STATE OF RHODE ISLAND
PUBLIC SERVICE COMMISSION

In re Review of Bell Atlantic's TELRIC Studies.	Docket No. 2681
Implementation of the Requirements of the Federal Communications Commission's Triennial Review Order	Docket No. 3550

REPLY TESTIMONY OF ROBERT P. FLAPPAN

ON BEHALF OF AT&T COMMUNICATIONS OF RHODE ISLAND, INC

PUBLIC VERSION

Date: February 24, 2004

I. INTRODUCTION AND QUALIFICATIONS

Q. PLEASE STATE YOUR NAME AND ADDRESS.

A. My name is Robert P. Flappan. My business address is 11020 W. 122nd Street, Overland Park, Kansas 66213.

Q. BY WHOM ARE YOU EMPLOYED?

A. I am employed by AT&T Corp. as Regulatory Affairs Director.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND.

A. I hold a Master of Science Degree in Telecommunications from the University of Colorado and a Master of Science Degree in Business Administration ("MBA"), from the University of Missouri-Kansas City. I also hold a Bachelor of Science Degree in Business Administration from the University of Missouri-Kansas City. In addition, I have attended USTA Separations Training, the Crosby Quality College, the Brookings Institution course on Business and Public Policy, Bellcore courses on the Switching Cost Information System ("SCIS") and Common Channel Signaling Cost Information System ("CCSCIS") and various other technical, financial and managerial courses since joining AT&T.

Q. WHAT IS YOUR PRIOR WORK EXPERIENCE?

A. Prior to joining AT&T I held a position as a professional career placement consultant where I interviewed clients about their compensation history and requirements and interviewed employers regarding the compensation and benefit parameters for their job openings.

I began my career at AT&T in 1982 at the Bell System Sales Center as a Telemarketing Supervisor where I sold AT&T products and network services. In 1984, I moved into AT&T's Network Organization, where I held positions as a Switched Access Engineer, an Engineering Methods and Procedures Supervisor, and on the Network Services Division Staff. In 1987, I transferred into Government Affairs, where I have had interstate and intrastate regulatory responsibilities, and where I have represented and testified for AT&T on technical, costing, pricing, economic and policy issues. In April of 1996 I was named District Manager of Pricing and Cost. In that role, I testified and supported witnesses in the original AT&T Section 251 and 252 arbitrations following the enactment of the Telecommunications Act of 1996 (“Telecom Act”). In January of 1999 I assumed responsibilities for

directing AT&T's Regulatory Affairs operations in Kansas. In the summer of 2001, I became a member of AT&T's National Cost Team.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE STATE COMMISSIONS REGARDING UNE COSTING ISSUES?

A. Yes. I have filed testimony for AT&T on UNE costing issues in Arkansas, California, Illinois, Indiana, Kansas, Maryland, Massachusetts, Michigan, Missouri, New Jersey, New York, Ohio, Oklahoma, Texas and at the Federal Communications Commission ("FCC"). Attachment RPF-1 to my testimony lists other regulatory proceedings in which I have participated.

II. PURPOSE AND SUMMARY

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to examine the labor rates Verizon asserts are appropriate for use in its Hot Cut cost studies presented in this case and to discuss the adjustments to those labor rates that are necessary to normalize them, i.e., bring them into compliance with the requirements of the TELRIC methodology.

Q. WOULD YOU PLEASE SUMMARIZE THE CONCLUSIONS THAT YOU REACH IN YOUR TESTIMONY?

A. My testimony concludes that Verizon’s proposed labor costs do not conform to the requirements of the FCC's First Report and Order in CC Docket 96-98 (“First Report and Order”), are not consistent with TELRIC principles, and should be normalized toward competitive market-based labor costs. My testimony details the modifications that are necessary to bring them into compliance with TELRIC and the resulting rates AT&T is proposing that the Commission adopt for these elements.

III. LABOR RATES

A. INTRODUCTION

Q. WHAT IS TELRIC?

A. TELRIC is a costing approach that bases the costs of UNEs on the costs of the efficient inputs necessary to produce the UNEs -- costs of efficient activities and costs of available state of the art productive assets. Contrary to a purely embedded or historical cost methodology, the TELRIC methodology is not an approach that examines what the incumbent local exchange company (“ILEC”) actually has spent and how it apportions all those expenditures to network elements. TELRIC is also not a short run forward looking methodology that captures what the ILEC will spend in

the near future, subject to all its existing contracts and equipment. TELRIC has often been described as a "scorched node" methodology, since the only non-variable in a TELRIC model is the location of the network nodes.

TELRIC determines prices based on the long run cost an efficient new entrant would face if it were to enter the market and serve the same service volumes presently served by the ILEC. The FCC defined the long run in the TELRIC methodology as follows – "the 'long run' used shall be a period long enough that all costs are treated as variable and avoidable."[1] While it is possible for a company's embedded costs to be equivalent to TELRIC, that would only occur if the company were using resources as efficiently as would occur in a market devoid of monopoly power. A comparison of Verizon's fully loaded labor rates with publicly available unbiased industry labor rate data demonstrates that such is not the case with Verizon's operations in Rhode Island.

Q. HOW IMPORTANT ARE LABOR RATES IN DETERMINING TELRIC UNE HOT CUT RATES?

A. Very important. The basic formula for determining TELRIC hot cut charges is Task Time multiplied by the Labor Rate. Hot Cut charges are directly proportional to the labor rates. In fact, 100% of the hot cut charges Verizon has filed are attributable to labor rates. In Verizon's Wholesale Non-Recurring Cost Model, "Exhibit III-A", if one modifies the labor rates in Column D of worksheet "Labor Rates" to be zero, all the rates on the "Cost Sum" summary worksheet are reduced to zero cost.

Q. HOW DOES TELRIC APPLY TO LABOR RATES?

A. TELRIC labor rates represent the long run efficient costs of labor to a new entrant. TELRIC captures the "scorched node" cost of labor.

Q. WOULD THE MANAGEMENT OF A NEW ENTRANT EMPHASIZE CONTROLLING ITS LABOR COSTS?

A. Verizon's website, http://investor.verizon.com, reports revenues from telecom operations for the 1st Quarter of 2003 as $9.94 billion; operating expenses were $7.96 billion. Headcount for the same period was 158,000 according to Verizon. There were 64 business days in the 1st Quarter of 2003.

[1] *First Report and Order*, § 692.

Let us assume that an average Verizon employee actually worked productively for 7.5 hours per day on 59 of those 64 days (5 days for paid time off due to vacation, illness, etc.) and the average fully loaded cost per hour filed by Verizon in this case is representative of the total Verizon employee base. Averaging the Direct Assigned Total Labor Rates on Verizon's "Exhibit III-C", yields a labor rate of **<BEGIN VZ PROPRIETARY>** XXXXXX[2] **<END VZ PROPRIETARY>** Multiplying 59 days * 7.5 hours per day * 158,000 employees * **<BEGIN VZ PROPRIETARY>** XXXXX **<END VZ PROPRIETARY>** per hour yields a direct employee cost of **<BEGIN VZ PROPRIETARY>** XXXXXXXXXXXXX **<END VZ PROPRIETARY> .** Thus labor costs represent **<BEGIN VZ PROPRIETARY>** XXXX **<END VZ PROPRIETARY>** of Verizon's revenues and **<BEGIN VZ PROPRIETARY>** XXXXX **<END VZ PROPRIETARY>** of Verizon's operating expenses.

Obviously, with labor representing the largest cost of operations, controlling labor costs would be a very high priority. TELRIC "scorched" costing principles

[2] Verizon uses 2002 embedded data to develop a 2003 labor rate. It then applies a 2% annual growth factor to derive 2004, 2005 and 2006 labor rates. Verizon uses the "midpoint", 2005 rates, to develop its proposed Hot Cut charges. The average rate used to develop its Hot Cut charges is **<BEGIN VZ PROPRIETARY>** XXXXX **<END VZ PROPRIETARY>.**

require us to assume that an efficient new entrant is not encumbered by ***legacy*** contracts or labor costs. The new entrant would do everything possible to keep labor costs low. This is exactly what would happen in the real world to a company entering the local market and providing the same volume of services that Verizon currently provides.

Q. CAN YOU POINT TO ANY REAL WORLD EXAMPLES IN THE TELECOMMUNICATIONS INDUSTRY WHERE A COMPANY HAS ENTERED A NEW MARKET AND HAS DONE SO IN A WAY TO REDUCE ITS LEGACY LABOR COSTS?

A. Yes. Verizon, the nation's largest local exchange company, is a perfect example. According to an article from the Associated Press[3], **Verizon Wireless's** workforce of nearly 40,000 is "nearly all-non-union".[4] Verizon apparently could not afford to compete in the wireless market if its labor costs were as high as its

[3] Bruce Meyerson, AP Business Writer, "About 21,600 Accept Buyout From Verizon", 11/17/2003, http://biz.yahoo.com/ap/031117/verizon_buyouts_2.html.

[4] According to the AFL-CIO website, union workers' wages are 27% higher than non-union workers, 69% of union workers have guaranteed (defined benefit) pensions versus only 14% for non-union workers and 75% of union workers have health benefits versus 49% for non-union workers. http://www.aflcio.org/aboutunions/joinunions/whyjoin/uniondifference/upload/advantage.pdf. (February 12, 2004.) The United States Bureau of Labor Statistics reports the average cost of employing a union worker is $31.64 per hour versus $21.81 per hour for a non-union worker. http://www.bls.gov/news.release/pdf/ecec.pdf. (February 12, 2004.)

labor costs in the nearly monopolistic local exchange market.

SBC provides another example. When SBC entered the long distance market it did so by reselling the long distance services of WilTel which is a non-union company. An article from the November 6, 2003 Indianapolis Star[5] stated, " SBC acknowledges that the company did select a nonunion company to provide its long-distance network." Again, when new entrants come into a competitive market they absolutely cannot afford to hire and employ workers at premium costs, above what others', their competitors, costs are for labor assets.

Q. ARE YOU SUGGESTING THAT TELRIC REQUIRES ASSUMING AWAY UNIONS AND COLLECTIVE BARGAINING?

A. Not at all. I am merely applying the TELRIC requirement that ***embedded*** institutional arrangements arising from ***historical*** labor relations should not determine TELRIC costs.[6]

[5] Michele McNeil Solida, "Rivals Say SBC Exploited Union", Indianapolis Star, November 6, 2003.

[6] Nevertheless, from an academic standpoint, according to the United States Department of Labor, Bureau of Labor Statistics ("BLS"), in 2002 only 16% of full time workers in the United States were represented by unions. http://www.bls.gov/cps/cpsaat40.pdf. January 28, 2004.

Q. HAS VERIZON FILED TELRIC-COMPLIANT LABOR RATES IN THIS DOCKET?

A. No. Verizon's labor rates are developed solely and blindly from its embedded accounting data and are not consistent with TELRIC. To the extent they are forward looking at all, they are short run forward looking and ignore the "LR" in TELRIC. Verizon has made no attempt to identify and represent lower labor rates that would be incurred by a well managed efficient new entrant trying to achieve a lower per unit cost structure than the competition.

As discussed above, TELRIC inputs must be economically efficient. In the long run, if Verizon is not allowed to perpetuate its monopoly position, Verizon's labor expenses will become aligned with (i.e., be brought down to) efficient market levels. My testimony proposes the use of normalized efficient labor rates in Verizon's cost studies, consistent with TELRIC methodology and principles.

Q. COULD YOU PLEASE PROVIDE A GENERAL PERSPECTIVE REGARDING THE LABOR SERVICES THAT ARE INCLUDED IN VERIZON'S STUDIES?

A. Yes. Economists look at labor as merely one of the three kinds of inputs that go into production of services:

> "…all production can be accounted for by the services of only three kinds of inputs: all the gifts of nature such as land and raw materials to which the economist gives the term *land*; all physical and mental efforts provided by people, which are called *labor* services; and all machines and other products that are not themselves components of the final goods. This third type of input is called *capital* and is defined as manmade aids to further production."[7]

From a cost study perspective, the same disciplined approach to most efficient costing should be applied to "human capital" as is applied to Verizon's task times, cost of money, depreciation rates, expense factors, fill factors and other investments and expenses.

Q. WHAT DETERMINES THE FORWARD LOOKING ECONOMIC COST OF LABOR?

A. The economic cost of labor is determined by the supply and demand for labor services.

Q. HOW HAS THE SUPPLY AND DEMAND FOR LABOR CHANGED IN RECENT YEARS?

A. The demand for labor in the telecommunications market has decreased dramatically. Plunkett Research

reports[8] that over 300,000 workers in the industry have been dismissed in recent years. CNN.com/SCI-TECH reports[9] that over 317,777 telecommunications job cuts were made in the year 2001 alone. On November 17, 2003 Verizon announced another 21,600 layoffs of experienced telecommunications workers that were to leave the payroll by November 21, 2003.[10]

If companies are viewed as buyers of labor services, which they are, it is definitely a buyers' market. When the demand for any good or service shifts significantly downward (ceteris paribus), the price, if market forces are working properly, will decrease.

A recent New York Times article, April 26, 2003, entitled "As Companies Reduce Costs, Pay is Falling Top to Bottom"[11] captures this economic phenomena.

> For the first time since the 1980's the average pay of workers at all income levels is falling.

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[7] Richard G Lipsey and Peter O. Steiner , *Economics* , (New York: Harper & Row, 3rd Edition, 1972), 172.

[8] "Overview of the Telecommunications Industry", Plunkett Research, LTD, August 1, 2003 http://www.plunkettresearch.com/telecommunications/telecom_trends.htm.

[9] "Report: Job Cuts in 2001 Reach Nearly 2 Million", CNN.com/SCI-TECH, August 1, 2003 http://www.cnn.com/2002/TECH/internet/01/06/2001.job.cuts.idg/.

[10] Meyerson AP article.

[11] David Leonhardt, "As Companies Reduce Costs, Pay Is Falling Top to Bottom", NY Times, April 26, 2003.

> After more than two years of canceling investments in new equipment and laying off workers, many companies are turning to the pay of remaining employees as they try to stay profitable during an economic slowdown. The weak labor market, which has lost more than two million jobs in the last two years, is allowing them to restrain pay without fear of losing workers, executives say.
>
> For all the reasons that companies cite for cutting pay, however, the biggest one is simply that they are able to.

The economics of the labor market cannot be ignored in a TELRIC study.

Q. ALTHOUGH IN THE CONTEXT OF PROPOSING HOT CUT LABOR RATES VERIZON'S BLINDLY REFLECTS ITS EMBEDDED COSTS, IS THERE ANOTHER CONTEXT IN WHICH VERIZON HAS RECOGNIZED THE BUYERS' MARKET IN LABOR THAT CURRENTLY EXISTS?

A. Yes. Even Verizon's own filed testimony[12] captures the essence of the current market for human capital in the telecommunications industry. In its testimony, Verizon states:

> Because of force reductions in the telecommunications industry over the last several years, there is a large pool of experienced workers available to fill incremental staffing needs. Indeed, because the qualifications for these positions are relatively modest, as

[12] Before the State of Rhode Island Public Utilities Commission, Docket No. 3550, "Direct Testimony of William E. Taylor", pp. 39 – 41.

described above, Verizon would not be limited to hiring experienced telecommunications workers.

An analysis of current unemployment statistics for Rhode Island shows evidence that qualified job seekers are available in numbers far exceeding those that would be required by Verizon. Rhode Island State unemployment across all industry segments has risen from about 21,049 in October 2000 to 23,654 in September 2003. Thus there are over 2600 more people seeking work today in Rhode Island than there were at the end of the telecom boom in 2000.

Second, the well-publicized meltdown in the global telecommunications industry has resulted in massive layoffs and force reductions. Until recently, the *Financial Times* maintained a website tracking announcements of layoffs by major communications employers. According to this compendium, between July 2000 and May 2002, the global telecom sector cut approximately 539,000 jobs. In the U.S., as of May 2002, Qwest, BellSouth and Verizon had announced job cuts of 13,000, 4,200 and 7,500 respectively. In September 2002, SBC announced a reduction of 11,000 jobs, in addition to the 10,000 jobs eliminated in the first three quarters of 2002. AT&T's announced layoffs amounted to 10,000 jobs by May 2002. Earlier this month, Verizon announced a force reduction amounting to over 21,000 employees and about 10 percent of its work force.

Third, FCC data on U.S. telephone employment also shows a dramatic reduction, continuing into 2003. Based on preliminary data through March 2003, total employment has fallen by about 160,000 jobs from its peak in 2001. (Footnotes omitted.)

Q. ARE YOU AWARE THAT VERIZON HAS PUBLICLY INDICATED THAT ITS EMBEDDED HIGH LABOR COSTS NEED TO BE REDUCED?

A. Yes. A Dow Jones Business News article from June 16, 2003[13], regarding Verizon's formal negotiations with its union employees that had begun recently, proves this point. Verizon management "pointed out that Verizon is in a more difficult environment than in the past and suggested that employees need to adapt accordingly … Unionized workers currently pay for about 5% of their medical-care costs, whereas the average is closer to 26%, he noted. … The company is also seeking ways to address its high absentee rate. Currently, about 6% of union workers at Verizon don't show up any given day."

Q. HAVE ALL THE COST CONTROL MEASURES THAT NEED TO BE TAKEN ALREADY BEEN TAKEN BY VERIZON?

A. Absolutely not. The cost control process for the monopolistic Regional Bell Operating Companies ("RBOCs")is an on-going one. SBC, Verizon's largest competitor, stated at a recent analyst meeting:

> **[C]ost control** for us is not a one-shot deal but it's **a continuous process from here on out**. We have made good progress so far but it's not nearly enough and we know that and there's going to be more to come. … [W]e have to do everything we can to drive down those costs to help preserve our margins and compete in the marketplace. …

[13] "Verizon Opens Bargaining With Two Unions", Ellen Sheng, Dow Jones Business News, June 16, 2003, http://biz.yahoo.com/djus/030616/1526000770_2.html June 16, 2003.

> We've done a lot so far but in many ways, we're just getting started. I've just hit a few of the highlights today but, trust me, the scope of this is broad and deep. It's no exaggeration to say that we're essentially **reinventing our company around the new reality of our industry**.
>
> **We're throwing out old assumptions, old paradigms and old ways of doing business**. We're asking ourselves what kind of cost structure are we going to need to compete in the years ahead. **We know we don't have that cost structure yet** but we're well on our way and we are going to get there.[14] (Emphasis added.)

It is imperative for Verizon to have this same approach towards achieving long term efficiency, in its labor expense as well as all other expenses, and for the new paradigms to be reflected in the TELRIC studies.

Q. ARE YOU AWARE THAT VERIZON RENEGOTIATED ITS UNION CONTRACTS IN 2003?

A. Yes, I am aware of that. However, the fact that the contract is relatively new doesn't mean that the monopoly vestiges have been removed from the contract. One must compare the costs that result from the contract with the normal market costs in order to determine whether Verizon's labor costs are above competitive market levels. My testimony makes that

[14] November 3, 2003 presentation by Mr. John Atterbury III, Group President – Operations – SBC. "Final Transcript", CCBNStreetEvents.

comparison and proves that Verizon's labor costs are supra-competitive.

Q. WHAT DO YOU MEAN BY SUPRA-COMPETITIVE LABOR COSTS?

A. Verizon retains monopoly power and by virtue of that monopoly power it can afford an expense structure that is much higher than would be possible for a non-monopoly competitor to carry. In the past, Verizon has been able to pass along these high costs to captive customers. In the current docket, Verizon would like to pass these high labor costs onto its competitors -- AT&T respectfully urges that the Commission not allow this to happen.

Q. IS THERE ANOTHER REASON WHY VERIZON'S CONTRACT NEGOTIATIONS DID NOT RESULT IN EFFICIENT COMPETITIVE MARKET BASED LABOR COSTS?

A. Yes. As long as the market is still in the pre-fully competitive stage, the political stakes will remain very high. Verizon's large employee base, along with those of the other ILECs, if kept in tow, can bring tremendous pressure on legislators to create or modify laws to favor the monopolists. There is hardly a chance that Verizon would risk alienating its labor force when the opportunity for regulatory change favoring Verizon is so ripe. Verizon is much better

served by using its monopoly power to ride out its high labor cost structure until it can achieve deregulation and then bring its labor costs down to efficient market levels.

Q. WHAT LABOR RATES DOES VERIZON ASSERT ARE COMPLIANT WITH TELRIC IN ITS HOT CUT STUDIES?

A. In Exhibit III-A, Verizon provides the six Hot Cut fully loaded labor rates shown in **Table 1** below. Each labor rate represents a particular job function code (“JFC”)[15].

Table 1
Verizon’s Asserted TELRIC Fully Loaded Labor Rates
<BEGIN VZ PROPRIETARY>

XXXXX	XXXXXX	XXXXX	XXXXXX	XXXXX	XXXXX
XXXXXX	XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX	XXXXXXX	XXXXXXX	XXXXXX	XXXXX
XXXXXX	XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX	XXXXXXX	XXXXXXX	XXXXXX	XXXXX
XXXXXX	XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX	XXXXXXX	XXXXXXX	XXXXXX	XXXXX
XXXXXX	XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX	XXXXXXX	XXXXXXX	XXXXXX	XXXXX
XXXXXX	XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX	XXXXXXX	XXXXXXX	XXXXXX	XXXXX
XXXXXX	XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX	XXXXXXX	XXXXXXX	XXXXXX	XXXXXX

<END VZ PROPRIETARY>

[15] A JFC is a code assigned to employees by Verizon’s accounting system in order to capture Verizon’s historical incurred costs.

I have found significant aberrations in the labor rates filed by Verizon, which must be normalized to bring the labor rates into compliance with TELRIC principles. AT&T's normalized proposed TELRIC labor rates are shown in **Table 2** as follows:

Table 2
AT&T's Normalized Proposed
TELRIC Fully Loaded Labor Rates

JOB FUNCTION CODE ("JFC")	TITLE	FULLY LOADED WAGE 2004	FULLY LOADED WAGE 2005	FULLY LOADED WAGE 2006
2300	NMC – National Market Center (Inter-exc Cust Service Point of Contact) MA	$44.51	$44.51	$44.51
4000	APC – Assignment Provisioning Center (Basic Assignment) RI	$44.77	$44.77	$44.77
4150	Field Installation (Network Installation and Maintenance) RI	$43.11	$43.11	$43.11
4350	Central Office Wiring – CO Frame (Distributing Frame) RI	$48.99	$48.99	$48.99
4376	RCMAC – Recent Change Memory Administration Center (Maintenance Processing) RI	$45.96	$45.96	$45.96
4750	RCCC – Regional CLEC Coordination Cetner (Order Testing and Distribution Support Service Center) MA	$47.12	$47.12	$47.12

Q. IN CONCLUDING YOUR INTRODUCTORY REMARKS, CAN YOU PREVIEW THE MAIN DIFFERENCE BETWEEN YOUR NORMALIZED TELRIC LABOR RATES AND VERIZON'S ASSERTED LABOR RATES?

A. Yes. Using averages of 2004 data for the six Job Function Codes ("JFCs") included in Verizon's cost studies, **Table 3** below shows the differences between Verizon's embedded actual rates and TELRIC labor rates.

Table 3
Comparison of AT&T and Verizon
Average Labor Elements

<BEGIN VZ PROPRIETARY>

XXXXXXXXXX	XXXXXXXX	XXXXXXX	XXXXX	XXX
XXXXXXXXXXXX	XXXXXXX	XXXXXXX	XXXXXXX	XXXX
XXXXXXXXXXXXX XXXXXXXXXXXXX	XXXXXXX	XXXXXXX	XXXXXXX	XXXX
XXXXXXXXXXXXX XXXXXXXXXXXXX XXXXXXXXXXXXX	XXXXXXX	XXXXXXX	XXXXXXX	XXXXX
XXXXXXXXXXXXX XXXXXXXXXXXXX	XXXXXXX	XXXXXXX	XXXXXXX	XXXX
XXXXXXXXXXXXX XXXXXXXXXXXXX	XXXXXXX	XXXXXXX	XXXXXXX	XXXX
XXXXXXXXXXXXX	XXXXXXX	XXXXXXX	XXXXXXX	XXXX
XXXXXXXXXXXX	XXXXXXX	XXXXXXX	XXXXXXX	XXXX

<END VZ PROPRIETARY>

On average, Verizon's rates are **<BEGIN VZ PROPRIETARY>** XXXX **<END VZ PROPRIETARY>** per hour higher than efficient rates. The table illustrates that 67% of the difference, **<BEGIN VZ PROPRIETARY>** XXXXX **<END VZ PROPRIETARY>** per hour is explained by the Verizon's inordinate loadings for Premium pay, Paid Absence and Benefits. Another 28% of the difference, **<BEGIN VZ PROPRIETARY>** XXXX **<END VZ PROPRIETARY>** per hour is attributable Verizon's Direct Miscellaneous element. The final 5% of the difference, **<BEGIN VZ PROPRIETARY>** XXXXXXXXXXX **<END VZ PROPRIETARY>,** comes from the Direct Support element. The Basic Wages, and loadings for Motor Vehicles and Tools, are identical to the

Verizon proposed loadings. The remainder of my testimony will essentially step through this table and prescribe the adjustments necessary to bring Verizon's embedded data into compliance with TELRIC.

B. OVERVIEW OF VERIZON'S EMBEDDED LABOR RATE DEVELOPMENT PROCESS

Q. HOW DOES VERIZON DEVELOP ITS LOADED LABOR RATES?

A. The dollar values of the inputs used by Verizon to develop its asserted TELRIC labor rates are its historical costs. Exhibit III-C filed with Verizon's Initial Testimony in this docket displays its labor rate development. Almost all of the data in Exhibit III-C is hard coded and Verizon has not provided any of the underlying data or assumptions used in its calculation of its hard coded numbers.

Verizon's process for developing labor rates starts with a basic wage and adds seven loadings to that basic wage. **Table 4** below illustrates, for a Basic Assignment worker, the eight steps used by Verizon to develop its fully loaded rate:

Table 4
Illustration of Verizon's Labor Elements
<BEGIN VZ PROPRIETARY>

XXXX	XXXXXXXXXXXXXXX	XXXXXXX

XXXX	XXXXXXXXXXXXXXX	XXXXXXX
XX	XXXXXXXXXXXXXXX	XXXXXXXX
XX	XXXXXXXXXXXXXXX	XXXXXXX
XX	XXXXXXXXXXXXXXX	XXXXXX[16]
XX	XXXXXXXXXXXXXXX	XXXXXXXX
XX	XXXXXXXXXXXXXXX	XXXXXXXX
XX	XXXXXXXXXXXXXXX	XXXXXXXX
XX	XXXXXXXXXXXXXXX	XXXXXXXX
XX	XXXXXXXXXXXXXXX	XXXXXXXX
XX	*XXXXXXXXXXXXXXX*	*XXXXXXX*

<END VZ PROPRIETARY>

Q. HAS VERIZON PROVIDED ENOUGH SUPPORTING INFORMATION AS TO WHERE IN ITS ACCOUNTING SYSTEMS IT PULLS THE COSTS IN THESE CATEGORIES SO ONE COULD, AT A MINIMUM, MAKE SURE THERE IS NO DOUBLE COUNTING?

A. No, Verizon has not provided much in the way of underlying support data for its labor rates.

Q. HAS VERIZON PROVIDED DEFINITIONS FOR THE LABOR ELEMENTS YOU SHOW IN Table 4?

A. No, Verizon failed to provide even that minimal support for its asserted labor rates.

Q. DOES VERIZON MAKE ANY ATTEMPT TO MODEL COMPETITIVE MARKET-BASED LABOR COSTS IN ITS STUDIES?

[16] Just because Verizon claims its data is "actual" does sanctify the data. Verizon has failed to provide its underlying support data, M&Ps, guidelines or instructions it follows in developing its labor rates. It is difficult to believe that JFC 4000, Basic Assignment, workers had **<Begin VZ Proprietary>** XXXXXX **<End VZ Proprietary>** shift differential, overtime or bonus pay in the historical year.

A. It is my understanding that Verizon blindly gathers all the information to develop its labor rates from its internal financial systems. Obviously, Verizon is not a model competitive company or there would be no need for the Commission to regulate its UNE rates. Indeed, as a company that has historically faced little competition for its local services, it has not faced the same discipline to manage its input costs as a company that operates in a competitive market has. It would, therefore, be surprising if its labor rates reflected efficient levels. No attempt is made to determine if the rates or factors it uses in its cost studies are those that would be incurred by an efficient new entrant. If Verizon's embedded average rate for a position were $100 per hour and the efficient rate were $20 per hour, under Verizon's cost methodology, it would blindly use an embedded average rate of $100.

C. OVERVIEW OF AT&T'S TELRIC LABOR RATE DEVELOPMENT PROCESS

Q. HOW DOES AT&T DEVELOP TELRIC LABOR RATES?

A. AT&T uses publicly available wage and benefit data published by the United States Department of Labor's

Bureau of Labor Statistics ("BLS") to develop its TELRIC labor rates. AT&T uses BLS wage data to develop TELRIC supervisory and clerical support loadings. AT&T uses BLS benefit data to develop TELRIC benefit loadings. The BLS data are factual, unbiased and impartial.

Q. DOES AT&T, IN SOME INSTANCES, JUST ACCEPT VERIZON'S EMBEDDED DATA?

A. Yes. In some instances, due in large part to Verizon's failure to provide the underlying data and assumptions for its labor rates, AT&T has conservatively[17] accepted Verizon's embedded cost as part of AT&T's TELRIC rate development.

Q. WHAT BLS WAGE DATA DOES AT&T USE IN DEVELOPING TELRIC LABOR RATES?

A. I use the BLS wage data for wage levels of office clerks and first level supervisors; wage levels which were not provided by Verizon. The BLS wage data comes from its Occupational Employment Statistics ("OES") program[18]. On its website[19], BLS publishes a file showing Standard Occupational Classification ("SOC") wage data by state. The BLS collects and publishes

[17] In this context, conservatively means the result is a higher, more favorable to Verizon, labor rate.
[18] A Federal-State cooperative program.

state specific data for SOC 43-9061 General Office Clerks[20] and SOC 49-1011 First-Line Supervisors/Managers of Mechanics, Installers, and Repairers.[21]

In its studies Verizon includes workers in Massachusetts as well as Rhode Island. Table 5 below shows the two wage levels, for each state, obtained from the BLS website. For each one, I show the 2002 wage reported by the BLS and the 2004 wage after I applied a 1.04 factor to account for the increase in the CPI from 2002 to 2004. In addition, Table 5 shows, where the data is available, the size of the sample universe from which the BLS drew its sample data.

Table 5
BLS Wage Information Used For TELRIC Supervisory and Clerical Support Loadings

[19] www.bls.gov.
[20] The BLS description of this SOC is: "Perform duties too varied and diverse to be classified in any specific office clerical occupation, requiring limited knowledge of office management systems and procedures. Clerical duties may be assigned in accordance with the office procedures of individual establishments and may include a combination of answering telephones, bookkeeping, typing or word processing, stenography, office machine operation, and filing." http://www.bls.gov/soc/soc_q9g1.htm. December 5, 2003.
[21] The BLS description of this SOC is: "Supervise and coordinate the activities of mechanics, installers, and repairers. Exclude team or work leaders." http://www.bls.gov/soc/soc_t1b1.htm. February 12, 2004.

	Position	2002	2004	Sample Universe
1	SOC 43-9061 General Office Clerk - MA	$13.16	$13.69	60,910
2	SOC 49-1011 1st Line Supervisor/Managers of Mechanics, Installers, and Repairers - MA	$26.09	$27.13	8,530
3	SOC 43-9061 General Office Clerk - RI	$11.48	$11.94	NA
4	SOC 49-1011 1st Line Supervisor/Managers of Mechanics, Installers, and Repairers - RI	$24.20	$25.17	1,270

Q. WHAT BLS BENEFIT DATA DOES AT&T USE IN DEVELOPING TELRIC LABOR RATES?

A. The BLS also tracks and publishes information on employee benefits. On November 25, 2003 the BLS released its September 2003 "Employer Costs for Employee Compensation" ("ECEC"), which provides information on relative percentages of wages versus benefits that are provided by employers.[22] The BLS survey took place in September 2003 and covered "a probability sample of about 36,500 occupations within approximately 8,400 sample establishments in private industry".[23]

Table 16 on page 20 of the report provides information on the relative weighting of wages and salaries versus

[22] http://www.bls.gov/news.release/pdf/ecec.pdf. December 8, 2003.
[23] *See* ECEC at p. 21.

benefits for communications public utility companies (standard industrial classification ("SIC") code 48).[24] BLS shows that, for blue collar occupations in SIC 48, 64.1% of overall employee compensation taken from this broad sample of companies comes from salaries and wages and 35.9% comes from benefits. Another way of stating this is that per the BLS data, normal market benefits are 56% of basic wages (.359/.641).

AT&T multiplies the BLS benefit % of wages by the basic wage for each JFC to develop wage rates loaded with benefit costs.[25] Below in my testimony, I will provide further detail on how AT&T uses the BLS data to develop fully loaded TELRIC labor rates.

Q. IS THE BLS DATA INTENDED TO BE USED AS YOU PROPOSE?

A. Yes. According to the BLS website[26], uses for the OES data include: analysis of occupational employment, analysis of occupational wages and market analysis.

[24] Subcategories of SIC code 48 are: SIC 481 Telephone Communications, SIC 482 Telegraph and Other Message Communications, SIC 483 Radio and Television Broadcasting Stations, SIC 484 Cable and Other Pay Television Stations and SIC 489 Communications Services Not Elsewhere Classified. All of the RBOCs fall under SIC 48.

[25] For managers and service representatives, AT&T uses the BLS benefit data for white collar workers: 31.4% of total compensation from benefits and 68.6% of total compensation from wages. This equates to benefits being 45.8% of wages (.314/.686).

[26] http://www.bls.gov/oew/oes_emp.htm#datause.

The data used in the ECEC comes from the BLS National Compensation Survey ("NCS"). According to the BLS website[27] some of the uses for the NCS data are:

- Negotiating wage contracts;
- Determining compensation rates;
- Determining prevailing wage rates;
- Setting compensation rates;
- Paying market wage rates;
- Determining Federal pay adjustments;
- Establishing escalator clauses in US Government and collective bargaining contracts;
- Determining adjustments for Medicare reimbursements for hospital, physician and related services; and
- Economic consulting and forecasting.

The United States Federal Reserve Bank also uses this data as a major economic indicator for monetary policy decisions.

Q. IS SIC CODE 48 BENEFIT DATA APPROPRIATE TO APPLY TO VERIZON?

[27] http://www.bls.gov/ncs/usage.htm.

A. Yes. The pool of workers for companies that comprise the Communications Public Utilities is the appropriate universe from which a new entrant would draw its workforce. Even Verizon witness Mr. Taylor uses data including "telecom operators, cable operators and network equipment providers"[28] to support Verizon's assertions about labor available to perform hot cut work.

D. DIRECT WAGES

1. Verizon's Direct Wages

Q. HOW DOES VERIZON CALCULATE ITS DIRECT WAGES?

A. For each JFC, Verizon pulls information from its accounting systems on basic wages and salaries, and productive hours. Verizon's Direct Wage data also purportedly contains training expenses, although these costs are not distinctly displayed or provided.

Q. WOULD YOU PLEASE EXPLAIN THE TERMINOLOGY "PRODUCTIVE HOUR"?

A. Labor rates are essentially the result of a simple fraction. In the numerator are employee costs. In the denominator are employee hours.

[28] Taylor, page 40, footnote 18.

The employee hours in the denominator can represent paid hours, which would be assuming something like 40 hours per week and 52 weeks per year.[29] This denominator would produce a labor rate per paid hour.

Earlier in my testimony I stated that labor services are just one of the three major categories of inputs to the production process. Human assets are similar to capital assets in that it is neither possible nor efficient to use them at 100% of their capacity all of the time. Properly developed TELRIC labor rates include recognition of some non-productive time, even when the employees are “on the job”. Therefore the denominator could also represent productive hours that would be a lesser amount than the paid hours. Of course, having a smaller number in the denominator yields a larger overall result from the fraction (i.e., a higher labor rate per hour).

Verizon’s hours it includes in its studies are productive hours, not paid hours. Whenever I adopt a Verizon figure that is based on productive hours, I

[29] One would assume that managers work more than 40 hours per week. Vacations, holidays, personal days and sick time are incorporated into

make no additional recognition of non-productive time. When I develop a loading from scratch using paid hours in the denominator, as I do the Direct Support loading discussed below, I incorporate a "95% productive time factor" for the labor assets in the studies.[30] In other words, I assume that 5% of the time the workers will essentially be idle. I have discussed this factor with Mr. Walsh, who based on his knowledge and experience, found it to be a reasonable assumption for an efficient forward looking environment.

By including only productive hours in denominator for the development of each wage rate, the Commission should have no qualms about reducing Verizon's asserted task times in the cost studies to the actual efficient times that would result from time and motion or other such studies.

2. AT&T's Direct Wages

Q. HOW DOES AT&T CALCULATE ITS PROPOSED TELRIC BASIC WAGES FOR PLANT EMPLOYEES?

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labor rates through a separate paid absence factor that I discuss below.

[30] This is in addition to recognizing vacation, holidays and other paid absent days which are included in my TELRIC benefit factor as explained below.

A. AT&T makes no adjustments to the Verizon direct wage assertions per productive hour.

3. Comparison of Verizon’s Proposed and AT&T’s Proposed Direct Wages

Q. COULD YOU SUMMARIZE YOUR FINDINGS REGARDING DIRECT WAGES?

A. Yes. **Table 6** below shows for each JFC at issue, Verizon’s Direct Wage loading and AT&T’s Direct Wage Loading.

Table 6
Comparison of Direct Wages

<BEGIN VZ PROPRIETARY>

XXXXX	XXXXXX	XXXXXX	XXXX
XXXXXX	XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX	XXXXXXXX	XXXXX
XXXXXX	XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX	XXXXXXXX	XXXXX
XXXXXX	XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX	XXXXXXXX	XXXXX
XXXXXX	XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX	XXXXXXXX	XXXXX
XXXXXX	XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX	XXXXXXXX	XXXXX
XXXXXX	XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX	XXXXXXXXX	XXXXX

<END VZ PROPRIETARY>

AT&T has conservatively accepted Verizon’s proposed Direct Wages.

E. DIRECT SUPPORT LOADING

1. Verizon's Direct Support Loading

Q. HOW DOES VERIZON DEVELOP ITS DIRECT SUPPORT LOADINGS?

A. Verizon gives us little information on how it develops its Direct Support loading. Apparently it includes a calculation of its embedded Direct Support expenses in the numerator and a calculation of its productive hours in the denominator. There is no audit trail one can take to determine the reasonableness of Verizon's calculations.

2. AT&T's Direct Support Loading

Q. HOW DOES AT&T DEVELOP ITS DIRECT SUPPORT LOADINGS?

A. AT&T develops a separate loading for direct supervision and clerical support.

a) Direct Supervision Loadings For Technicians

Q. HOW DOES AT&T DEVELOP ITS DIRECT SUPERVISION LOADINGS FOR TECHNICIANS?

A. AT&T uses publicly available data published by the BLS. As described above, AT&T uses the appropriate state specific hourly wage information from the fourth column of Table 5 as the basic cost for a first line supervisor.

Q. WHAT IS THE NEXT STEP IN DEVELOPING A SUPERVISORY LOADING?

A. The next step is to apportion the supervisor's costs over the technicians using a technician to supervisor ratio. I have adopted a technician to supervisor ratio of 12 to 1[31], based on my knowledge and experience in the industry. This ratio is in line with Verizon's embedded technician to supervisor ratios I have reviewed in other cases. Furthermore, I have discussed this ratio with Mr. Walsh who, based on his experience with technicians in a central office environment, found it to be a reasonable assumption for an efficient forward looking workforce. I therefore divide the supervisor's hourly TELRIC basic wage by 12 to arrive at the loading for the technician.

Q. IS THERE ANOTHER STEP NECESSARY TO DERIVE A TELRIC SUPERVISORY LOADING?

A. Yes. It is my experience that managers normally work more than 40 hours per week, and receive no overtime payment for their extra hours. This observation is supported by an article found at Salary.com titled

[31] This ratio is a user adjustable input to the model.

"Time off – Whatever Happened to Leisure Time?"[32] The article states:

> According to the Bureau of Labor Statistics, 25 percent of all full-time workers spend 49 or more hours on the job each week. Of these, 11 percent are at work 60 hours or more. Salary.com's findings are similar. In a recent user poll, almost three out of every four respondents said they work more than the presumed normal 40 hours per week: 45 percent said they work 41 to 50 hours per week, 17 percent said they work 51 to 60 hours per week, while 10 percent said they work over 70 hours per week.

Q. WHAT OTHER DATA DO YOU USE TO SUPPORT THE ASSERTION THAT MANAGERS WORK MORE THAN 40 HOURS PER WEEK?

A. I was able to obtain from the BLS a table, Table 30B,[33] based on the BLS Current Population Survey ("CPS"), which shows average hours for people that customarily work full time. The CPS is a monthly sample survey of about 50,000 households. The data (page 2 line 2) shows that in 2001, for Managerial and Professional Specialty occupations, management employees worked an average of 44.2 hours per week.[34]

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[32] "Time off – Whatever Happened to Leisure Time?", Audrey Arkins, http://salary.com/benefits/layouthtmls/bnfl_display_nocat_Ser27_Par64.html , July 25, 2003.

[33] Bureau of Labor Statistics, Table 30B (2001). Persons at work by actual hours of work at all jobs in the reference week, major occupation, and sex. Unpublished 2001 annual average data from the Current Population Survey.

[34] It is likely that this number has actually increased since 2001 with all the layoffs in the industry and the tendency of companies to ask remaining workers to do more work.

Q. WHAT ADJUSTMENT IS NECESSARY TO BRING THE SUPERVISORY SUPPORT LOADING INTO COMPLIANCE WITH TELRIC PRINCIPLES?

A. I apply a factor of .9050 to the TELRIC hourly rate for management labor rates. The .9050 factor equals 40/44.2 and effects a 10.5% reduction in the hourly loaded labor rate for managers.

Q. IS THERE AN ADDITIONAL STEP NECESSARY TO DEVELOP A TELRIC SUPERVISORY LOADING FOR THE TECHNICIANS?

A. Yes. I apply a factor to account for the non-basic salary benefit costs of the supervisor. This factor, for managers, equals 45.8% of the basic wage and I will explain this below in my testimony in the section on TELRIC benefit loadings. This benefit loading increases the technicians' fully loaded rates.

Q. WHAT IS THE FINAL STEP NECESSARY TO DEVELOP A TELRIC SUPERVISORY LOADING FOR THE TECHNICIANS?

A. The final step is to apply the 95% productive time factor as I described above. The result is an hourly loading for supervision of $2.91 in RI and $3.14 in MA.

b) Direct Supervision Loadings For Customer Service Representatives

Q. HOW DOES AT&T DEVELOP ITS DIRECT SUPERVISION LOADINGS FOR CUSTOMER SERVICE REPRESENTATIVES?

A. AT&T again uses publicly available data published by the BLS. AT&T uses the previously discussed state specific SOC 47-1011 First Line Supervisors' hourly mean wages shown in Table 5.

Q. WHAT IS THE NEXT STEP IN DEVELOPING A SUPERVISORY LOADING?

A. The next step is to apportion the supervisor's costs over the customer service reps using a rep to supervisor ratio[35]. I have conservatively adopted a rep to supervisor ratio of 12 to 1, although I believe this number could very well be too low.

Q. ARE THERE OTHER STEPS NECESSARY TO DERIVE A TELRIC SUPERVISORY LOADING FOR THE SERVICE REPS?

A. Yes. For the same reasons stated above, I make an adjustment for management hours, for a benefit loading and for 5% non-productive time.

Q. WHAT IS YOUR TELRIC SUPERVISORY LOADING FOR THE SERVICE REPS?

A. Based on the aforementioned steps, the TELRIC supervisory loading rate for the service reps is $2.91 in RI and $3.14 in MA.

[35] This ratio is also user adjustable.

c) Clerical Support Loadings For Technicians

Q. HOW DOES AT&T DEVELOP ITS CLERICAL SUPPORT LOADINGS FOR TECHNICIANS?

A. AT&T uses a similar method as for the supervisory loading. I adopt the state specific TELRIC clerical rates from Table 5.

Q. WHAT IS THE NEXT STEP IN DEVELOPING A CLERICAL LOADING FOR THE TECHNICIANS?

A. The next step is to apportion the clerk's costs over the technicians using a technician to clerk ratio. I have adopted a technician to clerk ratio of 40 to 1, based on my knowledge and experience in the industry. Furthermore, I have discussed this ratio with Mr. Walsh who, based on his experience with clerks in a central office environment, found it to be a reasonable and conservative estimate for an efficient forward looking environment. I therefore divide the clerk's hourly TELRIC basic wage by 40 to arrive at the loading for the technician.

Q. WHAT ARE THE FINAL STEPS NECESSARY TO DEVELOP A TELRIC CLERICAL LOADING FOR THE TECHNICIANS?

A. I apply a factor to account for the non-basic salary benefit costs of the clerks. This factor, for clerks, equals 45.8% of the basic wage, as I explain below in

the section on TELRIC benefit loadings. In addition, I apply the user adjustable productive time factor -- .95.

Q. WHAT IS THE RESULTING CLERICAL SUPPORT LOADING FOR THE TECHNICIANS?

A. The resulting loadings are $0.46 per hour in RI and $0.53 in MA.

d) Clerical Support Loadings For Customer Service Representatives

Q. HOW DOES AT&T DEVELOP ITS CLERICAL SUPPORT LOADINGS FOR CUSTOMER SERVICE REPS?

A. AT&T's calculation is exactly the same as for the clerical support for the technicians. The wages, span of support and benefits are the same. The resulting loadings are $0.46 per hour in RI and $0.53 in MA.

3. Comparison of Verizon's Embedded and AT&T's Direct Support Loadings

Q. COULD YOU SUMMARIZE YOUR FINDINGS REGARDING DIRECT SUPPORT LOADINGS?

A. Yes. Table 7 below shows for each JFC at issue, Verizon's unsupported embedded Direct Support loading and AT&T's proposed TELRIC Direct Support Loading.

Table 7
Comparison of Direct Support Loadings
<BEGIN VZ PROPRIETARY>

XXXXXX	XXXXXXXXXXX	XXXXXXXX	XXXXXXX

XXXXXX	XXXXXXXXXXX	XXXXXXXX	XXXXXXX
XXXXXX	XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX	XXXXX	XXXXX
XXXXXX	XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX	XXXXX	XXXXX
XXXXXXX	XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX	XXXXX	XXXXX
XXXXXXX	XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX	XXXXX	XXXXXX
XXXXXXX	XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX	XXXXXX[36]	XXXXXX
XXXXXXX	XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX	XXXXXX	XXXXXX
XXXXXXX	XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX	XXXXXX	XXXXX

<END VZ PROPRIETARY>

It is important to recognize that since the supervisors' and clerks' costs are built into the laborers' wage rates, we should never see any time for a supervisor or general office clerk appear in a service cost study – that would represent a double recovery of the cost of the supervisor or the clerk.

This $0.39 per hour adjustment is the third largest of the three adjustments AT&T makes to Verizon's labor rates. AT&T's Direct Support loading is well documented and based on sound TELRIC principles.

[36] One must seriously doubt the reliability of Verizon's "actual" data when Verizon shows a **<Begin VZ Proprietary>** XXXXX **<End VZ Proprietary>** cost for clerical and support personnel for JFC 4376 RCMAC workers.

Verizon's asserted loading is undocumented and unsupported.

F. PREMIUM LOADINGS

1. Verizon's Premium Loadings

Q. HOW DOES VERIZON DEVELOP ITS PREMIUM LOADINGS?

A. Verizon apparently includes a calculation of its embedded premium payments from its accounting systems in the numerator and a calculation of its productive hours in the denominator. Verizon provides no supporting data for either the numerator or the denominator.

2. AT&T's Premium Loadings

Q. HOW DOES AT&T DEVELOP ITS PREMIUM LOADINGS?

A. AT&T's Premium loadings are discussed below in the section regarding AT&T's Benefit loadings.

G. PAID ABSENCE

1. Verizon's Paid Absence Loadings

Q. HOW DOES VERIZON DEVELOP ITS PAID ABSENCE LOADINGS?

A. Verizon apparently includes a calculation of its embedded paid absence expenses from its accounting systems in the numerator and a calculation of its productive hours in the denominator. Verizon provides no supporting data for either the numerator or the denominator.

2. AT&T's Paid Absence

Q. HOW DOES AT&T DEVELOP ITS PAID ABSENCE LOADINGS?

A. AT&T's Paid Absence loadings are discussed below in the section regarding AT&T's Benefit loading.

H. BENEFIT LOADING

1. Verizon's Benefit Loading

Q. HOW DOES VERIZON DEVELOP ITS BENEFIT LOADINGS?

A. For each JFC, Verizon applies a **<BEGIN VZ PROPRIETARY>** XXXX **<END VZ PROPRIETARY>** benefit factor to the sum of direct wages, direct support, paid absence and premium to derive its benefit loading. Verizon's benefit factor is developed at the Eastern Region Telecom level for 2002, not at the state level. Verizon provides no underlying support data for this factor.

Q. DID VERIZON PROVIDE ANY BENCHMARK OF ITS BENEFIT COSTS WITH ANY PUBLICLY OR PRIVATELY AVAILABLE DATA TO SUPPORT ITS CLAIM THAT ITS EMBEDDED COSTS ARE EFFICIENT AND COMPLY WITH TELRIC PRINCIPLES?

A. No.

2. AT&T's Benefit Loadings

Q. HOW DOES AT&T DEVELOP ITS BENEFIT LOADINGS?

A. AT&T uses publicly available, non-biased industry specific benefit loading information tracked and published by the BLS. As stated above, on November 25, 2003 the BLS released its September 2003 "Employer

Costs for Employee Compensation" ("ECEC"), which provides information on relative percentages of wages versus benefits that are provided by employers. The BLS survey took place in September 2003 and covered "a probability sample of about 36,500 occupations within approximately 8,400 sample establishments in private industry". [37]

Table 16 on page 20 of the report provides information on the relative weighting of wages and salaries versus benefits for communications public utility companies (standard industrial classification ("SIC") code 48)[38]. BLS shows that 67.2% of overall employee compensation taken from this broad sample of companies comes from salaries and wages and 32.8% comes from benefits. Another way of stating this is that the BLS normal market benefits are 48.8% of basic wages (.328/.672). As described below, I actually use a factor specific to white collar, 45.8%, and blue collar, 56.0%,

[37] *See* ECEC at p. 21.

[38] Subcategories of SIC code 48 are: SIC 481 Telephone Communications, SIC 482 Telegraph and Other Message Communications, SIC 483 Radio and Television Broadcasting Stations, SIC 484 Cable and Other Pay Television Stations and SIC 489 Communications Services Not Elsewhere Classified. All of the RBOCs fall under SIC 48. A comprehensive list of companies (to demonstrate the nature of SIC 48 companies, but not the exact universe from which the BLS sample was taken) in SIC 48 registered with the Security Exchange Commission can be found at http://www.secinfo.com/$/SEC/Registrants.asp?SIC=48.

workers for my normalization of Verizon's loadings, rather than the overall 48.8% loading.

Since all but one the labor rates Verizon has filed are for blue collar workers, the effect of this differentiation is to increase labor rates. I use the white collar benefit percent of wages only to develop a TELRIC benefit loading for the direct supervision labor rate element and for the service representatives.

Q. HAVE YOU COMPARED THE BLS WAGE INFORMATION IN THE ECEC WITH THAT TELRIC WAGE DATA YOU ENDORSED EARLIER IN YOUR TESTIMONY?

A. Yes. The BLS data from Table 16 indicates that the average hourly wage for SIC code 48 is $25.38[39] for blue collar workers and $24.74[40] for white collar workers, which is reasonably comparable to the Verizon Direct Wages shown in Table 6 above.[41] The average Direct Wage Verizon asserts is **<BEGIN VZ PROPRIETARY>**

[39] $24.89 * a 1.02 factor to bring the rate from 2003 to 2004.
[40] $24.26 * a 1.02 factor to bring the rate from 2003 to 2004.
[41] The Verizon direct wages include some costs for training that are not included in the BLS ECEC wages. This difference makes my Benefit loadings conservatively high as the percentage is applied against a Direct Wage inclusive of training.

XXXXXX[42] **<END VZ PROPRIETARY>**. This proves that using the ECEC benefit data for Verizon is an "apples-to-apples" comparison. BLS ECEC data does not represent foreign communications companies offering two tin cans and a piece of string for facilities or a corner lemonade stand for a headquarters as skeptics might want to suggest.

Q. DOES THE ECEC DATA CAPTURE THE SAME NON-WAGE COSTS THAT ARE CAPTURED IN VERIZON'S LOADINGS?

A. Verizon provides so little information about its loadings that it is impossible to tell. Table 8 below shows the BLS benefit definitions from the ECEC and demonstrates that they capture all the expected relevant employee benefits. The quotes in the BLS column come from the September 2003 ECEC, page 21.

Table 8
BLS Benefit Loading Category Definitions

CATEGORY	BLS
PAID ABSENCE	"Paid leave--vacations, holidays, sick leave, and other leave"

[42] Again, we know that Verizon includes some costs beyond pure Direct Wages in its Direct Wage calculation.

CATEGORY	BLS
PREMIUM OVERTIME AND SPECIAL PAYMENTS	"[S]upplemental pay-- premium pay for work in addition to the regular work schedule (such as overtime, weekends, and holidays), shift differentials, and nonproduction bonuses (such as referral bonuses and lump-sum payments provided in lieu of wage increases)"
SOCIAL SECURITY, MEDICARE AND PENSIONS	"[L]egally required benefits—social security, medicare, Federal and State unemployment insurance, and workers' compensation" "[R]etirement and savings benefits--defined benefit and defined contribution plans"
BENEFITS	"[I]nsurance benefits--life, health, short-term disability, and long-term disability"
OTHER	"[S]everance pay and supplemental unemployment plans."

Q. THE BENEFIT LOADING YOU PROPOSE IS EQUIVALENT TO A COMBINATION OF VERIZON'S PREMIUM, PAID ABSENCE AND BENEFIT CATEGORIES ON EXHIBIT III-C. HOW DOES VERIZON'S EMBEDDED COMBINATION OF THE COST OF THESE THREE CATEGORIES COMPARE TO THE TELRIC BENEFIT COSTS YOU PROPOSE, RELATIVE TO THE DIRECT WAGES?

A. **Table 9** below shows, for each JFC, Verizon's unsupported calculations of its embedded cost of the loadings compared to the efficient well-documented TELRIC benefit loading I propose.

Table 9
Comparison of Premium, Paid Absence and Benefit Percent of Direct Wage

<BEGIN VZ PROPRIETARY>

XXXXX	XXXXX	XXXXXX	XXXXX
XXXXX	XXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXX	XXXXX	XXX
XXXXX	XXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXX	XXXXX	XXX
XXXXXX	XXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXX	XXXXX	XXX
XXXXXX	XXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXX	XXXXX	XXX
XXXXXX	XXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXX	XXXXX	XXX
XXXXXX	XXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXX	XXXXXX	XXX
XXXXXX	*XXXXXXXXXXXXXXXXXXXXXXXXXX*	*XXXXXXXX*	*XXXXXXX*

<END VZ PROPRIETARY>

Verizon's embedded Benefits (including premium and paid absence) average **<BEGIN VZ PROPRIETARY>** XXXXX **<END VZ PROPRIETARY>** of its asserted Direct Wages; AT&T's TELRIC Benefit loading averages 54% of the Direct Wages.

Q. WHY IS THE LOADING FOR THE 2300 JFC DIFFERENT FROM THE OTHERS?

A. The 2300 Customer Service Center Point of Contact position is an administrative type position, rather than a field craft technician position. It is

appropriate to use the "white collar" BLS benefit loading for this job functions, whereas the other job function should use the "blue collar" loading.

a) Longitudinal Data

Q. DO YOU ENDORSE SETTING A TELRIC BENCHMARK USING DATA FROM JUST ONE COMPANY AND ONE TIME PERIOD?

A. No. Picking data from one year and one company, as Verizon blindly does in its cost study, to serve as a TELRIC benchmark for efficient costs is inappropriate. TELRIC labor rates should not be based on data from just one company at one point in time. The September 2003 ECEC BLS data is from a broad survey of SIC 48 communication utility companies, but is at one point in time.

Q. HAVE YOU EXAMINED DATA FROM MORE THAN ONE TIME PERIOD?

A. Yes. The BLS also publishes historical data on the percent of total compensation that is attributable to benefits for SIC 48. On June 9, 2002, the BLS published its "Employer Costs for Employee Compensation Historical Listing (Annual), 1986-2001"[43] Table 22 on page 206 provides the historical data for SIC 48. The historical annual benefit percentages of

[43] ftp://ftp.bls.gov/pub/special.requests/ocwc/ect/ecechist.pdf .

total compensation and basic wages are shown in **Table 10** below:

Table 10
Historical Benefits % of Compensation and Wages

Year	Benefits % of Overall Compensation	Benefits % of Wages
1995	31.9%	47%
1996	32.1%	47%
1997	29.0%	41%
1998	29.9%	43%
1999	30.5%	44%
2000	30.6%	44%
2001	32.3%	48%
2002[44]	32.15%	47%
2003[45]	32.3%	48%
Average	30.9%	45.44%
September 2003	32.8%	48.8%

Thus, the September 2003 quarterly data which overall is 48.8% (56% for blue collar workers and 45.8% for white collar workers) I use in my analysis is reasonable and conservative – it exceeds the highest annual benefit percent of wages that has occurred in SIC 48 over the past nine years. It results in a higher loaded labor rate than would be derived from using an average of nine years' annual data points.

[44] "Employer Costs for Employee Compensation Historical Listing (Quarterly), 2002-2003", June 11, 2003. Beginning in 2002 the historical ECEC is stated on a quarterly basis. 32.15% is the arithmetic mean of the 4 quarterly results: 32.9%, 31.8%, 32% and 31.9%. Page 205, ftp://ftp.bls.gov/pub/special.requests/ocwc/ect/ececqrt.pdf.
[45] Through the 3rd quarter. An average of 31.9%, 32.2% and 32.8%.

b) Latitudinal Data

Q. HOW DOES THE LOADING OF 48.8% OF BASIC WAGES FOR SIC 48 COMPARE TO NATIONAL AVERAGES FOR ALL PRIVATE INDUSTRY, OTHER INDUSTRIES AND OTHER CROSS SECTIONS?

A. The ECEC reports that private industry employers nationally paid benefits equal to 38.7% of basic wages on average. Thus the 48.8% (and even more so the 56.6% blue collar value) is well above the national average for all private industry and cannot be construed to be unreasonable or confiscatory. The BLS provides many additional views of benefits relative to basic wages; **Table 11** below shows how the percentages generally range. The average benefit percent of wages across the 19 categories is 40.7%; the median value is 40.1%. The range of values is from a low of 31.1% to a high of 54.6%. The 48.8% (56.0% blue collar) factor falls well above the mean and median values in the representative sample, again demonstrating that the benefit loadings I propose are just and reasonable. The 56% blue collar loading I adopt exceeds the average union loading, the Northeast loading and the over 500 employee loading published by the BLS.

Table 11
ECEC Benefits % of Wages

September 2003 Data	% Wages	% Benefits	Benefits % of Wages
All Private Industry Workers	72.1%	27.9%	38.7%
Goods Producing Industries	67.7%	32.3%	47.7%
Service Producing Industries	73.5%	26.5%	36.1%
Manufacturing Industries	66.7%	33.3%	49.9%
Non-manufacturing Industries	73.2%	26.8%	36.6%
White Collar Workers	73.0%	27.0%	37.0%
Blue Collar Workers	68.6%	31.4%	45.8%
Service Workers	76.3%	23.7%	31.1%
Northeast Region	71.1%	28.9%	40.6%
South Region	73.0%	27.0%	37.0%
Midwest Region	71.4%	28.6%	40.1%
West Region	72.4%	27.6%	38.1%
Union	64.7%	35.3%	54.6%
Nonunion	73.3%	26.7%	36.4%
1-99 Workers	74.6%	25.4%	34.0%
100 Workers or more	69.9%	30.1%	43.1%
100 - 499 Workers	71.2%	28.8%	40.4%
500 Workers or more	68.8%	31.2%	45.3%
Full time Workers	70.9%	29.1%	41.0%
Average	71.2%	28.8%	40.7%

3. Comparison of Verizon's Embedded and AT&T's TELRIC Benefit Loadings

Q. COULD YOU SUMMARIZE YOUR FINDINGS REGARDING BENEFIT LOADINGS?

A. Yes. **Table 12** below shows for each JFC at issue, Verizon's embedded Benefit loading and AT&T's proposed TELRIC Benefit loading.

Table 12
Comparison of Benefit Loadings

<BEGIN VZ PROPRIETARY>

XXXXX	XXXXXX	XXXXX	XXXXXX
XXXX	XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX	XXXXX	XXXXXXX
XXXX	XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX	XXXXX	XXXXXXXX
XXXX	XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX	XXXXX	XXXXXXXX
XXXX	XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX	XXXXXX	XXXXXXXX
XXXX	XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX	XXXXXX	XXXXXXXX
XXXX	XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX	XXXXXX	XXXXXXX
Average	XXXXXXXXXXXXXXXXXXXXXXXXXXXXXX	XXXXXXX	XXXXXXX

<END VZ PROPRIETARY>

The $5.06 per hour difference is the major adjustment that AT&T makes to Verizon’s unsupported labor rates. AT&T’s adjustment is well documented and based on sound financial data – the efficient benefit level proposed by AT&T has already been achieved by the average company in SIC 48 in the U.S.

I. DIRECT MISCELLANEOUS LOADING

1. Verizon’s Direct Miscellaneous Loading

Q. HOW DOES VERIZON CALCULATE DIRECT MISCELLANEOUS LOADINGS?

A. Verizon includes a calculation of its embedded Direct Miscellaneous payments from its accounting systems in the numerator and its productive hours in the

denominator. Verizon provides no supporting data for either the numerator or the denominator.

2. AT&T's Direct Miscellaneous Loading

**Q.	HOW DOES AT&T CALCULATE ITS DIRECT MISCELLANEOUS LOADINGS?**

A.	To my knowledge, there is no publicly available data from which to establish an efficient benchmark for this category. Therefore, I have done a little smoothing of the data (i.e., examined the data and eliminated data points that were far out of range from the other data points) and used Verizon's data.

**Q.	WOULD YOU PLEASE FURTHER EXPLAIN YOUR SMOOTHING ADJUSTMENT?**

A.	Yes. For JFC 4000, Verizon shows a Direct Miscellaneous expense of **<BEGIN VZ PROPRIETARY>** XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX[46] reduced this outlier

[46] A more aggressive adjustment would have been to reduce the outlier to the average of the other data points.

XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXX **<END VZ PROPRIETARY>**

3. Comparison of AT&T's Proposed TELRIC Direct Miscellaneous Loading and Verizon's Embedded Direct Miscellaneous Loading

Q. WOULD YOU PLEASE COMPARE AT&T'S TELRIC DIRECT MISCELLANEOUS LOADING AND VERIZON'S ASSERTED EMBEDDED COSTS?

A. Yes. **Table 13** below shows that comparison.

Table 13
Comparison of Direct Miscellaneous Loadings

<BEGIN VZ PROPRIETARY>

XXXXXXX	XXXX	XXXX	XXXX
XXXX	XXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXX	XXXX	XXXX
XXXX	XXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXX	XXXX	XXXX
XXXX	XXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXX	XXXX	XXXX
XXXX	XXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXX	XXXX	XXXX
XXXX	XXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXX	XXXX	XXXX
XXXX	XXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXX	XXXX	XXXX
XXXX	XXXXXXXXXXXXXXXXXXXXXXXXXXXXXX	XXXX	XXXX

<END VZ PROPRIETARY>

The $2.14 per hour difference is the second largest of the three adjustments that AT&T makes to Verizon's unsupported labor rates. AT&T's conservative

adjustment addresses the obvious, unexplained and unsupported, outlier in Verizon's Direct Miscellaneous data.

J. MOTOR VEHICLES LOADING

1. Verizon's Motor Vehicle Loading

Q. HOW DOES VERIZON CALCULATE ITS MOTOR VEHICLE LOADINGS?

A. Verizon includes an embedded motor vehicle expense from its accounting systems in the numerator and its productive hours in the denominator. For those JFC which have Motor Vehicle expenses, the expense is **<BEGIN VZ PROPRIETARY>** XXXX **<END VZ PROPRIETARY>** times the Direct Wages.

2. AT&T's Motor Vehicle Loading

Q. HOW DOES AT&T CALCULATE ITS MOTOR VEHICLE LOADINGS?

A. To my knowledge, there is no publicly available information that could be used to benchmark motor vehicle loadings for these JFCs. AT&T therefore adopts the amounts provided by Verizon.

3. Comparison of Verizon Proposed and AT&T Proposed Motor Vehicle Loadings

Q. HOW DO VERIZON'S AND AT&T'S LOADINGS FOR MOTOR VEHICLES COMPARE?

A. Table 14 below compares Verizon's motor vehicle loading to AT&T's motor vehicle loading.

Table 14
Comparison of Motor Vehicle Loadings

<BEGIN VZ PROPRIETARY>

XXXX	XXXX	XXXX	XXXX
XXXX	XXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXX	XXXX	XXXX
XXXX	XXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXX	XXXX	XXXX
XXXX	XXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXX	XXXX	XXXX
XXXX	XXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXX	XXXX	XXXX
XXXX	XXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXX	XXXX	XXXX
XXXX	XXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXX	XXXX	XXXX

<END VZ PROPRIETARY>

AT&T has conservatively accepted Verizon's proposed Motor Vehicles loadings.

K. TOOLS LOADING

1. Verizon's Tools Loading

Q. HOW DOES VERIZON CALCULATE ITS TOOLS LOADINGS?

A. Verizon includes a calculation of its embedded tools expense from its accounting systems in the numerator and its productive hours in the denominator. Verizon provides no supporting data for either the numerator or the denominator. AT&T derived a uniform **<BEGIN VZ PROPRIETARY>** XXX **<END VZ PROPRIETARY>** factor used by Verizon for each JFC that incurs this expense.

2. AT&T's Tools Loading

Q. HOW DOES AT&T CALCULATE ITS TOOLS LOADINGS?

A. To my knowledge, there is no publicly available information that could be used to benchmark tools loadings for these JFCs. AT&T therefore adopts the Verizon loading for Tools.

3. Comparison of Verizon Proposed and AT&T Proposed Tools Loadings

Q. HOW DO VERIZON'S AND AT&T'S LOADINGS FOR TOOLS COMPARE?

A. **Table 15** below compares Verizon's tools loading to AT&T's tools loading.

Table 15
Comparison of Tools Loadings

<BEGIN VZ PROPRIETARY>

XXXX	XXXX	XXXX	XXXX
XXXX	XXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXX	XXXX	XXXX
XXXX	XXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXX	XXXX	XXXX
XXXX	XXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXX	XXXX	XXXX
XXXX	XXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXX	XXXX	XXXX
XXXX	XXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXX	XXXX	XXXX
XXXX	XXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXX	XXXX	XXXX

<END VZ PROPRIETARY>

AT&T has conservatively accepted Verizon's proposed Tools loadings.

L. INFLATION FACTORS

Q. DOES VERIZON APPLY AN INFLATION FACTOR TO ITS LABOR RATES?

A. Yes. As is shown in **Table 1** Verizon includes a **<BEGIN VZ PROPRIETARY>** XXXX **<END VZ PROPRIETARY>** inflation factor for 2004 and for the future years 2005 and 2006.

Q. SHOULD A LABOR RATE INFLATION FACTOR APPEAR IN A TELRIC STUDY?

A. Labor rates should not recognize future inflation unless there is also a proper TELRIC recognition of future productivity increases. **Table 2** shows that AT&T develops 2004 rates and does not automatically inflate them over future years.

If Verizon had perfect foresight, started with TELRIC labor rates and also applied a TELRIC forward-looking efficiency factor, then it would be acceptable to apply a forward-looking TELRIC wage increase or wage inflation factor. Verizon's workers should become more efficient in doing their jobs as time goes by through the introduction of new technology and through

the benefit of additional experience. Since Verizon's studies fail to include an appropriate TELRIC increase in efficiency, its studies should not include an increase in wages or a forward looking adjustment for inflation.

Q. WHAT DATA SUPPORT YOUR POSITION THAT FUTURE WAGE INCREASES SHOULD NOT BE INCLUDED IN VERIZON'S STUDIES?

A. The BLS tracks and publishes data on worker productivity. **Table 16** below shows how worker compensation and worker output have compared over the years 1987 to 2001 in the Wired Telecommunications Companies sector of the economy (NAICS 5171[47]). Over that time period, output has increased by 6.8% annually while labor costs have only increased by 4.4% annually -- thus unit labor costs have fallen by 2.2% annually. For 2001 to 2002 only, unit labor costs fell by 6.1%.[48]

[47] NAICS stands for the North American Industry Classification System. NAICS has recently replaced the SIC system which was developed in the 1930s. NAICS groups establishments into industries based on the activity in which they are primarily engaged. NAICS uses a six digit hierarchical coding system to classify economic data into twenty industry sectors. Wired Telecommunications Companies fall under Sector 51 which is Information companies.

[48] This BLS data was published on 11/05/2003. The BLS informs us that the "productivity gains reflect the joint effect of a number of interrelated influences such as changes in technology, capital investment per worker, utilization of capacity, layout and flow of material, skill and effort of the work force, managerial skill, and labor-management relations." http://www.bls.gov/lpc/iprread1.htm.

Table 16
Annual Percent Change In Total Compensation, Output, And Unit Labor Costs: NAICS 5171 Wired Telecommunications Companies, 1987-01 And 2000-01[49]

Annual % Change 1987 - 2001				Annual % Change 2000 - 2001		
Total Compensation	Output	Unit Labor Costs		Total Compensation	Output	Unit Labor Costs
4.4	6.8	-2.2		-4.1	2.1	-6.1

The data demonstrates that blind adjustments for inflation and wage increases would misrepresent what is happening in the real world. If output per hour gains exceed compensation increases, Verizon's activity costs per labor hour would actually decrease each year, even if the nominal wages increase. While the absolute level of labor rates may have normally increased in the past, the actual cost of labor has decreased due to the high productivity gains in the industry.

If adjustments to Verizon's labor rates were to be made, appropriate TELRIC forward looking productivity and inflation adjusted labor rates should be captured in a TELRIC study, and not just the inflation adjusted labor rates. Based on this data, I respectfully urge

[49] Source data can be found at http://www.bls.gov/news.release/prin.t02.htm.

the Commission to reject the wage increase and inflation increase factors in Verizon's labor rate studies.

Q. IS THERE ANY OTHER SUPPORT FOR REMOVING INFLATION?

A. Yes. Other state commissions (e.g., Texas, Missouri and Kansas) have removed inflation adjustments in ILEC studies due to the absence of offsetting productivity adjustments.[50]

The Missouri Commission was very lucid on this point in its 2002 order:

> SBC does include overt inflation factors in its cost studies so that inflation will not be fixed at the time of the study. As a result, SBC's cost studies will tend to overstate actual costs.
>
> This problem could be solved by requiring SBC to incorporate overt prospective productivity adjustments into its cost studies but no party has proposed a formula that would permit the easy development of such adjustments. However, the expert witnesses for both Staff and the Joint Sponsors indicate that productivity factors would roughly balance out the inflation factors and

[50] Kansas Docket No. 97-SCCC-149-GIT, Order Setting Inputs For Cost Studies, page A-36 (Nov. 17, 1998) ("If an inflation factor is adopted, a productivity factor should also be adopted. SBC's cost studies do not include an explicit productivity factor. Staff states if a separate adjustment for productivity were to be made, that adjustment could more than offset the inflation adjustment. Missouri, Arkansas, Texas and Oklahoma eliminated the inflation factor to offset the lack of a productivity factor. The United States District Court, Western District of Texas recently affirmed the Texas Public Utilities Commission's decision. SBC v. AT&T, No. A97-CA- 132SS (W.D. Tex. 1998) Removing the inflation adjustment from SBC's TELRIC cost studies represents a reasonable and conservative way of addressing these issues.")

that if productivity factors are not used, then inflation factors should also be excluded. For that reason, the Commission will order SBC to exclude overt inflation factors from its cost studies.[51]

Q. IF THE COMMISSION WERE TO ADOPT ALL THE TELRIC PRODUCTIVITY ADJUSTMENTS PROPOSED BY AT&T IN ITS PANEL TESTIMONY, AND THE TELRIC DIRECT SUPPORT, DIRECT MISCELLANEOUS AND BENEFITS (I.E., PREMIUM, PAID ABSENCE AND BENEFITS) ADJUSTMENTS YOU DESCRIBE ABOVE, WOULD IT THEN CONFORM TO TELRIC PRINCIPLES TO APPLY A 2% ANNUAL INFLATION ADJUSTMENT TO THE LABOR RATES FOR YEARS BEYOND 2004 AS PROPOSED BY VERIZON?

A. Yes.[52]

M. COMPARISON OF AT&T AND VERIZON LABOR RATES

Q. BASED ON ALL THE TELRIC MODIFICATIONS YOU HAVE MADE TO VERIZON'S EMBEDDED ACCOUNTING DATA, WHAT ARE YOUR PROPOSED LABOR RATES AND HOW DO THEY COMPARE WITH VERIZON'S PROPOSED LABOR RATES?

A. **Table 17** below compares AT&T's proposed TELRIC and Verizon's embedded fully loaded labor rates.

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[51] Missouri Case No. TO-2002-438, Report and Order, Issue 64 (August 6, 2002), available at http://www.psc.state.mo.us/orders/08061438.htm. The Missouri Commission had reached this same conclusion in Missouri Case No. TO-97-40, Final Arbitration Order, Adopting Staff's Recommendation attached as Appendix C, pg. 119 (July 31, 1997).

Table 17

Comparison of AT&T and Verizon Fully Loaded Labor Rates

<BEGIN VZ PROPRIETARY>

XXXX	XXXX	XXXX	XXXX	XXXX
XXXX	XXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXX	XXXX	XXXX	XXXX
XXXX	XXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXX	XXXX	XXXX	XXXX
XXXX	XXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXX	XXXX	XXXX	XXXX
XXXX	XXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXX	XXXX	XXXX	XXXX
XXXX	XXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXX	XXXX	XXXX	XXXX
XXXX	XXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXX	XXXX	XXXX	XXXX
XXXX	XXXX	XXXX	XXXX	XXXX

<END VZ PROPRIETARY>

Q. ARE ALL YOUR TELRIC LABOR RATES LOWER THAN VERIZON'S EMBEDDED, PROPOSED RATES?

A. No. My TELRIC labor rate for JFC 4376 is actually above Verizon's unsupported, asserted rate.

Q. IN YOUR OPINION, ARE THE ADJUSTED LABOR RATES CONTAINED IN THE FOURTH COLUMN OF Table 17 CONSISTENT WITH THE FCC'S TELRIC METHODOLOGY?

A. Yes. The rates presented by AT&T are conservatively normalized for competitive market conditions. The

[52] Attachment RPF-2, my workpapers, tab "Inflation-Productivity", has a user adjustable input value for inflation and productivity for each JFC. They are currently both set to 1.

well documented, Direct Support, SIC code 48 based Benefit loadings from the BLS ECEC, and Direct Miscellaneous adjustments I have made, result in a reasonable estimate of efficient competitive market costs in the telecommunications business.

Q. WOULD YOU PLEASE PROVIDE A TABLE THAT ILLUSTRATES BY LABOR ELEMENT THE CHANGES YOU HAVE MADE TO VERIZON'S ASSERTED EMBEDDED LABOR RATES?

A. Yes. **Table 18** uses averages across the 6 JFCs to show the differences between Verizon's and AT&T's proposed labor rates.

Table 18
Comparison of AT&T and Verizon Average Labor Elements
<BEGIN VZ PROPRIETARY>

XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
XXXX XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
XXXX	XXXX	XXXX	XXXX	XXXX	XXXX

<END VZ PROPRIETARY>

The Direct Support, Benefits (i.e., Premium, Paid Absence and Benefits) and Direct Miscellaneous adjustments, on average, total a **<BEGIN VZ PROPRIETARY>** XXXXXXXXXXXXXXXXXX **<END VZ PROPRIETARY>**

reduction from Verizon's unsupported calculations of its embedded costs. This is a small but reasonable adjustment that one would expect to find in comparing embedded and TELRIC labor costs. The TELRIC method is designed to provide incentives for ILECs to operate with more efficiency, with consumers being the beneficiaries.

IV. OTHER ISSUES – ATTACHMENT RPF-2

Q. ARE YOU PROVIDING AN ATTACHMENT THAT SHOWS ALL THE CALCULATIONS YOU HAVE MADE IN THE DEVELOPMENT OF YOUR TESTIMONY?

A. Yes. Attachment RPF-2, "Verizon RI Labor Rates Restated.xls", provides support for all the calculations I have made in the development of my proposed TELRIC labor rates. The attachment is an Excel workbook that contains six worksheets. A brief description of each worksheet follows:

- Restatement – For each labor element of each JFC shows Verizon's embedded cost and AT&T's proposed TELRIC cost. Also shows the calculations used to develop **Table 18**;
- Wages – displays the BLS SOC wages used in my calculations. It also shows the user

adjustable factor to increase the data from 2002 levels to 2004 levels;

- BLS Data – displays the ECEC SIC 48 data I use in developing my TELRIC benefit loadings;
- Supervision and Support – contains the inputs and calculations I used in developing the TELRIC supervisory support and clerical support loadings. It also shows the user adjustable productive time factor;
- Other inputs – contains the inputs used in developing the management hours adjustment;
- VZ Components – shows the limited data Verizon has filed regarding the development of its asserted labor rates;
- Perspective – shows how Verizon's total labor costs compare to its total revenues and total operating expenses; and
- Inflation-Productivity – contains the BLS data on productivity improvements for wired telecommunications companies. Also contains user adjustable input fields for inflation and productivity.

V. SUMMARY AND CONCLUSION

Q. WOULD YOU PLEASE SUMMARIZE YOUR TESTIMONY?

A. Verizon's asserted costs for labor services are blindly based on its embedded costs and are not supported by adequate documentation or information. Verizon has failed to meet a burden of proving its rates are TELRIC compliant. Verizon's proposed rates are based on the historical experience of one firm, a firm that faced no competition during a period when many of the cost relationships reflected in its embedded accounts were established. The conservative adjustments I propose to the Direct Support, Benefit and Direct Miscellaneous loadings are necessary to normalize the costs and bring them into compliance with the TELRIC methodology as mandated by the FCC's *First Report and Order* and adopted by this Commission. Bringing these costs into TELRIC compliance will facilitate vigorous competition for local service in Rhode Island, thereby bringing higher quality, more innovation and lower prices to Rhode Island consumers.

Q. WHAT ARE YOU ASKING THE COMMISSION TO DO?

A. I respectfully urge the Commission to adopt the conservative adjustments outlined in this testimony to

bring the Verizon asserted labor rates into compliance with TELRIC principles.

Q. DOES THAT CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes.

JURISDICTION	PROCEEDING NUMBER AND STYLE	TOPICS ADDRESSED IN TESTIMONY
Arkansas	Docket 91-204 Inquiry into Alternatives to Rate of Return Regulation for SWB	Unbundling of LEC Network Basic Network Functions Competition in the Local Market Local Market Economics Competitive Safeguards
Arkansas	Docket 96-395-U In the Matter of AT&T Communications of the Southwest, Inc.'s Petition for Arbitration of Unresolved Issues with Southwestern Bell Telephone Company Pursuant to §252(b) of the Telecommunications Act of 1996	Competition Policy Non-discriminatory, Pro-Competitive Pricing Non-recurring charges Resale Restrictions Pricing for customers changing local service providers Interconnection Filing of Tariffs Collocation Prices Hatfield Model
Arkansas	Docket 98-048-U In the Matter of the Application of Southwestern Bell Telephone Company Seeking Verification That It Has Fully Complied With and Satisfied The Requirements of Sec. 271(C) of the Telecommunications Act of 1996	TELRIC Non-recurring rates Loop studies Switching studies Depreciation Signaling OS/DA Reciprocal Compensation
California	Application 01-02-024 Joint Application of AT&T Communications of California, Inc. (U 5002 C) and WorldCom, Inc. for the Commission to Reexamine the Recurring Costs and Prices of Unbundled Switching in Its First Annual Review of Unbundled Network Element Costs Pursuant to Ordering Paragraph 11 of D.99-11-050.	TELRIC Labor Rates
California	Rulemaking 93-04-003 Rulemaking on the Commission's Own Motion to Govern Open Access to Bottleneck Services and Establish a Framework for Network Architecture Development of Dominant Carrier Networks.	TELRIC Labor Rates
Federal (FCC)	CC Docket No. 00-217 In the Matter of Joint Application by SBC Communications Inc., Southwestern Bell Telephone Company, and Southwestern Bell Communications Services, Inc. d/b/a Southwestern Bell Long Distance for Provision of In-Region, InterLATA Services in Kansas and Oklahoma	TELRIC Pricing UNE Rates

JURISDICTION	PROCEEDING NUMBER AND STYLE	TOPICS ADDRESSED IN TESTIMONY
Illinois	ICC DOCKET 02-0864 Illinois Bell Telephone Company Filing to Increase Unbundled Loop And Nonrecurring Rates (Tariffs filed December 24, 2002)	TELRIC Labor Rates
Indiana	CAUSE NO. 42393 In The Matter Of The Commission Investigation And Generic Proceeding Of Rates And Unbundled Network Elements And Collocation For Indiana Bell Telephone Company, Incorporated D/B/A SBC Indiana Pursuant To The Telecommunications Act Of 1996 And Related Indiana Statutes	TELRIC Labor Rates
Kansas	Docket 190,492-U Phase I General Investigation into Competition within the Telecommunications Industry in the State of Kansas	Effective Competition Entry Barriers Economic Principles Consumer Welfare Resale Subsidies Benefits of Competition Service Classification Basic Network Functions (UNE)
Kansas	Docket 190,492-U Phase II General Investigation into Competition within the Telecommunications Industry in the State of Kansas	UNE Prices Hatfield Model
Kansas	Docket No. 95-SWBT-142-TAR SWBT Filing LDMTS Tariff to Introduce Lower Community of Interest Standards to Qualify for OCCS	Access Charges Discriminatory Pricing
Kansas	Docket 97-AT&T-290-ARB In the Matter of the Petition by AT&T Communications of the Southwest, Inc., for Compulsory Arbitration of Unresolved Issues with Southwestern Bell Telephone Company pursuant to 252(b) of the Telecommunications Act of 1996.	Telecom Act of 1996 Unbundling Resale Customer Migration Termination of Local Calls TELRIC Non-recurring charges Hatfield Model
Kansas	Docket 97-SWBT-411-GIT In the Matter of Southwestern Bell Telephone Company – Kansas' Compliance With Section 271 of the Federal Telecommunications Act of 1996	TELRIC Loop Studies Switching Studies Cross Connect Studies Transport Studies Non-recurring rates Cost Factors Depreciation Rates Signaling Studies Reciprocal Compensation Rates Policy

JURISDICTION	PROCEEDING NUMBER AND STYLE	TOPICS ADDRESSED IN TESTIMONY
Kansas	Docket 97-SCCC-149-GIT In the Matter of the Joint Application of Sprint Communications Company, L.P., United Telephone Company of Kansas, United Telephone Company of Eastern Kansas, United Telephone Company of South Central Kansas, and United Telephone Company of Southeastern Kansas for the Commission to Open a Generic Proceeding on Southwestern Bell Telephone Company's Rates for Interconnection, Unbundled Elements, Transport and Termination, and Resale	Telecom Policy TELRIC Non-recurring Prices Economic Principles Forward Looking OSS Monopoly Revenue Replacement
Kansas	Docket 98-SWBT-380-MIS In the Matter of Southwestern Bell Telephone Company's Application for Price Cap Regulation Pursuant to KSA 66-1, 190 & KSA 66-2005(b)	Price Deregulation Market Power Anti-competitive marketing
Kansas	Docket 98-GIMT-712-GIT In the Matter of a General Investigation into IntraLATA Toll Dialing Parity Cost Recovery, PIC Change Charge and Other Issues	Intrastate Access Charges Carrier of Last Resort Internet Access
Kansas	Docket 99-GIMT-784-GIT In the Matter of a General Investigation into Issues Relating to Local Competition in The State of Kansas	Universal Service Competition Economics Intrastate Access Charges Competitively Neutral Subsidies
Kansas	Docket 96-LEGT-670-LEG In the Matter of Implementation of the State Telecommunications Act of 1996 (H.B. 2728) And the Federal Telecommunications Act of 1996 Regarding Telecommunications Public Utilities	Intrastate Access Charges
Kansas	Docket 00-UTDT-455-GIT In the Matter of the Investigation into the Cost to Provide Local Service of the United Telephone Companies of Kansas d/b/a Sprint, as Required by K.S.A. 1998 Supp. 66-2008(d)	Intrastate Access Rates
Kansas	Docket 01-GIMT-032-GIT In the Matter of a General Investigation to Determine Conditions, Terms and Rates for Digital Subscriber Line Unbundled Network Elements, Loop Conditioning, and Line Sharing	Line Splitting Economic Discrimination
Kansas	Docket 99-GIMT-326-GIT In the Matter of an Investigation into the Kansas Universal Service Fund (KUSF) mechanism for the purpose of Modifying the KUSF and Establishing a Cost-Based Fund.	Universal Service Access Charges

JURISDICTION	PROCEEDING NUMBER AND STYLE	TOPICS ADDRESSED IN TESTIMONY
Kansas	Docket 01-GIMT-082-GIT In the Matter of the General Investigation into the Reformation of Intrastate Access Charges	Access Charges Economic Cost Competition Cost Based Rates
Maryland	Case No. 8988 In the Matter of the Approval of a Batch Hot Cut Migration Process for Verizon Maryland Inc. Pursuant to the Federal Communication Commission's Triennial Review Order	TELRIC Labor Rates
Massachusetts	D.T.E. 03-60 Proceeding by the Department on its own Motion to Implement the Requirements of the Federal Communications Commission's Triennial Review Order Regarding Switching for Mass Market Customers	TELRIC Labor Rates
Michigan	In The Matter, On The Commission's Own Motion, To Review The Cost Of Telecommunication Services Provided By SBC Michigan	TELRIC Labor Rates
Missouri	Case No. TO-93-116 SWBT Petition to Classify Certain Services as Transitionally Competitive and Competitive Case No. TO-93-192 Proposals to Establish an Alternate Regulation Plan for SWBT (Consolidated with TO-93-116)	Local Market Competition
Missouri	Case No. TC-93-224 Staff Complaint Regarding Current Rates and Charges of SWBT	Local Exchange Pricing
Missouri	Case No. TC-94-86 Office of Public Counsel vs. AT&T Regarding Continuing the Transitionally Competitive Status of Measured Toll Service (MTS) Offered by AT&T for Two More Years	Competition
Missouri	Case No. TC-97-40 In the Matter of AT&T Communications of the Southwest, Inc.'s Petition for Arbitration Pursuant to Section 252(b) of the Telecommunications Act Of 1996 to Establish An Interconnection Agreement with Southwestern Bell Telephone Company	TELRIC Pricing Hatfield Model

JURISDICTION	PROCEEDING NUMBER AND STYLE	TOPICS ADDRESSED IN TESTIMONY
Missouri	Case No. TC-97-63 In the Matter of AT&T Communications of the Southwest, Inc.'s Petition for Arbitration Pursuant to Section 252(b) of the Telecommunications Act of 1996 to Establish an Interconnection Agreement with GTE Midwest Incorporated	TELRIC Pricing Hatfield Model
Missouri	Case No. TO-98-115 In the Matter of AT&T Communications of the Southwest, Inc.'s Petition for Second Compulsory Arbitration Pursuant to Section 252(b) of the Telecommunications Act of 1996 to Establish an Interconnection Agreement with Southwestern Bell Telephone Company	TELRIC Pricing Non-recurring rates
Missouri	Case No. TO-99-227 In the Matter of the Application of Southwestern Bell Telephone Company to Provide Notice of Intent to File an Application for Authorization to Provide In-region InterLATA Services Originating in Missouri Pursuant to Section 271 of the Telecommunications Act of 1996	Telecom Act of 1996 TELRIC Pricing UNE Prices Embedded Costs NRCs Resale Restrictions Competitive Checklist
New Jersey	Docket No. TO03009705 In The Matter Of The Implementation Of The Federal Communications Commission's Triennial Review Decision	TELRIC Labor Rates
New York	Case No. 02-C-1425 Proceeding On Motion of the Commission to Examine the Process, and Related Costs of Performing Loop Migrations on a More Streamlined (e.g., Bulk) Basis.	TELRIC Labor Rates
Ohio	Case No. 04-34-TP-COI In the Matter of the Implementation of the Federal Communications Commission's Triennial Review Regarding Local Circuit Switching in SBC Ohio's Mass Market	TELRIC Labor Rates
Oklahoma	Cause No. 000662 Application of Howard W. Motley, Jr., for an Inquiry into the Rates and Charges of SWBT Cause No. 000837 Application of SWBT for Approval of Telestate/21, a Proposal for Rate Stability, Network Modernization, and Price Regulation (Consolidated with Oklahoma Cause 000662)	Intrastate Access Charges IntraLATA Compensation Regulation of Monopoly Services

JURISDICTION	PROCEEDING NUMBER AND STYLE	TOPICS ADDRESSED IN TESTIMONY
Oklahoma	Cause No. 0001159 Inquiry of Oklahoma Corporation Commission Concerning the Provision and Regulation of Competitive IntraLATA Telecommunication Services	Benefits of Competition Effective Competition
Oklahoma	Cause No. 940000486 Application of Metropolitan Fiber Systems of Oklahoma, Inc. for a Certificate of Convenience and Necessity to Provide Intrastate, Interexchange Private Line Telecommunications Service.	Benefits of Competition
Oklahoma	Cause No. 960000218 Application of AT&T Communications of the Southwest, Inc., for Compulsory Arbitration of Unresolved Issues with Southwestern Bell Telephone Company Pursuant to Section 252(b) of the Telecommunications Act of 1996	TELRIC Pricing Hatfield Model
Oklahoma	Cause No. 960000242 Application of AT&T Communications of the Southwest, Inc. for Compulsory Arbitration of Unresolved Issues with GTE Southwest Incorporated Pursuant to Section 252(b) of the Telecommunications Act	TELRIC Pricing Hatfield Model
Oklahoma	Cause No. 970000213 Application of Cox Oklahoma Telecom, Inc., For a Determination of the Costs of, and Permanent Rates for the Unbundled Network Elements of Southwestern Bell Telephone Company	TELRIC UNE Prices Interconnection Prices LRIC Non-recurring charges UNE Combinations Effective Competition
Oklahoma	Cause No. 970000442 In the Matter of the Joint Application of Southwestern Bell Telephone Company and AT&T Communications of the Southwest, Inc. for a Determination of Costs and Permanent Rates For Certain Southwestern Bell Telephone Company Services	TELRIC UNE Prices Interconnection Prices LRIC Non-recurring charges UNE Combinations Effective Competition

JURISDICTION	PROCEEDING NUMBER AND STYLE	TOPICS ADDRESSED IN TESTIMONY
Oklahoma	Cause No. PUD 970000560 Application of the Attorney General of the State of Oklahoma, AT&T Communications of the Southwest, Inc., Brooks Fiber Communications of Oklahoma, Brooks Fiber of Tulsa, Inc., Cox Oklahoma Telecom, Inc., MCI Telecommunications Corporation, and Sprint Communications, L.P. To Explore Southwestern Bell Telephone Company's Compliance with Section 271(c) of the Telecommunications Act of 1996.	TELRIC Loop Studies Switching Studies Cross Connect Studies Transport Studies Non-recurring rates Cost Factors Depreciation Rates Signaling Studies Reciprocal Compensation Rates Policy
Oklahoma	Cause No. 980000459 Application of Sprint Communications Company, L.P., AT&T Communications of the Southwest, Inc. and MCI Telecommunications Corporation to Determine IXC Interexchange Services Are Subject to Effective Competition and for Modification of OAC 165:55-5-10(j)	Effective Competition Economics of Competitive Markets
Texas	Docket No. 8672 Application of SWBT to Revise 3M Plexar Tariff	Price Discrimination PBX vs Centrex
Texas	Docket No. 9251 Application of GTE to Revise Section 47 of General Exchange Tariff to Establish Specific Rates for Centranet Service Involving 101-400 Lines	Price Discrimination PBX vs Centrex
Texas	Docket No. 12784 SWBT Filing to Restructure Local Transport and Directory Transport Categories in Switched Access Services Tariff (Consolidated with Texas Docket Nos. 12865 & 12866)	Intrastate Access
Texas	Project No. 9075 SWB Cost Allocation Rule Approved 8-18-93 with Effective Date of 9-10-93	Total Service Long Run Incremental Costing (TELRIC) Basic Network Functions (UNE)
Texas	Docket No. 13282 Application of MFSI-TX Intelenet of Texas, Inc. For A Certificate of Convenience and Necessity To Operate As A Local Exchange Company In The Areas Served By Southwestern Bell Telephone Company And GTE Southwest, Inc. In Harris, Dallas, Collin, Tarrant, Bexar, Travis, and El Paso Counties	Local Competition

JURISDICTION	PROCEEDING NUMBER AND STYLE	TOPICS ADDRESSED IN TESTIMONY
Texas	Docket No. 16226 Petition of AT&T Communications of the Southwest, Inc. For Compulsory Arbitration to Establish An Interconnection Agreement Between AT&T and Southwestern Bell Telephone Company	Hatfield Model
Texas	Docket No. 16300 Application of AT&T Communications of the Southwest, Inc. For Compulsory Arbitration to Establish An Interconnection Agreement Between AT&T and GTE Southwest Incorporated and Contel of Texas, Inc.	Hatfield Model
Texas	SOAH Docket No. 473-96-1803 PUC Docket No. 16495 Application of GTE Card Services, Inc. For a Certificate of Operating Authority	Anti-competitive behavior Safeguards Against Monopoly Abuse
Texas	Docket No. 18515 Compliance Proceeding For Implementation of the Texas High Cost Universal Service Plan	Universal Service Competition
Texas	Project No. 16251 Investigation of Southwestern Bell Telephone Company's Entry Into the InterLATA Telecommunications Market	Costing and Pricing of UNEs Competition Barriers to Entry
Texas	Docket 25834 Proceeding on Cost Issues Severed From P.U.C. Docket No. 24542	TELRIC, Labor Rates, Affiliate Transactions, Non-recurring rates for Input/Output Port, UNE rates for Alternate Billed Services.
Texas	Docket No. 28600 Arbitration Of Phase I Costing Issues For Successor Interconnection Agreements To The Texas 271 Agreement	TELRIC, Labor Rates, Non-recurring rates for Input/Output Port