

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Investigation Into)
Pricing of Unbundled Network)
Elements) Docket 990649B-TP

SURREBUTTAL TESTIMONY OF

ALLEN E. SOVEREIGN

On Behalf of

VERIZON FLORIDA INC.

SUBJECT: DEPRECIATION

March 18, 2002

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1 **SURREBUTTAL TESTIMONY OF ALLEN E. SOVEREIGN**

2

3 **Q. PLEASE STATE YOUR NAME, ADDRESS AND PRESENT POSITION.**

4 A. My name is Allen E. Sovereign. My business address is 600 Hidden Ridge,
5 Irving, Texas 75038. Verizon Services Corporation employs me as Group
6 Manager-Capital Recovery.

7

8 **Q. DID YOU PREVIOUSLY FILE TESTIMONY IN THIS DOCKET?**

9 A. Yes. I filed direct testimony in this docket on November 7, 2001.

10

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

12 A. I will respond to the rebuttal testimonies of ALEC Coalition witnesses Ankum
13 and Fischer, with regard to their criticisms of the depreciation lives and future
14 net salvages Verizon Florida Inc. (Verizon) has used in its cost studies in this
15 proceeding.

16

17 **Q. WHAT DEPRECIATION INPUTS DO DR. ANKUM AND MR. FISCHER**
18 **RECOMMEND VERIZON USE IN ITS COST STUDIES?**

19 A. Dr. Ankum recommends using depreciation inputs either within FCC ranges
20 or those approved for BellSouth in its UNE ratesetting case (Ankum Rebuttal
21 Testimony (RT) at 109; Ankum Rebuttal Ex. AHA-12). Mr. Fischer merely
22 advises the Commission to adopt Dr. Ankum's depreciation recommendation
23 (Fischer RT at 4).

24

25 **Q. DO YOU AGREE WITH DR. ANKUM'S RECOMMENDATION?**

1 A. No. The FCC last prescribed depreciation lives and salvage values for
2 Verizon over six years ago, in 1995. These FCC values, approved before
3 the passage of the Telecommunications Act of 1996 and the widespread
4 opening of local exchange markets, are obviously outdated and do not reflect
5 today's environment. Indeed, as I discussed in my Direct Testimony, this
6 Commission in 1998 approved depreciation inputs for Verizon in the
7 universal service fund (USF) docket that were shorter than the FCC ranges
8 (Sovereign Direct Testimony (DT) at page 7 and Ex. AES-2). So this
9 Commission has already found that lives within FCC ranges are not
10 appropriate for Verizon's forward-looking cost study.

11

12 As the New York Public Service Commission observed recently in approving
13 Verizon's recommended depreciation inputs, "those shorter lives may well be
14 appropriate for a TELRIC study, in that they better reflect the treatment of
15 depreciation in the competitive market contemplated by TELRIC."
16 (Proceeding on Motion of the Commission to Examine New York Telephone
17 Company's Rates for Unbundled Network Elements, Order, Case 98-C-1357,
18 at 78 (Jan. 28, 2002).)

19

20 **Q. IS DR. ANKUM'S ALTERNATIVE RECOMMENDATION ACCEPTABLE?**

21 A. No. Dr. Ankum's alternative recommendation is that Verizon use the
22 depreciation inputs approved for BellSouth in this docket. This position is
23 based not on any analysis, but solely on the assumption that Verizon could
24 not face more risk than BellSouth (Ankum RT at 109).

25

1 There is no evidence to support this assumption. The depreciation lives
2 Verizon used in its cost studies are the true economic lives of its assets, and
3 are thus appropriate values to use in a forward-looking economic cost study.
4 In fact, as Verizon witness Tucek points out in his Surrebuttal Testimony,
5 Verizon's depreciation proposal does not use the significantly shorter lives
6 that would be required by the instantaneous switch replacement assumption
7 Dr. Ankum makes. (Ankum RT at 84).

8
9 If the Commission wishes to consider in this case the approved depreciation
10 inputs for BellSouth, they should only be considered a **starting point** for
11 Verizon's inputs. From that baseline, the Commission should then factor in
12 the particular risk Verizon faces in its serving territory, and then adjust the
13 BellSouth lives downward. This process should yield the depreciation inputs
14 Verizon has recommended for setting Verizon's own UNE rates.

15

16 **Q. DO YOU AGREE WITH DR. ANKUM'S ASSESSMENT OF RISK FACED**
17 **BY VERIZON ?**

18 A. No. Dr. Ankum believes that Verizon could not face more risk than BellSouth
19 since BellSouth serves the majority of access lines in the state (Ankum RT at
20 109). That fact is precisely why Verizon does face more risk than BellSouth.
21 Verizon's serving territory is centered in the highly concentrated, highly
22 competitive Tampa Bay area. Verizon is thus more vulnerable to competitive
23 risk than BellSouth, which operates over a wider and more varied base, both
24 urban and rural, throughout the state. As Dr. Vander Weide and I discussed
25 in our Direct Testimonies (Vander Weide DT at 37-44; Sovereign DT at 11),

1 Verizon's operating area is very competitive. In fact, Time Warner
2 Communications plans to launch its first widespread offering of local and
3 long distance telephone service in Verizon's Tampa Bay serving area. Time
4 Warner already has 900,000 cable customers in the Bay area. That number
5 is about half of Verizon's residential lines, so the competitive threat Time
6 Warner raises to Verizon is obviously very serious. ("Time Warner Takes
7 Phone Fight to Verizon," St. Petersburg Times, Dec. 22, 2001,
8 <http://pqasb.pqarchiver.com/sptimes/main/doc/000000096521722.html>).

9
10 Verizon also faces risk of local wireline entry into its territory by BellSouth,
11 the largest ILEC in Florida. BellSouth already provides local wireless
12 telephone service in Verizon's territory, and it could readily leverage this
13 platform into the wireline market.

14
15 As to wireless competition itself, as I discussed in my Direct Testimony, it is
16 one of the plainest and most serious threats to Verizon's wireline service. A
17 March 13, 2002 Wall Street Journal article reported that 46% of the U.S.
18 population had wireless phones by the end of 2001. ("Domino Effect:
19 Telecom's Troubles Spread From Upstarts To Sector's Leaders," The Wall
20 Street Journal, p. A8, col. 4, Mar. 13, 2002). Increasingly, wireless flat-rate
21 pricing plans, which routinely include long-distance minutes, have made
22 cellular service an attractive option for the average consumer. In fact, some
23 consumers rely on their wireless phones to the degree that they are
24 disconnecting their wireline service. The above-mentioned Wall Street
25 Journal article confirms consumers' greater reliance on their wireless

1 phones; the number of customers using their wireless phones at home
2 increased over 40% from 1999 to 2000, and is even higher now. This trend
3 can only be expected to increase.

4
5 Verizon's access line statistics are tangible proof of Verizon's increasing
6 competitive risk. In 2001, total access lines served by Verizon decreased for
7 the first time in its operating history.

8
9 In short, there is no basis to accept Dr. Ankum's assumption that Verizon
10 faces less risk than BellSouth. Verizon's proposed depreciation inputs
11 should be approved because they properly reflect the competitive conditions
12 Verizon faces.

13
14 **Q. HAVE THERE ALSO BEEN RECENT ADVANCEMENTS IN SWITCHING**
15 **TECHNOLOGY THAT FURTHER VALIDATE VERIZON'S DEPRECIATION**
16 **INPUTS?**

17 A. Yes. Nortel and Sprint recently announced that Sprint plans to replace its
18 circuit switches with packet switches over the next 8 years ("Sprint Awards
19 US \$1.1 Billion Deal to Nortel Networks for Next Generation Network," Nortel
20 News Release, Nov. 5, 2001, <http://www.nortelnetworks.com/corporate/news/newsreleases/2001d/>). The Nortel website also states that cable
21 television companies are implementing voice over Internet protocol (VoIP)
22 telephony ("Motorola, Nortel Networks Team to Deliver VoIP Solutions for
23 Broadband-Cable Market," Nortel News Release, Feb. 4, 2002,
24 <http://www.nortelnetworks.com/corporate/news/newsreleases/2002a/>). As I
25

1 just noted, Time Warner will offer local and long-distance phone service in
2 the Tampa Bay area using VoIP technology. The earlier-mentioned St.
3 Petersburg Times article quotes a Time Warner spokesman stating that the
4 IP technology it will use in Florida has evolved to such high-quality reception
5 “that you could hear a pin drop.”

6

7 These developments will further pressure the industry to evolve the circuit
8 switched network to a packet switched one—and, in turn, cause increased
9 downward pressure on Verizon’s recommended 10-year depreciation life for
10 the digital switching account.

11

12 **Q. PLEASE SUMMARIZE YOUR SURREBUTTAL TESTIMONY.**

13 A. The Commission should approve Verizon’s depreciation recommendations in
14 this docket. Verizon’s inputs, unlike those recommended by Dr. Ankum and
15 Mr. Fischer, are properly forward-looking and appropriate for use in a
16 forward-looking cost study to set UNE rates. The 1995 FCC lives are
17 outdated, as this Commission recognized in approving shorter lives for
18 Verizon in the 1998 universal service docket. The recently approved
19 depreciation inputs for BellSouth should, if anything, be used only as a
20 starting point determining Verizon’s inputs, with consideration of the
21 additional risks Verizon faces.

22

23 **Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?**

24 A. Yes.

25