

Exhibit N

STATE OF ALASKA

THE REGULATORY COMMISSION OF ALASKA

Before Commissioners:

Mark K. Johnson, Chair
Kate Giard
Dave Harbour
James S. Strandberg
G. Nanette Thompson

In the Matter of the Petition by GCI)	
COMMUNICATIONS CORP. d/b/a GENERAL)	
COMMUNICATION, INC., and d/b/a GCI for)	
Arbitration under Section 252 of the)	
Telecommunications Act of 1996 with the)	
MUNICIPALITY OF ANCHORAGE d/b/a)	U-96-89
ANCHORAGE TELEPHONE UTILITY a/k/a ATU)	
TELECOMMUNICATIONS for the Purpose of)	
Instituting Local Exchange Competition)	
)	

PREFILED REPLY TESTIMONY OF WILLIAM J. WILKS
ON BEHALF OF ACS OF ANCHORAGE

1. Q. Did you submit direct and opposition testimony in this Docket?
A. Yes. I submitted prefiled direct testimony on August 29, 2003, and prefiled opposition testimony on September 29, 2003.

2. Q. What is the purpose of your testimony?
A. I will respond to the rebuttal testimonies of GCI's witnesses Mercer,

Fassett, Nichols, Brown, and Weiss, filed on September 29, 2003.

Response To Dr. Mercer

3. Q. Does Dr. Mercer give an opinion as to the appropriate cost inputs to be used in the various TELRIC models?

A. Yes. In reply to the testimony of Dr. Shelanski and David Blessing, who take the position that it would "thwart the economic signaling effect of TELRIC" to use input prices based on other ILECS or other regions of the country, Dr. Mercer states that it is appropriate to use verifiable state (and company) specific inputs rather than nationwide averages.¹ Dr. Mercer qualifies his agreement with ACS' witnesses by stating, "The input prices used in a model of ACS-ANC' costs should take into account the costs ACS-ANC is experiencing provided ACS-ANC' costs are incurred efficiently."²

4. Q. Do you agree with Dr. Mercer that company specific cost inputs should be used rather than national default inputs?

A. Yes. In its decision in the Verizon Virginia proceeding, the FCC likewise

¹ Mercer Rebuttal Testimony, at 32.

² Id., at 37 (emphasis added).

recommended that state or company specific cost inputs be used

over national default values, stating,

When the Commission adopted nationwide inputs in the universal service proceeding, it expressly cautioned that the use of state-specific data may be more appropriate for use in determining UNE rates. The purpose of this proceeding is to set UNE prices based on the forward-looking cost of providing those UNE's, thus Virginia-specific data are better suited to this purpose.³

Consistent with this pronouncement, all of ACS' UNE models use verifiable ACS company specific costs. These cost inputs were filed with the Commission on August 29, 2003.

5. Q. Did GCI use ACS-ANC cost inputs when it developed its UNE loop rates of \$4.84 and \$7.08 in the GCI 7.2-G and FCC-SM models?
- A. No. As documented in the September 29, 2003 opposition testimony of ACS witness Tony Dassow, exhibit TCD-3, GCI largely ignored ACS' verifiable cost support documentation and in many cases used cost inputs that are substantially less than ACS' actual verifiable cost inputs.
6. Q. If GCI recognized that it is appropriate to use ACS-ANC specific costs, how does GCI justify using costs other than ACS' cost inputs

³ In the Matter of Petition of WorldCom, Inc. Pursuant to Section 252(e)(5) of the Communications Act for Preemption of the Jurisdiction of the Virginia State Corporation Commission Regarding Interconnection Disputes with Verizon Virginia Inc., and for Expedited Arbitration. CC Docket No. 00-218, at paragraph 189.

in its models?

A. Dr. Mercer opined that if ACS' costs appeared to be too high, even when considering state specific conditions, that there is cause to suspect that the costs are not efficiently incurred and recommended that adjustments to those costs be made to reflect what an efficient carrier should incur.

7. Q. **Are the cost inputs GCI proposes in its cost models reflective of costs that are efficiently incurred?**

A. No. GCI's adjustments to ACS' cost inputs fit into three general categories. 1) In some cases, GCI made adjustments to ACS' cost inputs based upon a comparison of the embedded costs of other non-Alaskan based ILECs relative to ACS' costs. The FCC TELRIC rules specifically forbid the use of embedded costs in these proceedings. Yet GCI ignored that prohibition and used them in its "best of class" analysis of ACS' common and general support costs. This fact alone should invalidate GCI's proposed pitches for common and general support used in its cost models. 2) GCI adjusted ACS' costs inputs downward based upon contract prices GCI believed it could obtain in Alaska. The flaws in these adjustments are detailed in the reply testimony of Steve Cinelli. 3) GCI

simply used default values or made adjustments to the default values to give the illusion that the adjustments are reflective of costs in Alaska. None of GCI's cost inputs have any basis grounded in efficiency, nor do they reflect the costs that ACS will actually incur.

8. Q. How can you assure the Commission that ACS' costs are efficiently incurred, and further, why should the Commission reject the cost inputs used in GCI's models?

A. ACS' cost inputs reflect what it will actually cost ACS to build a telephone network in Anchorage, Alaska. A significant number of ACS' cost inputs are based on competitively bid contracts, which in some cases include volume and term discounts. These contracts are based on real world construction volumes that match ACS' anticipated capital spending. In addition, it is in ACS' interest to place its network as efficiently as possible in light of the high level of competition faced in the Anchorage market. Therefore, ACS' costs are verifiable and reflect Alaska specific conditions.

In his reply testimony, Dr. Shelanski states that there is little dispute that TELRIC costs should strive to be efficient, and he stated that

“efficient” costs “should reflect the lowest costs that a carrier could realistically incur given available technology to provide the relevant services to the relevant customers in the relevant geographical area.”

ACS’ cost inputs meet this definition of efficiency. GCI’s cost inputs, on the other hand, do not meet the efficiency standard for the following reasons: First, as noted above, GCI uses embedded costs in its “best of class” analysis of ACS’ common and general support costs. FCC regulations prohibit the use of embedded costs, thereby invalidating the proposed common and general support costs contained in GCI’s models. Second, GCI’s cost inputs fail because they do not represent the costs that ACS will realistically incur for services in Anchorage, Alaska. Third, GCI’s cost inputs rely on default inputs, or are adjusted default inputs that again fail to reflect location specific costs for Anchorage, Alaska.

9. Q. In formulating its cost inputs, GCI chose to ignore the costs it incurred in building network in Anchorage. Do you have an opinion as to why GCI chose to ignore its actual costs?

A. GCI ignored its actual costs to place facilities in Anchorage because it is

unable to build telephone network at an investment level anywhere close to the investment level produced from the ACS 7.2 or FCC-SM model using ACS' actual costs. The table below compares the investment per loop from GCI's Aurora and Dallas subdivisions against the investment per loop produced from the ACS 7.2 model.⁴

GCI Dallas Actual Investment per loop	GCI Aurora Actual Investment per loop	ACS 7.2 Investment per loop
\$ 2,228	\$ 1,284	\$ 1,027

Response to Dean Fassett

10. Q. Mr. Fassett has taken the position, that due to productivity increases in technology, forward-looking costs for loop facilities should be less than the embedded costs. Do you agree?
- A. No. For splicing and aerial placement, Mr. Fassett points to productivity increases that happened over 40 years ago. Therefore, the productivity for these two examples has remained flat while the labor costs for these functions has steadily increased. In fact, labor costs in Alaska are among

⁴ The investment for the Aurora and Dallas Subdivisions does not include feeder investment. The ACS 7.2 number includes the entire UNE loop investment (feeder and distribution). Therefore, GCI's investment numbers for Aurora and Dallas, if adjusted to include feeder plant, would show an even higher investment amount per loop in comparison to GCI's actual cost to build a telephone network.

- A. No. In obtaining the splicing times and distances, I spent a great deal of time discussing ACS' proposed splicing costs with ACS' veteran splicing crew. They are prepared to show that the numbers provided by Mr. Fassett is without merit.

Response to Melvin Nichols

12. Q. Mr. Nichols asserts that ACS has not properly for ground water characteristics in Anchorage. Does his critique have any merit?
- A. No. The FCC-SM model assumes the presence of ground water within three feet of the surface for 90% of the census block groups in Anchorage. Mr. Nichols opines that this is an overstatement of the presence of ground water in Anchorage and that, therefore, the FCC-SM model produces an improperly high UNE rate since the model's default cost inputs assume that it costs more in trenching when water is close to the surface. However, Mr. Nichols' (and Dr. Mercer's) testimony on this point is completely irrelevant because ACS used its actual trenching costs in place of the FCC default values. Furthermore, ACS' trenching costs do not vary with the level of ground water in Anchorage.

Therefore, unless FCC default inputs were used or ACS' trenching costs varied with the level of ground water, correcting the model to reflect the actual level of ground water in Anchorage would have no effect on the UNE rate. Since ACS does not use FCC default values and its trenching costs do not vary, the testimony of both Mr. Nichols and Dr. Mercer on this point is irrelevant.

Aurora And Dallas Subdivisions

13. Q. Please summarize GCI's position on the appropriateness of using GCI actual costs to build a telephone network in the Aurora and Dallas Subdivisions as a benchmark for the reasonableness of ACS' costs?
- A. GCI witnesses Mercer, Brown, and Fassett argue that GCI's costs of building telephone network in the Aurora and Dallas Subdivisions are not relevant. They contend that ACS has significant economics of scale in comparison to GCI; that there were unexpected contingencies in placing the Aurora Subdivision, and that GCI was a company that was just getting started in building these types of facilities.

14. Q. Does GCI's argument regarding alleged economies of scale have merit?

A. No. GCI also has the advantage of significant economies of scale, and in fact, GCI itself professed this to the FCC in comments before the Federal-State Joint Board on Universal Service. In those comments, GCI declared,

GCI has built a modern, efficient local switching and transport network, and it has been able to take advantage of economies of scale and scope in its local telephone, long distance and cable television operations by installing and operating consolidated fiber optic transport facilities.⁵

GCI also has the advantage of access to both union and non-union contract labor markets, whereas ACS is required under a collective bargaining agreement to hire union contractors. Therefore, GCI's labor costs in building a telephone network should be less than ACS'. Nonetheless, ACS has taken advantage of getting the best prices by competitively bidding its construction projects, and the cost inputs proposed by ACS reflect these economies of scale.

Blaine Brown further asserts in his testimony that even greater economies of scale can be obtained from building an entire network from scratch.⁶ However, since no ILEC will ever rebuild its network from

⁵ Comments of General Communications, Inc., at 7, filed May 5, 2003, in CC Docket No. 96-45, "In the Matter of Federal-State Joint Board on Universal Service" (*emphasis added*).

⁶ Brown Rebuttal Testimony, at 22.

scratch, any such economies of scale will simply never be realized. Moreover, in its Notice of Proposed Rulemaking in WC Docket No. 03-173, the FCC made clear that a UNE pricing methodology should not be based on the instantaneous building of a hypothetical network from scratch. The FCC concluded, "The UNE pricing methodology, while forward-looking, must be representative of the real world and should not be based on the totally hypothetical cost of a most-efficient provider building a network from scratch."⁷

Mr. Brown also argues that ACS' annual construction programs provide it with the advantage of negotiating contracts on an annual basis for the best price. However, ACS' spending for investing in the network has decreased significantly, thereby further reducing the economies of scale expected by Mr. Brown. ACS' current capital spending for contract labor has decreased to only \$2 million per year in 2003. On the other hand, according to Dana Tindall, Senior Vice President for Legal, Regulatory and Governmental affairs for GCI, GCI has spent \$36.6 million in local services since the passage of the Telecommunications Act of 1996. In light of its expected increase in capital spending and the fact that it plans to deliver both cable TV and local phone service over the same network, GCI's current and expected placement of its new cable TV system should give it greater economies of scale and scope

⁷ In the Matter of Review of the Commission's Rules Regarding the Pricing of Unbundled Network Elements and the the Resale of Service by Incumbent Local Exchange Carriers WC Docket No. 03-173 paragraph 53 (emphasis added).

than ACS.

15. Q. Mr. Brown asserts that GCI's Aurora project is not an appropriate measure of the costs of constructing network facilities in Anchorage. Can you please summarize his argument?

A. Blaine points to the following factors that contributed to the cost overruns in the Aurora Subdivision:

- An accelerated schedule in occupancy.
- The September 11th attack on America.
- Contaminated soils.
- Winter construction.
- Extra Shelter to place the telephone electronics.
- Vandalism.
- Additional survey requirements.

16. Q. Which of these factors likewise impacted ACS?

A. Virtually all of them. ACS has experienced accelerated schedules in its projects. ACS was building plant during the September 11th attack on America. (In fact, based on information provided by GCI to ACS in discovery, the September 11th attack had a very nominal impact on the

total cost over-run of the project.) ACS has experienced contaminated soils, and from October through April of every year, it also experiences winter construction conditions. To say these conditions are unique to GCI's Aurora plant placement is without merit. However, what is more important for the Commission to recognize is that the cost inputs used by ACS in its 7.2 and FCC-SM models do not factor in any of these types of contingencies.

17. Q. If the ACS cost inputs used in the ACS 7.2 and FCC-SM models do not consider any of these contingencies, what does that tell us about the UNE loop rate produced by these models?

A. The rate is based on the assumption that the loop plant will always be placed under perfect conditions, i.e., that contaminated soils will never be encountered; that no loop plant will be placed in the winter; that there will never be an accelerated schedule or vandalism of ACS property in the future. In essence, it means that the ACS cost inputs used in the ACS 7.2 and FCC-SM model are probably too low to the extent that perfect placement conditions are not encountered 100% of the time. Since the cost inputs assume efficiencies that ACS is unlikely to experience in the

real world, the result is an understatement of actual construction costs and an understated UNE loop rate.

18. Q. GCI witnesses argue that the Aurora and Dallas Subdivisions are not representative of what it costs to place facilities in Anchorage since they were very small projects. What is your opinion concerning the appropriateness of using these subdivisions as a proxy for measuring forward-looking investment?
- A. Aurora and Dallas are small placements of loop facilities, but the FCC-SM model has determined that these subdivisions fall within the lowest cost zones of the nine density zones in the model. Therefore, if anything, the UNE investment to serve Aurora and Dallas should be reflective of the least cost customers to serve. While GCI has refused to provide all requested cost data regarding the Aurora and Dallas Subdivisions,⁸ our analysis of the data that GCI did provide supports the view that those two subdivisions do provide a good proxy for measuring forward-looking investment.

⁸ See Exhibit WJW-16.

Collocation

19. Q. Mr. Weiss argues that the ACS collocation model does NOT comply with the FCC's TELRIC rules.⁹ Is he correct?

A. No. ACS' model does comply with the FCC's TELRIC rules. ACS took the Anchorage central office building investments and applied the Turner Plant Index to obtain the current replacement value of these central offices. Current cost factors were then applied to these investments and all supporting information and factors were filed with the study.

20. Q. Are you generally familiar with the approach taken by other ILECs and CLECs to develop central office investments in collocation studies?

A. Yes. In the collocation studies I have seen, most ILECs have developed costs in a similar manner to the methodology that I used and that I believe is the best methodology for estimating forward-looking replacement costs for the existing central office buildings at their existing locations. I also briefly reviewed the AT&T Collocation Cost

Model. In that study, AT&T developed a hypothetical central office building investment and produced the associated collocation costs.

21. Q. Can you explain the AT&T approach in more detail?

A. AT&T developed a hypothetical central office building investment using information from the RSMeans Company. I looked at information in one of the RSMeans Building Construction Cost Data books.¹⁰ RSMeans annually publishes the costs for constructing a wide range of commercial buildings, including a telephone exchange, and AT&T used this building construction cost to develop a collocation building investment. In developing its costs for a new central office, RSMeans obtained construction cost data for a group of central office buildings, mostly constructed between the mid-seventies and the mid-eighties. RSMeans then applied its locality and historical cost indices to these construction costs to develop an average present day nationwide cost. In Exhibit WJW-15, I followed a similar approach to determine an estimate for a hypothetical central office in Anchorage.

¹⁰ RSMeans Building Construction Cost Data, 58th Annual Edition (copyright 1999).

22. Q. What central office building investment did you calculate using AT&T's approach?

A. I calculated a hypothetical central office building investment of \$253.63. (Exhibit-WJW-15 explains how I calculated that amount.) This compares to the central office building investment of \$295.09 in the ACS Collocation Cost Model.

23. Q. Do you agree with the AT&T approach to developing central office building investments?

A. No. I do not think that developing a hypothetical central office and then assuming that all central offices will look like that hypothetical central office is a realistic approach. The AT&T approach used a hypothetical building's physical dimensions, equipment layout, and collocation placement to reflect a perfect world central office situation with no consideration for the existing layout and with the intended goal of lowballing costs rather than reflecting actual central offices and their forward-looking costs. Calculating central office building investment with this approach does not comply with specific state or city building codes or with the Americans with Disabilities Act ("ADA") enacted in

1990. RSM means notes that it does not take into consideration factors such as competitive conditions, unique local requirements, and regional variations due to specific building codes.¹¹

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24. Q. In contrast to the AT&T approach, which looks at an estimate of central office building investment, Mr. Weiss suggests that "current incremental values" should be used for land and buildings.¹² Do the FCC TELRIC rules or orders require or suggest the use of "current incremental values" for land or buildings?

A. No. I'm not aware of any FCC rules or orders dealing with collocation or unbundled network element costs that mention "current incremental values."

25. Q. On page 11 of his Rebuttal Testimony, Mr. Weiss goes on to claim that "current incremental values" based on "a survey of current land and building prices in the Anchorage area is in order." Does this make sense?

A. No. Based on a "survey" which he has not provided, Mr. Weiss claims

¹¹ *Id.*, at 607.

¹² Weiss Rebuttal Testimony, at 11.

to have used current lease or rental rates per square foot of commercial and industrial buildings to estimate a cost for floor space of \$2.25 or \$3.25 per square foot. It is absurd too suggest that this is a current incremental value for a central office building that is required by the FCC TELRIC rules.

The FCC's intention in establishing the cost rules was to develop the forward-looking cost that the ILEC would incur for the least cost technology currently available. Commercial building lease rates are not the costs the building owner incurs. If anything, commercial building owners are experiencing embedded costs of the buildings they are leasing. In addition, lease rates for buildings are affected far more significantly by the marketplace for rental and lease space than they are by any of the embedded or sunk building costs.

The sole support for Mr. Weiss' estimates is his "survey," but it has not been provided, so it is unverifiable.¹³ There is no objective evidence to support his estimates, which appear to be based on little more than his subjective opinion.

Moreover, commercial and industrial buildings are certainly not

representative of a telephone company building constructed to house telephone switching equipment and computer systems. The requirements for ILEC buildings vary significantly from standard commercial and industrial buildings. Telephone buildings require very efficient air conditioning (to compensate for the heat generated by the switching and circuit equipment), back-up air-conditioning, higher than normal power usage, long lasting back-up power generators, higher than normal ceilings, and stronger than normal flooring. They also must meet "NEBS" criteria.

Converting Mr. Weiss' \$2.25 and \$3.25 per foot costs to a per square foot investment using ASC's 43% annual carrying charge factor produces a building cost of only \$60 to \$90. Even when you use Mr. Weiss' understated annual carrying charge factor of 26% the comparable investment is \$100 to \$149. These are extremely low costs per square foot for a building capable of efficiently housing telecommunications switches and circuit equipment, and they should not be given any credence by this Commission.

26. Q. Has ACS' collocation model ever been accepted in other

interconnection arbitration proceedings?

A. Yes. ACS' collocation model and method have been accepted by this commission in dockets U-99-141, U-99-142 and U-99-143 (in the interconnection arbitration between ACS and GCI) and in other dockets.

27. Q. Does that conclude your testimony.

A. Yes.