REDACTED

CONFIDENTIAL - EXHIBIT B
DOCKET NOS. 030851-TP AND 030852-TP
VERIZON FLORIDA INC.'S
REQUEST FOR CONFIDENTIAL CLASSIFICATION -
DIRECT TESTIMONY AND EXHIBITS

DECEMBER 4, 2003

migration-related hot cuts by the percentage of the unbundled loops in Florida that are part of a UNE-P arrangement (i.e., that are not being provided as UNE-L).[6]

[BEGIN VERIZON PROPRIETARY]

[END VERIZON PROPRIETARY]

Q. How should Table IV-5 be interpreted?

A. Several aspects of Table IV-5 are important. First, only 567.6 of our 1000 migrations fall into categories that correspond to incremental hot cuts. For completeness, note that the remaining migrations consist of 223.2 lines to and from CLEC facilities-based suppliers and 209 lines between incumbent retail and CLEC resale. None of these approximately 432.4 migrations generates hot cuts today or incremental hot cuts in a post-UNE-P environment.

[6] FCC data from the Local Competition Report do not separate UNE-P and UNE-L lines. Thus, we use the actual proportion of UNE-P and UNE-L lines from Verizon Florida data for December 2002.

entail a hot cut. At the other extreme, if CLEC customers never migrated, the hot cut percentage would rise to only 56.8 percent.

Q. How would you interpret these results?

A. This exercise answers two questions. First, some CLECs have argued that without UNE-P, the incidence of hot cuts should be similar to the history of inter- and/or intraLATA PIC changes in the toll market. In both cases, the argument goes, a consumer's choice to change suppliers results in a change in the network configuration: for toll, a software change to redirect 1+ calls and for local exchange service; for local, a hot cut to shift the loop from one carrier's switch to another's. The numbers in Table 5 show that this argument is wrong, because when a local exchange customer changes carriers, a hot cut is not necessarily required. In fact, a local exchange customer migration involves a hot cut only about 53 percent of the time.

Second, for forecasting the demand for incremental hot cut requests, these results show that the number of incremental hot cuts in a post-UNE-P environment can be conservatively approximated by the number of UNE-P migrations and winbacks in a steady-state, mature market. The likely incremental hot cut requests from categories (2)-(4) are insignificant. We note, however, that our data for UNE-P migration captures elements of (2) – (4) in the sense that the data include all migrations to UNE-P, i.e., from Verizon and from UNE-L, UNE-P and resale.

Third, the results show that the volume of *incremental* hot cuts associated with 1000 migrations is expected to be quite small **[BEGIN VERIZON PROPRIETARY]**

[END VERIZON PROPRIETARY]. This result is due to the comparatively large proportion of Verizon Florida UNE-L CLEC lines as of September 2003.

Q. You have discussed ways of assessing the incremental hot cut demand that would result from the elimination of UNE-P and its replacement by UNE-L. Would Verizon have to provision this level of demand on the first day of the post-UNE-P environment (i.e., immediately after a Commission determination of non-impairment)?

A. No. A portion of the incremental hot cuts stemming from customer migration will increase over the period during which the embedded base of UNE-P lines is converted to UNE-L. For winback customers (i.e., customers migrating from CLEC to Verizon retail service), a hot cut occurs only when the customer migrates from UNE-L service. As the embedded base is converted from UNE-P to UNE-L, a larger proportion of CLEC-to-Verizon migrations will require a hot cut, and it is only after the embedded base is fully converted that winback migrations will generate the full amount of incremental hot cuts that we have calculated. In addition, even after the embedded base is fully converted, winbacks can be expected to increase if the volume of UNE-L lines continues to increase. In the next section, we calculate the rates at which the embedded base of CLEC UNE-P lines will be converted to UNE-L, and that information, coupled with the growth in the volume of incremental UNE-L lines, will be used to estimate the time path of winback migrations and the associated volume of incremental hot cuts.

Q. For the five months following a non-impairment determination, in which CLECs may continue to purchase UNE-Ps, what would be your estimate of incremental hot cuts stemming from customer migration?

migration values, (i.e., monthly values can be estimated from the most recent period to the date of the mature market after which UNE-P migrations remain roughly constant.)

Q. What is a reasonable estimate of the steady-state rate of UNE-P migration?

A. In a recent proceeding in New York on behalf of Verizon, I determined that in that mature UNE-P market, one could expect monthly UNE-P migrations to average approximately **[BEGIN VERIZON PROPRIETARY] [END VERIZON PROPRIETARY]** of total retail lines. As the steady state of UNE-P migrations in the Verizon New York territory was reached approximately during the 2002-2003 period, I would estimate that it took about two years after long distance competition was authorized and CLEC entry accelerated for the steady state to be reached in New York.

Of course, applying this assumption to other markets and other geographic areas entails a significant approximation. The serving territories of Verizon New York and Verizon Florida are different in many respects, so that the steady-state rate of UNE-P migration might be very different in the two states. However, I would expect the steady state rate of UNE-P migration to be higher, if anything, in New York than in Florida, so applying this assumption would tend to over–forecast future UNE-P migration and future demand for hot cuts in Florida.

Similarly, the time from the beginning of UNE-based competition to the steady state will differ across states. In New York, it took two years after Section 271 authority was granted (the point at which CLEC entry accelerated) for the steady state to be reached. In Florida, UNE-P migration has accelerated throughout 2003, and I assume conservatively (in the sense that the assumption results in higher forecast migrations

earlier than would otherwise be the case) that the steady state will be reached two years from the start of competition, i.e., December 2004. That is, assuming UNE-P competition began in the Verizon FL territories approximately in December 2002, I would expect migration to reach a steady state at about **[BEGIN VERIZON PROPRIETARY] [END VERIZON PROPRIETARY]** percent of retail lines in about December 2004. Assuming conservatively that the number of retail lines remains constant during this period, this method estimates a steady state of approximately **[BEGIN VERIZON PROPRIETARY] [END VERIZON PROPRIETARY]** UNE-P migrations per month by December 2004.

Q. How do you determine the monthly change in UNE-P migration from the most recent period available (September 2003) to December 2004?

A. I calculate the monthly growth rate required to grow the current level of UNE-P migration in September 2003 **[BEGIN VERIZON PROPRIETARY] [END VERIZON PROPRIETARY]** to the steady state level of approximately **[BEGIN VERIZON PROPRIETARY] [END VERIZON PROPRIETARY]** in December 2004. This monthly growth rate is **[BEGIN VERIZON PROPRIETARY] [END VERIZON PROPRIETARY]**. I then grow the current level of UNE-P migration by **[BEGIN VERIZON PROPRIETARY] [END VERIZON PROPRIETARY]** on a monthly basis.

Q. Are there any additional reasons why your estimate of UNE-P migration over the next several years is likely to overestimate the actual amounts?

A. Yes. While it is necessary to use information from Verizon NY territories to estimate the steady state in the Verizon FL territories, these two markets are different and it is likely that the steady state in the two markets will differ. The demographic characteristics of New York are likely to attract more competition, on average, than in Verizon's Florida service area, and this effect would reduce the steady-state proportion of retail lines that would migrate to competitors in a given month.

Q. Please explain how you forecasted winbacks.

A. Several steps were required to forecast winbacks. Winbacks that give rise to incremental hot cuts are those winbacks originating from UNE-P lines. Verizon does not collect data in this manner. However, Verizon did provide winback orders (not lines) originating from UNE-Ls: see Exhibit V. For each month, I converted the UNE-L winback orders to lines based on the ratio of UNE-L lines to UNE-L orders (which averaged **[BEGIN VERIZON PROPRIETARY] [END VERIZON PROPRIETARY]** during the January 2002-September 2003 time frame). For each month, I then determined UNE-L winbacks as a proportion of UNE-L lines in service (which average **[BEGIN VERIZON PROPRIETARY] [END VERIZON PROPRIETARY]** percent) and multiplied that proportion by the number of UNE-P lines in service to determine winbacks originating from UNE-P. This provided me with a series of winbacks from UNE-P from January 2002 to September 2003.

Next, I examined the average value of winbacks from UNE-P as a proportion of total UNE-P lines in service for different time periods during January 2002 to September 2003 and observed that this average has been decreasing in recent months. Therefore, I

used the average value of winbacks from UNE-P as a proportion of total UNE-P lines in service for the recent twelve-month period **[BEGIN VERIZON PROPRIETARY] [END VERIZON PROPRIETARY]** to be conservative and used this figure to forecast winbacks.

Specifically, I assume that monthly winbacks during the conversion period and beyond are proportional to the volume of incremental UNE-L lines, i.e., equal to **[BEGIN VERIZON PROPRIETARY] [END VERIZON PROPRIETARY]** percent of the incremental UNE-L lines added as a result of the elimination of the switching element. Specifically, the number of incremental UNE-Ls consists of (1) the monthly conversion of the embedded base of UNE-P and (2) the net additions to the monthly volume of UNE-Ps.

Q. How did you forecast the embedded base?

A. I began with the most recent number for the embedded base, approximately **[BEGIN VERIZON PROPRIETARY] [END VERIZON PROPRIETARY]** and grew the embedded base by changes in UNE-P migrations, winbacks and disconnects. Specifically, rather than forecast the embedded base, I calculated the embedded base in a given month t as equal to the embedded base in month t-1, plus UNE-P migrations in month t, minus winbacks from UNE-P in month t, minus disconnects in month t, see

Exhibit VI.[22] As described above, this approach is likely to be an upper bound on the volume of UNE-P embedded base over the forecasted period.

Q. What is the volume of incremental hot cuts that Verizon FL should be prepared to handle as a result of converting the embedded base?

A. I assume that the Commission will render a decision in July 2004 so that the starting point for conversion of the embedded base is July 2004. Based on my methodology for growing the embedded base, I forecast the embedded base to increase from **[BEGIN VERIZON PROPRIETARY] [END VERIZON PROPRIETARY]** in September 2003 to **[BEGIN VERIZON PROPRIETARY] [END VERIZON PROPRIETARY]** in July 2004. I also assume that the conversion process will not begin until two months after July 2004. An analysis of incremental hot cut volumes resulting from the conversion of the embedded base is presented in Exhibit VII.

Q. How does the fact that CLECs will be able to purchase UNE-Ps for five additional months after July 2004 affect your analysis?

A. The analysis accounts for this fact by allowing the embedded base for the first five months to continue to grow by the same forecasted method mentioned above and in Exhibit VI. At the same time, lines are being converted beginning in month 3; therefore, these converted lines are subtracted from the still growing embedded base. December

[22] For disconnects, I assume that roughly 1-2 percent of lines in service in any given month disconnect due to factors other than migration such as mobility, non-payment of service or death. Long-term demographic statistics for the U.S. show that households move on average every five years, amounting to a 20 percent annual disconnect rate for moves.

EXHIBIT WET-III
(Proprietary and Confidential)

[BEGIN VERIZON PROPRIETARY]

[END VERIZON PROPRIETARY]

EXHIBIT WET-IV
(Proprietary and Confidential)

[BEGIN VERIZON PROPRIETARY]

[END VERIZON PROPRIETARY]

EXHIBIT WET-V
(Proprietary and Confidential)

[BEGIN VERIZON PROPRIETARY]

[END VERIZON PROPRIETARY]

EXHIBIT WET-VI
(Proprietary and Confidential)

[BEGIN VERIZON PROPRIETARY]

[END VERIZON PROPRIETARY]

EXHIBIT WET-VII
(Proprietary and Confidential)

[BEGIN VERIZON PROPRIETARY]

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