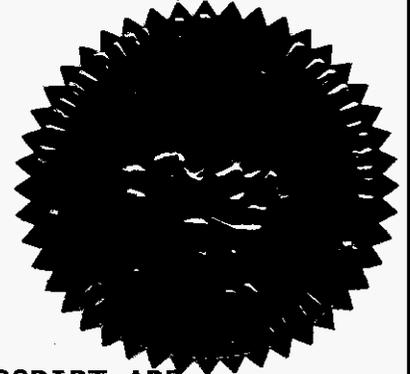


BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 991376-TL

In the Matter of

INITIATION OF SHOW CAUSE PROCEEDINGS
AGAINST GTE FLORIDA INCORPORATED
FOR APPARENT VIOLATION OF SERVICE
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VOLUME 3

Pages 352 through 448

PROCEEDINGS:

HEARING

BEFORE:

CHAIRMAN E. LEON JACOBS, JR.
COMMISSIONER J. TERRY DEASON
COMMISSIONER LILA A. JABER

DATE:

Wednesday, August 1, 2001

TIME:

Commenced at 9:30 a.m.
Concluded at 11:00 a.m.

PLACE:

Betty Easley Conference Center
Room 148
4075 Esplanade Way
Tallahassee, Florida

REPORTED BY:

KORETTA E. STANFORD, RPR
Official FPSC Reporter

FLORIDA PUBLIC SERVICE COMMISSION

DOCUMENT NUMBER-DATE

09486 AUG-30

FPSC-COMMISSION CLERK

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5 of the Citizens of the State of Florida.

6 KIMBERLY CASWELL, Post Office Box 110, FLTC0007,
7 Tampa, Florida 33601, appearing on behalf of Verizon Florida,
8 Incorporated.

9 C. LEE FORDHAM, Florida Public Service Commission,
10 Division of Legal Services, 2540 Shumard Oak Boulevard,
11 Tallahassee, Florida 32399-0870, appearing on behalf of the
12 Commission Staff.

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P R O C E E D I N G S

(Transcript continues in sequence from Volume 2.)

CHAIRMAN JACOBS: We'll re-adjourn the hearing in docket number 991376. Counsel, read the notice.

MR. FORDHAM: Pursuant to notice given at the recess of this hearing on June 21st, 2001, this time and place was set for continuation of the evidentiary hearing in docket number 991376-TL, for the purposes set forth in the notice.

CHAIRMAN JACOBS: Take appearances.

MS. CASWELL: Kim Caswell on behalf of Verizon Florida, Incorporated.

MR. BECK: Charlie Beck and Jack Shreve, Office of the Public Counsel appearing on behalf of the Florida Citizens.

CHAIRMAN JACOBS: Very well.

MR. FORDHAM: Lee Fordham, appearing on behalf of the Public Service Commission Staff, Legal Staff.

MR. BELLAK: Richard Bellak appearing on behalf of the Commission.

CHAIRMAN JACOBS: Very well, thank you. Before beginning, we have a motion that we probably need to entertain. It's a motion by OPC to reschedule the Surrebuttal Testimony of Mr. Poucher. Any comments, Mr. Beck?

MR. BECK: Commissioners, just that this is very unexpected. Earl found out about his wife needing surgery late Friday afternoon, and I contacted Verizon's attorney then. I

1 spoke with him early this morning, that she was scheduled to be
2 up first this morning. Believe me, nobody wishes he could be
3 here more than Earl. He wants to be here, but we told him he
4 needs to take care of his spouse more than this.

5 CHAIRMAN JACOBS: Any response, Ms. Caswell?

6 MS. CASWELL: Verizon does not oppose the motion.

7 CHAIRMAN JACOBS: We'll grant it; however, we're
8 waiting to confirm a date that we can grant it to. We have the
9 two prospects that look most promising right now, August 13th,
10 September 10th, and I'm assuming that will be the only business
11 that we need to take up at that time, so we're assuming that we
12 can probably do it on a half day or less?

13 MS. CASWELL: I think that would be sufficient.

14 CHAIRMAN JACOBS: Very well. So, we'll come back at
15 the break and confirm which one of those dates we will continue
16 to. Very well?

17 MR. BECK: Thank you.

18 MS. CASWELL: Thank you.

19 CHAIRMAN JACOBS: Thank you. Any other preliminary
20 matters?

21 MR. FORDHAM: No other preliminary matters,
22 Commissioner.

23 CHAIRMAN JACOBS: Very well, so if Mr. Poucher's not
24 testifying, it's your witness, Ms. Caswell.

25 MS. CASWELL: Right. Verizon calls Russell Diamond.

1 RUSSELL DIAMOND

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

4 DIRECT EXAMINATION

5 BY MS. CASWELL:

6 Q Please state your name and address, for the record.

7 A Russ Diamond; address is One Tampa City Center on
8 Franklin Street in Tampa, Florida.

9 Q By whom are you employed and in what capacity?

10 A Verizon as the Business Analysis Manager on an acting
11 assignment as the Area Manager in Winter Haven, Florida.

12 Q Did you submit Rebuttal Testimony in this proceeding?

13 A Yes, I did.

14 Q And does that Rebuttal Testimony contain exhibits
15 RBD-1 through RBD-3?

16 A Yes.

17 Q Do you have any changes or additions to your
18 testimony?

19 A No, I do not.

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

22 A Yes.

23 Q Chairman, may I have Mr. Diamond's exhibits marked
24 for identification?

25 CHAIRMAN JACOBS: Without objection, show -- oh, yes,

FLORIDA PUBLIC SERVICE COMMISSION

1 we're marking the exhibits, and I was just going to get --

2 MS. CASWELL: Yeah, and I don't have the old exhibit
3 list either. I don't know where we left off.

4 COMMISSION STAFF: This would be Exhibit 13.

5 CHAIRMAN JACOBS: So, we'll mark his exhibit as
6 composite Exhibit 13.

7 MS. CASWELL: Thank you.

8 (Exhibit 13 marked for identification.)

9 MS. CASWELL: And at this time, Mr. Chairman, I'd
10 like to ask that Mr. Diamond's testimony be entered into the
11 record as though read.

12 CHAIRMAN JACOBS: Without objection, show Mr.
13 Diamond's testimony entered into the record as though read.

14

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25

1 Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND JOB
2 TITLE.

3 A. My name is Russell B. Diamond and I am employed by GTE
4 Consolidated Services Incorporated at 201 North Franklin Street,
5 Tampa, Florida 33601. My job title is Business Analysis Manager-
6 Florida Region. I am testifying here on behalf of Verizon Florida Inc.
7 (Verizon).

8

9 Q. PLEASE BRIEFLY DESCRIBE YOUR EDUCATION AND WORK
10 EXPERIENCE.

11 A. I received a Bachelor's degree in Accounting from Illinois State
12 University in 1978 and I am a Certified Public Accountant (CPA). Upon
13 graduation from college, I started my career with GTE (now Verizon) in
14 Illinois as an internal auditor. I served in several positions there,
15 including materials supervisor, payroll supervisor and labor rate
16 manager. I transferred to Westfield, Indiana in 1986 to become Area
17 Cost Control Manager. In 1994, I took a job at GTE Headquarters in
18 Irving, Texas, as the Operations Integration Manager in the Business
19 Analysis Department. I accepted my present position in November of
20 1995. Currently, I am on a temporary, 6-month assignment as
21 Customer Operations Manager in Verizon's Winter Haven District.

22

23 Q. WHAT ARE YOUR RESPONSIBILITIES AS BUSINESS ANALYSIS
24 MANAGER?

25 A. My principal job responsibilities include development and review of the

1 expense and capital budget for the Florida region. I am also
2 responsible for compiling Florida service results for internal and
3 external reporting purposes.

4
5 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
6 **PROCEEDING?**

7 A. I will respond in detail to the allegations of Public Counsel witness, R.
8 Earl Poucher, concerning the budgetary process and preventive
9 maintenance program of Verizon (formerly GTE Florida Incorporated).
10 In particular, I will rebut Mr. Poucher's contentions that the Company's
11 budget assumptions were unrealistic and that its preventive
12 maintenance was lacking.

13
14 **Q. MR. FERRELL DISCUSSED THE UNDULY NEGATIVE EFFECT OF**
15 **EXCHANGE-SPECIFIC REPORTING ON SERVICE QUALITY**
16 **RESULTS. HAVE YOU OBSERVED THIS EFFECT FIRSTHAND?**

17 A. Yes. For instance, Mr. Poucher lists a total of 569 service repair
18 misses by Verizon from 1996 through 1999. (Poucher DT at 7.) This
19 figure, taken out of context, may seem high until one understands the
20 mechanics of how it is determined. Verizon has 24 local exchanges.
21 Several of these are relatively small areas, where the number of
22 trouble reports is correspondingly small. In a number of instances, for
23 example, Verizon may have met 11 out of 12 or 34 out of 36
24 commitments. Despite the high percentage of commitments satisfied,
25 Verizon still failed the standard in these cases because the number

1 needed to attain the 95% compliance standard is disproportionately
2 high in a small exchange. In fact, in almost half of the cases of
3 claimed violations, the percent achieved was over 90%. In most
4 states, this would be considered good service.

5

6 I believe Verizon's installation results also demonstrate quality service,
7 in that over 65% of the Company's customers receive installation on
8 the same day or the day after their service orders are placed.

9

10 **Q. MR. POUCHER CLAIMS THAT LOCAL FLORIDA MANAGEMENT**
11 **HAS LITTLE INPUT IN THE BUDGETING PROCESS. IS THAT**
12 **TRUE?**

13 **A.** No. I am responsible for developing the budget for Florida. That
14 budget includes costs for employees, overtime, contractors, materials,
15 and other miscellaneous items. Local management works with my
16 group to develop a bottoms-up, detailed plan for each year's budget.
17 Dispatched service order and repair activity is first forecast for the
18 year. The team then develops productivity factors based on historical
19 activity and consideration of changes that might enhance productivity.
20 These productivity factors are applied to the forecasted dispatch
21 activities to determine the hours needed for the year. Additional hours
22 are then added for preventive maintenance, training, vacations, and
23 the like. The hours are then multiplied by labor rates to get the total
24 labor dollars. This figure is then reviewed with Headquarters.

25

1 **Q. DOES THE COMPANY ALWAYS GET WHAT IT ASKS FOR IN**
2 **TERMS OF BUDGET DOLLARS?**

3 A. No, and this is certainly not unusual at Verizon or, for that matter, most
4 public and private firms. In Verizon's case, corporate management
5 reviews the region's assumptions and past results with a critical eye
6 toward assessing possible productivity improvements. As a result,
7 Headquarters will often build in a budget challenge that the Company
8 is expected to achieve through increased efficiencies. Indeed, it would
9 be unusual not to expect a company to become increasingly more
10 productive, especially one in the telecommunications industry.

11

12 The important point for purposes of this case is that just because the
13 Company is expected to operate efficiently, it does not mean that
14 earnings are more important than service quality. As Mr. Ferrell
15 discusses, it is essential for the Company to satisfy both cost control
16 and service quality objectives.

17

18 **Q. ARE THERE TIMES WHEN BOTH GOALS CANNOT BE MET?**

19 A. Yes. That sometimes happens, despite management's best efforts.
20 When it does, service quality objectives will take precedence. For
21 instance, as Mr. Poucher acknowledges, Verizon has not held to its
22 budget in times of floods and service emergencies. (Poucher DT 17.)
23 Indeed, as Mr. Ferrell points out, *Verizon exceeded its budget by \$20.5*
24 *million in 1998 and \$7.9 million in 1999.*

25

1 Q. MR. POUCHER CONTENDS THAT VERIZON'S BUDGETING
2 PROCESS FOR THE YEARS AT ISSUE DID NOT CONSIDER THE
3 NEED TO PROVIDE SERVICE IN COMPLIANCE WITH PSC RULES.
4 IS THAT TRUE?

5 A. No. Mr. Poucher seems to believe that because there is no budget
6 document listing any line item or adjustment for meeting the PSC's
7 installation and repair standards, the budget process disregarded the
8 need to comply with those standards. This conclusion displays a
9 fundamental misunderstanding of Verizon's budgetary process. That
10 process *always* assumes that the Company needs to meet PSC
11 standards. That is why a bottoms-up, detailed analysis is done at the
12 local level.

13
14 Q. THE THRUST OF OPC'S CASE IS THAT VERIZON CHOSE TO CUT
15 SPENDING ON PREVENTIVE MAINTENANCE EVEN THOUGH IT
16 KNEW IT COULD NOT MAKE PSC SERVICE OBJECTIVES IF IT
17 DID SO. IS THIS TRUE?

18 A. Certainly not, and none of the documents Mr. Poucher cites supports
19 his theory. At the outset, it is important to point out a fundamental
20 fallacy in Mr. Poucher's logic. He claims a direct correlation between
21 expenditures for preventive maintenance and customer trouble reports.
22 (Poucher DT at 12.) But his own testimony precludes any such
23 simplistic conclusions. Mr. Poucher's chart shows that Verizon spent
24 \$24.1 million to achieve a trouble report rate of 2.3 network troubles
25 per 100 lines in 1990, before price cap regulation. In 1998, however,

1 Verizon had about the same trouble rate (2.2), even though it spent
2 over \$19 million less on preventive maintenance. Similarly, in 1997,
3 Verizon spent \$5.4 million to achieve a trouble report rate (1.9) that
4 was about the same (2.0) as the rate achieved by spending \$21.3
5 million in 1991. This evidence proves that Verizon management is
6 doing exactly what it is supposed to do under price caps in a
7 competitive environment—achieve better productivity with more
8 targeted funds, while meeting customer expectations.

9
10 **Q. MR. POUCHER'S CRITICISM OF VERIZON'S PREVENTIVE**
11 **MAINTENANCE PROGRAM RESTS LARGELY ON HIS**
12 **ALLEGATIONS THAT THE COMPANY'S LIGHTNING PROTECTION**
13 **IS INADEQUATE. IS THIS CRITICISM JUSTIFIED?**

14 **A.** No. Mr. Poucher is constrained to admit that factors such as lightning
15 are out of the Company's control. (Poucher DT at 14.) Thus, in order
16 to fabricate a case that even service misses due to extreme weather
17 were willful, Mr. Poucher claims that Verizon did not undertake the
18 employee training and funding necessary for proper bonding and
19 grounding. This conclusion is wholly unfounded. Every Verizon repair
20 and installation technician on the payroll receives bonding and
21 grounding training. And contrary to Mr. Poucher's allegation, Verizon
22 has not "admitt[ed] that it has a bonding problem." (Poucher DT at 14.)
23 This contention is based on a Verizon study of cross-connect boxes
24 that had high lightning reports. There were 361 such boxes, *out of a*
25 *total of 6500 (or less than 6%).* While Mr. Poucher is correct in stating

1 that, as of the date of the report in 1998, 57 of the 361 problematic
2 cross-connect boxes had been repaired, this simple fact does not
3 prove that there is any grounding problem the Company has refused to
4 remedy. On the contrary, it proves that Verizon is actively searching
5 for possible sources of service problems in order to fix them. Indeed,
6 the Company has employed a crew to continuously correct grounding
7 problems with cross-connect boxes.

8

9 **Q. MR. POUCHER SAYS THAT VERIZON PUTS PROFITS AHEAD OF**
10 **SERVICE OBLIGATIONS BECAUSE THE BUDGET ASSUMPTIONS**
11 **ARE UNREALISTIC. IS THERE ANY EVIDENCE THAT THIS IS**
12 **TRUE?**

13 **A.** No. Once again, the conclusion Mr. Poucher draws is not rooted in the
14 evidence he offers. He states, for example, that Verizon projected that
15 if it spent \$7.8 million in 1999, it could eliminate 18,000 dispatches.
16 The final 1999 budget, however, assumed a reduction of 32,000
17 dispatches and set a spending level of \$4.4 million. Mr. Poucher
18 expresses doubt that either projection materialized.

19

20 There are a couple of problems with Mr. Poucher's discussion. First,
21 the projected and actual budget numbers he uses are not directly
22 comparable. The 32,000 figure included dispatches of all types
23 (including, for example, repeat reports, no access conditions, buried
24 drops, etc.), while the 18,000 figure included only TAC focus
25 dispatches. So Mr. Poucher's funding comparison is ill-founded.

1

2 His doubts about Verizon's success in reducing dispatches are
3 unfounded, as well. What actually happened in 1999 was that the
4 Company had a 73,000 reduction in trouble dispatches as compared to
5 1998. Even accounting for the estimated net impact of El Nino and line
6 growth, the preventive maintenance plan exceeded the projected
7 reduction by about 5000 dispatches (575,000 estimated versus
8 570,532 actual). (Ex. RBD-1.) Since Mr. Poucher's facts are incorrect,
9 his conclusion that Verizon lacks an effective preventive maintenance
10 plan is also incorrect, as are his allegations that Verizon's budgeting
11 process is unrealistic.

12

13 **Q. BUT WHAT ABOUT MR. POUCHER'S ALLEGATION THAT THE**
14 **INSTALLATION AND REPAIR FORCES WERE NEVER ABLE TO**
15 **MEET THE PRODUCTIVITY FORECAST FOR 1997 (POUCHER DT**
16 **AT 16-17)?**

17 **A.** It is not unusual to find that actual results don't always match
18 projections. This is not the case just at Verizon, but at any company in
19 any industry. The lack of perfect correlation between projected and
20 actual results does not justify a conclusion that the budgetary process
21 uses "inaccurate inputs." It is obviously impossible at the outset to tell
22 whether the assumptions used in any budget will prove to be perfectly
23 accurate. Reasonableness of assumptions should not be judged by
24 whether results matched perfectly with projections; the question,
25 rather, is whether the Company had a rational basis for using particular

1 inputs.

2

3 In this case, Verizon's 1997 forecast for installation and repair hours
4 used installation and repair factors that were, in fact, achieved during
5 several months in 1995 and 1996. So the Company was justified in
6 believing those objectives could be met again in the future.

7

8 Verizon could have used productivity factors it knew for certain that it
9 could meet. But a telecommunications company that doesn't expect
10 any productivity improvements from year to year will not survive for
11 very long. As Mr. Ferrell explains, Verizon is acting exactly as a
12 responsible carrier should. Expecting reasonable productivity gains
13 from year to year is prudent and not tantamount to choosing budget
14 over service, as Mr. Poucher erroneously concludes. (Poucher DT at
15 17.)

16

17 **Q. MR. POUCHER CLAIMS THAT, FOR EACH YEAR FROM 1997**
18 **THROUGH 1999, VERIZON'S BUDGETARY PROCESS WAS**
19 **"CLEARLY MANAGED" TOWARD EARNINGS RATHER THAN**
20 **SERVICE OBLIGATIONS. IS THIS TRUE?**

21 **A.** No, and Mr. Poucher's own testimony demonstrates it is not. He
22 admits that, for the first half of 1997, forecasted and actual expenses
23 tracked almost perfectly and Verizon generally provided "superior
24 installation and repair service." (Poucher DT at 17.) This fact shows
25 that Verizon's budget was reasonably drawn to permit achievement of

1 service standards.

2

3 Mr. Poucher, however, claims that Verizon "held tight" to budgetary
4 commitments in the last half of 1997 while allowing service to
5 deteriorate. In this regard, he notes that the Company missed the
6 repair standard 106 times during the six-month period. Based on this
7 piece of information, he concludes that Verizon managed the budget
8 toward earnings goals rather than service obligations.

9

10 This conclusion, of course, ignores certain key facts. First, as I have
11 already noted, the budget projections proved to be on target for the
12 first half of 1997. Second, as Mr. Poucher points out, Verizon
13 exceeded the budget by over half a million dollars because of bad
14 weather toward the end of the year. Third, a substantial number of the
15 repair and installation misses occurred in this same period of extreme
16 weather. So there were good reasons for service standard failures
17 during the last half of 1997. There is no justification for assuming that
18 they were due to inadequate budget dollars, such that Verizon
19 deliberately allowed service to deteriorate.

20

21 **Q. CAN YOU RESPOND TO MR. POUCHER'S ALLEGATION THAT**
22 **VERIZON DELIBERATELY SET THE 1998 BUDGET AT A LEVEL**
23 **INADEQUATE TO MEET PSC SERVICE STANDARDS?**

24 **A.** Yes. This claim is based on the simple fact that the 1998 budget was
25 about the same level as the 1997 budget. (Poucher DT at 18.) Again,

1 it was not unreasonable for the Company to expect some productivity
2 gains from 1997 (when both standards and budget were largely met
3 during at least half the year). And, as I noted earlier, Verizon
4 exceeded its 1998 budget, in any event.

5

6 **Q. WHAT ABOUT MR. POUCHER'S CRITICISM OF THE 1999**
7 **BUDGET?**

8 A. For 1999, Mr. Poucher cites a few purported problems, which I will
9 address in turn here. The first is that Verizon's targeted 1999 budget
10 was below its 1997 budget. In this regard, Mr. Poucher points to a
11 June 1999 e-mail from Richard Pelham, a general manager. Mr.
12 Poucher characterizes that e-mail as indicating that "budget and force
13 reductions reduced the company's ability to meet the PSC service
14 objectives." (Poucher DT at 18-19.)

15

16 I must first point out that Mr. Pelham's e-mail does not reference PSC
17 standards anywhere. Furthermore, we do carefully consider the
18 operations departments' risk analyses. In this case, the Company did
19 not take the action described in Mr. Pelham's e-mail; rather, some
20 central office-related contractors were eliminated gradually as new
21 employees were hired.

22

23 Verizon does not deny that the productivity targets it sets for its
24 managers are ambitious. In this marketplace, they have to be.

25 However, as I noted earlier, the Company's budget is set every year on

1 the assumption that efficient management can meet the PSC
2 standards within the resources allotted. As I said when I submitted the
3 1999 Florida budget, management here had "put together a plan that
4 balances very aggressive cost reductions with the need to maintain or
5 improve service levels and meet minimum PSC standards." (Poucher
6 REP-15.) It is certainly not unusual for individuals within the Company
7 to disagree as to what the budget should be in any given year. But this
8 doesn't mean that the Company deliberately established a budget it
9 knew would be insufficient to meet PSC standards.

10

11 **Q. MR. POUCHER'S ALSO FOCUSSES ON HEADCOUNT**
12 **REDUCTIONS. WHAT IS YOUR RESPONSE?**

13 A. It is true that total headcount was reduced by 150 employees from
14 1998 to 1999, through attrition, including significant numbers of
15 retirements. But more than half of these reductions were in the
16 Infrastructure Provisioning department, which is not responsible for
17 day-to-day installation and repair activities. And, as the attached
18 pages from Verizon's 1999 hiring requisitions log show, a substantial
19 staffing effort was well underway by July of 1999; in that month alone,
20 80 new repair and installation technicians (designated "Cust Zone
21 Tech II" and "Cust Zone Tech III") were requisitioned. These new hires
22 hit Verizon's payroll in September of 1999, and staffing in these
23 categories continued into 2000. (Ex. RBD-2.)

24

25 Moreover, in both 1998 and 1999, Florida significantly overran its

1 expense budget for contractor utilization—by \$9.6 million in 1998 and
2 almost \$3 million in 1999 (Ex. RBD-3.) This shows that while
3 Company employee levels might have been down, contractors were
4 used to address the needs of the business.

5
6 **Q. MR. POUCHER ALSO TAKES ISSUE WITH VERIZON'S DECISION**
7 **TO REDUCE CAPITAL SPENDING FROM 1998 TO 1999.**
8 **(POUCHER DT AT 19-20.) WAS THIS DECISION JUSTIFIED?**

9 A. Yes. it is important to first point out that capital spending is *not*
10 preventive maintenance dollars. Capital spending is, instead, based
11 on projected net growth. In any event, the 1999 projected capital
12 budget reductions were justifiable because growth in Florida had
13 dropped substantially with increased competition. For instance,
14 Verizon's second line growth, which was largely driven by Internet use,
15 had stalled. This is because customers migrated many of these
16 service requests to alternative local exchange carriers and cable
17 companies.

18
19 Nevertheless, when it became clear that actual results would be out of
20 line with projections, Headquarters increased Verizon's 1999 capital
21 spending budget by \$14.6 million, as Mr. Poucher acknowledges.
22 (Poucher DT at 19.)

23
24 In sum, as Mr. Appel testifies, there was never any corporate intent to
25 disadvantage the Florida Company through capital spending

1 reductions.

2

3 **Q. PLEASE SUMMARIZE YOUR TESTIMONY.**

4 A. My job is to balance both cost and quality objectives--a difficult task
5 that I take very seriously. If Verizon is to succeed in the marketplace,
6 we need to make continuous efforts to gain efficiencies while
7 maintaining the service quality that motivates customers to remain with
8 Verizon. This balance is not always perfect. But there is no evidence
9 that the Florida region willfully pursues budget objectives at the
10 expense of service levels.

11

12 **Q. DOES THAT CONCLUDE YOUR TESTIMONY?**

13 A. Yes.

14

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25

1 BY MS. CASWELL:

2 Q Do you have a summary of your testimony?

3 A Yes, I do.

4 Q Would you please give that to us now?

5 A Sure, thank you.

6 Good morning. My testimony primarily addresses
7 Mr. Poucher's allegations that the company's budget assumptions
8 were unrealistic and the budgetary process is managed in
9 deliberate disregard of service obligations. These assertions
10 are simply false. It is not true, as public counsel claims,
11 that local management has little influence over the budgeting
12 process.

13 My group develops a detailed, bottoms-up plan for the
14 year. We carefully consider forecasted service order and
15 repair activity, that we then develop productivity factors
16 rooted in experience, and also review any factors that might
17 allow enhanced productivity. Overall, we do a good job and,
18 more importantly, we have good reason to use the assumptions
19 that we do.

20 In fact, Mr. Poucher gives as an example as an
21 unreasonable projection our 1999 repair dispatch forecast which
22 we, ultimately, came in several thousand units under what was
23 projected. In those cases where actual results do not match
24 projections, it doesn't necessarily mean that the assumptions
25 used were incorrect or inaccurate.

1 Once we developed a budget it's sent to Headquarters
2 for review. The Region doesn't always get what it asked for in
3 terms of budget but, again, that's not unusual at Verizon and
4 probably most other firms. Headquarters expects local
5 management to become increasingly more efficient. It's a tough
6 job to balance both cost and quality, but a company that
7 doesn't attempt to do so won't survive for long.

8 This balancing process does not mean that service
9 quality and PSC standards are deliberately overlooked or
10 ignored. The target budget as a baseline is always developed
11 with the assumption that we will meet PSC's service standards.
12 Nevertheless, when local management is unable to come up with a
13 plan to meet a budget challenge in a particular instance, it
14 will not arbitrarily adhere to the budget.

15 When cost and quality goals can't be met, service
16 quality objectives will take precedence, and the Region will
17 exceed the budget as it did several years at question. There's
18 no evidence that Florida Region willfully pursues budget
19 objectives in disregard of PSC service standards.

20 That's my summary.

21 MS. CASWELL: Thank you. Mr. Diamond is available
22 for cross examination.

23 CHAIRMAN JACOBS: Mr. Beck.

24 MR. BECK: Thank you, Mr. Chairman.

25

CROSS-EXAMINATION

FLORIDA PUBLIC SERVICE COMMISSION

1 BY MR. BECK:

2 Q Good morning, Mr. Diamond.

3 A Good morning.

4 Q Mr. Diamond, can I ask you to turn to Page 4 of your
5 testimony?

6 A Okay.

7 Q Mr. Diamond, beginning at Line 6 going through Line
8 8, you say, "As a result, Headquarters will often build in a
9 budget challenge that the company is expected to achieve
10 through increased deficiencies." Do you see that?

11 A Yes.

12 Q Can you describe what the budget challenge is?

13 A Well, it would be the difference between if you were
14 to run at a business as usual rate, meaning your current
15 spending level, and then the challenge would be what we need to
16 try to achieve to reduce costs and become more efficient. That
17 would include things like additional productivity enhancements
18 through our technician's activities, taking preventive
19 maintenance actions to take trouble reductions out of the
20 network. In the area of service order, trying to figure out
21 ways to dispatch less, try to reduce our reworks, our repeat
22 reports or trouble that we have in seven days so we don't have
23 to send multiple dispatches on the same customer report, things
24 of that nature.

25 Q In developing your budget, you take into account any

1 specific productivity improvements that you can foresee, don't
2 you?

3 A Correct.

4 Q So, if you see a specific improvement you will reduce
5 your budget to take into account that improvement; will you
6 not?

7 A Yes, we will.

8 Q And you also have something what you call stretch in
9 addition to that, don't you?

10 A Yes.

11 Q What's stretch?

12 A Well, what that would -- that's local term, I guess,
13 and what that is is the difference between what -- when local
14 management does come up with the budget, to the extent that
15 budget is higher than what the Headquarters target is, that
16 would be what we term stretch.

17 Q Do you have -- I've given you a copy of Mr. Poucher's
18 testimony and exhibits, and I'd like to ask you to turn to his
19 exhibit attached to his Direct Testimony, REP-14. What I'd
20 like to do is go over the budget, some of your budget documents
21 for 1998 and 1999, and let's start with REP-14, which is a 1998
22 budget.

23 A Okay, got it. Page 3541, Bates stamp?

24 Q Yes.

25 A Okay.

1 Q Could you just briefly describe what that document
2 is?

3 A Yeah. This is a summary or recap, as it's titled,
4 for 1998 that we would go through and kind of lay out the
5 actions that we have taken to get from the 1997 baseline level
6 to our 1998 target, the different reduction actions that we
7 have taken or we hope to take to achieve that.

8 Q Okay. Let me go through some of that, if I could,
9 with you.

10 A Okay.

11 Q Your budget development for 1998 starts at the top of
12 this page with your 1997 baseline; is that right?

13 A Right.

14 Q Is that your actual expense incurred in 1997?

15 A Well, it may not be actual. It may have some
16 adjustments, if there are any normalizations to the prior
17 period to get it on a consistent basis, if there were any
18 organizational changes or things of that nature, but generally
19 you could represent that as, yes, results for 1997.

20 Q Okay. And then from that amount you have for 1997 on
21 this document, you make adjustments for inflation and growth
22 that increased the budget; is that right?

23 A Correct.

24 Q And then you have some reductions that you take all
25 gearing towards determining a 1998 budget in this case; is that

1 right?

2 A Yes.

3 Q And you have adjustments of 3.636 million?

4 A Correct.

5 Q And then enablers and stretch of an additional 7.963
6 million; is that right?

7 A Correct.

8 Q And the reduction actions are given in more --
9 there's a breakdown of those numbers under the section called
10 Reduction Actions; is that right?

11 A Correct.

12 Q Okay. Let me go through a few of these, if we could.
13 The first reduction action is you're having reducing your
14 budget by \$2.563 million to account for trouble reductions; is
15 that right?

16 A Right.

17 Q Could you describe what that was in some more detail?

18 A Yeah. There would have been several actions taken in
19 the projections as to what we thought would happen to reduce
20 trouble volumes, trouble dispatches; again, our preventive
21 maintenance program, TAC Focus we talked about quite a bit last
22 time and any other internal -- well, the preventive maintenance
23 initiative to request PMIR, things of that nature, both capital
24 and expense preventive maintenance actions. Rework reductions,
25 had a lot of activity around repeats, trying to take those out

1 having technicians do the job right the first time so we don't
2 have to send them out on the second trip. Those are probably
3 the two bigger areas, preventive maintenance, reductions and
4 then repeats, rework, as we would call it.

5 Q Okay.

6 A No accesses, things of that nature.

7 Q Okay. And that's on account of specific programs
8 that you're instituting that you felt would reduce your budget
9 needs by 2.563 million; is that right?

10 A Correct.

11 Q And the next one has a service order reduction of
12 \$23,000 and an amount associated with that of \$1.589 million?

13 A Right.

14 Q Would you describe how that was brought about?

15 A Similar things, activities that we were trying to do
16 to reduce service order reductions. One of the biggest ones we
17 have is our express dial tone program where we usually employ
18 contractors to go out to new subdivisions or apartment
19 buildings as they're being built, and a contractor will go
20 ahead and place the drop in the NID on the side of the house
21 prior to the customer moving in and actually heat up the first
22 jack such that when the customer moves in we wouldn't have to
23 dispatch at all in that situation. Obviously, it would save
24 us -- the technician time on that side.

25 Q And so, to account for that you reduce your budget by

1 \$1.58 million; is that right?

2 A Right.

3 Q Let's go down to the last item, if we could. It says
4 Absorb Growth Productivity and there's \$1.99 million there.

5 A Right.

6 Q Would you tell us what that is?

7 A Yeah. It's probably -- since I don't see any other
8 specific productivity related to the technician's HPU or hours
9 per unit, that would be where we would hope through doing the
10 job right the first time and working with technicians that are
11 having a more difficult time with their productivity could
12 enhance that through standards of performance and things of
13 that nature.

14 Q Is that the area that you called stretch earlier, the
15 absorbed growth productivity?

16 A Not necessarily, because we normally look at HPU
17 improvement, if you will, but I do see up above that the 7.9
18 million was called enablers and stretch so, I guess, it doesn't
19 specifically say that, but some of that could be construed as
20 that.

21 Q So, prior to getting that amount you've identified
22 quite a few specific actions that you used to reduce your
23 budget and a number of those are --

24 A Well, reduce or increase our budget.

25 Q Right.

1 A I mean, there's several items, and as you can see
2 from Sunday coverage where we -- hourly training where we added
3 some additional training and things of that nature, so this is
4 a plus and minus of different things that we added to the
5 budget; some specific new hire training and tools where we were
6 adding additional technicians.

7 Q Okay. But this absorb growth productivity is in
8 addition to all your identified productivity improvements; is
9 it not?

10 A It's in addition to other actions that were taken to
11 reduce the budget. I wouldn't say it was, you know, totally
12 just stretch, if you will. Every year we probably have
13 anywhere from 3 to 7% productivity that we would hope to gain
14 through hour per unit improvement.

15 Q I'd like to now move to your 1999 budget which is
16 attached to Mr. Poucher's Surrebuttal as REP-36.

17 A Okay. 36?

18 Q Yes.

19 A Okay.

20 Q And could you turn to Page 4 of that exhibit, of
21 REP-36.

22 A Okay.

23 Q Okay. And it has a Bates stamp of 2851 at the
24 bottom; do you see that?

25 A Yes, got it.

1 Q Okay. Mr. Diamond, this is a similar document to the
2 one we just looked at except this is for the development of
3 1999 as opposed to 1998, is it not?

4 A Correct.

5 Q And here, just like the other, we show a baseline
6 that we start with of \$147.032 million?

7 A Right.

8 Q And then you account for inflation and growth to add
9 to that amount?

10 A Right.

11 Q And then you have some reduction. You have a 3.5
12 million dollar reduction for enablers?

13 A Correct.

14 Q And a \$13.725 million amount for stretch; is that
15 right?

16 A Yes.

17 Q Okay.

18 A Well, that was the -- it was the net reductions down
19 below where we enumerated, yes, okay.

20 Q Okay. And then the reduction actions, this one again
21 is similar to the other document as you list a number of
22 specific items that are affecting your budget; is that right?

23 A Correct.

24 Q Okay. Could you just tell us what the '98 overrun
25 over -- above baseline additions is? That's the first

1 reduction action listed.

2 A That would be accounting for the fact that in 1988,
3 which was -- 1998, we had overrun -- well, in those numbers,
4 \$11.3 million, and so we put that on as a baseline at which the
5 level we were operating at.

6 Q Okay. And then to that you have a number of specific
7 reductions; do you not?

8 A Correct.

9 Q You have trouble dispatch reduction, \$2.565 million?

10 A Right.

11 Q In other words, you reduce your budget by that amount
12 to account for reductions you see in trouble dispatches; is
13 that right?

14 A Yes, yes.

15 Q And then the next two after that are for repair
16 productivity and service order productivity; are they not?

17 A Correct.

18 Q And you have some numbers next to that; for example,
19 repair says 1.99 to 1.8?

20 A Correct.

21 Q Is that hours per unit?

22 A Yes.

23 Q What does hours per unit mean?

24 A That would be the average number of hours it takes to
25 complete a repair dispatch.

1 Q And so you foresaw in 1999 that you would be able to
2 do that more quickly than you did in 1998; is that right?

3 A Striving for that, yes, looking for improved
4 productivity.

5 Q And the same for service order; is that right?

6 A Correct.

7 Q And then you reduce your budget by those amounts to
8 account for that?

9 A Correct.

10 Q And then there's a number of others there; is that
11 right?

12 A Yes.

13 Q And there's pluses and minuses, mostly minuses here,
14 but --

15 A In this case you're right, yeah.

16 Q Now, let me ask you to look at the last one listed
17 under the Reduction Actions.

18 A Mm-hmm.

19 Q It has unidentified improvements, \$14.085 million.

20 A Yes.

21 Q What's that?

22 A That would be the amount that once local management
23 had developed their plan as to what they felt comfortable they
24 could achieve, that was the difference between the Headquarters
25 target and where we were and what we had specific items laid

1 out that we believed could be met to achieve the budget.

2 Q Well, you've already identified the specific
3 productivity improvements and taken into account in the
4 development of the budget other than that; is that right?

5 A Correct.

6 Q And these are ones you can't even identify how you
7 would get that 14 million?

8 A Correct. And that's what we were communicating to
9 Headquarters, that we still had that kind of a gap that we were
10 trying to deal with or stretch.

11 Q Okay. Could you turn to the next page, please, which
12 is Page 5 of that exhibit.

13 A Yeah.

14 Q Okay. It says Key Issues, about halfway down, Key
15 Issues, Risks, Assumptions and so forth?

16 A Yeah.

17 Q Do you see that? It says, "The budgeted activity and
18 employee count noted above is based on a budget and
19 unidentified gap of \$14.1 million"; is that right?

20 A Correct.

21 Q Okay. And that's the, basically, the stretch that we
22 saw on the other page?

23 A Yes.

24 Q What did you do to fill in that gap, the unidentified
25 stretch?

1 A We had asked headquarters for some assistance in
2 trying to identify opportunities. I believe, they had at least
3 one, maybe two different times they did send some folks from
4 Headquarters out to Tampa and sat down, went through the
5 results of the budget, where we were. They did suggest some
6 possible business cases, areas where we did need to -- where we
7 thought we can improve even more and we did take advantage of
8 those where possible and try to do the best we could of which
9 we ended up, I believe, \$7.9 million over for the year, so we
10 did get some overlays throughout the year to help with that
11 gap.

12 Q Okay. You didn't comply with the Commission's rule
13 on repair or service order quite a few times in 1999; is that
14 right?

15 A I missed the first part of that. Say that again.

16 Q You did not meet the service --

17 A That's true, yeah, we did miss several objectives
18 that year.

19 Q In fact, if we accept this, subject to check,
20 Mr. McDonald's chart shows that you missed the out of service
21 102 times and the new primary service 147 times in 1999; is
22 that right?

23 A Yes.

24 Q Do you think the --

25 A I assume those numbers are correct.

1 Q Okay. Do you think your unidentified budget gap of
2 \$14 million had something to do with that?

3 A Not directly. I mean, it could have indirectly but,
4 again, as we said in here, budgeted activity and employee
5 account that we developed was to achieve what we thought we
6 could internally and did not address the \$14 million, so I
7 wouldn't say that it directly impacted it.

8 Q Okay. Mr. Diamond, I would like to look at some
9 other exhibits attached to Mr. Poucher's testimony. One is
10 REP-13.

11 A Direct or Surrebuttal?

12 Q It's Direct. Okay. And there's two pages to that
13 exhibit; are there not?

14 A Yeah.

15 Q The first page shows 1997 actual versus outlook
16 normalized expense?

17 A Yes.

18 Q And the second page shows your -- the number of rule
19 violations during 1997; is that right?

20 A Correct.

21 Q During your summary this morning, you mentioned that
22 whenever there is a conflict between budget and service that
23 you always tilt that conflict in favor of providing service; is
24 that right?

25 A Yes.

1 Q Let's look at the first page of Exhibit REP-13?

2 A Yep.

3 Q This tracks your actual spending versus your budget
4 month by month in 1997; is that right?

5 A Right, correct.

6 Q Would you agree that the actual and budget tracked
7 very well together until the last month of the year?

8 A Yeah, I would say that's an indication of a couple
9 things. I think, you'll see that we met the service standards
10 the first half of the year, had a very good year, and then in
11 each of the six months we were under budget and it did track
12 very closely.

13 Q But then, when we look at Page 2, we show that
14 beginning in June of 1997 you started missing a number of
15 service standards; is that right?

16 A Correct.

17 Q Okay. And June and July -- in fact, for the rest of
18 the year -- by the end of the year you were missing them all in
19 out of service; is that right?

20 A True statement.

21 Q But you didn't increase your budget or increase your
22 spending above the budget until the very last month of the
23 year; is that right?

24 A Well, I think, if you look at it for the last six
25 months we did overrun the budget, and the last month was by far

1 the greatest and there's a couple reasons for that. Number
2 one, there's -- as we had discussed prior, there's a lot of
3 timing related to, number one, the labor budget's usually at
4 least a month in arrears, and contractors that we would have
5 brought on, which we did during that period or -- well, we
6 would have had some back in that period, their bills usually
7 have a one to two-month lag and there's a big effort in
8 December to make sure that everything's cleaned up at the end
9 of the year and we get all of the charges related to that year,
10 end of the year, and that's why December was \$2.4 million over.

11 Again, had a great first half of the year. We were
12 making our results after having a pretty poor 1996. I thought
13 we had things turned around, we're making our budgets, and then
14 it didn't look good in the second half of '97, as you're
15 pointing out, but we did miss the budget in four out of the six
16 months with December being by far the greatest.

17 Q Right, but the misses started in June of '97,
18 significant misses; wouldn't you agree?

19 A Correct. In July we overran the budget which, again,
20 we're about a month in arrears on the payroll.

21 Q But not by much.

22 A \$400,000.

23 Q Okay. Let's look at another exhibit attached to
24 Mr. Poucher's testimony, REP --

25 A I think, one other thing, too -- let me go back, and

1 it relates -- if you don't mind -- relates to what we -- when
2 you talk about the misses. You know, I think, we tried to show
3 that in some of these exchanges you can miss it with very few
4 misses. I mean, one or two misses will throw you out for an
5 exchange. And, I think, if you also look at the results, when
6 we missed these results, we didn't miss it by a lot. While the
7 standard for out of service in 24 is 95%, many of those
8 months -- many of those exchanges were in the 92, 93% range, so
9 we were quite close.

10 So, it isn't that we just deliberately missed those
11 results. It was due to the weather and other situations around
12 that. And I wouldn't say it was due to just budget
13 constraints. And we didn't willfully miss those by large
14 amounts. They were pretty close. So, it's hard to say that
15 just missing the standard would have caused a huge amount of
16 additional expense. Thank you.

17 Q You even address that in your testimony, don't you,
18 Mr. Diamond, at the top of Page 3, Line 2?

19 A Yes.

20 Q You state, in fact, in almost half of the cases of
21 claimed violations the percent achieved was over 90%.

22 A Yes.

23 Q Talking about the 95% compliance?

24 A Correct.

25 Q Okay. So, you have a rule that requires 95%

1 compliance, and what you've told us there is that in over half
2 you didn't even make 90%; is that right?

3 A You could -- yeah and, I believe, those were in the
4 high 80s.

5 Q Let's turn to Exhibit REP-11.

6 A Which -- Poucher's?

7 Q Direct Testimony.

8 A Which one? I'm sorry.

9 Q It's attached to the Direct Testimony of REP-11.

10 A 11?

11 Q Correct. It says -- it's called a TAC Focus Trouble
12 Reduction?

13 A Right.

14 Q Do you have that in front of you? Can you tell us,
15 generally, what TAC Focus means?

16 A Yeah. It's the primary preventive maintenance tool
17 that Verizon employs. It's a prioritization process that
18 specifically targets areas where we've had a lot of trouble.
19 It goes in and we talked -- and I was going to give you a
20 definition of a FAP, which is a Facility Area Profile. It's a
21 25-pair complement of outside plant cable. We identify trouble
22 reports by FAP or Facility Area Profile, so that's the units
23 that we were talking about specifically.

24 So, we have programs that will go in and look at that
25 25-pair complement over a -- either a 90-day or six-month

1 period and see exactly how many trouble reports we've had in
2 that cable so that we know those are the ones we need to do
3 some testing on and isolation procedures to identify exactly
4 what it's going to take in terms of cost to repair that section
5 of plant. And TAC Focus is the name of the program; TAC
6 meaning Trouble Isolation Center is where the name came from.

7 Q TAC means Trouble Isolation Center?

8 A That's what the abbreviation TAC was, yeah.

9 Q I can't resist. Wouldn't that be TIC?

10 A Trouble Analysis Center. I'm sorry, you're right.
11 Trouble Analysis Center, correct, thank you.

12 Q Mr. Diamond, on this page of the document, this
13 discusses the effect of spending amounts of money on TAC Focus
14 programs would have on the number of troubles per 100 lines;
15 does it not?

16 A Correct.

17 Q For example, your third point down there says Florida
18 can get to .45 in year 2000 with a \$7.8 million in TAC in 1999;
19 is that right?

20 A Yes.

21 Q You'd agree, then, there's a relationship between
22 spending money on TAC Focus programs and being able to reduce
23 the amount of troubles in your network?

24 A Yeah.

25 Q Okay. And then you even have to get to .40 in 2001

1 will require \$6 million in 2000; is that right?

2 A Correct.

3 Q Okay. Now, you've agreed that spending money will
4 reduce the troubles. This, basically, goes over that and gives
5 that, right?

6 A True.

7 Q That alone will not allow you to meet the rule, will
8 it, the rule on service quality on repairs and service orders?

9 A No, there's a lot of other factors that would impact
10 that, meeting the rule.

11 Q So, you could -- let me give you a few examples and
12 see if you agree. What if you spent nothing on TAC Focus and
13 your troubles per 100 lines increased over the amounts here.
14 You could still meet the rules by employing lots of people to
15 fix the troubles; could you not?

16 A Theoretically.

17 Q And, likewise, if you spent the money on TAC Focus
18 here to reduce your troubles, you still need to have enough
19 people to fix the problems as they do occur.

20 A Generally, I would say that's a true statement.

21 Q Okay.

22 A I mean, there are other factors that could be
23 involved that wouldn't guarantee it, but it's probably a fair
24 statement.

25 Q Okay.

1 A I don't know that -- you know, that's something that
2 the company can do. I mean, you need to -- we need to be
3 prudent with the dollars that we can spend, and this allows us
4 to target exactly where we're going to spend those dollars and,
5 I think, it does a very good process of doing that.

6 Q Okay. In your testimony, again, regarding preventive
7 maintenance at Page 8 at the top, specifically, at Lines 5
8 through 8 --

9 A Mm-hmm.

10 Q -- generally, at this portion of your testimony
11 you're talking about how your preventative maintenance program
12 allowed you to reduce the number of trouble dispatches; is that
13 right?

14 A It was one of the factors, yes.

15 Q Okay. And, in fact, at Lines 5 through 8, you
16 describe how you exceeded your projected reduction by almost
17 5,000 dispatches; is that right?

18 A Correct.

19 Q 1999 was a fairly dry year; wasn't it? It didn't
20 rain like it did in 1998?

21 A Well, yeah, it didn't rain as much as El Nino, you're
22 correct.

23 Q Okay.

24 A Which was when? You know, late '97, probably about
25 October '97 through March of '98 is when El Nino occurred.

1 Q Okay. But nonetheless, you had even fewer dispatches
2 than you had projected in your budget; is that right?

3 A Correct, by about 5,000.

4 Q Okay. The question is if you did better than your
5 budget and didn't have to dispatch that much, why didn't you
6 meet the rule requirements in 1999 for repair and service
7 order?

8 A I think, that came back to some employee reductions
9 that we had due to retirements that we had earlier in the year
10 after we had staffed up quite a bit during 1998. We had a lot
11 of retirements early in the first two, three months of January
12 with the interest rates that had changed and made it very
13 attractive for the senior employees to go ahead and take their
14 lump sum pensions and leave the company, along with a lot of
15 competitors that were hiring those people.

16 Q Mr. Diamond, I don't understand. You had in your
17 budget, you know, for a certain amount of expense associated
18 with dispatches for service orders.

19 A Correct.

20 Q Right? And you did better than that. You did better
21 than what you budgeted, and you had 5,000 fewer dispatches than
22 you thought. How does your explanation explain the fact that
23 even though you had less dispatches, you still didn't meet the
24 rule?

25 A Well, there were other factors involved related to

1 that. One would have been the level of employees that, again,
2 had dropped off early in 1999. The other factors that staff to
3 the employee levels that we had did, again, include
4 productivity improvements which we more than likely -- I mean,
5 I can't give you exact numbers, but we probably didn't do as
6 good as we had anticipated we would do in productivity
7 improvements, and then depending on when the spikes in the
8 weather did occur could have an impact on that.

9 MR. BECK: Mr. Diamond, thank you. That's all I
10 have.

11 CHAIRMAN JACOBS: Staff?

12 CROSS EXAMINATION

13 BY MR. FORDHAM:

14 Q Good morning, Mr. Diamond.

15 A Yes.

16 Q I'm Lee Fordham.

17 On Page 6, Line 24, of your testimony you begin a
18 discussion of a problem that was identified with the grounding
19 and bonding of cross-connect boxes. Do you know, sir, is there
20 any supervisory-level inspection of those cross-connect boxes
21 after they're installed?

22 A Yeah. I believe, there is a process with our -- we
23 have construction inspectors that would go out and inspect
24 those when they're installed. This wasn't necessarily talking
25 about ones that had just been installed, but ones that had been

1 in service for quite a period of time. But there was a process
2 where a lot of these may be installed by contractors, and we do
3 have company personnel that would go out and inspect and make
4 sure that they're installed properly, bonded and grounded
5 properly.

6 Q Apparently, there were 361 identified as being
7 defective. Is that an acceptable number, would you think,
8 given the total number that you have?

9 A Well, as it -- I guess, I'm not an expert to know
10 whether that's acceptable. In my mind, you know, there's a
11 difference between acceptable and reasonable, and is it
12 reasonable that there would be that many? It's unacceptable
13 that any of them are not properly bonded and grounded, and
14 that's what the company was trying to do here, was going out
15 and identify -- given the lightning impact on the Tampa Bay
16 area, we went out to make sure that these were properly bonded
17 and grounded and found 361 that were not, and we were in the
18 process of addressing that and trying to get those corrected,
19 because we didn't want any that we knew of to not be properly
20 bonded and grounded.

21 Q Is it correct that an improperly grounded
22 cross-connect box could be a significant cause of trouble
23 reports?

24 A Yes, I think that's fair.

25 Q And if the company was aware of the number 361 as

1 being defective and yet reported that only 57 were repaired as
2 of the '98 report, why were only 57 repaired if you were aware
3 of 361?

4 A I believe that this was a status report when we had
5 an operations review of where we were in the process. And I
6 don't know if it states in here exactly when, but I believe
7 that just in the prior few months that we had taken a specific
8 action to go out and investigate cross-boxes and see how many
9 of them were not properly bonded and grounded, and then this
10 was just a status as of that meeting how many had already been
11 corrected of the ones we had identified. So, it was just a
12 status report, not that we -- it's not at all stating that we
13 were done and we were stopping at that point.

14 Q Just a snapshot in time.

15 A Exactly.

16 Q On Page 10 and 11 you state that Verizon exceeded its
17 budget for the years '97 and '98. Now, if -- and, of course,
18 we've discussed that some here this morning -- if Verizon
19 continues to exceed its budget for installation repair, is that
20 not -- is there not a reasonable assumption that the budget was
21 inadequately forecast initially?

22 A Well, again, there's a difference between the
23 Headquarters budget and what local management had come up with.
24 And, I guess, by definition you could -- we were not able --
25 we, local management, was not able to achieve the productivity

1 gains or the efficiencies or come up with other enablers or
2 things to achieve that Headquarters budget, but the Florida
3 Region locally did not staff to what I thought were
4 unreasonable budget levels in order to meet those PSC
5 standards.

6 Q On Page 11, you discuss that when the budget's set
7 every year it's based on the assumption that an efficient
8 management can meet the PSC standards within the resources
9 allocated. Now, here we're looking at a period of three years,
10 '96 through '99. Would that not have given enough lead time to
11 make some drastic adjustments in those projections?

12 A Well, I think, again, locally management every year
13 tried to budget what they thought they could achieve, which had
14 some pretty aggressive targets in it, because I think that's
15 something that we owe the company as trying to be aggressive in
16 our cost reduction efforts but, again, that was -- in many
17 cases that fell short, and quite substantially short, of what
18 Headquarters had asked for, because we didn't feel that we
19 could meet those levels and still provide to the PS-- meet the
20 PSC standards. That's why we did overrun the budget in those
21 years.

22 Q Now, I think, you've testified that you met the
23 standard in '99 or record reflect that. What made the
24 difference?

25 A In 2000 -- we had quite a few misses, I believe, in

1 1999. In 2000, we did.

2 Q That's correct.

3 A Okay.

4 Q And, I think, we just reviewed those.

5 A Okay. Well, I think, some of the actions that
6 Mr. Ferrell had brought forward with increased preventive
7 maintenance, several things that we'd actually done a little
8 bit of in maybe '98, started to take fold in 1999.

9 Again, Mr. Ferrell came in, I believe, it was late
10 1998, and implemented some changes and it took some time to
11 have those take hold, but a lot of it was improved efficiencies
12 around TAC Focus, some business cases were put in, the bonding
13 and grounding, continued emphasis on that. We'd been doing
14 that in the past, but we continued to push hard on that, and
15 some actions around rework to eliminate the repeats and things
16 like that were starting to pay off by the end of 1999 and then
17 2000. And if you look at 2000, we actually spent less man hour
18 years -- or less man hours, did achieve all the results, so it
19 wasn't that we just spent a lot more money, because the man
20 hours, including employee counts, overtime, and contractors
21 were less than 1999, and we achieved better results.

22 And I know, you know, we talk about the drought that
23 we're in. If you look at 2000 versus '99, there was only four
24 inches less rain for the year. And I'm not sure, but I think
25 lightning strikes were very close also, because we happen to

1 track all that. So, I wouldn't go so far to say it was just
2 because we were in a drought.

3 I don't think that's a fair statement, because four
4 inches on a base of about 30 to 40 inches, you know, that's
5 just one good weekend, basically, of rain. For the year end we
6 achieved it and, again, spent less equivalent man hours, the
7 equivalent man hours. So, I think, the actions that did take
8 place in 2000 proved to be very good and wise.

9 Q These changes that you've just referred to, were they
10 not implemented subsequent to this docket being opened?

11 A Well, no. Mr. Ferrell came in in late 1998 and
12 started a lot of these or re-energized a lot of them and
13 carried them through a lot further than maybe they had been
14 started earlier.

15 Q In Mr. Ferrel's testimony, he talked at some length
16 about a new automated service order entry management system,
17 and he indicated that there were some problems encountered with
18 that system. Are you familiar with those problems, sir?

19 A Not specifically. I wasn't directly involved in
20 that. I know for -- you know, that's what accounted for the
21 March -- is it March -- April or February, March we had some
22 terrible results that basically started up over the weekend.
23 Nothing really changed in the management process that we were
24 doing out in the field and all of a sudden on Monday we started
25 missing these things like crazy and that took a couple months

1 to get it fixed and, quite frankly, they never did figure out
2 exactly what caused it, but whatever they did, they fixed it
3 and results came right back and then they did deteriorate over
4 the summer and some of that may very well have been related to
5 more system problems, but I'm not an expert on the service
6 order entry system itself.

7 Q Do you know whether that system was just an immediate
8 changeover as opposed to running parallel systems and leaving
9 the old system as a back-up for a period of time?

10 A I think, there were -- if I recall, the system
11 actually went in -- like, in September of '98, and these
12 started happening in February, March. As I understand, there
13 were different loads and updates being put into the system, so
14 I think they were related to those to the best of my knowledge.

15 Q The 150 employees that were eliminated, were any part
16 of those -- was any part of those based on expectations from
17 this new automated system?

18 MS. CASWELL: I'm sorry. Lee, can you clarify? You
19 said they were eliminated. What are you referring to, because
20 it --

21 MR. FORDHAM: There was testimony that Verizon
22 eliminated 150 employees.

23 THE WITNESS: I don't think the word was eliminated.

24 MS. CASWELL: Yeah, I'm going to have to take issue
25 with that. If there was testimony, I don't recall anything

1 like that. I think, we discussed with Mr. Poucher last time
2 whether there were any cutbacks, and he said there were not.

3 THE WITNESS: Yeah. There might have been reductions
4 in workforce. I wouldn't say eliminated.

5 BY MR. FORDHAM:

6 Q Okay. Well, maybe that's a poor choice of words.
7 How about a drop in the head count?

8 MS. CASWELL: Can you refer me to the document
9 that --

10 MR. FORDHAM: Yes. Page 12, Line 13.

11 THE WITNESS: Okay.

12 MS. CASWELL: Of Mr. Diamond's testimony?

13 MR. FORDHAM: Yes.

14 MS. CASWELL: Okay, thank you.

15 A Was any of that related to the system
16 changeout?

17 BY MR. FORDHAM:

18 Q Mm-hmm.

19 A No, I don't believe so. It was primarily due to
20 retirements. And a lot of that was in the construction
21 department, but I don't recall when we went through the service
22 order reductions that the new service order entry system in and
23 of itself was going to cause any reductions, and I don't
24 believe we planned for any of those.

25 Q In other words, it was not planned as a result of the

1 new system.

2 A No, no.

3 Q And I'm sorry, but your answer regarding whether it
4 was a parallel -- whether the old system remained --

5 A I don't recall whether there was a parallel or not.
6 I don't believe there was a parallel going on in the time frame
7 in 1999 where we had the spikes and the misses.

8 MR. FORDHAM: Can I have just a moment, please?
9 Staff has no further questions.

10 CHAIRMAN JACOBS: Commissioners, any questions?
11 Redirect?

12 MS. CASWELL: No redirect.

13 CHAIRMAN JACOBS: Exhibits?

14 MS. CASWELL: I'd like to move Exhibit 13 into the
15 record, please.

16 CHAIRMAN JACOBS: Without objection, show Exhibit 13
17 is admitted.

18 (Exhibit 13 admitted into the record.)

19 CHAIRMAN JACOBS: If there's nothing else, you're
20 excused, Mr. Diamond, thank you.

21 THE WITNESS: Thank you.

22 (Witness excused.)

23 CHAIRMAN JACOBS: Verizon, will you call your next
24 witness, Mr. Appel.

25 MS. CASWELL: Verizon calls Mr. John Appel.

1 JOHN APPEL

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

4 DIRECT EXAMINATION

5 BY MS. CASWELL:

6 Q Would you please state your name and address for the
7 record?

8 A John Appel; and my address is 2603 Twelve Oaks Lane,
9 Colleyville, Texas.

10 Q Were you formerly employed with GTE?

11 A I was.

12 Q And what was your last job with the company?

13 A President, GTE Network Services Business Unit.

14 Q Did you submit Rebuttal Testimony in this case?

15 A Yes, I did.

16 Q Does that testimony include Exhibits JCA-1 through
17 JCA-4?

18 A Yes.

19 Q Do you have any changes or additions to your
20 testimony?

21 A No, I don't.

22 Q So that if I ask you those same questions today would
23 your answers remain the same?

24 A They would.

25 MS. CASWELL: Mr. Chairman, I would ask that

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1 Mr. Appel's exhibits marked JCA-1 through JCA-4 be identified.

2 CHAIRMAN JACOBS: Show those marked as Exhibit 14 as
3 a composite.

4 (Exhibit 14 marked for identification.)

5 MS. CASWELL: Thank you. And I would also ask that
6 Mr. Appel's testimony be entered into the record as though
7 read.

8 CHAIRMAN JACOBS: Without objection, show Mr. Appel's
9 testimony is entered into the record as though read.

10

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1 Q. PLEASE STATE YOUR NAME.

2 A. My name is John C. Appel.

3

4 Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND
5 WORK EXPERIENCE.

6 A. I received a bachelor's degree in business administration from the
7 University of Florida in 1971, and I began my career with GTE (now,
8 Verizon) that same year. After serving in a number of management
9 functions in Florida, I was named a Division Manager there in 1985. I
10 became Director of Operations for GTE Communications Corporation
11 in 1987. In 1988, I was appointed South Area Director, Business
12 Services. I held that position until 1990, when I became Assistant
13 Vice-President, Business Services, at GTE Telephone Operations
14 Headquarters in Texas. In August 1992, I was appointed Regional
15 Vice-President and General Manager for GTE California, then in
16 October 1993, I was named President of the Texas/New Mexico
17 Region. I remained in that position until 1994, when I became Senior
18 Vice-President, Regional Operations, again at Telephone Operations
19 Headquarters. In 1996, I was promoted to Executive Vice-President of
20 Network Operations and, finally, in 1997, I was named President of
21 GTE Network Services. I held that job until my retirement from the
22 Company on June 30, 2000.

23

24 Q. WHAT WERE YOUR RESPONSIBILITIES AS PRESIDENT OF
25 NETWORK SERVICES?

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1 A. I was responsible for nationwide retail and wholesale marketing, sales,
2 operations, and customer service for the Company's regulated local
3 exchange wireline business, formerly known as GTE Telephone
4 Operations. At year-end 1999, the Network Services business unit
5 served 26.1 million access lines in 28 states.

6

7 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
8 **PROCEEDING?**

9 A. I will provide a national corporate perspective on the importance of
10 meeting Commission service quality objectives. In particular, I will
11 address Public Counsel witness Poucher's claims concerning the
12 actions and motivations of GTE's corporate management. I will show
13 that Headquarters has always viewed compliance with this
14 Commission's service quality standards to be a critical objective for the
15 management team in Florida. There is no support for Mr. Poucher's
16 allegations that Headquarters forced GTE Florida Incorporated
17 (GTEFL, now Verizon Florida Inc.) to pursue profits in deliberate
18 disregard of the Commission's installation and repair standards.

19

20 **Q. DOES CORPORATE MANAGEMENT HAVE A FORMAL PROGRAM**
21 **FOR MONITORING THE REGIONS' COMPLIANCE WITH SERVICE**
22 **STANDARDS?**

23 A. Yes. As the former senior executive responsible for such matters at
24 the national level, I have firsthand knowledge of the emphasis the
25 Company places on service quality results, especially the achievement

1 of state Commission quality standards. In fact, after I became Senior
2 Vice-President of Regional Operations in 1994, one of my
3 undertakings was to enhance national management's ability to
4 effectively assess region performance on Commission service
5 measures. At the time, there was no consistent, uniform national
6 reporting from the regions in this regard. I recognized the need for,
7 and oversaw the development of, a monthly report focussing on
8 company performance versus service quality standards in each state.
9 That report was instituted and refined over a period of months. From
10 that time forward, the results were reviewed monthly and deviations to
11 standard, both positive and negative, were the subject of conference
12 calls and other communications between local and national
13 management. In addition, usually at least twice a year, national
14 leaders held comprehensive operations reviews in each Region, where
15 these results were addressed in greater detail. Moreover, as the
16 documents produced to OPC show, Headquarters raised its concerns
17 outside the structured monitoring program whenever necessary, and
18 required more frequent updates on problem areas. (See, e.g., Ex.
19 JCA-1). I also expected the Florida President to monitor service results
20 against PSC measures on a daily basis and to raise service-related
21 issues with the management team as often as necessary. From a
22 corporate perspective, the Region President is ultimately responsible
23 for PSC service standard results in his or her respective state(s).

24
25

1 Q. HOW IMPORTANT ARE PSC SERVICE QUALITY STANDARDS IN
2 ASSESSING REGION PERFORMANCE?

3 A. They are critical. As one of the executives charged with monitoring
4 the Regions' success in meeting Commission objectives, I repeatedly
5 reinforced that the achievement of PSC standards was a fundamental
6 and basic expectation of our regional management teams and was not
7 to be traded off for any reason.

8
9 The need for the Company to comply with PSC repair and installation
10 standards is a continuing theme in communications from Headquarters
11 to the Regions. Public Counsel is well aware of this fact, as GTEFL
12 produced many such documents in response to Public Counsel's
13 discovery requests in this proceeding. Mr. Poucher even included one
14 of these in his Direct Testimony exhibits (as Ex. REP-3 at 1-2, included
15 here as Ex. JCA-1). It is a note from me to Red Keith (who was, at the
16 time, Senior Vice-President, Regional Operations), dated April 25,
17 1998. It stresses my concern about GTEFL's PSC service standard
18 results in the previous several months and concludes: "We are at
19 great risk and I expect extraordinary action to achieve sustained
20 performance to objective....Please take strong action to get these
21 measures to objective ASAP. I will expect *sustained* improvement as
22 well, and the Regional Presidents in the underperforming areas must
23 make a positive difference quickly. I will expect regular updates from
24 you concerning our performance and would like to receive the first one
25 on 5-8-98."

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This is not the kind of language one would expect from a company that had undertaken a course of willfully violating Commission rules.

3

4

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Even when the Florida Region reported good news as to service results, as was the case with GTEFL's overall score for the PSC's 1997 audit, Headquarters' response was "we can do better." (Ex. JCA-2)

6

7

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9

10 **Q. DOESN'T THIS KIND OF EVIDENCE DISPROVE MR. POUCHER'S**
11 **CONTENTION THAT HEADQUARTERS FIRST TOLD LOCAL**
12 **MANAGEMENT THAT MEETING PSC STANDARDS WAS**
13 **MANDATORY AFTER THIS DOCKET BEGAN (POUCHER DT AT**
14 **21)?**

15 **A.** It certainly does. The only support Mr. Poucher offers for this allegation
16 is the following statement: "After hearing news of the PSC report, M.L.
17 Keith advised John Ferrell, the new Florida President who replaced
18 Pete Daks, that JCA's (John Appel—head of nationwide network
19 operations for GTE) expectations were that PUC measures are not the
20 measures to be traded off—he considers them to be the baseline
21 performance required." (Poucher DT at 21.)

22

23

Mr. Poucher has grossly misrepresented the referenced document and its timing. That document (for which Mr. Poucher provided no

24

1 citation) is attached. It is an e-mail from Red Keith to John Ferrell. It
2 states, in its entirety:

3 "I HAVEN'T SEEN THE REPORT YET—BUT HAVE ALREADY
4 HEARD FROM JCA THAT FLA. REGION PERFORMANCE IN
5 THIS AREA IS NOT ACCEPTABLE. HE UNDERSTANDS
6 THAT WITH HIGH VOL'S SOME TRADE OFF'S MUST
7 OCCUR, BUT HE EXPLAINED THAT HIS EXPECTATIONS
8 ARE THAT PUC MEASURES ARE NOT THE MEASURES TO
9 BE TRADED OFF—HE CONSIDERS THIS TO BE THE
10 BASELINE PERFORMANCE REQUIRED.

11
12 PLEASE WORK WITH YOUR TEAM TO IMMEDIATELY
13 IMPLEMENT PLANS TO BRING PUC PERFORMANCE BACK
14 IN LINE. I WILL EXPECT TO HAVE YOU REVIEW WITH
15 VALARIE YOUR TEAM'S ACTION PLANS BY SEPT. 2,1999.

16

17 (Ex. JCA-3.)

18

19 This e-mail message is dated *August 26, 1999*. This show cause
20 proceeding was initiated on *September 10, 1999*. GTE had no
21 advance knowledge of its initiation, and, in fact, learned about the
22 docket only after OPC served discovery on GTEFL on *September 20*.
23 Thus, the document only emphasizes that Headquarters has always
24 considered compliance with PSC standards to be paramount. The
25 report I refer to in the e-mail was the regular monthly service report I

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1 discussed earlier. It had nothing to do with the show cause
2 proceeding.

3
4 After having had the opportunity to review the documents the
5 Company produced to Public Counsel, Mr. Poucher should realize his
6 allegation is unfounded. During the entire period at issue here,
7 Headquarters management, including me, made it very clear that
8 meeting PSC service standards is a fundamental expectation, and
9 extremely important to customer and company interests. Mr. Poucher
10 claims that Headquarters management had only to give Mr. Ferrell the
11 order to bring Florida's repair and installation performance back in line
12 and it was done. (Poucher DT at 21.) The fact is that Headquarters
13 had been telling the Florida Region to improve results for quite some
14 time prior to the initiation of this proceeding. If something as simple as
15 a directive from Headquarters could have improved results, then this
16 would surely have happened much earlier.

17
18 I know from experience that better results on these measures are the
19 product of significant operational analysis, management focus, and
20 hard work on the part of the entire Florida team. As Mr. Ferrell
21 testifies, he and his team drew up a plan for achieving sustained
22 improvement over a year and a half ago, and took several other
23 corrective actions even before then. His approach has translated into
24 a higher level of compliance with the PSC's service quality standards.

25

1 Q. WAS FLORIDA REGION PERFORMANCE IN MEETING PSC
2 STANDARDS A FACTOR IN JOHN FERRELL'S SELECTION AS
3 PRESIDENT OF GTEFL?

4 A. Yes. I supported John Ferrell's selection, and I know that a primary
5 objective was to find an individual with deep operations experience and
6 strong leadership skills who would be capable of delivering balanced
7 overall performance, including sustained compliance with PSC
8 objectives in Florida. Mr. Ferrell's operations background is extensive
9 and we believed he would have the ability to understand and remedy
10 ongoing problems while making the most efficient use of resources. In
11 addition, because Mr. Ferrell's immediate previous position had been
12 Director of Remote Operations Support for GTE, we knew he was
13 acutely aware of the corporate emphasis placed on satisfying state
14 PSC service quality objectives.

15
16 Q. HAS MR. FERRELL MET HEADQUARTERS' EXPECTATIONS?

17 A. I haven't spoken with current corporate management, but I do know he
18 has met the expectations we had for him when he was chosen as
19 President. I am told that service results have been excellent for more
20 than a year now, so it is obvious that the strategies that Mr. Ferrell and
21 his team implemented have paid off. These results reaffirm that
22 knowledgeable, aggressive and resourceful leadership is critically
23 important to meeting service standards.

24
25 Nevertheless, attaining the expected level of productivity was not easy

1 or immediate. As Mr. Ferrell testified, he was at certain points strongly
2 reminded of the importance of achieving rapid improvements, as my
3 Exhibit JCA-4 indicates.

4

5 **Q. HOW DO YOU RESPOND TO MR. POUCHER'S STATEMENT THAT**
6 **THE CORPORATE SOLUTION WAS NOT TO COMPLY WITH THE**
7 **PSC'S RULES, BUT TO CHANGE THEM (POUCHER DT AT 10) ?**

8 A. Mr. Poucher is wrong; he has drawn a conclusion without any
9 supporting evidence. He quotes one line of a May 1998 note to me
10 from Brad Krall, Vice-President of Centralized Operations; it states,
11 "the only real answer to this issue is to change the regulation in
12 Florida." (Poucher DT at 10 & Ex. REP-3 at 3.) This document does
13 not even concern installation or repair standards; it refers to the
14 Commission's answer time standard, which is not at issue in this case.
15 In any event, Mr. Poucher neglects to point out the action I took in
16 response to Mr. Krall's note—scheduling a meeting to "discuss our
17 plans for meeting the FPSC standards." (Poucher Ex. REP-3 at 3.)

18

19 Contrary to the impression Mr. Poucher tries to create, the documents
20 produced to OPC confirm the importance that both GTEFL and GTE
21 Headquarters place on meeting the service standards. I have attached
22 just a few of these documents to my testimony; many others were
23 produced to OPC (and Staff) and Mr. Poucher attached some to his
24 own testimony. Again and again, communications within GTEFL and
25 to and from Headquarters and GTEFL reflect the critical importance of

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1 meeting the Commission standards. In short, Mr. Poucher's premise
2 that the corporation chose to advocate less stringent standards rather
3 than "make a firm corporate commitment to meet the PSC rules,"
4 (Poucher DT at 11), is demonstrably false.

5

6 **Q. MR. POUCHER'S THEORY SEEMS TO BE THAT HEADQUARTERS**
7 **KNEW FLORIDA'S BUDGET WAS INSUFFICIENT TO ALLOW THE**
8 **COMPANY TO MEET SERVICE STANDARDS. IS THAT TRUE?**

9 A. Absolutely not. As Mr. Diamond testified, compliance with PSC
10 objectives is a fundamental assumption underlying every operating
11 company budget. Just as Headquarters expects service standards to
12 be met, it expects management to run the company as efficiently as
13 possible. Both local and national management understand that this is
14 not an easy task, but it is essential to achieve both goals.

15

16 GTEFL's budget was based on reasonable productivity assumptions
17 for the years at issue, but many factors can upset projections. As
18 Messrs. Ferrell and Diamond testify, the El Nino weather phenomenon
19 was an extraordinary event that had a significant impact on service
20 results, as did a loss of talent and difficulties filling vacancies with
21 qualified people.

22

23 In any event, the causes for the repair and installation standards
24 issues do not present sufficient justification to penalize GTE. As I
25 understand the law here, the Commission has the latitude to impose

1 fines only when a company willfully violates Commission service
2 standards. No Company can be expected to be perfect and the failure
3 to meet the limited standards at issue is not tantamount to willful
4 violation of Commission standards. As the record shows,
5 Headquarters never sanctioned departure from Commission service
6 standards, either in the budgeting process or in other contexts, and, in
7 fact, repeatedly emphasized that achieving these standards was a
8 fundamental expectation.

9
10 **Q. HASN'T FLORIDA MANAGEMENT SOMETIMES EXPRESSED THE**
11 **VIEW THAT THEY WERE NOT GIVEN ENOUGH BUDGET**
12 **DOLLARS?**

13 **A.** Certainly, and this is no surprise. But declining to give each region as
14 much money as it would ideally like doesn't mean that corporate
15 management decided to ignore service standards, or, for that matter
16 that the region's request was justified. In my time as an upper level
17 executive with GTE's corporate operations, I never heard any state's
18 local management tell me they had gotten plenty of budget dollars to
19 meet all challenges in a particular year. Their jobs are difficult and
20 challenging, and obviously it would be easier to run a company with an
21 unlimited budget, but I know of no company, especially in the
22 telecommunications industry today, where efficient use of resources is
23 not considered critical to success. As Mr. Ferrell acknowledges, and
24 as I have stressed time and again, it is very important to meet both
25 cost and quality objectives. If the company leadership fails to

1 effectively balance these goals, it will not survive for long.

2

3 **Q. WILL HEADQUARTERS CONSIDER A REGION PRESIDENT'S**
4 **REQUEST FOR ADDITIONAL BUDGET DOLLARS?**

5 A. Yes. Such requests are carefully considered in the context of the
6 Region's overall performance. If additional dollars are warranted, they
7 are provided, as is apparent from Mr. Poucher's acknowledging that
8 GTEFL was granted an additional \$14.6 million in mid-year 1999.
9 (Poucher DT at 19.) Headquarters continually benchmarks each
10 region's performance against all other company regions and any
11 available outside data to help understand whether local management
12 is doing all that it can with the resources it has been given. If
13 execution is lacking in this regard, the focus will be on improvement in
14 those weak areas instead of allocating additional budget dollars.

15

16 **Q. IS FLORIDA TREATED ANY DIFFERENTLY IN TERMS OF THE**
17 **CHALLENGES IT IS EXPECTED TO MEET?**

18 A. No. As competition in telecommunications markets increases each
19 year, management is expected to become more and more efficient. It
20 was never true, as Mr. Poucher implies, that GTEFL was treated
21 relatively less favorably than other regions. (Poucher DT at 19-20). It
22 would make no sense for corporate management to arbitrarily
23 disadvantage Florida vis a vis other regions, when Florida was GTE's
24 second biggest and most significant market. While there are more new
25 entrants here than in many other Verizon regions, the Company

1 believes that opportunities for future growth are promising as long as
2 the Company can remain competitive from a cost and quality
3 standpoint.

4
5 **Q. MR. POUCHER ALLEGES THAT THERE IS A "GTE**
6 **HEADQUARTERS PLAN" TO SELECT SERVICE AREAS FOR**
7 **PREFERENTIAL TREATMENT IN THE INSTALLATION AND**
8 **REPAIR OF BASIC SERVICE. (POUCHER DT AT 20-21.) DID**
9 **SUCH A PLAN EXIST?**

10 **A.** As Mr. Ferrell explains, corporate management for a period of time
11 required a *reporting* breakdown of certain service quality measures by
12 competitiveness of exchange. It was used principally to evaluate the
13 viability of investments in new products or services in particular areas.
14 In addition, this reporting requirement only re-emphasized that meeting
15 PSC standards was a fundamental expectation in *all* exchanges.

16
17 **Q. PLEASE SUMMARIZE YOUR TESTIMONY.**

18 **A.** There is absolutely no evidence supporting Mr. Poucher's allegations
19 that GTE's corporate management decided to undertake a course of
20 sacrificing service quality results in order to improve profits. To the
21 contrary, I and others at Headquarters vigorously and continually
22 stressed the critical importance of complying with the Commission's
23 service quality standards. The fact that the Company does not have
24 an unlimited budget to spend on repairs and maintenance certainly
25 does not justify Mr. Poucher's simplistic conclusion that it willfully

1 violated service standards. Indeed, the Commission would have
2 substantial cause for concern if there were no evidence of the
3 company's striving to use its resources in the most efficient manner
4 possible.

5

6 **Q. DOES THAT CONCLUDE YOUR TESTIMONY?**

7 **A. Yes.**

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1 BY MS. CASWELL:

2 Q Mr. Appel, could you give us a brief summary of your
3 testimony?

4 A Yes. Good morning, Commissioners. Meeting
5 Commission service standards in all of the states we served was
6 a very high priority and a basic and fundamental expectation
7 during my time of leadership in GTE. We had regular reports
8 that were reviewed at state and Headquarters level monthly, and
9 when we fell short of a standard in a particular state it was a
10 cause for great concern and action.

11 Although, there were some improving trends at times
12 during the period in question, Florida's results were a source
13 of great concern to the team here, as well as those of us in
14 Headquarters. The root causes were analyzed and a variety of
15 escalating actions were taken to put our Florida operations on
16 a more positive course.

17 Those steps included additional Headquarter staff
18 assistance, coaching, frequent communications and reviews, some
19 added resources, and ultimately some management changes to get
20 the balanced overall performance we all wanted here.

21 Public counsel has alleged that the service standards
22 were missed willfully and that the company put a concern for
23 money ahead of a concern for service results. That simply
24 isn't true. As my Rebuttal Testimony indicated, I previously
25 held line operations positions in Florida as well as Region

1 operations leadership positions in California and Texas, so I
2 had some experience on the firing line and a pretty good
3 understanding of the operations issues with which Florida was
4 confronted during this period. In addition, as a national
5 leader responsible for field operations in all of our states
6 from 1995 through my retirement last year, I constantly saw
7 historical performance in both internal and external benchmark
8 data.

9 The combination of that experience, benchmark data
10 and input from our team, a large number of staff and line
11 people indicated that Florida had adequate resources to meet
12 its goals, including the very important PSC standards, except
13 in unusual or extenuating circumstances that were beyond
14 anyone's control. Although, we did provide some additional
15 resources during the period in question, most of our focus was
16 on improving operational execution and performance.

17 As Mr. Ferrell has demonstrated, better results are
18 often achieved without more money. The fact that we had a
19 balance concern about both service quality and cost reflects
20 prudent leadership for these times and the type of behavior
21 that our customers, investors, employees, and this Commission
22 should expect. It does not constitute evidence of willful
23 violation of this Commission's standards as public counsel has
24 claimed.

25 The company did miss some of the PSC's service

1 standards some of the time during the period in question. I am
2 disappointed that we did, and I apologize to this Commission
3 and the affected customers for those misses. However, any
4 suggestion that we missed those standards willfully or
5 intentionally is groundless. It cannot be proven, because it
6 simply isn't true.

7 MS. CASWELL: Mr. Appel is available for cross
8 examination.

9 CHAIRMAN JACOBS: Mr. Beck.

10 MR. BECK: Thank you, Mr. Chairman.

11 CROSS EXAMINATION

12 BY MR. BECK:

13 Q Good morning, Mr. Appel?

14 A Good morning.

15 Q Would you please turn to Page 13 of your testimony?
16 At Lines 10 through 12 you refer to the fact that there was a
17 reporting difference between competitive and noncompetitive
18 exchanges, but it was only that in your testimony; is that
19 right?

20 A Correct.

21 Q Okay. I've put Mr. Poucher's Direct and Rebuttal
22 Testimony next to you and was wondering if you could please
23 turn to Exhibit REP-4, and that's attached to his Direct
24 Testimony.

25 A Okay, I'm with you.

1 Q Okay. This Exhibit REP-4 is a memo to you from
2 Mr. Peter Daks, who was regional president of Florida at that
3 time; is that right?

4 A That's correct.

5 Q And this memo is dated May 13th, 1996; is that right?

6 A That's right.

7 Q And in this memo Mr. Daks provides you some of the
8 reasons why they were missing, among other things, the out of
9 service cleared in 24 hours requirement; is that right?

10 A Yes. And if I could add, this was a response to a
11 contact that I had made with Mr. Daks regarding the misses that
12 we were experiencing in Florida.

13 Q Okay. Do you see the section that says, "Percent out
14 of service cleared in 24 hours"?

15 A Yes, I do.

16 Q In the second paragraph of the two -- second to last
17 paragraph and then second sentence --

18 A Yes, I do.

19 Q -- Mr. Daks says, "At an exchange level, which is how
20 the Commission monitors our results, we are falling short of
21 the standard, primarily in our less competitive exchanges as we
22 exercise cost controls directing our focus on the extremely
23 competitive markets." Do you see that?

24 A Yes.

25 Q He's telling you there that he's actually placing

1 more money in the competitive exchanges relative to the
2 uncompetitive exchanges, and that's why they're missing the
3 uncompetitive; isn't it?

4 A Well, that's what this says, yes.

5 Q So, that must have been quite a shock to you that he
6 was actually doing this, not just reporting about it.

7 A It was a shock and it resulted in a strong rebuttal
8 and demand that our Commission standards be met in all of our
9 exchanges.

10 Q In your rebuttal, did you tell Mr. Daks to stop
11 focusing on the competitive exchanges?

12 A I told Mr. Daks that we were not putting PSC
13 standards below any internal objective that we had. And I
14 clarified to him that we expected that PSC standards would be
15 made according to the rules of the state of Florida. And if
16 you go back and find documentation related to this
17 competitiveness of exchange analysis that was done by our lines
18 of business, you'll find that there is documentation that says
19 the baseline is meeting PSC's service standards. You will
20 never go below the baseline of meeting PSC service standards.

21 Q Okay. I understand you told Mr. Daks to meet all the
22 rules, you know, in response to this. But what actions did you
23 specifically tell him to take to change what he was doing here
24 which he told you he was putting more resources into the
25 competitive exchanges than the noncompetitive?

1 A Well, first of all, I don't have an explicit memory
2 of every bit of the conversation that Mr. Daks and I had back
3 in 1996, but the general recollection that I have is that I
4 told him that PSC standards were not to be compromised or not
5 to be traded off for any internal company objective, that the
6 baseline that we had was meeting PSC standards in our
7 respective states, we would not go below that, and that the
8 expectation was that we would do those things.

9 Also, I made it clear to him that this was a
10 reporting mechanism and it was not something that drove
11 leadership behavior in the Region, other than to help allocate
12 funding for investment in various projects that would result in
13 added and more competitive services and that investment was
14 directed, in some cases, towards the places where there would
15 be the greatest demand for those services. That's what this
16 whole competitive analysis was all about.

17 Q Mr. Appel, let's turn to a different exhibit attached
18 to Mr. Poucher's Surrebuttal.

19 A Okay.

20 Q And that's REP-33.

21 A Okay.

22 Q This is a 1997 or an October 22nd, 1997 memo from
23 Mr. Daks to Mr. Eric Kirkland; is it not?

24 A Yes.

25 Q Okay. You were the head of Network for GTE during

1 this time period; is that right?

2 A Yes, during this time period I was president of GTE
3 Network Services Business Unit.

4 Q And did Mr. Kirkland report to you or come under your
5 organization?

6 A He was a part of my organization. He did not report
7 directly to me.

8 Q Okay. And in this memo from Mr. Daks he goes through
9 a number of problems with the network that he saw and some
10 steps that were taken; does he not?

11 A Yes.

12 Q Okay. And there's a number of bullets that he has in
13 his memo; do you see them?

14 A Yes, I do.

15 Q Okay. The first bullet talks about the bad pair
16 recovery program. He states, "This is a vital program, but
17 requires funding for start-up." Were you familiar with this
18 request by Mr. Daks?

19 A I was familiar with some of the requests. At this
20 time, Mr. Daks did not have a direct reporting relationship
21 with me. He reported to a gentleman named Maitland Red Keith
22 who reported to me, so most of his communications on a
23 day-to-day basis at this point in 1997 would have been with
24 Mr. Keith.

25 Q Okay. Are you familiar with his request regarding a

1 bad pair recovery program?

2 A I'm familiar. I've read this document since this
3 case has been launched, yes.

4 Q But are you familiar from your experience during that
5 time period?

6 A We had issues with bad pair recovery dating back into
7 1996 so yes, I am.

8 Q Okay. And are you familiar with his request for
9 funding for that program?

10 A I'm familiar that he made a request, yes.

11 Q And did you provide the funding he asked for?

12 A I can't respond to that, specifically, because that
13 would have been Mr. Keith's decision.

14 Q Okay. His second bullet talks about TAC Focus and
15 his desire for greater payback periods; do you see that?

16 A Yes.

17 Q A greater payback period, in general, would prove in
18 more projects; would it not? Isn't that what he's saying here?

19 A TAC Focus was designed to drive company resources to
20 the place where we could get the greatest impact in trouble
21 reduction, and we had formulas for determining how the dollars
22 should be allocated, and what he's suggesting is that there's a
23 longer -- there should be a longer payback period.

24 Initially, the payback periods were rather short so
25 that we drove our resources to places where we could make the

1 greatest impact. As time went on, we did extend some of those
2 payback periods once we got some of the serious problem areas
3 out of the way, but initially it was driven to areas where we
4 could get the greatest impact with the dollars spent.

5 CHAIRMAN JACOBS: By having a shorter payback that
6 would kind of direct it towards lower-cost items?

7 THE WITNESS: No, sir. It would direct the dollars
8 to the places where you were having the most trouble; in other
9 words, investing and correcting problems in those areas,
10 Commissioner, would yield the greatest return in the shortest
11 period of time.

12 CHAIRMAN JACOBS: I believe, I saw in, I believe, it
13 was Mr. Diamond's testimony that your capital budget was
14 separate and apart from TAC; is that --

15 THE WITNESS: We had a component of the capital
16 budget that was set aside for TAC funding, specifically.

17 CHAIRMAN JACOBS: Oh, okay.

18 THE WITNESS: At the national level we had a total
19 capital budget, and a portion of that was set aside for TAC
20 spending. And in a couple of cases during this period we
21 actually added dollars during the year. We actually increased
22 that budget based on the amount of demand that we were getting
23 for TAC Focus funding.

24 CHAIRMAN JACOBS: Okay. Thank you.

25 BY MR. BECK:

1 Q During the period when this memo was written in
2 October of 1997, what was your payback period for TAC Focus?

3 A I can't recall.

4 Q Okay. You said it got lengthened out later for some
5 items?

6 A Well, what happened was when we instituted this
7 program and, I'm sorry, I can't recall the specific date TAC
8 efforts had been in place, but we put a national program in
9 place in the '94/'95 time frame as best I can recall. And the
10 whole idea was to drive dollars to the places where we could
11 get the greatest trouble reduction the fastest. It was a good
12 business kind of thing to do, and so as we dealt out some of
13 those trouble spots with very short payback periods, we were in
14 a position to lengthen the payback period somewhat and drive
15 dollars to the next layer, less serious, but still good
16 opportunities for trouble reduction.

17 Q Okay. Do you know what the response was to
18 Mr. Daks's request for a greater payback period in this memo,
19 if you know?

20 A I don't know.

21 Q On the second page of his memo there's a --

22 COMMISSIONER DEASON: Mr. Beck, are you leaving this
23 first page?

24 MR. BECK: Yes.

25 COMMISSIONER DEASON: I have a question about that

1 same bullet point, the last sentence when it makes reference to
2 "Dedicated and funded headcount is needed..." Can you describe
3 for me what is meant by dedicated and funded headcount?

4 THE WITNESS: Well, I believe, Commissioner Deason,
5 that what Mr. Daks was referring to here was the need to set
6 aside personnel to focus strictly on trouble conditions, bad
7 outside plant conditions and, ultimately, that is what happened
8 in Florida and, ultimately, that is a major reason for
9 Florida's improvement in meeting not only this Commission's
10 expectations but the expectations of our customers, investors,
11 and others, so that's what that refers to.

12 And this is the kind of thing that is very much
13 self-funded. I mean, if you're reducing trouble substantially,
14 which is what we wanted our regions to do, you can take the
15 dollars that you save by not running people on trouble and
16 devote those dollars to dedicated people to make further
17 reductions in trouble.

18 So, it's kind of a positive cycle that gets started
19 and that's what we have done in Florida since this particular
20 time and it's produced a lot of positive results, but that's
21 what -- I believe, that's what he was referring to in this
22 particular portion of the memo.

23 COMMISSIONER DEASON: You indicated that there was an
24 increase in headcount for this particular purpose. When was
25 that increase obtained?

1 THE WITNESS: There was not a Headquarters-authorized
2 increase in headcount. It was a Region action to put people in
3 place to do this with the understanding that the paybacks would
4 not only pay for the people that were working on this full time
5 but would produce substantial other positive results and
6 that's, in fact, what Mr. Ferrell has done.

7 So, we saw this -- I would tell you, even though this
8 wasn't posed to me, what I would see this as is an opportunity
9 within the Region's control. This is not something that
10 Headquarters necessarily had to fund or could say do or don't
11 do. Most likely somebody in Headquarters said, "Yeah, that's a
12 good idea, go ahead and do it," but it was within the Region's
13 control, and certainly there were adequate resources within the
14 Region's budget if this were properly excused to self-fund this
15 and turn results around.

16 COMMISSIONER DEASON: Well, when he uses the term
17 funded, that's not a request to have more funds dedicated for
18 the retention of personnel for this particular purpose.

19 THE WITNESS: I believe, you're right, Commissioner.
20 I think, in the context of this memo it was a request; and this
21 memo, of course, wasn't directed to me. All I'm saying is were
22 I to receive a request like this it would probably be my
23 response that, you know, if you're successful in doing what you
24 want to do to dedicate people to trouble reduction, you'll have
25 plenty of dollars to pay their salaries and do additional

1 things in trouble reduction.

2 And, in fact, we encourage the Florida Region to do
3 these things. I did directly in the time frame when the
4 Florida Region reported directly to me which, for purposes of
5 our discussion here, was in '96 and first part of '97 time
6 frame is when the Region had a direct reporting relationship to
7 me. And certainly, I would have supported any region that
8 thought dedicating resources to trouble reduction was a good
9 thing to do, but it would probably be something that
10 Headquarters wouldn't authorize additional funding for. We
11 would expect them to utilize their own budget funds for that
12 purpose.

13 BY MR. BECK:

14 Q So, Mr. Appel, the request for funding from
15 Headquarters in Mr. Daks's memo was not approved, I take it?

16 A I can't tell you whether it was approved or not
17 approved, because it wasn't directed to me and this was passed
18 the time frame when he reported to me. I'm sorry, I can't
19 answer that.

20 Q But you say you think Mr. Ferrell implemented a
21 dedicated force or dedicated to preventive maintenance?

22 A I know he did.

23 Q And when did he do that?

24 A I don't recall, specifically.

25 Q Let me ask you about one last question on the second

1 page, if you know, about lead cable. Mr. Daks said that a lead
2 cable replacement program is needed. Do you recall what
3 Headquarters' response was to that?

4 A I don't recall our specific response to this
5 particular request, Mr. Beck, but what I do recall is that we
6 did establish a program where the regions could submit business
7 cases for lead cable replacement where they would describe the
8 cost and potential benefits for lead cable elimination and
9 replacement and, in fact, a number of those business cases were
10 approved.

11 Q Let me ask you about another exhibit attached to
12 Mr. Poucher's Direct Testimony, and this one's REP-5.

13 A Okay.

14 Q Okay. This is a memo from Mr. Daks in January 1998
15 to Mr. Keith. I believe, you told us Mr. Keith reported
16 directly to you?

17 A Yes, sir, he did.

18 Q Okay. And on the first page he talks about the
19 trouble you were having during this period of El Nino.

20 A Yes.

21 Q But on the second page what I'd like to ask you about
22 is the third paragraph. Mr. Daks states, "I know my continued
23 position on this subject may not be popular, but the TAC Focus
24 program presently in place does not have sufficient in-depth
25 analysis to provide the maintenance program that we need to fix

1 areas like St. Petersburg and Clearwater." Do you know what
2 Mr. Daks was referring to there?

3 A I don't know, specifically, what he was referring to,
4 and I believe that history and the record would show that at a
5 national level and within our states the TAC Focus program did
6 provide a very effective tool for trouble reduction and has, in
7 fact, provided very effective trouble reduction results in
8 Florida.

9 Q Mr. Daks said that a -- and continuing in that
10 paragraph, that you needed to find the dollars to fix outside
11 plant and prevent the amount of trouble we have experienced
12 this year in the future. Do you know what the response was
13 from Headquarters to that?

14 A I don't know, specifically, what Mr. Keith's response
15 was, but I can tell you that if a Region was aggressive in
16 pursuing TAC dollars, TAC Focus dollars, outside plant
17 improvement dollars, that Region got a lot of those dollars.
18 And I can tell you that when Mr. Daks reported directly to me,
19 I encouraged him to be much more aggressive in pursuing TAC
20 Focus dollars, particularly, in view of the trouble counts that
21 we saw in '96 and then again in late '97 and 1998 in the El
22 Nino conditions that were faced here in the state.

23 MR. BECK: Thank you, Mr. Appel. That's all I have.

24 THE WITNESS: Thank you.

25 CHAIRMAN JACOBS: Staff?

1 MR. FORDHAM: Thank you.

2 CROSS EXAMINATION

3 BY MR. FORDHAM:

4 Q Good morning, Mr. Appel.

5 A Good morning.

6 Q In your testimony throughout the first seven pages
7 you rather repeatedly referred to Mr. Ferrell's actions in
8 achieving compliance with the rules. Now, obviously, he became
9 president in November of '98. In making these references to
10 his role or his action in bringing us into compliance is that
11 to imply that the management, prior to Mr. Ferrell, was lacking
12 or not focusing properly or on the proper areas, is that the
13 reason that you were missing the standards prior to
14 Mr. Ferrell's turn at the helm?

15 A As my original testimony indicated, we were very,
16 very concerned with Florida's performance. One of the things
17 that you look at when you have performance issues like we had
18 here -- and we had more issues than just the PSC standards that
19 were being missed -- and one of the things that you look at is
20 is there adequate funding for the Region, because certainly I
21 wanted to be fair. I was in this position before in my career,
22 I had a certain amount of empathy for the degree of difficulty
23 that Mr. Daks faced and, ultimately, Mr. Ferrell in his current
24 position, because their challenges are great.

25 So, the first thing we did was examine whether we had

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1 adequate resources, and what we saw was that there were a lot
2 of opportunities within the control of the Florida Region team
3 to improve their position financially to meet their objectives.
4 And let me give you a few examples. They would be, number one,
5 trouble count. The amount of troubles that we had here were
6 too high; repeated troubles where we had to keep going out to
7 fix the same trouble more than once, as Mr. Diamond alluded to;
8 service orders with trouble within seven days, which means we
9 had an installation that was not flawless from the customer's
10 perspective and resulted in repeated contacts, repeated costs,
11 and aggravated customers; no access circumstances where we
12 didn't do a good enough job of lining up the customer and
13 making sure that the customer would be there when we were there
14 and that we could get some results on the first trip.

15 So, there were a whole variety of things as we
16 studied Florida. Believe me, we spent a huge amount of time
17 looking at Florida during this time period. We saw things get
18 better in '97, we thought we were on our way, and then as has
19 been discussed earlier this morning, the second half of 1997
20 results deteriorated again.

21 I think, the short answer to your question is that we
22 had concerns; we applied coaching, we applied additional staff
23 resources, we provided some additional financial resources, we
24 did everything up to and including changing some management.
25 And I mean no disrespect to the managers of this team. They're

1 great people. I know them all personally, and as human beings
2 they're world class, but we did have some situations where we
3 weren't getting the results that we were looking for, and we
4 ultimately did have to make some changes to achieve those
5 results.

6 Q You've, obviously, had a lot of time to think about
7 this. What would be your best short synopsis of the reason why
8 the standards were not met for four years in a row?

9 A The short synopsis would be we needed to take more
10 advantage of the opportunities that we had within our control
11 locally to achieve these results with the exception of El Nino.
12 And I want to tell you that I don't think anybody in the state
13 achieved all of their results during El Nino, and I -- there
14 were periods there when you couldn't even work because of the
15 rain, so I -- and we did give some forgiveness for budget
16 overruns as a result of El Nino weather conditions, but under
17 normal operating conditions, I would say the short answer is
18 that we had -- we weren't aggressive enough in taking advantage
19 of the opportunities within our control here in Florida to
20 achieve these results.

21 CHAIRMAN JACOBS: Is it -- I get an interesting
22 picture when I take a look around the horn at what I think we
23 see in front of us. We see a president whose being, I think,
24 fairly aggressive with his management. He's spending money in
25 areas where he thinks he can and asking for money in areas

1 where he doesn't think he can and all the time pointing to some
2 very specific issues and, I guess, I would like to understand
3 what more could have been done.

4 THE WITNESS: Well, what we pointed back to,
5 Commissioner Jacobs, is you have many opportunities within your
6 control. Headquarters can't reduce trouble reports from
7 Dallas, Texas. We can't orchestrate better productivity from
8 the local workforce. We can't encourage people directly from
9 Headquarters to do a better job on doing things right the first
10 time.

11 So, what we tried to do was focus the Florida Region
12 back to the opportunities that it had within its control. And
13 as a leader, if you know that there's opportunity within the
14 Region's control, if you know that there are problem areas that
15 could be addressed at a local level, that's where your efforts
16 should be driven initially, not towards additional funding.

17 If you know that they're running as tight as they
18 can, if you know that they have some of the best results
19 nationally, and I had the ability to look across 10 regions, 28
20 states, all of which had important PSC measures as well as
21 other key objectives, and understand what Florida's performance
22 was relative to those other regions.

23 So, I had the ability to see, and I had the
24 experience to understand that there were opportunities within
25 Florida's control. My greatest regret is that we didn't move

1 along with this more aggressively. I think, we were more
2 delayed -- we were delayed in doing that by the positive trends
3 that we saw in the first half of 1997.

4 CHAIRMAN JACOBS: Do you agree with -- I think, it
5 was Mr. Diamond's statement that the results that were achieved
6 were good, according to what would be normal measures, in other
7 regions of the country. In other words, the implication was
8 that maybe the Florida Commission standards were a bit too
9 strident given the conditions.

10 THE WITNESS: My position on the Florida Commission
11 standards was always that until they're changed, those are the
12 standards that we must meet. And so -- and that was another
13 item of feedback that I gave to Mr. Daks with that 1996 memo
14 where he suggested that we might do something different in some
15 of our exchanges based on the competitiveness model that had
16 been advanced.

17 I felt like until the standards were changed they had
18 to be met. And what we looked at is we looked at Florida's
19 historical performance, too, Commissioners. We -- not only did
20 we have benchmarking from the other regions, but we saw what
21 Florida had accomplished in the past prior to this period, and
22 actually we had seen some deterioration in some of the figures
23 from prior historical performance in Florida.

24 So, it was a combination of data that we had at our
25 fingertips that suggested that we could do a better job here.

1 And again, I mean no disrespect to our Florida team, they're
2 great people. This is where I started my career. I love
3 Florida, and you've got some great Florideans working in
4 Verizon Florida. They're doing -- I think, they're some of the
5 best people in the world. And we had a few operational issues
6 that were unsatisfactory to you, unsatisfactory to us. We
7 spent a lot of time and effort and, ultimately, a lot of action
8 to get the situation corrected.

9 CHAIRMAN JACOBS: Thank you.

10 BY MR. FORDHAM:

11 Q Could you perhaps just in a short, direct,
12 down-to-earth manner give us a reason why it would take so long
13 before a management change was made.

14 A Because -- well, first of all, we did see an
15 improvement in '97. I'll tell you in '96, I was very
16 disappointed with Florida's performance and Florida --
17 everybody in Florida knew it. And I restated what our
18 expectations were, I restated what the opportunities were from
19 our perspective for improvement. Then, in the first half of
20 '97, we saw a period of five to six months where the
21 performance was dramatically improved. That period was
22 discussed earlier this morning.

23 That -- when you see five or six months when
24 performance is getting better, you say, ah-hah, maybe we've got
25 this thing on the right track and you back off. And then when

1 we deteriorated again in '97, '98, and then we had unfavorable
2 results as well in part of '99, you realize that you haven't
3 got the situation corrected.

4 So, it was partially the concern for being fair and
5 it was also recognition that the leadership that we had in
6 place -- and we didn't -- we made several leadership changes in
7 Florida to get to the point where we had a very strong
8 operationally-focused team.

9 The people who were running Florida, some of them
10 were not operationally deep, and our organization changed over
11 time. In the beginning of the '90s, we had a lot of
12 operational resource support in place for these leaders. As
13 times changed and we went to the region and national model, a
14 lot of that operational support was drawn back, and we expected
15 the region president and the local team to have a tremendous
16 amount of operational knowledge, know what dials to turn, what
17 buttons to push to be able to effect the results that we were
18 looking for.

19 And nobody here did anything wrong, in my opinion, in
20 the Florida team. We just had some people who were not as deep
21 operationally as what they needed to be as times changed, and
22 that was what brought on the changes. So, it was being
23 probably overly cautious in terms of being fair and doing the
24 right thing by good people.

25 MR. FORDHAM: Staff has no further questions,

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1 Commissioner.

2 CHAIRMAN JACOBS: Commissioners? Redirect?

3 MS. CASWELL: I just have a few questions.

4 REDIRECT EXAMINATION

5 BY MS. CASWELL:

6 Q Would you turn to REP-33 which is, I believe, in
7 Mr. Poucher's Surrebuttal Testimony.

8 A Okay.

9 Q Mr. Beck referred to this document a number of times
10 as a funding request from Mr. Daks. I'd like you to look
11 closely at the document and tell me if you think that's an
12 accurate characterization.

13 A Well, it's -- I can only look at what's in print, and
14 it says, "Following our suggestions from the Florida Region
15 that we would like you to consider as you develop the work
16 plans, and this is regarding 1998 outside plant network
17 facilities work plans."

18 Q What is the annual OSP network facilities work plan,
19 if you recall?

20 A It's a work plan -- we establish work plans in the
21 fourth quarter of each year designed to improve our customer
22 service and achieve our budgets.

23 Q Is that on a national level?

24 A At a national level, yes.

25 Q Okay, thank you. Mr. Beck also asked you a number of

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1 questions about Mr. Daks's various positions in some of the
2 other documents. Do you agree with what Mr. Daks wanted in
3 terms of funding?

4 A I felt that Mr. Daks should look at home first for
5 the opportunities for funding of various initiatives that he
6 felt were necessary in Florida. And by the way, I agreed with
7 a number of the things that he felt were necessary. I didn't
8 agree in every case that the funding should come from
9 headquarters. I felt that the funding opportunity existed
10 within Florida by reducing mistakes and rework that there was
11 plenty of funding to do the things that Mr. Daks wanted to do.

12 Q You discussed somewhat with Mr. Fordham, in response
13 to his question, about why did it take so long to change
14 management in Florida, and you talked about the first half of
15 1997, the results turning around. Do you recall any events in
16 the last half, perhaps, of 1997 going into 1998, which would
17 have affected the service results in perhaps an extraordinary
18 manner?

19 A Well, as I alluded to earlier, El Nino weather
20 conditions, they were terrible. And again, that clouded our
21 understanding of just how well or not well Florida was doing,
22 because nobody in Florida, that I know of, did exceptionally
23 well in El Nino weather conditions.

24 So, there was another period of time where there was
25 a cloud or a question over what the right action or response

1 would be or next steps were required, but we didn't stop with
2 the operational focus throughout that period and, I think, as
3 we emerged from that we understood that there were further
4 actions that needed to be taken.

5 MS. CASWELL: Thank you. That's all I have,
6 Mr. Appel.

7 CHAIRMAN JACOBS: Exhibits? Exhibit 14.

8 MS. CASWELL: I'd like to move Exhibit 14 into the
9 record.

10 CHAIRMAN JACOBS: That's correct.

11 MS. CASWELL: Thank you.

12 CHAIRMAN JACOBS: Without objection, show Exhibit 14
13 is admitted.

14 (Exhibit 14 admitted into the record.)

15 CHAIRMAN JACOBS: And you're excused. Thank you.

16 THE WITNESS: Thank you.

17 (Witness excused.)

18 CHAIRMAN JACOBS: That, I believe, are all the
19 witnesses for the day. August 13th is the date. I'm sorry, it
20 was --

21 MS. CASWELL: I think, it was a choice between
22 September 10th and August 13th.

23 CHAIRMAN JACOBS: Never mind. We're going to change
24 it to the September date.

25 MS. CASWELL: Thank you.

1 MR. FORDHAM: I'm sorry, that's September 10,
2 Commissioner?

3 CHAIRMAN JACOBS: Yes.

4 COMMISSIONER DEASON: It would have to be in the
5 afternoon. I have a prehearing conference in the morning.

6 CHAIRMAN JACOBS: It will be an afternoon
7 continuation, because I understood it would only be a half day
8 that we need.

9 MR. FORDHAM: Does 1:30 sound acceptable to --

10 COMMISSIONER JABER: Yeah. If we announce a time, we
11 don't have to do a subsequent notice?

12 COMMISSIONER DEASON: 1:30 is fine with me.

13 CHAIRMAN JACOBS: Then, 1:30 it is. Okay?

14 MR. FORDHAM: Thank you.

15 MR. BECK: Thank you, Mr. Chairman.

16 CHAIRMAN JACOBS: Very well. Anything else to come
17 before the Commission today?

18 MR. FORDHAM: Nothing by Staff.

19 CHAIRMAN JACOBS: Do you want to identify all the
20 subsequent hearing dates at that time?

21 MR. FORDHAM: Perhaps just wait until the 10th to
22 identify the future dates.

23 CHAIRMAN JACOBS: Very well.

24 MS. CASWELL: Mr. Chairman, I'd just like to point
25 out that we filed Exhibit 12. It was something that we

1 prepared at Commissioner Jaber's request.

2 CHAIRMAN JACOBS: Do we need to mark that?

3 MS. CASWELL: No, I think, we gave it --

4 CHAIRMAN JACOBS: We marked it as a late-filed,
5 that's right.

6 MS. CASWELL: That's correct, thank you.

7 CHAIRMAN JACOBS: Very well, thank you. And if
8 that's all for today, we're in recess, I guess, until September
9 10th. Thank you.

10 (Transcript follows in sequence in Volume 4.)

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1 STATE OF FLORIDA)

2 : CERTIFICATE OF REPORTER

3 COUNTY OF LEON)

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5 I, KORETTA E. STANFORD, RPR, Official Commission
6 Reporter, do hereby certify that a Hearing in Docket Number
991376-TL was heard at the time and place herein stated.

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

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

13 DATED this Friday, August 3, 2001.

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Koretta E. Stanford
KORETTA E. STANFORD, RPR
FPSC Official Commissioner Reporter
(850) 413-6734