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May 8, 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. 011666-TP
Petition by Global NAPS, Inc. for arbitration pursuant to Section 47 U.S.C. 252(b) of interconnection, rates, terms and conditions with Verizon Florida Inc.

Dear Ms. Bayo:

Please find enclosed for filing in the above matter an original and 15 copies of the Direct Testimonies of Pete D'Amico, Terry Haynes, Karen Fleming, and Jonathan B. Smith on behalf of Verizon Florida Inc. Service has been made as indicated on the Certificate of Service. If there are any questions concerning this filing, please contact me at (813) 483-2617.

04952-02 through 04955-02

Sincerely,

Anthony P Gillman

Kimberly Caswell

KC:tas
Enclosures

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY that copies of the Direct Testimonies of Pete D'Amico, Terry Haynes, Karen Fleming, and Jonathan B. Smith on behalf of Verizon Florida Inc. in Docket No. 011666-TP were sent via U. S. mail on May 8, 2002 to the following:

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Kimberly Caswell

BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

Petition by Global NAPs, Inc. for arbitration pursuant to 47 U.S.C. 252(b) of interconnection rates, terms and conditions with Verizon Florida Inc.	))))	Docket No. 011666-TP

DIRECT TESTIMONY OF

KAREN FLEMING

ON BEHALF OF

VERIZON FLORIDA INC.

May 8, 2002

DIRECT TESTIMONY OF KAREN FLEMING

I. WITNESS BACKGROUND AND OVERVIEW

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Karen Fleming. My business address is 1320 North Court House Road, Arlington, Virginia.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed by Verizon Services Corp. as a Manager - Risk Management. In that position, I am responsible for managing Verizon's bond, crime and fidelity and relocation programs. I also provide training and consultation support for risk management, contracts and contractors' insurance. This includes consultation on facilities-based agreements, including collocation.

Q. PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE IN THE TELECOMMUNICATIONS INDUSTRY.

A. I have fifteen years of experience in the telecommunications industry as an employee of Verizon and its predecessor companies. Prior to my employment with Verizon, I was the risk manager for Arlington County, Virginia for five years. Prior to that, I spent a year and a half at The Hartford Insurance Company handling multi-line claims. I received a Bachelor of Science degree at State University of New York. In addition, I received a Chartered Property Casualty Underwriter (CPCU) and an Associate in Risk Management (ARM) designation from the Insurance Institute of America (IIA).

Q. PLEASE DESCRIBE THE PURPOSE OF YOUR TESTIMONY.

A. The purpose of my testimony is to address Issue 8, including the disputed contract language:

Issue No.	Statement of issue	Disputed Contract Sections Related Issue
8	"Should the Interconnection Agreement require GNAPS to obtain Commerical Liability Insurance Coverage of $10,000,000 and require GNAPs to adopt specified policy forms?"	Verizon's GT&C § 21.

II. INSURANCE REQUIREMENTS (ISSUE 8)

Q. WHAT LIABILITY INSURANCE COVERAGE SHOULD GNAPS OBTAIN?

A. Verizon's proposed insurance requirements are set forth in § 21 of the General Terms and Conditions section of the interconnection agreement. GNAPs should obtain this coverage prior to having access to Verizon's network and other assets, and should maintain it during the term of the interconnection agreement. Such insurance coverage should include:

- Commercial General Liability: $2,000,000.
- Commercial Motor Vehicle Liability Insurance: $2,000,000.

- Excess Liability Insurance (umbrella): $10,000,000.
- Worker's Compensation Insurance as required by law and Employer's Liability Insurance: $2,000,000.
- All risk property insurance (full replacement cost) for GNAPs' real and personal property located at a collocation site or on Verizon premises, facility, equipment or right-of-way.

In addition,

- Deductibles, self-insured retentions or loss limits must be disclosed to Verizon.
- GNAPs shall name Verizon as an additional insured.
- GNAPs shall provide proof of insurance and report changes in insurance periodically.
- GNAPs shall require contractors that will have access to Verizon premises or equipment to procure insurance.

Q. WHY IS THE LIABILITY INSURANCE COVERAGE YOU DESCRIBE NECESSARY?

A. Verizon is required to enter interconnection agreements with CLECs. The presence of GNAPs' equipment and personnel on Verizon's property that results from interconnection -- particularly collocation -- puts Verizon's network, personnel, and assets at an increased risk for damage and injury in many ways: (i) the risk of injury to its employees, (ii) the risk of damage or loss of its facilities and network, (iii) the risk of fire or theft, (iv) the risk of security breaches, and (v) possible interference with, or failure of, the network. In light of interconnection requirements and associated increased risk, it is reasonable for Verizon to seek protection of its network, personnel, and other assets in the event a CLEC has insufficient financial resources to pay for the damage or injury it causes. In § 20 of the General Terms and Conditions section, GNAPs agrees to indemnify Verizon for any damage GNAPs' causes as a result of its gross negligence or intentionally wrongful acts. Verizon's proposed insurance requirements in § 21 provide the financial guarantee to support the promised indemnification. Verizon's recent experience with CLEC bankruptcies reveals that insurance coverage is often the only source of recovery.

Q. DOES VERIZON MAINTAIN INSURANCE?

A. Yes. Verizon maintains an extensive insurance program that is financially sound, protecting both parties should they be liable joint and severally for the wrongful acts of the other.

Q. IS VERIZON'S PROPOSAL CONSISTENT WITH OBLIGATIONS OF OTHER CARRIERS?

A. Yes. Verizon's proposed insurance requirements here are identical to Verizon's insurance policy requirements in its intrastate access tariff. *See* Section 19.7, Insurance, in the Collocation Services section of its Facilities for Intrastate Access tariff.

Q. WHY AREN'T GNAPS' PROPOSED INSURANCE REQUIREMENTS

REASONABLE?

A. GNAPs' amendments to Verizon's proposed § 21 of the General Terms and Conditions Attachment would eliminate certain types of insurance and substantially lower the insurance amounts. GNAPs' proposal would provide inadequate coverage in light of the risks for which the insurance is procured and should therefore be rejected. General problems with GNAPs' proposals are highlighted below:

§ 21.1.2 GNAPs proposes to delete the reference to vehicle insurance entirely. GNAPs must provide commercial automobile liability insurance to protect Verizon's facilities for GNAPs' vehicles or those of its subcontractors in the performance of the agreement. Excess coverage is necessary for GNAPs' employees operating personal or rental vehicles relating to the performance of the agreement.

§ 21.1.3 GNAPs advocates reducing Verizon's proposed excess liability insurance from not less than $10,000,000 to $1,000,000. A $1,000,000 in coverage is unreasonable in light of the amount of potential damage to Verizon's facilities, personnel, and network that could be caused by GNAPs or one of its subcontractors.

§ 21.1.4 An employer's liability limit of $2,000,000, rather than GNAPs' proposed $1,000,000 is standard in the industry and is an area of increased claims activity.

§ 21.1.5 Contrary to GNAPs' recommendation, GNAPs should provide coverage for any real and personal property located on Verizon's premises. It is a good business practice to adequately insure your property and that of your employees because Verizon could face liability.

§ 21.3 Based on Verizon's significantly greater exposure to loss, GNAPs' insurance should be primary. In the insurance arena, the additional insured provision is used to appoint one party's insurance as the primary contact and provide for the joint defense of both parties. This avoids insurance company "finger pointing" and potential delays in responding to claims in the event of a loss. If both parties are named, as GNAPs suggests, each cancels out the other's additional insured provision and may jeopardize an insurance's company's response to a claim.

Q. CAN YOU ELABORATE ON WHY GNAPS' PROPOSED REDUCTION OF THE $10,000,000 EXCESS LIABILITY COVERAGE REQUIREMENT IS UNREASONABLE?

A. Yes. There are two main reasons why the Commission should reject GNAPs' proposal to limit excess liability coverage to just $1,000,000. First, it simply is inadequate in light of the risk to Verizon's network, personnel, and assets. It is not unusual for *individuals* to have more than $1,000,000 coverage for liabilities associated with their residence and personal autos. Tort judgments, including costs and legal fees, in Florida routinely exceed $1,000,000, making GNAPs' proposal obviously insufficient. Damage to Verizon's network or assets or injury to even one Verizon employee resulting from any single occurrence could easily and significantly exceed the limits of GNAPs' proposed coverage.

Second, GNAPs has agreed to provide excess liability coverage of $10,000,000 to other carriers. Specifically, GNAPs has agreed to provide excess liability coverage of $10,000,000 to Pacific Bell Telephone Company in California. *See* GNAPs' March 8, 2002 Initial Brief, *Petition for Arbitration of an Interconnection Agreement with Pacific Bell Telephone Company Pursuant to Section 252(b) of the Telecommunications Act of 1996,* A.01-11-045 (California Public Utilities Commission), p. 51. Because GNAPs must already procure excess liability insurance coverage of $10,000,000, there is no reason GNAPs should not provide that coverage to Verizon. By agreeing to provide this coverage to one telecommunications carrier, it would not cause GNAPs to incur any additional expense to agree to provide this coverage to Verizon.

Q. WHY DOES VERIZON SEEK TO BE INCLUDED AS AN "ADDITIONAL INSURED" ON GNAPS' INSURANCE POLICIES?

A. In the insurance industry, when two parties have insurance coverage for the same assets or potential losses, the function of the "additional insured" provision is to ensure that one of the insurance companies takes the lead in providing a defense. This will not ultimately determine which parties' insurance policy will provide coverage -- that question is tied to the fact-specific analysis of the event giving rise to a loss and a coverage question -- but it will avoid having two insurance companies point fingers at each other, rather than move forward to resolve the underlying claims. In addition, if Verizon is listed as an "additional insured" on GNAPs' policies, Verizon will have less difficulty in obtaining recovery when appropriate -- *i.e.*, when and if GNAPs commits a wrongful act. Verizon would not have to incur litigation expenses against both GNAPs and its insurance company in order to collect. Instead, Verizon would simply file a claim.

Recently, Verizon experienced several CLEC bankruptcies. In these types of cases, the additional insured provision is especially important. Without the provision, Verizon has little or no access to the CLEC's insurance program. As an additional insured, however, Verizon is entitled to the benefits of coverage in the event a bankrupt CLEC caused the loss.

Q. GNAPS COMPLAINS THAT VERIZON'S PROPOSAL DOES NOT REQUIRE VERIZON TO PAY FOR SIMILAR INSURANCE, PROVIDING VERIZON A COMPETITIVE ADVANTAGE BY AVOIDING THE PAYMENT OF INSURANCE PREMIUMS. IS

GNAPS' CONCERN REASONABLE?

A. No. As I mentioned, Verizon maintains an extensive insurance program. Moreover, given the differences in the parties' respective networks, Verizon faces a much greater risk than GNAPs. It is appropriate for the parties' agreement to reflect this asymmetrical risk.

Q. CAN YOU PROVIDE AN EXAMPLE TO DEMONSTRATE YOUR ASSERTION THAT THE RISK OF THE RELATIONSHIP IS ASYMMETRICAL?

A. Yes. An ILEC like Verizon typically has a much more extensive network and many more employees than a CLEC, amounting to much more risk of damage or injury. Damage to Verizon's facilities in New York on September 11, 2001 highlights this asymmetry. Verizon's estimated property damage at its 140 West Street central office location resulting from the collapse of the World Trade Center exceeded $850,000,000. By contrast, the total property damage suffered by approximately 20 CLECs collocated at this location was $1,000,000. In addition, Verizon had some 2,500 employees housed at the 140 West Street facility, while CLECs typically would have no more than one person on site at any given time, for a maximum possible total of 20 employees. I do not mean to suggest that this example involves the "fault" of any CLEC. It is offered, rather, to demonstrate that in a relationship with interconnecting CLECs -- a relationship Verizon is required to enter -- Verizon has much more at risk because it has relatively more network facilities and more employees at a particular site.

Q DOES THIS CONCLUDE YOUR TESTIMONY?

A. YES, IT DOES.