is the heart of the problem. Dr. Blackmon is only partially correct when he states that the matter to be determined is the amount, if any, to be paid to the carrier receiving the call. The matter of intercompany compensation is a matter of <u>relative</u> prices, not simply the intercompany price. It is absolutely clear that when the intercompany compensation price(s) exceeds the costs that are avoided by the originating carrier, then the incremental revenue received from that additional minute of use

is less than the incremental cost incurred in both the production and compensation for that minute of use. The Commission must take both prices into account when setting the reciprocal compensation policy. The prices established for local service were set prior to the explosive growth of the Internet and do not at all include the incremental usage that the Internet has spawned. Thus, when Dr. Blackmon states that the end user customer would stop paying the local exchange customer for those minutes, he is wrong. The customer is not paying for them today.

Likewise, if the ISP were a telecommunication company using UNE facilities, the ISP would be paying the local exchange company an amount for every minute originated by its customers, not a flat rated retail amount based on voice traffic characteristics.

Q. ON PAGE 17 OF HIS TESTIMONY, DR. BLACKMON SEEMS TO ASSERT THAT THE PRACTICE OF PAYING INTERCOMPANY COMPENSATION FOR ISP-BOUND TRAFFIC DOES NOT LEAD TO UPWARD PRESSURE ON RETAIL RATES FOR LOCAL EXCHANGE SERVICE. DO YOU AGREE?

A. No. So long as the reciprocal compensation rates exceed the costs the originating carrier will avoid by not having to incur the costs associated with switching that traffic onto the ISP's port, then there will indeed be upward pressure on the originating carrier's local exchange rates, assuming that the Commission regards

the traffic as local. Given the volume of this ISP-bound traffic, the effect is not necessarily trivial.

Furthermore, the compensation costs are only part of the impact on the local exchange rates. In addition to the impact of the excess compensation costs on local rates, there is the impact of the production costs to be considered. Dr. Blackmon agrees with me that there is a cost to providing the calls and minutes of use made to ISPs. I think he would also agree that in the majority of cases where the ILEC customer originates the call to the ISP served by the CLEC, the majority of the costs are incurred by the ILEC in originating and transporting the call to the CLEC's switch. That is, the CLEC only incurs a minority portion of the costs associated with that call. Furthermore, it is only these final end office switching incremental costs which are the subject of reciprocal compensation, assuming that the ILEC is providing the interoffice transport. The production costs incurred by the originating carrier, including switching at the originating customer's end office, any intermediate switching, including tandeming, and any interoffice transport, are not avoided by the originating carrier. In fact, those costs are likely to be more significant than are the net compensation costs in exerting upward pressure on the local exchange rates, again given the volume of ISP-bound traffic. Once again, this points out why the issue of reciprocal compensation is a relative price problem, not simply an isolated determination of the price of switching to the receiving carrier.

Q. ON PAGE 35 OF HIS RESPONSIVE DIRECT TESTIMONY, MR. STARKEY STATES THAT HE DID NOT SEE ANY SUPPORT IN YOUR DIRECT TESTIMONY FOR YOUR ASSUMPTION THAT ISP BOUND CALLS HAVE AN AVERAGE HOLDING TIME OF 30 MINUTES. DO YOU HAVE ANY SUPPORT FOR THIS ASSUMPTION?

A. Yes. I relied on the results of various studies that have been performed within the industry. First, in the fourth quarter of 1999, Verizon (then GTE) analyzed data provided by a CLEC in Michigan named Coast-To-Coast. Since 100% of the traffic that Verizon customers sent to Coast-to-Coast was ISP-bound traffic,[1] this data provides a useful sample of the holding times for ISP-bound traffic that is unbiased by any voice traffic. Using the Michigan data, it is possible to construct the following 99% confidence interval for the mean holding time of ISP-bound traffic:

$$39.38 \text{ MOU} \leq \text{Average Holding Time} \leq 44.62 \text{ MOU}.$$

In another study performed by Hewlett-Packard entitled "GTE Internet Service Provider Characterization," dated October 1997, the author found that the average holding time for ISP-bound calls for a small sample of customers in Malibu, Santa Monica, Del Rey, and Thousand Oaks on a given day was approximately 23 minutes. In another small sample of more recent traffic over three GTE

[1]As an interesting footnote, none of Coast-to-Coast customers originated any calls to any GTE customers during the period under study.

California trunk groups that carry only ISP-bound traffic, the average minutes of use for certain busy hours ranged from 22 to 32 minutes.

This California data is also generally consistent with statistics produced by the Nielsen//NetRatings of Average Web Usage for April 2000, which show an average ISP-bound holding time of 30 minutes, 27 seconds.[2]

Finally, Verizon continually studies the trunk groups used to deliver ISP-bound traffic to its CyberPOP[3] customers, in order to assure adequate grades of service. December 2000 traffic data for the state of Washington indicated an average holding time for CyberPOP handled ISP-bound traffic to be 30.6 minutes. The results of this traffic study are attached as Exhibit DBT-5.

Q. MR. MARK ARGENBRIGHT OF WORLDCOM STATED IN HIS TESTIMONY THAT HE BELIEVES THE AVERAGE MONTHLY ILEC COMPENSATION EXPENSE FOR ISP TRAFFIC TO BE AT MOST $0.76 PER LINE PER MONTH. DO YOU AGREE WITH MR. ARGENBRIGHT'S ANALYSIS?

[2]The reported Internet usage estimates for the Nielsen//NetRatings are based on a sample of households that have access to the Internet and use the following platforms: Windows 95/98/NT and MacOS 8 or higher. In other words, there may be other consumers using the Internet not included in this sample, but the sample will cover the vast majority of household computer owners currently.

[3]As indicated in the Phase B Rebuttal Testimony of Verizon witness Howard Lee Jones, CyberPOP is a Verizon product that provides the ISP with modem banks and ISDN PRI connectivity to the public switched network.

A. No. I believe Mr. Argenbright is attempting to downplay the current and future financial consequences to ILECs of existing intercompany compensation methods. First, the estimate of average monthly internet usage of 9 hours and 41 minutes presented by Mr. Argenbright appears to be substantially below other reports and estimates of ISP usage by consumers.

With respect to the total demand for ISP-bound traffic, there are several sources that can be used to provide the Commission with estimates. For example, on June 1, 1999, USA Today reported the results of a Harris Poll indicating that the typical consumer is on the Internet approximately 60 minutes per day or 1800 minutes of use per month.

Likewise, Telecom AM reported on November 15, 1999, an estimate prepared by the investment bankers Veronis, Suhler & Associates ("VSA") that Internet usage is forecasted to increase to 192 hours per capita within three years. Keep in mind that the VSA estimates are *per capita* and so must be adjusted to account for the number of individuals in the household. At approximately three individuals per household, VSA in effect projects ISP-bound traffic of approximately 2,880 minutes of use per month per residential line or more than 90 minutes per day.

The Georgia Institute of Technology ("Georgia Tech") also performs a broad survey of World Wide Web users on a periodic basis. The most recent survey

results, which are set forth in the GVU 10th WWW Survey,[4] indicate a mean web usage of 3,990 minutes per, or more than 2 hours per day.

Further, Mr. Peter Engdahl, President of SnowCrest, Inc., an ISP in Northern California, stated in an Appendix to the testimony of Robert Taylor before the U.S. House of Representatives Subcommittee on Telecommunications, Trade and Consumer Protection on the topic of H.R. 4445, that the "average user load" on his ISP is ***53 hours per month***. That is equivalent to 3,180 minutes of use per month.

With respect to the testimony presented by Mr. Argenbright, the majority of the evidence, including the estimates reported by the ISPs themselves to Congress, suggests that the monthly minutes of use are much closer to 2000 minutes of use per line per month for customers connected to the Internet than they are to the 581 reported by Worldcom's witness.

Q. WHAT OTHER FACTORS INFLUENCE MR. ARGENBRIGHT'S ESTIMATE OF $0.76 PER MONTH FOR ILEC ISP COMPENSATION EXPENSES?

A. His assumption of the average compensation rate of $0.0025 per minute of use is also very much understated for Verizon. Verizon's interconnection agreement

[4]GVU's 10th WWW User Survey, October 1998; "HOURS USED." See www.cc.gatech.edu/gvu/user_.../survey-1998-10/graphs/use/q02.htm.

with ELI, which numerous other CLECs have adopted in Washington, and under which this Commission has ordered Verizon to pay for ISP-bound traffic, specifies a rate of $0.0068959 per minute of use. Even if I were to continue to use Mr. Argenbright's understated estimate of ISP-bound minutes of use, when applying the current compensation cost of Verizon, line (5) of his table on page 22 of his testimony becomes $2.08 per line per month in Average ILEC Monthly Reciprocal Compensation Expenses per access line.

The financial impacts become far greater when combined with the more consistent levels of ISP-bound traffic I have cited above. To be conservative, I recreated Mr. Argenbright's table assuming an ISP-bound usage level of only 1800 MOU per month per line connected to an ISP and a compensation rate of $0.0068959 per minute of use for terminating traffic. Table R-1 below shows a dramatic difference in the ILEC compensation expense storyline.

Table R-1

Reciprocal Compensation of ISP-Bound Traffic

Line #	Description	Argenbright's Estimates	Verizon's Estimates
(1)	Average number of minutes of Internet usage per line per month	581	1800
(2)	Reciprocal Compensation Estimate average per minute rate	$0.0025	$0.0068959
(3)	Average Monthly ILEC Reciprocal Compensation "Expense" per access line with Internet access	$1.45	**$12.41**
(4)	Percentage of U.S. access lines with Internet access	52%	52%
(5)	Average Monthly ILEC Reciprocal Compensation "Expense" per access line (for total U.S. lines)	$0.76	$6.45

As can be seen, the "Average Monthly ILEC Reciprocal Compensation "Expense" per access line with Internet Access" becomes $12.41, as compared to his $1.45. The $12.41 in reciprocal compensation expenses derived from each line with internet access is almost equal to the total revenue the Company's current rate for residential service. There is definitely an issue with respect to the level of these expenses and the appropriate mechanism for recovery of these additional expense flows. Mr. Argenbright's choice of assumptions and penchant for averaging these expenses across all switched lines seems to be an analysis

contrived to support a "its a no big deal issue, please look the other way" recommendation. But, it is a big issue that must be addressed appropriately.

To tie to Dr. Blackmon's testimony, this analysis clearly illustrates the upward pressure that ISP-bound usage in combination with the current reciprocal compensation rates has on local exchange rates, if the Commission considers such traffic as local. Once again, the above is simply the compensation costs -not the production costs- of the incremental ISP-bound minutes of use which would also need to be accounted for in the prices seen by end users, either on a flat or usage sensitive basis. To re-emphasize, the policy adopted for reciprocal compensation is not simply a matter of setting a price to be paid to the receiving carrier; it must be done in context with the prices seen by the end user.

Q. ON PAGE 17 OF HIS TESTIMONY, MR. ARGENBRIGHT STATES THAT ONE OF THE ASSUMPTIONS UNDERLYING THE ANALYSIS OF QWEST IS THAT THE CLEC MARKET ENTRY IS THE PRINCIPAL CAUSE OF THE CHANGES IN THE VOLUME OF END USERS' TRAFFIC. DOES VERIZON MAKE SUCH AN ASSUMPTION?

A. No. The analysis I presented makes no assumption that CLECs are somehow responsible for the increased demands being placed on the networks by users. I agree with Mr. Argenbright that it is the end users, along with the emergence of those customers known as ISP, that are largely responsible for the dramatically changing pattern of usage seen on the network. I am glad to see, however, that

Worldcom does acknowledge on page 18, lines 11-15, the "mismatch between the flat-rate local service compensation it (the ILEC) receives from end-users on the one hand and its (the ILEC's) increasing switching and transport costs on the other hand..." I also agree that this would occur with or without CLEC entry. The incremental impact of the CLEC entry is the amount of intercompany compensation over and above the costs that Verizon or other originating parties would actually avoid and the reciprocal compensation rates actually billed by the CLECs. As I have just shown, this amount can be very substantial.

Q. DR. BLACKMON ULTIMATELY PROPOSES THAT VERIZON SHOULD BREAK DOWN ITS CURRENT RECIPROCAL COMPENSATION RATE INTO SEPARATE RATE ELEMENTS FOR CALL SETUP AND CALL DURATION. DO YOU AGREE WITH DR. BLACKMON'S PROPOSAL?

A. Not entirely. Although Dr. Blackmon's proposal is a step in the right direction, it is not a viable proposal for Verizon at this time. First, we disagree that the existing rate Verizon pays is appropriate since it is too high[5] and is neither reflective of (a) the costs the CLECs will incur to deliver the traffic to their ISP customers nor (b) the cost Verizon would incur if it were to serve the same ISP customers. Second, I have been informed that Verizon may not be capable (at this time) of billing such a structure. But, if CLECs are capable of billing such a structure, then Verizon would definitely prefer that the CLECs employ the two-

[5]As noted above, the ELI contract specifies a rate of $0.0068959 per minute of use.

part structure over being billed an average MOU rate based on voice traffic characteristics.

III. OSS COST RECOVERY

Q. MR. KNOWLES RECOMMENDS THAT THE COMMISSION SHOULD REJECT ANY SERIAL REQUESTS BY THE ILECS FOR ADDITIONAL OSS COST RECOVERY OVER AND ABOVE WHAT THE ILECS HAVE ALREADY FILED IN PHASE A OF THIS PROCEEDING BECAUSE IT CREATES A PERMANENT AND INSURMOUNTABLE BARRIER TO ENTRY (PGS. 15-16). DO YOU AGREE WITH MR. KNOWLES RECOMMENDATION?

A. No. Mr. Knowles recommendation is not supported by the Act or previous findings of this Commission. While Congress required the ILECs to open up their networks to competition, it also sought to ensure that they would be compensated for reasonable costs incurred as a result of their efforts to comply with this mandate. Accordingly, Section 251(d)(1) of the Act requires that rates for interconnection and network elements be "just and reasonable" and "based on the cost (determined without reference to a rate-of-return or other rate-based proceeding) of providing the interconnection or network element (whichever is applicable)." The Act mentions no time limit for such compensation.

Moreover, the Commission's 17th Supplemental Order in Docket No. UT-960369 et al. ("17th Supplemental Order") ruled that ILEC's are "entitled to recover the cost of OSS from CLECs" and that the ILEC's were to make a strong showing of their costs in order to determine what amount ILEC's "may reasonably expect to recover." (¶102 at page 28). The Commission's findings also do not contemplate a limit on ILEC OSS cost recovery, nor should there be, given that additional requests for recovery of OSS costs are a result of additional regulatory mandates.

Q. MR. WEISS CLAIMS THAT IT IS INAPPROPRIATE FOR VERIZON TO ATTEMPT TO INCLUDE OSS RELATED COSTS IN ITS PROPOSED NRCS IN PHASE B OF THIS PROCEEDING SINCE THE COMMISSION HAS NOT YET RULED ON THOSE COSTS IN PHASE A OF THIS PROCEEDING (PGS. 24-25). DO YOU AGREE?

A. No. As I indicated in my Phase B Direct Testimony, Verizon's proposed ordering NRCs include the recovery of OSS costs addressed in Verizon's witness Dr. Robert Tanimura's Phase A Revised Direct Testimony. I also indicated that this is merely a placeholder until such time the Commission rules on the appropriate recovery amount for OSS costs. But at this time, the issue also seems to be moot. In its recently issued Thirteenth Supplemental Order in this in proceeding, the Commission not only accepted Verizon's proposed methodology to facilitate the recovery of OSS-and NOMC shared/fixed costs within its ordering NRC rates, but

also accepted the Company's proposed level of OSS and NOMC shared/fixed costs to be recovered on a per ordering NRC basis.[6]

IV. COMMON COST MARK-UP FACTOR

Q. MSSRS. KLICK AND PITKIN, TESTIFYING ON BEHALF OF THE JOINT INTERVENORS, ASSERT ON PAGE 19 OF THEIR TESTIMONY THAT VERIZON AND QWEST PROVIDED NO EVIDENCE THAT THE COMMON COST FACTORS THE COMMISSION ORDERED IN THE GENERIC COST DOCKET ARE APPROPRIATE FOR USE IN THIS PROCEEDING. PLEASE COMMENT ON THEIR ASSERTION.

A. They are correct, but incorrectly imply that bad faith motives were involved. First, Verizon is unaware that the common cost factor to be used in pricing the UNEs in this proceeding was an issue to be addressed in this proceeding. When the Commission set a common cost factor for each company in its 17th Supplemental Order in Phase III of Docket No. UT-960369 et al., I presume it logically set a factor that should be applied to all the various UNEs to assure that the ILECs have an opportunity to recover their total estimated common costs. No other presumption makes sense; otherwise parties would be in a continuous circle attempting to show that when various common cost factors are applied to each

[6]Docket No. UT-003013, Thirteenth Supplemental Order: Part A Order Determining Prices for Line Sharing, Operations Support Systems, and Collocation, paragraphs 156 and 180.

direct cost item, the companies have the theoretic opportunity to recover their total allowed common costs.

Q. COMMISSION STAFF WITNESS JING ROTH STATES THAT VERIZON HAS DEVELOPED A COMPANY-SPECIFIC PRICE ALLOCATOR OF 13.29 PERCENT THAT SHOULD BE USED IN THIS PROCEEDING? DO YOU AGREE WITH THIS ASSERTION?

A. No. Ms. Roth seems to have misread the Company's ICM methodology documentation. First, Figure M.5 of the ICM expense module documentation from which Ms. Roth derived the 13.29 percent allocator is clearly labeled "Note: The numbers shown in the above table are for presentation purposes only." The numbers presented in that table have nothing to do with Washington specific numbers.

Second, the methodology presented in Figure M.5 for determining a "Comparison Price Fixed Allocator" is only valid in one specific instance, and that is when:

Eq. (1) ... Total Revenues = Total Direct Costs + Total Common Costs,

where the trick in the methodology employed in Figure M.5 was to necessarily assume that:

Eq. (2) ... Total Direct Costs = Total Revenues – Total Common Costs.

A common cost factor is usually computed as:

Eq. (3) ... Common Cost Factor = (Total Common Costs) / (Total Direct Costs).

But Eq. (2) could be used to substitute "total revenues – total common costs" for "total direct costs" allowing for a hypothetical common cost factor to be computed as:

Common Cost Factor = (Total Common Costs) / (Total Revenue – Total Common Costs)

But, total direct costs are defined by TELRIC methodologies (and ultimately Commission orders), not by some mathematics using total revenues and total common costs.

The correct methodology for determining a common cost factor that allows a company an opportunity to recover its common costs is to compute the factor based on Eq. (2) with the caveat that the costs should be those that are approved, thus resulting in:

Common Cost Factor = (Total Allowed Common Costs) / (Total Allowed Direct Costs).

Thus, in the pricing phase, "total allowed direct costs" are marked up by an amount that will theoretically result in the recovery of not only the direct costs, but an additional amount that is just equal to "total allowed common costs."

The "comparison price fixed allocator" methodology, as depicted in the ICM documentation, provides no rational basis for the development of proposed price sets and thus, no rational basis for Ms. Roth's proposed factor for Verizon. To assure the subject section of the ICM documentation doesn't cause any further misconceptions in future filings, Verizon's Cost Production Group has now eliminated this section from the ICM documentation.

Q. IS THERE SUFFICIENT INFORMATION IN VERIZON'S FILING TO COMPUTE A NEW COMMON COST MARK-UP FACTOR?

A. No. The common cost factor established for a majority of the company's costs (e.g., UNE 2-wire and 4-wire loops) must be assumed to have been developed by the Commission to be appropriate for all UNE items. Even if there were sufficient information, one would have to: (a) review the Commission's assessment of total allowed wholesale common costs, to determine how much could theoretically be recovered from the UNE items for which the Commission has already established prices, (b) review the remaining amount of total wholesale common costs, and (c) attempt to compute some new common cost factor for the new UNE items. This would likely turn into a circular nightmare.

V. LOOP CONDITIONING

Q. WITNESSES KLICK AND PITKIN STATE THAT THE ILECS SHOULD NOT BE PERMITTED TO CHARGE FOR REMOVING BRIDGE TAP AND LOAD COILS ON LOOPS THAT ARE SHORTER THAN 18,000 FEET BECAUSE THESE DEVICES SHOULD NEVER HAVE BEEN INSTALLED ON SUCH LOOPS TO BEGIN WITH. DO YOU AGREE WITH THEIR PROPOSAL?

A. No. In fact, both the FCC and the Washington Commission do not support witnesses Klick/Pitkin's proposal. Paragragh 382 of the FCC's First Report and Order regarding local competition states the following:

> Our definition of loops will in some instances require the incumbent LEC to take affirmative steps to condition existing loop facilities to enable requesting carriers to provide services not currently provided over such facilities…. As discussed above, some modification of incumbent LEC facilities, such as loop conditioning, is encompassed within the duty imposed by section 251(c)(3). The requesting carrier would, however, bear the cost of compensating the incumbent LEC for such conditioning. (Footnotes omitted from quote.)

In addition, the Washington Commission stated in paragraph 155 of its Eighth Supplemental Order in Docket No. UT-960369 et al:

> …in the near term, there will be occasions where a CLEC will request that load coils or a bridge tap be removed from existing facilities. Load coils or a bridge tap are removed to satisfy the requirements of a particular end-user. We believe that it is appropriate to recover these customer specific costs from the cost-causer.

In neither of these cases did the FCC or the Washington Commission institute any conditions limiting when the ILEC may recover loop conditioning costs from the cost-causer. Nor should they.

Q. WITNESSES KLICK AND PITKIN STATE THAT THE RATE STRUCTURE PREVIOUSLY ADOPTED BY THE COMMISSION FOR QWEST SEEMS INCONSISTENT WITH THE ACT. SHOULD THEY HAVE THE SAME CONCERN WITH VERIZON'S PROPOSED RATE STRUCTURE FOR LOOP CONDITIONING?

A. No. Unlike the loop conditioning rate structure adopted for Qwest,[7] that was based on a 25-binder group, Verizon's loop conditioning rate structure proposes a rate per initial unit deloaded and a separate rate for additional units deloaded to serve at the same location. Verizon's proposed rate structure will not permit the ILEC to recover the cost of deloading the entire binder group from only the deloaded loops requested by the CLEC. For example, if a CLEC requests that Verizon deload a single cable pair in a 25 binder group, the CLEC will be charged (assuming load coil removal only in this example) $1,452.81 for the initial cable pair. If the CLEC requests more than one cable pair to be deloaded to serve the same location, the CLEC will be charged $268.28 for each additional cable pair. If Verizon subsequently deloads another cable pair from the same 25 binder group, Verizon will incur the same single pair deloading cost. Therefore, the discriminatory pricing witnesses Klick/Pitkin claim will occur under the Commission's previously adopted loop conditioning rate structure will not occur under Verizon's proposed loop conditioning rate structure.

VI. INSIDE WIRING/RISER CABLE

Q. MR. WEISS STATES THAT THE DISTRIBUTION SUBLOOP AND INSIDE WIRE, HOUSE CABLE OR RISER CABLE TO WHICH THE

[7]The 17th Supplemental Order adopted this same rate structure for Verizon on an interim basis.

DISTRIBUTION SUBLOOP IS CONNECTED MUST BOTH BE CONSIDERED AS SEPARATE SUPPLEMENTS OF THE LOOP AND, THEREFORE, PRICED AS SUCH. DO YOU CONCUR WITH HIS CONCLUSION (PG. 27)?

A. Yes. Verizon is perfectly willing to supply CLECs with access to house and riser cable at any technically feasible point. The Company has already defined and offered these facilities in the form of Intra-Building Riser Cable UNEs in certain jurisdictions at a predetermined point. The Company is unaware of any other possible point that a CLEC could or would want to interconnect with Verizon's house and riser cable, but a prompt site evaluation and response would be forthcoming upon submission of a location-specific request for access to house and riser cable.

Q. MR. KLICK CLAIMS THAT THERE ARE A NUMBER OF PROBLEMS ASSOCIATED WITH VERIZON'S BONA FIDE REQUEST ("BFR") PROPOSAL FOR INTRA-BUILDING CABLE. HIS CONCERNS GENERALLY FOCUS ON COSTS, e.g., THE COST OF POTENTIAL ENTRY, UNE COSTS BASED ON TOTAL DEMAND FOR AN ELEMENT, AND THE INABILITY OF CLECS TO CHALLENGE COSTS DEVELOPED BY ILECS IN RESPONSE TO A BFR. DOES VERIZON HAVE A PROPOSAL TO ALLEVIATE THESE CONCERNS ASSOCIATED WITH THE BFR PROCESS (PGS. 31-32)?

A. Yes. Verizon offers to enter into a trial arrangement with CLECS in Washington to establish methods and procedures and to determine actual costs upon identification of specific locations that require access to house and riser or intra-building network cable. These locations would necessarily be limited to complexes where it is determined that Verizon owns and retains control of the cabling to the NID.

Q. WOULD VERIZON'S PROPOSED TRIAL ADDRESS MR. KLICK'S ADDITIONAL CONCERNS THAT COST STUDIES SHOULD ADDRESS THE EXISTENCE OF MULTIPLE CARRIERS, EXISTENCE OF A SINGLE POINT OF INTERCONNECTION, AND POTENTIALLY UNNECESSARY CHARGES FOR ADDITIONAL EQUIPMENT AND TECHNICAIN DISPATCH?

A. Yes, because the UNE costs developed as a result of Verizon's proposed trial would be approved by the Commission, and the Commission's cost study evaluation would necessarily take these concerns into consideration. The trial and its resultant cost analysis are also superior to the interim proxy methodology proposed by AT&T witness Baker.

Q. MR. KLICK/PITKIN AND MS. BAKER REFERENCE THE FCC'S "BEST PRACTICES PRESUMPTION" REGARDING SUB-LOOP UNBUNDLING. WHAT IS YOUR UNDERSTANDING OF THE FCC'S BEST PRACTICES PRESUMPTION?

A. It is quite clear when you read paragraph 227 of the FCC's UNE Remand Order that the "Best Practices Presumption" only applies to the narrow issue of whether it is technically feasible for an ILEC to unbundle subloops at a designated point. Mr. Klick/Pitkin and Ms. Baker are working under the incorrect assumption that the FCC's "Best Practices Presumption" also applies to other issues a state commission adopts for unbundling subloops. This interpretation is overly broad and should be rejected.

Q. SPECIFICALLY, WHAT "OTHER ISSUES" DO MR. KLICK/PITKIN AND MS. BAKER INCORRECTLY CLAIM FALL UNDER THE FCC'S BEST PRACTICES PRESUMPTION?

A. Both Mr. Klick/Pitkin and Ms. Baker claim that the Georgia's Commission's finding that the presence of multiple technicians is not required to change service results from the FCC presumption. Ms. Baker also suggests that the Washington Commission should adopt the following findings:

1. The CLEC must assume full liability for its actions and for any adverse consequences that could result. The appropriate indemnification for adverse consequences by the CLEC should be determined from the tariffed terms and conditions that Verizon and Qwest rely on when actions by their respective technicians result in service outages to their own retail customers (Georgia Order).

2. Ensure that a utility imposes upon its own or affiliated telecommunications cable services the same rates it imposes on competitors (Massachusetts Order).

Q. DO YOU HAVE ANY OTHER CONCERNS WITH THE OVERLY BROAD RECOMMENDATIONS MADE BY MS. BAKER?

A. Yes. Ms. Baker not only suggests that the Commission adopt additional issues addressed in other state commission orders that are outside the scope of the FCC's "Best Practices Presumption," but she proposes the Commission significantly alter those findings. For example, Ms. Baker proposes that the appropriate indemnification for adverse consequences by the CLEC should be determined from the tariffed terms and conditions on which the ILECs rely when actions by their respective technicians result in service outages to their own retail customers. In the Georgia Order attached to Ms. Baker's Response Testimony, the Georgia Commission stated:

> In this case, the Commission similarly finds that while MediaOne **may** use its own technicians to interconnect at the MPOE, it **may** only do so if it **shall** assume the full liability for the actions and for any adverse consequences that could result." [Emphsis Added] (Page 6 of 10)

The Georgia Commission concluded that the ability of the CLEC to utilize its own technicians to interconnect at the MPOE is predicated on the CLEC's acknowledgement that it will assume full liability. Ms. Baker is obviously attempting to modify the condition upon which the Georgia Commission adopted

MediaOne's proposal to utilize its own technicians to interconnect at the MPOE to AT&T's advantage.

Q. PLEASE COMMENT ON WITNESS BAKER'S CLAIM THAT VERIZON-NEW JERSEY'S BFR PROPOSAL IS UNREASONABLE, ANTI-COMPETITIVE, AND DISCRIMINATORY FROM THE POINT OF VIEW OF A FACILITIES-BASED COMPETITOR.

A. I am not aware of the BFR proposal referenced by Ms. Baker. Verizon does not utilize a BFR process in New Jersey for house and riser cable. House and riser cable is a UNE in New Jersey and is available where technically feasible and only where Verizon owns and retains operational control of the cable. Rates for house and riser cable are tariffed.

Q. DO YOU CONCUR WITH THE PRICING POLICY PRINCIPLES THAT ARE DELINEATED IN MS. BAKER'S TESTIMONY? THESE PRINCIPLES SPECIFICALLY REQUIRE: (i) PARITY OF INTRA-BUILDING CABLE CHARGES BETWEEN ILECS AND COMPETITORS; (ii) RATES AND CONDITIONS MUST NOT ASSUME THE EXISTENCE OF UNNECESSARY EQUIPMENT; AND (iii) PLACEMENT OF EQUIPMENT SHOULD NOT REQUIRE COORDINATED DISPATCHES OF ILEC AND CLEC INSTALLATION TECHNICIANS.

A. Yes, Verizon concurs with these policy principles.

Q. DO YOU CONCUR WITH MS. BAKER'S CLAIM THAT THE PRACTICE OF REQUIRING THE INSTALLATION OF A MINIMUM PAIR TERMINAL BLOCK SOLELY FOR CLECS DOES NOT CONSTITUTE A PRO-COMPETITIVE SINGLE POINT OF INTERCONNECTION?

A. No. Representatives of Verizon have met with AT&T and other CLEC representatives in New York and reached general concurrence that the terminal block is a desired element in the interconnection process. In fact, other CLECs have agreed that this terminal block is an absolute requirement. The installation of a minimum pair terminal block is desired for the following reasons: 1) it provides a demarcation point between the network of Verizon and the CLEC, 2) it provides a means of testing for the CLEC, and 3) allows the CLEC to isolate trouble determine whether the trouble is occurring within their network or the ILEC network. The installed cost of this block is not prohibitive. In addition, the CLEC also has the option of installing its own terminal block. If the practice of requiring the installation of a minimum pair terminal block solely for CLECs is a desired element in the interconnection process in New York for AT&T, there is no reason why is should not also be an acceptable element in Washington.

Q. IS MS. BAKER'S ASSERTION THAT ILECS MUST PROVIDE REQUESTING CLECS WITH ACCESS TO WIRE CENTER-SPECIFIC ENGINEERING RECORDS DEPICTING THE PRIMARY AND

SECONDARY POINTS OF INTERCONNECTION WITHIN TWO DAYS TIME REASONABLE?

A. No. Verizon currently provides access to Conduit and Poles (and records of these) within our license agreement process, and Verizon does not believe that CLEC access to cable plat maps is required or necessary. Cable plat information may not provide the CLEC with the necessary information to determine Verizon's single point of interconnection. The best way for the CLEC to make this determination is to interface with the building owner or property owner of a given building.

Moreover, cable plat information is proprietary in nature to the design and maintenance of Verizon's facility-based network and the customers served by the network. The detail provided in the cable plats maps regarding technologies deployed (e.g., Fiber, Sonet, etc.) and network design (facility routing, capacity, and possibly diversity) are all network characteristics that Verizon views as competitively sensitive and proprietary. Cable plat information is not data that should be shared in the design and development of a competing facility-based network. Disclosure of this information to CLECs would cause Verizon competitive harm, because CLECs would obtain information that is technology-specific, customer-specific, and potentially service-specific. None of this information is necessary for the engineering reasons stated by Ms. Baker. Moreover, it is Verizon's fear that the primary use of obtaining cable plat information would be for CLEC marketing purposes rather than the engineering

reasons noted by Ms. Baker. Therefore, Ms. Baker's request for access to ILEC cable plat maps or other engineering records should be rejected.

Q. MS. BAKER RECOMMENDS THAT THE COMMISSION ESTABLISH A SEPARATE TRACK WITHIN THIS DOCKET TO ADDRESS THIS ISSUE BECAUSE THIS IS A MATTER OF CRITICAL IMPORTANCE TO THE DEVELOPMENT OF FACILITIES BASED COMPETITION. DO YOU CONCUR WITH HER RECOMMENDATION?

A. If the Commission is amenable to the establishment of a separate track for this issue and if this action would facilitate adoption of Verizon's proposed trial arrangement, then AT&T's recommendation should be adopted.

VII. CONCLUSION

Q. PLEASE SUMMARIZE YOUR RECOMMENDATIONS IN THIS PROCEEDING.

A. In my Phase B Direct Testimony I describe Verizon's proposed monthly recurring charges ("MRCs") and non-recurring charges ("NRCs") for the various UNEs that were not litigated and previously ordered in Docket No. UT-960369, et al. Several parties raise a number of pricing policy issues that I respond to in my Phase B Rebuttal Testimony. My response to these issues are summarized below:

(1) The relationship between retail rates and reciprocal compensation rate structures is very important. As long as retail rates are predominantly flat-rated, "bill and keep" is the most economically viable rate structure for reciprocal compensation. If the Commission decides to institute a less rational structure for reciprocal compensation, then that structure must incorporate the differing characteristics between predominantly voice traffic and ISP-bound traffic, which it could do by instituting differing rates for terminating voice traffic versus ISP-bound traffic. Verizon also believes that the correct surrogate estimate of the costs of terminating traffic to ISPs is represented by the cost characteristics of tandem switching activities.

(2) Any issues regarding the Company's proposals for recovery of OSS-related costs or NOMC shared/fixed costs are now moot, due to the issuance of the Commission's Thirteenth Supplemental Part A Order in this docket.

(3) The common cost factor recommended by Commission Staff witness Roth was not only based on a fallacious methodology but was also based on illustrative data that had nothing to do with Verizon's costs. As such, Ms. Roth's recommendation must be dismissed. The Commission should conclude that the common cost mark-up factor adopted for Verizon in Docket UT-960369, et al. shall be used to determine Verizon's UNE rates in this proceeding.

(4) Verizon's proposal for loop conditioning rates is totally consistent with current FCC rules as well as previous statements by the Washington Commission and should be adopted.

(5) Verizon's proposal for sub-loop unbundling of inside wiring / riser cable is in concert with the FCC's "Best Practices Presumption" and should also be adopted by this Commission

The claims and arguments put forth by other parties are unfounded and should be rejected by this Commission. Therefore, the Commission should approve Verizon'' proposed MRC and NRC UNE rates submitted in this proceeding.

Q. DOES THIS CONCLUDE YOUR PHASE B REBUTTAL TESTIMONY?

A. Yes.