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April 12, 2002

Ms. Blanca S. Bayo, Director
Division of the Commission Clerk
and Administrative Services
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

Re: Docket No. 990649B-TP
Investigation into Pricing of Unbundled Network Elements (Sprint/Verizon track)

Dear Ms. Bayo:

Please find enclosed an original and 15 copies of Verizon Florida Inc.'s Prehearing Statement for filing in the above matter. Also enclosed is a diskette with a copy of the Prehearing Statement in Word 97 format. Service has been made as indicated on the Certificate of Service. If there are any questions regarding this filing, please contact me at 813-483-2617.

Sincerely,

Kimberly Caswell / dm
Kimberly Caswell

KC:tas
Enclosures

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Investigation into pricing of unbundled) Docket No. 990649B-TP
network elements (Sprint/Verizon track)) Filed: April 12, 2002
_____)

VERIZON FLORIDA INC.'S PREHEARING STATEMENT

Verizon Florida Inc. ("Verizon") files its Prehearing Statement in accordance with Order No. PSC-01-1592-PCO-TP in this docket and the Florida Public Service Commission ("Commission") Rule 25-22.038.

A. Witnesses

Verizon's witnesses for this proceeding and the issues to which they will testify are as follows:

1. Dennis B. Trimble: Issues 1, 2, 3, 4 (subloop rates), 5 (rates for signaling networks and call-related databases), 9(a) (recurring rates) and (b), 10, 12 (UNE platform and EEL recurring rates), and 13.
2. Allen E. Sovereign: Issue 7(b) (depreciation).
3. James H. Vander Weide: Issue 7(c) (cost of capital).
4. David G. Tucek: Issue 4 (subloop costs), 5 (costs for signaling networks and call-related databases), 7(a) and (d)-(v), 9(a) (recurring costs), and 12 (UNE platform and EEL recurring costs).
5. Larry Richter: Issues 8, 9(a) (non-recurring rates), 11 (line conditioning and loop qualification costs), and 12 (UNE platform and EEL non-recurring costs).
6. Terry R. Dye (Mr. Dye adopted Mr. Bert Steele's Direct Testimony): Issues 6, 9(a) (non-recurring rates), 11 (loop conditioning and loop qualification rates), and 12 (UNE platform and EEL non-recurring rates).

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7. Dr. Timothy J. Tardiff and Francis J. Murphy (Panel): Issue 7 (cost model methodology testimony rebutting Z-Tel Communications, Inc. witness Dr. George S. Ford).

B. Exhibits

Verizon will introduce the following exhibits:

1. Verizon's Wholesale UNE Pricing Schedule, sponsored by Mr. Trimble.
2. Ex. DBT-1 (Common Cost Calculation); Ex. DBT-2 (Verizon's MRCs); Ex. DBT-3 (Deaveraging Proposal) (all attached to Mr. Trimble's Direct Testimony).
3. Ex. BIS-1 (Wholesale Non-recurring Rate Summary); Ex. BIS-2 (Wholesale Non-recurring Rates - Supporting Detail); Ex. BIS-3 (Rate Support for Recovery of NMC Shared/Fixed and Loop Qualification Costs) (all attached to Mr. Steele's Direct Testimony, which has been adopted by Mr. Dye).
4. Verizon's Recurring Cost Study, sponsored by Mr. Tucek; Direct Ex. DGT-1 (Main Components of ICM-FL's Modeled Network); Direct Ex. DGT-2 (ICM-FL's Modeling Process) (both attached to Mr. Tucek's Direct Testimony); Surrebuttal Ex. DGT-1 (Comparison of ICM-FL Modeled Investment with Reproduction Cost); Surrebuttal Ex. DGT-2 (Impact of Market Segmentation on DS-1 Requirements); Surrebuttal Ex. DGT-3 (Difference Between a 4:1 and a 6:1 Concentration Ratio); Surrebuttal Ex. DGT-4 (Impact of High Target Fill Factors); Surrebuttal Ex. DGT-5 (Comparison of Modeled Investment per Line); Surrebuttal Ex. DGT-6 (Impact of C.A. Turner and Calibration on Fixed Allocator) (all attached to Mr. Tucek's Surrebuttal Testimony).
5. Verizon's Non-recurring Cost Study, sponsored by Mr. Larry Richter.

6. Ex. AES-1 (Verizon's Depreciation Lives and Salvage Values); Ex. AES-2 (Comparison of Verizon and Last-FPSC-Prescribed Lives) (both attached to Mr. Sovereign's Direct Testimony).
7. Ex. JVW-1 (DCF for S&P Industrials); Ex. JVW-2 (DCF for Telecommunications Companies) (both attached to Dr. Vander Weide's Direct Testimony); Rebuttal Ex. JVW-1 (Corrections to Mr. Draper's DCF Analysis); Rebuttal Ex. JVW-2 (DCF for Value Line Universe); and Rebuttal Ex. JVW-3 (DCF for S&P 500) (all attached to Dr. Vander Weide's Rebuttal Testimony).
8. Murphy-Tardiff Ex. 1 (Tardiff C.V.); Murphy-Tardiff Ex. 2 (Murphy C.V.); Murphy-Tardiff Ex. 3 (Synthesis Model's Understatement of Loop Investment); Murphy-Tardiff Ex. 4 (Synthesis Model's Inability to Reflect Zone Cost Differences) (all attached to Dr. Tardiff and Mr. Murphy's Surrebuttal Testimony).

Verizon reserves the right to introduce additional exhibits at the hearing or other appropriate points.

C. Verizon's Basic Position

The purpose of this proceeding is to determine the costs Verizon incurs to provision unbundled network elements ("UNEs") and to set rates based on those costs. Verizon has submitted comprehensive recurring and non-recurring cost studies that accurately reflect Verizon's total element long run incremental cost ("TELRIC") of providing UNEs. No other party has introduced any competing cost studies and no party has been able to effectively criticize Verizon's cost studies. The costs that other companies may incur to provide UNEs are not probative of Verizon's costs of providing UNEs over its Florida network. Contrary to the view of the Alternative Local Exchange Carrier's ("ALECs"), the Commission cannot lawfully

set UNE rates by reference to the rates of other companies here in Florida or in other states.

With regard to deaveraging, the Commission need not further deaverage Verizon's rates at this time, but can rely on the Florida Incumbent Local Exchange Carriers' ("ILECs") differing rates to fulfill its geographical deaveraging obligation. Further deaveraging without rationalizing Verizon's retail rates will only produce greater arbitrage and will suppress competition in the residential market.

Verizon urges the Commission to adopt its deaveraging position and its proposed recurring and non-recurring rates for its provision of UNEs.

D. - F. Verizon's Specific Positions

The issues identified for resolution in this case are mixed questions of fact, law, and policy.

Issue 1: What factors should the Commission consider in establishing rates and charges for UNEs (including deaveraged UNEs and UNE combinations)?

Verizon's Position: First, the Commission should consider the effect of UNE rates on the preservation and advancement of universal service and the development of fair and efficient competition. As long as implicit subsidies remain in local rates, ALECs will cream-skim the low-cost, high-price business customers and largely ignore residential customers. Deaveraging will only exacerbate this effect, thereby undermining efficient competition and universal service goals. The Commission can continue to rely on the cost and rate differences among Florida ILECs to fulfill the Federal Communications Commission's ("FCC") deaveraging requirement.

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

Third, each UNE rate must reflect a balance of (1) cost causation principles; (2) the opportunity for cost recovery; and (3) ease of administration.

Issue 2(a): What is the appropriate methodology to deaverage UNEs and what is the appropriate rate structure for deaveraged UNEs?

Verizon's Position: The Commission has two options for establishing UNE rates for Verizon. The better option is for the Commission to retain a single rate for Verizon to accompany the different cost-based rates established for BellSouth and Sprint. In this way, the Commission would establish at least three zones, each of which reflects different cost characteristics. (The FCC has never ruled that multiple zones are required for each carrier.) Since this option would result in UNE rates that are more rationally aligned with retail rates, it would mitigate the potential for ALEC rate arbitrage.

If the Commission rejects this option, then Verizon recommends that the Commission establish three cost-based zones for its service area. Under this proposal, all wire centers in which the average cost of the UNE is less than the statewide average would be mapped to Zone 1. Wire centers in which the average cost is between the statewide average and 200% of that average would be mapped to Zone 2; and wire centers in which the average cost is greater than 200% of the statewide average would be mapped to Zone 3.

Issue 2(b): For which of the following UNEs should the Commission set deaveraged rates?

- (1) loops (all);**
- (2) local switching;**
- (3) interoffice transport (dedicated and shared);**
- (4) other (including combinations).**

Verizon's Position: Only loop prices should be considered for deaveraging, because only loop costs show significant variation between different geographic areas. Verizon believes the parties agree on this point.

Issue 3(a): What are xDSL capable loops?

Verizon's Position: An xDSL-capable loop is a basic 2-wire or 4-wire UNE loop that possesses electrical characteristics that allow for the transmission of xDSL-based technology signals.

Issue 3(b): Should a cost study for xDSL-capable loops make distinctions based on loop length and/or the particular DSL technology to be deployed?

Verizon's Position: No. As a matter of public policy, the characteristics of a specific technology to be placed on a UNE loop should never be a driver for pricing the UNE facility. Deaveraging loop prices based on the technology used on them only leads to increased arbitrage and administrative difficulties.

Issue 4(a): Which subloop elements, if any, should be unbundled in this proceeding, and how should prices be set?

Verizon's Position: Verizon has proposed rates for three subloop elements for both 2-wire and 4-wire UNE loops: (1) feeder; (2) distribution; and (3) drop. Verizon has also provided rates for use of its intra-building house and riser cable.

Issue 4(b): How should access to such subloop elements be provided, and how should prices be set?

Verizon's Position: Access to subloop elements may occur at various points; because such access is extremely customer-specific, it must be evaluated on a case-by-case basis. A situation-specific ALEC application process will determine the specific labor and/or capital costs for which the ALEC is responsible.

Issue 5: For which signaling networks and call-related databases should rates be set?

Verizon's Position: Verizon has proposed TELRIC-based prices for access to its SS-7 signaling network and for the databases required by the FCC. Because customer requirements for access to Verizon's advanced intelligent network ("AIN") service creation environment and associated databases vary with customer requirements, Verizon has not proposed prices for such access; arrangements and rates, instead, will be determined on a case-by-case basis.

Issue 6: Under what circumstances, if any, is it appropriate to recover non-recurring costs through recurring rates?

Verizon's Position: Generally, it is not appropriate to recover non-recurring, customer-specific costs for non-reusable assets or services through recurring rates. If a cost is incurred only once, it should be recovered through a concurrent one-time payment. Including one-time costs (e.g., service ordering costs or special construction costs) in a recurring rate structure can put recovery of that cost in jeopardy, since there is no assurance that the specific customer will continue to use the service with which the recurring rate is associated. Likewise, other customers that did not cause the costs to be incurred should not be responsible for recovery of such costs.

Issue 7: What are the appropriate assumptions and inputs for the following items to be used in the forward-looking recurring UNE cost studies?

- (a) network design (including customer location assumptions);
- (b) depreciation;
- (c) cost of capital;
- (d) tax rates;
- (e) structure sharing;
- (f) structure costs;
- (g) fill factors;
- (h) manholes;
- (i) fiber cable (material and placement costs);
- (j) copper cable (material and placement costs);
- (k) drops;
- (l) network interface devices;
- (m) digital loop carrier costs;

- (n) terminal costs;**
- (o) switching costs and associated variables;**
- (p) traffic data;**
- (q) signaling system costs;**
- (r) transport system costs and associated variables;**
- (s) loadings;**
- (t) expenses;**
- (u) common costs;**
- (v) other**

Verizon's Position: The appropriate depreciation inputs and assumptions (item (b)) are set forth in Verizon witness Mr. Sovereign's Direct Testimony. Verizon witness Dr. Vander Weide's Direct Testimony sets forth Verizon's cost of capital (12.95%) and target capital structure (25% debt and 75% equity) (item (b)). All other enumerated items are discussed in Verizon witness Mr. Tucek's Direct Testimony and the associated recurring cost study.

Issue 8: What are the appropriate assumptions and inputs for the following items to be used in the forward-looking non-recurring UNE cost studies?

- (a) network design;**
- (b) OSS design;**
- (c) labor rates;**
- (d) required activities;**
- (e) mix of manual versus electronic activities;**
- (f) other.**

Verizon's Position: Verizon witness Mr. Richter's Direct Testimony and the associated non-recurring cost study set forth the appropriate assumptions and inputs to be used in the forward-looking non-recurring cost study used by Verizon to set UNE rates in this proceeding.

Issue 9(a): What are the appropriate recurring rates (averaged or deaveraged as the case may be) and non-recurring charges for each of the following UNEs?

- (1) 2-wire voice grade loop;**
- (2) 4-wire analog loop;**

- (3) 2-wire ISDN/IDSL loop;
- (4) 2-wire xDSL-capable loop;
- (5) 4-wire xDSL-capable loop;
- (6) 4-wire 56 kbps loop;
- (7) 4-wire 64 kbps loop;
- (8) DS-1 loop;
- (9) high capacity loops (DS3 and above);
- (10) dark fiber loop;
- (11) subloop elements (to the extent required by the Commission in Issue 4);
- (12) network interface devices;
- (13) circuit switching (where required);
- (14) packet switching (where required);
- (15) shared interoffice transmission;
- (16) dedicated interoffice transmission;
- (17) dark fiber interoffice facilities;
- (18) signaling networks and call-related databases;
- (19) OS/DA (where required).

Verizon's Position: The appropriate recurring rates for the aforementioned UNEs are set forth in Verizon witness Mr. Trimble's Direct Testimony; the appropriate non-recurring rates are set forth in Verizon witness Mr. Steele's Direct Testimony, which has been adopted by Mr. Dye.

Issue 9(b): Subject to the standards of the FCC's Third Report and Order, should the Commission require ILECs to unbundle any other elements or combinations of elements? If so, what are they and how should they be priced?

Verizon's Position: No. There are no known additional elements that meet the "necessary and impair" standard identified in the Telecommunications Act of 1996.

Issue 10: What is the appropriate rate, if any, for customized routing?

Verizon's Position: Verizon is no longer required to offer Operator Services/Directory Assistance on an unbundled basis because it offers customized routing throughout its territory. Verizon has not received any requests for customized routing since 1996. As such, it is not

necessary to establish costs and prices for this service; it will instead be priced on a case-by-case basis.

Issue 11(a): What is the appropriate rate, if any, for line conditioning, and in what situations should the rate apply?

Verizon's Position: Verizon witness Mr. Steele sets forth the appropriate loop conditioning rate in his Direct Testimony, which has been adopted by Mr. Dye. This rate will apply whenever Verizon needs to condition loops to allow requesting carriers to offer advanced services.

Issue 11(b): What is the appropriate rate, if any, for loop qualification information, and in what situations should the rate apply?

Verizon's Position: In this proceeding, Verizon has proposed (through its witness Mr. Dye) to include a reasonable pro-rata share of Verizon's loop qualification costs (discussed in Verizon witness Mr. Richter's Direct Testimony) in each ALEC line sharing order. Verizon understands that recovery of OSS costs will be addressed in a separate proceeding.

Issue 12: Without deciding the situations in which such combinations are required, what are the appropriate recurring and non-recurring rates for the following UNE combinations:

- (a) "UNE platform" consisting of: loop (all), local (including packet, where required), switching (with signaling), and dedicated and shared transport (through and including local termination);
- (b) "extended links," consisting of:
 - (1) loop, DS0/1 multiplexing, DS1 interoffice transport;
 - (2) DS1 loop, DS1 interoffice transport;
 - (3) DS1 loop, DS1/3 multiplexing, DS3 interoffice transport.

Verizon's Position: The monthly recurring charge ("MRC") for an UNE platform ("UNE-P") arrangement or an EEL will equal the sum of the MRCs for the individual UNEs required to create the specific platform or EEL. Non-recurring charges associated with the UNE-P and EELs are set forth in Verizon witness Mr. Steele's Direct Testimony, which has been adopted by Mr. Dye.

Issue 13: When should the recurring and non-recurring rates and charges take effect?

Verizon's Position: The Commission-ordered rates should take effect consistent with the terms of the Commission's final order approving those rates. The best approach for quick and easy implementation of these new rates would be simply to inform the ALECs of the rate change by distributing notices of the revised rates or by posting them on Verizon's website.

G. Stipulated Issues

Verizon is unaware of any stipulations at this time.

I. Pending Matters

Verizon seeks action on the following Motions: (1) Verizon's March 20, 2002 Motion to Compel Discovery to ALEC Coalition; (2) Verizon's March 20, 2002 Motion to Compel Discovery to Z-Tel Communications, Inc.; (3) Verizon's March 22, 2002 Motion to Strike the Supplemental Rebuttal Testimony of George S. Ford.

J. Procedural Requirements

To the best of its knowledge, Verizon can comply with all requirements set forth in the procedural order in this case.

K. Statement of Pending Decisions that May Preempt the Commission's Rulings in this Docket

As set forth in Mr. Trimble's Direct Testimony, the U.S. Court of Appeals for the Eighth Circuit rejected many of the FCC's UNE pricing rules and found the FCC's hypothetical TELRIC methodology to be unlawful. *Iowa Utils. Bd., et al. v. FCC*, 219 F.3d 744 (8th Cir. 2000). That opinion has been appealed to the U.S. Supreme Court. The case has been briefed and argued, and a decision is pending.

The cost studies and prices Verizon submitted in this proceeding comply with the FCC's pricing rules and TELRIC methodology, and this Commission's decision must conform to those same rules and methodology. Thus, if the U.S. Supreme Court upholds the Eighth Circuit's ruling, this Commission's decision will likely be preempted and all the Commission's and parties' work on this case will have been for nothing. As such, Verizon has recommended, throughout this proceeding, that the Commission defer ruling in this UNE case at least until the U.S. Supreme Court has issued its pending decision.

Respectfully submitted on April 12, 2002.

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY that copies of Verizon Florida Inc.'s Prehearing Statement in Docket No. 990649B-TP were sent via U.S. mail on April 12, 2002 to the parties on the attached list.



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