

1           In addition, SCIS automatically computes “breakage,” which recognizes that the  
2           last units of components with large capacities will, on average, not be fully  
3           utilized. SCIS, therefore, increases the cost of each port by the fill factor entered  
4           by Verizon and the “breakage” calculated by SCIS.

5                     Verizon subsequently makes outboard adjustments<sup>69</sup> to Verizon’s VCOST  
6           model that further reduce utilization and thereby inflate all the line and trunk port  
7           costs. Verizon characterizes the adjustments as required to reflect “actual”  
8           utilizations. But Verizon has already accounted for utilization by using the SCIS  
9           utilization data.

10   **Q.    IS VERIZON’S USE OF “ACTUAL” UTILIZATIONS CORRECT IN A**  
11   **TELRIC STUDY?**

12   A.    No. Verizon’s current levels of utilization reflect embedded practices that are not  
13   relevant in a forward-looking TELRIC study.

14   **Q.    WHAT SHOULD BE USED AS UTILIZATIONS IN A FORWARD-**  
15   **LOOKING STUDY?**

16   A.    The Verizon fill factors entered into SCIS and the “breakage” calculated by SCIS  
17   are sufficient and reasonable. Thus, the utilization inputs in V-Cost should be set  
18   to 1.0.<sup>70</sup>

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<sup>69</sup>       These adjustments can be seen in the Supporting Documentation Section 5 of Verizon’s port cost studies. These utilizations can also be seen in the Inputs section labeled as Line Utilization Adjustment, Analog Utilization Adjustment, etc.

<sup>70</sup>       AT&T/WorldCom’s restated rates have used these port inputs for a different purpose that will be explained later in this testimony. Thus, when looking at the V-Cost inputs for utilizations in the Restated cost study filing, these numbers will not be 1.0.

1           **E. FEATURE PORT ADDITIVES ARE INCORRECT**

2   **Q.    WHAT TYPES OF EQUIPMENT ARE INCLUDED IN VERIZON'S**  
3   **CLAIMED FEATURE PORT ADDITIVES?**

4   A.    According to Verizon, these claimed costs represent hardware that must be  
5        purchased to provision features.<sup>71</sup>

6   **Q.    HOW DOES VERIZON COMPUTE THE CLAIMED COST OF THIS**  
7   **EQUIPMENT?**

8   A.    Verizon says it used the feature module (SCIS/IN) of the SCIS program to  
9        calculate most of these costs.

10 **Q.    HOW DOES THE DISCOUNT INPUT DISCUSSION ABOVE AFFECT**  
11 **THE FEATURE MODULE OF SCIS?**

12 A.    Like the SCIS/MO module used to calculate switch investment, the SCIS/IN  
13        program requires discount inputs to be entered so that net prices for feature-  
14        related hardware can be correctly calculated. Verizon's claimed feature  
15        investments suffer from the same failure to use the appropriate new switch  
16        discount as did Verizon's switch investment. As a result, Verizon's feature  
17        investments have been overstated due to inappropriate discount inputs.

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<sup>71</sup> Feature hardware includes conference circuits and special announcements used only for features.

1 **Q. WHAT CORRECTIONS NEED TO BE MADE TO VERIZON'S FEATURE**  
2 **PORT ADDITIVES?**

3 A. The SCIS/IN-produced investments for feature hardware must be recalculated to  
4 reflect the same AT&T/WorldCom proposed new switch discount inputs as were  
5 used in the AT&T/WorldCom recalculation of the SCIS/MO model.

6 **Q. WILL THE FEATURE COSTS BE CORRECT IF THE APPROPRIATE**  
7 **DISCOUNTS ARE USED?**

8 A. No. Verizon has made additional SCIS/IN input errors relating to features. A  
9 number of features rely on screen list editing, which screens telephone numbers.<sup>72</sup>  
10 The cost of these features depends on the number of lines per office that use  
11 screen list editing. This input value should not vary from feature to feature  
12 because it reflects the number of lines in the office that have at least one feature  
13 that uses screen list editing. Nevertheless, in its cost studies in this case,  
14 Verizon's inputs on this point vary dramatically.<sup>73</sup>

15 It is not possible to discern whether there are additional input errors in  
16 Verizon's calculation of feature costs because Verizon has not made any data

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<sup>72</sup> Screen list editing lines are lines that have one or more features that allow them to build a list of telephone numbers for screening of incoming calls. SCIS/IN uses this input to allocate the cost of switch equipment across all lines in the switch sharing the equipment used in any feature that uses screening. The affected features include Distinctive Ringing/Call Waiting, Selective Call Rejection, Selective Call Forwarding, Selective Call Acceptance for Centrex lines and Individual Lines as well as the Selective Call Rejection for ISDN lines

<sup>73</sup> See Verizon's "Unbundled Switch Ports and Features, Subsection #3.4 SCIS/IN Ftr Inputs".

1 available for review regarding these inputs, nor has it provided explanations of  
2 how the inputs were developed.<sup>74</sup>

3 **Q. HOW DO YOU PROPOSE TO CORRECT THESE ERRORS?**

4 A. Verizon has not provided the information necessary to support its costs for  
5 features,<sup>75</sup> and therefore, it would be appropriate to eliminate the port additives  
6 entirely. If, however, the Commission declines to take that step, then at a  
7 minimum the discount inputs and the inconsistent set of inputs for the number of  
8 screen list editing lines per office must be corrected.<sup>76</sup> AT&T/WorldCom's  
9 restated rates in Attachment 1 to this testimony reflect these corrections.

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<sup>74</sup> In AT&T Data Request Number 9, Request 26, AT&T asked Verizon to explain the rationale and assumptions for inputs to SCIS/IN and to provide documentation for the inputs. Verizon's response refers to its response to AT&T Data Request Number 9, Request 15 that states the data were collected from product managers in 1997. No documentation or other explanations are offered. Verizon also refers in its response to ATT Data Request Number 9, Request 21, which points to the lists of inputs it used, but again, without explanation or supporting documentation.

<sup>75</sup> Based on the limited information received to date, AT&T/WorldCom cannot correct the inputs (other than the screen list inputs); however, should additional data be made available by Verizon, supplemental testimony may be required regarding feature inputs.

<sup>76</sup> The correct "lines sharing screening" input for all of the screening features would be the largest number of lines that Verizon entered as an input.

1           **F. VERIZON MISIDENTIFIED COST CAUSATION AND THEREFORE**  
2           **HAS MISASSIGNED COSTS TO ITS VARIOUS SWITCH RATE**  
3           **ELEMENTS**

4   **Q.    WHAT ARE THE CAPACITY RESTRAINTS ON MODERN DIGITAL**  
5   **SWITCHES?**

6   A.    As Ms. Pitts stated in her Direct Testimony, digital switches are port-limited, and  
7        are not constrained by peak period usage.<sup>77</sup> Indeed, Verizon studies show that the  
8        average processor utilizations are infinitesimally small compared to the available  
9        call processing capacities (not total capacity – only the vendor-stated call  
10       processing capacity).<sup>78</sup> This level of small utilization is typical of the current  
11       generation of digital switches – they are designed to take advantage of the huge  
12       economies in computer chip technologies to ensure that a switch will not exhaust  
13       on processing or memory power. Verizon studies show that its switches will  
14       never exhaust its call processing capacities in their lifetimes.<sup>79</sup>

15                Verizon implicitly acknowledges this fact when it asserts that usage for  
16       reciprocal compensation does not affect the processing capacities of a switch.<sup>80</sup>

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<sup>77</sup> See the following. VZ-MA: J. Gansert's testimony, New York Case 95-C-0657, 94-C-0095, 91-C-1174, page 24. SWBT: Transcript (pg 3556) of Costing Pricing Issues SWBT Arbitration PUC Docket 16226, 11/3/96 cross of Raley. Ameritech: Direct Testimony of William Palmer, ICC Docket 96-0486, Ameritech-Illinois Exhibit 3.3. Pacific Bell: R. Scholl February, 1997, deposition in case R.93-04-993 and I.93-04-002.

<sup>78</sup> See Attachment 4, filed herewith, which displays the average switch processor utilizations contained in the SCIS model as run by Verizon.

<sup>79</sup> Id. (showing Verizon's SCIS inputs for [1] years to processor exhaust and [2] years to replacement).

<sup>80</sup> Panel Testimony at footnote 7.

1 The appropriate cost driver for today's digital switches is ports, not peak period  
2 usage.

3 **Q. HOW DOES THE FACT THAT PROCESSING CAPABILITY OF**  
4 **MODERN DIGITAL SWITCHES IS NOT A CONSTRAINT AFFECT**  
5 **VERIZON'S COST STUDY?**

6 A. Verizon has improperly allocated the substantial processor, memory and other  
7 "getting started" costs to the minute-of-use element of its switch rates. These  
8 "getting started" costs do not vary with respect to lines or trunks. The line and  
9 traffic inputs to SCIS can be modified by an order of magnitude, but the "getting  
10 started" cost will not change even one penny.<sup>81</sup>

11 The only time the "getting started" cost will be replicated is when a second  
12 switch must be installed because the port capacity was reached. Therefore, the  
13 cost driver is ports. The "getting started" costs should be assigned to the ports,  
14 not the minute-of-use.

15 Just as it is imperative to ensure that non-recurring costs be recovered via  
16 non-recurring cost elements, it is critical that non-traffic sensitive costs not be  
17 recovered via traffic sensitive elements.

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<sup>81</sup> This can be seen by viewing the office-by-office results in Verizon's SCIS database. The "getting started" cost of a switch does not change, except when remote switches are added to a host switch, because the remote's "getting started" costs are added to the host's "getting started" cost.

1 **Q. HOW DO YOU PROPOSE TO ASSIGN COSTS TO THE TRAFFIC**  
2 **SENSITIVE AND NON-TRAFFIC SENSITIVE COST CATEGORIES?**

3 A. Verizon has included the SCIS outputs by detailed cost category on Page 2 in  
4 Subsection 5.9 in the Switching MOU cost study. These cost categories must be  
5 assigned to the appropriate element. In making these determinations, an  
6 engineering analysis helps understand the functions and capacities of the  
7 equipment whose costs are being assigned, and an economic analysis helps ensure  
8 conformance to long-run, forward-looking cost methodology that assigns costs  
9 based on economic cost causation.

10 Some categories are obvious: Line Termination costs (analog and IDLC),  
11 BRI and PRI costs (for ISDN line and trunks, respectively), and other ISDN-  
12 related port costs are unequivocally assigned to ports.

13 **Q. WHAT ARE THE “EPHC” CATEGORIES AND WHERE DO THEY**  
14 **BELONG?**

15 A. There are four EPHC categories in the 5ESS switch SCIS/MO outputs (two in the  
16 non-ISDN investments and two in the ISDN investments) that also should be  
17 assigned to ports and non-traffic sensitive costs. EPHC is an output category that  
18 captures the common equipment in the switch module, which is the primary  
19 building block component of the 5ESS switch’s distributed architecture. This  
20 common equipment’s maximum port capacity is always reached before its call

1 processing capacity.<sup>82</sup> Therefore, the cost driver is ports, and the EPHC costs  
2 should be assigned to the ports.<sup>83</sup>

3 **Q. WHAT SCIS COST OUTPUT CATEGORIES SHOULD BE ASSIGNED**  
4 **TO THE PEAK PERIOD USAGE CATEGORIES?**

5 A. The Line CCS categories (ISDN and non-ISDN), the D Channel Access PPS, PPB  
6 Channel Access PPS, and Inter-Switch PPS<sup>84</sup> and SS7 link costs should all be  
7 assigned to the traffic sensitive category, because this equipment is engineered  
8 and purchased based on peak period usage.<sup>85</sup>

9 The trunk costs are separated and assigned to the common trunk MOU,  
10 which is also peak period usage sensitive.<sup>86</sup>

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<sup>82</sup> This can be seen in the Line Termination output reports from SCIS that will always show "Excess SM EPHC Capacity Inv." (subcategory of the "Part C" costs in the Line Termination Investment) assigned to every port because the port capacity of the switch module was reached before the usage capacities could be completely utilized. These excess capacity categories are labeled 'Part C' of the Line termination costs.

<sup>83</sup> AT&T/WorldCom's restated switch cost study has computed a port additive factor to assign the getting started and EPHC costs to the ports. The factor development can be seen in the Restated Workpapers, Section #5.9 EO Material Investment. The factor is then entered into V-Cost, using Verizon's port utilization inputs. This was done to avoid having to make algorithm changes to V-Cost.

<sup>84</sup> These categories reflect equipment engineered based on either voice busy hour minutes of use or ISDN data busy second packet usage.

<sup>85</sup> Please refer to Ms. Murray's Direct Testimony regarding the difficulties of developing pricing structures for peak period costs.

<sup>86</sup> Note that Verizon's analysis initially and temporarily assigns trunk ports to the non-usage costs in the cost study (see Subsection #5.9, page 2) to isolate the local switch usage costs to develop the switch MOU rate element. The trunk costs are subsequently isolated from the non-usage category and assigned appropriately in the Digital Trunk Port development that is then used to calculate the common trunk MOU cost.

1 **Q. HOW MUCH OF THE TOTAL SWITCH INVESTMENT IS TRAFFIC-**  
2 **SENSITIVE?**

3 A. A very small percentage of the overall investment in current digital switch  
4 technology is engineered based on peak period usage. The allocation of the SCIS  
5 outputs to the traffic sensitive and non-traffic sensitive categories can be seen in  
6 Attachment 5.<sup>87</sup>

7 **Q. HOW DOES THIS RELATE TO THE MODIFIED SYNTHESIS MODEL**  
8 **INPUT USED TO ALLOCATE SWITCH COSTS TO PORT AND MOU**  
9 **RATE ELEMENTS WHEN THE FLAT-RATED PORT OPTION IS NOT**  
10 **USED?**

11 A. The information in Attachment 5 described above can be used in the Modified  
12 Synthesis Model to allocate switch costs to port and MOU rate elements.<sup>88</sup>

13 **G. RIGHT-TO-USE FEES ARE UNSUBSTANTIATED AND SHOULD BE**  
14 **REJECTED, AND THE RIGHT-TO-USE FEES ARE MISASSIGNED**  
15 **TO THE USAGE SENSITIVE RATE ELEMENTS.**

16 **Q. HOW DID VERIZON DETERMINE THE COSTS OF RIGHT-TO-USE**  
17 **(RTU) SOFTWARE?**

18 A. Verizon's right-to-use software cost is an allocation of an annualized software  
19 expense for Verizon-East based on historical data for 1999 and 2000, plus  
20 forecasts for 2001 and 2002.

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<sup>87</sup> The percentage of Verizon's total switch investment that is peak period usage related, including trunks, is also identified in the Restated Workpapers Subsection 5.9 EO Material Inv. (electronic workpapers AT&T VA\_Part C-8-1 Switch MOU Supp(1).xls.

<sup>88</sup> The 40% traffic sensitive input to the Synthesis Model referenced in Ms. Pitts' Direct Testimony was not implemented, and the FCC's default inputs were used. These estimates are superseded by the actual Verizon percentage data set forth in Attachment 5.

1   **Q.    IS THE TOTAL FORECASTED RTU AMOUNT APPROPRIATE?**

2    A.    It is difficult to determine if the RTU amount is appropriate, because Verizon did  
3           not provide any supporting documentation for the high level estimates it used.

4   **Q.    WHY DO YOU QUESTION THE VERIZON-EAST RTU FEE AMOUNTS?**

5    A.    RTU fees can vary dramatically, as is illustrated by Verizon's own cost study  
6           workpapers in this proceeding.<sup>89</sup> Verizon included 1999 data that appear to be  
7           inconsistent with data from other years and much higher than its more recent  
8           software expenditures and forecasts. The inclusion of this 1999 data seriously  
9           inflated the annual estimate of costs. In the absence of Verizon's full explanation  
10          of the significant spike in 1999 costs, those 1999 costs should be excluded from  
11          the calculations.

12   **Q.    SHOULD VERIZON'S CURRENT RTU EXPENDITURES BE USED TO**  
13   **DETERMINE FORWARD-LOOKING RTU FEES IN A TELRIC STUDY?**

14   A.    No. Verizon's embedded RTU expenditures can include software purchases  
15          necessary to update older switches. As discussed previously, a TELRIC study  
16          requires a completely new network to be built that would eliminate the need to  
17          upgrade older generation switches that should not be reflected in a forward-  
18          looking environment. A large spike in expenditures, such as Verizon's 1999  
19          costs, could also be the result of a one-time only RTU purchase that provides

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<sup>89</sup> See Verizon RTU Factor Study Part G-9, Sheet labeled "Workpaper 1\_Pg1" showing expenditures for 1999 and 2000 and estimated expenditures for 2001 and 2002 in columns D-F. The 1999 expenditure is more than twice as high as any other year.

1 switch software functionality for the rest of the life of the switches, requiring a  
2 longer time period to amortize than Verizon's assumption of four years.

3 **Q. WHAT CORRECTIONS DO YOU SUGGEST?**

4 A. The minimal amount of information provided by Verizon does not allow us to  
5 make any in-depth review or recommendations.<sup>90</sup> If further information is  
6 provided regarding these fees, AT&T/WorldCom may file Supplemental  
7 Testimony. However, at a minimum, the RTU factor should be recalculated,  
8 excluding the unusually high RTU fees in 1999. AT&T/WorldCom's restated  
9 rates excluded the 1999 data and recomputed the RTU factor based on the three  
10 other years of data provided by Verizon.<sup>91</sup>

11 **Q. HAS VERIZON ASSIGNED THE UNSUBSTANTIATED RTU COSTS TO**  
12 **UNE RATES IN AN APPROPRIATE MANNER?**

13 A. No. Verizon has inappropriately assigned the RTU costs to the minute-of-use  
14 UNE rate element when these costs should be assigned to the ports.

15 **Q. HOW DOES VERIZON INCUR RIGHT-TO-USE COSTS?**

16 A. Verizon typically pays RTU fees either on a per-switch or per port-basis, or as part  
17 of a larger buy-out contract that could cover all of Verizon's switches.<sup>92</sup> Buy-out

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<sup>90</sup> See Verizon's response to AT&T's Data Request Number 9, Requests 7(c),(h),(i),(j).

<sup>91</sup> Using three years of data is consistent with other areas of Verizon's study, such as the line growth data provided in response to AT&T Data Request 9-12. See Attachment 6 for the RTU factor recalculation.

<sup>92</sup> Verizon confirmed that it negotiates fees for right-to-use licenses on a buyout basis in its response to AT&T Request Number 9, Request 44.

1 contracts allow an ILEC to purchase software for all (or sometimes a subset) of its  
2 switches, rather than purchasing the software on a per-switch or per-line basis.  
3 The implicit cost driver would be the total number of switches that the buy-out  
4 covers.

5 **Q. ARE RTU FEES EVER PAID BASED ON MINUTES-OF-USE OR**  
6 **CALLS?**

7 A. RTU fees are the same without regard to the number of calls or minutes of use of  
8 a switch, and we have never seen RTU fees charged by the switch manufacturer  
9 on a minute of use or call basis. Thus, even if Verizon could substantiate its  
10 software costs, they should be allocated to the non-traffic sensitive switch port  
11 rates, and not to the traffic sensitive minute-of-use rates.

12 **Q. WHY RECOVER RTU COSTS VIA THE PORTS?**

13 A. RTU costs are incurred primarily on a per-switch basis (or directly on a per-port  
14 basis). Exhaustion of ports is the cost driver for the purchase of an additional  
15 switch and the incurrence of additional RTU fees. Cost causation principles are  
16 best served by allocating RTU fees to the ports in the same manner as the “getting  
17 started” costs, and in the same manner that Verizon incurs its costs.

18 AT&T/WorldCom’s restated minute-of-use costs exclude the RTU fee and  
19 assign a recomputed RTU fee to the port elements.<sup>93</sup>

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<sup>93</sup> The corrected Verizon RTU factor described above must be further recomputed because it is being applied to a different amount of switch investment (AT&T’s proposed non-traffic sensitive investment) than the amount in Verizon’s study. See Attachment 5 for this recomputation.

1           **H. SWITCH ENGINEERING AND INSTALLATION**  
2           **FACTORS ARE OVERSTATED**

3   **Q.    WHAT IS THE SWITCH EF&I FACTOR?**

4    A.    The engineering, furnished and installed ("EF&I") factor is the loading factor used  
5           to add items such as vendor engineering, Verizon engineering, vendor installation  
6           and Verizon installation, and sales tax in order to convert the material-only cost of  
7           a switch to a fully installed cost.

8   **Q.    HOW DID VERIZON COMPUTE ITS EF&I FACTOR?**

9    A.    Verizon used Verizon-East region-wide embedded data from its Detailed  
10           Continuing Property Records (DCPR) to calculate its EF&I factor. The Verizon  
11           EF&I factor was derived by comparing the material cost of the equipment to the  
12           total installed cost of the equipment.

13   **Q.    DOES VERIZON'S CALCULATION PRODUCE A REASONABLE EF&I**  
14   **FACTOR?**

15   A.    No. Verizon's EF&I factor is unreasonably high.

16   **Q.    DOES VERIZON PROVIDE ANY JUSTIFICATION FOR ITS HIGH EF&I**  
17   **COSTS?**

18   A.    No. Verizon response to AT&T Data Request Number 9, Request 31 seeking  
19           detailed DCPR data supporting Verizon's claimed EF&I factor provided only a  
20           column called "installed investment" without any data that underlie the  
21           installation costs. The integrity of the DCPR data is in question given the FCC's  
22           December 1998, audit findings of Verizon's Continuing Property Records.

1           In the Massachusetts UNE proceeding, VZ-MA admitted that it always  
2 performs its own engineering and installation and does not put such work out to  
3 competitive bid.<sup>94</sup> As a result, marketplace competitive pressures that encourage  
4 efficiencies are absent, and reliance on this data to calculate a forward-looking  
5 TELRIC EF&I factor to be applied throughout the VZ-East region is inappropriate  
6 unless Verizon demonstrates that the Verizon costs are competitive with the  
7 marketplace. Verizon has not made this showing.<sup>95</sup>

8   **Q.   WHAT DO YOU PROPOSE IS THE REASONABLE FORWARD-**  
9   **LOOKING VENDOR PORTION OF THE EF&I FACTOR?**

10   **A.**   SCIS can compute the vendor engineering and installation portion of the  
11 engineering and installation factor as it calculates both [1] material-only or [2]  
12 vendor EF&I costs. AT&T/WorldCom used the EF&I data from the SCIS/MO  
13 outputs to develop an appropriate vendor EF&I factor.<sup>96</sup>

14   **Q.   WHAT DOES AT&T/WORLDCOM PROPOSE AS A REASONABLE**  
15   **FORWARD-LOOKING EF&I FACTOR TO BE USED AS THE INPUT TO**  
16   **VCOST?**

17   **A.**   Given the questions raised by Verizon's incomplete documentation and by the  
18 FCC's audit of the underlying data that Verizon relies on to develop the EF&I

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<sup>94</sup> See Verizon's response to AT&T's Request Number 3, Request 4 in the Massachusetts UNE proceeding DTE-01-20.

<sup>95</sup> EF&I Factors were provided by many companies in the FCC's 1992 Open Network Architecture filings. The average EF&I factor was 10%. In addition, an 8% EF&I factor was decided upon in the FCC's USF proceeding, *see* In the Matter of Federal-State Joint Board on Universal Service, CC Docket Nos. 96-45, 97-160, FCC 99-304 (rel. Nov. 2, 1999), at ¶307.

<sup>96</sup> See Attachment 2.

1 factor, use of an earlier Verizon factor is appropriate to determine the local  
2 telephone company portion of the EF&I factor. Verizon used a .1080 factor in its  
3 February 13, 1992 filing of additional cost information and workpapers in  
4 response to the FCC's MOO DA 92-128 released January 31, 1992 (ONA Tariff  
5 Order). AT&T/WorldCom used the EF&I data from the SCIS/MO outputs for the  
6 vendor portion of the factor in conjunction with the Virginia sales tax and the  
7 11% Verizon portion of the factor to develop a reasonable EF&I factor that is  
8 approximately 60% of Verizon's claimed factor.

9 **I. RECIPROCAL COMPENSATION RATES SHOULD BE**  
10 **CALCULATED USING UNE SWITCH RATES**

11 **Q. DOES VERIZON INCLUDE THE SAME SWITCHING COSTS IN THE**  
12 **DEVELOPMENT OF RECIPROCAL COMPENSATION AND UNE**  
13 **SWITCH RATES?**

14 A. In its response to data requests, Verizon admitted that the switch processing of  
15 UNE traffic and reciprocal compensation traffic is the same.<sup>97</sup> Notwithstanding  
16 this admission, Verizon has arbitrarily chosen not to include the substantial  
17 "getting started" costs and RTU fees in the reciprocal compensation rates, even  
18 though it included these same costs in its UNE usage rates.<sup>98</sup>

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<sup>97</sup> See Verizon's response to AT&T Data Request Number 9, Request 22: "On a strictly technical basis, the switch does not treat either type of terminating call differently. However, Verizon VA has allocated the costs differently."

<sup>98</sup> See Verizon's response to AT&T Data Request Number 9, Request 23.

1   **Q.   HOW DOES VERIZON JUSTIFY ITS DECISION TO INCLUDE THESE**  
2   **COSTS IN UNE SWITCH USAGE COSTS AND NOT IN RECIPROCAL**  
3   **COMPENSATION COSTS?**

4   A.   Verizon claims it is including only incremental costs of the *additional* traffic  
5       associated with terminating other carriers' traffic. Verizon claims that reciprocal  
6       compensation traffic does not cause a burden to processing capacity (or apparently  
7       cause any increase to RTU fees), and as a result, Verizon excluded both "getting  
8       started" costs and RTU fees from reciprocal compensation.<sup>99</sup>

9   **Q.   IS VERIZON'S EXPLANATION REASONABLE?**

10  A.   No. The same argument that Verizon makes about reciprocal compensation also  
11       applies to UNE traffic. Verizon is seeking to maximize its UNE revenues and  
12       minimize the costs of reciprocal compensation that Verizon pays.

13  **Q.   ARE THERE MODIFICATIONS YOU ARE RECOMMENDING TO**  
14  **VERIZON'S STUDY THAT WILL VIRTUALLY ELIMINATE THIS**  
15  **PROBLEM?**

16  A.   Yes. As discussed above, the "getting started" cost of a switch and its RTU fee  
17       should not be included in the traffic sensitive UNE elements but properly belong  
18       in the non-traffic sensitive port elements. When this correction is made, the  
19       argument about assignment of "getting started" costs and RTU fees to UNEs or  
20       reciprocal compensation is moot because the costs are fully (and properly)  
21       assigned to the ports.

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<sup>99</sup>    See Panel testimony at 204.