Before the
Federal Communications Commission
Washington, D.C. 20554

In the Matter of	)	
	)	
Application by Verizon New Jersey	)	
Inc., Bell Atlantic Communications,	)	
Inc. (d/b/a Verizon Long Distance),	)	CC Docket No. 01-347
NYNEX Long Distance Company	)	
(d/b/a Verizon Enterprise Solutions),	)	
Verizon Global Networks Inc., and	)	
Verizon Select Services Inc., for	)	
Authorization To Provide In-Region,	)	
InterLATA Services in New Jersey	)	

REPLY DECLARATION OF

PATRICK A. GARZILLO AND MARSHA S. PROSINI

1. My name is Patrick A. Garzillo. My background is described in the declaration that Marsha S. Prosini and I filed with Verizon's New Jersey section 271 Application on December 20, 2001. I am responsible for all sections of this reply declaration.

2. My name is Marsha S. Prosini. My background is described in the declaration that Patrick A. Garzillo and I filed with Verizon's New Jersey section 271 Application on December 20, 2001. I am responsible for all sections of this reply declaration.

3. The purpose of this declaration is to respond to claims asserted by AT&T, WorldCom, Conversent, Cavalier, ATX, and the Association of Communications Enterprises ("ASCENT") in opposition to Verizon's section 271 application for New Jersey. Specifically, we address these parties' claims regarding Verizon's prices for

loops and switching in New Jersey, their allegations that the prevailing non-recurring hotcut charge in New Jersey is too high, and their claims that UNE rates in that state give rise to a "price squeeze" that precludes competition. In each case, the New Jersey Board of Public Utilities ("Board") followed TELRIC principles. Moreover, there exists no price squeeze, and thus no barrier to competition.

I. Specific Complaints.

4. Various commenters object to Verizon's loop rates, switching usage rates, and non-recurring hotcut rates. All of the complaints are without merit. In this section, we address these commenters' arguments.

A. Recurring Loop Rates.

5. WorldCom first attempts to call into question various inputs to Verizon's loop rates that this Commission has already validated and approved as TELRIC-compliant in the context of other long distance applications. WorldCom contends that the assumption of 60% fiber feeder in the loop is inappropriate, when in fact the FCC has recognized that even the assumption that *all* feeder is served by fiber satisfies TELRIC for the purpose of its section 271 review. *See* Garzillo/Prosini Declaration ¶ 34; *see also* Interim Order, *Application of MFS Intelenet of Pennsylvania, Inc.; Application of TCG Pittsburgh; Application of MCI Metro Access Transmission Services, Inc.; Application of Eastern Telelogic Corp.*, Docket Nos. A-310203F0002, A-310213F0002, A-310236F0002 and A-310258F0002, 1997 PA. PUC LEXIS 50 at *67, *69 (PA PUC Apr. 10, 1997) (*"MFS III Interim Order"*); Memorandum Opinion and Order, *Application by Verizon Pennsylvania Inc., Verizon Long Distance, Verizon Enterprise Solutions, Verizon Global Networks Inc., for Authorization to Provide In-Region, InterLATA Services in*

Pennsylvania, 16 FCC Rcd 17,419, ¶ 59 (2001) ("*Pennsylvania Order*"); Opinion and Order Setting Rates For First Group of Network Elements, *Joint Complaint of AT&T et al. Against New York Telephone Company Concerning Wholesale Provisioning of Local Exchange Services by New York Telephone Company and Sections of New York Telephone Company's Tariff No. 900*, Case Nos. 95-C-0657, 94-C-0095, 91-C-1174 (NYPSC Apr. 1, 1997); Memorandum Opinion and Order, *Application by Bell Atlantic New York for Authorization Under Section 271 of the Communications Act To Provide In-Region, InterLATA Service in the State of New York*, 15 FCC Rcd 3953 ¶¶ 248-249 (1999) ("*New York Order*"); *AT&T Corp. v. FCC*, 220 F.3d 607, 618-19 (D.C. Cir. 2000).

6. WorldCom further criticizes the fill factors adopted by the Board – 53 percent for distribution, 75 percent for copper, and 77.5 percent for fiber. *See* WorldCom Comments at 13. But, as we explained in our initial declaration, these factors each were higher than those that Verizon had proposed, and each fell within, or exceeded, the range of fill factors adopted by other state commission and approved by the FCC during the course of other section 271 reviews. *See* Memorandum Opinion and Order, *Joint Application by SBC Communications Inc., et al., for Provision of In-Region, InterLATA Services in Kansas and Oklahoma*, 16 FCC Rcd 6237 ¶¶ 79-80 (2001) ("*Kansas/Oklahoma Order*") (noting that "the Commission adopted fill factors from 50 to 75 percent for the Universal Service Fund (USF) cost model, the Kansas Commission adopted a 53 percent fill factor for distribution cable, and the New York Public Service Commission adopted a 50 percent fill factor" for distribution cable); Memorandum Opinion and Order, *Application of Verizon New England Inc. et al., For Authorization to*

Provide In-Region, InterLATA Services in Massachusetts, 16 FCC Rcd 8988 ¶ 39 (2001) ("*Massachusetts Order*") (same).

B. Recurring Switching Rates.

7. The commenters also lodge several complaints regarding Verizon's non-loop rates. These, too, are without merit.

8. First, WorldCom criticizes the Board's determination that it would assume that 21% of switches were subject to a growth discount rather than a new switch discount. *See* WorldCom Comments at 11. WorldCom suggests that the FCC has required an assumption that all demand would be met by switches subject to new switch discounts. As we explained in our initial declaration, however, this Commission has expressly rejected any such requirement in the section 271 context. *See New York Order* ¶¶ 240-242; *Kansas/Oklahoma Order* ¶ 77. Moreover, the D.C. Circuit has determined that in the context of the New York section 271 application, the FCC had "reasonably concluded" that TELRIC did *not* mandate that growth in demand would be satisfied solely by the addition of new switches. *AT&T Corp.*, 220 F.3d at 618.

9. Second, several parties assert that Verizon has "improperly charged two minutes of the 'per Minute of Use' switching rate for each minute of an intra-switch call." RPA Comments at 24; *see also* WorldCom Comments at 12; ATX Comments at 9. Verizon does charge for both originating and terminating switching on intraswitch calls, as the New Jersey Board has authorized it to. This issue is currently before the Board as a result of WorldCom' request for a supplemental ruling.

10. Indeed, application of both originating and terminating local switching charges to intraswitch calls is entirely appropriate because Verizon incurs both costs for

such calls, just as it does for *inter*switch calls. Every call involves originating switching and terminating switching activity, irrespective of how many switches are involved. Verizon distinguishes between originating and terminating switching to facilitate appropriate recovery on calls that do not travel solely on Verizon's network – for example, calls that are passed from Verizon to an inter-exchange carrier ("IXC"), or from an IXC to Verizon, for which Verizon will only charge for either originating or terminating switching. But when calls stay on Verizon's network, it is appropriate to charge for both originating and terminating switching, even for an intraswitch call. Of course, *inter*switch calls may involve costs that are not associated with intraswitch calls – for example, trunking-related switching costs – but those charges are not applied to intraswitch calls.

11. Third, AT&T and WorldCom suggest that Verizon has inappropriately attempted to recover costs associated with vertical features in both its per-minute switching rates and its port rates. *See* AT&T Comments at 15; WorldCom Comments at 10. This is not the case.

12. As explained in greater depth in Verizon's briefs to the Board in the state TELRIC 271 proceeding, which were included in Verizon's New Jersey application at App. F, Tabs 3 & 4, AT&T's and WorldCom's arguments are based on misunderstandings of the decisions of other state commissions. In New York and Pennsylvania, state commissions have determined that the costs associated with vertical features should be included in the port charge, rather than in usage-sensitive switching rates. Order on Unbundled Network Element Rates, *Proceeding on Motion of the Commission to Examine New York Telephone Company's Rates for Unbundled Network*

Elements, Case 98-C-1357, at 34-36 (NY PSC Jan. 28, 2002) ("*New York UNE Order*"); Opinion and Order, *Joint Petition of Nextlink Pennsylvania, Inc.; Senator Vincent J. Fumo; Senator Roger Madigan; Senator Mary Jo White; the city of Philadelphia; The Pennsylvania Cable & Telecommunications Association; RCN Telecommunications Services of Pennsylvania, Inc.; Hyperion telecommunications, Inc.; ATX Telecommunications; CTSI, Inc.; MCI Worldcom; and AT&T Communications of Pennsylvania, Inc. for Adoption of Partial Settlement Resolving Pending Telecommunications Issues,* Docket No. P-00991648 at 81 (PA PUC Sept. 30, 1999). AT&T and WorldCom attempt to parley those two decisions into an argument that one should *assume* that in every state, the port rate already includes those costs. Of course, however, that is not the case. The New Jersey Board has *not* required Verizon to recover the costs of vertical features in its port rates, and Verizon does *not* recover those costs in that way. In fact, the New Jersey port rate is $0.73, far lower than the $2.50 New York rate or the $2.67 Pennsylvania rate currently in effect, further emphasizing that this rate does not recover all costs accounted for by its New York and Pennsylvania counterparts. Rather, in New Jersey, Verizon recovers for vertical features in its switching usage rates. One cannot simply assume those costs away, or presume that they are being collected elsewhere in one state simply because a public utility commission directed that rates *in another state* be structured in that way.

13. Fourth, WorldCom alleges that Verizon uses an improper methodology to determine the number of switching minutes over which to spread switching charges. *See* WorldCom Comments at 9. This argument has already been repudiated by the Board, *see* Summary Order of Approval, *Board's Review of Unbundled Network Element Rates,*

Terms and Conditions of Bell Atlantic New Jersey, Inc., Docket No. TO00060356 at 8-9 (NJBPU Dec. 17, 2001), App. F, Tab 9 of the initial application; this Commission should reject it as well.

14. The Verizon cost study recognizes that switches must be designed in order to meet the capacity requirements of the busiest hour of each day. The busy hour determination is relevant to both sizing the switch and determining the manner in which costs should be spread among users. The cost study thus develops a "busy hour"-usage-to-annual-usage ratio, which is used as a basis to spread the investment over annual usage.

15. Verizon's approach is appropriate and TELRIC-compliant. First, this is the *same approach* that Verizon has used to determine switching rates in New York, Massachusetts, Pennsylvania, and Connecticut. Moreover, WorldCom has failed to demonstrate that Verizon's approach is in any way inaccurate. Verizon spreads costs over the 251 busiest days because switches must be sized to busy hours even though sometimes – often – switches are not being used to capacity. WorldCom's argument amounts to an erroneous suggestion that switches can be sized to "average" usage, but this is not the case – costs are keyed to periods of peak usage, and rates must be as well. Use of peak periods to size switches has long been the industry practice. Indeed, perhaps for this reason, the Hatfield model uses the 251-day figure as well, and the Commission's synthesis model uses 270 days.

C. Non-Recurring Hotcut Rates.

16. Various parties complain about Verizon's non-recurring charges for hotcuts. *See, e.g.*, AT&T Comments at 2-3, 11-14; Conversent Comments at 2-6; ASCENT Comments at 2-7; Cavalier Comments at 3-5. This issue, too, is currently before the New Jersey Board.

17. The commenters' arguments are misplaced, because Verizon's charges for hotcuts, which were developed during a contested UNE rate proceeding in which AT&T and Conversent participated, are justified by the intensive work required for a smooth migration of service. Indeed, the New York Public Service Commission has recently approved even higher non-recurring rates for hotcuts. In any case, as detailed below, analysis shows that when recurring loop rates are taken into account, CLECs who order hotcut loops will pay less over three years in New Jersey than they would pay for similar orders under the rates that were in effect in Massachusetts or New York at the time those applications were granted, and roughly the same as in Pennsylvania under the rates that were in effect when that application was granted. The same holds when one compares the new non-recurring New Jersey hotcut rates against the previous New Jersey hotcut rates.

18. Shortly after passage of the 1996 Act and release of the *Local Competition Order*, Verizon developed cost studies to begin to assess UNE prices. At that point, Verizon's experience in the provision of wholesale service to retail competitors was, of course, extremely limited. In some cases, provision of UNEs closely mirrored the provision of services to Verizon's own end users. However, some of the services Verizon was required to provide in the wholesale market had no retail analogue. Hotcuts

– which involve a coordinated, time-sensitive transfer of a loop from one carrier to another without any interruption of an end user's service – were among those activities that Verizon had never had to perform in the pre-Act environment. Verizon's initial cost models reflected the company's inexperience in this area, failing to account for many of the costs associated with performance of a hotcut. In some states, public utility commissions at first declined to allow recovery even of those costs Verizon was able to identify. In New Jersey, for example, Verizon filed rates for a "coordinated cutover," but the Board refused to allow recovery for costs Verizon incurred to coordinate such cutovers. *See* Decision and Order, *Investigation Regarding Local Exchange Competition for Telecommunications Services*, Docket No. TX95120631 at 260 (NJBPU Dec. 2, 1997). App. E, Tab 1 of the initial application.

19. In the intervening years, Verizon, CLECs, and regulators have all become increasingly aware of the many activities – and attendant costs – associated with the provision of hotcut loops. Indeed, as explained in more detail in the reply declaration of Mr. Lacouture and Ms. Rusterholz, the procedures that Verizon uses today to provide hotcuts were developed in industry collaboratives and are designed to avoid any interruption of end-user service. As this Commission has noted, "[t]he ability of a BOC to provision working, trouble-free loops through hotcuts is of critical importance in view of the substantial risk that a defective cut will result in end-user customers experiencing service disruptions that continue for more than a brief period." *New York Order* ¶ 299. Verizon has implemented a comprehensive program designed to eliminate such interruptions. That process is ISO-9000 certified, and many of the steps involved have

been demanded by CLECs themselves either during section 271 collaboratives or in the context of other industry meetings.

20. Starting in 2000, Verizon began to submit in many states its "next generation" of cost studies. In these studies, Verizon has taken into account its greatly improved understanding of the intricacies of the hotcut process, as well as the specific procedures that it has worked out with CLECs. Not surprisingly, the new round of cost studies includes hotcut-related non-recurring costs that neither Verizon nor the CLECs could have understood (or in some cases even imagined) in 1996. Verizon's non-recurring cost model ("NRCM") now accounts for the sophisticated procedures required to perform a hotcut, including many coordination tasks that may be invoked to provision each hotcut.

21. Verizon's NRCM was described in detail by Bruce Meacham in an affidavit filed with the Board on July 28, 2000, as part of the TELRIC proceeding, Docket No. TO0060356. AT&T, WorldCom, and the RPA each participated in that proceeding. A copy of that affidavit is attached to this declaration as Attachment 1. To develop these costs, Verizon distributed surveys to its workers to determine how much time it took them to complete each task necessary for the provision of a UNE, when performance of that task was necessary. For example, Regional CLEC Coordination Center ("RCCC") Task #2 (which is a task performed in order to provision hotcut loops), labeled "analyze order for work activity (screener)," requires a screener to evaluate a CLEC order to determine the date due, the type of product or service ordered by the CLEC (*e.g.*, a new loop, a hotcut, a disconnect, etc.), and whether the order is a "supplement" — *i.e.*, a new version of an already existing order. *See* Attachment 2

(proprietary cost study excerpt). According to Verizon's surveys, the "connect" activities related to this task take, on average, **** **** minutes to complete.

22. Next, Verizon had a panel of subject matter experts develop "Typical Occurrence Factors," which reflected the percentage of all cases in which each task would be performed to provision a given UNE. In the case of RCCC Task #2, Verizon experts determined that ****

****.

23. Finally, the same group of experts developed "Forward-Looking Adjustment Factors," which reflected the degree to which costs were expected to be reduced by process improvements and new technologies in the foreseeable future. Verizon experts determined that the connect costs of RCCC Task #2 could be expected to **** **** on a forward-looking basis, and thus assigned a **** **** forward-looking adjustment factor.

24. Verizon then applied these factors to the average work times derived through its surveys to establish the forward-looking time allotted to that task. Thus, for RCCC Task #2, Verizon multiplied the **** **** minute figure by **** **** (the typical occurrence factor), and then by **** **** (the forward-looking adjustment factor). Thus, the cost study assumes a **** **** minute forward-looking time, even though RCCC Task #2 currently takes **** **** minutes. Once forward-looking times are developed for each activity, the sum of the activity times associated with each work group (for example, the RCCC) is multiplied by an applicable labor rate, and adjusted to account for common overhead and gross revenue loading, to

derive a forward-looking non-recurring cost for each work group. The forward-looking cost for each UNE constitutes the sum of these forward-looking work group costs.

25. The New Jersey Board adopted Verizon's NRCM, but made several adjustments. The Board directed Verizon to (1) revise all travel times to no more than 20 minutes; (2) adjust time estimates for tasks associated with "additional" lines to be equal to the time used for that task with respect to "initial" lines where the "additional" time estimate had been greater than the "initial" estimate; (3) eliminate all computer connect times for "additional" lines; (4) eliminate all times associated with notifying a CLEC to complete an order; (5) eliminate all times associated with scheduling teams, contacting the CLEC, verifying service orders, obtaining CLEC approval, completing the order, and notifying the team of cancellations for all "additional" lines when charges for those activities were included in charges for an "additional" line; (6) revise all times associated with gaining access to a premises, locating the terminal, contacting the mechanized loop assignment center ("MLAC") and working with the frame or RCCC to 5 minutes; (7) eliminate all field installation charges associated with migration orders; and (8) eliminate all manual translation times made obsolete by the flow through capabilities of Verizon's OSS.

26. After Verizon made the adjustments described above, the Board approved a $159.76 nonrecurring ordering and installation rate for a 2-wire analog loop hotcut in New Jersey. This forward-looking rate is justified by the TELRIC costs of the sophisticated procedures required to perform hotcuts without interrupting an end-user's service.

27. Moreover, the New York Public Service Commission – the only other state commission to conclude proceedings regarding Verizon's second round of non-recurring cost studies – has just approved non-recurring hotcut ordering and installation rates totaling $185.19 – that is, $25.43 more than the non-recurring rates applicable in New Jersey. *See* Recommended Decision on Module 3 Issues, *Proceeding on Motion of the Commission to Examine New York Telephone Company's Rates for Unbundled Network Elements*, Case 98-C-1357, at App. C, Schedule 1, Page 11 (May 16, 2001) (proposing New York rates); *New York UNE Order* at 139-45, 161-62 (approving recommended decision's rates).

28. Indeed, analysis of the rates (recurring plus non-recurring) that CLECs would pay for 2-wire analog loops migrated via hotcuts under the rates that were in effect in New York, Massachusetts, and Pennsylvania at the time the Commission approved Verizon's long distance applications for those states demonstrates that in all cases, CLECs who use the loop for three years will pay less under the current New Jersey rates than under any other rates except the current Pennsylvania rates, which would equal those in New Jersey. Moreover, a CLEC that uses the loop for three years (or, indeed, two years) will pay less under the new New Jersey rates than under the previous New Jersey rates. The three-year figure is, if anything, conservative, because the Board determined during the New Jersey TELRIC proceeding that it was appropriate to assume that the average UNE's lifetime would be *five* years. *See* November 20, 2001 Letter from Henry M. Ogden to Bruce D. Cohen, Esq., App. F, Tab 6 of the initial application ("*Secretary's Letter*").

Total Recurring Plus Non-Recurring Charges for Hotcut Loop

	Three Year UNE Life		**Five Year UNE Life**	
	Total	**Per-Month**	**Total**	**Per-Month**
New Jersey (Current)	$504.36	$14.01	$733.96	$12.23
New Jersey (Previous)	$645.84	$17.94	$1055.16	$17.59
New York (New)	$598.83	$16.63	$874.50	$14.58
New York (Current)	$543.60	$15.10	$889.77	$14.83
Massachusetts	$557.28	$15.48	$918.86	$15.31
Pennsylvania	$504.36	$14.01	$837.01	$13.95

D. Provision of Cost Studies.

29. Finally, WorldCom claims that "Verizon has withheld the information necessary" for it to calculate the effect of various "errors" in Verizon's approach to pricing UNEs. WorldCom Comments at 9. This is not the case. In fact, Verizon provided all relevant cost studies to all parties to the TELRIC proceeding. To avoid any confusion, however, Verizon has also placed the relevant cost studies into the record in this proceeding subject to the protective order. *See* Ex Parte Letter from Clint E. Odom, Verizon, to Magalie Roman Salas, Secretary, Federal Communications Commission (January 25, 2002).

II. Price Squeeze.

30. AT&T and WorldCom contend that UNE prices in New Jersey result in a price squeeze and thus render competition impossible. *See* AT&T Comments at 42-47; WorldCom Comments at 5-6. This argument ignores the Commission's long-held opposition to considering competitors' profitability as a factor in section 271

applications. But even if the Commission did consider the ability of other carriers to profit in the New Jersey market, it would find that there is ample opportunity for profitable competition in New Jersey. *See* Attachment 3.

31. Attachment 3 compares UNE-P rates in New Jersey to the revenues available to a CLEC offering services equivalent to (a) those ordered by the average New Jersey end user and (b) Verizon's "Local Package" – which is a residential package that includes unlimited local calling, unlimited local directory assistance, three vertical features, and touch tone service.

32. In our initial declaration we stated that "the monthly cost of the UNE-P [in New Jersey] is $12.89." Initial Declaration ¶ 24. Attachment 3 contains a higher UNE-P rate. The $12.89 figure included only charges for the loop, port, and switching, and assumed, as the Board did in its November 20, 2001, open meeting, 500 minutes of originating traffic and 500 minutes of terminating traffic. The higher figure used in Attachment 3 also includes transport and certain other costs, and uses state-specific average minutes of use as reported in DEM.

33. As the Attachment demonstrates, even given the higher UNE-P rate, the gross profit margin available to competitors using a UNE platform in New Jersey is approximately **** ****. *See* Attachment 3.

I declare under penalty of perjury under the laws of the United States of America that the foregoing is true and correct.

Executed on January 31, 2002

Patrick A. Garzillo

Patrick A. Garzillo

I declare under penalty of perjury under the laws of the United States of America that the foregoing is true and correct.

Executed on January 31, 2002

Marsha S. Prosini

Marsha S. Prosini

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REPLY DECLARATION OF PATRICK A. GARZILLO AND MARSHA S. PROSINI

ATTACHMENT 1

STATE OF NEW JERSEY
BOARD OF PUBLIC UTILITIES

IN THE MATTER OF THE BOARD'S REVIEW OF UNBUNDLED NETWORK ELEMENTS RATES, TERMS AND CONDITIONS OF BELL ATLANTIC-NEW JERSEY, INC.	Docket No. TO00060356

AFFIDAVIT OF BRUCE MEACHAM ON BEHALF OF BELL ATLANTIC-NEW JERSEY, INC.

Introduction

1. My name is Bruce F. Meacham and my office is located at 125 High Street, Boston, Massachusetts. I am a Senior Specialist - Service Costs in Bell Atlantic's ("BA's") Finance Department with responsibility for presenting Bell Atlantic's nonrecurring cost studies for unbundled network elements ("UNEs"). I am a graduate of the University of Massachusetts where I received a Bachelor of Science degree in Industrial Engineering and a Masters degree in Business Administration. In addition, I received a Master of Science degree in Accounting from Suffolk University, in May 1999.

2. I was first employed by the predecessor company to Bell Atlantic in 1972 in the Outside Plant Engineering Department. In 1975, I was assigned to the General Engineering Department where I held several positions performing and supervising jurisdictional separations studies of investments and expenses used for division of revenue settlements, cost of service studies and tariff filings.

3. In 1986, I transferred to the Marketing Department where I was responsible for developing embedded and incremental costs to support regulatory proceedings and rate cases, new product or service offerings, and special contracts for facilities-based pricing options. From 1989 to 1992 I had responsibility for developing methods and controls for tracking the costs of enhanced products and services to meet state and federal requirements for nonregulated business activities. In 1992, I joined the Finance Department where I analyzed expense and force budgets for the Marketing and Engineering Departments.

4. Since 1993, I have worked in Service Costs where I was initially responsible for business unit financial reports. Since the enactment of the Telecommunications Act of 1996 (the "Act"), I now perform, supervise the performance of, and testify in support of cost studies for wholesale services and UNEs provided by Bell Atlantic under the Act.

Purpose

5. The purpose of my affidavit is to provide cost results for non-recurring charges associated with BA-NJ's provision of UNEs to competitive local exchange carriers ("CLECs"). This filing is made in response to the New Jersey Board of Public Utilities' ("Board") June 28, 2000 letter requesting that interested parties augment the record in connection with the Board's evaluation of UNE rates.[1] My affidavit includes revised non-recurring cost ("NRC") studies and provides additional record support for BA-NJ's non-recurring costs.

6. The NRC cost methodology and model submitted in my affidavit differs from the NRC cost studies previously submitted by BA-NJ witness Edward Wylonis in the earlier phase of this proceeding. Since the Board's December 2, 1997 Decesion and Order ("Generic Order"), Bell Atlantic has revised and refined its NRC cost model based upon

[1] In the Matter of The Investigation Regarding Local Exchange Competition For Telecommunications Services, Docket No. TX95120631, New Jersey Board of Public Utilities ("Local Competition Proceeding").

thorough evaluations of NRC cost considerations. This revised NRC model is more flexible and sophisticated than that relied upon in Mr. Wylonis' earlier testimony. The NRC model produces the forward looking non-recurring costs incurred by an efficient carrier providing telecommunications services in New Jersey consistent with the FCC's Total Long Run Incremental Cost ("TELRIC") standards.

7. The work papers underlying these NRC cost studies will be available for review by interested parties that agree to execute an appropriate proprietary agreement.

Non-Recurring Cost Methodology

8. Non-recurring costs are one-time expenses for activities necessary to process and provision customer requests for the initiation, change or disconnection (termination) of service. Non-recurring costs generally are incurred at the time of ordering and provisioning. There are four primary categories of work functions resulting in NRCs: (1) service ordering, (2) central office wiring, (3) provisioning, and (4) field installation. For this proceeding BA-NJ conducted NRC cost studies analyzing the one-time costs to BA-NJ of providing loop and transport facilities, line and trunk side interconnection to the local switch, trunk side interconnection to the tandem switch, and interconnection to the Bell Atlantic signaling network. For example, if a CLEC purchases a loop from BA-NJ, BA-NJ incurs one-time costs to process the order and provide access to BA-NJ's network. To develop these non-recurring costs, BA-NJ did a forward looking estimate of the time required to perform each work activity required to fulfill a CLEC request and multiplied that time by appropriate labor rates. Labor rates were levelized over a two-year planning period. To these resultant costs were added an allocation of common overhead expense and gross revenue loading. The costs have been determined for both a normal/standard interval and for an expedited interval.

9. A standard interval is the time between service ordering and service provisioning, based on normal work schedules. Standard intervals are developed based on the type and/or complexity of the service ordered, the volume of work, and the resources required and available to perform the work. Requests for expedited service (i.e., service provisioned sooner than the Standard interval) require that BA-NJ adjust workload and schedules to accommodate such requests. CLEC requests for expedited intervals are more costly to provision because of the need to perform the work outside of normal working hours, or to shift other work to an out-of-hours schedule. Work performed out-of-hours is paid at a premium over normal working hours wages. The expedited interval costs are adjusted for these more costly labor rates.

10. In addition, because labor rates are not static, the NRC cost study adopts a levelized rate that will, on average, recover the appropriate labor costs over the entire period the rate will be in effect. As an example, if a particular non-recurring task takes one hour, and the hourly labor rate today is $50/per hour, the appropriate labor cost -- before an allocation of common overhead expense and gross revenue loading -- would be $50. If, however, it is reasonable to anticipate 4% labor rate increases, then the appropriate labor cost for the next year would be $52. The resultant levelized labor rate would be $51 for both years.

11. Bell Atlantic has developed and employed a non-recurring cost model (NRCM) that is described in detail in Exhibit A to my affidavit. The NRCM is based in Microsoft Excel and is used to facilitate the identification of unique forward-looking costs for the different service order processing and provisioning non-recurring functions associated with each studied UNE. All non-recurring cost results are contained within the NRCM except for Dark Fiber, which has not yet been incorporated into the model, and certain miscellaneous non-recurring costs listed in Exhibit M. However, the methodologies employed to develop non-

recurring costs in both the NRCM and the stand alone studies are comparable. The non-recurring cost calculations are detailed within the NRCM and will be provided via CDROM to parties agreeing to execute a proprietary agreement. The Exhibits accompanying this affidavit document the methodology and inputs employed in the NRCM:

A. Description of NRCM Methodology

B. Generic UNE List

C. Functional Organizations Descriptions

D. Work Activity Descriptions

E. Labor Rates

F. Factors

G. Example NRC Calculation Using 2-Wire New Initial

H. Cost Summary

I. Dark Fiber

J. Letter to Department Heads

K. Instructions to Respondents

L. Instructions to Panel Of Experts

M. Miscellaneous Non-recurring Costs

12. Estimated work times incorporated in the NRCM were developed through the use of surveys. Estimated work times for discretely identified connect and disconnect-related activities, as discussed below, can be adjusted within the NRCM according to the frequency with which the activities are expected to be performed. The NRCM is designed to be a tool to facilitate identifying forward-looking work time estimates for the group of activities necessary to order and provision particular UNEs and services provided by BA-NJ to CLECs.

13. The NRC studies have taken into account all efficiencies reasonably achievable as a result of the deployment of forward-looking technology. For example, consistent with the recurring cost study for loops, BA-NJ's NRC Study includes the forward looking assumption of 90% Copper/UDLC and 10% IDLC which results in a lower CO Wiring cost. The NRCM design identifies only those costs that will be incurred to perform necessary work activities in a wholesale environment. Every effort was made to: identify only productive work times; eliminate those tasks which may be required today to perform similar functions, but are not anticipated to be required assuming full deployment of forward-looking technologies; and reflect the savings due to projected system improvements and methods including the ongoing effects of the learning curve.

14. All costs presented in my affidavit (and the accompanying filings and affidavits of other witnesses) reflect the forward-looking costs of provisioning UNEs in New Jersey. For example, while work functions and work times associated with those functions were first analyzed in current operations, these functions and times serve only as a baseline for the forward-looking analysis. Work functions and work times were then adjusted, as appropriate, to fully reflect the benefits of future mechanization of BA-NJ's OSS and other process improvements.

15. Known and measurable costs are a reasonable starting point for estimating forward-looking costs for similar functions and work times. BA-NJ anticipates that similar functions performed by the same or similar personnel will be used to order and provision the UNEs resulting in the non-recurring costs. Further, the operational work environment is unlikely to change radically over any reasonable forward-looking time period. In addition, the expert personnel from whom the work time estimates were obtained were explicitly instructed to