

ORIGINAL



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May 1, 2000

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Ms. Blanca S. Bayo, Director
Division of Records & Reporting
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

Re: Docket No. 990649-TP
Investigation into Pricing of Unbundled Network Elements

Dear Ms. Bayo:

Please find enclosed an original and fifteen copies of the Direct Testimonies of Linda Casey, Gregory D. Jacobson, Michael R. Norris, Allen E. Sovereign, Dennis B. Trimble and David G. Tucek on behalf of GTE Florida Incorporated for filing in the above matter. Also enclosed are an original and fifteen copies of a Request for Confidential Classification regarding Mr. Trimble's Exhibit DBT-4.

Service has been made as indicated on the Certificate of Service. If there are any questions regarding this filing, please contact me at (813) 483-2617.

Sincerely,

Brent J. Mills

Kimberly Caswell

05301-00 thru 05309-00

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY that copies of the Direct Testimonies of Linda Casey, Gregory D. Jacobson, Michael R. Norris, Allen E. Sovereign, Dennis B. Trimble and David G. Tucek on behalf of GTE Florida Incorporated and Request for Confidential Classification in Docket No. 990649-TP were sent via U.S. mail on May 1, 2000 to the parties on the attached list.



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ORIGINAL

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Investigation into Pirching of)
Unbundled Network Elements, Phase II)

Docket No. 990649-TP

DIRECT TESTIMONY OF

LINDA CASEY

ON BEHALF OF:

GTE FLORIDA INCORPORATED

SUBJECT: NRC COST STUDIES

May 1, 2000

DOCUMENT NUMBER-DATE

05301 MAY-18

FPSC-RECORDS/REPORTING

1 California. Since then, I have held positions of increasing
2 responsibility in the areas of Operator Services, Ordering and Billing,
3 Customer Operations Planning and Administration and Access
4 Services. In November 1997, I was promoted to my current position.

5

6 **Q. HAVE YOU TESTIFIED PREVIOUSLY BEFORE ANY**
7 **REGULATORY COMMISSIONS?**

8 A. Yes. I have previously testified before the Texas and Washington
9 public utility commissions.

10

11 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

12 A. The purpose of my testimony is to present GTE's Total Element
13 Long-Run Incremental Cost (TELRIC) study of the non-recurring costs
14 caused by Competitive Local Exchange Carriers (CLECs) when they
15 order Unbundled Network Elements (UNEs) from GTE Florida
16 Incorporated (GTE). I discuss how GTE developed its non-recurring
17 costs based on the actual network design that will exist in the
18 foreseeable future, including any planned systems and process
19 improvements for completing CLEC requests.

20

21 My testimony also addresses items 8(a), network design for non-
22 recurring costs development, 8(b) OSS design, as it relates to CLEC
23 access to GTE non-recurring ordering functionalities, 8(c) Loaded
24 Labor Rates (LLRs) as they are used as inputs to develop non-
25 recurring costs, 8(d) required activities as they relate to non-recurring

1 costs and 8(e), mix of manual versus *electronic activities* (associated
2 with non-recurring ordering functionalities).

3

4 **Q. ARE YOU SPONSORING ANY EXHIBITS IN SUPPORT OF YOUR**
5 **TESTIMONY?**

6 A. Yes. I am sponsoring GTE's Non-recurring Cost Study for UNEs,
7 which were filed in this docket on May 1, 2000.

8

9 **Q. WHAT ARE NON-RECURRING COSTS?**

10 A. Non-recurring costs are the costs incurred in accepting, evaluating,
11 and provisioning CLEC requests. For example, when a CLEC orders
12 a *two-wire loop*, it pays for the cost of the loop through a monthly
13 recurring charge (MRC). This MRC, however, does not reflect the
14 costs an Incumbent Local Exchange Carrier (ILEC) incurs in
15 processing and provisioning the CLEC's request, e.g., the labor costs
16 associated with GTE's customer service representatives, which are
17 variable costs, and the cost of the building where the representatives
18 work, which are non-variable costs. These non-recurring costs are
19 captured separately through non-recurring charges (NRCs).

20

21 **Q. PLEASE PROVIDE A SPECIFIC EXAMPLE OF HOW NON-**
22 **RECURRING COSTS ARE INCURRED.**

23 A. Assume a CLEC wants to order a two-wire loop. If the CLEC submits
24 its order electronically, it will be delivered to one of GTE's National
25 Open Market Centers (NOMCs). There, a GTE customer service

1 representative – who works *exclusively* on wholesale UNE orders –
2 will pull the order up on a screen and evaluate it. The representative
3 must determine the complexity of the order, because different types
4 of orders require different types of activities that create different costs.
5 Generally, the more complex the order, the greater the costs.

6
7 Returning to our example, let's assume the CLEC's two-wire loop
8 order (1) is a new order (as opposed to a change of an existing
9 arrangement), (2) does not require any network design or engineering
10 activities, (3) can be provisioned using standard network components
11 maintained in inventory, and (4) does not require any special
12 instructions for switch translation or routing. After evaluating the
13 order, the customer service representative will designate it as an
14 "Exchange-Basic" order, which is the simplest type of order that incurs
15 the lowest cost. (As I discuss later in my testimony, GTE has
16 developed four different categories of requests that range from the
17 least to the most complex types of orders).

18
19 Having designated the request as Exchange-Basic, the representative
20 will refer to a price matrix that lists the Exchange-Basic non-recurring
21 charge (NRC) applicable to that particular CLEC in that particular
22 state. The representative will also identify and apply other relevant
23 NRCs, e.g., the NRC for "Expedite," which reflects the cost of
24 expediting a CLEC request before the standard due date that is
25 normally available. (I discuss this and other miscellaneous NRCs

1 later in my testimony.)

2

3 In sum, when a CLEC places an order for a UNE, it pays an MRC for
4 the UNE itself, and it pays NRCs that reflect the costs of ordering,
5 provisioning, and related activities required to put that UNE in service.

6 The MRCs and NRCs are completely separate sets of costs and are
7 *intended to recover different investments and expenses.*

8

9 **Q. HOW DID GTE CALCULATE ITS NON-RECURRING COSTS?**

10 A. GTE calculated its non-recurring costs in two steps. First, GTE
11 identified the volume-sensitive or *variable costs* (principally, the labor
12 costs) that are incurred when a CLEC places an order. GTE
13 determined these costs by studying each activity needed to fulfill a
14 *particular CLEC request*. Returning to our example above - an order
15 for a two-wire loop - to calculate the appropriate variable non-
16 recurring costs, GTE studied the time it takes for a representative to
17 (1) access the order, (2) review it, (3) determine the appropriate price
18 matrix, and (4) complete the order and list all the appropriate MRCs
19 and NRCs. The studies for the Exchange-Basic loop are based on a
20 sampling of observations of actual customer service representative
21 activities. (This sampling technique produces a statistical confidence
22 level of +/- 5%). Based on these studies, and based on the actual
23 labor rates in effect for a given state, GTE developed its variable non-
24 recurring costs. Again, different types of orders have different non-
25 recurring costs – generally, the more complex the order, the greater

1 the non-recurring costs. This approach is based on established
2 principles of cost causation, and ensures that CLECs bear the costs
3 they cause – no more and no less.

4
5 Second, GTE developed separate non-recurring costs to capture the
6 significant non-volume sensitive or *non-variable costs* incurred in
7 fulfilling and provisioning CLEC orders. These include the cost of the
8 computers used by the customer service representatives and the cost
9 of the land and buildings for the NOMCs, where the orders are sent
10 to be processed. GTE calls these the “NOMC Shared/Fixed Costs,”
11 which equal approximately \$17 million per year. The support for
12 these costs, and the assumptions used to annualize them, are set
13 forth in GTE’s Non-recurring Cost Study [Exhibit LC-1]. GTE
14 proposes to recover these costs through a separate NRC of \$5.53 per
15 order. For example, a CLEC that orders a two-wire loop will be
16 charged an additional incremental NRC of \$5.53. GTE witness
17 Dennis Trimble explains how this NRC was developed based on
18 estimated demand; my testimony supports the total annual cost of
19 \$17 million.

20
21 **Q. WHAT COST MODEL PRINCIPLES DID GTE EMPLOY IN**
22 **COMPLETING ITS NON-RECURRING COST STUDY?**

23 A. Pursuant to current FCC pricing standards, GTE’s non-recurring cost
24 studies are based on the TELRIC standard. The TELRIC of a service
25 is the amount by which a company’s total costs will increase in the

1 long run as a result of offering that service. In this context, long run
2 refers to a sufficient period for the company's capital assets, systems
3 and processes to adjust in an optimal way to available technology and
4 service demand. GTE's non-recurring cost methodology is:

- 5 (1) forward-looking;
- 6 (2) least-cost, based on planned systems and process
7 enhancements and corresponding efficiencies;
- 8 (3) long-run;
- 9 (4) based on incremental costs; and
- 10 (5) consistent with the principles of cost causation.

11
12 **Q. WHAT ARE THE APPROPRIATE ASSUMPTIONS AND INPUTS TO**
13 **BE USED IN THE FORWARD-LOOKING NON-RECURRING UNE**
14 **COST STUDY RELATING TO NETWORK DESIGN? (ISSUE 8(A))**

15 A. Generally, the assumptions and inputs are the same as those used
16 in the MRC study. GTE's non-recurring cost study is forward-looking
17 and meets the requirements of the FCC's rules.

18
19 Please note, however, that some of GTE's forward-looking costs are
20 intended to capture the costs of modifying GTE's existing network.
21 For example, GTE's MRC study is based on a forward-looking
22 network that does not include devices such as bridged taps or load
23 coils. GTE's existing network, however, includes such devices. If a
24 CLEC wants these devices removed, i.e., wants the line "conditioned"
25 for digital services, then GTE must send a technician into the field to

1 remove them from GTE's existing network. As discussed by Mr.
2 Trimble, the FCC's rules allow the ILECs to recover these costs, and
3 my testimony proposes a set of non-recurring costs for line
4 conditioning. These non-recurring costs reflect the forward-looking
5 costs, e.g., they include the actual labor costs GTE will incur in
6 performing line conditioning.

7

8 **Q. PLEASE DESCRIBE THE ACTIVITIES ADDRESSED IN THE NON-**
9 **RECURRING COST STUDY. (ISSUE 8(D))**

10 A. GTE's non-recurring cost study addresses the activities (pre-ordering,
11 ordering, provisioning and installation) necessary to provide UNEs to
12 CLECs.

13

14 **Q. HOW WERE THE ACTIVITIES TO BE STUDIED DETERMINED?**

15 A. The activities to be studied were determined based on a work flow
16 analysis that organized all of the work activities, by work group,
17 performed to satisfy a CLEC's request for service. Please refer to
18 GTE's non-recurring cost study for a description of the process flows,
19 work groups and the activities performed within those groups that
20 provide the framework for the cost study design.

21

22 **Q. DOES GTE'S NON-RECURRING COST STUDY REFLECT THE**
23 **IMPLEMENTATION OF ELECTRONIC GATEWAYS FOR LOCAL**
24 **SERVICE REQUEST (LSR) PROCESSING? (ISSUE 8(B))**

25 A. Yes. GTE's Operations Support Systems (OSS) solutions are

1 industry-standard and in full compliance with the Telecommunications
2 Act of 1996 in providing non-discriminatory access to OSS
3 functionalities. The GTE CLEC Support Website can be accessed
4 through the Internet at <http://www.wwwclecsupport.com>, and
5 provides information on GTE's Secure Integrated Gateway System
6 (SIGS) and Wholesale Internet Service Engine (WISE). CLECs can
7 input LSRs directly into SIGS through a mechanized ordering system
8 at their location or (if they do not have their own ordering systems)
9 through WISE via the Internet, which transmits LSRs into SIGS.

10

11 **Q. DOES GTE'S NON-RECURRING COST STUDY SEPARATE**
12 **MANUAL AND ELECTRONIC COSTS FOR ORDER RECEIPT?**
13 **(ISSUE 8(E))**

14 A. Yes. The cost study is structured so that separate costs are identified
15 for orders received manually and electronically.

16

17 **Q. DOES THE STUDY REFLECT FORWARD-LOOKING**
18 **ENHANCEMENTS THAT WILL AFFECT SYSTEMS AND**
19 **PROCESSES IN A FORWARD-LOOKING ENVIRONMENT?**

20 A. Yes. GTE has accomplished this in two stages. First, the study
21 reflects costs based upon manual LSR receipt. This cost applies
22 when the CLEC does not enter a request for service via one of the
23 mechanized options available. The incremental time for handling
24 these manual requests is in addition to the "semi-mechanized" mode,
25 which is the second stage.

1

2

GTE's processes in 1996 were necessarily very manual in nature, since the telecommunications industry was still developing standards and electronic interfaces. The semi-mechanized mode reflects all of the efficiencies from OSS that GTE has deployed since the Telecommunication Act of 1996 through 1999. Additionally, the semi-mechanized mode reflects forward-looking efficiencies that will be gained from projects that are funded through the year 2000 but have not yet been completed.

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To date, GTE has provided CLECs with the ability to query in real time and in an electronic format all information necessary to process a pre-order request, as well as receive from GTE any responses, error messages, or selection information necessary to complete each request. In late May or early June of this year, CLECs will have access to a system that will provide pre-qualification of Digital Subscriber Line (DSL) loops so that a CLEC can determine if the loop can support DSL service. This is accomplished through an internet solution that conforms with the Ordering and Billing Forum (OBF) standards and includes information on bridged tap location, length and quantity, the presence of load coils, loop length, the presence of pair gain devices and additional miscellaneous information.

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GTE's OSS utilizes SIGS, the ordering interface, to access data from the GTE ordering system or to transmit orders electronically for

25

1 processing. Today, approximately 27% of resale Exchange-Basic
2 orders are mechanically generated without human intervention in
3 response to electronic orders received from the CLEC. This is
4 otherwise known as simple order flow through. GTE has projected
5 that UNEs will achieve the same level of flow through in the semi-
6 mechanized environment. GTE has also projected productivity
7 improvements of 15% in the NOMC due to planned projects to
8 enhance OSS functionalities. The costs for the NOMC personnel
9 have been adjusted in order to reflect these enhancements.

10

11 **Q. WHEN WILL ALL ORDERS BE ELECTRONICALLY**
12 **PROVISIONED?**

13 A. The GTE non-recurring cost study does not assume that all
14 provisioning will be mechanical because neither GTE nor any other
15 incumbent local exchange carrier (ILEC) has anything approaching
16 100% automatic processing end-to-end for all telecommunications
17 services. Nor is there any evidence that this will change. While many
18 basic resale services can be processed without human intervention,
19 more complex and engineered services require (and will continue to
20 require) manual assignment of facilities. Additionally, the physical
21 field installation work activities performed by Company personnel will
22 not be appreciably affected by the introduction of the new OSS
23 interfaces.

24

25 **Q. PLEASE DESCRIBE THE UNE ORDER TYPES.**

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Telephone Service (POTS).

“Migration As Is +/-” – This order type differs from a “Migration As Is” order only in that the end-user wants to add or delete a vertical feature from his existing service. The central office switch must be updated for the requested feature change, and this is accomplished electronically.

“Migration As Specified” – This order type occurs when the end-user converts a portion of his GTE retail services (at a single location) to UNEs provided by a CLEC. The CLEC specifies the services and service arrangements to be migrated.

Q. PLEASE DESCRIBE THE NON-RECURRING COST CATEGORIES OF UNES.

A. GTE employs a process approach, rather than a product basis approach, for developing non-recurring costs. GTE has categorized UNEs into four categories; (1) Exchange – Basic; (2) Exchange – Complex; (3) Special / Advanced – Basic; and (4) Special / Advanced – Complex. Each of these categories has a distinct provisioning process and associated non-recurring costs. For each category, GTE

1 has developed costs for activities required to pre-order, order,
2 provision and install the UNEs. This approach allows GTE to apply
3 non-recurring costs for any UNE, based upon the work flow of one of
4 the four categories. In this way, GTE is able to add new UNEs and
5 develop non-recurring costs with little difficulty simply by mapping the
6 UNE to the applicable process flow to determine the costs, rather than
7 incurring the time and administrative expense to develop non-
8 recurring costs for each UNE separately on a product by product
9 basis.

10
11 There are two fundamental distinctions between the UNE categories.
12 The first distinction is whether or not a service requires design and/or
13 engineering. The Exchange services do not require design or
14 engineering, whereas the Special/Advanced services are designed
15 and/or engineered services with variables specific to the order placed
16 by the CLEC.

17
18 The second distinction is between basic and complex services. Basic
19 services can be provisioned using standard network components
20 maintained in inventory without specialized instructions for switch
21 translations, routing, and service arrangements. The complex
22 services require special instructions for the provisioning of the service
23 to meet the customer's needs. It is the additional time associated with
24 these requirements that drives the costs for these services.

25

1 **Q. ARE COSTS DEVELOPED FOR ADDITIONAL CLEC**
2 **REQUIREMENTS?**

3 A. Yes. In addition to the UNE costs, GTE has developed costs for the
4 following services;

5 (1) CLEC Account Establishment – GTE establishes the CLEC
6 account in each state that the CLEC requests. The NOMC
7 receives the CLEC account profile from the CLEC's account
8 manager, reviews it for completeness and then enters the
9 CLEC profile information and creates summary bill masters in
10 GTE's National Order Collection Vehicle (NOCV), which is
11 GTE's order processing system. Once the CLEC account has
12 been established for a state, the CLEC may submit an LSR for
13 processing;

14 (2) Coordinated Conversion – A coordinated conversion may be
15 requested by the CLEC if it wants to establish a specific
16 appointment for the completion of the service order, and wants
17 GTE to contact it for authorization to proceed prior to beginning
18 work, as well as after work is complete. This service includes
19 only the additional costs caused by Coordinated Conversion
20 and is in addition to the cost of the underlying LSR;

21 (3) Hot Cut Coordinated Conversion – This service is the
22 coordinated conversion mentioned above with the added
23 feature that the CLEC, the GTE coordinator and the GTE
24 technicians remain on a conference call for the duration of the
25 service order completion process. Each step of the process is

1 completed sequentially following authorization from the CLEC.
2 Because there is no way for GTE to estimate or control the
3 amount of time required for a Hot Cut Coordinated Conversion,
4 the cost developed is for a conversion lasting up to one hour.
5 Additional costs will be incurred for each quarter hour
6 thereafter at GTE's loaded labor rates for the GTE employees
7 involved;

8 (4) Expedite – An Expedite refers to a request by a CLEC to
9 advance the completion of the service order earlier than the
10 next standard due date that is normally available. Instead of
11 relying on the automated system for work scheduling, an
12 Expedite requires a manual appointment setting process in
13 which NOMC personnel must contact the *Division Resource*
14 *Management* group to determine if the *earlier completion*
15 *interval is feasible*. In addition to the costs shown in this study,
16 overtime charges may apply if the work is done outside of the
17 normal installation work time periods, or if other work is moved
18 outside of the normal installation work time periods to
19 accommodate the CLEC's expedite request;

20 (5) Line / Loop Conditioning – These costs apply when GTE
21 performs conditioning of the network, i.e., bridged tap or load
22 coil removal.

23

24 **Q. HOW ARE THE UNE COSTS ORGANIZED IN GTE'S NON-**
25 **RECURRING COST STUDY?**

1 A. The UNE costs are organized in three sections; (1) summary of costs;
2 (2) cost calculations by work group; and (3) appendices of data
3 inputs.

4

5

Summary of Costs (Binder 1, Tab 1)

6

This section provides a total cost for each UNE at a summary level
7 for the five order types previously described, based upon the four
8 cost categories (Exchange – Basic, Exchange – Complex, Special /
9 Advanced – Basic and Special / Advanced – Complex).

10

11

This section also provides a total cost for each additional service
12 that the CLEC may require in order to provide service to its end-
13 user--CLEC Account Establishment, Coordinated Conversion, Hot
14 Cut Coordinated Conversion and Expedite.

15

16

The costs are separated for manual and semi-mechanized LSR
17 receipt and processing.

18

19

Cost Calculations by Work Group (Binder 1, Tabs 2-5)

20

This section contains the detailed information utilized to develop the
21 Summary of Costs. The basic format consists of work activity minutes
22 for each order type multiplied by the labor rate per minute to produce
23 a "cost per order."

24

25

Appendices of Data Inputs (Binder 2)

1 These appendices contain all of the raw data inputs utilized to
2 develop the costs throughout the study. The appendices are
3 organized by work group or subject matter, as appropriate. For
4 example, there is an appendix specifically for Loaded Labor Rates
5 (LLRs) applied throughout the study. Another appendix contains the
6 raw input data for the NOMC, which was utilized to produce the time
7 per activity calculations.

8

9 **Q. PLEASE SUMMARIZE YOUR TESTIMONY.**

10 A. GTE has developed a comprehensive non-recurring cost study that
11 conforms to the TELRIC economic principles and addresses all of the
12 non-recurring activities necessary to provide UNEs to CLECs. The
13 Commission should approve these costs for use in pricing GTE's
14 unbundled network elements.

15

16 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

17 A. Yes.

18

19

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21

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25

Docket No. 990649-TP
Direct Testimony of Linda Casey
Direct Exhibit LC-1
FPSC Exhibit No. _____
May 1, 2000
Page 1 of 1

GTE's Non-Recurring Cost Study

Please refer to Binders 1 and 2 of the GTE non-recurring cost study filed on May 1, 2000.