

BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 990649B-TP

In the Matter of

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

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VOLUME 6

Pages 836 through 892



PROCEEDINGS: HEARING

BEFORE: CHAIRMAN LILA A. JABER
COMMISSIONER J. TERRY DEASON
COMMISSIONER BRAULIO L. BAEZ
COMMISSIONER MICHAEL A. PALECKI
COMMISSIONER RUDOLPH "RUDY" BRADLEY

DATE: Monday, April 29, 2002

TIME: Commenced at 9:30 a.m.
Adjourned at 4:10 p.m.

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

REPORTED BY: JANE FAUROT, RPR
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APPEARANCES: (As heretofore noted.)

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WITNESSES

NAME:

PAGE NO.

DAVID G. TUCEK

Cross Examination by Mr. Hatch

839

EXHIBITS

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NUMBER:

ID. ADMTD.

53

Verizon ARMIS Access Line Data

858

P R O C E E D I N G S

1
2 (Transcript follows in sequence from
3 Volume 5.)

4 DAVID G. TUCEK

5 continues his testimony under oath from Volume 5:

CROSS EXAMINATION

6
7 BY MR. HATCH:

8 Q Good afternoon, Mr. Tucek. I'm Tracy Hatch. I will
9 be asking you a few questions today on behalf of AT&T and MCI.

10 Could you turn to Page 8 of your surrebuttal
11 testimony. Look at Line 11.

12 A I'm there.

13 Q And do I draw correctly from that you criticized
14 Doctor Ankum for referring to or relying on other states' UNE
15 rates and processes as a comparison or a benchmark against
16 Verizon Florida's?

17 A What I am saying there is he has just ignored
18 differences or hasn't spoke about differences in other states
19 and assumes that UNE costs must be based on hypothetical
20 network that will never exist anywhere.

21 Q Do you disagree with using rates, UNE rates
22 established in other Verizon states as a benchmark or
23 comparison for the Verizon Florida rates that are being
24 proposed here?

25 A Yes, I do. And let me explain why I believe Doctor

1 Ankum has offered New York as a benchmark for our UNE rates.
2 Those rates are not reflective of Verizon New York's costs.
3 They were ordered by the Commission. As part of that order we
4 agreed not to challenge it in order to get rate rebalancing.
5 So they are very much a product of a political process. It
6 would be incorrect to compare the costs and the rates that come
7 out of ICM-Florida with negotiated rates -- not negotiated
8 rates, but rates that are resulting from a political process.

9 Q Would the same be true of Verizon New Jersey?

10 A I don't know the specifics of how those rates were
11 ordered in New Jersey.

12 Q ICM was not used in either New York or New Jersey to
13 determine UNE rates, was it?

14 A No, it wasn't. And I think the reason for that ought
15 to be pretty clear. To my knowledge those cases were filed
16 well before the merger between Bell Atlantic and GTE was
17 consummated, the transaction was closed. There would be no
18 reason for one company, even though they are prospective merger
19 partners, to use the cost model developed by its prospective
20 merger partner.

21 Q Let's talk a little bit about the differences between
22 states. With the new merged Verizon, the old GTE is now able
23 to take advantage of the broader efficiencies for acquisition
24 of material, would that be a fair statement?

25 A Yes, and we included an assignment of merger savings

1 or an adjustment of merger savings in our expenses.

2 Q So just for example, the cost of a Lucent 5E switch
3 for Verizon would not be any different in Florida than it would
4 be for Verizon in New York, would that be correct?

5 A I'm not sure because I don't know if the contracts
6 that exist for the former Bell Atlantic states have been
7 extended to GTE. Although they are in the same holding
8 company, they are different legal entities. I'm sure the
9 lawyers can tell you better than I, but I think the contracts
10 are with the legal entity and not with the holding company.

11 Q So on a forward-looking basis, assuming the total
12 Verizon entity is able to take advantage of its purchasing
13 power as a large, very large ILEC, the price for a Lucent
14 switch for Verizon Florida versus Verizon New York should be
15 about the same, would that be correct?

16 A Well, certainly with respect to the types of lines we
17 are going to be purchasing in the future on a going-forward
18 basis, which would be the lines for additions. I did some
19 checking in preparation for the hearing and in the entire
20 Verizon footprint there are only four analog switches left. By
21 the way, there are none left in the former GTE footprint. The
22 market for a brand new switch to Verizon, the entire holding
23 company is pretty small, four analog switches plus any remotes
24 you might happen to have for growth. So primarily the costs
25 that both sides of Verizon will incur in switching will be the

1 cost for line additions.

2 CHAIRMAN JABER: So was your answer yes?

3 THE WITNESS: Yes.

4 CHAIRMAN JABER: Thank you.

5 THE WITNESS: But the result will be weighted toward
6 the cost of line additions because that is what we are buying.

7 CHAIRMAN JABER: Is it Mr. Tucek or Doctor Tucek?

8 THE WITNESS: Mr. Tucek.

9 CHAIRMAN JABER: Mr. Tucek, I will always allow you
10 to elaborate on your answers, assuming that your elaboration is
11 relevant to your answer. But you really need to start your
12 responses with a yes or no where possible.

13 THE WITNESS: I will try to do that. Thank you.

14 BY MR. HATCH:

15 Q Now, in terms of your last statement about the
16 growth, your acquisition of switches will be essentially more
17 related to growth than new switches, did I hear that correctly?

18 A Acquisition of switches or just switching equipment?

19 Q Let's do it this way. For any new switches that
20 Verizon buys, the switch price essentially on a forward-looking
21 basis that we have been talking about, the cost of that switch
22 for New York versus Florida versus Texas versus California
23 would be approximately the same?

24 A Assuming that the contracts as they are renegotiated
25 cover all the Verizon operating companies, yes, they would be

1 the same.

2 Q And that would be true on a forward-looking basis for
3 your cost of copper cable?

4 A Yes. Again, with the same assumption. Although I'm
5 certainly not a person that is close to those decisions.

6 Q And that would be true with your purchases of
7 fiberoptic cable, central office equipment, and --

8 A Same answer.

9 Q For all of your forward-looking materials purchased
10 this would be the same answer?

11 A Same answer. But there is one exception. The GTD-5
12 switches are not in the former Bell Atlantic footprint, so
13 unless they were to buy a new GTD-5 switch, the pricing we get
14 from AGCS would be relatively unaffected by the merger.

15 Q So then if you have comparable customer density, and
16 comparable customer distribution, and you have comparable
17 geography, then you would expect the cost differences between
18 various locations, be it New York, Pennsylvania, Florida,
19 Texas, they would be rates -- or the costs generated by ICM
20 should be relatively the same?

21 A No, I would not. The reason is that a large part of
22 the costs of, particularly with outside plant, installing the
23 plant is the placement costs, and that is labor that is brought
24 in the local market right here in Florida. The fact that
25 Verizon happens -- Verizon Florida happens to be part of a

1 larger holding company doesn't give it any advantage in the
2 local Florida labor markets.

3 Q Is Verizon Florida's work force unionized, do they
4 work for CWA (phonetic)?

5 A I honestly don't know the answer to that question.

6 Q Most of your outside plant placement is done by
7 contract vendors, would that be a fair assessment?

8 A That is correct.

9 Q And so what you are suggesting to me is that your
10 contract costs in Florida would be different than your contract
11 costs in New York?

12 A I would expect they are different. What I am
13 suggesting to you is that the fact that the merger occurred one
14 would not expect to have an impact one way or the other on the
15 cost of contract labor in Florida. Those are local contractors
16 unaffected by the decision to merge.

17 Q Now, your placement costs for outside plant, are they
18 driven more by labor or more by the geology of the placement?

19 A I don't think you can separate the two. The geology
20 of the placement would affect the placement cost directly. For
21 example, if you have to cut through bedrock that is a very
22 concrete example of geology, I guess, that effects the
23 placement cost.

24 Q Very good. Are you familiar with the geology in the
25 State of New York?

1 A No, I'm not.

2 Q Are you familiar with the geology of the State of
3 Florida?

4 A Actually we had a question during the deposition
5 about preripping, and I was asked if I knew what type of soil
6 types they were. So I called or got in touch with a fellow in
7 Florida who is in charge of outside plant jobs, and he told me
8 you have a lot of sand out here. And I talked to other
9 planning engineers who said that, but they said you prerip not
10 only to avoid or going through hard soil, but to avoid debris
11 like from construction projects or roots or stumps. But I
12 would be willing to bet you have a lot of sand and fairly easy
13 soil down here.

14 Q And easy soil in Florida would be much easier than,
15 for example, the hard scrabble out in east Texas?

16 A I have not been in east Texas to test the soil, but I
17 suspect if you check the geology, at the same time I think your
18 water table here is higher.

19 Q But it is easier to place the plant in Florida than
20 it is in a more dense, more hard geology location?

21 A It may or may not be. That is really not the point,
22 is it? You had asked me about the cost of placing labor and
23 whether or not the merger would have an impact on placement
24 costs, and that is really a function of demand for construction
25 type labor in the local Florida market.

1 Q Essentially what I understood you told me was labor
2 was a function of -- or in part a function of placing the
3 plant, did I recall that correctly?

4 A I don't believe you did. You asked me if the labor
5 was more important than the geology of the land, and I told you
6 you could not separate the two.

7 CHAIRMAN JABER: Mr. Tucek, let me try to understand
8 the last few minutes of your testimony. In response to
9 comparing costs from state-to-state, you responded that if
10 there is comparable geography, customer density that you can't
11 make an affirmative statement that the costs would be
12 relatively the same because replacement costs would be
13 different from state-to-state?

14 THE WITNESS: I'm sorry, Madam Chairman, I did not
15 say replacement, I said placement costs. The cost of
16 installing poles, conduit, manholes.

17 CHAIRMAN JABER: Thank you. Speak right into the
18 microphone because over and over again I thought you were
19 saying replacement.

20 THE WITNESS: I will try.

21 BY MR. HATCH:

22 Q Would it be your understanding that it would be
23 easier to place outside plant in sand than it would be in
24 bedrock?

25 A Yes.

1 Q Have you ever done any outside plant placement
2 yourself?

3 A No, I have not.

4 Q And so all of your knowledge basically comes from
5 your training and experience?

6 A Could you repeat the question.

7 Q All of your knowledge about engineering and outside
8 plant placement comes from basically your training and
9 experience?

10 A All of my knowledge about everything comes from my
11 training and experience.

12 Q Lacking actual first-hand experience in outside plant
13 placement, is that correct?

14 A That is how I answered, yes.

15 Q Bear with me a moment while I switch gears. You are
16 familiar with Verizon's -- I'm sorry, are you okay?

17 A Thank you. Go ahead.

18 COMMISSIONER DEASON: Mr. Hatch, it's the first time
19 you ever brought a witness to his knees.

20 MR. HATCH: And I didn't even see it happening.

21 THE WITNESS: It's the first time for this witness.

22 BY MR. HATCH:

23 Q You are familiar with the Verizon merger savings, are
24 you not, generally?

25 A I know that total is \$2 million, yes. The estimate

1 was \$2 million.

2 Q What I'm going to be handing you is an excerpt from
3 the S-4 that was filed with the SEC, the Securities and
4 Exchange Commission with regard to the merger. If you will
5 take just a moment to look over that. The first two pages are
6 basically just to sort of give you an idea to make sure that it
7 is what I say it is. The pages that I will be asking you a
8 question of are actually the third and fourth pages. And just
9 for reference purposes, just to make it complete, this is
10 Mr. Fischer's Exhibit WRF-6 that was previously identified and
11 has been admitted into the record.

12 A You can proceed.

13 Q Have you in the model for the ICM accounted for the
14 merger savings that were alleged in the S-4 for the merger?

15 A Yes, we have. I think it is a \$36 million
16 adjustment, subject to check, which is an assignment of the \$2
17 billion in expense synergies that are identified, I believe on
18 the third page of this exhibit.

19 Q Now, isn't it true that for the GTE merger, Bell
20 Atlantic estimated that expense and capital synergies would be
21 about 2.5 billion per year, while incurring expense savings and
22 integration costs of about 1.6 billion over 3 years, would you
23 agree with that?

24 A I would certainly agree with the first portion
25 because I can add the 2 billion to 500 million. I haven't seen

1 the latter number, but I will accept that subject to check. I
2 I do know that somewhere in this document it tells you that the
3 merger savings would not be realized for three years, which
4 would be 2003, say, July 1st, 2003.

5 Q Looking at the second paragraph up from the bottom
6 where it begins in addition.

7 A Is that where you pulled the 1.6 billion?

8 Q That is correct.

9 A I see it there.

10 Q Now, turn to your surrebuttal, Page 23, please.

11 A I have it.

12 Q Now, you state there, I believe, that the anticipated
13 merger savings would not be realized until three years after
14 completion of the merger in July of 2000, is that correct?

15 A Would you tell me the line number?

16 Q Let me check real quick. Lines 23 through 25.

17 A Yes, I make that statement.

18 Q Now, doesn't the S-4 filed by Bell Atlantic state
19 that earnings per share will improve in the first year
20 following completion of the merger?

21 A I don't know that it does. And rather than look for
22 it I will just point out that earnings per share are not
23 always -- increases in earning per share are not always
24 generated by decreases in cost. There is revenue growth that
25 was projected with the merger as well.

1 Q And doesn't the S-4 say that by the third year, after
2 the completion of the merger the revenue expense and capital
3 synergies will be approximately 4.5 billion per year? And that
4 is just the sum of the 2 billion and 2,500,000,000 there in the
5 center of that page.

6 A Could you repeat the question?

7 Q Sure. Doesn't the S-4 say that the 4.5 billion
8 approximately will be realized by the third year?

9 A Well, it doesn't have the 4.5 billion number in the
10 document. You just told me you had to have it so it doesn't
11 technically say that. My interpretation is the merger savings
12 will not be fully realized until three years after the merger.
13 Obviously we are incurring costs in the merger as we go
14 forward. We are experiencing savings from the merger as we go
15 forward, but it will not be fully realized until three years
16 after the merger, and the adjustment we put in the model
17 assumes that the \$2 billion in expense synergies are fully
18 realized. That is the point I was trying to make in my
19 testimony.

20 Q Let me do it this way. Do you see the indented
21 paragraph where it begins annual revenue?

22 A Yes.

23 Q Now, would you read the preparatory language to that
24 at the end of the paragraph just above it?

25 A By the third year after completion of the merger we

1 expect -- and there are three bullet points discussion -- the
2 quote ended after colon, excuse me. There are three bullet
3 points discussing annual revenue synergies, annual expense
4 synergies, and annual capital synergies.

5 Q And if you add up those three numbers you get
6 approximately 4.5 billion on an annual basis, is that correct?

7 A Actually I get it exactly, yes.

8 Q And doesn't the S-4 indicate that revenue increases
9 in expense savings will occur starting in the first year after
10 the merger?

11 A I can't seem to find that. Perhaps if you could
12 direct my attention.

13 Q Well, the S-4 seems to indicate that after three
14 years you will have built up to a total of \$4.5 billion, would
15 that be -- in an annual amount, would that be correct?

16 CHAIRMAN JABER: Mr. Hatch, the witness has asked
17 several times now for you to direct him to where exactly in the
18 exhibit you are talking about.

19 MR. HATCH: I am getting there.

20 CHAIRMAN JABER: You might get there faster if you
21 just direct him to the place in the exhibit.

22 MR. HATCH: If I could find it real quick, I would.

23 BY MR. HATCH:

24 Q Let's do it this way. I think I actually found it.
25 Do you see at the top of the page it begins with the Paragraph

1 Number 3 where the title merger is expected?

2 A I see that title.

3 Q Read the beginning sentence of the second paragraph
4 below that.

5 A The second sentence says the combined company will
6 achieve synergies through economies of scope and scale.

7 Q I'm sorry, I meant the first sentence of the second
8 paragraph.

9 A I'm sorry. Based on anticipated revenue and expense
10 synergies, we expect that the merger will improve earnings per
11 share including merger-related charges in the first year
12 following completion.

13 So now that you have directed my attention to your
14 witness' exhibit, to answer the question I believe you asked me
15 it says that you will have revenue and expense synergies in the
16 first year. So that would be, if you are adding the annual
17 levels, that would be 2 billion plus 2 billion, although the \$2
18 billion is revenue has nothing to do with the cost of service.

19 Q Now, the S-4 was filed, I believe, on July 1st if I'm
20 not mistaken, is that correct. Oops, April 13th, 1999.

21 A If you look on the first page you -- as I realized
22 you just did, you will see April 13th, 1999.

23 Q And the merger was actually complete in -- was it
24 June or July of 2000?

25 A I think it is July 1st, 2000.

1 Q And so based on today's date you are almost two years
2 into these anticipated merger savings, is that correct?

3 A It will be two years July 1st.

4 Q Is that a yes or a no?

5 A It is yes, it will be two years this July 1st.

6 Q Now, for purpose of this proceeding in determining
7 UNE costs and UNE prices, those prices are going to be
8 determined for a period going forward, is that correct?

9 A Yes, I believe so.

10 Q Now, if you will bear with me, I've got another piece
11 of paper to pass out for you.

12 MR. HATCH: I want to ask the witness whether this is
13 confidential. It was not clear to me. I just want to make
14 sure that it is not or that it is, one way or the other.

15 CHAIRMAN JABER: That's fine, Mr. Hatch. You need to
16 show it to Verizon counsel, as well.

17 THE WITNESS: I don't believe these specific numbers
18 are -- well, let me back off.

19 CHAIRMAN JABER: Counsel, take a look at it, as well.

20 MR. HUTHER: Mr. Hatch, perhaps it would help if you
21 could tell me from where this page was derived.

22 MR. HATCH: As I understand it, it is IA5 from
23 Verizon's work papers supporting the inputs generating the
24 expense to investment ratios, common costs.

25 THE WITNESS: I'm going to have to revise the answer

1 I almost gave. I think some of the numbers on here certainly
2 are confidential. The number I thought you were going to ask
3 me about, the total in Column B is not confidential.

4 MR. HATCH: Okay.

5 THE WITNESS: The one thing I gave up a few minutes
6 ago.

7 MR. HATCH: Actually that is probably the only number
8 that I will be actually talking about.

9 CHAIRMAN JABER: So let me be clear for my own
10 standing here that the number you will be asking about is a
11 confidential number.

12 MR. HATCH: The number I will be asking about is not
13 a confidential number.

14 CHAIRMAN JABER: Thank you, Mr. Hatch.

15 Mr. Huther, do you agree before we move on?

16 MR. HUTHER: We are trying to determine that right
17 now, if you could just give me one moment.

18 MS. CASWELL: Mr. Hatch, if this had been produced
19 wouldn't it have a Bates stamp number on it? Was this produced
20 in discovery or in the cost study filing?

21 MR. HATCH: I think it was in the cost study filing,
22 but I'm not certain.

23 MR. HUTHER: If the source is the cost study then the
24 cost study itself has been designated confidential.

25 MR. HATCH: It's okay with me. I mean, the number

1 that I am going to talk about isn't proprietary, so I think we
2 are okay no matter what happens.

3 CHAIRMAN JABER: Just be careful, Mr. Hatch.

4 MR. HATCH: Yes, ma'am.

5 CHAIRMAN JABER: If you are not sure, we can take a
6 few minutes and you can show counsel what it is you are talking
7 about.

8 MR. HATCH: That's okay.

9 CHAIRMAN JABER: Okay. Let's go forward then.

10 BY MR. HATCH:

11 Q Would you confirm for me, Mr. Tucek, that this
12 schedule is the one that you refer to on Page 24 of your
13 surrebuttal?

14 A Could you give me the line number on Page 24?

15 Q Page 24, Line 8.

16 A That it is the schedule I refer to on Page 24 of my
17 surrebuttal at Line 8.

18 Q Now, I want to make sure I understand the total at
19 the bottom of Column B, that 36,400,000, that is what you have
20 calculated as the merger savings, is that correct?

21 A That is the adjustment to ICM-Florida's expense
22 inputs that has been used to reduce the model operating
23 expenses.

24 Q Now, if you want to do the math, that is okay, but
25 subject to check would you agree with me that the 36.4 million

1 is less than 1.5 percent of 2.5 billion?

2 CHAIRMAN JABER: Mr. Tucek, while you are looking,
3 let me just point out to the Commissioners that this is a
4 confidential exhibit, Commissioners, so let's make sure to give
5 this back to Mr. Hatch when he is done. You guys have got to
6 be doing this well before the hearing. I get really nervous
7 when red folders aren't used for confidential.

8 MR. HATCH: My apologies on this one. It was just
9 something that I had that didn't appear to me to be
10 confidential.

11 CHAIRMAN JABER: It takes a simple phone call,
12 Mr. Hatch.

13 THE WITNESS: To answer your question, the 36.4
14 billion is less than 1-1/2 percent of 2.5 billion.

15 BY MR. HATCH:

16 Q How has Verizon, or how did Verizon actually
17 calculate that 36,400,000 as the Florida Verizon portion of the
18 savings?

19 A The merger savings that were identified in the first
20 exhibit that you gave me were divided up among the SBUs, which
21 I think stands for strategic business units, that would be the
22 wireline or network services company, or wireless company, or
23 long distance company, or international company. I believe we
24 have a company that does contracting service to the government.
25 The portion that came to the wireline or network services

1 company was divided between the former GTE and former Bell
2 Atlantic, I believe, on lines.

3 The portion that came to the former GTE footprint was
4 assigned to the states based on the jurisdictional factors in
5 our cost accounting system or manual, I'm not sure which. And
6 a regulated amount was assigned or determined for use in the
7 cost model based on the percent of regulated cost to total cost
8 for Verizon Florida.

9 Q I'm not sure that I actually followed that last
10 piece. I apologize, could you explain that to me again?

11 A Okay. Just prior to that last piece what we had was
12 the total cost savings going to Verizon Florida, but Verizon
13 Florida has costs that are subject to regulation and costs that
14 are not. And the regulated amount was based on the percent of
15 the costs that are regulated.

16 Q Why would you base the merger savings on regulated
17 revenues?

18 A I didn't say revenues, I said costs.

19 Q Or regulated costs?

20 A Because we are trying to get the costs of TELRICs and
21 those costs are regulated costs. Can I give you an example
22 from experience in other states? We had an example where
23 questions were where do we put the costs of lobbyists on our
24 books? And the answer is we don't put the costs of lobbyists
25 on the regulated books. Those go to different accounts. I

1 think they are subject to check, 7,000, 7XXX accounts. So, we
2 are only talking about the regulated costs in this docket. So
3 if I have the total cost savings going to Verizon Florida, I
4 have to take off the piece that go to the 7XXX accounts.

5 Q I'm going to hand you out another piece of paper, and
6 when you have had a moment to look it over, please let me know.

7 MR. HATCH: Madam Chairman, could I please get this
8 marked for identification, please.

9 CHAIRMAN JABER: Sure. Now, what is this, Mr. Hatch?

10 MR. HATCH: This is not proprietary. Essentially, it
11 is Verizon's ARMIS access line data.

12 CHAIRMAN JABER: Verizon's ARMIS access line data is
13 Exhibit 53.

14 (Exhibit 53 marked for identification.)

15 BY MR. HATCH:

16 Q Mr. Tucek, is there anything that Verizon has filed
17 in this proceeding that documents the explanation that you just
18 gave me as to how the merger savings were calculated?

19 A No.

20 Q Have you had a chance to look over this document?

21 A Yes, I have.

22 Q Can you confirm for me that this is Verizon's 2001
23 access lines by operating companies reported to the FCC in its
24 ARMIS database?

25 A I can confirm that is what it says, and I'm sure you

1 didn't manufacture it, so, yes, I will accept that.

2 Q Could you read the percentage listed in Column H, Row
3 24?

4 A 4.2 percent.

5 Q And that represents Verizon's Florida total access
6 lines to the total Verizon access lines, would that be correct?

7 A Yes, that appears to be the case.

8 Q Now, if the annual cost savings of 2.5 billion
9 expected by Verizon were allocated using the percentage of
10 access lines that each operating company represents to the
11 total Verizon access lines, then Verizon Florida's portion of
12 the annual savings would be closer to 105 million, which is
13 shown in Column J, would that be correct?

14 A I have just realized what is wrong with this exhibit.
15 I don't know how it was prepared or for what reason, but I do
16 know that it is taking the entire \$2.5 billion amount and
17 assigning it only to the wireline companies. It is assigning
18 nothing to wireless, nothing to long distance, nothing to
19 international, or nothing to any of the other SBUs. So
20 certainly from a cost study perspective, even though we may
21 have filed this with ARMIS either per their specific request or
22 for whatever reason, it is not relevant to developing inputs to
23 ICM-Florida in this docket for the reason that it doesn't
24 assign any of the cost savings, merger savings to the other
25 SBUs.

1 Q Let me just complete this out and if you have any
2 response, then that's fine. If Verizon had used the 105
3 million as its estimate of merger savings, then both the
4 expense to investment ratios and the common cost fixed
5 allocator would be less than the amounts calculated by Verizon
6 in this proceeding, would that be correct?

7 A I am unable to answer that question because I don't
8 precisely know what the impact would be on the allocator. The
9 allocator is a ratio of two numbers. They may both go down.
10 If the denominator goes down more, the resulting ratio will go
11 up.

12 Q Which two numbers does the allocator consist of?

13 A As Mr. Trimble explained, it is the ratio of common
14 costs to direct costs. The direct costs that we intend to
15 apply the allocator to, not the direct costs associated with
16 nonrecurring costs.

17 Q Okay. Shifting gears yet once again, would you turn
18 to Page 73 of your surrebuttal?

19 A I have it.

20 Q I believe you refer there to reductions in cost
21 recovery that occur if the ICM's calibration option is turned
22 off as shortfalls, is that correct?

23 A Yes, I do.

24 Q Could you please explain why these amounts would not
25 represent legitimate reductions in costs to be recovered by

1 Verizon Florida through UNE rates?

2 A Could you repeat the question.

3 Q Sure. Could you explain why these amounts would not
4 represent legitimate reductions in costs to be recovered by
5 Verizon Florida in its UNE rates?

6 A Well, let me take the C.A. Turner adjustment or C.A.
7 Turner index first and then address the calibration adjustment.
8 What we do with C.A. Turner is we take the costs of general
9 support assets such as motor vehicles, personal computers,
10 buildings, and we use the C.A. Turner indices to put them in a
11 reproduction cost basis. We take those assets and we calculate
12 a carrying cost, you know, like an annual revenue requirement.
13 You know, you have rate case experience. We assign that
14 carrying cost for those 2XXX accounts, the general support
15 assets to the same cost pools that the corresponding operating
16 expenses go to.

17 For motor vehicles, there is a 6XXX account for motor
18 vehicle expense. So it would not be correct -- it would not be
19 correct with respect to the C.A. Turner index to do what you
20 suggest, because the reproduction costs of those assets are
21 more closely or a better estimate of the forward-looking costs
22 of those assets are than the only other alternative available
23 which is they are embedded or book costs. The calibration
24 adjustment is a feature of ICM-Florida which tries to ensure
25 that the denominators or the expense to investment ratios are

1 consistent with the investments to which they are applied. We
2 are applying those ratios to the modeled investments from
3 ICM-Florida, so we want to make sure that the expense to
4 investment ratios are developed on the same investments.

5 And the reason we do that is that the ARMIS data that
6 we start with when we make forward-looking adjustments to it in
7 aggregate that is the total or best estimate of the
8 forward-looking cost of Verizon Florida's operating expenses.
9 And if you don't make the calibration adjustment when you
10 calculate those expenses to investment ratios you experience
11 this calibration shortfall and you do not recover in your UNE
12 rates the best estimate of Verizon Florida's operating
13 expenses. You have a shortfall of whatever is showing on
14 Surrebuttal DGT-6.

15 Q Turning to DGT-6 for me, Page 2, if you would.

16 A I have it.

17 Q Now, on Page 2 of that exhibit, isn't this where you
18 calculate in three scenarios where the cost recovery is less
19 than expected if the ICM calibration option is turned off,
20 isn't that correct?

21 A That is correct.

22 Q Each of these three scenarios contains a column
23 entitled numerator expenses, is that correct?

24 A That is correct.

25 Q Now, for that, in these columns, where do these

1 expense amounts by account come from, what do they represent?

2 A Well, they come out of Attachment 0 of the --
3 Schedule A of Attachment 0 that is contained in the cost study
4 filing. I'm sensing you want more than that.

5 Q How do they get to Attachment 0?

6 A Okay. We started with 2000 ARMIS data, we make the
7 forward-looking adjustments for nonrecurring items that I
8 discussed in my testimony and discussed in the filing. We look
9 at expenses and we also do other forward-looking adjustments
10 like take out, you know, nonforward-looking technology. An
11 example would be that it is not applicable. In Florida it
12 would be analog switches. We look at the expenses by six digit
13 account level and by work group, and we try to decide what that
14 work group did. For example, if there is a work group that
15 worked on poles, we assign those expenses to the pole cost
16 pool. If they -- say in my case I get assigned to a common
17 cost pool. The cost pools that we end up with for the expense
18 to investment ratio corresponds to the major components of the
19 plant. Cable, aerial, buried, and underground copper, and
20 fiber, that would be six cost pools. Poles, conduit,
21 switching, transport, they are column headings on the
22 Attachment 0 that I alluded to. So it is the mapping at the
23 six digital account level by work group to each of the cost
24 pools that determine the numerators that are in the column on
25 this exhibit.

1 Q Now, is it your position that these expenses should
2 not vary with changes in investment level?

3 A Well, suppose if you took the model and you doubled
4 the price of everything. All of the placement costs and all
5 the material costs, the model investment would double or nearly
6 double. The operating expenses would not change. So, it is my
7 position that you need to use ICM-Florida with the inputs that
8 reflect our actual experience, the scale of operations we have,
9 the wire centers we have, demand quantities we have, and try to
10 model the network on a forward-looking basis and look at the
11 level of operating expenses that support a network of that
12 scale of operations. And that is what we have done.

13 Q Let me ask the question, let me go to the flip side
14 of that question. If your modeled investment is say 30 to 40
15 percent less than your reproduction cost or your book
16 investment, shouldn't supporting plant specific operating
17 expenses decline commensurately?

18 A No, and the reason is this. One reason that the
19 model investment is less than say the reproduction cost is the
20 reason I offered in my direct testimony and explained in my
21 summary. There are economies of scope that are assumed in the
22 model that cannot and will not be realized. And a good example
23 of that is one that I always use that in the real network you
24 may look at copper feeder plant, and you will see a 300 pair
25 cable and along side of it you may see a 100 pair cable. And I

1 am assuming it is aerial, because if it is buried you couldn't
2 see it, right? The model, ICM-Florida if it had to place
3 feeder plant to have 400 installed pairs would place a single
4 cable. And in the real network you have two because of the way
5 the demand developed through time. So there is an economy of
6 scale or scope, I guess, that the model assumes that cannot be
7 realized in the old real network. And it is really a
8 limitation of the modeling process. We don't have a way to
9 model how demand progresses through time dynamically.

10 So even though the modeled network investment is less
11 than reproduction cost, it doesn't mean there should be a
12 proportionate or any reduction in the forward-looking operating
13 expenses. You would just be taking this feature in the model
14 that causes the modeled investment to be lower bound and
15 compounding it and causing the operating expenses to be a lower
16 bound as well when you have a perfectly good estimate of the
17 forward-looking operating expenses.

18 Q Well, on a forward-looking basis if you install
19 forward-looking technology and because of changes in technology
20 mix and reductions in physical plant because of changes in a
21 more efficient technology, wouldn't that operate to reduce your
22 operational expenses commensurately?

23 A Well, we have picked up that in the model by taking
24 out nonforward-looking technology. The operating expenses that
25 are in these numerators are by account, and the accounts are

1 plant type specific. You won't see, for example, radio systems
2 in there, you won't see aerial wire, open wire is how I used to
3 refer to it, and you won't see analog switches, as well.

4 Q On a forward-looking basis, when you model more
5 efficient technology, wouldn't your operational plant expenses
6 go down?

7 A I want to answer your question. If in the real
8 world --

9 Q Was that a yes or a no?

10 A No, and let me explain why. Because you asked me if
11 we modeled forward-looking technology wouldn't our operating
12 expenses go down. We can model whatever technology we want to
13 in ICM-Florida. Our operating expenses are going to reflect
14 the plant we have in place today, and we have adjusted them to
15 make them as forward-looking as we could as I have explained in
16 my testimony. But it would be incorrect to say that I am going
17 to have all of these wonderful efficiencies because I have
18 installed some miraculous technology in my model if it is not
19 going to be put in place in the real network today. So the
20 best estimate of ICM-Florida's forward-looking operating
21 expenses is what is shown in Exhibit GDT-6, approximately \$191
22 million.

23 Q In your actual real world network today, if you
24 replace fiber with copper, doesn't that lower your operational
25 expenses, particularly in a place like Tampa, for example?

1 A I don't think it would replace fiber with copper.

2 Q I'm sorry, the other way around. I apologize. I
3 goofed that one up really bad. Let's try it again. If you
4 replace copper with fiber, particularly in Tampa, whereas you
5 mentioned before the water table was very high, wouldn't that
6 tend to reduce your operational expenses?

7 A First, I didn't say anything at all about Tampa's
8 water table. But to get to your question, you are asking me if
9 I replace fiber with copper wouldn't my operating expenses go
10 down. And the answer is -- the answer depends on what you are
11 comparing it to, and we are comparing to what we are actually
12 going to do, and the answer is no. Because when I replace
13 fiber with copper, oftentimes --

14 COMMISSIONER DEASON: You said you replace fiber with
15 copper.

16 THE WITNESS: I did the same thing. When I replace
17 copper with fiber -- thank you very much -- when I replace
18 copper with fiber, oftentimes the copper is reused. It is
19 reused to provide perhaps some other loops if that is the best
20 way to do it given the particular network or other special
21 services, alarms. It might be reused to actually provide
22 distribution plant.

23 BY MR. HATCH:

24 Q Is that true on a per DS-0 basis?

25 COMMISSIONER BRADLEY: Excuse me a minute. Is that a

1 yes or a no?

2 THE WITNESS: That was a no. I started with no on
3 that one.

4 COMMISSIONER BRADLEY: Okay.

5 BY MR. HATCH:

6 Q Is that correct on a per DS-0 basis?

7 A I can't say because you didn't tell me why we
8 replaced the copper with fiber.

9 Q If you have an existing 400 pair copper cable and
10 along side it you lay a brand new fiber-optic cable. What you
11 have explained to me is that your operational expenses won't go
12 down because you still have the operational expenses of that
13 copper cable, is that correct?

14 A Yes.

15 Q Now, if you add fiber along side that 400 pair cable,
16 you have effectively increased the total number of DS-0s, is
17 that correct?

18 A Yes.

19 Q And by doing that haven't you increased the ratio of
20 DS-0s to operational expense, and so on a per DS-0 basis your
21 operational expense would go down?

22 A Yes. But in the model we are using, you know, one
23 set of demand figures. We are not placing fiber in the model
24 to replace copper to reflect additional demand.

25 Q So what you just told me was that your model doesn't

1 capture those changes?

2 A I don't think I told you that. What the model does
3 is it tries to estimate the network per the scale of operations
4 represented by the demand data in the model, the number of
5 lines, location of the lines. That corresponds to the level of
6 demand, number of lines, and location of lines that generated
7 the 2000 ARMIS expenses that are the starting point for
8 forward-looking operating expenses. The two are married. You
9 can't increase one without increasing the other. So in that
10 sense, yes, the model does not have the capability of telling
11 you if my demand grows how much is my operating expenses going
12 to change. So if that is what you thought I told you then I
13 guess I did.

14 Q And you are deploying fiber because it is cheaper and
15 more efficient at providing services, is that correct?

16 A We are deploying fiber in the model because we made
17 the assumption that we are going to place next generation DLCs,
18 which are DLCs which are connected to the central office via
19 fiber feeder route. So we are employing fiber because that is
20 the feeder or the media that you would use with those DLCs.

21 Q And in your real network you deploy fiber because it
22 is more efficient and cheaper, is that correct?

23 A Yes.

24 Q We are going to switch gears yet once again.

25 COMMISSIONER DEASON: Before you switch gears, let me

1 ask a question. How do you adjust the 2000 ARMIS operating
2 data to reflect a forward-looking network?

3 THE WITNESS: I give a short summary of that at Page
4 70 of my surrebuttal testimony.

5 COMMISSIONER DEASON: Page 70?

6 THE WITNESS: Page 70, starting at Line 11.

7 COMMISSIONER DEASON: I will refer to that and if I
8 have any other questions I will ask them later.

9 THE WITNESS: Okay.

10 BY MR. HATCH:

11 Q Mr. Tucek, do you have your response to the staff's
12 second set of interrogatories, it would be Number 57?

13 A I might. I'm sorry, I don't have it with me.

14 MR. HUTHER: Which one?

15 MR. HATCH: It's actually 57 and 58 are the two that
16 I am interested in. I can actually loan him mine just for what
17 we're about to do, if you want.

18 THE WITNESS: Mr. Hatch, when you asked the question
19 you indicated it was my response, I don't believe I answered
20 this interrogatory.

21 MR. HATCH: That's okay.

22 BY MR. HATCH:

23 Q Now, look at Number 58, which I believe you did
24 answer, is that correct?

25 A Yes, I did.

1 Q With respect to 57, that interrogatory response
2 indicates how an ILEC will use ATM switching in its network, is
3 that correct?

4 A It appears to, yes.

5 Q Okay. I think we are ready to proceed. I'm going to
6 be handing out a document. The document itself is proprietary.
7 I will not be asking you any of the particular details of the
8 document, but I will be asking you kind of about it. If the
9 answer to my question looks like it might intrude on
10 confidential information, tell me and I will try to work out a
11 different way to approach it.

12 (Off-the-record discussion.)

13 MR. HUTHER: I was explaining to Mr. Hatch, Madam
14 Chairman, that I would like to explain to the witness why the
15 document is confidential, so that he does not inadvertently
16 release confidential data.

17 CHAIRMAN JABER: Sounds good.

18 MR. HUTHER: With your permission.

19 CHAIRMAN JABER: Sounds good.

20 Mr. Hatch, not to rush you, I just need to gauge
21 where we are in terms of time. How much further do you think?

22 MR. HUTHER: Thank you.

23 MR. HATCH: Based on my time penchant for being
24 grossly inaccurate in my time estimates, I would guess 45
25 minutes, an hour more. Hour and a half. So if you want to

1 take a break, that's okay.

2 CHAIRMAN JABER: Thank you.

3 MR. HATCH: That didn't come out exactly right, but
4 it would be a convenient stopping point because we are in
5 between.

6 CHAIRMAN JABER: No, we are going to plug along.
7 Thank you, though.

8 BY MR. HATCH:

9 Q Mr. Tucek, have you had a chance to look at this?

10 A Yes, I have.

11 Q Now, with respect your response to Number 58, you
12 indicate that ATM switching is not modeled by the ICM-Florida,
13 is that correct?

14 A Yes.

15 (REPORTER NOTE: Confidential pages excerpt has been
16 removed from this transcript and are contained in a
17 confidential transcript.)

18 MR. HUTHER: I'm going to have to object. Mr. Hatch
19 has acknowledged at the beginning when this document was
20 presented that it was proprietary and confidential, and the
21 whole premise of the discussion was that we would not be
22 talking about confidential data within the document. I think
23 Mr. Tucek noted that when he read from this document he read
24 the notice and he advised the Commission and the parties that
25 in reading that notice he thought nothing about it was

1 confidential.

2 We have now had a series of questions by Mr. Hatch
3 where he is reading into the public record proprietary data
4 from this confidential exhibit, and I think we must go back and
5 strike all of that or put it under sealed record to preserve
6 the confidentiality of this document.

7 MR. HATCH: Madam Chairman, I was operating under the
8 assumption from Mr. Tucek's testimony that nothing on this page
9 was proprietary. I believe that is what he said.

10 MR. HUTHER: The entire document is marked
11 proprietary and confidential. We discussed it at the beginning
12 of Mr. Hatch's examination on this document and he conceded
13 that it was proprietary and confidential. And what we
14 discussed in our private colloquy was the existence or
15 nonexistence of ATM in Verizon's Florida network, was the fact
16 if indeed it was confidential, and I think we agreed that it
17 was not. But now we have had, as I say, a series of questions
18 posed by Mr. Hatch wherein he is reading into the record the
19 very text of this document and asking the witness to confirm
20 that that is, in fact, what the document says.

21 CHAIRMAN JABER: You have sort of identified the
22 problem which is we have had a series of questions. To be very
23 frank with both of you, Mr. Hatch, I do not recall that the
24 witness -- and, Commissioners, help me out if you heard
25 something different -- I do not recall the witness saying

1 anything on that one page was not confidential. That doesn't
2 mean it wasn't said. I personally didn't hear that. But the
3 other difficulty is we have had a series of questions, you
4 should have spoken up earlier.

5 We are going to take a ten-minute break. You two get
6 together and confirm what is confidential and what is not. And
7 if we need to go back and have some of the record stricken, we
8 will. You have got to be careful with confidential
9 information. I feel like a broken record. Every time we
10 gather at one of these hearings I have to give you all this
11 lecture.

12 (Recess.)

13 CHAIRMAN JABER: Mr. Hatch, are you ready? All
14 right, let's get back on the record. There was some question,
15 Mr. Hatch, about the information you were cross-examining the
16 witness on. Have you and Verizon's counsel been able to figure
17 out --

18 MR. HATCH: I believe we have. What we have agreed
19 to do, as I understand it, and correct me, jump in at any time,
20 Chris, is that we will go back to the transcript and where I
21 make my first reference to -- I believe it was Page 3, and the
22 text of that, once we see what that text of the transcript is
23 we will seal that and all the subsequent questions until when
24 we took our break.

25 CHAIRMAN JABER: Is that acceptable to staff? Do you

1 see any problem with doing that?

2 MR. FUDGE: That seems fine.

3 CHAIRMAN JABER: And so that doesn't need to be
4 identified separately as an exhibit, Mr. Hatch, it will just
5 reference in the transcript that those are confidential
6 portions.

7 MR. HATCH: Yes.

8 CHAIRMAN JABER: And then it will be removed form the
9 transcript.

10 MR. HATCH: Yes, ma'am. We'll have to have a
11 separate piece of transcript of the confidential piece for
12 those of us that have proprietary agreements. But that should
13 pose no problem, it's just a logistical issue.

14 CHAIRMAN JABER: Verizon, is that acceptable to you?

15 MR. HUTHER: That does reflect our agreement. And I
16 would only add, Madam Chair, something of a word of apology.
17 We are trying to get our arms around this document. For many
18 of us we are seeing it for the first time and it is unfamiliar
19 to us.

20 During the break we were able to confer a bit and now
21 we do have a little bit more understanding of where the
22 document came from, what it means. And although Mr. Hatch and
23 I in discussing this during the break I think had agreed that
24 he would conclude his questioning on that document, given that
25 we now know a little bit more about this document, I would

1 offer to Mr. Hatch the opportunity to not read from the
2 document, but I believe Mr. Tucek is a bit more familiar with
3 the source of it and may be able to provide more definitive
4 answers to some of Mr. Hatch's earlier questions.

5 CHAIRMAN JABER: Mr. Hatch.

6 MR. HATCH: I was actually done. I figured I had
7 beat it to death enough.

8 CHAIRMAN JABER: Good answer. Can we move on now?

9 MR. HATCH: At least with the document.

10 CHAIRMAN JABER: Okay. Thank you, Mr. Huther.

11 MR. HATCH: However, I am not completely done with
12 ATM yet, I'm sorry.

13 BY MR. HATCH:

14 Q Mr. Tucek, this is kind of going back to the very
15 beginning. I want to make sure that we covered this up front
16 because it is going to lead into where I'm going next. I think
17 I asked you this earlier. With respect to introducing ATM
18 technology into the network, that would be done because it is
19 more efficient and cheaper, would that be correct?

20 A Not in every case. I believe I answered that you
21 might introduce ATM technology to introduce services that would
22 require packet switching, so you would introduce the technology
23 because that is the only way to offer those services. Another
24 reason is I have learned the reason we apparently placed this
25 switch in Tampa is to provide relief to the existing tandem.

1 Two things about that. First, with respect to the
2 filed cost study, by not putting that switch into ICM-Florida
3 we have reduced the amount of model investment, so the costs
4 are lower than they would have been otherwise? The second
5 thing is I have learned that this deployment in Florida for
6 this purpose is the first of its kind in the entire Verizon
7 network. And that tells me although I was speculating or
8 guessing to some extent earlier, I'm trying to infer what sense
9 to make out of this now. That tells me that this can be viewed
10 as a trial, and the reason is that you can take technology that
11 tests in the lab, you can take technology that you see other
12 firms using, but before you are going to put it into your own
13 network on a wide scale basis you are going to want to try it
14 in the field. To me that is what is happening here in Tampa.
15 I'm sure that they expect the trial will be successful, but I
16 suppose the answer is still out.

17 And even though introducing it into the model would
18 raise the resulting cost estimates, I still have to stick by my
19 earlier position that it would be incorrect to do so until you
20 knew that you were going to deploy the technology in that
21 fashion on a widespread basis.

22 Q When you say that this is going replace a tandem, are
23 any of those tandems GTD-5s?

24 A No. As I indicated earlier, Mr. Hatch, we have one
25 tandem in Florida, that is the Tampa tandem, and that is a DMS

1 100. And apparently also we have this ATM switch which is used
2 to provide tandem relief. One other thing, too. I think the
3 Commission would be interested in understanding this. Whether
4 this switch is -- this particular switch is in or out of the
5 cost model it would have no effect on the cost of the loop
6 because the switch costs don't go into the loop, and it would
7 have no effect, for example, on a two-wire port because those
8 are ports that are installed on a Class 5 switch.

9 Q I believe at the tail end of one of your earlier
10 responses you indicated that the modeling of ATM in this case
11 would potentially raise costs, is that what you said?

12 A It would increase the amount of modeled investment
13 that ICM-Florida would produce. And the reason is is that this
14 switch is being deployed to offer tandem relief, so you would
15 model not only the DMS 100 that is currently in the model for
16 the Tampa tandem, you would model this additional switch.
17 Since the demand has not changed and the investment has gone
18 up, the cost would necessarily increase.

19 Q That is correct only if you don't replace any other
20 switches, is that correct?

21 A Yes. My answer was predicated on that we would keep
22 the rest of the filing the same and that we would model the
23 placement of this switch as it is actually being deployed in
24 our network for tandem relief with the DMS 100 still remaining
25 intact.

1 Q Do you know why Verizon is using ATM to augment
2 circuit switching?

3 A No.

4 Q Would it be fair to say that Verizon would be
5 introducing this technology because they believe it will
6 introduce efficiencies?

7 A I think it would be more fair to say they believe
8 there is a chance that it will introduce more efficiencies and
9 that the chance should be investigated.

10 Q With respect to UNE-P, do you know whether Verizon
11 segregates ALEC traffic from its own customers' traffic in its
12 network?

13 A I don't believe I do know the answer to that.

14 Q Would it be fair to say that Verizon's POTS
15 customers' traffic will be going through the ATM switching that
16 Verizon has deployed in its network?

17 A I'm not sure how to answer that because generally
18 POTS is an acronym for plain old telephone service, which
19 basically means the phone that is in your house, an R-1. What
20 we are talking about in this particular ATM switch is a tandem
21 switch, and it handles calls and traffic between Class 5s. So,
22 yes, traffic that is originated by an R-1 who happens to be a
23 Verizon customer or terminated to that customer may indeed
24 travel through that switch. Calls to that same customer at a
25 different point in time might go through the DMS 100.

1 Q Assume for the moment that Verizon does not segregate
2 UNE-P traffic in its network from its other end user customers'
3 traffic. If that is correct, then that same UNE-P traffic
4 would traverse the ATM switching in the same way that you
5 described other Verizon traffic, is that correct?

6 A Yes, it would.

7 Q And in modeling your costs for UNE-P you have not
8 modeled ATM switching as part of that, and that is correct?

9 A Yes, that has been asked and answered. Let me amend
10 that. UNE-P would have nothing to do with the ATM switch. It
11 is a tandem switch. UNE-P is a loop and a port. It is
12 equipment in plant in a local wire center in a Class 5 switch.

13 Q In traffic generated over a UNE-P by a UNE-P customer
14 of a CLEC, as we discussed earlier, would transit the ATM
15 switching assuming Verizon does not segregate UNE-P traffic
16 from its own traffic?

17 A Yes, it would, which is what I said. But then what
18 you asked me subsequently is I have not accounted for that in
19 estimating UNE-P costs. And by the way, we did not file UNE-P
20 costs, although ICM-Florida can be modified to do that. It is
21 quite easily done. But had we filed the UNE-P costs, with or
22 without the ATM switch, it would not have changed. It is a
23 totally different part of the network.

24 Q Verizon today in its actual network uses integrated
25 digital loop carrier facilities, correct?

1 A Yes, it does.

2 Q Why does Verizon use IDLC in its network?

3 A It uses IDLC to provide service to its own end user
4 customers because those customers can be integrated from the
5 IDLC into the trunk-side of its switch and at a lower cost of
6 providing service to them.

7 Q If an ILEC was providing UNE-P purchased from
8 Verizon, might Verizon use the IDLC facilities that it has in
9 its network to provide the UNE-P traffic?

10 A Yes, it might. I would go back to Mr. Trimble's
11 testimony -- yes, it might.

12 Q In costing the proposed UNE rates for UNE-P, you do
13 not take into account the use of IDLC facilities, is that
14 correct?

15 A Mr. Trimble has proposed rates for UNE-P which are
16 the sum of the rates for the two-wire port and a two-wire loop.
17 As I indicated just a moment ago, we did not file specific
18 costs for UNE-P, although it is possible to do so with
19 ICM-Florida. So it is basically just a two-wire loop cost plus
20 the port.

21 Q In your modeling of UNE-P, do you take into
22 consideration or do you model the use of IDLC facilities?

23 A I think you are asking me --

24 Q Is that a yes or a no?

25 MR. HUTHER: I think he is trying to understand the

1 question.

2 THE WITNESS: No, I'm trying to understand the
3 question. I am going to give you the answer you want. The
4 two-wire loop cost that is part of Mr. Trimble's proposed rates
5 do not assume IDLC, they assume a universal DLC, which is a
6 configuration in which the loop is terminated on the line-side
7 of the switch or at the main distribution frame.

8 BY MR. HATCH:

9 Q Switching gears yet once again, let's talk about
10 features and switch costing. I believe it is your testimony,
11 is it not, that the features are usage sensitive and should be
12 modeled as such, is that correct?

13 A Yes, that is correct.

14 Q Now, as I understand it, the switch features in a
15 switch are purchased when you buy the switch initially as part
16 of a software package that comes with the switch, would that be
17 correct?

18 A The software portion of the features are purchased
19 when you buy the switch. Also, Verizon has a contract in which
20 they have brought out the upgrades to the feature software and
21 the operating software and the features for the entire -- at
22 least former GTE footprint. The upgrades are good for the term
23 of that contract which is like three or four years.

24 However, the software cost of the features are not
25 the only costs associated with them, there is a cost of the

1 processor and the switch obviously, and some features require
2 special equipment. A good example and probably the only one I
3 can give you are conference calling. Sometimes that requires
4 special conference circuits to be installed in the switch. And
5 for features that require such equipment the costs produced by
6 ICM-Florida reflect that equipment and also reflect the cost of
7 the processor -- processor costs on a per millisecond basis.

8 Q What about feature usage is usage sensitive for
9 purposes of the software?

10 A Well, essentially the software is just a right to use
11 fee. You buy the right to use it and the fee does not change
12 whether it is used or not, so there is nothing about the cost
13 of the software part of the features that is usage sensitive.

14 Q Now, for purposes of specialized hardware, which I
15 believe conference calling is what you mentioned, once you have
16 purchased that equipment, what about that becomes a usage
17 sensitive cost when you use that equipment?

18 A Well, it certainly is usage sensitive. If we sell
19 more conference circuits or have increased demand for
20 conference circuits you have to install more equipment. Just
21 as if you have trunks terminating at a switch, if the traffic
22 increases you install more trunks. The cost of the trunks that
23 you have already installed do not change, but trunks and the
24 conference circuits are usage sensitive costs because as demand
25 grows you need to buy more of them.

1 Q I think you may have answered this, but just to be
2 clear, when you have installed conference trunks and the
3 hardware for conference service, if you don't have demand that
4 generates additional trunking you have the same trunking, the
5 same hardware, there is nothing about that that becomes usage
6 sensitive on a per usage basis, is that correct?

7 A Not to my knowledge.

8 Q Are the conference circuits or the loops used for
9 conferencing usage sensitive?

10 A The quantity of the equipment is usage sensitive. I
11 don't know how else to answer your question. If you have --
12 whatever the feature is that requires special equipment, if you
13 have increases in the demand for that service you are going to
14 have to equip additional capacity which would include the
15 equipment specific to the feature we're talking about.

16 Q If you don't have any increased demand, your demand
17 remains constant, is there any usage sensitivity once you have
18 already acquired the equipment to provide the service?

19 A Yes, because -- well, under the postulate of your
20 question that demand is stagnant and fixed, no, because
21 obviously you have sized the equipment for the demand load that
22 according to your question is going to exist for all time. But
23 it is still usage sensitive equipment from the point of view of
24 a cost analyst because it is engineered on the minutes of use
25 and the load offered to that equipment.

1 CHAIRMAN JABER: Mr. Hatch, tell me when your next
2 breaking point is. How much longer do you think?

3 MR. HATCH: It shouldn't be too much longer.

4 CHAIRMAN JABER: Like five minutes, ten minutes?

5 MR. HATCH: I would think so, yes, ma'am. Five or
6 ten minutes.

7 CHAIRMAN JABER: Okay. Let me tell you that we are
8 going to let you get through your next series of questions
9 before we adjourn for the evening, and then tomorrow morning we
10 will start at 9:00 a.m.

11 BY MR. HATCH:

12 Q Just to try and wrap this up really quickly, Mr.
13 Tucek, other than for the features that require specialized
14 hardware, once you buy the software package and it is installed
15 in the switch, each time an end user uses that feature, what
16 about it causes usage sensitive costs?

17 A All the features utilize the processor in the switch.
18 You can think of a switch as having several types of equipment
19 and you want to make the decision as to whether it is usage
20 sensitive or not, you look to see what do you look at to
21 engineer the equipment. Most switches have what is known as a
22 line concentrating module. It might be a line bay that can
23 hold 640 lines. Generally that is a termination cost, it is
24 not a usage sensitive cost. It is a per line type of cost.
25 Virtually everything else in the switch is engineered on

1 offered load, CCS per line times number of lines. So virtually
2 everything else in the switch is usage sensitive. The
3 processor is usage sensitive, as well. Processor costs are
4 estimated by CSIS, for example, on a per millisecond basis.

5 Q So basic --

6 A I would like to finish.

7 Q I apologize, I thought you had.

8 A On a per millisecond basis. So as features are used,
9 you are putting demands on the processor. The processor also
10 has to establish and keep a record of all call paths through
11 the switching fabric. So the processor -- demand presented to
12 the processor from a feature is the same as demand presented to
13 the processor from a request to establish a call path. It
14 requires time. All of us have PCs on our desks and we all -- I
15 hope we all have a Windows operating environment at least.

16 If you are go back to your DOS days you used to have
17 to be able to do things one at a time. Now you can open up
18 Windows, have something printing, look at a web page, have
19 another program running in the background, a spreadsheet
20 calculating. You are taxing, you are using the processor of
21 your PC, and you get the blue screen of death sometimes if you
22 recall that and it locks up because you have -- each those
23 activities you have implemented have put demands on that PC's
24 processor. The same thing for demand to establish and monitor
25 call paths or to activate a feature. All the things that

1 processors do all require milliseconds of capacity, so that is
2 why features are usage sensitive even after you pay for the
3 software and even under your hypothesis there is no growth and
4 demand in terms of, say, the number of people demanding
5 conference circuits or whatever.

6 Q Let's take your PC analogy for a moment. Is your PC
7 loaded with a word processing program, Excel, PowerPoint,
8 various programs?

9 A Actually because of Florida it has two; it has
10 WordPerfect and Word, yes.

11 Q Does it have anything else? How many software
12 packages does it have? If it is more than five, stop.

13 A I have PowerPoint, I have Excel, I have Lotus because
14 that's what I like, I have WordPerfect, I have Word, I have ICM
15 for at least two states, I have Internet Explorer, I also have
16 Netscape Explorer. I think I have passed five.

17 Q Once you have a PC -- let me ask you this. Other
18 than the specialized software like ICM, for example, did you
19 get that PC with all of the software, the basic software
20 loaded?

21 A Actually, no, we had to go out and buy WordPerfect
22 and Lotus. Netscape is downloaded for free. It didn't come on
23 this PC, I had to download it. I also have Adobe Acrobat.
24 I've got everything, right?

25 Q When you have all of these programs on your computer,

1 let's just say you have five of them, but you use only one of
2 them. How do you track the investment for all of that that is
3 bundled into a computer basically per feature?

4 A Well, actually I don't because I'm not in the
5 business of costing out my PC. But if you are trying to make
6 analogy to the switch, and I am in the business of costing out
7 the switch, and the way we track it there for features, for
8 example, we look at how many processor milliseconds each
9 activation takes. There is inputs on the penetration of how
10 many people take call forwarding, call waiting, whatever the
11 vertical features, for example, might be, and the number of
12 activations per line in the busy hour. ICS-MO, model office,
13 for example, will give me a cost per processor millisecond.
14 CSIS-IN, which I believe stands for intelligent network, takes
15 those processor milliseconds and assigns them to the feature
16 usage based on the inputs I have just described.

17 Q Let's assume you have a switch and you are costing
18 that switch and it has 30 features in its software package.
19 Only five of those features are ever used. Do you load the
20 entire cost onto those five features?

21 A Would I load the entire cost onto the five features
22 and I knew for certain that the remaining features were never
23 going to be used, the answer is yes. Do I? I don't know that
24 at least for the vertical features that we talk about in common
25 discussions that there are any that are not used.

1 Q Let's go back to your PC for a moment. When you use
2 Microsoft Word, for example, does the Microsoft people send you
3 a bill for using Word?

4 A No, but that doesn't mean that going back to the
5 switch the processor is not a cost. It is a resource that is
6 scarce. It is engineered on the demands presented to it in
7 terms of processor milliseconds. What you seem to be confused
8 about or maybe trying to confuse me about is that is, gee, once
9 I have paid for it the costs are done, they are sunk, there are
10 none. But I have to look at demand on that.

11 CHAIRMAN JABER: Mr. Tucek, no one would be confused
12 if you just answered the question that has been posed to you.

13 THE WITNESS: Well, I'm trying --

14 CHAIRMAN JABER: No, no.

15 THE WITNESS: I'm sorry, ma'am.

16 CHAIRMAN JABER: Mr. Tucek, just answer the question
17 and your attorney will do redirect. And to the degree you need
18 to elaborate on your answer, that is different. But what you
19 are doing is anticipating the next question.

20 THE WITNESS: Yes, ma'am.

21 CHAIRMAN JABER: Mr. Hatch.

22 THE WITNESS: And I apologize. Could you repeat the
23 question, please.

24 MR. HATCH: Yes.

25 BY MR. HATCH:

1 Q My question was when you engage the use of a
2 particular software feature in your PC, then the manufacturer
3 of that software doesn't charge you for each individual usage,
4 does it?

5 A No.

6 MR. HATCH: That's all I've got. Thank you.

7 CHAIRMAN JABER: Are there any other questions from
8 the ALECs?

9 MR. PERRY: I have no questions.

10 MR. WEBER: I do have questions, Madam Chairman.

11 CHAIRMAN JABER: Give me a gauge on how long you
12 think you will need.

13 MR. WEBER: Thirty minutes.

14 CHAIRMAN JABER: Okay. We are going to stop right
15 here. You can pick up at 9:00 o'clock in the morning.

16 MR. WEBER: Yes, ma'am.

17 CHAIRMAN JABER: Thank you.

18 MR. HATCH: Madam Chair, just for clarification, I
19 was just stopping because you asked me to terminate at the next
20 breaking point. I have not completed all of the questions, but
21 that is okay.

22 CHAIRMAN JABER: Perhaps it was wishful thinking on
23 my part.

24 MR. HATCH: I'm truly, truly sorry to disappoint you.

25 CHAIRMAN JABER: That is quite alright. We will

1 start back up with Mr. Hatch at 9:00 o'clock in the morning.

2 (The hearing adjourned at 4:10 p.m.)

3 (Transcript continues in sequence with Volume 7.)

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1 STATE OF FLORIDA)
2 : CERTIFICATE OF REPORTER
3 COUNTY OF LEON)

4
5 I, JANE FAUROT, RPR, Chief, Office of Hearing Reporter
6 Services, FPSC Division of Commission Clerk and Administrative
7 Services, do hereby certify that the foregoing proceeding was
8 heard at the time and place herein stated.

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

14 I FURTHER CERTIFY that I am not a relative, employee,
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17 connected with the action, nor am I financially interested in
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19 DATED THIS 6th day of May, 2002.

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