BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 990649B-TP

In the Matter of

INVESTIGATION INTO PRICING
OF UNBUNDLED NETWORK
ELEMENTS (SPRINT/VERIZON TRACK)
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VOLUME 4

Pages 547 through 675

PROCEEDINGS:	HEARING
BEFORE:	CHAIRMAN LILA A. JABER COMMISSIONER J. TERRY DEASON COMMISSIONER BRAULIO L. BAEZ COMMISSIONER MICHAEL A. PALECKI COMMISSIONER RUDOLPH "RUDY" BRADLEY
DATE:	Monday, April 29, 2002
TIME:	Commenced at 9:35 a.m.
PLACE:	Betty Easley Conference Center Room 148 4075 Esplanade Way Tallahassee, Florida
REPORTED BY:	LINDA BOLES, RPR Official FPSC Reporter (850) 413-6734
APPEARANCES:	(As heretofore noted.)

I N D E X

WITNESSES

EXHIBITS

NUMBER:		ID.	ADMTD.
46	DBT-1 through DBT-3	551	551
47	DBT-4	552	552
48	Testimony of Dennis B. Trimble in Michigan PSC Case No. U-11281	650	650

PROCEEDING

(Transcript continues in sequence from Volume 3.)

CHAIRMAN JABER: Thank you. Verizon.

MS. CASWELL: Verizon calls Mr. Trimble.

CHAIRMAN JABER: Go ahead, Ms. Caswell.

DENNIS B. TRIMBLE

was called as a witness on behalf of Verizon Florida and, having been duly sworn, testified as follows:

DIRECT EXAMINATION

BY MS. CASWELL:

Q Please state your name and business address.

A My name is Dennis Trimble and my business address is 600 Hidden Ridge, Irving, Texas.

Q By whom are you employed and in what capacity?

A I'm employed by Verizon Services Group as Executive Director, Regulatory.

Q Did you file direct testimony in this case?

A Yes, I did.

Q And did you file certain corrections to that testimony on April 19th and April 25th, 2002?

A Yes, I did.

Q Do you have -- I'm sorry. Do you have any additional changes or corrections to your direct testimony?

A No, I do not.

Q So that if I asked you those same questions today,

your answers would remain the same?

A Yes, they would.

MS. CASWELL: Madam Chairman, I'd like to ask that Mr. Trimble's direct testimony be inserted into the record as though read.

CHAIRMAN JABER: The prefiled direct testimony of Dennis B. Trimble shall be inserted into the record as though read.

BY MS. CASWELL:

Q Mr. Trimble, were there three exhibits attached to your direct testimony labeled DBT-1 through DBT-3?

A Yes.

MS. CASWELL: Madam Chairman, may I have Exhibits DBT-1 through DBT-3 marked for identification?

CHAIRMAN JABER: Yes. DBT-1 through DBT-3 are identified as Composite Exhibit 46.

(Composite Exhibit 46 marked for identification.)

BY MS. CASWELL:

Q Did Verizon also prepare a wholesale UNE pricing schedule at Staff's request?

A Yes, it did.

Q And was that schedule included in the company's November 7th, 2001, cost filing?

A Yes, it was.

Q And has that wholesale UNE pricing schedule been

marked as Exhibit DBT-4?

A Yes, it has.

MS. CASWELL: Madam Chairman, may I have Exhibit DBT-4 marked for identification?

CHAIRMAN JABER: DBT-4 is identified as Exhibit 47.

(Exhibit 47 marked for identification.)

DIRECT TESTIMONY OF DENNIS B. TRIMBLE

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND TITLE.

A. My name is Dennis B. Trimble, and I am currently employed as Executive Director – Regulatory at Verizon Services Group. My business address is 600 Hidden Ridge Drive, Irving, Texas.

Q. PLEASE SUMMARIZE YOUR EDUCATION AND WORK EXPERIENCE.

A. I received an undergraduate degree in business and an MBA from Washington State University in the early 1970s. I also served as an Assistant Professor at the University of Idaho, where I taught undergraduate courses in statistics, operations research, and decision theory. From 1973 to 1976, I completed course work towards a Ph.D. degree in business at the University of Washington.

I joined GTE in 1976 as an Administrator of Pricing Research for General Telephone Company of the Northwest. From 1976 until 1985, I held various positions within GTE Northwest and GTE Service Corporation in the areas of demand analysis, market research, and strategic planning. In 1985, I was named Director of Market Planning for GTE Florida Incorporated, and in 1987, I became GTE Florida's Director of Network Services Management. From 1989 to 1994, I was

the Director of Demand Analysis and Forecasting for GTE Telephone Operations. In October 1994, I became Director of Pricing and Tariffs for GTE Telephone Operations, and in 1996, I was named Assistant Vice President of Marketing Services. In February 1998, I assumed the position of Assistant Vice President - Pricing Strategy for GTE. I assumed my current position in September 2000. Currently, I am responsible for assisting the Company in its development of pricing policies and supporting those policies in the various regulatory arenas.

Q. ON WHOSE BEHALF ARE YOU PRESENTING TESTIMONY IN THIS PROCEEDING?

A. I am presenting testimony on behalf of Verizon Florida Inc. (Verizon Florida), formerly known as GTE Florida Incorporated.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE STATE REGULATORY COMMISSIONS?

A. Yes. I have presented testimony on behalf of GTE and Verizon companies before various state commissions, including the commissions in Alabama, California, Florida, Hawaii, Indiana, Oregon, Pennsylvania, South Carolina, Texas, Virginia, and Washington.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. My testimony addresses the policy issues presented by this proceeding, and sets forth Verizon Florida's proposed monthly recurring charges (MRCs) for unbundled network elements (UNEs). I

will provide testimony addressing the Commission's specifically designated Issues 1 - 5, 9, 10, 12 and 13.

I am sponsoring the monthly recurring rates in Verizon's Wholesale UNE Pricing Schedule, which is being submitted at Staff's request with Verizon's cost studies. I am also sponsoring the following exhibits:

(a) Exhibit DBT-1, which supports the development of the "cost mark-up" factor Verizon Florida used to develop rates that would theoretically allow the Company an opportunity to recover its hypothetical forward-looking direct (*e.g.*, FCC-defined total element long-run incremental costs (TELRICs)) and common costs,

(b) Exhibit DBT-2, which lists Verizon Florida's proposed MRCs for the various items that are the subject of this testimony. These MRC rates can also be found in Verizon Florida's Wholesale UNE Pricing Schedule, and

(c) Exhibit DBT-3, which provides a summary of the development of Verizon Florida's proposal for deaveraging UNE loops.

Q. WHAT OTHER COMPANY WITNESSES HAVE FILED DIRECT TESTIMONY IN THIS PROCEEDING?

A. In addition to my testimony, Verizon Florida is presenting the testimony of five witnesses who support the Company's proposed costs and prices for specific UNEs. These costs and prices fall into two

categories: (1) the costs and prices of the UNEs themselves, which are reflected in Verizon Florida's proposed MRCs; and (2) the costs and prices for ordering and provisioning UNEs, which are reflected in the Company's proposed non-recurring charges (NRCs).

Bert Steele sponsors the Company's proposed NRCs for ordering and provisioning activities.

David Tucek sponsors Verizon Florida's cost model, the Integrated Cost Model (ICM), which calculates the TELRICs of the various UNEs. Mr. Tucek sponsors the ICM's investment and expense calculations, as well as Verizon Florida's wholesale-only common cost calculations.

Larry Richter sponsors Verizon Florida's NRC Study, which calculates the variable and fixed/shared costs associated with ordering and provisioning UNEs.

Professor James Vander Weide and **Alan Sovereign** sponsor Verizon Florida's proposed forward-looking cost of capital and depreciation rates, respectively. Mr. Tucek and Mr. Richter used these inputs to help calculate the TELRICs and NRC-related costs.

I use Mr. Tucek's cost calculations to develop monthly recurring prices for UNEs. Mr. Steele uses Mr. Richter's cost calculations to develop a set of non-recurring charges for ordering and provisioning activities.

II. GENERAL PRICING POLICY

Q. SHOULD UNE PRICES BE BASED SOLELY ON TELRIC PLUS A SHARE OF FORWARD-LOOKING COMMON COSTS?

A. No, Verizon Florida has long maintained that UNE prices must, in the aggregate, reflect an ILEC's actual costs. But FCC pricing rules require UNE prices to be based solely on TELRICs plus a share of forward-looking common costs. Even though Verizon has long disagreed with the FCC's hypothetical TELRIC methodology, it has been required to use this methodology to prepare studies for state commission proceedings, including this one.

On July 18, 2000, the U.S. Court of Appeals for the Eighth Circuit disapproved many of the FCC's UNE pricing rules and found the FCC's hypothetical TELRIC methodology to be unlawful. *Iowa Utilities Bd., et al. v. FCC*, 219 F.3d 744 (8th Cir. 2000). This ruling is consistent with the position Verizon has previously taken before this Commission.

On September 22, 2000, the Eighth Circuit stayed the portion of its Order concerning the FCC's hypothetical cost methodology, pending U.S. Supreme Court review of the Order. The issue of appropriate cost methodology will not be settled at the federal level at least until

the Supreme Court has ruled on appeals of the Eighth Circuit's Order. Verizon reserves its right to propose new UNE rates once the appeals conclude and it is clear what pricing methodology should be used.

Q. SHOULD UNE PRICES BE DEAVERAGED IN THE ABSENCE OF COST-BASED, DEAVERAGED RETAIL RATE STRUCTURES AND LEVELS?

A. Absolutely not. UNE rates and retail rates are inextricably linked. Today, retail rates reflect implicit supports that promote universal service. For example, rates for many business and vertical services are set well above cost in order to support below-cost rates for basic residential service. Retail rate "averaging" is another form of implicit support; residential subscribers in low-cost, high-density areas are charged the same averaged rate as residential subscribers in high-cost, low-density areas. These implicit supports, however, are not sustainable in a competitive environment and do not promote efficient competition. Rather, implicit supports encourage competitive local exchange carriers (CLECs) to cream-skim the low-cost, high-price business customers and to ignore the high-cost, low-price residential customers.

The FCC recognized this point when it stayed its UNE deaveraging rule until completion of its universal service proceeding. The FCC reasoned that a stay was required to afford the FCC and the states "the opportunity to consider in a coordinated manner the deaveraging

issues that are arising in a variety of contexts," such as retail rate deaveraging and universal service reform:

> By linking the duration of the stay to the universal service proceeding, we afford the states and ourselves the opportunity to consider in a coordinated manner the deaveraging issues that are arising in a variety of contexts affecting local competition. We are considering in the universal service proceeding what level of geographic deaveraging to use in determining the universal service support available to non-rural LECs serving high-cost areas. States are confronting similar issues. In addition, in the access charge reform proceeding, we are continuing to assess the application of deaveraging policies to the interstate access rates of incumbent LECs. Applying different standards for, or degrees of, geographic deaveraging in different contexts might create arbitrage opportunities or distort entry incentives for new competitors. Temporarily staying the effectiveness of section 51.507(f) will afford regulators the opportunity to consider the ramifications of deaveraging for the pricing of unbundled network elements, for universal service support in high-cost areas, and for interstate access services.

Implementation of the Local Competition Provisions of the Telecomm. Act of 1996; Deaveraged Rate Zones for Unbundled Network Elements, Stay Order, 14 FCC Rcd 8300 (1999) (emphasis added).

In sum, deaveraged UNE rates should not be established in a vacuum. They are inextricably linked to deaveraged retail rates and universal service support.

Q. DO THE ARBITRAGE PROBLEMS DISCUSSED ABOVE EXIST IN FLORIDA TODAY?

A. Yes. Even in the absence of deaveraged UNE rates, Verizon Florida's competitors are exploiting arbitrage opportunities. CLECs are building facilities in Verizon Florida's highest-density serving areas (such as Tampa, Clearwater, and St. Petersburg) and are cream-skimming Verizon Florida's business customers. At the same time, residential customers are generally being ignored. The CLECs are, in essence, engaged in "deaveraged" facilities-based competition, selectively choosing the customers and geographic areas they serve. Since they are not required to serve high-cost customers in high-cost areas, they only target Verizon Florida's low-cost, high-value customers in our more dense serving areas.

Q. WHAT SHOULD THE COMMISSION DO TO PREVENT OR MITIGATE THIS CREAM-SKIMMING?

A. The Commission should not further deaverage UNE prices until retail rates are deaveraged. As described below, the soundest policy would be to retain the existing, ILEC-specific zones. This approach complies with the FCC deaveraging mandate and is the only way to avoid making the existing arbitrage problem worse.

III. VERIZON FLORIDA'S RESPONSES TO ISSUES

A. ISSUE 1: FACTORS FOR ESTABLISHING UNE RATES

Q. WHAT FACTORS SHOULD THE COMMISSION CONSIDER IN ESTABLISHING RATES AND CHARGES FOR UNES (INCLUDING DEAVERAGED UNES AND UNE COMBINATIONS)?

A. First, as discussed above, the Commission should consider the effect of UNE rates on the preservation and advancement of universal service and on the development of fair and efficient competition.

Generally, UNE rates should reflect a reasonable share of common costs, and should be deaveraged only for those UNEs that exhibit material variations in cost based on geography.

Moreover, UNE costs should be calculated at a wire center level, should the Commission choose to engage in further deaveraging. If costs vary significantly between wire centers, then the wire centers should be mapped into rate zones so that a single UNE price can be established for each zone. In creating these rate zones, the

Commission must weigh the costs of deaveraging (*e.g.*, the administrative and billing costs) as well as the potential for increased rate arbitrage against the expected consumer gains.

Likewise, the rate structure for each UNE should reflect a balance of (1) cost-causation principles, *e.g.*, the matching of costs to prices, (2) the opportunity for cost recovery, and (3) ease of administration, *e.g.*, the costs of billing.

Q. CAN YOU PROVIDE AN EXAMPLE OF HOW THESE FACTORS WILL APPLY?

A. Yes, based on cost causation attributes, the cost of unbundled local switching could be divided into two cost sub-categories: (1) local call set-up and (2) local call duration. Theoretically, Verizon Florida could develop two separate rate elements for recovery of local switching costs. Verizon Florida, however, charges an average per minute-of-use (MOU) rate that assumes an average holding time (local call duration) of about four minutes. Most other Incumbent local exchange carriers (ILECs) also use this same rate structure. For typical local calls, this rate structure makes sense – it captures the average cost-causative attributes for what the Company has historically observed as an average local call, it's easier to administer and bill a single MOU rate, and this rate allows the ILEC to recover its costs because the typical local call historically has had an average holding time of about four minutes.

Q. DO THE COMPANY'S PROPOSED RATE STRUCTURES BALANCE THE THREE OBJECTIVES YOU CITED ABOVE?

A. The rate structures proposed by the Company satisfy two of the objectives in that they reflect cost-causative principles and they are easily administered by Verizon Florida. The remaining objective cited (*i.e.*, cost recovery) is not likely to be met. The proposed rate structures will, by their design, not give the Company an opportunity to recover its total costs because the proposed UNE rates do not reflect a rational relationship with current retail rate structures. This imbalance between UNE rates and retail rates will only facilitate rate arbitrage by entering CLECs, which necessarily destroys the Company's opportunity to recover its total costs.

In terms of future ease of administration, Verizon Florida may, over time, desire to alter its rate structures for various UNEs as efforts unfold to migrate to rate structures that are consistent across the entire Verizon footprint.

Q. WHAT CAUSES THIS IMBALANCE BETWEEN UNE RATES AND RETAIL RATES?

A. There are three major causes. First, retail rates were designed to give the Company an opportunity to recover its total actual costs, which may or may not be closely related to estimates of the Company's total long-run incremental costs. Second, retail rates were designed for a

closed monopoly-like market, which allowed for a rate design that could support public policy objectives (*e.g.*, universal service) without exposure to competitive arbitrage. This public policy orientation resulted in most retail rates not being reflective of their underlying cost characteristics.

Third, the UNE rates proposed in this proceeding are based totally on estimates of the TELRIC of the UNE plus a share of forward-looking common costs. As such, UNE rates are intended to reflect their underlying "long-run" cost characteristics. But, given the various assumptions employed in long-run, forward looking cost estimates, TELRIC-based rates, when viewed in aggregate across all UNEs, may not reflect the Company's total actual costs. Even if the UNE rates do, in a theoretical total market, reflect the Company's total actual costs, the disorientation between "cost-based" UNE rates and "non-cost-based" retail rates mandates a market imbalance between these rate structures. As previously stated, this imbalance leads to CLEC arbitrage (the targeting of low cost, high priced retail services), which undermines the Company's ability to recover its total actual costs.

Q. BUT AREN'T UNE PRICES REQUIRED TO BE BASED SOLELY ON TELRIC PLUS A SHARE OF "FORWARD-LOOKING" COMMON COSTS?

A. Yes, the FCC's pricing rules (at present) require UNE prices to be based solely on TELRICs plus a share of forward-looking common

costs. Verizon Florida does not agree with the FCC's costing and pricing rules, but is proposing rates in accordance with them. To be specific, Verizon Florida continues to strongly oppose the use of proxy models or hypothetical cost studies for determining the costs and rates for UNEs. Permanent rates should reflect the actual forward-looking costs that Verizon Florida is expected to realize during the time period that UNE rates are in effect. As noted above, Verizon reserves the right to propose changes to its rates once the cost methodology question is settled at the federal level.

B. ISSUE 2: GEOGRAPHIC DEAVERAGING

Q. WHAT IS THE APPROPRIATE METHODOLOGY TO DEAVERAGE UNES, AND WHAT IS THE APPROPRIATE RATE STRUCTURE FOR DEAVERAGED UNES?

A. Given that the FCC's rules require UNE prices to be deaveraged into at least three zones per state based on geographic differences in cost, the Commission has two options for establishing UNE rates for the Company. Verizon Florida's preferred option is for the Commission to retain a single rate for Verizon Florida to go along with the different cost-based rates established for BellSouth and Sprint. In this way, the Commission would have established at least three zones per state, each of which reflects different cost characteristics. Since this option would result in UNE rates that are more rationally aligned with retail rates, it would mitigate the potential for undue CLEC rate arbitrage.

If the Commission rejects the first option, then Verizon Florida proposes three cost-based zones for its specific service area. Ideally, however, and consistent with sound public policy, the Commission would not implement this option until Verizon Florida's retail and wholesale UNE rates are rationally aligned. Such an approach is not only appropriate from a public policy perspective – it is also consistent with the Act and the FCC's requirements for deaveraging. Verizon Florida's methodology for developing these zones is fairly straightforward: first, we calculate the average costs for UNEs at a wire center level; second, we identify those UNEs that have significant cost differences between wire centers; third, we map or group each wire center into one of three cost-based zones. The deaveraged rate proposals discussed in Section III of this testimony are based on this option, should the Commission require Verizon Florida to have rates for three Company-specific geographic zones.

Q. WHAT FACTORS SHOULD THE COMMISSION CONSIDER IN ESTABLISHING DEAVERAGED RATES FOR UNES?

A. First, as previously stated, the Commission should consider the effect of UNE rates on the preservation and advancement of universal service and on the development of fair and efficient competition. These considerations would necessarily lead to an objective of creating UNE price sets that exhibit a rational relationship with retail rates.

If the Commission were to ignore the misalignment between UNE rates and retail rates and mandate the further deaveraging of UNEs, then UNE rates should minimally reflect a reasonable share of the Company's common costs and should be deaveraged only for those UNEs that exhibit material variations in cost.

Moreover, UNE costs should be calculated at a wire center level. If costs vary significantly between wire centers, then the wire centers should be mapped into rate zones so that a single UNE price can be established for each zone. In creating these rate zones, the Commission must weigh the costs of deaveraging (*e.g.*, the administrative and billing costs) against the expected consumer gains.

Q. IF VERIZON FLORIDA IS REQUIRED BY THE COMMISSION TO DEAVERAGE UNE RATES, FOR WHICH OF THE FOLLOWING UNES SHOULD THE COMMISSION SET DEAVERAGED RATES?

(1) LOOPS (ALL)

(2) LOCAL SWITCHING

(3) INTEROFFICE TRANSPORT (DEDICATED AND SHARED)

(4) OTHER (INCLUDING COMBINATIONS)

A. At this time, only loop prices should be considered for deaveraging, because only loop costs show significant variation between different geographic areas. Although switching costs do vary somewhat based upon the size of switch and traffic volumes, they are not significant enough to warrant deaveraged unbundled switching prices (if anything,

switching costs vary more based on call set-up and call duration characteristics). Additionally, the TELRICs Mr. Tucek presents for interoffice transmission facilities already reflect distance, traffic, and volume characteristics that effectively will result in deaveraged rates for these UNE offerings.

It appears that CLECs agree. In BellSouth's UNE pricing proceeding, all parties and Staff recommended deaveraging of only loop UNEs and combinations that include such loops, and this is what the Commission approved. *(Investigation into Pricing of Unbundled Network Elements*, Order No. PSC-01-1181-FOF-TP, at 42 (May 25, 2001).)

Verizon Florida, however, would not propose deaveraged prices for all facilities that the FCC defines as "loops." In its UNE Remand Order, the FCC included the following in its definition of loop: inside wiring; loop conditioning; dark fiber; attached electronics (*e.g.*, multiplexing equipment); high-capacity loops (*e.g.*, DS-1s); private line and special access facilities; and cross connects. *Implementation of the Local Competition Provisions of the Telecomm. Act of 1996*, Third Report & Order and Fourth Further Notice of Proposed Rulemaking, 15 FCC Rcd 3696 (UNE Remand Order), at ¶ 167 (1999). The Company is not proposing to deaverage prices for inside wiring, dark fiber, loop conditioning, attached electronics, or cross connects, which do not seem to possess cost characteristics that vary by geography. Verizon Florida believes that only 2-wire, 4-wire, and various high-capacity

loops (which also will allow for CLEC provisioning of private line and special access facilities) should be considered for geographic deaveraging – when the time is right to deaverage. Likewise, if the Commission orders the deaveraging UNE prices for these loops, then it would be appropriate to deaverage prices for all UNE combinations that include these loops.

Q. IS VERIZON FLORIDA PRESENTING ANY DEAVERAGED UNE RATES IN THIS PROCEEDING?

A. Again, the Company believes that the Commission should maintain a statewide rate structure for Verizon Florida's UNEs. But, if the Commission rejects this option, I am also providing a geographically deaveraged rate proposal for various UNEs (in addition to proposed statewide average rates).

Q. IF THE COMMISSION CHOOSES TO DEAVERGE UNE RATES IN THIS PROCEEDING, THEN HOW COULD IT DO SO WHILE MINIMIZING THE RATE DISPARITY BETWEEN RETAIL AND WHOLESALE UNE RATES?

A. The Commission could adopt Verizon Florida's proposed three zones in structure, but leave the rates for each of the three zones the same at this time. This alternative would clearly inform the Company and CLECs that the Commission fully intends to deaverage Verizon Florida's rates but not at this point, given public policy implications. Again, the Commission is under no legal obligation to deaverage

Verizon Florida's UNE rates at this time. Deaveraging the UNE rates within the three-zone structure, under this alternative, would be addressed at a later date in conjunction with an examination of Verizon Florida's retail rates.

C. ISSUE 3: XDSL CAPABLE LOOPS

Q. WHAT ARE XDSL-CAPABLE LOOPS?

A. Simply stated, an xDSL-capable loop is a basic 2-wire or 4-wire UNE loop that possesses the electrical characteristics that allow for the transmission of xDSL-based technology signals. xDSL-based services require that the end-user be provisioned with copper facilities. At this time, the major technical parameters that define whether a UNE loop is capable of successfully transmitting xDSL services concern the length of the specific loop, the gauge of copper wire that makes up the loop, as well as the existence of load coils or bridged taps that are necessary for the efficient provision of voice-grade services. Each of these attributes can affect and potentially degrade the ability of the xDSL service to work properly. If load coils or bridged taps affect the required transmission characteristics of a specific loop (to facilitate the provision of any proposed service), the Company will attempt to condition the loops in order to transform them into "clean" copper facilities that have the appropriate transmission characteristics. Company witness Steele addresses this loop conditioning activity.

Q. SHOULD A COST STUDY FOR XDSL-CAPABLE LOOPS MAKE

DISTINCTIONS BASED ON LOOP LENGTH AND/OR THE PARTICULAR DSL TECHNOLOGY TO BE DEPLOYED?

A. No. As a matter of public policy, the characteristics of a specific technology to be placed on a UNE loop should never be considered a driver for the price of the underlying UNE facility. In the UNE world, loops are loops and must be service-independent. The specific technology that a CLEC intends to put on a UNE loop should have no bearing in the pricing of that loop. This potential deaveraging of loop prices based on what type of technologies will work on each loop only leads to increased arbitrage and, if taken to the extreme, would be an administrative nightmare. UNE loops that have the technical parameters to facilitate xDSL transmission also have the technical parameters to facilitate plain old voice transmission. Thus, purchasers of UNE loops would never pay a geographic zone-based average rate for a two-wire UNE loop if they could get a cheaper price out of an alternative loop-length-derived rate schedule that has been developed to support some technology-specific requirement. Technologies come and go, but the underlying UNE loop remains relatively unchanged.

Loop length should never drive rate deaveraging unless it is accompanied by significant differences in customer density within the wire center. Rate structures based on loop length just result in another mechanism to facilitate rate arbitrage. What sense does it make for a CLEC to build its switch on the other side of town, self-provision its short loops, and pay short-loop prices to the ILEC for loops that would

be long loops to the CLEC? If density characteristics are relatively homogeneous, then what is of real concern in the setting of competitively efficient and neutral rates is the average cost in that homogeneous area. The placement of a wire center, along with the technologies used to deploy loops, are designed to provide the most efficient means of serving all customers in a given serving area. Loop-length characteristics (or even basic loop technology characteristics) should not create rate differentials that result in one customer being more coveted by CLECs than another, identical customer in a given homogeneous area.

In addition, any proposal to deaverage UNE loops based on length considerations appears to be inconsistent with FCC rules. The FCC's rules are clear: they require geographically deaveraged rate zones, not different length-based rates in the same geographic zone. My dictionary defines a zone as "a region or area set off as distinct from surrounding or adjoining parts," or "one of the sections of an area created for a particular purpose," or "a distance within which the same fare is charged by a common carrier" (Webster's Ninth New Collegiate Dictionary, 1989). A loop length-based pricing proposal would not fall within this definition: it would not establish rate zones, as this term is commonly defined, and it would not establish geographically deaveraged rates – instead, it would establish length-based rates that would result in different rates for the same UNE loops within the same geographic area, based solely on what equipment is used with the

loop.

The loop length-derived pricing proposal also would not address the effect of "loop length"-specific UNE prices on retail costing and pricing issues, or on universal service support issues. If wholesale rates are based on loop length, then retail rates (including any universal service support) must also be based on loop length; otherwise, the Commission would just be exacerbating arbitrary and inconsistent wholesale and retail rate structures, which would be perpetuating arbitrage and economically inefficient rate structures.

Historically, loop-length based pricing structures have turned into administrative nightmares to the point that service representatives resort to assuming most loops fall in the shortest-length category. The administration of such a pricing mechanism is definitely not reasonable or efficient for the provider of such an offering.

Finally, as it concerns xDSL-capable loops, the CLECs don't really desire any form of geographic deaveraging. What they want is deaveraging based on facility make-up (*i.e.*, copper versus fiber), which they relate to geographic deaveraging through the use of hypothetical, non-existent network assumptions.

In sum, any proposal for a UNE loop defined by a specific technology-driven loop length consideration conflicts with rational pricing

objectives (including administration concerns) and is inconsistent with FCC rules.

D. ISSUE 4: SUPLOOPS

Q. FOR WHAT SUBLOOP ELEMENTS IS VERIZON FLORIDA PROPOSING PRICES?

A. Verizon Florida is proposing rates for three separate subloop elements for both 2-wire and 4-wire UNE loops: (1) feeder, (2) distribution, and (3) drop. In addition, since Verizon Florida owns significant intra-building related house and riser cable, the Company is also providing rates for use of those facilities.

The feeder subloop is the loop facility that extends from Verizon Florida's central office main distribution frame (MDF) to a feeder distribution interface (FDI). The distribution facility extends from the FDI to, and including, the NID (or Verizon Florida's cross connect terminal at a building's minimum point of entry (MPOE)) at the customer's premises. The "drop," is a 2-wire or 4-wire metallic facility that extends from the pedestal or terminal serving the customer's premise to, and including, the NID (or the cross connect terminal at the MPOE of the customer's building) that serves the customer's premise. Where it exists, house and riser cable is a 2-wire or 4-wire metallic intra-building distribution facility that extends from the cross connect terminal at a building's MPOE to the demarcation point or NID at the customer's actual location.

For dark fiber loops, the Company proposes to provide only two subloop elements – feeder and distribution.

Q. HOW DO CLECs GAIN ACCESS TO THE 2-WIRE, 4-WIRE, AND/OR DARK FIBER SUBLOOP FACILITIES?

A. The existence of and ability to access subloop elements is very customer-specific and must be evaluated on a case-by-case basis. Access to subloop elements may occur at an MDF, the FDI, or at the terminal serving the customer's premise. In all cases, the requesting CLEC must first pre-position at the point (or points) where access to the subloop is requested or otherwise establish a point of connection (POC) at those points. A point of connection is like a meet-point arrangement in that it is a physical interface that establishes the point at which the ILEC's facilities will be connected with the CLEC's facilities. In order to establish a POC at the requested FDI or terminal location, the CLEC must first submit a feeder/distribution interface application to its Verizon account management team. The application initiates the process to pre-position or otherwise establish a POC at the FDI or terminal. It will determine the technical feasibility of the CLEC's unbundled subloop request. In addition, the CLEC must collocate at the Verizon central office where the MDF is located and can either collocate or otherwise establish a presence at the FDI or terminal by utilizing the Collocation Application process. The application processes, both feeder/distribution interface and

collocation will determine the labor and/or capital costs for which the CLEC is responsible, and the proposed provisioning time frames to facilitate the creation of a point of connection with the CLEC.

Q. HOW DO CLECs GAIN ACCESS TO INTRA-BUILDING HOUSE AND RISER CABLE FACILITIES?

A. First, if the CLEC uses either the Company's UNE loop or UNE distribution subloop, the CLEC automatically receives access to any required house and riser cable (noting that the MRC for house and riser cable will also apply in addition to the MRC charges for the UNE loop or UNE distribution subloop).

If the CLEC desires to bring its own distribution facilities into a building/campus where Verizon Florida owns house and riser cable, then to gain access to the house and riser cable, the CLEC must locate a compatible terminal block within cross connect distance of the MPOE for such cable. In addition, only Verizon Florida personnel will perform the necessary provisioning work on Verizon Florida equipment. The specific NRC charges for required Verizon Florida provisioning activities are sponsored by Mr. Bert Steele.

E. ISSUE 5: SS-7 SIGNALING NETWORK & CALL RELATED DATABASES

Q. FOR WHAT SIGNALING NETWORK RELATED ITEMS IS VERIZON FLORIDA PROPOSING RATES?

A. FCC Rule § 51.319(e) requires ILECs to provide access to signaling networks, call-related databases, and service management systems on an unbundled basis. The Rule specifies that "[S]ignaling networks include, but are not limited to, signaling links and signaling transfer points." (47 C.F.R. § 319(e)(1)). It states further that: For purposes of switch query and database response through a signaling network, an incumbent ILEC shall provide access to its call-related databases, including but not limited to, the Calling Name Database, 911 Database, E911 Database, Line Information Database, Toll Free Calling Database, Advanced Intelligent Network Databases, and downstream number portability databases by means of physical access at the signaling transfer point linked to the unbundled databases. *(47 C.F.R.* § 51.319(e)(2)(A).)

Verizon Florida is proposing TELRIC-based prices for access to its SS-7 signaling network and for the databases enumerated by the FCC, with one exception. The prices and price structures for both access to Verizon's signaling network and associated database queries are set forth in Exhibit DBT-2.

Since customer requirements are highly variable, Verizon Florida is not proposing prices for access to the Verizon advanced intelligent network (AIN) service creation environment and associated databases.

Verizon Florida proposes to establish these arrangements on a case-by-case basis.

F. ISSUE 9(a): MRC PRICING PROPOSALS

Q. WHAT PROCEDURES HAS VERIZON FLORIDA USED TO DEVELOP ITS PROPOSED MRC RATES?

A. As previously stated, Verizon Florida is proposing rates that are consistent with the FCC's rules, which dictate that UNE prices should be based on a forward-looking cost-based pricing methodology (47 C.F.R. § 51.503(b)(1)), where forward-looking economic costs are defined by the FCC as the sum of:

(1) the TELRIC of the element, and

(2) a reasonable allocation of forward-looking common costs. (47 C.F.R. § 51.505(a))

As such, Verizon Florida's general pricing methodology for UNEs and collocation can briefly be summarized as follows: MRCs for UNEs will include an equal percentage mark-up above their TELRIC for recovery of the Company's forward-looking common costs (*e.g.*, a fixed-allocation pricing procedure). The TELRIC costs in support of each proposed MRC element are addressed in the Direct Testimony of Verizon Florida witness Tucek.

Q. DOES A FIXED-ALLOCATION APPROACH COMPLY WITH THE FCC'S CURRENT PRICING RULES?

A. Yes. In its First Report and Order implementing the Act, the FCC held that a fixed-allocator is a "reasonable allocation method." *Implementation of the Local Competition Provisions in the Telecomm. Act of 1996*, First Report & Order, 11 FCC Rcd 15499 (Local Competition Order), at ¶696 (1996).

Q. DOES THE FIXED-ALLOCATOR PROCEDURE RESULT IN PRICE SETS THAT MIMIC THOSE THAT WOULD BE FOUND IN A COMPETITIVE MARKETPLACE?

A. A fixed-allocation based procedure does not necessarily result in price sets that reflect the competitive market. Where, as here, significant common costs must be recovered, "the orthodox concept of second best pricing is the inverse elasticity principle, or Ramsey pricing." *Nat'l Rural Telecom Assoc. v. FCC*, 988 F.2d 174, 182 (D.C. Cir. 1993). Currently however, the FCC expressly forbids the use of Ramsey pricing in setting UNE rates because it could "raise the prices" of "relatively inelastic" UNEs, such as the local loop. Local Competition Order at ¶ 696. In other words, economic efficiency and competitive markets dictate Ramsey-based prices, but the FCC expressly prohibits such prices. Verizon Florida does not agree with the FCC's self-contradictory analysis or the FCC's pricing rules. Nevertheless, Verizon Florida has complied with these rules in developing UNE prices in this proceeding.

Q. WHAT COMMON COST RECOVERY FACTOR IS USED AS THE

BASIS FOR THE FIXED ALLOCATOR FOR DETERMINING COST-BASED MRCS?

A. The fixed-allocation factor was determined using the following formula:

Fixed Allocator = TWCC / DC

where: TWCC = Total Wholesale-Related Common Costs, and

DC = Direct Costs

Within this formula, Direct Costs equal the sum of all direct costs for all UNEs that would be needed by CLECs to serve all existing customers. The Direct Costs also include the direct costs for the MRC elements of collocation. Please note, however, that the Direct Costs that are the denominator of Verizon Florida's equation include only the direct costs of those elements that are being marked up. If an MRC does not include a mark-up, then the direct costs of those facilities or activities associated with the MRC are not included in the denominator. Verizon Florida does not propose to mark up any of its NRCs; therefore, the direct costs associated with these NRCs are excluded from Verizon Florida's calculation.

As shown in the Company's cost study filing, Verizon Florida's total forward-looking common costs equal $169.8 million per year. The sum of the TELRICs for all UNEs and other direct costs of facilities to be marked up is $1,205 million per year (this calculation is shown on Exhibit DBT-1). Taking these figures and applying the above formula

results in a fixed-allocation factor of 0.1409 ($169.8 million / $1,205 million).

Q. HOW IS THE FIXED-ALLOCATION FACTOR USED TO ARRIVE AT THE MRC FOR A GIVEN UNE?

A. The proposed MRC for each item presented in this proceeding is computed using the following formula:

MRC = TELRIC * (1 + Fixed-Allocation Factor),

which, given the costs filed by Verizon Florida in this proceeding, results in:

MRC = TELRIC * (1 + 0.1409)

As an example computation using this formula, if the TELRIC of a specific UNE were $30 per month, we would multiply it by 1.1409 to arrive at a price for that UNE of $ 34.23.

UNBUNDLED LOCAL LOOPS (ISSUES 9(a)(1)-9(a)(9))

Q. WHAT ARE UNBUNDLED LOCAL LOOPS?

A. As described in the FCC's Rule § 51.319(a), a local loop UNE is defined as a transmission facility between a distribution frame (or its equivalent) in an ILEC central office and the loop demarcation point at an end-user customer premises, including any inside wiring owned by the ILEC.

Q. FOR WHAT SPECIFIC UNBUNDLED LOOPS IS VERIZON FLORIDA

PROVIDING RATES FOR IN THIS PROCEEDING?

A. Rates are being proposed for 2-wire and 4-wire UNE loops, high capacity DS-1 and DS-3 UNE loops, and dark fiber loops.

2-WIRE, 4-WIRE, DS-1, AND DS-3

Q. WHAT IS A 2-WIRE LOOP?

A. A two-wire loop is a transmission circuit consisting of two wires that is used to both send and receive either voice or data transmissions.

Q. WHAT IS A 4-WIRE LOOP?

A. A 4-wire loop consists of two pairs of wires, one to transmit and one to receive. These loops are usually used in certain private line and data service applications.

Q. CAN THESE 2-WIRE AND 4-WIRE UNE LOOPS BE USED TO PROVIDE BOTH ANALOG AND DIGITAL SERVICES?

A. Yes, with certain qualifications. Depending on the technical parameters of each digital offering, it may be necessary to condition the loop to assure that those technical parameters can be achieved over the specific individual loop. The specific charges for conditioning loops are addressed by Mr. Steele. In some cases, it may be impossible for Verizon Florida to assure that a specific loop can sustain the technical parameters required to provision a specific digital service *(e.g.*, the loop length is too long to technically support the desired service). In these cases, the specific loop, whether

conditioned or not, will be unable to support the provision of a digital service.

Q. PLEASE DESCRIBE THE HIGH CAPACITY LOOPS FOR WHICH VERIZON FLORIDA IS PROPOSING RATES IN THIS PROCEEDING.

A. Verizon Florida is proposing rates for DS-1 and DS-3 high capacity loops. A DS-1 loop is generally a 4-wire loop that has been conditioned to support DS-1 transmission, including associated electronics. It can be used to provide full-period services (*e.g.*, private line) and switched services (*e.g.*, ISDN Primary Rate Interface) to end-users. In contrast, DS-3 UNE loops are necessarily provisioned over fiber optic cable and include the electronics necessary to facilitate DS-3 transmission.

Q. ARE VERIZON FLORIDA'S RATE PROPOSALS FOR UNE LOOPS DEAVERAGED BY GEOGRAPHIC AREA?

A. The cost studies sponsored by Verizon Florida witness David Tucek indicate that only 2-wire, 4-wire, and DS-1 UNE loops exhibit cost characteristics that support geographic deaveraging, while the various costs for DS-3 UNE loops exhibit minimal levels of geographic variation. Therefore, I am only proposing to consider geographically deaveraged rates for 2-wire, 4-wire, and DS-1 UNE loops.

Q. HOW DID VERIZON FLORIDA DEVELOP THESE COST-BASED

ZONES AND THE RESULTING MRCS?

A. As discussed earlier, Verizon Florida calculated loop costs at the wire center level and then "mapped" each wire center into one of three cost-based zones.

In Florida, Verizon Florida has 90 wire centers. The loop costs in each wire center are shown on Exhibit DBT-3. As illustrated by that exhibit, the wire center TELRICs of unbundled 2-wire loops vary from a low that is less than $10 per line to a high that is almost $200 per line, with the resulting statewide average cost being $22.94.

All wire centers in which the average loop cost is less than the statewide average loop cost of $22.94 were mapped to Zone 1. All wire centers in which the average loop cost is between the statewide average and 200% of the statewide average were mapped to Zone 2. All wire centers in which the average loop cost is greater than 200% of the statewide average were mapped to Zone 3.

Once the wire centers were mapped, we calculated the average UNE loop cost for each zone. These calculations are shown on Exhibit DBT-3. The specific UNE loop rate for each zone was then determined by adding to the zone-specific TELRICs a uniform amount for recovery of common costs. The determination of the uniform amount for recovery of common costs and the resulting zone-specific rates are shown in Exhibit DBT-1.

Q. PLEASE FURTHER DISCUSS THE CONCEPT OF ADDING A UNE-SPECIFIC UNIFORM AMOUNT FOR RECOVERY OF COMMON COSTS WHEN DEVELOPING THE COMPANY'S PROPOSED GEOGRAPHICALLY DEAVERAGED RATE LEVELS.

A. This procedure results in the same "absolute" amount of common cost recovery being obtained from the sale of a UNE loop regardless of the geographic zone in which the loop is sold. Since it is based on a fixed percent of direct costs, the fixed allocator procedure would result in a large absolute amount of common cost assignment to "high-cost" rural areas and a small absolute amount to low-cost urban areas when geographic deaveraging is implemented. Verizon Florida believes it is not reasonable to assign a much larger share of common cost recovery to rural UNE loops than to urban UNE loops. Thus, to spread the burden of common cost recovery equitably, an equal "absolute" amount was assigned to each geographic zone. This equal, absolute amount was determined by computing the fixed-allocation amount for common cost recovery using only the statewide average TELRIC for each item to be deaveraged. This uniform amount was then added to the deaveraged TELRICs for each geographic zone to determine the UNE loop price for each zone.

For example, assume the following table presents the geographic-specific costs of a 2-wire loop.

ZONE	TELRIC COST
Statewide Average	$20.00
Zone 1	$10.00
Zone 2	$20.00
Zone 3	$40.00

If the common cost mark-up factor were 15 percent, then, on average, $3.00 would be recovered from each UNE loop sold. But, applying the 15 percent mark-up to each deaveraged cost would result in Zone 1 UNE loops contributing $1.50 toward the recovery of the Company's common costs, while the sale of a Zone 3 UNE loop would result in a $6.00 contribution toward recovery of common costs. The burden of common cost recovery should not be skewed based on the geographic location of a given UNE. Verizon Florida's proposed methodology rectifies this potential outcome by assigning an amount for recovery of common costs based solely on the statewide average cost of that UNE. Thus, in this example, the price of a 2-wire UNE loop in each of the 3 zones would include the average $3.00 mark-up for recovery of common costs.

ISDN AND COIN LOOP EXTENDERS

Q. WHEN ARE ISDN AND COIN LOOP EXTENDERS NECESSARY?

A. In many cases, CLECs should be able to provision ISDN Basic Rate Interface (ISDN BRI) services to their end-users through the use of a basic 2-wire UNE loop. However, when the characteristics of the

specific UNE loop do not meet the technical requirements for provisioning ISDN BRI service (*e.g.*, the loop transits through a fiber-fed digital loop carrier), then an ISDN BRI loop extender UNE in conjunction with the basic 2-wire loop UNE would be required to allow the CLEC to provide ISDN BRI service to the end-user that is served by the specific loop.

Likewise, when a UNE loop does not meet the technical requirements for provisioning "dumb" coin phones, a coin loop extender may be required to enable the coin control attributes these phones rely upon.

Q. WHAT PRICES IS VERIZON FLORIDA PROPOSING FOR AN ISDN OR COIN LOOP EXTENDER AND WHEN WOULD THESE PRICES APPLY?

A. Exhibit DBT-2 contains the proposed MRC for both an ISDN loop extender and a coin loop extender. These loop extension rates apply only when required to facilitate the provision of the ISDN BRI or coin service.

NETWORK INTERFACE DEVICE (NID)

Q. WHAT IS A NID?

A. As described by FCC Rule § 51.319(b), a NID is defined as any means of interconnection of end-users' customer premise wiring to the ILEC's distribution plant. The NID can be thought of in two ways: (1) it may, consistent with Verizon Florida's proposed UNE loop rates, be

considered a component of the total UNE loop, and (2) it is a network element subject to unbundling in its own right.

Q. WHAT RATES DOES VERIZON FLORIDA PROPOSE FOR USE OF A NID?

A. The fixed allocation-derived rates to support the interconnection of 2-wire loops and 4-wire loops are presented in Exhibit DBT-2.

UNBUNDLED SUBLOOP ELEMENTS

Q. WHAT RATES IS VERIZON FLORIDA PROPOSING FOR UNE SUBLOOP ELEMENTS?

A. Verizon Florida's proposed TELRIC-derived, deaveraged MRC rates are depicted in Exhibit DBT-2, while the appropriate ordering and service connection NRCs are discussed by Company witness Steele.

Q. HOW WERE THE MRC RATES FOR SUBLOOPS DEVELOPED?

A. Mr. Tucek provided wire center-specific TELRIC estimates for 2-wire and 4-wire feeder, distribution, and drop categories. These wire center-specific estimates were then mapped to the three deaveraged zones that were established for the total loop UNEs. Based on this mapping of wire centers to deaveraged zones, zone-specific average costs were then developed for feeder, distribution, and the drop. Similar to the development of the total loop UNE prices, a uniform amount for each subloop category (based on the appropriate statewide

TELRIC) was determined for recovery of common costs. Thus, the resulting proposed price for each subloop category was determined based on the following:

MRC = TELRIC + Subloop's Uniform Common Cost Recovery Amount

House and riser cable costs were not developed at a wire center level, since the cost of such facilities was not deemed to vary by geography. Thus, the MRC for riser cable was not deaveraged by geographic zone.

Q. WILL THE RISER CABLE UNE CHARGE APPLY TO CLECS WHENEVER RISER CABLE IS PART OF THE FACILITIES SERVING AN END USER CUSTOMER?

A. Yes. None of the Company's proposed UNE loop or subloop rates include any amounts for recovery of Company-owned riser cable costs. Therefore, it is appropriate to implement this charge whenever any CLEC requests UNE access to an end user served by riser cable facilities.

CIRCUIT SWITCHING UNES

Q. HOW DOES VERIZON FLORIDA DEFINE LOCAL CIRCUIT SWITCHING?

A. Consistent with FCC Rule §51.319(c)(1)(A), Verizon Florida defines

local circuit switching UNEs to include all the necessary facilities and functions required to support the connection of end-user loops to a switch card and facilitate the switching of calls to their appropriate destination. In addition, switch features that allow for the provision of enhanced vertical offerings are also included in the Company's definition of local circuit switching.

Q. WHAT LOCAL SWITCHING RATE ELEMENTS IS VERIZON FLORIDA PROPOSING?

A. Three categories of elements are being proposed: (1) end-user ports, (2) local end-office switch usage, and (3) vertical feature usage.

PORTS

Q. WHAT UNES IS VERIZON FLORIDA PROPOSING FOR SWITCH PORTS?

A. The Company is proposing UNE rates for five types of switch ports: (1) a basic port, (2) a coin line port, (3) an ISDN BRI line side port, (4) a DS-1 trunk side port, and (5) an ISDN PRI trunk side port.

Q. WHAT RATES ARE YOU PROPOSING FOR EACH OF THESE VARIOUS SWITCH PORTS?

A. Verizon Florida's proposed MRCs can be found in Exhibit DBT-2.

END OFFICE SWITCHING

Q. WHAT RATE IS VERIZON FLORIDA PROPOSING FOR END-

OFFICE SWITCHING?

A. The proposed rate, based on a per minute-of-use structure, is also presented in Exhibit DBT-2.

SWITCH FEATURES

Q. HOW DOES VERIZON FLORIDA PROPOSE TO RECOVER THE COSTS OF PROVIDING UNBUNDLED ACCESS TO THE VARIOUS FEATURES OF A SWITCH?

A. Verizon Florida proposes that feature-specific rates be adopted, where the rates are based on each feature's specific TELRIC plus a reasonable allocation of the Company's common costs (*e.g.*, the fixed-allocator pricing process). Verizon Florida has never included the cost of various switch features in the cost of its switch ports or end-office switching UNEs. The rational method for recovery of switch feature costs is to charge the CLECs only for what they use – *i.e.,* on a per switch feature usage basis. Verizon Florida's proposed MRCs for the most common switch features are depicted in Exhibit DBT-2. As that Exhibit shows, several of the offered vertical services are quite costly for Verizon Florida to provide to CLECs. Thus, from a policy perspective, individual prices for each of the various vertical services is the appropriate price structure to assure recovery of costs from the CLEC that causes the costs to be incurred.

Q. IF A CLEC DESIRES TO PURCHASE A GIVEN SWITCH FEATURE THAT IS NOT LISTED IN EXHIBIT DBT-2, HOW WOULD THAT

CLEC GAIN ACCESS TO THAT FEATURE?

A. If such a feature exists on a given switch platform, Verizon Florida proposes that a bona fide request (BFR) process be employed by the CLEC. Upon receipt of the BFR, Verizon Florida will determine if the specific switch has the capability to deliver the requested feature. If the feature exists, Verizon Florida will develop costs and prices based on the FCC's rules and negotiate the proposed offering with the requesting CLEC.

TANDEM SWITCHING

Q. WHAT RATE IS VERIZON FLORIDA PROPOSING FOR USAGE OF UNBUNDLED TANDEM SWITCHING?

A. The TELRIC-based rate for this service can be found in Exhibit DBT-2. The rate structure is on a per MOU basis.

PACKET SWITCHING

Q. IS VERIZON FLORIDA PROPOSING SPECIFIC RATES FOR PACKET SWITCHING?

A. No, Verizon Florida is not proposing rates for packet switching. The FCC, in its UNE Remand Order, held that ILECs need not unbundle packet switching, except when: (1) the ILEC has placed its own digital subscriber line access multiplexer (DSLAM) in a remote terminal and is offering advanced services, (2) the ILEC does not permit the CLEC to collocate its DSLAM in that remote terminal, (3) Digital Loop Carrier technology is deployed, and (4) no spare copper loops are available.

UNE Remand Order, ¶ 313. ILECs are only required to provide packet switching capabilities to CLECs if all four of these conditions are met.

At this time, Verizon Florida has not deployed DSLAMs in remote terminals for the commercial offering of advanced services. Given this fact, Verizon Florida is not required to offer packet switching as a UNE. If, Verizon Florida begins offering advanced services using DSLAMs located in remote terminals, the Company will, at that time, comply with the packet switching rules established by the FCC.

LOCAL TRANSPORT

Q. WHAT LOCAL / INTEROFFICE TRANSPORT OFFERING IS VERIZON FLORIDA PROPOSING IN THIS PROCEEDING?

A. Verizon Florida is proposing rates for three separate categories of local transport: (1) Common / Shared Transport, (2) Interoffice Dedicated Transport, and (3) CLEC Dedicated Transport.

Common/Shared Transport

Q. WHAT IS COMMON / SHARED TRANSPORT?

A. As defined by FCC Rule § 51.319(d)(1)(C), shared transport is the use of facilities by more than one carrier to facilitate the transport of calls between end-office switches, end-office switches and tandem switches, and between tandem switches in the ILEC network.

Q. HOW DOES VERIZON FLORIDA PROPOSE TO RECOVER THE

COSTS OF UNE COMMON / SHARED TRANSPORT?

A. The Company proposes to recover these costs using a rate structure that is identical to its switched access rate structure in Florida. Specifically, TELRIC costs were developed for transport facilities based on a per MOU, per airline mile (ALM) cost structure. Costs were also developed for transport terminations that facilitate the termination of each transport facility segment at each central office. Based on the identified TELRICs for each of these categories of cost, the resulting fixed-allocation-derived prices can be found in Exhibit DBT-2.

Dedicated Transport

Q. WHAT IS DEDICATED TRANSPORT?

A. As defined by FCC Rule § 51.319(d)(1)(A), dedicated transport consists of ILEC transmission facilities "that provide telecommunications between wire centers owned by incumbent LECs or requesting telecommunications carriers, or between switches owned by incumbent LECs or requesting telecommunications carriers."

Verizon FL offers two types of dedicated transport (1) interoffice dedicated transport and (2) CLEC dedicated transport. Interoffice dedicated transport is similar to common/shared transport (in that it is between two ILEC offices) except that the transport facility is dedicated to one particular customer or carrier. Access to interoffice dedicated transport is provided from the CLEC's collocation arrangement in a

Verizon Florida central office through an appropriate cross-connection made on a Verizon Florida digital signal cross connect bay or a fiber distribution frame.

CLEC dedicated transport is defined by Verizon Florida as a transport facility between a CLEC's collocation cage in a Verizon Florida central office and a CLEC's switch or facility office within the local exchange area served by the specific Verizon Florida central office where the collocation cage is located. This dedicated transport facility offering is very similar to the entrance facility offerings found in most intrastate and interstate access tariffs.

Q. FOR WHAT INTEROFFICE DEDICATED TRANSPORT ELEMENTS IS VERIZON FLORIDA PROPOSING RATES?

A. Verizon Florida is proposing rates for three capacity-based categories of direct-trunked transport between two Verizon Florida offices: (1) a single channel voice grade or digital facility (often called a DS-0 level facility), (2) a DS-1 level facility, and (3) a DS-3 level facility. The rate structure for the transport facilities is based on a per central office termination basis as well as a per airline mile basis. Verizon Florida's proposed TELRIC-based MRC rates for each type of facility can be found in Exhibit DBT-2.

Q. FOR WHAT CLEC DEDICATED TRANSPORT ELEMENTS IS VERIZON FLORIDA PROPOSING RATES?

A. Verizon Florida will offer four different types of CLEC dedicated transport facilities: (1) 2-wire, (2) 4-wire, (3) DS-1, and (4) DS-3. It must be noted that if facilities do not exist between Verizon Florida's central office and the CLEC switch location, Verizon Florida is under no obligation and will not build new facilities for provisioning of this offering. The specific fixed-allocation derived rates for each of the various offerings can be found in Exhibit DBT-2.

DARK FIBER

Q. WHAT IS DARK FIBER?

A. Dark fiber is defined as currently deployed, unused continuous fiber strands through which no light is transmitted. It is "dark" because it does not have electronics on either end of the fiber segment to energize it to transmit a telecommunications service. A strand shall not be deemed to be continuous if splicing is required to provide fiber continuity between two locations. Dark fiber will only be offered on a route-direct basis where facilities exist. The CLEC buying the dark fiber is expected to put its own electronics and signals on the fiber to make it "lit." Spare wavelengths on a fiber, which may result from the use of wave division multiplexing or dense wave division multiplexing equipment, are not considered spare dark fiber.

The FCC provided additional definition of dark fiber by identifying it as unused fiber that is "in place and easily called into service" and "can be used by competitive LECs without installation by the incumbent."

(UNE Remand Order, ¶ 174 n.323.)

The FCC further clarified, "we do not require incumbent LECs to construct new transport facilities to meet specific competitive LEC point-to-point demand requirements for facilities that the incumbent LEC has not deployed for its own use." (UNE Remand Order, ¶ 324.)

Although Verizon Florida does not agree with the FCC's ruling that dark fiber satisfies the "necessary and impair" standards required to be deemed a UNE, the Company recognizes that the FCC's rules are currently binding upon state commissions and Verizon Florida will abide by them.

CLEC access to the Company's dark fiber will only be allowed at a fiber patch panel. Patch panels are usually found at the customer's premises, the Company's central office, and potentially at a remote hut or a digital loop carrier location. Access to dark fiber will not be allowed at the various fiber splice points that may exist in Verizon Florida's network.

Q. HOW WILL CLECs BE ABLE TO DETERMINE IF DARK FIBER IS AVAILABLE ON A SPECIFIC ROUTE?

A. As discussed by Company witness Steele, a pre-ordering process has been established to allow CLECs to determine if dark fiber is available on a specific route, as well as the physical parameters of the given

dark fiber facility. This process will be initiated upon receipt of an access service request (ASR) service inquiry request from a CLEC. The charge for this pre-ordering activity is also discussed by Company witness Steele.

DARK FIBER LOOP

Q. WHAT IS VERIZON FLORIDA'S PROPOSED MRC FOR AN UNBUNDLED DARK FIBER LOOP?

A. First, an unbundled dark fiber loop is defined by Verizon Florida to mean "one" continuous dark fiber optic strand between a Verizon Florida central office's fiber distribution panel and the main termination point, such as a fiber distribution or patch panel located within the premises of an end-user customer. Exhibit DBT-2 provides the "per strand" MRC for a dark fiber UNE loop, as well as associated distribution and feeder sub-loop elements. The fixed-allocation pricing computations that derive these rates are also depicted in Exhibit DBT-2.

Q. WHY DIDN'T YOU PROPOSE TO DEAVERAGE THE PRICE FOR DARK FIBER LOOPS ON A GEOGRAPHIC BASIS?

A. Dark fiber loops were assumed to exhibit the same relative level of cost variation between geographic zones as DS-3 loops exhibit, since a DS-3 loop is a fiber-based loop. The geographic cost variation for DS-3 loops does not support the deaveraging of that offering; therefore, there is no rationale to support the deaveraging of dark fiber

loops.

DARK FIBER INTEROFFICE FACILITIES

Q. WHAT IS A DARK FIBER INTEROFFICE FACILITY (IOF)?

A. Dark fiber IOF is any existing, continuous dark fiber strand that exists between a fiber patch panel located within one Verizon Florida central office and a fiber patch panel in either (a) another Verizon Florida central office through which the fiber is routed or (b) a CLEC central office.

Q. WHAT TELRIC-BASED RATES DOES VERIZON FLORIDA PROPOSE FOR DARK IOF?

A. The proposed MRC rates between two Verizon Florida central offices are based on a per termination and per airline mile rate structure and are depicted in Exhibit DBT-2. The MRC rates for IOF between a Verizon Florida central office and a CLEC central office, identified as the dark fiber loop rates, are also depicted in Exhibit DBT-2. Since the composite rate paid for dark fiber IOF is mileage-sensitive, Verizon Florida considers dark fiber IOF to be sufficiently deaveraged to reflect geographic cost differences. Thus, deaveraged rates for this element are inappropriate; the IOF price structure inherently accounts for geographic cost differences.

G. ISSUE 9(b): ADDITIONAL UNE ELEMENTS

Q. SUBJECT TO THE STANDARDS OF THE FCC'S THIRD REPORT

AND ORDER, SHOULD THE COMMISSION REQUIRE ILECS TO UNBUNDLE ANY OTHER ELEMENTS OR COMBINATIONS OF ELEMENTS? IF SO, WHAT ARE THEY AND HOW SHOULD THEY BE PRICED?

A. No. Under FCC rules, the Commission cannot require unbundling of any additional elements unless it determines that access to an element is "necessary" and failure to provide it "impairs" the CLEC's ability to compete. There are no additional elements that meet this test. The Commission should decline to require unbundling of additional elements or combination of elements here, as it did in BellSouth's UNE pricing proceeding.

H. ISSUE 10 & 9(a)(19): CUSTOMIZED ROUTING

Q. WHAT IS THE APPROPRIATE RATE, IF ANY, FOR CUSTOMIZED ROUTING?

A. ILECs are no longer required to provide Operator Services/Directory Assistance (OS/DA) on an unbundled basis where they offer customized routing. Verizon Florida offers customized routing in all areas, subject only to site-specific technical limitations. Since 1996, however, Verizon Florida has not received any requests for customized routing. As such, the Company does not believe it is necessary to establish costs and prices for customized routing in this proceeding, but will instead do so on a case-by-case basis.

I. ISSUE 12: UNE COMBINATIONS

Q. HOW DOES THE FCC'S UNE REMAND ORDER ADDRESS THE ISSUE OF UNE COMBINATIONS?

A. The FCC's UNE Remand Orderrequires ILECs to provide currently combined elements to CLECs without disassembling them. (UNE Remand Order, ¶¶ 474-89.

There are basically two types of combinations that are at issue here: (1) UNE-Platform (UNE-P) combinations and (2) Enhanced Extended Link (EEL) combinations.

Due to the then-pending litigation on combinations in the Eighth Circuit Court, the FCC did not elect to define combinations as separate network elements, nor did it address whether an ILEC must combine network elements that are not already combined in the network. (UNE Remand Order, ¶ 481.)

However, in its July, 2000 opinion, the Eighth Circuit reaffirmed its previous decision that FCC Rules § 51.315 (c)-(f) remain vacated *Iowa Utils. Bd. v. FCC*, 219 F.3d at 759. Thus, Verizon Florida is under no obligation to combine UNE elements that are not already combined in its network.

Q. WILL VERIZON FLORIDA COMBINE NETWORK ELEMENTS EVEN THOUGH IT IS NOT LEGALLY OBLIGATED TO DO SO?

A. No. The Company will comply scrupulously with the requirements of the Telecommunications Act of 1996 and the lawful regulations of the FCC, as determined by the courts. Complying with the Act to meet its pro-competitive goals means, however, not only offering what Congress determined competition requires, but also withholding those things that Congress determined the CLECs should do for themselves. The development of robust competition requires no less — not only making certain of our facilities available to assist the CLECs, but also encouraging them to build their own networks where ours does not immediately meet their needs. Accordingly, Verizon Florida will make available to CLECs all required UNEs and will provide them in their combined state if they are already combined, in accordance with the Act and the FCC's rules. With one exception, where UNEs are not already combined, Verizon Florida will not combine them for the CLECs, but will, in full accordance with the law, make them available individually for the CLECs to combine themselves. The exception to this rule concerns new EEL combinations, which will be discussed later in this testimony.

Q. PLEASE FURTHER DESCRIBE THE VARIOUS CATEGORIES OF UNE COMBINATIONS.

A. A UNE-P is a combination of a loop, local circuit switching and shared transport. It is essentially a working local service that can be used by a CLEC to provide retail local services such as R1 or B1 service. An EEL is a combination of an unbundled loop, multiplexing as required,

and interoffice dedicated transport that facilitates the "extension" of an unbundled loop beyond the central office that serves an end-user customer--a configuration that is often found in the special access product set today. By using an EEL, the CLEC can avoid the need to collocate at every central office to gain access to the unbundled loops within each central office. EEL combinations do not include local circuit switching.

UNE-PLATFORMS

Q. UNDER WHAT CONDITIONS WILL VERIZON FLORIDA OFFER UNE-P COMBINATIONS?

A. Verizon Florida will offer UNE-P combinations throughout its Florida operating territory with one exception. As previously stated, Verizon Florida is not required to combine UNEs into platforms when the specific UNEs are not combined in the Company's network.

Q. FOR WHAT UNE PLATFORMS IS VERIZON FLORIDA PROPOSING RATES?

A. Based on Verizon Florida's proposed UNE loop and port offerings, CLECs will technically have the capability to create four different platforms, which are integrated combinations of a UNE loop and a UNE port as follows:

(1) Basic Analog Platform, which would be comprised of a 2-wire UNE loop and a basic analog line side port;

(2) ISDN BRI Platform, which would be comprised of a 2-wire UNE

loop and an ISDN BRI digital line side port; (ISDN BRI Loop Extension charges may apply.)

(3) ISDN PRI Platform, which would be comprised of a DS-1 UNE loop and an ISDN PRI digital port; and,

(4) DS-1 Platform, which would be comprised of a DS-1 UNE loop and a DS-1 digital trunk side port.

Q. WHAT PRICE STRUCTURE AND PRICE LEVELS IS VERIZON FLORIDA PROPOSING FOR EACH UNE PLATFORM?

A. Verizon Florida is not proposing specific platform rates. The ultimate MRC for a platform will equal the sum of the MRCs for the individual UNEs that are required by the CLEC to create the platform that is currently serving the end-user customer. Thus, the total MRC paid by the CLEC will include a deaveraged UNE loop MRC and a UNE port MRC. The Company's switch usage rates (end-office and tandem) and common/shared transport rates will apply, as appropriate, for all minutes of use generated from the platform. Likewise, Verizon Florida's proposed rates for switch features would apply when specific switch features are ordered, as well as Verizon Florida's proposed rates for "non-call set-up" queries to the Company's databases.

Q. PLEASE EXPLAIN VERIZON FLORIDA'S ORDERING AND PROVISIONING PROCESS FOR UNE-P.

A. CLECs will order UNE-P from Verizon Florida using the standard Local Service Request form. Additional information, to be provided on a

data gathering form, may be required in conjunction with the more complex switch features such as CentraNet. Prior to ordering, a CLEC is not required to be collocated to purchase UNE-P since no handoff of facilities to the CLEC is necessary. A UNE-P is a standalone working service. Currently, Verizon Florida requires the CLEC to update the E911 Database records associated with end-user customers they serve via UNE-P. However, Verizon Florida is modifying its systems and plans to be able to perform these updates for the CLEC in the near future.

Verizon Florida will provision UNE-P in a manner similar to how it provisions resale or its own retail services. Also, UNE-P is always provisioned as a measured service. The CLEC will be billed for local switching usage, as well as shared transport. Verizon Florida will provide local and access usage files to the CLEC so it can, in turn, bill its end-users and any IXCs. (Verizon Florida does not, at present, charge for usage files provided to the CLECs)

Finally, vertical services can be added to any platform at the CLEC's option; additional charges, of course, apply for such vertical services.

Q. WILL VERIZON FLORIDA PROVIDE NEW COMBINATIONS OF LOOP AND SWITCHING?

A. As noted, Verizon Florida is not required to provide "new" combinations of unbundled elements which do not already exist. *Iowa*

Utils. Bd. v. FCC, 219 F.3d 744. Thus, Verizon Florida will only offer UNE-Ps when the desired elements have already been combined to offer retail or resale services.

EEL COMBINATIONS

Q. WHAT WILL VERIZON FLORIDA OFFER IN THE WAY OF NON-SWITCHED EEL COMBINATIONS?

A. Verizon Florida will offer combinations of network elements that are already combined, including combinations of loop, multiplexing/concentrating equipment, dedicated transport and entrance facilities. In addition, the Company will provide new (not already combined) EEL combinations for CLECs provisioning customers served by Verizon Florida's local circuit switches that are located in the FCC's density zone 1 in the "Tampa–St. Petersburg–Clearwater" Metropolitan Statistical Area. Per FCC rule 51.319, the offering of new EEL combinations will exempt the Company from providing unbundled local circuit switching to requesting CLECs when the CLEC intends to serve a customer with four or more voice grade (DS0) equivalent lines in the Tampa–St. Petersburg–Clearwater area.

There are many potential combinations of loop types, multiplexing arrangements, and transport bandwidth that could be provided under an EEL arrangement. Accordingly, Verizon Florida proposes that the rate for each EEL UNE combination be the sum of the individual loop, transport and multiplexing rates for each of the individual UNEs that

make up the combination. Exhibit DBT-2 also presents the rates for various types of multiplexing that are likely to be requested in conjunction with the provisioning of EEL combinations.

Q. UNDER WHAT CONDITIONS CAN EXISTING SPECIAL ACCESS ARRANGEMENTS BE CONVERTED TO EEL COMBINATIONS?

A. The FCC issued a Supplemental Order in CC Docket No. 96-98 on November 24, 1999, (*Implementation of the Local Competition Provisions of the Telecommunications Act of 1996*, Supplemental Order, 15 FCC Rcd 1760 (Supplemental Order) (1999)), which set up a temporary constraint on the circumstances under which carriers could convert special access combinations to UNE combinations. The FCC constrained carriers from substituting entrance facilities and combinations of unbundled loops and dedicated interoffice transport network elements for the ILECs' special access service. Because it was concerned that carriers that provide exchange access service would be able to arbitrage special access rates and harm universal service, the FCC allowed conversions of special access services to UNE rates only if the carrier provides a significant amount of local exchange service on the facility.

On June 2, 2000, the FCC issued a Supplemental Order Clarification, (*Implementation of the Local Competition Provisions of the Telecommunications Act of 1996*, Supplemental Order Clarification, 15 FCC Rcd 9587 (Supplemental Order Clarification) (2000)), in which it

extended the temporary constraint and provided further definition of what constitutes a significant amount of local traffic. The FCC said that one of three circumstances must be met. (*See* Supplemental Order Clarification, ¶ 22). First, the requesting carrier certifies that it is the exclusive provider of an end-user's local exchange service. Under this condition, collocation is required in at least one ILEC central office within the LATA, and loop-transport combinations cannot be connected to the ILEC's tariffed services.

Second, the requesting carrier certifies that it provides local exchange and exchange access service to the end-user customer's premises and handles at least one third of the end-user customer's local traffic (percent local traffic factors are different for DS1 and higher). Collocation at a minimum of one central office within the LATA is also required under the second condition. The EEL combinations must terminate to the collocation arrangement(s) and cannot be connected to the ILEC's tariffed services.

Under the third and last condition, the requesting carrier certifies that at least 50% of the activated channels on a circuit are used to provide local dial tone service, that at least 50% of the traffic on each of these local channels is local voice traffic, and that the entire loop facility has at least 33% local voice traffic. Collocation is not required with condition three; however, the restriction on connecting loop-transport combinations to ILEC tariffed services still applies.

The FCC also required ILECs to allow CLECs to self-certify that they are providing a significant amount of local exchange service over combinations of UNEs. ILECs are allowed to subsequently conduct limited audits by an independent third party to verify the requesting carrier's compliance with the local usage requirements. (Supplemental Order Clarification, ¶ 29). When converting from special access rates to UNE rates, the full termination liability will apply, if applicable.

J. ISSUE 13: RATE EFFECTIVE DATE

Q. WHEN SHOULD THE RECURRING AND NON-RECURRING RATES AND CHARGES TAKE EFFECT?

A. Unless the particular contract specifies otherwise, recurring and non-recurring rates for service already provided under the contract should take effect on the date the Commission issues its final order prescribing the permanent UNE rates for Verizon Florida. At that time, Verizon Florida will inform the ALECs of any rate changes by distributing notices of revised rates or by posting them on Verizon's website. For new services or facilities, of course, an amendment must be negotiated setting forth the terms and conditions (including price) under which they will be provided. This is the best approach for streamlining the implementation of new, Commission-ordered rates.

If a rate for a particular UNE is established in this proceeding, but a CLEC's current interconnection agreement does not include that UNE, the CLEC is not entitled to the UNE until the parties execute an appropriate amendment. In this way, the parties can ensure that all related terms and conditions are included.

IV. SUMMARY

Q. WOULD YOU PLEASE SUMMARIZE YOUR TESTIMONY?

A. UNE prices should not be further deaveraged in the absence of cost-based, deaveraged retail rates. Wholesale deaveraging alone will only exacerbate existing CLEC arbitrage opportunities, thus undermining this Commission's goals of promoting efficient competition and universal service. The best approach is to leave the ILEC-specific zones in place until retail and wholesale rates can be made consistent.

If the Commission, however, decides to move forward with further deaveraging here, it should deaverage only those UNEs that exhibit material cost variations with geography. UNE costs should be calculated at a wire center level, with wire centers mapped into rate zones and a single UNE price set for each zone. At this time, only

loop prices should be considered for deaveraging, because only loop costs display significant geographical variation.

The Commission should also reject any notion of deaveraging UNE loops based on the specific end-user technology to be used in conjunction with each specific loop (*e.g.*, xDSL technologies). Like geographic deaveraging, this activity would not only exacerbate existing CLEC arbitrage opportunities. In addition, it would have the irrational outcome of resulting in prices that would vary for the "same" UNE loop in a given geographic area based solely on the technology employed for an end-user. This type of technology-based deaveraging would be at total odds with any rational pricing policy objectives.

The Commission should approve Verizon Florida's proposed costs for use in pricing UNEs. Verizon Florida's cost studies are comprehensive and comply fully with the FCC's hypothetical TELRIC methodology, even though the Eighth Circuit has invalidated that methodology. Verizon Florida reserves the right to modify its UNE prices as necessary when the issue of cost methodology is finally settled at the federal level.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes.

BY MS. CASWELL:

Q Mr. Trimble, did you also submit surrebuttal testimony in this proceeding?

A Yes, I did.

Q Did you file a correction to that testimony on April 19th, 2002?

A Yes.

Q Do you have any other corrections or additions to that testimony?

A No, I do not.

Q So that if I asked you those same questions today, would your answers remain the same?

A Yes.

MS. CASWELL: Madam Chairman, I would ask that Mr. Trimble's supplemental or surrebuttal testimony be inserted into the record as though read.

CHAIRMAN JABER: The prefiled surrebuttal testimony of Dennis B. Trimble is inserted into the record as though read.

SURREBUTTAL TESTIMONY OF DENNIS B. TRIMBLE

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Dennis B. Trimble. My business address is 600 Hidden Ridge, Irving, Texas, 75015.

Q. ARE YOU THE SAME DENNIS B. TRIMBLE WHO PREVIOUSLY FILED DIRECT TESTIMONY IN THIS DOCKET?

A. Yes, I am.

Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?

A. I respond to various assertions and policy recommendations made in the Rebuttal Testimonies of ALEC Coalition witnesses Ankum, Darnell, and Fischer; Z-Tel Communications, Inc. (Z-Tel) witness Ford; and KMC Telecom III, Inc. (KMC) witness Wood.

Q. PLEASE SUMMARIZE THE POINTS YOU MAKE IN RESPONSE TO THE ALECS' REBUTTAL TESTIMONY.

A. 1. The stock market's view of the capitalized worth of the ALEC industry is not an appropriate consideration in setting unbundled network element (UNE) rates. The FPSC must instead follow the FCC's current UNE pricing rules and the Telecommunications Act of 1996 (Act), both of which require cost-based pricing. In any event, many factors other than UNE rates are more likely to directly affect the performance of ALEC stock prices. The ALECs

developed their business plans with full knowledge of the ILECs' UNE rate structures and made their entry plans assuming success under these rate structures.

2. It is, likewise, improper to set Verizon's UNE rates based on comparisons to rates established for other incumbent local exchange carriers (ILECs) or in other states. Again, the FPSC needs to adhere to the FCC's pricing rules, rather than irrelevant statistics.

3. The FPSC is not required to deaverage each ILEC's rates; the existence of different rates for ILECs across the state satisfies the FCC's deaveraging requirement. Efficient competition will not develop if further deaveraging occurs in the absence of a rational relationship between UNE rates and retail rates. If the FPSC decides it must deaverage Verizon's UNE rates, then only Verizon's alternate proposal adheres to FCC pricing rules and mitigates, to the extent possible, uneconomic arbitrage of the Company's retail offerings.

4. The ALEC Coalition's criticisms of Verizon's development of a fixed allocator for recovery of common costs (not only for statewide UNE rates, but for deaveraged UNE rates) are unfounded and incorrectly represent Verizon's procedures. Verizon's methodology is rational, supported by the FCC, and results in the least distortion of rates as between geographic areas.

5. A la carte pricing of switch features is economically sound, does not unduly complicate ordering, comports with the FCC's pricing rules, and properly assures that the cost causer pays the costs it incurs.

II. THE STOCK MARKET'S VIEW OF THE CAPITALIZED WORTH OF ALECS SHOULD PLAY NO PART IN THE DETERMINATION OF UNE RATE LEVELS

Q. WHAT ARE THE POSITIONS OF KMC WITNESS WOOD AND ALEC COALITION WITNESS ANKUM CONCERNING THE ALECS' PURPORTED NEED FOR LOWER UNE RATES?

A. Mr. Wood peppers his testimony with statements that indicate the entire fate of the ALEC industry hinges on ordering UNE rates that will guarantee ALEC profits. (*See, e.g.*, Wood RT at 2, 3, 8 ("If CLECs cannot reach positive cash flow and SUSTAIN it, then our industry is DEAD" , 11 ("our investors deserve a return on their investment – and that is a basic fact of our national economy" , 12, 15.) These statements advocating naked corporate welfare are Mr. Wood's sole support for lowering current UNE rates.

Dr. Ankum is somewhat subtler. He spends over six pages reviewing the changes in market capitalization of various telecommunication firms (Ankum RT, pp. 19–25), and from that he concludes that the "CLEC industry can no longer afford to shoulder the burden of anti-competitive

[UNE] proposals." (Ankum RT, p. 4)

Q. PLEASE COMMENT ON THE VIEWS OF DR. ANKUM AND MR. WOOD.

A. Dr. Ankum's and Mr. Wood's comments must be dismissed as irrelevant rhetoric designed to improperly influence UNE pricing decisions. Their implications that the existing level of UNE rates has caused the financial decline of the ALEC industry or that lower UNE rates will be the salvation for the ALEC industry have no economic or factual support.

Are we to assume that AT&T's fall in market capitalization is due to UNE rate levels? Not according to the media accounts I have read, which ascribe AT&T's troubles to disastrous investments in cable facilities, significant reduction in toll prices due to the entry of efficient competition, and the like. These are not UNE issues, but management decision issues and/or the expected results of a competitive marketplace.

Likewise, rather than blaming any financial difficulties on UNE rates, the smaller ALECs should ask themselves the following, more directly relevant questions:

- did your initial business plan correctly identify your operating efficiencies?
- did the investment community fairly value your company from day 1?
- did you follow your business plan?

- did you spend your venture capital wisely?
- did you understand the full set of ILEC rate structures and cost characteristics? Which ILEC services are priced to support social goals?
- are the customers you targeted in your business plan willing to buy your service?
- do your cash flow needs require that you expand your operations to less valuable customer sets?

It defies logic to suggest that the current financial woes of many ALECs can be explained in terms of UNE rates. First, when the ALECs decided to enter each market, they knew what the UNE rates were at that time; most state UNE rates, including Florida's, were established in late 1996 and early 1997 (prior to the rise in ALECs' stock market capitalization). The ALECs also knew precisely what the ILECs' tariffed rates were for each and every service. They should have had estimates of their own cost structures regarding marketing to customers, building facilities, maintaining facilities, etc. They could identify (or should have identified) which customer sets were valuable based on simply arbitraging the ILECs' disoriented rate structures. All I see is an industry that is fraught with bad business planning and an inability to deliver to the expectations upon which business plans were built. Perhaps the ALECs believed the results of the cost studies that they have proposed in various states and those cost studies proved deficient in identifying their true actual costs.

Q. IS IT PROPER FOR THE COMMISSION TO CONSIDER INFORMATION ABOUT CERTAIN ALECS' FINANCIAL TROUBLES IN SETTING RATES FOR VERIZON?

A. No. The Act and the FCC's rules implementing the Act require UNE rates to be cost-based. The FCC's pricing rules do not consider or permit preferential treatment for particular competitors. In fact, the corporate welfare the ALECs seek is directly contrary to the ultimate goal of the Act, which is facilities-based competition. Competitors will never build their own facilities if they can continue to buy UNEs at fire-sale prices.

Competition does not ensure the survival of competitors, but allows for the existence of efficient firms. Put another way, entry into competitive markets does not guarantee that the firm will be profitable; it just guarantees that if the firm is efficient and customers value their products, then it will have an opportunity to earn a profit. To imply that UNE rates must be lowered to ensure the continued existence of specific firms, whether they be efficient or not, reaches far beyond this Commission's interest in promoting the creation of an efficient marketplace. This Commission's interest is in protecting competition, not particular competitors.

III. THE ALECS' COMPARATIVE ANALYSIS OF UNE RATES IS NOT USEFUL FOR THIS PROCEEDING

Q. ALEC WITNESSES ANKUM, DARNELL, FORD, AND WOOD ALL

ADVISE THE COMMISSION THAT IT SHOULD SET VERIZON'S UNE RATES BASED, AT LEAST IN PART, ON RATES ESTABLISHED FOR OTHER ILECS AND IN OTHER STATES. DO YOU AGREE WITH THIS APPROACH?

A. No. As the Commission has recognized, UNE rates are supposed to be company-specific, which means, in this case, based on the costs Verizon will incur in providing UNEs in Florida with its network. The rates of other companies (regardless of the state in which they operate) are obviously not based on Verizon's costs. The Commission need not (and, indeed, cannot) look to other jurisdictions or use proxies to set Verizon's rates. It need only carefully review Verizon's costs, as presented in Verizon's cost study filed in this case. As even Dr. Ankum admits, the Commission must set TELRIC-based rates (Ankum RT at 13). This admission is at odds with any approach that would factor in other states' rates, which have nothing to do with Verizon's TELRICs in Florida.

Consideration of rates from other states is not, in any event, a responsible basis for ratesetting. It is very dangerous to consider these other rates without a complete understanding of the context in which they were adopted, including, for example, inquiry into whether the rates were properly based on forward-looking pricing rules or political or other considerations; and whether UNE ratesetting was accomplished in conjunction with other objectives.

Dr. Ankum, for instance, advises the Commission to look to New York for

guidance in setting UNE rates, but neglects to tell the Commission the New York Commission allowed local rate increases in conjunction with adoption of the new UNE rates. In this proceeding, of course, I have recommended against further deaveraging UNE rates without moving retail rates closer to their underlying costs.

Q. CAN YOU COMMENT ON DR. FORD'S "ZONE OF REASONABLENESS APPROACH?"

A. Dr. Ford claims to have "used the FCC's Hybrid proxy Cost Model ("HCPM")" to compare the costs of providing UNEs between Verizon and BellSouth. Dr. Ford did not produce specific rates, but attempted to provide a "zone of reasonableness" as a "sanity check" on Verizon's rates. (Ford RT at 20.) I will leave specific comment on Dr. Ford's approach to Verizon surrebuttal witnesses Dr. Tardiff and Mr. Murphy, but my general observation stands: the only proper basis for setting Verizon's UNE rates is Verizon's cost studies—not costs or rates of other carriers.

Q. CAN YOU GIVE US AN EXAMPLE OF HOW DR. FORD'S COMPARATIVE ANALYSIS FAILS TO YIELD ANY USEFUL INFORMATION IN SETTING VERIZON'S RATES?

A. Yes, on page 23 of his Rebuttal Testimony, Dr. Ford compares two of Verizon's a la carte switch feature prices to a fixed port feature rate that was ordered for BellSouth. Specifically, he asserts that BellSouth was ordered to provide all features for $3.40, while Verizon proposes to

charge $4.20 for just two features. In my Direct Testimony, I proposed rates for hundreds of different features; most of the commonly used features are priced at less than $0.30 each. But Dr. Ford ignored the total picture and picked two of the more costly features (features that are also not in high demand) to add up for his comparison. Such misleading comparisons provide no useful information about ratesetting for Verizon.

Q. ALEC COALITION WITNESS DARNELL PROPOSES THAT THE FPSC IMPLEMENT "INTERIM" UNE RATES, WITHOUT ANY TRUE-UP, FOR VERIZON, BASED ON APPROVED OR PENDING BELLSOUTH UNE RATES. PLEASE COMMENT ON THIS PROPOSAL.

A. The ALEC Coalition has no regard for due process or for its own agreements. Mr. Darnell asks the Commission to merely assume that cost-based rates for Verizon should be similar to those set for BellSouth. Neither the Act nor the FCC's pricing rules permit ratesetting based on assumptions, rather than a Company's specific cost data. Moreover, AT&T and MCI agreed to Verizon's existing loop rates, in a stipulation approved on February 22, 2000 (*Investigation into the Pricing of Unbundled Network Elements*, Order No. PSC-00-0380-S-TP), and they should be held to that agreement.

In any event, it would be impossible, in practical terms, to simply superimpose BellSouth's UNE rates on Verizon, which has different provisioning, ordering, and billing systems. Mr. Darnell's proposal deserves no serious consideration.

IV. THE ALEC COALITION'S DEAVERAGING PROPOSAL IS JUST AN ATTEMPT TO FURTHER UNECONOMIC RATE ARBITRAGE

Q. DR. ANKUM CONCLUDES THAT THE FCC REQUIRES THE STATES TO DE-AVERAGE EACH COMPANY'S UNE RATES INTO AT LEAST THREE RATE ZONES (ANKUM RT, PP. 98 – 99). DO YOU AGREE WITH HIS CONCLUSION?

A. No, the FCC has never made such a ruling. In an Order concerning a deaveraging waiver request by the Ohio Commission, the FCC stated:

> We note that Ohio argues it may not need this waiver. As it points out, the FCC has never ruled that states must create company-specific zones for each carrier in the state, but only that the state commissions must have at least three deaveraged rate zone in total....This issue, however, is beyond the scope of our consideration of waiver petitions.
>
> (*Petitions for Waiver of the Section 51.507(f) UNE Deaveraging Requirement*, Order, 15 FCC Rcd 23353 (2000).)

Q. DR. ANKUM ASSERTS THAT IF UNE RATES ARE NOT DEAVERAGED, EFFICIENT USE OF EXISTING RESOURCES WILL BE DISCOURAGED. PLEASE COMMENT ON THIS ASSERTION.

A. I agree that efficiency is a laudable objective, but the Commission cannot consider efficiency in UNE rates without also considering efficiency in

retail rates. State policymakers have always attempted to balance economic efficiency with social objectives (*e.g.*, universal service goals); historically, social objectives were given more weight than economic efficiency. That is why implicit subsidies remain in the ILECs' retail rate structures. As I have testified, these subsidies need to be removed for local markets to operate efficiently. To create a truly efficient marketplace, Verizon's retail rates need to be aligned with its UNE rates, where both reflect their underlying cost structures within a geographic area. To deaverage one set of rates without deaveraging the other exacerbates the uneconomic arbitrage of Verizon's existing retail rate structures. Further deaveraging UNEs will also assure that customers in high cost areas will never see the benefits of a competitive marketplace.

Mr. Wood agrees that the FPSC should not ignore end user rates when setting UNE rates. (Wood RT, pp. 21-22) But instead of removing subsidies, Mr. Wood asks the commission to subsidize and/or support UNEs, just as various retail offerings are currently supported. Aside from violating the FCC's pricing rules, this activity would only introduce more economic inefficiencies into the marketplace.

Q. DR. ANKUM STATES IF UNE PRICES DO NOT REFLECT COST, THEN THE DEVELOPMENT OF COMPETITION WILL BE IMPAIRED AND THE RATEPAYERS OF FLORIDA WILL BE DEPRIVED OF AN OPTIMALLY EFFICIENT NETWORK AT COMPETITIVE PRICES. DO YOU AGREE WITH THIS STATEMENT?

A. No. The ratepayers of Florida probably have the most efficient network they could have at this time, given the social objectives that have historically driven ILEC pricing. Setting UNE prices based on geographically deaveraged costs will not change the underlying network; it will only ensure that the ILEC's ability to modernize its network in higher-cost areas becomes financially harder to do. Throughout his discussion, Dr. Ankum has conveniently ignored Verizon's disoriented retail rate structures, as well as the potential impact of his proposals on universal service objectives and competition for rural areas. Many of Dr. Ankum's statements may apply to markets with a competitively neutral playing field, but that condition does not exist in local telecommunications markets. The FPSC should recognize Dr. Ankum's statements for what they are–the ALEC's attempt to obtain enhanced abilities to arbitrage Verizon's retail rate structures, not for the benefit of Florida's telecommunications consumers, but solely for the financial benefit of the ALECs.

Q. PLEASE DESCRIBE THE ALEC COALITION'S PROPOSED METHODOLOGY FOR DEAVERAGING UNE LOOP RATES.

A. ALEC Coalition witness Fischer presented this proposal at pages 7–8 of his Rebuttal Testimony. He recommends that the lower and upper boundary of each deaveraged zone should be determined such that they are both within + or – 20 percent of the average cost of the loop in that deaveraged zone. Mr. Fischer claims that this methodology allows zones "to be created solely upon underlying cost characteristics, and not due to

some artificial grouping of wire centers" (Fischer RT, p. 8). Mr. Fischer's primary proposal results in eight zones for Verizon, with only one wire center in the lowest cost zone and 18 wire centers in the 4 highest cost zones (Fischer Ex. WRF-2).

Q. WAS THE DEAVERAGED ZONE PROPOSAL YOU SUBMITTED IN YOUR DIRECT TESTIMONY BASED ON SOME "ARTIFICIAL GROUPING OF WIRE CENTERS"?

A. No. The three-zone proposal I presented was based solely on the underlying cost characteristics of Verizon's wire centers. Again, I emphasize that this is an alternative proposal to be used only if the FPSC determines that it must deaverage each ILEC's UNE loop rates.

Q. DID MR. FISCHER PROPOSE ANY ALTERNATIVE DEAVERAGED RATE STRUCTURE?

A. Yes, based on the Commission's decision that three zones was sufficient for BellSouth, he collapsed his proposed 8-zone structure for Verizon into 3 zones using the following aggregation (Fischer Exhibit WRF-3):

New Zone 1 = Original Proposed zones 1 & 2

New Zone 2 = Original Proposed zone 3

New Zone 3 = Original Proposed zones 4 – 8

Q. WHAT LEVEL OF COST VARIATION EXISTS IN MR. FISCHER'S ALTERNATIVE 3-ZONE STRUCTURE?

A. His proposal has no standard breakpoints, but Mr. Fischer's Exhibit WRF-

3 contains the information necessary to develop the following ranges of cost deviation in each zone:

Table 1

ALEC COALITION'S 3-ZONE PROPOSAL

Zone	Percentage Variation from Average Cost	
	Lower Bound	Upper Bound
1	-43%	+17%
2	-14%	+20%
3	-30%	+447%

Q. MR. FISCHER STATES THAT VERIZON'S PROPOSAL TO USE A 200 PERCENT COST VARIATION STANDARD RESULTS IN UNE RATES THAT ARE OVERLY AVERAGED (FISCHER RT, P. 10). PLEASE COMMENT ON THIS STATEMENT.

A. Mr. Fischer's characterization of Verizon's methodology is misleading. Verizon's 3-zone deaveraging proposal did not employ a "200% cost variation standard," as Mr. Fischer uses the term. Verizon's proposal segmented wire centers into zones depending on whether the wire centers' costs were (1) below the statewide average cost, (2) above the statewide average cost but below 200% of the statewide average cost, or (3) above 200% of the statewide average cost. The results of this methodology were presented in my Exhibit DBT-3 for 2-wire loops. That Exhibit provides sufficient information to compute the lower and upper bound percentage variations from the average cost for each proposed zone. The results of these calculations are presented in Table 2.

Table 2

VERIZON'S 3-ZONE PROPOSAL

Percentage Variation from Average Cost

Zone	Lower Bound	Upper Bound
1	-53%	+20%
2	-17%	+47%
3	-38%	+173%

Verizon's zones 1 and 2 are relatively close to Mr. Fischer's zones in terms of absolute deviation, but Verizon's zone 3 contains a significantly smaller amount of total variation, which was one of the primary reasons Mr. Fischer originally proposed six zones.

Q. MR. FISCHER STATES THAT ONE OF THE PROBLEMS OF "OVERLY AVERAGED" RATES IS THAT THEY ARE LARGELY UNRELATED TO THE COST INCURRED BY THE ILECS TO PROVIDE THE RELEVANT SERVICES. (FISCHER RT, P. 13). PLEASE COMMENT ON THIS STATEMENT.

A. It makes no sense. Verizon's proposed rates are not "overly averaged." The price paid in each zone is directly related to the average cost incurred from provisioning all the customers there. Mr. Fischer's statement only makes sense if the ALEC intends to selectively target customers, in which case, the price paid may be either higher or lower than the cost to provision those customers.

One way to assess whether or not a deaveraging scheme is fair would be

to ascertain what percent of the lines are allegedly priced above their underlying cost due to averaging. This would occur when the estimated cost within the wire center is below the average cost for the geographic zone. Based on the statistics presented in Mr. Fischer's Exhibit WRF-3 and my Exhibit DBT-3, I have made this comparison. The results are shown in Table 3.

Table 3

COMPARISON OF 3-ZONE PROPOSALS

	Percent of Lines in Wire Centers With Costs Below Average Cost
Verizon	51%
ALEC Coalition	47%

Verizon's 3-zone proposal and the ALEC Coalition's 3-zone proposal are very similar, but Verizon's proposal has a slightly better balance (since the other side of the coin is that the remaining lines are priced too low). Verizon's proposal thus mitigates more uneconomic arbitrage than does the ALEC Coalition's proposal.

V. THE ALEC COALITION'S COMMON COST RECOVERY PROPOSAL IS INAPPROPRIATE AND MISLEADING

Q. WHAT IS THE ALEC COALITION'S POSTITON CONCERNING VERIZON'S PROPOSED RECOVERY OF COMMON COSTS?

A. Mr. Fischer asserts that: (1) Verizon computed two common cost factors

and chose the higher of the two; (2) Verizon does not consistently apply its common cost allocator as a percentage to deaveraged zone rates; and (3) Verizon's common costs inappropriately include amounts for activities "that are adverse to the interests of ALECs." (Fischer RT, pp. 23-28.)

A. DIFFERENT COMMON COST FACTORS

Q. DID VERIZON COMPUTE TWO SEPARATE COMMON COST RECOVERY FACTORS AND CHOOSE THE HIGHER OF THE TWO?

A. No. Mr. Fischer alleges that Attachment Q in Verizon's ICM-FL Expense documentation constitutes the computation of a factor to be used to mark-up direct costs to facilitate the recovery of common costs. This is not true. The computation of the percentage in Attachment Q is just for informational purposes to show the relationship between Verizon's total common costs and its total regulated revenues. This explanation was provided by Verizon in response to question number 36 of AT&T and MCI's First Set of Interrogatories.

Q. HOW SHOULD A COMMON FIXED ALLOCATOR BE COMPUTED TO GIVE THE COMPANY AN OPPORTUNITY TO RECOVER ITS TOTAL COSTS?

A. The correct mathematical method for computing a common cost factor is to divide common costs by total direct costs as I did in Exhibit DBT-1, attached to my Direct Testimony. To expand on the discussion in my Direct Testimony (at pages 28–29), Verizon's fixed allocation factor was

determined using the following formula:

Fixed Allocator = TCC / DC

where: TCC = Total Common Costs, and

DC = Direct Costs

The objective of the formula is to create a mechanism such that when direct costs are marked up to create prices, the resulting price sets allow the firm a theoretical opportunity to recover its total costs, which are the sum of its total direct costs and its total common costs (Total Costs = DC + TCC). Using the above formula, prices are developed such that:

Prices = DC * (1 + Fixed Allocator) or

= DC * (1 + (TCC/DC)) , which results in

= DC + TCC = Total Costs

Thus, the formula gives the Company an opportunity to recover its total costs. Mr. Fischer's assertion that the fixed allocator should be based on total common costs divided by total revenues would only lead to a substantial understatement (and under- recovery) of the Company's total costs. The Commission should reject Mr. Fischer's recommendation as a self-serving, mathematically incorrect sham.

Q. ON PAGE 25 OF HIS REBUTTAL TESTIMONY, MR. FISCHER STATES THAT "WHILE USING DIRECT COSTS AS THE DENOMINATOR MAY BE AN ACCEPTABLE METHOD, THE VERIZON PREDECESSOR, GTE, TYPICALLY USED TOTAL REGULATED REVENUES AS THE DENOMINATOR." IS THIS ASSERTION CORRECT?

A. Absolutely not. At GTE, I had total responsibility for the determination of

UNE pricing policies and I can state unequivocally that GTE never used Mr. Fischer's asserted methodology in any UNE pricing case.

B. USE OF A COMMON COST FACTOR IN DETERMINING DEAVERAGED RATES

Q. ON PAGES 26 AND 27 OF HIS REBUTTAL TESTIMONY, MR. FISCHER OBJECTS TO VERIZON'S USE OF A UNIFORM AMOUNT OF COMMON COSTS ACROSS DEAVERAGED ZONES. DOES MR. FISCHER HAVE ANY RATIONAL OBJECTIONS?

A. No, the ALEC Coalition's position has no rational underpinnings. It is instead based on the objective of enhancing the ALECs' abilities to generate profits from only a few targeted customers, while ignoring the rest of Verizon's service territory.

Mr. Fischer claims that Verizon's proposal "is inconsistent with the concept of deaveraging costs where higher cost areas bear the cost required to serve the area." (Fischer RT, p. 27.) This rationale has absolutely no economic support. Common costs cannot be directly attributed to any specific product or service, let alone any specific product in a specific geographical area. There is no basis to assume that geographic areas that require higher investment costs should also require more support from those activities that account for the company's common costs (*e.g.*, human resources or accounting and finance).

Assigning a fixed amount of common cost recovery to the same UNE regardless of where the it is purchased is fair, rational, and unbiased—unlike Mr. Fisher's proposed method.

An example helps illustrate this point. Verizon's proposed fixed allocator is approximately 14 percent. If we take Mr. Fischer's eight zone deaveraging proposal for 2-wire loops (Fischer Ex. WRF-2), the average costs within each of his zones vary from approximately $10 to $200, with a statewide average cost of about $24. Applying the fixed allocator to the statewide average cost, as Verizon has proposed, would mean that the sale of each loop would generate about $3.40 (or $24 times 0.14) to the recovery of the Company's common costs, regardless of where it is located.

Mr. Fischer contends that since the direct costs of a UNE loop vary between geographic areas, the absolute amount of common cost recovery should reflect those direct cost differences. Using the above numbers, Mr. Fischer would conclude that the correct amount of common cost recovery from each UNE 2-wire loop should vary from $1.40 in the least cost area ($10 times 0.14) to $28.00 in the most costly area ($200 times 0.14). It makes no sense that the sale of a UNE loop in the most costly area should pay for 1 hour of a human resource employee's time while the sale of a loop in the least costly area would only pay for about 3 minutes of the same employee's time.

The distortions that result from zone-based recovery of common costs led the Public Utility Commission of Oregon to order a uniform dollar amount of common costs per line when determining the deaveraged rates of UNE loops:

> We further find that utilizing a percentage markup would cause significantly larger increases in proposed Zone 3 loop UNE rates than in Zone 1 and 2. We therefore reject the use of a percentage in this instance, because it will produce a burdensome distortion in the interconnection agreement negotiation process in those high-cost areas. We find that applying a markup of a uniform dollar amount per-line to UM733 costs, which we deaveraged in this order, will avoid this price distortion.
>
> (Public Utility Commission of Oregon, Docket UT 148, UM 963, Order No. 00-481, August 31, 2000, page 11)

The FPCS should likewise adopt Verizon's proposed uniform common cost mark-up for deaveraged UNE rates.

Q. WHAT SEEMS TO BE THE INTENT BEHIND MR. FISCHER'S PROPOSAL?

A. It appears that the ALECs' intent is to generate expense reductions for the services they intend to buy in the only areas they intend to serve--the low cost areas that have the most profit potential (due to Verizon's disoriented retail rate structures). If the ALECs planned to compete in all areas, then they would probably support Verizon's proposal. But the ability to perform uneconomic rate arbitrage is concentrated in the low cost areas, as that is where the easy money is.

Verizon's proposal is rational, attempts to minimize undue price distortions between geographic areas, and is economically sound. There is no basis for Mr. Fischer's proposal, other than enhancing the ALECs' profits in the low-cost areas the ALECs already target.

C. EXTERNAL RELATIONS AND LEGAL COSTS MUST BE RECOVERED

Q. MR. FISCHER ASSERTS THAT EXTERNAL RELATIONS AND LEGAL COSTS SHOULD NOT BE RECOVERED BECAUSE HE BELIEVES THOSE COSTS ARE "ADVERSE TO THE INTERESTS OF ALECS." (FISCHER RT , PP. 27-28) PLEASE COMMENT ON MR. FISCHER'S POSITION.

A. Verizon has the right to recover in its UNE rate structures all the costs it incurs that are associated with the Company's obligation to offer UNEs. The Act clearly specifies that UNE rates must be just and reasonable and may include a reasonable profit. Profit is not obtainable unless all costs

associated with the provision of UNEs are recovered, and that includes external relations and legal costs.

In addition, the FCC's current pricing rules specify that the prices for UNEs shall equal the sum of (1) the forward-looking economic cost of the element plus (2) a reasonable allocation of forward-looking common costs (Section 51.505). The FCC's pricing rules also state:

> The sum of the allocation of forward-looking common costs for all elements and services ***shall equal*** the total forward-looking common costs, exclusive of retail costs, attributable to operating the incumbent LECs total network, so as to provide all the elements and services offered.
>
> (FCC Rule Section 51.505(c)(2)(B), emphasis added)

Section 51.505(c)(2)(B) excludes only retail costs; it does not exclude any external relations and legal costs associated with the provision of UNEs. Likewise, Section 51.505(b) describes what factors may not be considered as forward-looking common costs and those are only (1) embedded costs, (2) retail costs, (3) opportunity costs, and (4) revenues to subsidize other services.

There does not appear to be any disagreement that external relations and legal costs are common costs incurred by Verizon due to the provision of UNEs. Thus, the Commission must reject Mr. Fischer's recommendation

to deny Verizon recovery of these costs.

VI. VERIZON'S PROPOSAL FOR PRICING OF VERTICAL SERVICE UNES IS APPROPRIATE AND SUPPORTABLE

Q. PLEASE COMMENT ON THE ALEC COALITION'S RATE PROPOSAL FOR SWITCH FEATURES, AS DESCRIBED BY DR. ANKUM.

A. The ALEC Coalition proposes to: (1) include all switch features in the monthly port costs (Ankum RT, p. 90); and (2) adopt a proxy rate for Verizon based on BellSouth's switching rates. This proposal completely ignores the fact that different end users desire to use different switch features, that the underlying costs for individual features vary dramatically, and that end users add and delete features as they desire. Verizon's more reasonable rate proposal is based on its costs filed in this proceeding, the knowledge that end users have differing preferences, and that the Company has the right to recover the costs involved in the provision of switch features to ALECs.

Q. DR. ANKUM CONTENDS THAT VERIZON'S PROPOSAL IS ANTI-COMPETITIVE AND NOT CONSISTENT WITH COST CAUSATION (ANKUM RT, P. 89). PLEASE COMMENT ON THESE ASSERTIONS.

A. I have no idea how Dr. Ankum can say that Verizon's proposal is not consistent with cost causation. As Mr. Tucek states in his Surrebuttal Testimony, feature costs are determined by the cost of software, feature-specific hardware, and by increased processor usage caused by feature

activation. As such, each individual switch feature has a specific forward-looking cost and those costs vary significantly depending on the feature.

Dr. Ankum's belief that Verizon's proposal is anti-competitive is apparently based on his assumption that a la carte switch feature pricing will be cumbersome and impose artificial costs. (Ankum RT, p. 89.) In this regard, he analogizes Verizon's proposal to a restaurant requiring a customer to order individual french fries, rather than allowing him to buy a plate of french fries—a system that would greatly increase the restaurant's costs. (Ankum RT, p. 89).

This analogy fails. First, one would expect the cost of each french fry to be the same; that is not true for switch features, which vary in cost. Second, the restaurant would know the cost of a plate of french fries, and that cost would not vary from customer to customer—unlike an end user's consumption of switch features. Third, customers are not likely to return one french fry and order a different french fry or request a refund, as consumers of switch features might well do.

We can rely on a more appropriate restaurant analogy to better understand Dr. Ankum's proposal. Instead of selling bottles of wine for varying prices that reflect their underlying costs, a restaurant decides to determine the average "per-customer" cost of the wine that it currently sells and offers wine to all customers at that fixed amount (whether or not they actually consume any wine). My guess is that the overall cost

structure of the restaurant will dramatically increase, since the number of customers drinking wine will increase and all customers are likely to enhance the quality of wine that they order. Dr. Ankum's proposal is definitely not consistent with cost causation.

Q. DO YOU HAVE ANY OTHER CONCERNS REGARDING THE PRICING OF SWITCH FEATURES?

A. Yes, Verizon's proposal best complies with rational pricing principles. If the FPSC orders all local switching costs to be recovered only through port charges or minute-of-use charges, the FPSC must recognize that Verizon's proposed port and end office switching costs include no amounts associated with switch features. Therefore, if the Commission rejects Verizon's a la carte rate structure for switch features, then Verizon's monthly port cost or its per minute of use cost must be adjusted to include an amount for the recovery of feature costs at a level of average demand that incorporates the fact that there is no limit on the number of features ordered.

Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?

A. Yes, it does.

BY MS. CASWELL:

Q Mr. Trimble, could you please give us a brief summary of your direct and rebuttal testimony?

A Yes. The topic of my testimony is to sponsor Verizon's proposed monthly recurring rates for the various unbundled network elements, as well as addressing some of the policy issues.

As I reviewed the various testimonies submitted in this proceeding, it seems that four issues account for most of the contention between Verizon and the ALECs.

I'd say the first of those has to do with the geographic zones, the definition of those geographic zones for deaveraging purposes, and, as you're aware, we are working on a stipulation for this specific issue.

The second issue has to do with the methodology for recovery of the company's common costs; for example, the use of a fixed percentage allocator versus a fixed amount, which we would propose in a deaveraging environment.

The third, which also concerns me, is the pricing of vertical switch features where we proposed an a la carte methodology, which is somewhat different than providing, proposing a fixed amount for all vertical service features.

The fourth is probably the largest and most critical issue, and it has to do with the level of the company's proposed direct and common costs as filed in this proceeding.

And I think that is truly, truly the crux of this proceeding are those costs.

For all other issues, and this, again, is based on my reading of the prehearing order, the parties seem to have either no position or have positions that are relatively consistent with Verizon.

But as we all know per the FCC rules, UNE rates must be based on costs. The pricing standard that I've employed and Verizon employs is absolutely in harmony with those rules. While we do not or Verizon does not agree with the FCC's rules, which are under review by the Supreme Court, we are obliged, as we all know, to follow them for the time being.

As such, the rates that I presented in my exhibits are equal to the direct costs of the given service plus a reasonable allocation of common costs, and I don't think any party disagrees with that. But the Intervenors do generally want to ignore Verizon's costs and have basically asked for the Commission to adopt BellSouth's rates for Verizon for an interim period until which time as, and I quote, "Direct determination can be made for Verizon's TELRICs."

Now I truly believe that that is the objective of this proceeding is to find a direct determination of Verizon's TELRICs.

Mr. Tucek and Mr. Richter have made exhaustive filings in terms of Verizon's TELRICs and common costs for both

recurring rate elements and nonrecurring rate elements. These are the only studies that have been filed in this proceeding, and they must be reviewed and diligently looked at.

But as my testimony goes in terms of applying the FCC's pricing rules, we used price equals TELRIC plus a fixed percentage to account for common costs. And I must, must note that if the Commission finds that TELRICs are somewhat different than what Verizon has filed, then it must be quite careful in terms of the application for common costs.

For example, if Verizon's TELRICs account for $1 billion of costs and the common costs were $150 million, the fixed allocator would have been 15 percent. So that when we marked up the billion, we did recover the $150 million. But if the billion is basically cut in half by different TELRICs than we've proposed, the fixed allocator would go to 30 percent to recover the same $150 million.

So the Commission must look not only at the direct costs Verizon has filed, but also make a determination on the absolute level of common costs Verizon has filed. And that is usually rare in terms of, of many UNE proceedings.

Now in terms of the deaveraging proposal which we are attempting to stipulate to, Verizon has, has proposed that for the allocation of common costs that a fixed amount be applied to each geographic zone versus a percentage amount.

And I'd like to just discuss that just a little. For

UNE loops by zone, the TELRICs maybe range from $15 to $60 depending on the Commission's final determination. If the allocator is 15 percent for common costs for each zone, at a $15 zone that would mean $2.25 for the common costs would be added to develop the price. For a $60 zone, say Zone 3, at 15 percent that would mean $9 would be added to the price for common costs.

It's -- common costs do not vary by geography. It would be more rational to assign common costs such that every loop bears the same amount. There is absolutely no difference in terms of the human resource requirements or legal requirements in terms of Rate Group 1 or Zone 3, you know. Each, each element rationally should just provide about the same amount of absolute level of recovery to common costs.

I think, you know, as we go through this, the Commission, since Verizon's costs are the only costs that have been filed here, the Commission and Staff must accept Verizon's cost studies as submitted. And I know that there will be changes in terms of the requirements potentially ordered, but that is the only study that are currently here.

Likewise, the rate levels set for Verizon must follow the FCC's current rules and must be based on Verizon's costs and not be based on the rate levels that have been approved for some other company or let alone a different company in a different state.

Now the development of efficient competition must be, excuse me, must be the goal, and that goal is best achieved by developing rates based on Verizon's costs as presented in this proceeding.

Thank you.

MS. CASWELL: Mr. Trimble is available for cross-examination.

CHAIRMAN JABER: Thank you. Mr. Hatch, should we just establish the course of, of how to do the cross-examination questions for the Verizon witnesses? Do we start in this order?

MR. HATCH: That's fine, as far as I know.

CHAIRMAN JABER: And you don't have any. And, Ms. McNulty, you do.

MS. McNULTY: Yes, I do.

CROSS EXAMINATION

BY MS. McNULTY:

Q Good morning, Mr. Trimble. I'm Donna McNulty.

A Good morning.

Q Regarding UNE combinations, is it correct that Verizon's position is that it is under no obligation to combine UNE elements that are not already combined in its network?

A That is correct.

Q Would you please explain for the record what you mean by "not already combined"?

A Basically not working. Not a service that is currently -- not a currently used service by a customer.

Q Not currently used by a customer, is that what you said?

A Right.

Q And Verizon applies the same definition to UNE-P, does it not?

A Yes, it does.

Q I would like to explore with you a few scenarios that are hypothetical just to illustrate your position.

In the first scenario, I live on a street and I'm currently a Verizon local customer. MCI calls me to offer me basic local service using UNE-P. In this scenario, Verizon considers itself obligated to combine UNEs for MCI because they're already combined in Verizon's network; is that right?

A That is correct.

Q Let's look at another scenario. I live in a house on a street with a number of neighbors. All of the people on the street happen to be Verizon local service customers. My next-door neighbor moves out of town and then a new person moves into my next-door neighbor's house. Are you with me so far?

A Yes.

Q The new next-door neighbor would like MCI to provide him local service, and MCI offers basic local service using

UNE-P. In this second scenario, Verizon does not consider these UNEs to be already combined in its network; is that correct?

A That is correct.

Q So, in other words, Verizon would not combine these UNEs for MCI; is that right?

A That is correct. Those services have probably already been disconnected and the plant to the CO may be used by somebody else. There are, again, additional work to reconnect those and assure that that's a working service.

Q But there are loops running right by that neighbor's house, are there not?

A Oh, there could be loops. But those loops may be running by in terms of the, the distribution piece but they may not be connected to the feeder piece. There is, there's plant there. I don't think you could say there's a working loop to that customer, that residence or abode.

Q In your discussion of UNE-P in your direct testimony, is it fair to state that your position is that Verizon Florida does not at present charge for usage files that it provides to CLECs?

A That is correct. That we have not presented or performed the cost studies required for usage files. I know the product management people would like us to do that or that to be done, but it has not been done. And at this point in

time, those, as I understand it, those usage files are delivered to the CLECs at no charge.

Q Thank you. Switching gears here to one of our favorite subjects, common cost allocators.

Are you familiar with the FCC's pricing rules specifically that provide that forward-looking economic cost of a UNE equals the sum of, one, the TELRIC and a reasonable allocation of forward-looking common costs?

A Yes.

Q Are you also familiar with the FCC's local competition order, in particular paragraph 696?

A I have read it several times. I do not have it with me.

Q Funny you should say that. I happen to have a copy of that that I'd like to distribute, have Mr. Feil distribute.

MS. CASWELL: And, Donna, excuse me. At this point I'd just like to point out the witness is not a lawyer. He can't give legal interpretations of these documents, although he can give his laymen's view of the documents and the rules.

MS. McNULTY: That's fine.

BY MS. McNULTY:

Q Have you had a chance to review that paragraph?

A Yes.

Q And are you familiar with that paragraph?

A Yes.

Q In this local competition order, in paragraph 696, the FCC concluded that, "Forward-looking common costs shall be allocated among elements and services in a reasonable manner consistent with the pro-competitive goals of the 1996 Act," is that correct, based on your understanding?

A Paragraph 696 also addresses different types of allocation procedures, but it does say "consistent with pro-competitive goals," yes. And it depends on the definition of what somebody believes is pro-competitive.

Q We will get there in a minute.

One reasonable method the FCC refers to is to allocate common costs using a fixed allocator; is that correct?

A That is correct.

Q And Verizon's position is that it's common cost factor is consistent with that particular sentence in paragraph 696?

A Yes. We also believe it is consistent with pro-competitive goals.

Q In this particular paragraph, 696, the FCC also mentioned that there was another reasonable allocation method which would allocate only a relatively small share of common costs to certain critical network elements such as a local loop and collocation that are essentially bottleneck facilities and most difficult for entrants to replicate promptly; is that correct?

A That is correct.

Q And the FCC found this second methodology for allocation of common costs ensures that the prices of network elements that are least likely to be subject to competition are not artificially inflated by a large allocation of common costs; is that correct?

A Yes. That is, that is your statement. But I don't believe the -- they did not either look at a fixed allocator and say, is that a large amount of common costs?

Q In this proceeding Verizon has calculated its common cost percentage as follows: It takes the common cost as the numerator and divides it by direct cost; is that correct?

A That is correct.

Q So specific -- and that's how it came up with 14.09 percent as the fixed common cost allocator; is that right?

A That is correct.

Q So --

A It was based on -- and I should note that it's based only on the direct costs that the company intends to mark up. There are direct costs for NRCs, but we are not marking up NRCs. So the denominator did not include those costs.

Q For example, to determine a forward-looking price of a UNE, Verizon takes the TELRIC of the UNE and multiplies it by 1.1409; is that correct?

A In general, yes, that is correct.
Q So, for example, according to DBT-3, the statewide average price of a two-wire loop is the sum of Verizon's proposed TELRIC of $22.94, plus its proposed common cost of $3.23, for a proposed total of $26.17?
A That is correct.
Q So you are familiar with Mr. Fischer's testimony in this docket, are you not?
A Yes.
Q Specifically his assertion that Verizon's 14.09 percent common cost allocator appears excessive for a company that is now part of one of the largest ILECs in the nation. Do you recall that?
A I do recall that statement. I do not believe that statement, but I recall it.
Q Essentially you disagreed with Mr. Fischer's assertion that the fixed allocator should be based on total common costs divided by total revenues; is that right?
A That is correct. In that case you're not marking up revenues. You're trying to define a price which is direct costs plus common, not revenues plus common.
Q At the bottom of Page 18 and the top of Page 19 of your surrebuttal testimony you also disagree with Mr. Fischer's assertion that, "The former GTE typically used total regulated revenues as the denominator in determining common costs

factor." Do you recall that?

A Yes, I do.

Q In fact, you state that, "At GTE, I had total responsibility for the determination of UNE pricing and I can state unequivocally that GTE never used Mr. Fischer's asserted methodology in any UNE pricing case." Do you recall that?

A Yes. We never, we never used total common costs divided by total revenues as the determination of a fixed allocator.

Q Mr. Trimble, did you file testimony in the Michigan Public Service Commission Case Number U-11281?

A Yes, I did.

Q And so you filed rebuttal testimony on April 16th, 1997?

A I'm not certain of the date.

MS. McNULTY: At this time Mr. Hatch is distributing excerpts from Mr. Trimble's rebuttal testimony in that docket. And I believe the witness was provided a complete document of that rebuttal testimony, as well as excerpts.

Chairman Jaber, at this time I'd like to mark that exhibit for identification.

CHAIRMAN JABER: Exhibit 48 consists of portions of Mr. Trimble's testimony in a Michigan proceeding.

MS. McNULTY: Thank you.

(Exhibit 48 marked for identification.)

BY MS. McNULTY:

Q Mr. Trimble, could you please turn to Exhibit 3 attached to that testimony?

MS. CASWELL: I'm sorry. If Mr. Trimble could just have a few minutes to look at the exhibit. It's rather lengthy. I'd appreciate it.

MS. McNULTY: Mr. Trimble, just let me know when you're ready.

THE WITNESS: I'm ready.

BY MS. McNULTY:

Q Exhibit 3 is labeled, "What is in Combined Michigan's Common Costs." Is that right?

A That is correct.

Q And you're with me on that page?

A Yes.

Q Please look at the line under the title labeled "1996 Total Regulated Revenue." What is the amount listed there? It's above the --

A $463,000. $463 million. Excuse me.

Q Okay. In the first block of the chart there's a line that is called "Total Corporate Operations Costs." What is the figure there?

A $44 million.

Q And on that same line do you see the number 9.60 percent?

A Yes, I do.

Q And to derive that number, isn't it true that Verizon divided the total corporate operation cost by total regulated revenue?

A That is correct. But the numbers in that column that say "Percent of Revenues" were never used as a fixed allocator. Those numbers were just there for informational purposes.

Q What do you mean by that?

A They were just for information. These set of accounts as a percent of revenues were 9.6 percent. If you read the Michigan order, you'll find that we did not use these specific numbers in the fixed allocator. The fixed allocator was computed in a different manner.

Q We will get there in a minute.

Please go down to the bottom of the page to the line labeled "Total Other Common Costs." And do you see there that the dollar amount is listed as approximately $49.984 million?

A Yes.

Q And on that same line do you see the number 10.77 percent?

A Yes, I do.

Q And wasn't that number derived by dividing total other common costs by total regulated revenues?

A Yes, it was.

Q Mr. Trimble, at this time I'd ask Mr. Hatch to hand

out your response to AT&T, MCI and FDN's Third Set of Interrogatories Number 58, and I would have you review that for a moment.

A Would you like me to read the response?

Q If you could just review it to yourself.

A Yes.

Q In this response to Number 58, you stated that Verizon used the following formula in Michigan: "Fixed allocator equals the common cost percentage divided by the total cost percentage minus the common cost percentage." Is that correct?

A That is correct.

Q Now I'm going to turn back to Michigan for one moment. The common cost percentage in Michigan was not -- is this true that the common cost percentage in Michigan was 9.60 percent plus the 10.77 percent, which would equal 20.37 percent; am I correct so far? Well, that's for the common costs; is that correct?

A In terms of what percent the common costs were of revenues, that is correct.

Q And then to determine the fixed allocator for Michigan, if I'm doing my math correctly, here's how the 20 -- was the fixed allocator for Michigan 25.58 percent; is that correct?

A No. The fixed allocator in Michigan was

35.67 percent.

Q Would you please turn to Exhibit 4 of the Michigan excerpt?

A Excuse me. When I said 20, 35.67, I was, I was discussing what the Michigan Commission determined.

Q Okay. So but what did Verizon propose in Michigan? Was it 25.58 percent?

A Yes, it was.

Q Okay. And to determine that number -- I want to just work the math with you. The common cost percentage was 20.37 percent, and that's the sum of 9.6 percent of total corporate operation costs, plus the total common, I mean, the total other common costs of 10.77 percent. Am I correct so far for what the determination for the common cost was, that I would plug into the fixed allocator formula in the numerator?

A I may need, I may need you to restate that one more time, please.

Q I'll try it a different way. The fixed allocator that Verizon proposed in Michigan uses the formula of the common cost percentage for the numerator and in the denominator is total cost percentage minus the common cost percentage; is that correct? And I believe you --

A That is correct.

Q Okay. And what I would plug into the numerator, based on Verizon's proposal in Michigan, is 20.37 percent as a

common cost percentage; is that right?

A That is correct.

Q And then to determine the denominator, I would take the total common cost, the total cost percentage of, which would be 100, and from that I would subtract what I put in as my common cost percentage in the numerator of 20.37, for the number of, which would determine the number of 79.63; is that correct for the denominator?

A Yes.

Q So to get the fixed allocator that Verizon proposed in Michigan, I would take 20.37 and divide it by 79.63 to come up with Verizon's proposal of 25.58 percent.

A That is correct. Which is significantly different than 10.7 percent plus 9.6 percent added together, which is what was being testified to in terms of total common costs divided by total revenues.

Q If the percentages were derived by Verizon using the total regulated revenue in the Michigan case, and then the statement you made on Pages 18 and 19 of your surrebuttal testimony that GTE has never used the methodology asserted -- let me strike that.

The statement -- I'm going to refer you back to your statement on Page 18 and 19 that you talked about Mr. Fischer's assertions, saying basically that GTE has never used the methodology asserted by Mr. Fischer. That's not completely

accurate, is it?

A It is absolutely accurate. Mr. Fischer's common cost percentage was total common costs divided by total revenues. This methodology you've just reviewed in essence is total common costs, although it's in a percentage basis, divided by total costs minus total common costs as a surrogate for direct costs. That is absolutely different than what Mr. Fischer has proposed.

Q Isn't it true that the only difference in how the two percentages, how your methodology is, is that you used regulated revenue in the denominator in the Michigan case?

A We used an estimate of regulated revenues minus common costs in the denominator as a surrogate for direct costs. That methodology is nowhere near what Mr. Fischer used. It's also a methodology that we have disbanded long ago because it also gives erroneous results. The number one assumption in that is that if you take total revenues minus your common costs, that your direct costs that result from that are the same as your TELRIC costs, and we know that is not the case because TELRIC is based on forward-looking costs. This methodology was based on an estimate of actual direct costs.

Q Mr. Trimble, if we were to use the formula Verizon proposed in Michigan here in Florida based on Verizon's common cost percentage of total regulated revenue of 11.55 percent that you proposed in Attachment Q in this Florida docket, would

you agree, subject to check, that the fixed allocator would be 13.06 percent?

A It may be 13.0 percent. But as I just said, that methodology that was used in Michigan is fraught with several, several problems. And the first problem is that it assumes that the sum of your TELRIC, your direct costs, is equal to the same as your total revenues minus your common costs. That methodology in its own right fails the FCC's rules because it relies on actual costs.

Q In this docket Verizon Florida has included external relations and legal costs as expenses to be included in its common cost factor, does it not?

A That is correct.

Q Just for a clarification, what do you mean by "external relations"?

A I think we have to go back to, to the testimony that was basically submitted that said we should not be charging those common costs. And the external relations to me would be some of the people that are sitting in this room in terms of our External Relations Department.

Q Could you clarify -- could you point me where in your testimony you say that?

A No. I was, I was just going through in terms of -- I'd have to go back to the other parties' testimony to say you want to -- to -- that legal and external relations should not

be part of our common costs, and they definitely are part of common costs.

Q I'm just asking you to define what you mean by "external relations," Mr. Trimble.

A I would have to go back to the specific account that they wanted disallowed.

Q I would ask that you turn to your rebuttal testimony and review a question on Page 22 starting on Line 17. And specifically that question asks for you to comment on Mr. Fischer's assertion that external relations and legal costs should not be recovered because he believes those costs are, quote, adverse to interests of ALECs. Do you recall that?

A That is correct.

Q And it's correct to assume that you have reviewed Mr. Fischer's testimony; is that right?

A That is correct.

Q And do you have a copy of his testimony with you?

A Yes.

Q Could you please turn to Pages 27 and 28 of his testimony. And I'll give you a moment to review that, if you'll just let me know when you're ready.

MS. CASWELL: Donna, I also need to get a copy of that testimony. It's going to take me a couple of minutes.

THE WITNESS: Yes.

BY MS. McNULTY:

Q Mr. Fischer does not state that all external relations and legal costs should not be recovered in Verizon's common cost factor, does he?

A I really can't say that.

Q Does he -- in your review of Mr. Fischer's testimony, doesn't he allow costs associated with normal company operations in compliance with administrative requirements of state commissions such as tariff filings?

A Yes.

Q So, in other words, Mr. --

A But I also believe that it says here --

Q I was going to ask you another question.

I'd just like to say, in other words, Mr. Fischer's position is that some, but not all, of Verizon's external relations and legal costs should be allowed to be recovered in Verizon's common cost factor. Is that a fair assessment of his testimony?

A Yes. But I would actually have to go back and work with the costing folks, Mr. Tucek, because it does look as if the recommendation was to remove all of the account other than the 15 -- I believe that's what this says.

Q Essentially, based on your understanding of Mr. Fischer's testimony that you just read, if Verizon decided to file a tariff here at the Commission for UNE offerings approved by the Commission in this docket, it's Verizon's

position that the legal costs associated with that administrative filing should be recovered from ALECs in Verizon's common cost factor; is that correct?

A That would be correct. But let's also look at what we're doing in terms of the common cost allocator.

We're assuming that our entire market, our entire network is sold as unbundled network elements, that there is no retail business going on when we develop these common cost factors. And the objective is that the common cost accounts have been adjusted to look at if they are wholesale only. So, yes, all of those costs that we've presented as common costs would be in essence wholesale related and totally related to unbundled network elements.

Q Likewise, is it Verizon's position that the cost of Verizon's outside counsel in this proceeding, Mr. Huther, who works for a prestigious law firm in Washington, D.C., should be included as part of the legal fees and the common cost factor?

A Well, it's -- again, all I can say is that the common cost factor would have to cover ongoing legal fees associated with the UNE world, and that is what the total wholesale common costs were intended to reflect.

Q So, Mr. Trimble, is that a yes to my question?

A Oh, I can't say specifically Mr. Huther at this point in time, but legal costs would have to be recovered. That is correct.

Q Would the legal cost of this proceeding be recovered through the common cost factor?

A If we're in a 100 percent UNE environment, it is absolutely correct. I do not know what unbundled network element rates right at this point in time are paying for Mr. Huther's costs.

Q If the Commission approves Verizon's proposed methodology of a 14.09 percent allocator, fixed allocator, wouldn't Mr. Huther's fees be recovered in that?

A Yes. If we sold 100 percent of our network as unbundled network elements, that is absolutely correct.

Q So, in other words, Verizon's position is that its adversaries in this proceeding should pay for Verizon's attorney's fees?

A I think Verizon's position is that, that the common costs that are related to the provision of unbundled network elements must be recovered somewhere. And that is common business practice that you mark up your direct costs to recover your common costs. Uncollectibles are recovered across many, many individuals. It's, it's -- you must recover those costs someplace, period.

Q Is it common practice for adversaries to pay for their opponent's legal counsel?

A Oh, I believe --

MS. CASWELL: I'm sorry. I'm going to have to

object. I think this question has been asked and answered about three times now.

CHAIRMAN JABER: Ms. McNulty?

MS. McNULTY: I'm just trying to clarify.

CHAIRMAN JABER: The objection was asked and answered. Do you believe you haven't received an answer or --

MS. McNULTY: I think it's satisfactory.

BY MS. McNULTY:

Q One more question, Mr. Trimble. Is any calculation that relies on an actual cost unacceptable?

A Any calculation of what? I don't understand the question.

Q Unacceptable in a TELRIC determination.

A No, I don't believe so. In terms of when you're looking at your forward-looking costs for some of those elements, your forward-looking costs will be based on your current expenditures, especially in terms of expenses, to see as they go forward.

MS. McNULTY: Thank you. I have no further questions.

CHAIRMAN JABER: Thank you. Mr. Perry?

MR. PERRY: I have no questions.

CROSS EXAMINATION

BY MR. WEBER:

Q Good morning, Mr. Trimble. I'm Bill Weber from Covad

Communications. I have just a couple of questions for you.

In your prefiled testimony you indicated that the Commission should decline to unbundle additional UNEs as it did in the BellSouth UNE proceeding last year. Do you recall that?

A I recall saying they should not unbundle additional UNEs unless necessary impaired activities have been studied.

Perhaps I misunderstood your question. It sounded as if you said we recommended that it should not be unbundled unlike what occurred in the BellSouth or as it occurred in the BellSouth? I'm --

Q If I was unclear -- I mean, the specific sentence in your testimony was on Page 48. And you stated that, "The Commission should decline to require unbundling of additional elements or a combination of elements here, as it did in BellSouth's UNE pricing proceeding."

A That is correct.

Q Could you just please tell the Commission any other areas from the BellSouth proceeding that you believe are relevant to their decision-making in this proceeding?

A I really can't. I've not, I've not really studied the BellSouth proceeding in any depth.

MR. WEBER: Thank you. I have nothing else, Madam Chairman.

CHAIRMAN JABER: Thank you, Mr. Weber.

Are there any other ALEC questions? Okay. Staff.

MR. FUDGE: Yes. We have a few questions, Madam Chairman.

CROSS EXAMINATION

BY MR. FUDGE:

Q Good morning, Mr. Trimble. I'm now going to ask you to refer to DBT-4. It's the Verizon Wholesale UNE Pricing Schedule.

A Yes.

Q I'm sorry, Mr. Trimble. I think that's different than the one we're going to refer to. It's your response to Interrogatory 254 that was already labeled as Exhibit 19. It's similar to the Wholesale UNE Pricing Schedule that you have in front of you, but I think it is annotated to reflect the current and proposed Verizon rates.

A Yes, I have it.

Q Okay. Am I correct that the current rate for Zone 1 is $16.41 and the proposed rate for Zone 1 is $22.17?

A That is correct.

Q Okay. Would you accept --

A And there may be some slight differences in the definition of zones. These are not the same zone structures. I think there may be one or two central offices different, but I can't remember.

Q Okay. Would you accept, subject to check, that your proposed rate for Zone 1 is $5.76 or about 35 percent higher

than your current rate for Zone 1?

A Yes.

Q Okay. Do you know when the current two-wire loop rate was established?

A The deaveraged structure or the statewide rate?

Q The deaveraged structure.

A I don't specifically have the date. That was done as a stipulation, I believe, two years ago.

Q Would you agree, subject to check, it was about two and a half years ago?

A Yes.

Q Okay. Do you know why the cost for a two-wire loop has apparently increased by 35 percent in the past two and a half years?

MS. CASWELL: I'm sorry. Jason, can I get a clarification? Are you comparing rates to costs or --

MR. FUDGE: I'm comparing the current rates that are in effect with the proposed rates.

MS. CASWELL: Okay. But we don't have the, we don't have the costs that were proposed in 1996 that were the basis for the rates ordered; correct? I think --

CHAIRMAN JABER: Ms. Caswell, do you have an objection?

MS. CASWELL: No. Can Jason restate the question, please?

CHAIRMAN JABER: I think the question was real clear. He wants to know why the proposed Verizon rates are coming in 35 percent higher than Verizon's current rates. That's what I heard. Do you need more clarification?

MS. CASWELL: No, ma'am.

THE WITNESS: No. It's basically a cost issue. You almost -- you also must go back to the current NRC rates were based on a $20 loop rate. The $20 loop rate was not what we filed for back in the AT&T arbitrations. We actually filed for something different. That was the number that was awarded.

So you're in essence somewhat comparing an awarded number to a here's our current ICM filing number plus common costs. And you would, you would not expect them to be exactly the same because I'm sure back in the AT&T arbitration days that we did not get what we requested then.

CHAIRMAN JABER: Mr. Trimble, if you don't answer -- if you do not understand a question, I'm going to leave it up to you to say something.

Ms. Caswell, the next time you say anything, it better be an objection.

Mr. Fudge.

BY MR. FUDGE:

Q Would you agree that the current rate for Zone 3 is $40.41 and the proposed rate for Zone 3 is $77.39?

A Yes. And once again, I'm not sure if it -- I would

have to go back and look specifically at what central offices were in Zone 3 given the interim rate structure versus what central offices we put in this specific proposal in terms of our geographic deaveraging. And that could make a big difference in terms of how many lines you have there and what's the distribution of cost characteristics.

Q Okay. Am I correct that Verizon's preferred rate structure would not deaverage loop rates into three zones, but instead there would be a single statewide average rate?

A That is, that is the preferred structure. I mean, we truly believe that the Commission is under no specific legal requirement to deaverage by company but to deaverage by state. And that is also one of the key components of the stipulation we're attempting to work on in terms of deaveraging.

Q According to this document, Verizon's proposed statewide average rate for two-wire UNE loops is $26.17; is that correct?

A That is correct.

Q Do you know what statewide average rate underlies Verizon's current deaveraged two-wire UNE loop rate?

A Yes. The awarded number was $20.

Q Okay. In this proceeding does Verizon propose to charge for switch features on the a la carte basis?

A Yes, it did.

Q By that, you mean there will be a separate charge for

each switch feature that an ALEC orders for one of its customers?

A Yes. That they would basically pay for the costs, long-run incremental costs they cause the company to incur.

Q Are you aware that in the BellSouth phase of this proceeding a single rate for switch features was established?

A Yes, I am aware of that. I'm not totally certain if that was for all features or sets of features. I could not find that in my quick review of the order.

Q Okay. Mr. Dowds is going to now hand you a copy of Staff's Interrogatory Number 255, which was previously labeled as Exhibit 19.

A Yes.

Q Could you read for me what Staff requested in Interrogatory 255?

A In terms of Interrogatory Number 255?

Q Yes.

A "Please list the states in which switch features are included in UNEs for monthly port costs."

Q You're -- I'm sorry. Go ahead.

A "If switch features are included in UNEs other than the UNE that includes the port, please list those UNEs by state."

Q Okay. And you referred us back to Interrogatory Number 160; is that correct?

A That is correct.

Q And in that response you indicated three states, California, North Carolina and Oregon, had a la carte rates for features and have been approved by former GTE companies; is that correct?

A That is correct.

Q How many other former GTE states are there?

A I've forgotten.

Q So other than California, North Carolina and Oregon, no former GTE states have established a separate rate for switch features; is that correct?

A That is correct.

Q What about non-GTE Verizon states?

A Pardon me? I must have missed that.

Q Did any non-GTE Verizon state set a separate rate for switch features?

A I actually do not know that.

Q Okay. So do you know in those former, former GTE states, other than the three we mentioned, do you know how or whether the Commission provided for recovery of switch feature costs?

A I do not know that. I attempted to go through the various orders and I really couldn't decipher from the orders whether they added something to the port or whether they just ignored the costs in total, and that's pretty much what led to

this answer.

MR. FUDGE: Those are all the questions that Staff has for the relevant portion of Mr. Trimble's testimony. But we do have some questions on deaveraging, and Staff would propose that he be excused but subject to recall after the parties may or may not work out the stipulation, but Staff is optimistic that they will, and that we just go ahead and take up Tucek now and let him do his summary and see how far we get.

CHAIRMAN JABER: Let me ask the Commissioners. On the questions that we've heard thus far, do you have additional questions?

I have a couple, Mr. Trimble. I'm trying to understand the FCC's -- this would be an appropriate time to finish these questions, Mr. Fudge; right?

MR. FUDGE: Yes, Chairman.

CHAIRMAN JABER: On the paragraph 696 that Ms. McNulty handed you a copy of, it seems to me just from my reading that the FCC was very cautious in its direction to everyone on using common costs in a fashion not to deter a competitive market.

THE WITNESS: That is correct.

CHAIRMAN JABER: You would agree with me, they were --

THE WITNESS: Yes. That is, that is correct. I think -- and a lot of what they were concerned about, even

though I believe most economists would not be concerned about, was the, quote, unquote, Ramsey (phonetic) type pricing where the least elastic services get the greatest markup. It is basically probably the most efficient pricing, also. But in terms of the standard fixed allocator, you're not going that far. You're basically staying in-between, just kind of neutral. You're not playing anything that has to do with the elasticity aspects of the services.

CHAIRMAN JABER: Okay. They seem to though go further and say, now, where there are bottleneck facilities, you should keep common, common costs to a bare minimum. And my question is if we accepted Verizon's allocator, would it apply to all UNEs including the bottleneck facilities?

THE WITNESS: Well, yes. I guess there is a big question in terms of what would be the definition of a bottleneck service. In terms of what is essential and necessary, all UNEs are probably considered as bottleneck services other than switching in the major MSAs and the FCC's Rate Group 1.

If, if you looked at -- let's say you wanted to cut five percentage points off of an unbundled network loop. In terms of the total costs that are generated by the network, they account for about 75 percent of the direct costs. So if you eliminated five percent from them, for the other 25 percent, which is five times, which is three times one-third

of the amount, you'd have to add 15 percent to the common cost allocator. So you'd actually have an absolute mess; loops at 10 percent, switching at 30 percent. Well, nobody is going to buy switching at 30 percent; they have their own. They'll only buy loops. And what you result in is you never recover any of your common costs.

CHAIRMAN JABER: If this Commission or any of the companies devised a methodology that was consistent with the TELRIC methodology but removed some of the common costs from the facilities we found were bottleneck facilities but allowed the recovery through the other elements, would Verizon have an objection?

THE WITNESS: I believe so. Because in essence the real question is are you able to recover them through the other facilities? And, more than likely, if you're not selling those other facilities, you're not recovering the costs. Or, in essence, if you're bypassed, you're not recovering those costs. So those common costs are basically left unrecovered and you, in essence, have a case where the company doesn't have an opportunity to recover even its forward-looking costs.

CHAIRMAN JABER: Why would you not be able to sell those other facilities?

THE WITNESS: If, if those -- then you come back to the market again. If the TELRIC cost plus those common costs exceed what the market is willing to pay, especially in

switching and so on, they would just not purchase those facilities. They'd build them themselves, as they have.

CHAIRMAN JABER: Haven't you just made the FCC's point then?

THE WITNESS: Pardon?

CHAIRMAN JABER: Then haven't you just made the FCC's point where including those common costs could actually result in a situation where the market cannot bear the price?

THE WITNESS: No. Actually what I, the point I just made was probably the reverse of the FCC's. I just made the market will operate more in a Ramsey pricing aspect versus the don't put the common costs onto the bottleneck facility.

CHAIRMAN JABER: Okay. And I have one final question, and I think we'll just stop and start the lunch break. You really believe in a forward-looking telecommunications market that legal expenses and external affairs expenses should be recovered through wholesale prices.

THE WITNESS: Yes. Yes. Absolutely. Those are -- under the assumptions, it is part of the operating net business. And it would not be reasonable to take those costs involved in a proceeding like this and ask the retail ratepayers to cover those costs.

CHAIRMAN JABER: I have one more question then. Verizon pays wholesale prices to other ILECs, doesn't it? Do you buy UNEs from other ILECs?

THE WITNESS: Verizon in total does, yes, or pieces of Verizon maybe. I'm not overly familiar with their activities, though.

CHAIRMAN JABER: So you don't have any objection then to paying for legal expenses and external affair expenses in those wholesale prices?

THE WITNESS: No. I'm sure there -- it's common in the pricing of these activities. I've, I've never been in a proceeding where they have been disallowed.

CHAIRMAN JABER: Okay. We're going to take a lunch break. Come back at 1:00, Commissioners.

(Lunch recess.)

(Transcript continues in sequence with Volume 5.)

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STATE OF FLORIDA)

: CERTIFICATE OF REPORTER

COUNTY OF LEON)

I, LINDA BOLES, RPR, Official Commission Reporter, do hereby certify that the foregoing proceeding was heard at the time and place herein stated.

IT IS FURTHER CERTIFIED that I stenographically reported the said proceedings; that the same has been transcribed under my direct supervision; and that this transcript constitutes a true transcription of my notes of said proceedings.

I FURTHER CERTIFY that I am not a relative, employee, attorney or counsel of any of the parties, nor am I a relative or employee of any of the parties' attorneys or counsel connected with the action, nor am I financially interested in the action.

DATED THIS 2ND DAY OF MAY, 2002.

LINDA BOLES, RPR
FPSC Official Commissioner Reporter
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